



April 1, 2019

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

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About the Release of the Final Report from the Special Investigation Committee
Related to Inappropriate Transactions of a Consolidated Subsidiary

As stated in the notification “About the Receipt of the Final Report from the Special Investigation Committee Related to Inappropriate Transactions of a Consolidated Subsidiary” announced by LIXIL Group Corporation (hereinafter “LGC”) on March 29, 2019, LGC received the final report from the investigation committee on that date. Today LGC releases the final report, which has been redacted to protect the privacy of individuals and confidential information.

The final report includes proposal of preventive measures from the investigation committee. LGC takes seriously the result of the investigation, and will put the proposed preventive measures into concrete policies and implement them promptly.

LGC sincerely apologizes to shareholders, investors, and all other stakeholders for any inconvenience caused by this issue.

End

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

Final Report

March 29, 2019

**LIXIL Group Corporation
Special Investigation Committee**

March 29, 2019

To: LIXIL Group Corporation,

Special Investigation Committee of
LIXIL Group Corporation

Chairman: Maki Kumagai
Member: Shoichi Seino
Member: Takuei Maruyama

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Section 1. Outline of the Investigation

1. Background of Establishing the Committee

On December 3, 2018, it was reported to LIXIL Corporation (hereinafter “LIXIL”), a consolidated subsidiary of LIXIL Group Corporation (hereinafter “LGC”), that there was an allegation of inappropriate accounting carried out by Business Division 1 of LIXIL Renewal Corporation, a consolidated subsidiary of LGC (hereinafter “LR”). As a result of an internal investigation conducted at LIXIL, it was determined that there was a possibility of improper accounting treatments such as recording sales prematurely, violating the basis for recognizing sales, in LR (hereinafter “the Allegation”).

On February 8, 2019, the Executive Officers of LGC decided to establish the Special Investigation Committee (hereinafter “the Committee”) on February 12, which consists of lawyers and certified public accountants who were not involved in the internal investigation that had already been conducted and who are independent from LGC, in order to conduct a highly transparent and effective investigation and to receive recommendations on effective measures to prevent recurrences.

2. Objectives of the Investigation

The objectives of the Investigation by the Committee are as follows:

- (1) Investigate the facts of the case, including whether or not there are any similar issues that have not yet been identified
- (2) Determine the financial impact on LGC’s consolidated financial statements arising from this issue
- (3) Clarify the root cause of the issue and propose preventive measures

3. Scope of the Investigation

Following the commencement of the Investigation, the Committee identified facts that East Kanto Building Branch Office Chiba Sales Office¹ of LIXIL, which operates under LIXIL Building Technology (hereinafter “LBT”), a Division of LIXIL, was conducting inappropriate recognition of accelerated sales, as reported by an external contractor on October 12, 2018, to Kinuya Seto (Director, Representative, Executive Officer, President and CEO of LIXIL as of October 12, 2018).

The notification stated that Building Chiba Branch (currently the Building Chiba Sales Office under the Building East Kanto Branch) is: (1) requesting to process all payments without the completion of construction work or only partial completion of total contracted work; (2) stating that Building Chiba Branch cannot process payments for supplemental construction because sales are already recognized; and (3) stating that payments will be made from another project. Following this notification, an internal investigation was conducted and completed on February 6, 2019 and confirmed that there was inappropriate recognition of accelerated sales since July 2015 at Building Chiba Branch.

Moreover, the Committee recognized that on November 26, 2018 there was an accusation raised by an anonymous source to law firm, which serves as the whistleblower hotline established by LGC, related to fraudulent accounting treatment in LIXIL Suzuki Shutter Corporation (hereinafter “LIXIL

¹ Tokyo metropolitan area Sales Division, Chiba Branch, Building Chiba Branch, Chiba Building Front Office (as of July 2015)

Suzuki Shutter”).

The Committee began the Investigation from Business Division 1 of LR, where the Allegation arose. As described in the Section 3.3, inappropriate accounting treatments at LR related to the sales recognition basis adopted, “Completed-Contract by Finalizing the Main Construction”. The branch managers and construction manager were demanding external contractors to input false completion dates in completion reports in order to reach revenue and business profit targets by accelerating sales recognition. LR was also billing the client for the entire construction, inclusive of supplemental construction, by manipulating the date of completion ahead of actual completion. It was assumed that similar cases to the Allegation could be uncovered in Building Technology Business as it outsources construction work as well. However, as it would be difficult for businesses in LBT, which adopt sales recognition standards other than Completed-Contract by Finalizing the Main Construction, such as those engaged in merchandizing without any construction work, to conduct such inappropriate accounting treatments, they were not included in the scope of the Investigation. In addition, the sales amounts from those merchandising business were not significant compared to those engaged in construction work. The sales from construction work have significant impacts on reaching the target figures when the construction period is delayed, but the impact of merchandising on reaching the target figures was not considered critical.

In addition, Business Division 2 of LR, Water Technology Business of LIXIL, Housing Technology Business, Kitchen Technology Business, Distribution & Retail Business, and Housing & Services Business are mainly merchandizing businesses, although some of the transactions require minor installation work, while the process to place order with external subcontractors also differs significantly to those of Business Division 1 of LR or LBT. As the amounts of each transaction were not significant, the possibility of conducting similar inappropriate recognition of accelerated sales which occurred at Building Division 1 at LR was low.

In addition, LGC's overseas consolidated subsidiaries that engage in construction work related to buildings were excluded from the Investigation as their business practices differ significantly, there is strict monitoring for billing without clients acceptance, and clients require assurance from financial institutions to initiate transactions. Therefore, it was considered that the possibility of conducting similar inappropriate recognition of accelerated sales which occurred at Building Division 1 at LR was low.

Based on the above, the Committee has decided to conduct the Investigation mainly on (1) Business Division 1 of LR; (2) LBT of LIXIL; (3) LIXIL Suzuki Shutter and its full subsidiary, LIXIL Okinawa Suzuki Shutter Corporation. (hereinafter “LIXIL Okinawa Suzuki Shutter”); and (4) LIXIL Sales Okinawa Co. Ltd (hereinafter “LIXIL Sales Okinawa”), a consolidated subsidiary of LGC, which was established in April 2015 by incorporating the Okinawa Branch of LBT as a separate entity, and which conducts construction work related to buildings and apartments similar to LR & LBT. The Committee decided to select these four division/company described above from (1) to (4) as the investigated companies (hereinafter “Investigated Companies”)

4. Members of the Committee

The members of the Committee are as follows (the members of the Committee are independent from LGC).

Chairman:	Maki Kumagai (Attorney at Iwaida Partners)
Member:	Shoichi Seino (Attorney at Iwaida Partners)
Member:	Takuei Maruyama (Certified Public Accountant, PwC Business Assurance LLC)

It was necessary to conduct a detailed investigation by defining the appropriate scope for multiple entities. Therefore, in order for the Committee to determine the method of the Investigation and

conduct the proper work promptly, it was considered effective and fundamental to proceed with (1) exchanging information with the administrative office of LIXIL (hereinafter “the Administrative Office”) related to selection of the device and data for the digital forensic investigation, nomination of the interviewees, accumulation of the financial data, conducting surveys, and requesting voluntary declaration; (2) utilizing the know-how, experience, and information accumulated by the internal audit division of LGC.

In addition, as the Investigation was initiated from the report related to LR, which is a subsidiary of LIXIL, where the Administrative Office is established, it was necessary to ensure that proper handling of information and exchanging information between the Committee and the Administrative Office would not harm the quality of the Investigation itself. Therefore, the committee members were not selected in accordance with the Japan Federation of Bar Associations' Guidelines for Third-Party Committees Relating to Corporate Scandals. Instead, the Committee was established to conduct the Investigation.

However, LGC entrusted the Investigation policy adopted to the Committee, and the Committee decided the Investigation method accordingly at its sole discretion. Moreover, the rights to make judgments on the facts and drafting the reports belong to the Committee. In addition, the Committee will disclose the findings and its evaluation in the report, even if those findings are unfavorable to LGC and its management. The Committee has the right to dispose of the information gathered through the Investigation.

As described above, the Committee conducted an independent and neutral investigation in accordance with the Japan Federation of Bar Associations' Guidelines for Third-Party Committees Relating to Corporate Scandals.

In addition to support from the Administrative Office, the Committee selected external specialists as assistants who are also independent from LGC.

Department	Name, etc.
Iwaida Partners	Attorneys (Kazuki Nakabayashi, Takuya Toda)
PwC Business Assurance LLC	Certified Public Accountants (Mamoru Honda, Mihoko Nasu, Takashi Nakayama, Eiichi Shirahige) Hironori Tanaka (other 13 members)

5. Period of the Investigation

The Committee conducted the Investigation from February 12, 2019, to March 28, 2019, and convened 29 meetings during this period

6. The Investigation Methods

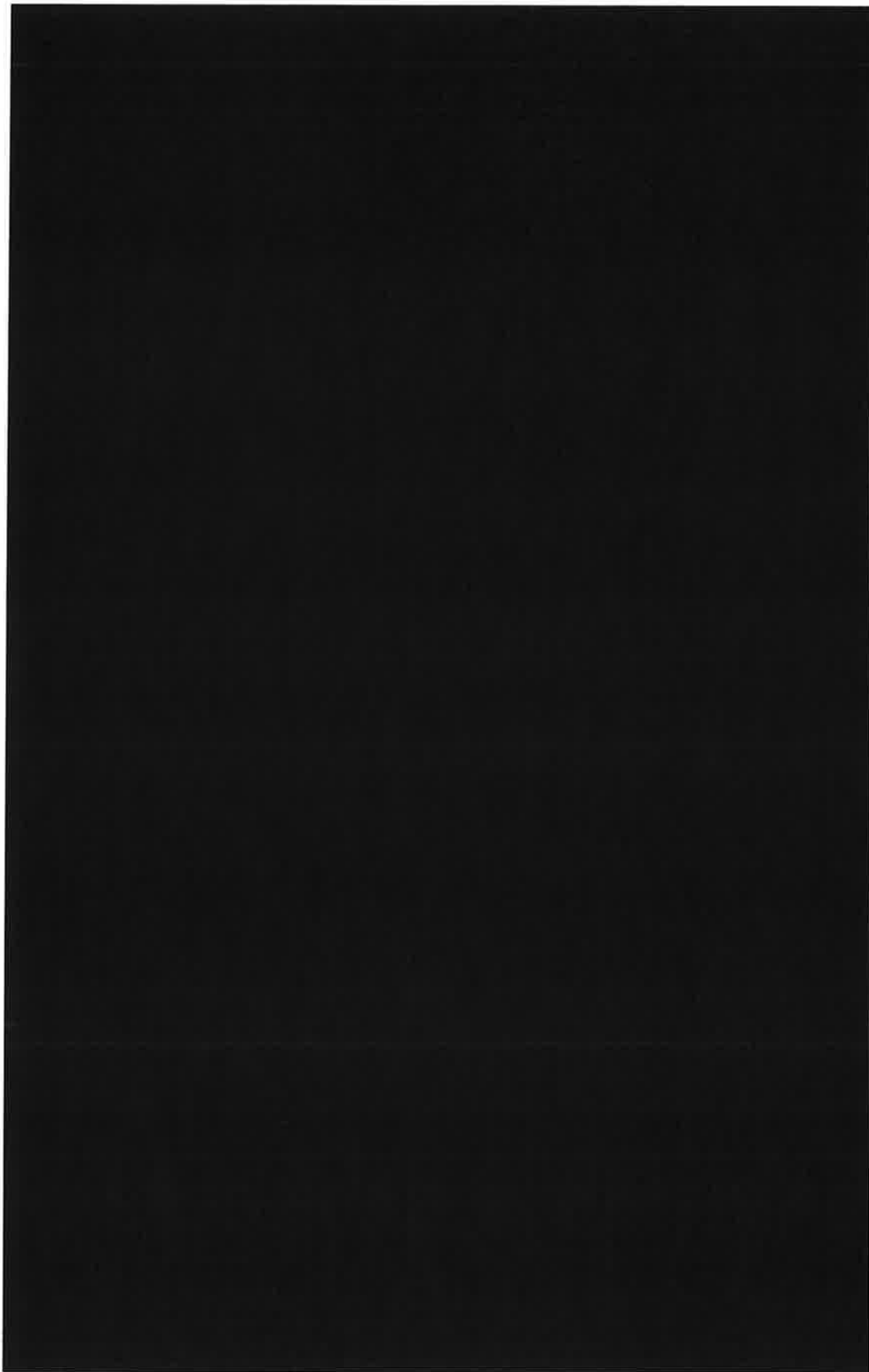
The Committee conducted the Investigation mainly by the following methods:

i. Conducting Interviews

The Committee interviewed officers and employees of LR, LBT, and Suzuki Shutter (63 in total).

