

› Tax Issues in Asian Countries

8th IMF-Japan High-Level Tax Conference for Asian Countries

LIXIL Group Corporation
Tax Department

March 22, 2017

LIXIL Link to
Good Living

LIXIL Group Introduction

Overview

Headquarters:
Tokyo, Japan

Established:
Sep. 19, 1949

Headcount:
60,677 as of March 2016

Stock Exchange:
-Tokyo Stock Exchange
-Nagoya Stock Exchange

Securities Code:
5938

Trading Unit:
100 shares

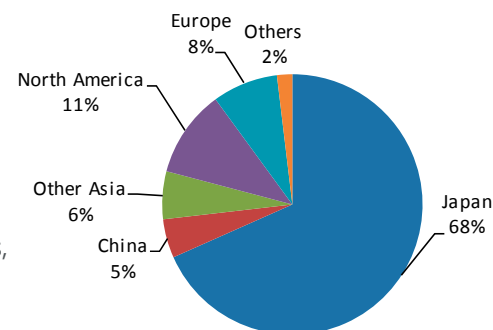
Key Management:
Kinya Seto

President and CEO
Sachio Matsumoto
Executive Vice President and CFO

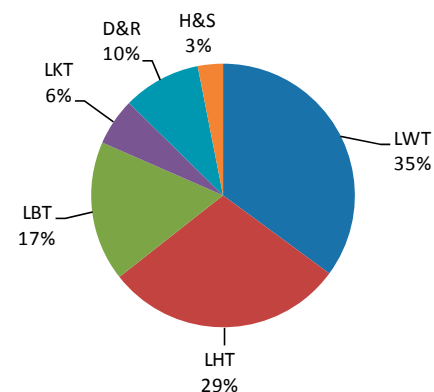
- LIXIL Group provides a comprehensive product line of living and housing related products and services
- Our business is organized through 4 technology business and 2 domestic business:
 - **LIXIL Water Technology:** Global market leader in sanitary ware industry with well known brands such as GROHE, American Standard and INAX
 - **LIXIL Housing Technology:** Leader in Japan's housing and building materials industry, producing a range of products including window sashes, doors, interior fabrics, exteriors, and structure materials
 - **LIXIL Building Technology:** Global leader in bespoke curtain walls, building windows and commercial interiors with powerful brands such as Permasteelisa and TOSTEM
 - **LIXIL Kitchen Technology:** Leader in design and manufacturing of kitchen systems in Japan via SUNWAVE brand as well as in China via joint venture with Haier
 - **Distribution & Retail Business:** Leading operator of Home Centre stores across Japan offering home decoration and improvement and daily necessity good
 - **Housing & Services Business:** Offering integrated occupant-oriented services (performance assessment, maintenance, management and real estate brokerage)
- LIXIL owns a strong global network in Asia Pacific, Europe, North America and South Africa through its acquisition of several overseas brands such as American Standard (Asia Pacific and North America), Permasteelisa and GROHE
 - In FYE2016 overseas sales accounted for more than 30% of our group's total sales

Financial Snap Shot (FYE 2016)

Sales by Region



Sales by Segment⁽¹⁾



Key Financials ⁽²⁾ – Years ended March 31

JPYbn	FYE2014A	FYE2015A	FYE2016A
Sales	1,670.8	1,705.4	1,890.5
Growth	-	2.1%	10.8%
Core Earnings	76.3	51.7	70.1
Core Earnings Margin	4.6%	3.0%	3.7%
EBITDA	123.5	102.1	132.3
EBITDA Margin	7.4%	6.0%	7.0%
Net Income	-7.9	30.9	-25.6
Net Margin	-0.5%	1.8%	n.m.

