





Make better homes a reality for everyone, everywhere



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LIXIL'S VALUE CREATION PROCESS

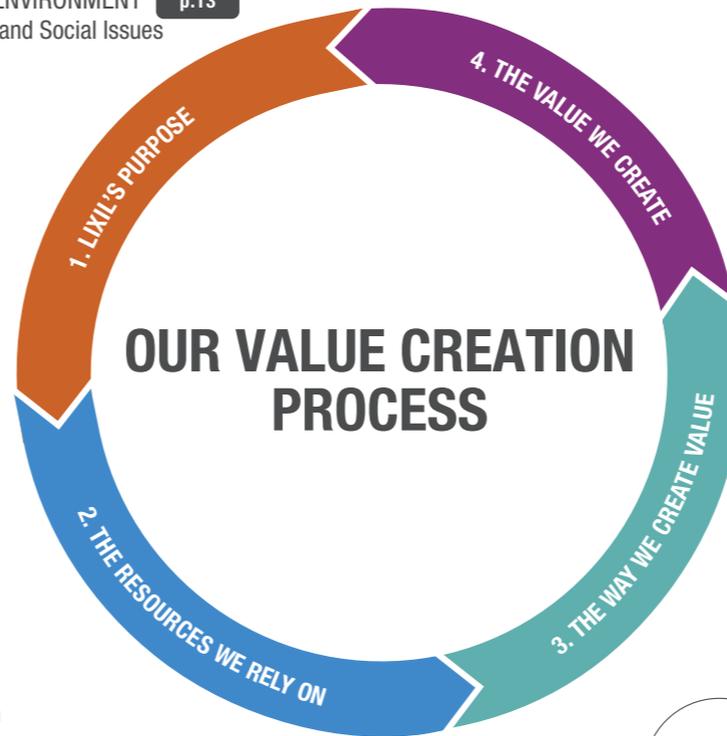
# How We Create Value in a Sustainable and Meaningful Way for Our Stakeholders and Society

**1 LIXIL'S PURPOSE**  
**Make better homes a reality for everyone, everywhere**

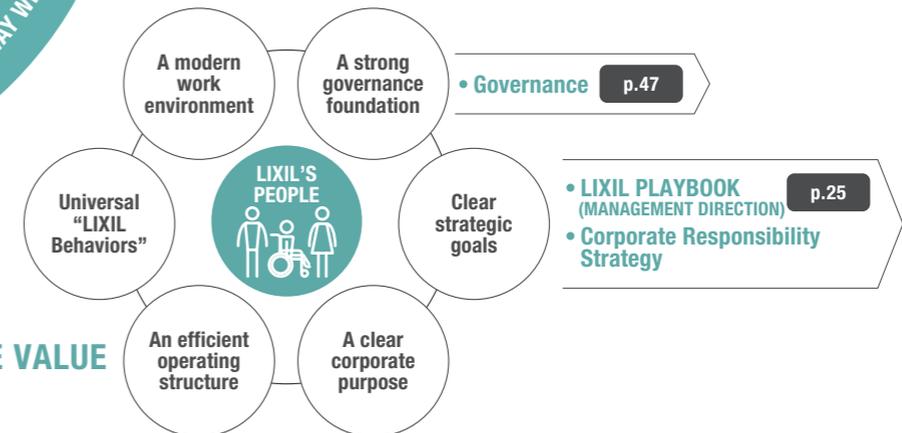
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- Diverse and Purpose-led People
- Meaningfully Designed Products
- Global Sales Infrastructure
- Financial Foundation
- Unrivalled Portfolio of Brands
- "Monozukuri" Manufacturing Platform
- Sustainable Resource Management

EXTERNAL ENVIRONMENT p.13  
 Megatrends and Social Issues



**3 THE WAY WE CREATE VALUE** p.16



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OUTCOMES FOR LIXIL

Sustainable growth comes through strong financial performance and our commitment to society

OUTCOMES FOR STAKEHOLDERS

- Employees**  
Thrive in a workplace based on the shared LIXIL Behaviors
- Consumers**  
Enjoy innovative products that improve comfort while saving the planet's resources
- Partners**  
Have reliable access to differentiated, high-quality products and industry training initiatives
- Societies**  
Benefit from improved sanitation, ecological innovations and our commitment to diversity and inclusion
- Shareholders**  
See financial discipline and a commitment to ESG principles to drive future growth

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### Editorial policy

This integrated report aims to enhance communication with LIXIL's stakeholders, especially investors, by presenting our initiatives to achieve long-term, sustainable growth. In editing, we focused on key content and aimed for an easy-to-understand structure. Information not included in this integrated report, such as detailed non-financial information, detailed financial information, and our latest news is available on our corporate website.