The positions listed below are as of February 12, 2019 (date of commencement of the Investigation).

Interviewee	Organization/Title
LR	
Susumu Hamada	President and CEO
LBT	
Tadashi Oikawa	Managing Director and CEO of LBT



PDF, and other types of electronic data that was deemed necessary by the Committee) to an extent deemed to be feasible, the stored electronic data was analyzed and investigated.

In addition, The Committee collected, analyzed, and investigated the e-mail data of 24 executives and employees (including retired employees) of LR, LBT, and LIXIL Suzuki Shutter, which had been stored on the mail server.

iv. Survey

The Committee requested the following members to respond to its survey:

	Target	Number of responses
LR	All directors and employees (339)	333 people
LBT	Branch Manager, Manager, GL, TL, Staff Related to Sales, Procurement, and Construction Management (410)	409 people
LIXIL Suzuki Shutter	First time: Employees within the Sales Division (283)	276 people
	Second time: All directors and employees (480)	453 people
LIXIL Sales Okinawa	All directors and employees (42)	41 people
LIXIL Okinawa Suzuki Shutter	All directors and employees (9)	9 people

Those who were unable to respond to the above survey were personnel who took leave for medical reasons or who were on childcare leave, which were considered to be reasonable reasons for not responding.

v. Request for Voluntary Declaration

The Committee requested all the Investigated Companies to voluntarily declare possible inappropriate business processes or accounting processes.

At the Investigated Companies, targets are set for every half of fiscal year. Therefore, the Committee requested they voluntarily declare possible inappropriate business processes or accounting processes which were carried out in March and September with the assumption that such practices would be carried out in March and September. However, for the latest four quarters, the Committee requested them to declare cases recognized in March and December as well. The maximum accumulated impact of inappropriate recognition of accelerated sales was determined to be 845 Million Yen (as of Interim Report issuance date). In comparison, LGC's profit for the year attributable to owners of the parent on consolidated financial statement for FYE2018 was 54,581 Million Yen. Considering the limitation of time and that the above mentioned impact on the consolidated financial statement is limited, the Committee decided to look back until September 2016 as its scope of investigation.

<LR>

The Committee requested LR to filter properties with sales recorded in March, June, September, and December 2018 (excluding those for which the order amount is less than 1 Million Yen), which are the latest quarterly ends, and voluntarily declare possible inappropriate business processes or accounting processes which were carried out for all the filtered properties. The Committee also requested LR to submit objective evidence for the properties if they are claimed to be normal transactions.

In addition, the Committee requested LR to voluntarily declare potential inappropriate business processes or accounting processes which were carried out for all the properties with sales recorded in September 2016, March and September 2017 (excluding those for which the order amount is less than 10 Million Yen). The Committee also requested LR to submit objective evidence for the properties if they are claimed to be normal transactions.

<LBT>

The Committee requested LBT to filter properties with sales recorded in March, June, September, and December 2018 (excluding those for which the order amount is less than 1 Million Yen) which are the latest quarterly ends, and voluntarily declare possible inappropriate business processes or accounting processes which were carried out for all the filtered properties. The Committee also requested LBT to submit objective evidence for the properties if they are claimed to be normal transactions.

In addition, the Committee requested LBT to voluntarily declare possible inappropriate business processes or accounting processes which were carried out for all the properties with sales recorded in September 2016, March and September 2017 (excluding those for which the order amount is less than 10 Million Yen). The Committee also requested LBT to submit objective evidence for the properties if they are claimed to be normal transactions.

<LIXIL Suzuki Shutter>

The Committee requested LIXIL Suzuki Shutter to filter properties with sales recorded in March, June, September, and December 2018 (excluding those for which (1) the order amount is less than 1 Million Yen; (2) there is no possibility of conducting inappropriate recognition of accelerated sales after analyzing the accounting and construction management data; (3) the payments were made within the collection due date from checking the merchandize and collection site but for which the accounting and construction management data cannot be analyzed), which are the latest quarterly

ends, and voluntarily declare possible inappropriate business processes or accounting processes which were carried out for all the filtered properties. The Committee also requested LIXIL Suzuki Shutter to submit objective evidence for the properties if they are claimed to be normal transactions.

In addition, the Committee requested LIXIL Suzuki Shutter to voluntarily declare possible inappropriate business processes or accounting processes which were carried out for all the properties with sales recorded in September 2016, March and September 2017 (excluding those for which (1) the order amount is less than 10 Million Yen, (2) there is no possibility of conducting inappropriate recognition of accelerated sales after analyzing the accounting and construction management data (3) the payment were made within the collection due date from checking the merchandize and collection site but for which the accounting and construction management data cannot be analyzed). The Committee also requested LIXIL Suzuki Shutter to submit objective evidence for the properties if they are claimed to be normal transactions.

<LIXIL Sales Okinawa>

The Committee requested LIXIL Sales Okinawa to voluntarily declare possible inappropriate business processes or accounting processes which were carried out for all the filtered properties with sales recorded in September 2016, March and September 2017, and March, June, September, and December 2018 (excluding those for which the order amount is less than 1 Million Yen) by analyzing the accounting and construction management data. The Committee also requested LIXIL Sales Okinawa to submit objective evidence for the properties if they are claimed to be normal transactions.

Section 2. Underlying Fact and Assumptions for the Investigation

1. Overview of LGC

(As of March 31, 2018)

Name of Company	LIXIL Group Corporation
Stock Exchange	The First Section of the Tokyo Stock Exchange The First Section of the Nagoya Stock Exchange
Fiscal Year End	March
Shareholders	Japan Trustee Services Bank, Ltd. (Trust Account) (4.59%) The Master Trust Bank of Japan ,Ltd. (Trust Account) (4.53%) STATE STREET BANK CLIENT OMNIBUS OM04(Standing Proxy / Tokyo Branch of Hong Kong Shanghai Banking) (3.34%) The Nomura Trust and Banking Co., Ltd. (Trust Account) (3.07%) JPMC OPPENHEIMER JASDEC LENDING ACCOUNT (Standing Proxy / The Bank of Tokyo-Mitsubishi UFJ, Ltd) (2.71%) The Dai-ichi Life Insurance Company, Limited (Standing Proxy / Trust & Custody Services Bank, Ltd.) (2.26%) LIXIL Employee Stock Ownership (2.22%) Japan Trustee Services Bank, Ltd. (Trust Account 5) (1.92%) Sumitomo Mitsui Banking Corporation (1.91%) STATE STREET BANK WEST CLIENT – TREATY 505234 (Standing Proxy / Settlement Sales Department of Mizuho Bank, Ltd.)(1.65%) and others
Representative	Representative Executive Officer and President Kinya Seto
Registered Office	2-1-1 Ojima, Koto-ku, Tokyo
Number of Employees	61,140
Major Business	Water Technology Business Housing Technology Business Building Technology Business Kitchen Technology Business Distribution & Retail Business Housing & Services Business
Accounting Auditor	Deloitte Touche Tohmatsu LLC

(Notes) The Bank of Tokyo-Mitsubishi UFJ, Ltd has changed its trade name to MUFG Bank, Ltd. as of April 1, 2018.

2. Overview of LR

(As of March 31, 2018)

Fiscal Year End	March
Representative	Susumu Hamada
Registered Office	2-1-1, Ojima, Koto-ku, Tokyo
Employees	301

LR operates under LBT, one of the main businesses of LIXIL.

On April 1, 2013, Shin Nikkei Building Materials Sales Corporation and LIXIL Reform Sales Division (dedicated to the renovation of buildings) merged to launch LIXIL Building Remodeling Sales Co., Ltd. Subsequently, on April 1, 2015, the company merged with LIXIL Renewal Corporation, acquired the business of Sunwave Living Design Co., Ltd., and changed its trade name to its present name.

LR's Business Division 1 engages in the design and construction of renovation projects for existing apartments, buildings, and large stores, while LR Business Division 2 sells housing

equipment and water technology products. Most of the renovation work for buildings and large stores is outsourced to general contractors. However, many apartment renovation projects are outsourced directly by apartment management associations.

The business results and financial position (JGAAP) of the LR are as follows.

(Unit: Million yen)

By term	Sales	Operating income	Ordinary profit	Net income
FYE2016	18,038	2,185	2,204	1,386
FYE2017	17,772	2,265	2,286	1,497
FYE2018	15,960	1,241	1,257	848

3. Overview of LBT

In LIXIL, LBT is one of the main businesses of LGC.

LBT mainly manufactures and sells building materials, etc., and manages contracts related to the installation of these products. It also carries out renovation projects for existing buildings.

Tadashi Oikawa serves the top management of LBT as CEO.

4. Overview of LIXIL Suzuki Shutter

(As of March 31, 2018)

Fiscal Year End	March
Representative	Satoshi Yamada
Registered Office	1-1-4, Minami-Otsuka, Toshima-ku, Tokyo
Employees	440

In October 2000, Suzuki Shutter Kogyo Co., Ltd. became a subsidiary of LGC through a share transfer, and changed its name to its current name in April 2011. Okinawa Suzuki Shutter Co., Ltd. is a wholly owned subsidiary of LIXIL Suzuki Shutter.

LIXIL Suzuki Shutter manufactures, sells and installs shutters with fire and smoke-proof properties, and provides maintenance services for shutters. Most of the construction work for shutters is outsourced by a general contractor. However, the maintenance work may be outsourced directly from building owners or management companies.

The business results and financial position (JGAAP) of the LIXIL Suzuki Shutter are as follows.

(Unit: Million yen)

By term	Sales	Operating income	Ordinary profit	Net income
FYE2016	12,004	831	825	549
FYE2017	11,134	834	1,196	811
FYE2018	11,956	848	1,138	799

5. Overview of LIXIL Sales Okinawa

(As of March 31, 2018)

Fiscal Year End	March
Representative	Yasunori Kaneda
Registered Office	237-5, Ojana, Ginowan-shi, Okinawa
Employees	28

LIXIL Sales Okinawa is a company in the building technology business, one of the main businesses of the LGC Group. It was established on April 1, 2015, with the incorporation of the Okinawa Branch in LBT.