Market Value	As of Jan 31, 2017
Share Price (JPY)	2,640
Shares Out. (mn)	287
Market Cap (mn)	758,216
Net Debt	673,060
Enterprise Value	1,431,276



(1) Including the effect of intercompany sales
(2) IFRS basis ; CE (Core earnings) is equivalent to "Operating profit" of JGAAP

LIXIL Group at a Glance

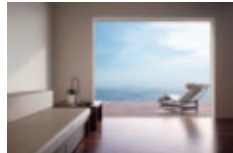
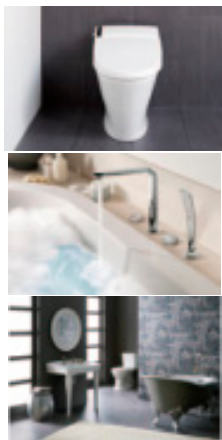
LIXIL Water Technology	LIXIL Housing Technology	LIXIL Building Technology	LIXIL Kitchen Technology	Distribution & Retail Business	Housing & Services Business
#2 Japan Sanitary Ware #1 Japan Unit Bathroom #1 Global Water Faucets #1 North America Sanitary Ware	<ul style="list-style-type: none"> #1 Japan Window Sashes #1 Japan Exteriors #1 Japan Entrance Doors 	#1 Global Curtain Wall Reference brand for super towers Specialist for steel/glass facades Key player in London market	#1 Japan Kitchen		#1 Japan Sanitary Ware #1 Japan Unit Bathroom #1 Japan Sanitary Ware #1 Japan Sanitary Ware #1 Japan Sanitary Ware #1 Japan Sanitary Ware #1 Japan Sanitary Ware #1 Japan Sanitary Ware #1 Japan Sanitary Ware #1 Japan Sanitary Ware

FYE2016 Sales⁽¹⁾

JPY 677.6bn (35% of Total Sales)	JPY 566.1bn (29% of Total Sales)	JPY 332.0bn (17% of Total Sales)	JPY 112.1bn (6% of Total Sales)	JPY 184.5bn (10% of Total Sales)	JPY 59.5bn (3% of Total Sales)
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FYE2016 CE⁽¹⁾

JPY 54.9bn (55% of Total Sales)	JPY 38.0bn (38% of Total Sales)	JPY -5.6bn (-6% of Total Sales)	JPY 1.8bn (2% of Total Sales)	JPY 7.2bn (7% of Total Sales)	JPY 3.8bn (4% of Total Sales)
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Tax Issues in Asian Countries - 1

Withholding Tax:

- **In certain Asian countries, payments for services (business profits) are frequently subject to withholding taxes, even if the payee (Japanese MNE) has no PE in the payer's country.**
- **Such withholding or deduction at source is sometimes instructed by bank clerks of the location, who are not fully familiar with international taxation practices.**
- **Also the service fee payers generally prefer to take a conservative position, as the non-compliant penalties are considerably heavy.**
- **It is practically difficult for Japanese companies (payees) to make them fully understand the effect of the double tax treaty.**
- **Theoretically, the competent authority's procedure is available for us taxpayers to eliminate the double taxation, however, it's dependent on the materiality of the double taxation.**

Tax Issues in Asian Countries - 2

Intra-Group Service Fees:

- **In certain Asian countries, Intra-Group Service Fees (e.g. Management Fees) and Royalties are frequently treated as non-deductible item for the corporate income tax purposes.**
- **Particularly, the authorities tend not to allow deduction of the allocated indirect and overhead expenses. In the meantime, it is not fair for the headquarters to solely assume all the indirect and overhead expenses.**
- **In addition, there are cases where custom officials of certain Asian countries argue that any service fees (including managerial) paid by an importer to the vendor shall be added to taxable bases for the custom duty and VAT purposes.**

Post BEPS

BEPS Action 7:

- It used to be the OECD's basic attitude to keep a certain level of PE threshold so as to mitigate the possible double taxations.
- The background there is considered that profits attributable to something below the threshold should be practically negligible, if any.
- In the meantime, the BEPS Action 7 has suggested lowering the PE threshold and tightening the exceptions to PE status so as to prevent double non-taxations.
- Japanese MNEs are not opposed at all to the OECD's approach of preventing the artificial double non-taxation, nevertheless, are of the view that profits attributable to something below the threshold should be still generally negligible, if any.

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