LIXIL Sales Okinawa is mainly engaged in the manufacturing and sales of building materials, etc. as well as the contracting of the installation of these products. However, some of the existing buildings are also being renovated by LIXIL Sales Okinawa.

The business results and financial position (JGAAP) of the LIXIL Sales Okinawa are as follows.

(Unit: Million yen)

By term	Sales	Operating income	Ordinary profit	Net income
FYE2016	-	▲ 8	▲ 8	▲ 9
FYE2017	3,170	251	252	168
FYE2018	3,848	211	217	141

Section 3. Findings from the Investigation

1. Summary of the Investigation Results

For all of the Investigated Companies except for LIXIL Sales Okinawa, in the past fiscal years, there was (1) manipulation of the completion of construction date and recording sales prematurely, violating the basis for recording sales (hereinafter “Acceleration of sales through manipulation of completion date”). For LIXIL Sales Okinawa, such practices were found in the past fiscal years only. In addition, for LR, LBT and LIXIL Suzuki Shutter, there were instances of (2) splitting the properties intentionally in order to recognize the sales from completing the construction of the split properties (hereinafter “Acceleration of sales by splitting of construction/property”). However, in LR, there was no registration of fictitious orders (i.e., registration of orders without actual orders). As specified in Appendix 1, the Committee concluded that there were 723 cases in total which the acceleration of sales were conducted.

The Committee has determined that these practices related to recognition of accelerated sales do not conform to generally accepted accounting principles.

At the Investigated Companies, although their financial statements are prepared based on Japanese GAAP, the consolidated financial statements are prepared based on IFRS. If the impact of the inappropriate recognition of accelerated sales in the financial statements is reclassified to the “Cost recovery method²” set forth in IFRS 15, “Revenues from Contracts with Customers”, the sales revenue and gross profit on sales were excessively recorded in the consolidated financial statements as shown in Appendix 2. As the result, only the profit portion of accelerated sales are recognized on the consolidated financial statement when inappropriate recognition of accelerated sales were conducted.

2. Underlying Facts Gathered from the Investigation

For all of the Investigated Companies, the below facts were gathered.

i. Sales Recognition Basis

All of the Investigated Companies (include LR) adopt the same basis for recognizing sales.

For sales transactions on a per-unit basis (hereinafter “Unit sales transaction”), sales are recognized based on the shipment date of the equipment.

For sales transactions that are packaged (hereinafter “Package sales transaction”), sales are recognized based on the date of the delivery of all the items at the designated destination.

For sales of transactions for which installation work is required (hereinafter “Sales transaction with construction contract”), sales are recorded as of the time when the main construction is completed. The standards for the recording of sales of the property are called “Completed-Contract by Finalizing the Main Construction”. For works other than Main Construction (hereinafter “Supplemental Construction”), the cost required for such works shall be estimated in advance and

² According to IFRS 15, paragraph 45, “in some circumstances (e.g., in the early stages of a contract), it may not be possible for an enterprise to reasonably measure the consequences of its obligations to perform, but it may expect to recover the costs incurred in fulfilling those obligations. In such cases, the enterprise must only recognize earnings within the extents of the costs incurred until the results of the obligations can be reasonably measured.”

the sales shall be provisioned.

The Main Construction and Supplemental Construction at the time of commencing the Investigation (February 12, 2019) are defined as follows.

Main Construction	Supplemental Construction (Cost Required Estimated in Advance)
[Construction of Curtain Wall] Mutual and coastal cover, Mullion and Mullion Cover, Unit, Fireproof Board, BBOX, Frame, Committee, Coping, Border, Operator, Ecorator, Engine, Chamber Box, Ventilator, Seal, Decorative Cover	Cleaning, Screen Door, Window Grate, Operator Face
[Other Construction Work] Sash Construction, Door Construction, Operator Construction, Front Construction, Engine Construction, Handrail Construction, Sanitary Room Construction, Kitchen Construction, Living Room Construction, Fireproof Board Construction	Screen Door, Sash Adjustment, Cleaning, Seal, Lock, Push Rod, Door Stop, Window Grate

The time of completion for Main Construction is confirmed by receiving a report for the completion of work from the Outsourcing Subcontractor. At the time of the sales recognition, it is required to receive the following 4 documents: (1) The report of completion of the work from the Outsourcing Subcontractor, (2) Minutes of increase and decrease settlement (in case it is under settlement), (3) Request for approval of sales recognition, (4) Request for approval of accruing construction cost (in case the project contains Supplemental Construction).

However, even if the report for the completion of work is not received, it is possible to recognize sales in the T-PROCESS (purchase order management system) if all the planned purchases are registered (hereinafter "Zero Remaining Purchases").

Moreover, as described in Section 3.3, at LR and LBT Chiba Branch, it was confirmed that there were a number of cases where external contractors were demanded to input false completion dates in completion reports. Also, at LBT Chubu and Kansai Branch, it was confirmed that the reports for the completion of work were not collected at the time of sales recognition (the requirement of inputting the Main Construction finalization date to be reflected in the report of completion of the work are not acknowledged).

From the gathered facts above, it is clear that the rules to confirm the completion of Main Construction by the date in the report for the completion of work has become just a formality with no substance behind the report.

ii. Rules for Split Sales Recognition of Ordered Property

In LR and LBT, a single order can contain multiple buildings to be constructed. For each building where the construction schedule is different, the accounting department (for LR, business management division, and for LBT, building management accounting group) must be consulted to process the split order booking to facilitate appropriate sales recognition. However, this rule was modified in June 2018, where in a situation where all of the below three conditions are met, it became acceptable to proceed the split order registration by getting approval. The 3 conditions are: (1) the order amount of each property, planned cost, and details of the construction are clear. (2) there are differences in the construction schedule and there are time gaps between one schedule to another, (3) the way to split the properties are reasonable.

iii. Operation Flow

The basic flow of operations in the Investigated Companies (include LR) is as follows.

Receiving Purchase Order	Sales will create the cost budget from the requirement given by the clients and receive the purchase order after negotiation. After receiving the purchase order or instructions to initiate the design, the purchase order will be registered into T-PROCESS (purchase order management system)
Modification of Purchase Order Amount	After receiving the request from the sales staff, the budgetary cost will be reviewed based on the detailed requirement given by the clients. If there are any differences between the budgeted cost and actual cost after the review, the sales staff are required to re-negotiate with the clients to agree on a final price. After receiving the updated purchase order or instruction to initiate the design, the sales staff will also update the purchase order amount into T-PROCESS.
Arrangement of Construction Component	The required component is selected from the design blue-print and the order is placed to the LIXIL factory for LIXIL components and the order is placed to external vendors for other components. When placing the order, it is mandatory to issue a purchase order and confirm the acknowledgement of the receipt those purchase order.
Arrangement of Subcontractor	The formal construction prepared and the construction subcontractor is selected (hereinafter "Construction Subcontractor") for the construction. When placing the order, it is mandatory to issue a purchase order and confirm the acknowledgement of the receipt those purchase order.
Confirmation of Delivery	Based on the statement of delivery and delivery status report, confirm the delivery of ordered components with registering the purchase into T-PROCESS related to the designated property. Also, the delivery date shall be registered in the BKP, which is the process control system.
On-Site Work Management	Check the statement of delivery and site installation progress from the Construction Subcontractor. Those purchased for the designated property shall be registered into T-PROCESS.
Progress Billing	Prior to the completion of the construction work ordered by the client, the client is requested to assess the progress and will be billed based on progress.
Sales	Sales are recognized based on the Completed-Contract by Finalizing the Main Construction after receiving the completion of the work report from Construction Subcontractor. Supplemental Construction shall be estimated and provisioned accordingly.
Payment Collection	Collect the proceeds (or the balance if there were any progress billing).

iv. Target Figures

For each fiscal year, all of the Investigated Companies set targets (such as sales, profits, orders, etc.). Those targets are set for first half (April to September) and second half (October to March). These targets are allocated to all of the Branches and Sales Office, and the target amounts are then broken down and assigned to sales staff.

The achievement rate of the target is considered a major factor in personnel evaluations, especially for sales staff. Also, the achievement rate of the target at each division and areas is the evaluation factor for design, operation and construction members (hereinafter "Post Process").

Each sales office reports the progress of the plan on a weekly basis to top management. In addition, each branch holds a sales preparation meeting every month to check the progress of properties for which sales are scheduled to be recorded in that month in order to estimate the progress of targets (this activity is called hereinafter "Prediction"). Participants of the sales

preparation meeting are the head of each office, the responsible person for sales recording (in case of LR and LBT: the person in charge of construction, in case of LIXIL Suzuki Shutter: sales), and the persons in charge of Post Process, sales, etc.

3. Facts with Respect to LR

i. Summary of Inappropriate Accounting Treatment at LR

The Committee concluded (as described in Appendix 1) that, from September 2016 to December 2018, there were 93 cases of inappropriate accounting treatment from Acceleration of sales through manipulation of completion date after investigating data and evidences other than the report of completion of work (such as construction management data, construction process, order, proof of receiving keys from the residents to conduct renovation works, etc.).

Among them all, there were 5 cases from Tohoku Branch, 18 cases from Kanto Branch, 51 cases from Apartment East Kanto Branch (which includes former Apartment Renovation Branch so called "MR Branch" and former Chiba Branch), 11 cases from Apartment West Kanto Branch (formerly Kanagawa Branch) and 8 cases from Kyusyu Branch. There were no identified cases in Kansai Branch.

The Committee confirmed that most of the cases related to inappropriate sales recognition at LR were observed at Apartment Building East Kanto Branch. It was also confirmed that those practices were conducted intentionally in order to reach the targeted amount of sales and business profit.

Apartment East Kanto Branch (formed by combining MR Branch, Saitama Branch and Chiba Branch in 2018) is mainly in charge of renovating the common area of used apartments. Their main customers are general contractors and management associations of the apartments. In the case of receiving orders directly from the management associations of the apartments, LR will be the prime contractor. The renovation business as a prime contractor was developed recently inside LR. As of fiscal year ending March 2016, approx. 20% of the revenue were from Apartment East Kanto Branch (former MR Branch), which was the largest portion among all of the LR businesses. However, as described in Section 2.2, after the fiscal year ending March 2016, the business trends began trending downwards, which lead to conducting inappropriate recognition of accelerated sales in order to recover from the situation.

As below, the Committee provides the background of conducting such inappropriate recognition of accelerated sales in spite of specific alerts from the business section, particularly in the Apartment East Kanto Branch, by describing the responsibilities of involved personnel, considering the motive, opportunities, methods and justifications.

ii. Background of Conducting Inappropriate Recognition of Accelerated Sales

a. Inappropriate Recognition of Sales as of FYE2017

In LR, it is recognized that inappropriate recognition of accelerated sales has been conducted at least since September 2016.

On September 6, 2016, A of LR, (hereinafter "Person A") sent an e-mail to B (hereinafter "Person B") stating that **"Although this is the month for recognizing sales for [REDACTED] (MR Branch) and [REDACTED] (Chiba Branch), the construction cannot be finalized. On the other hand, the products can be delivered within the time frame. Even though the sales recognition criteria are not fulfilled, we will recognize these sales."** (Sent on: September 6, 2016, From: Person A, To: Person B, Subject: FW: Construction Finalization in September). In response, Person B replied **"Please go ahead"** (Sent on: September 6, 2016, From: Person B, To: Person A,

Subject: Re: Construction Finalization in September). For these properties, the total amount of 271,275,600 Yen was recognized as of September 30, 2016.

Also, [REDACTED] sent an e-mail stating that **"Excuse me! We forgot to mention one point in today's sales preparation meeting. Regarding the [REDACTED], we will split the sash construction parts from the entire handrail construction in order to recognize sales in September. From this, sales amount of 38 Million Yen (Gross Profit of 9.3 Million Yen) will be added on top"** (Sent on: September 14, 2016, From: [REDACTED], To: 11 people including Person A and Person B, C (hereinafter "Person C"), D (hereinafter "Person D") CC: 4 people including E (hereinafter "Person E") Subject: RE: [Report] Sales Preparation Meeting in September (MR/Chiba) | Sending Prediction Status). In response, F (hereinafter "Person F") replied **"We are not preparing anything on handrail construction (Obviously, we have not contracted the subcontractor for those work, either). Therefore, it is not possible to recognize sales at this moment."** (Sent on: September 15, 2016, From: Person F, To: [REDACTED], CC: 14 people including Person B, Person A, Person C, Person E, and Person D, Subject: RE: [Report] Sales Preparation Meeting in September (MR/Chiba) | Sending Prediction Status) and also on September 29, Person F sent **"Despite the several attempts of pushing, there is no progress related to this property (no discussion with the subcontractor, no order issuance, etc.). It seems that the sales recognition is impossible."** (Sent on: September 29, 2016, From: Person F, To: 3 people including [REDACTED], CC: 10 people including Person B, Person A, Person C and Person D, Subject: RE: [REDACTED]). For these properties, the amount of 40,000,000 Yen was recognized as of September 30, 2016 with creating the project naming "[REDACTED]" and the amount of 1,100,000 Yen was recognized as of December 26, 2016, with creating the project naming "[REDACTED]".

Moreover, on April 25, 2017, [REDACTED] sent an mail to G (hereinafter "Person G") and H (hereinafter "Person H"), stating that, **"From following up on the satisfaction survey from the Kyusyu Branch, as we have not received it yet, we have confirmed that the sales are recognized in March 2017 even though construction was not finalized. We did not force them to answer but they voluntarily shared this information. We are sharing this information as we cannot leave them as it is now. Construction started from the end of March 2017 and, as of today (April 25), the progress of the works are 2/3 of total construction work. (From the approver of sales recognition, the sales recognition is in April in the earliest case but usually May considering the property. We asked who instructed this sales to be recognized in March 2017. The reply was 'From the people above the Branch Manager'."** (Sent on: April 25, 2017, From: [REDACTED], To: Person G, Person H, [REDACTED], CC: [REDACTED], Subject: [Confidential] Information Sharing)

In Kyusyu Branch, the Committee confirmed that there was inappropriate recognition of accelerated sales in March 2017. The amount is 38,750,000 Yen from "[REDACTED]" and 29,150,000 Yen from "[REDACTED]".

b. Inappropriate Recognition of Sales as of FYE2018

On June 2, 2017, Person G was reported by his subordinates that, **"From today's 'lost'³ accumulation, we noticed that there are several questionable properties where the manipulation of the sales recognition might have occurred. We are sharing this information as**

³ "Lost" here is the "Lost Profit" from having more cost than initially estimated and not invoicing the adequate amount.

the impact of those manipulations is significant on reports.” “If the sales were recognized though construction was not completed, it is the subject of report to the Business Management Division and Sales Strategy Office as the subject of inappropriate action. How shall I treat this case?” (Sent on: June 2, 2017, From: [REDACTED], To: Person G, [REDACTED])

In response to this report, Person G reported to Mr. Susumu Hamada, President and CEO (hereinafter “President Hamada”) and Person H regarding the detailed names of properties ([REDACTED]) with the rationales for doubt. President Hamada instructed Person H to check the existence of inappropriate recognition of accelerated sales, and Person G shared to Person H the list of properties from the construction schedule that were questioned for conducting inappropriate recognition of accelerated sales in September 2017 on September 27. Among the list, regarding “[REDACTED]” and “[REDACTED]”, Person G shared the information and stated, “These are accelerated sales items in September. Two properties are recognized as warehouse cost (as we cannot deliver to the properties), in total of 2.61 Million Yen. Both of them are subjects of grants-in-aid properties and, of course, sash construction. If we purchase now, we cannot adjust the increase and decrease in the T-Pro. Even it is still in the construction process, we handle by recording expense, not adjusting increase and decrease, or make payment from other properties, etc....” (Sent on: September 27, 2017, From: Person G, To: Person H, Subject: Continue [Information]).

In parallel, in the middle of September 2017, subordinates reported their suspicious of planned inappropriate recognition of accelerated sales for several properties to Person A and Person C. In response, Person A sent the mail to Person D who is the person in charge of sales recognition at the branch, [REDACTED], and [REDACTED],

stating that “Please fill in the name of the properties for which you are planning to recognize sales even it is does not meet the sales recognition criteria until 12:00.”

(Sent on: September 21, 2017, From: Person A, To: Person D, [REDACTED], CC: Person C, Subject: Properties for Sales Recognition) As a response, [REDACTED]

reported that “We will recognize the sales of “[REDACTED]” by provisioning the Supplemental Construction. For other properties, although the completion of the work for several houses and windows is delayed to October, we will recognize the sales in September.”

(Sent on: September 21, 2017, From: [REDACTED], To: Person A, CC: Person C, Subject: RE: Properties for Sales Recognition) Also, [REDACTED] from Chiba Branch responded that,

From Chiba Branch, we will recognize sales in September from (1) completing the work of [REDACTED] in September 29. (2)

completing the [REDACTED] at the end of September ([REDACTED]) after purchasing remaining [REDACTED]

” (Sent on: September 21, 2017, From: [REDACTED], To: Person A, CC: 4 people including Person C, Subject: RE: Properties for Sales Recognition)

Person C reported toward Person B stating, “This is the current situation of Chiba.” (Sent on: September 21, 2017, From: Person C, To: Person B, Subject: FW: Properties for Sales Recognition)

Moreover, related to MR Branch, Person D sent an excel file (hereinafter “Case File”) which contains the details of 7 properties “ [REDACTED] ”

[REDACTED] ”, and [REDACTED]

”(in total of 292,345,941 Yen). In the Case File, for those 7 properties, there were places to fill in the “amount”, “start date”, “completion date”, “predicted”, “measures”, and “others”. In the “others”, there were the reasons why those 7 properties were not completed within September. Also, in the “measures”, for “[REDACTED]

”, it is stated as to be stored in the warehouse.

Person C reported to Person B together with the Case File and forwarded email from Person D with stating, **“This is the current situation...”** (Sent on: September 22, 2017, From: Person C, To: Person B, Subject: FW: Properties for Sales Recognition)

After these reports, President Hamada, Person B, Person A, Person C, Person E and Person D discussed the issue and confirmed that all of the properties’ Main Construction cannot be completed until September 30.

From the discussion, Person A and Person C understood that such inappropriate recognition of accelerated sales had been prevented. Therefore, Person F who is the subordinate of both Person A and Person C, sent an email to each branch manager on September 28, stating that, **“We noticed several attempts of violating the sales recognition rules (which we have successfully prevented). Please strictly follow the sales recognition rules.”** (Sent on: September 28, 2017, From: Person F, To: [REDACTED], [REDACTED], Person I, Person E, [REDACTED], [REDACTED], Person D, CC: President Hamada, Person B, Person A, Person G, [REDACTED], [REDACTED], Person C, [REDACTED], Subject: **【Urgent】** last 2 days in this period).

On top of this, in the same day, Person A sent the mail to 5 members includes Person D, [REDACTED] and [REDACTED] on September 28, stating that **“I am sending this mail just to re-confirm the following points. ‘Person who judge the sales recognition’ = ‘Person in charge of construction’, ‘Basis of sales recognition’ = ‘when the Main Construction is completed’ → the goods must be delivered on-site. You can recognize sales even if there is remaining Supplemental Construction”**. (Sent on: September 28, 2017, From: Person A, To: 5 members includes Person D, [REDACTED], [REDACTED], CC: President Hamada, Person B, Person C, Person F, [REDACTED], Subject: Basis of Sales Recognition)

Person F sent the mail to responsible personnel of [REDACTED], copying Person E and Person D, stating that **“The delivery of the entrance frame is October. The door will be delivered to [REDACTED]. Therefore, there is no way that we can complete the construction. Please postpone the sales recognition timing.”** (Sent on: September 27, 2017, From: Person F, To: [REDACTED], [REDACTED], CC: Person E, Person C, Person D, [REDACTED], Subject: FW: Report MR branch)

However, in the end, the sales of 4 properties “ [REDACTED] ” and “ [REDACTED] ” inside the Case File were recognized in September 30, 2017 (Appendix 1).

c. Inappropriate Recognition of Sales as of FYE2019 (until December 2018)

On September 14, 2018, [REDACTED] sent the mail to Person D, [REDACTED] and [REDACTED], stating, **“Please refrain from storing the goods in the warehouse as it was in the last year, which is a violation of the sales recognition criteria and causes a negative impact on profitability. Please strictly follow the basis for sales recognition.”** (Sent on: September 14, 2018, From: [REDACTED], To: Person D, [REDACTED], [REDACTED], CC: President Hamada, Person B, Subject: Warehouse expense(Storage expense)). This mail was copied to President Hamada as well.

However, in the end, the sales of 19 properties were recognized on September 30, 2018, as inappropriate recognition of accelerated sales. (Appendix 1)

iii. Motive, Opportunity, Method and Justification

a. Motive

As described above, it is confirmed that the inappropriate recognition of accelerated sales were rooted in the process from the past and approved implicitly and explicitly by the General Manager of Business Division 1 in LR, after observing the response of Person B, which states, "Please go ahead", in response to the mail received from Person A, which stated that on September 6, 2016, **"The products can be delivered within the time frame. Even though the sales recognition criteria are not fulfilled, we will recognize these sales"**, for the properties with sales planned to be recognized in September (in total of 271,275,600 Yen).

However, in September 2017, Person A and Person C were engaged in activities designed to deter the inappropriate recognition of accelerated sales (total sales Amount of 292,345,941 yen) for 7 properties which Person E had intended to do so for, which suggests that they had a certain level of normative awareness.

On the other hand, at the Apartment East Kanto Branch (formerly MR Branch); despite the deterrence by Person A and Person C, inappropriate recognition of accelerated sales were carried out under the direction of the Branch Manager, Person E. With regard to the motive of such action, Person E stated that it was due to his strong commitment to reach the targeted amount because if Apartment East Kanto Branch (formerly the MR Branch) failed to achieve the targeted amount, the targeted amount for the LR as a whole could not be achieved. In addition, he believed that it was important to achieve the target to receive approval on the request to have the reasonable working conditions for his team, as Apartment East Kanto Branch (formerly the MR Branch) was operating a business of being a main contractor for renovation work, which was not carried out by LIXIL. As a result of the Investigation, it cannot be recognized that there was excessive pressure on the Person E by the President Hamada or the head of the Business Division 1 for the achievement of the targeted amount. Therefore, it is considered that the statement of Person E is reliable.

At the Kyushu Branch, inappropriate recognition of accelerated sales were carried out in advance under the instructions of I (hereinafter "Person I"). With regard to the motive, the Person I stated that if Kyushu Branch continued to miss achieving the targeted amount, local branches such as Kyushu Branch are likely to be forced to reduce their workforce or close the business entirely. If this occurs, the remaining workforce will suffer from workload and the number of part-time employees will be reduced. The motive was to avoid such a situation by conducting inappropriate recognition of accelerated sales. In 2014, the LIXIL Reform Promotion Division, which was the predecessor of the LR, reduced 19 employees at once (with relocating several members from the Reform Promotion Division to other departments). Also, on June 28, 2017, President Hamada sent an e-mail message to Person I, stating, **"Are you seriously going to close this term with being behind the targeted amount significantly like this? (Sales achieving rate of 76%, 67 Million Yen behind target and Profit achieving rate of 73%, 24 Million Yen behind target)." "From next week, make sure to give me the progress report of making up the amount behind! We are losing against the market and competitors. Extend the working hours and collect the remaining sales as much as possible otherwise your branch may be gone soon...."** (Sent on: June 28, 2017, From: President Hamada, To: Person I, CC: 6 members includes [REDACTED], Subject: FW: 【Report】 Business Division 1, Kyushu Branch→Send weekly report). From these facts, it is considered that the statement of Person I is reliable.

Also, it cannot be denied that achieving the targeted amount for sales and business profit, which is the fundamental factor for personal evaluation, was one of the motives in several branches to conduct the inappropriate recognition of accelerated sales.

b. Opportunity and Method

At the Investigated Companies (include LR), sales cannot be recognized in the T-PROCESS system (order management system) unless the balance of the remaining purchase is zero. For this reason, the person in charge of construction work, who is in charge of sales recognition, was processing the payment in advance for all of the products and works necessary for the relevant property.

As for purchasing LIXIL products, since the shipment data of LIXIL's plants is linked with the T-PROCESS, the condition for accelerated sale will not be established unless the products are ordered to LIXIL factories and delivered to the site. In an e-mail sent by Person A to Person B on September 6, 2016, stating, "**The delivery seems to be in time**", indicates that delivering the products was the precondition to recognize the purchase in the system in order to conduct inappropriate recognition of accelerated sales.

Also, at the Apartment Building East Kanto Branch, the projects of "[REDACTED]", "[REDACTED]", and "[REDACTED]" were storing the products which were shipped ahead of schedule in an external warehouse in order to establish the condition to conduct inappropriate recognition of accelerated sales. For the renovation work of the apartments, the storage space to hold the components were limited, thus it was normal practice to use an external warehouse. Therefore, it is considered probable that it was to use an external warehouse, even in this case.

Most of the construction subcontractors which undertake LR renovation work were small business owners, creating a situation where subcontractor easily accepted requests from LR staffs to describe fictitious construction completion dates on the construction completion report. Due to these circumstances, the branch manager and the construction manager, personally or with instruction of their subordinates, made the request to the Construction subcontractors. For example, on October 1, 2018, Apartment Building East Kanto Branch sent a fax to business partners, stating, "**regarding the attached document, we hereby send the order by the specified division, please review the document and return back the below document**", with a request to put the date of completion of construction as September 29. Also, within the form of the fax, only the dates were blank and other parts were pre-filled. Therefore, it is assumed that such requests of inputting the flexible completion date were done continuously.

The Construction subcontractor accepted the requests from the person in charge of LR because they were able to bill the full cost of the construction work quickly, including the remaining construction work, with no disadvantage.

c. Justification

It is considered that the branch manager and the person in charge of construction justified inappropriate recognition of accelerated sales from the following factors: (1) the actual state of the construction work, (2) the construction period may have been postponed due to the contractor and weather conditions, etc., therefore the construction may not be completed at the time originally planned, (3) there was potentially not much difference between the sales recording date brought forward and the actual completion date of the Main Construction, (4) there is no disadvantage to the Construction subcontractor as they receive the full amount of the construction cost at an early stage, and (5) there is no other option to protect their organization.

iv. Responsibility of Involved Personnel

It is deemed that the inappropriate recognition of accelerated sales in branches of LR were made under the instructions or implicit approval of the branch manager. Since the Kansai Branch did not

conduct the inappropriate recognition of accelerated sales, it must be said that there was a significant difference in the normative consciousness and professional ethics between branch managers who did and did not conduct the inappropriate recognition of accelerated sales.

In addition, at each branch, the construction manager, who was responsible for the recognition of sales, was in charge of conducting inappropriate recognition of accelerated sales under the direction of the branch manager. Considering that the primary role of the person who is responsible for the recognition of sales was to confirm the completion of the Main Construction and to ensure that sales recognition was carried out properly, the construction manager who did not fulfill this role also has a certain responsibility.

In FYE2017, Person A permitted the inappropriate recognition of accelerated sales. In FYE2018, Person A, together with Person C, lead certain activities to deter the inappropriate recognition of accelerated sales at Apartment East Kanto Branch (formerly MR Branch). However, the extent of these activities was not extensive, and they did not check if inappropriate sales were actually prevented. Considering the fact that it was not difficult to confirm the presence or absence of inappropriate recognition of accelerated sales by checking the construction management data and T-PROCESS, it is difficult to say that the expected roles of Person A, as an experienced construction manager for renovation work, were fulfilled sufficiently.

Person B was originally in a position to take the lead in instructing the branch manager to comply with the basis of sales recognition, but even after fully recognizing the signs of inappropriate recognition of accelerated sales, there was no evidence of action. Therefore, it must be said that he had relinquished this role and acquiesced to the inappropriate recognition of accelerated sales. Therefore, his responsibility in this was quite significant.

Before President Hamada assumed the role of president of LR on April 1, 2015, he had been engaged in the construction of a new building in LIXIL, and he had no experience in renovation work. As a result, he did not have sufficient knowledge of the businesses of Business Division 1. However, even though the Sales Strategy Office reported a suspicion of inappropriate recognition of accelerated sales, he failed to respond positively, and even when the specific plan for inappropriate recognition of accelerated sales of 7 properties became clear in September 2017, the failure to give clear instructions to Person E to stop the inappropriate recognition of accelerated sales is a serious breach of duty. The biggest cause of Person E and other sales members to conduct inappropriate recognition of accelerated sales over deterrence by Post Process was that President Hamada did not conduct actions to restrain sales members while recognizing the signs of inappropriate recognition of accelerated sales.

4. Facts with Respect to LBT

i. Summary of the Inappropriate Accounting Treatment in LBT

The Committee concluded (as described in Appendix 1) that, from September 2016 to December 2018, there were 393 cases of inappropriate accounting treatment from the Acceleration of sales through manipulation of completion date after investigating data and evidences other than the report of completion of the work (such as construction management data, construction process, order, proof of receiving keys from the residents to conduct renovation works, etc.). Of these, 18 were discovered at the Building Sapporo Branch, 34 were discovered at the Building Tohoku Branch, 18 were discovered at the Building North Kanto Branch, 19 were discovered at the Building Saitama Branch, 29 were discovered at the Building Chiba Branch, 25 were discovered at the Building Tokyo metropolitan area Branch, 7 were discovered at the Building East Kanto Branch, 22 were discovered at the Building West Kanto Branch, 57 were discovered at the Building Chubu Branch, 103 were discovered at the Building Kansai Branch, 34 were discovered at the Building Chu-Shikoku Branch,

and 27 were discovered at the Building Kyushu Branch.

ii. Motives, Opportunity, Method and Justification

There were 393 transactions of inappropriate recognition of accelerated sales. In order to examine the Motive, Opportunity, Method and Justification in LBT within the time constraints, the Commission interviewed the Building Chiba Sales Office, which had been investigated by LIXIL, and the personnel of the Building Chubu and Building Kansai Branches, which had the largest amount of inappropriate recognition of accelerated sales after March 2018.

As a result, the following facts were found.

a. Building Chiba Sales Office

In Building Chiba Sales Office, it is recognized that inappropriate recognition of accelerated sales were conducted at least since July 2015.

Inappropriate recognition of accelerated sales were initially carried out under the instruction or implicit approval of J (hereinafter "Person J"), and after Person J was transferred in October 2016, inappropriate recognition of accelerated sales were carried out under the agreement of K (hereinafter "Person K") and L (appointed as Manager of East Kanto Building Branch Chiba Sales Office in October 2018; hereinafter "Person L"), who were participating the Sales Preparation Meeting. The subordinates of Person K were also involved in requesting subcontractors to make invoices for the sake of conducting inappropriate recognition of accelerated sales.

Although there is no clear criterion for selecting the properties for conducting inappropriate recognition of accelerated sales, it is likely that at the sales preparation meeting, the decision was made on whether to make inappropriate recognition of accelerated sales based on when the Main Construction was scheduled to be completed, the amount of products that can be delivered, and whether or not the subcontractor approves the advance payment, etc. According to Person K, he did not conduct accelerated sales by two months or more ahead of the planned completion date. Moreover, it was reported that the goods shipped from LIXIL plants were not used for conducting inappropriate recognition of accelerated sales as the delivery date in the construction management data cannot be manipulated. Therefore, they needed to use external suppliers when they engaged in the inappropriate recognition of accelerated sales. Moreover, among subcontractors, they had been refused by major suppliers regarding the issuance of invoices prior to the delivery. Therefore they had asked relatively small subcontractors to support their inappropriate recognition of accelerated sales.

The branch manager of Building Chiba Branch did not attend the sales preparation meeting. Therefore, there was no evidence that the branch manager was involved in the inappropriate recognition of accelerated sales.

With regard to the Motive of prior sales, the Person J stated that he had to conduct the inappropriate recognition of accelerated sales in order not to significantly modify the Prediction numbers reported to the branch manager from the delayed construction schedules. Even though the targeted amount cannot be reached, he felt the necessity of reaching at least the Prediction numbers, even by conducting the inappropriate recognition of accelerated sales.

In addition, Person K stated that although he had never conducted inappropriate recognition of accelerated sales when he belonged to Shin Nikkei Co., Ltd., he could not refuse the request from sales members to conduct inappropriate recognition of accelerated sales when he checked the overall targeted amount of the sales office and its achieving rate following the merger with Tostem Co., Ltd.

Furthermore, it cannot be denied that the achievement of the target figures for sales and business profits was one of the main factors for personnel evaluations for managers, such as the head of the sales office. That fact was one of the key Motives for the inappropriate recognition of accelerated sales.

It is considered that the branch manager and the person in charge of construction justified inappropriate recognition of accelerated sales from the following factors: (1) the actual state of the construction work itself, (2) the construction period may have been postponed due to the contractor and weather conditions, etc., therefore the construction may not be completed at the time originally planned, (3) there may not be much difference between the sales recording date brought forward and the actual completion date of the Main Construction, (4) there is no disadvantage to the Construction subcontractor as they receive the full amount of the construction cost at an early stage, and (5) in the past, the basis of recognizing sales were based on the completion of the property and it was not requested to follow the basis so strict as those of now. Therefore, inappropriate recognition of accelerated sales from short period are considered as "Gray Zone".

b. Chubu Branch Building Sales Group

In Chubu Branch, it is recognized that inappropriate recognition of accelerated sales are conducted at least since September 2016.

Among these, the sales of "[REDACTED]" (sales amount: 163,000,000 yen; original sales month: September 2018), "[REDACTED]" (sales amount: 128,900,000 yen; original sales month: December 2018) and "[REDACTED]" (sales Amount: 124,000,000 yen; original sales month: November 2018) were recognized in March 2018, which were all properties in charge of the Building Sales Group of Chubu Branch (hereinafter "Building Sales Group"). Accordingly, the Commission carefully examined the facts of the above-mentioned cases (hereinafter "Subject Cases") in which the amount was large and the sales were carried out in the same department.

The Building Sales Group is a department in charge of projects for major general contractors in the Chubu Branch. In this department, a sales preparation meeting was held between the beginning and the middle of the month. In the meeting, they decide which property to proceed the recognition of the sales. The person in charge of sales recognition immediately start the process to enable the recognition of sales and finalize the recognition within the end of the month without considering whether the construction is actually completed or not. The construction completion report was collected in the early part of the following month after the sales recording process was already completed.

Although for these Subject Cases it was obvious that the construction would not be completed in September, from accepting the request from the sales members, the person in charge of recognizing sales, M (hereinafter "Person M"), performed the sales recording process.

N (hereinafter "Person N"), who attended the sales preparation meeting, recognized in the last week of March that the construction of the "[REDACTED]" was not going to be completed in March, but the Sales Group Leader instructed them to recognize the sales as scheduled. With regard to "[REDACTED]" and "[REDACTED]," Person N clearly recognized that the Main Construction had not been completed in October 2018. However, he stated that it was reported to O (hereinafter "Person O") at that time. Person O stated that he did not have a particular progress of individual projects, and that he did not remember receiving such a report from Person N. He also stated that it was only after the commencement of the Investigation when he knew that inappropriate recognition of accelerated sales were conducted at the Building Chubu Branch.

With regard to the Motive of conducting inappropriate recognition of accelerated sales, Person M

stated that although the Building Chubu Branch had a low rate of achieving target figures and had poor performance compared with other branches, the branch manager had always said that it was necessary to achieve the target in order to protect the organization. Also, in the past, he experienced the reduction of workforce from 10 to 2. He was afraid of having a similar experience in the Chubu Branch from missing the targeted amount continuously. Also he wanted to avoid the situation of workforce reduction in order to support the development of team members who will benefit from experience in Post Process at the Chubu Branch.

From the above, it is considered that Person M justified inappropriate recognition of accelerated sales from the following factors: (1) the actual state of the construction work itself, (2) there is no disadvantage to the Construction subcontractor as they receive the full amount of the construction cost at an early stage, and (3) there is no other option to protect their organization

c. Building Kansai Branch Osaka Central Sales Group

In Building Kansai Branch, it is recognized that inappropriate recognition of accelerated sales have occurred at least since September 2016. Therefore, the Committee decided to conduct the investigation of Building Kansai Branch Osaka Central Sales Office, which has conducted several instances of inappropriate recognition of accelerated sale.

The Building Osaka Central Office is responsible for properties that are used by relatively small and medium-sized builders in the Kansai Branch.

At the Osaka Central Sales Office, P (hereinafter "Person P") prepared a list of properties for which sales are scheduled to be recognized within that month. This is based on the scheduled sales record month of the T-PROCESS and by circulating a document called "Sales Recognition Instruction Document" with the head of each sales office to recognize the sales. The business processing using this "Sales Recognition Instruction Document" is deemed to have been independently adopted by the Building Osaka Central Sales Office instead of the standard method in LBT.

According to Person P, even if it becomes clear that the construction schedule for a certain property has changed and the Main Construction has not been completed by the end of the month, the sales are recognized without changing the content of the "Sales Recognition Instruction Document". In addition, the construction completion report was collected in the early part of the following month after the sales recognition process was completed.

In fact, with regard to the "██████████" (sales Amount: 12,000,000 yen; original sales month: May 2018), whose sales were made with inappropriate recognition of accelerated sales in March 2018, Person P received an e-mail from ██████████, the person in charge of construction, stating, **"Please instruct us to deliver the goods on March 30. We cannot confirm the construction date but, according to our director, he does not know if we can add it, but put them there"** (Sent on: March 20, 2018, Sender: ██████████, To: ██████████, CC: 3 people including Person P, Subject: 【Construction Progress】 ██████████). On March 28, he also received an e-mail stating that **"Regarding the ██████████ (to be delivered March 30) and ██████████ (to be delivered on April 7), please make a change of the delivery to April 3 or 4". "We would like to deliver them in the same day and conduct the construction together."** (Sent on: March 28, 2018, Sender: ██████████, To: ██████████, CC: 3 people including Person P, Subject: 【Construction Progress】 ██████████). The fact that they had received an e-mail from ██████████ indicates that they were aware that the Main Construction of the property was not completed by March 2018. However, Person P said he did not think that the sales plan had to be changed accordingly, even if he was aware of the change in the process. He also stated that, as a construction manager, he had many other duties, and that the proper recording of sales was a low priority for him.

From above, it is considered that Person P justified inappropriate recognition of accelerated sales from the following factors: (1) the actual state of the construction work, (2) too busy with other tasks, (3) there would not be much difference between the sales recording date brought forward and the actual completion date of the Main Construction, (4) there is no disadvantage to the Construction subcontractor as they receive the full amount of the construction cost at an early stage.

iii. Responsibility of Involved Personnel

Needless to say, the person who has actually conducted the inappropriate recognition of accelerated sales and the head of the office or the branch manager who were unable to prevent or approved implicitly the inappropriate recognition of accelerated sales are heavily responsible.

As a result of the Investigation, there was no evidence that Q (hereinafter “Person Q”) and other LBT managements were involved in the inappropriate recognition of accelerated sales.

However, it is true that a large number of inappropriate recognition of accelerated sales were made in LBT, and it should inevitably be said that Mr. Tadashi Oikawa, Managing director and CEO of LBT, and Person Q, who were unable to foresee such sales and who had not implemented sufficient measures to deter such cases, had a certain degree of managerial responsibility.

5. Facts with Respect to LIXIL Suzuki Shutter

i. Summary of the Inappropriate Accounting Treatment in LIXIL Suzuki Shutter

The Committee concluded (as described in Appendix 1) that, from September 2016 to December 2018, there were 235 cases of inappropriate accounting treatment from Acceleration of sales through manipulation of completion date after investigating data and evidences other than the report of completion of the work (such as construction management data, construction process, order, report from the electric engineering suppliers, etc.) in LIXIL Suzuki Shutter.

ii. Investigation Policy

The construction work contracted by the LIXIL Suzuki Shutter generally includes electric work. In LIXIL Suzuki Shutter's internal rules, it was stipulated that the Main Construction shall be completed only after electric work was completed. This is evident from the fact that in the “Sales Recognizing Process Standard”, which is an internal rule, the sales recording date for the new building is stated as “the date of certification of the completion of the work or the certificate of completion of the work,” and the sales recording date for the renovation work in the existing building is “the month stated in the report of completion of the work or the certificate of completion of the work,” and that “the installation contractor shall receive the report of completion of the work if the installation contractor and the electric contractor are carried out separately,” and “the installation contractor shall submit the report of completion of the work if the installation contractor is in charge of the electric work.”

However, as described in iii. below, Satoshi Yamada, the President and CEO of LIXIL Suzuki Shutter (hereinafter “President Yamada”) misunderstood that revenues could be recorded even if power line construction had not been completed and it was found that there was a possibility that there were other employees with the same misunderstanding.

In addition, as described in iv. below, some staff members of the Kansai Branch of LIXIL Suzuki Shutter initially made false explanations to the Committee regarding the “[REDACTED]” (sales amount: 54,000,000 yen, sales recorded month: September 2017).

Accordingly, as stated in Section 1.6, v above, the Committee selected items that may have been inappropriately processed or accounted for from matching the process control data and the collection status of the proceeds and requested the LIXIL Suzuki Shutter to voluntarily declare. If it was not explained with reasonable evidence that the transaction was a normal transaction, it was unavoidable to deem that the transaction was a case of inappropriate recognition of accelerated sales.

The property listed in Appendix 1 are recognized as inappropriate recognition of accelerated sales.

iii. Meetings Held During the Execution of the Investigation

a. Background of Holding the Meeting

In LIXIL Suzuki Shutter, in addition to the Investigation of the Committee, investigations into inappropriate acts concerning the qualifications for receiving fire prevention equipment inspectors⁴ were also conducted by outside legal counsels (hereinafter “Investigation of Qualifications for Participation”). On February 26, 2019, it was found that President Yamada conducted a meeting (hereinafter the “Meeting”) with senior employees in relation to the Investigations of the Committee and Investigation of Qualifications for Participation. The background of holding this meeting are as follows, based on the result of the Investigation of the Committee.

The Committee sent questionnaires to 283 of the LIXIL Suzuki Shutter's employees as part of the investigation at around 12:30 on February 25, 2019. In response to this request, President Yamada decided to hold a meeting of the relevant members for the purposes of responding to questionnaires and responding to the Investigation of Qualifications for Participation at a meeting in the morning of February 26. Following this decision, [REDACTED] in LIXIL Suzuki Shutter, sent an e-mail titled “URGENT: TV conference meeting for the questionnaire” to 16 senior executives and employees, including branch managers.

From 16:00 on the same day, a meeting on questionnaires was held in the main conference room in LIXIL Suzuki Shutter. The branch manager, located in a remote location, participated in the meeting through a videoconferencing system.

At the meeting, President Yamada explained to the branch managers that the questionnaire was due to fraud in LR, and instructed them to have the employees respond to the questionnaire. In addition, he checked with the branch office whether or not employees had any questions. In this context, the accounting policy on revenue recognition in LIXIL Suzuki Shutter became an agenda. As the accounting policy on revenue recognition in LIXIL Suzuki Shutter adopted Completed-Contract by Finalizing the Main Construction, the completion of electrical work is necessary to recognize revenue in the shutter installation. However, President Yamada interpreted that sales could be recognized with the cost allowance regarding remaining work for the electrical work even if the electrical work had not been connected. In response to this, [REDACTED], explained that electric work had to be completed. President Yamada stated that we might need to reconsider the revenue recognition in future.

⁴ In LIXIL Suzuki Shutter, it was found that employees who were not experienced in the required practical work were qualified and certified for the “Qualifications for Technical Fire Prevention Shutter and Door Inspection” which are the condition to qualify for “Qualifications for Fire Prevention Equipment Inspectors”. Moreover, those certified personnel were also qualified and certified for “Qualifications for Fire Prevention Equipment Inspectors,” which were established in accordance with the periodic report system for fire prevention equipment introduced in accordance with the revision of the Building Standards Act enforced on June 1, 2016.

During the meeting, President Yamada told participants that the meeting was 'off the record'.

[Omitted]

On March 4, 2019, LIXIL issued a business order to President Yamada to suspend the execution of LIXIL Suzuki Shutter's duties as president in response to the discovery of this meeting and its content.

b. Evaluation of the Impact of this Meeting

As mentioned above, it is not considered that President Yamada made specific instructions on the content of the responses to the questionnaires at this Meeting. However, he had a misunderstanding of the accounting policy related to revenue recognition. He also mentioned they may need to review their accounting policy regarding revenue recognition in future when his misunderstanding was pointed out.

[Omitted]

Furthermore, when the Committee visited LIXIL Suzuki Shutter on March 4, 2019, after ascertaining the presence of this Meeting, interviewed participants initially concealed the presence of the notes from the Meeting.

Based on the above, the Committee evaluated that the response to the questionnaire issued on February 25, 2019, could not be accepted as valid response. Again, the questionnaire was sent to all officers and employees of the LIXIL Suzuki Shutter on March 5, 2019, after the issuance of the order to suspend the execution of duties to President Yamada.

Subsequently, as a result of the Investigation, the Committee did not recognize the fact President Yamada conducted management override over the internal control on financial reporting of LIXIL Suzuki Shutter.

iv. Motive, Opportunity, Method and Justification

a. Opportunity and Method

There were 235 transactions that were considered to be inappropriate recognition of accelerated sales. In order to examine the Motive, Methods, Opportunity, and Justification under the time constraints in which inappropriate recognition of accelerated sales were made in LIXIL Suzuki Shutter, the Committee closely investigated the facts concerning the "[REDACTED]" (hereinafter "This Property"), which was strongly suspected of inappropriate recognition of accelerated sales based on the records of process control data and whose sales Amount was relatively large (54,000,000 Yen). As a result, the following facts were found.

On August 15, 2017, LIXIL Suzuki Shutter received an order regarding This Property from the "[REDACTED]". The order form stated the construction period as "Start (Scheduled) as September 1, 2017 and Completion (Scheduled) as November 30, 2017". The payment condition stated as "Lump-sum cash payment by the end of the month following the month of completion of construction." R (hereinafter "Person R"), who is in charge of sales of This Property, scheduled the sales date to be December 2017.

However, in early September 2017, S (hereinafter "Person S") instructed Person R and related departments to recognize the sales of This Property in September 2017 because the estimated sales

of the Kansai Branch was insufficient compared to the targeted amount at the sales meeting where all of members of the maintenance department attended.

On September 22, 2017, the department prepared the construction schedule for This Property and sent it to the customer. According to the schedule, the construction to prevent harms was carried out sequentially on each floor of the building, and the work was planned to be completed on October 24. Construction began on September 25, 2017, and the construction was completed at the end of October and the main inspection was carried out. After obtaining the consent of the customers, LIXIL Suzuki Shutter requested the payment on November 17 and collected the payment on December 27.

Despite the fact that the actual facts of the construction were as described above, the sales recognition of sales for this property was carried out at the Kansai Maintenance Branch on September 30. With regard to the purchase of products and constructions required for This Property, the payment process was carried out in advance following the instructions of Person S.

In this study, the Committee requested an explanation of the accounting treatment for This Property. The Committee received a brief dated March 22, 2019 which are contradicting the fact, stating: **"The inside shutter work and the primary electrical work for harm prevention work have been completed. Disaster prevention signal wiring and interlocked test work (our scope of work) have remained, but sales are recognized in case of remaining electric work."** **"When the primary electrical work was completed, we told the person in charge at the client company that the sales shall be made from what we have completed so far. However they commented that it is ok to invoice all at once. Therefore we handled the entire work in the following month without any particular concern for problems."**

b. Motive and Justification

With respect to the Motive that lead to the inappropriate recognition of accelerated sales of This Property, Person S felt responsible for achieving the target figures and believed that any inappropriate recognition of accelerated sales would not cause any inconvenience to anyone. Specifically, the Kansai Branch stated that it had a duty to reduce the amount of outstanding debt and that the existence or absence of such debts was a factor in personnel evaluations. However, the Kansai Branch stated that it had believed that it would not cause trouble to others if it could be collected within three months from the month in which the debts were recorded as sales, because it was a stagnant credit for three months or more that was required to be explained by the Business Management Division in the LIXIL Suzuki Shutter. He also said that the company has made inappropriate recognition of accelerated sales, including this property, in a manner known to other staff members, but that it has not been pointed out to stop this.

On September 24, 2018, Person S who belonged to Yokohama Branch , Maintenance Division sent an e-mail to T (hereinafter "Person T") stating **"I would like to consult with you relating to the first half figure adjustment. The personal achieving rate of [REDACTED] is very bad and we would like to adjust the figures for the first half of the year."** **"2. For the sales, the sales amount is 8.8 million yen for the [REDACTED] and construction work is scheduled to be completed on October 8. We will be able to purchase products and construction materials. We would like to recognize the sales in September as we have a shortage of sales."** (Sent on : September 24, 2018 From : Person S, To : Person T, CC : [REDACTED], Subject : RE : Arrangement of sales amount in first half of FY) . In response, Person T stated, **"I think it is ok to have [REDACTED]'s numbers as discussed earlier with you,"** and **"With regard to point 2, I would like to ask you to make sure to prepare all the purchases without any omission during September"** (Sent on : September 25, 2018 From : Person S, To : Person T, CC : [REDACTED], Subject : RE : Arrangement of sales amount in first half of FY) From this, the statement that he had never been pointed out by the people around him to stop the inappropriate recognition of accelerated sales was reliable. For **"[REDACTED]"**, which had

been discussed in the above e-mail, sales were actually recorded in September 2018.

From the above, it is considered that Person S justified inappropriate recognition of accelerated sales from the following factors: (1) the actual state of the construction work, (2) here is no disadvantage to the Construction subcontractor as they receive the full amount of the construction cost at an early stage. (3) there will be no issue for anyone if we collect the money within 3 month after the sales recognition month.

v. Responsibility of Involved Personnel

Needless to say, with respect to inappropriate recognition of accelerated sales made in LIXIL Suzuki Shutter, the responsibilities of those who carried out such sales, including the Person S, and the branch manager, etc., who acquiesced in such sales, are heavy.

As a result of the Investigation, there was no evidence that President Yamada was involved in the inappropriate recognition of accelerated sales. As stated in iii. above, it can be recognized that President Yamada had his employees respond to the questionnaire without fail, while at the same time, there were no words or actions intended to conceal the questionnaire while recognizing the fact of inappropriate recognition of accelerated sales. Therefore, it is deemed that the President Yamada did not recognize that inappropriate recognition of accelerated sales aimed to achieve the target figures were being carried out. However, it cannot be denied that there is a certain degree of responsibility for neglecting the situation in which sales are made easily as the company itself did not recognize the correct sales recording standards and the some employees' awareness of standard was dull.

6. Facts with Respect to LIXIL Sales Okinawa

The Committee concluded (as described in Appendix 1) that there were 2 cases of inappropriate accounting treatment of recognizing sales prior to completing Main Construction by mistake after investigating data and evidences other than the report of completion of the work (such as construction management data, construction process, etc.) in LIXIL Sales Okinawa.

Section 4. Cause Analysis

As described above, many branches among the investigated companies, other than LIXIL Okinawa Suzuki Shutter, conducted inappropriate recognition of accelerated sales with different levels of pressure, opportunity/method and rationalization. However, similarities can be identified.

In other words, the pressure was to achieve the target amounts set, and in many cases, to avoid workforce reduction. In addition, in sales transactions with construction contracts, inappropriate recognition of accelerated sales was conducted. While the corporate rule where checking the completion of Main Construction from the report of completion of the work was in place, it was not followed, which provided the opportunity for inappropriate accounting practices.

In addition, it is considered that the person responsible for sales recording rationalized the conduct of inappropriate recognition of accelerated sales for the following reasons: (1) there are actual progress of construction work, (2) there were cases where the construction period was postponed due to the circumstances of the contractor and/or due to weather, and the construction could not be completed in the original planned period, (3) there were not significant difference between the sales record date and the actual completion date of the Main Construction, and (4) there was no disadvantage to the construction subcontractor in order to settle the full amount of the construction cost at an early stage, (5) these are necessary procedures for protecting the organization.

Section 5. Recommendations for Recurrence Prevention Measures

Taking into consideration the Cause Analysis in Section 4., the Committee recommends the following recurrence prevention measures.

1. Eliminate “Opportunity”

i. Strengthening Guidance for Subsidiary Management Executives and LBT Branch Managers

The largest factor for conducting inappropriate recognition of accelerated sales in LR was because President Hamada, although recognizing the signs of inappropriate recognition of accelerated sales, did not implement measures to restrain those actions. In addition, there were no traces that can identify that LBT branch managers and the President and CEO of LIXIL Suzuki Shutter implemented measures to restrain inappropriate recognition of accelerated sales.

In LGC, as disciplinary actions were taken against employees conducting inappropriate business process or accounting treatment in the past, it should have been sufficiently foreseeable that similar events could occur in subsidiaries and branches. Therefore, although restraining these actions is one of the most important responsibilities, it appears that there were no consciousness among the subsidiary management executives and LBT branch managers.

Therefore, it is necessary for LIXIL Managements to provide guidance to subsidiary executives and LBT branch managers to fully recognize the effect caused to the group due to inappropriate business process or accounting treatment, and that one of the responsibilities of subsidiary management executives and LBT branch managers is to prevent inappropriate business process or accounting treatment, and as subsidiary management executives and LBT branch managers, they should report LIXIL Corporate Division when any fraudulent signs are identified and take initial proactive and appropriate actions. Especially, it is recommended to instruct the management of the subsidiaries and branch managers of LBT to comply with internal rules related to information sharing as it is critical element to find out the fact when suspects of fraud occurred through sharing the information quickly.

ii. Strengthening the First Defense Line

a. Strengthening Analysis of Budget-Actual Comparison for Management Index by the Subsidiary Presidents and LBT Branch Managers

President Hamada and Presidents of LBT branches did not understand the progress of each individual projects.

However, for important projects, management executives (in other words, the subsidiary Presidents and LBT Branch Managers) themselves should understand the purchase order received and the construction progress, and perform gap analysis on budget-to-actual comparison for Management Index. Ultimately, this could increase the possibility of recognizing signs of inappropriate business process and accounting treatment at an earlier stage.

b. Strengthening the Internal Control Structure of Staff in Charge of Sales and Staff Responsible for Recording of Sales

Currently, the staff in charge of sales is the person responsible for recording sales in LIXIL Suzuki Shutter. While a person in charge of sales has strong pressure and incentives to conduct inappropriate recognition of accelerated sales, there are no expectations from these personnel with such positions to conduct effective monitoring for sales recording. Therefore, the person in charge of sales recording should be changed to another staff member, such as Construction Managers, etc. who

are in charge of post process.

In LR, LBT and LIXIL Sales Okinawa, although the Construction Managers are in charge of sales recording, structurally, as Construction Managers reports to Branch Managers who are part of the sales lines, one of the factors that resulted in inappropriate recognition of accelerated sales was the inability to eliminate the influence from the sales line. Therefore, securing a structure where the person in charge of construction, who is responsible for recording sales, is independent from the sales line, would be an effective organizational change to consider.

c. Obtain Documents that Objectively Prove the Completion of the Main Construction

In the Investigated Companies, for sales transaction with construction contract, sales are recorded using the Completed-Contract by Finalizing the Main Construction standard, and according to the business process rule, it is necessary to obtain the report of completion of work from the construction subcontractor for the Main Construction. However, the situation made it easy for the person responsible from the Investigated Companies to request construction subcontractors, many of which are small-sized business owners, to state fictional construction completion dates on the construction completion report.

Considering these conditions, it is deemed that completely eliminating the situation, where the construction completion report contains fictional construction completion dates obtained from the construction subcontractor, is not feasible.

Therefore, documents that prove the completion of Main Construction should state the actual date of completion, desirably obtain objective proof of documents that can be used to check against the completion of Main Construction with stamps or signatures from customers such as general contractors for buildings and by customers such as condominium management associations or apartment residents for apartments.

Although the formats and contents for these documents do not have to be all unified, it is adequate that it can be obtained practically by different business types and customers, etc. accordingly.

Also, it is deemed that at least the Main Construction must be completed to request for final claim to customers, the invoice for the final claim can be considered effective as an objective proof of completion of Main Construction.

d. Maintaining Training Structure

In Investigated Companies, the business process rules were not followed thoroughly, and this could have become the cultivating factor that permitted branches to have independent rules and business flows.

Also, construction managers and the person responsible for sales who conducted inappropriate recognition of accelerated sales have stated: "Even when the construction was completed in October, due to construction delay for a few days, there was no problem to record the sales as September.", "I thought it was grey zone."

From the above, there is a possibility that there are a number of executives and employees who have a vague understanding of professional ethics and conscience regarding securing the accuracy of sales recognition period within the Investigated Companies.

Therefore, it is necessary for Investigated Companies to maintain training structure where they thoroughly follow business process rules including the timing of sales records.

iii. Strengthening the Second Defense Line

a. Strengthening Monitoring by Subsidiary Management Division

Monitoring conducted by a Management Division that is not part of the sales line can be an effective recurrence prevention measure for inappropriate business process and accounting treatment.

Currently, there are Accounting Division and Business Management Division in LR, LBT and LIXIL Suzuki Shutter, and these divisions not only are in charge of accounting work, but are also in charge of collecting debt. For projects that the sales record has been processed, an effective monitoring for the Management Division is to check the completion of Main Construction from documents with objective proof of completion of the Main Construction and Process Management Data.

Although it would be ideal to check all the projects through this method, considering the quantity of work, it is not feasible from a workload perspective for the Management Division. A sample check of a certain number of projects would be effective to strengthen monitoring.

b. Strengthening Monitoring by LIXIL Cooperate Division

(1) Securing Data Quality and Strengthening Basis of that Monitoring

The Committee has extracted projects that could have been involved with inappropriate recognition of accelerated sales by analyzing the financial data and Process Management Data. This method can be practiced by LIXIL Cooperate Division to conduct monitoring to its subsidiaries and is deemed that it has effective function as recurrence prevention measure.

However, the pre-requisite of this method is that the actual product delivery date is accurately recorded and stored in the Process Management System. In cases where the Process Management Data is manipulated, it is impossible to extract projects with the potential inappropriate recognition of accelerated sales.

From this aspect, it is clear that the responsible person of sales has the strongest pressure to achieve the targeted amount, and it is possible as a method of conducting inappropriate recognition of accelerated sales to manipulate the Process Management Data at post-construction period. Therefore, an effective recurrence prevention measure is to not allow the person responsible for sales to input the Process Management Data. As the business flow Section 3.2 states, the Process Management System is to manage progress of construction related to purchase order received, it is deemed that the person responsible for sales to input is unnecessary.

In addition, it should be considered that, for example, once the delivery of a product is completed, it should no longer be possible to amend the data regarding past deliveries when it is no longer necessary to amend it.

(2) Strengthening Monitoring in Sales Subsidiary, etc.

Resources is a challenge, and assigning sufficient resource in the Business Management Division is difficult.

Therefore, as stated in (1), on top of securing data quality in the Business Management System in subsidiaries, LIXIL Cooperate Division can strengthen the monitoring in the Sales Subsidiaries, etc.

(3) Eliminating Adverse Effect due to Long-Term Retained Personnel Structure

The background reason of conducting inappropriate business process and accounting treatment in LR, LBT and LIXIL Suzuki Shutter is because the internal checking system has become non-functional due to the relationship between the sales line and the post-process, which have resulted from the long-term retained personnel structure within certain branches. Also, independent rules and business flows exist within branches, and common business process rules were not thoroughly followed.

In order to maintain employees' working environment, LGC has many employees with limited working locations. Although there are certain limitations in personnel rotation, it is necessary for Branch Managers and other management personnel to actively participate in personnel rotation under the leadership of LIXIL Cooperate Division, ultimately achieving a structure where relationships, rules and business flows that form independently in branches and which could eventually relate to inappropriate business process and accounting treatment are unacceptable.

iv. Strengthening the Third Defense Line

a. Conducting Group Audit through Risk-based Approach

LGC Internal Audit Division conducts group audit by cooperating with internal audit team in both domestic and international main group companies.

However, the group audit does not conduct sufficient verification on the reliability of the report of completion of the work, which has been identified as the document to prove the completion of Main Construction, and therefore could not identify the inappropriate recognition of accelerated sales.

From here on, with pre-requisite of the recurrence prevention measures recommended from i. to iv., instead of conducting simple rotation-based audit, the group audit should also conduct focused audit in fields with substantial risks where measures are not functioning effectively (e.g. fields where measures do exist, however there are not enough resources allocated to operations).

b. Strengthening Assurance Function in Group Audit

(1) Effectiveness Evaluation on Management Measures by LIXIL Management

As one of the sources of pressure for conducting inappropriate recognition of accelerated sales in LR, when the targeted amount is not achieved, the fear of workforce reduction or closure was identified. However, in reality, the resources for LR as a whole is increasing. There is a difference in recognition regarding allocation of management resources by LIXIL Management and by subsidiary Managements (Presidents and LBT Branch Managers, etc.).

It is difficult for Management themselves to check whether the management measures have been implemented within the whole group, or whether the measures are functioning as initially assumed by Management. Therefore, internal audit, on behalf of Management, serves as an important role to objectively evaluate the effectiveness of management measures. LIXIL Management should take great consideration into investing in sufficient management resources in order to responsibly conduct such role.

(2) Adequacy Evaluation on Main Management Index

Although monitoring Management Indexes such as sales target, profits, order to be received, etc., were positioned with importance in all Investigated Companies, the Investigation has identified that there are opportunities where the reliability on the data which the Management Indexes are based on can be impaired. Since inaccuracy in Management Indexes could cause risks that could cause great influence on business decisions, it is necessary to consider including quality of data as a priority item

in audits.

(3) Detecting Inconvenient Facts on Site

The Investigation identified that branches in all Investigated Companies have recognized the priority items (e.g., delay in sales record) by internal audit, and measures to be taken to rectify defects. LIXIL Managements, to improve recurrence prevention measures, should fully utilize corporate resources such as internal audit, and it is necessary to consider strengthening effective audit structures which could possibly detect inconvenient facts on site that could not be detected by monitoring the second defense line.

2. Eliminate “Justification”

In relation to the justification of the conduct of inappropriate recognition of accelerated sales, the wrong perception that it would not cause any disadvantage to any personnel could have existed.

However, LGC as a listed company has an obligation to disclose information appropriately, which is essential to establishing a fair security market, and that through LGC consolidated financial statements, the accounting treatment within the Investigated Companies has great impact on the security market.

Therefore, executive and employees in the Investigated Companies, as one of the members of consolidated subsidiary in a listed company, should recognize that they hold significant responsibilities regarding accounting treatment, and that in the occurrence of inappropriate accounting treatment, including inappropriate recognition of accelerated sales, it creates great interruption in regular work within LGC, just like the amount of time and number of people involved in this Investigation.

From the above, in order to prevent the easy justification of inappropriate accounting treatment, it is necessary for LGC to conduct training related to the importance of appropriate accounting treatment.

3. Eliminate “Motive”

The Investigated Companies set targeted amounts for Management Indexes (sales target, profits, order to be received, etc.) for the first half (April to September) and second half (October to March) of each fiscal year. The targeted amount is set for each branch and/or for sales location, and ultimately, allocated to each personnel responsible for sales. In addition, each sales location summarizes weekly the achievement of targeted amounts and reports to management executives. Although there were differences in dynamics, motives in order to achieve the monthly targeted amounts among each sales location were recognized.

For Building Construction above a certain scale, it is the norm that a certain period of time is needed from receiving the purchase order to completing the Main Construction. Unlike merchandizing businesses, initially, the difficulty in forecasting the sales recognition period accurately is relatively high. Moreover, due to labor scarcity in recent days, delays in the whole construction progress sometimes occur. When there are delays in the whole construction progress, the construction period of the Main Construction that the Investigated Companies are undertaking, such as Curtain Wall Construction, Sash Construction and Door Construction, etc., inevitably would be delayed.

Therefore, the Investigated Companies that are operating such Building Construction, instead of

setting the targeted amount for one fiscal year (April to March), could consider adopting setting the targeted amount for first half (April to September) and second half (October to March).

Also, in the case where the executives and employees in the Investigated Companies are evaluated according to the achievement of the targeted amounts, a financial accounting value is used. In financial accounting, sales recognition for sales transaction with construction contract adopts the Completed-Contract by Finalizing the Main Construction standard, and as stated above, the completion period for the Main Construction depends on the progress of the whole construction with many uncertain factors. Therefore, it cannot be determined that the values in financial accounting accurately reflect the contribution of each executive and employee.

Therefore, in the case when the contribution by executives and employees is evaluated using a financial accounting value, it is possible to consider making changes to the Sales Recognition Basis that fits with the actual business, as well as consider different methods to evaluate the contribution by executives and employees, instead of using values from the financial accounting.

By taking the actions stated above, it is deemed that it could be possible to eliminate the motive to conduct inappropriate accounting treatment, such as achieving short-term targeted amounts.

End

(Notes)

- The investigation conducted by Special Investigation Committee are discretionary based on the support from the relevant personnel. The contents of the report are limited to the findings from the investigation scope within the investigation period between February 12, 2019 and March 28, 2019.
- Regarding the LIXIL Suzuki Shutter, it is under investigation by the external legal counsel related to inappropriate action with related to the qualification issue of fire prevention equipment inspector. In order to avoid the impact to the Investigation by the Committee, the disclosure related to the qualification issue are withheld. Moreover, from the privacy protection and confidentiality of the business point of view, some of the disclosure are also withheld.

(Appendix 1)

[Omitted]

(Appendix 2) Financial impact Amount (Unit: Million yen)

LR impact

	September 2016	March 2017	September 2017	March 2018
Sales revenue	263	137	241	43
Gross profit	263	137	241	43
Number of properties	14	19	31	9

	June 2018	September 2018	December 2018
Sales revenue	-	246	-
Gross profit	-	246	-
Number of properties	-	20	-

LBT impact

	September 2016	March 2017	September 2017	March 2018
Sales revenue	185	280	290	85
Gross profit	185	280	290	85
Number of properties	63	68	59	68

	June 2018	September 2018	December 2018
Sales revenue	25	162	21
Gross profit	25	162	21
Number of properties	22	93	20

LIXIL Suzuki Shutter impact

	September 2016	March 2017	September 2017	March 2018
Sales revenue	14	47	55	89
Gross profit	14	47	55	89
Number of properties	6	6	5	69

	June 2018	September 2018	December 2018
Sales revenue	23	100	93
Gross profit	23	100	93
Number of properties	20	68	61

LIXIL Sales Okinawa impact

	September 2016	March 2017	September 2017	March 2018
Sales revenue	0	-	-	▲4
Gross profit	0	-	-	▲4
Number of properties	1	-	-	1

	June 2018	September 2018	December 2018
Sales revenue	-	-	-
Gross profit	-	-	-
Number of properties	-	-	-

Total impact amount in four companies

	September 2016	March 2017	September 2017	March 2018
Sales revenue	462	465	586	213
Gross profit	462	465	586	213
Number of properties	84	93	95	147

	June 2018	September 2018	December 2018
Sales revenue	48	508	114
Gross profit	48	508	114
Number of properties	42	181	81