Frameworks referenced



International initiatives LIXIL has joined



### SUSTAINABLE DEVELOPMENT GOALS



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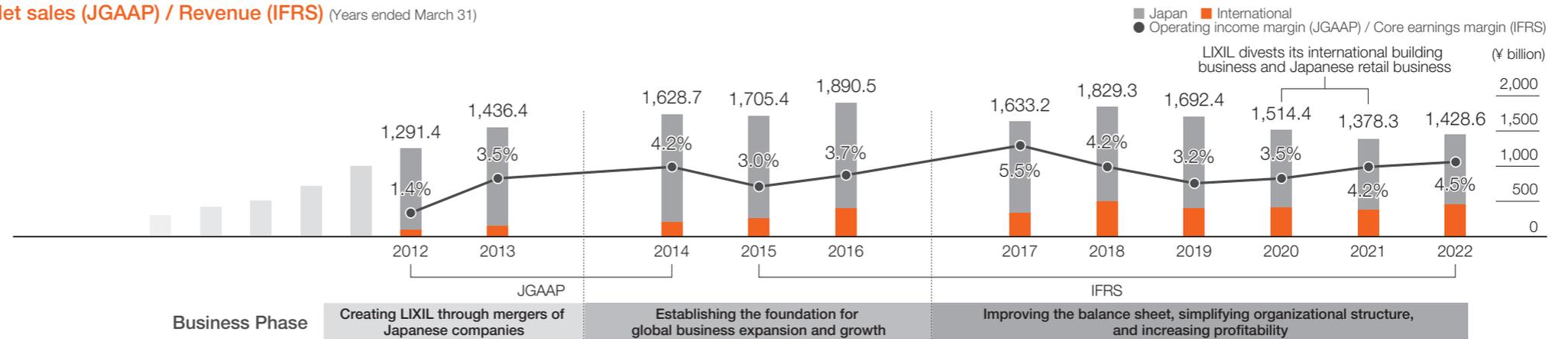
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LIXIL'S HISTORY

LIXIL is committed to achieving its corporate purpose and creating sustainable growth and value.

Net sales (JGAAP) / Revenue (IFRS) (Years ended March 31)



Business Phase

JGAAP  
Creating LIXIL through mergers of Japanese companies

Establishing the foundation for global business expansion and growth

IFRS  
Improving the balance sheet, simplifying organizational structure, and increasing profitability

Corporate Developments

- 2001 INAX Corporation and TOSTEM Corporation merge under a holding company
- 2009 American Standard's Asia business becomes a subsidiary
- 2011 Tostem, INAX, Shin Nikkei, SUNWAVE and Toyo Exterior merge and establish LIXIL Corporation  
Permasteelisa becomes a subsidiary
- 2013 American Standard's North American business becomes a subsidiary

History of Value Creation

- 1967 First made-in-Japan shower toilet launches
- 1990 World's first self-powered automatic faucet *Automage* launches
- 1998 Humidity-modulating tile *ECOCARAT* launches
- 2009 *GROHE Blue* water system launches
- 2010 High-performance hybrid window *SAMOS* launches
- 2013 Manufacturing and sales of SATO toilet pans begin

- 2014 GROHE becomes an equity-method affiliated company
- 2015 GROHE becomes a consolidated subsidiary

- 2014 *SPAGE*, a prefabricated bathroom for at-home spa experience, launches
- 2016 *AQUA CERAMIC*, a new toilet material that prevents a build-up of limescale and other stains, developed  
Corporate Responsibility (CR) Strategy announced

- 2020 LIXIL divests its international building business and Japanese retail business  
LIXIL transitions from a holding company to an operating company

- 2017 IoT-enabled *GROHE Sense Guard* launches
- 2020 Environmental Vision 2050 announced  
*SATO Tap*, a handwashing station for emerging economies, launches
- 2021 GROHE's Cradle to Cradle Certified® products unveiled  
High-performance resin window *EW* with increased recycled materials launches

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## LIXIL AT A GLANCE

### LWT LIXIL WATER TECHNOLOGY



#### Principal Products and Services

##### Plumbing fixtures

Sanitaryware, shower toilets, water faucets, washstands, bathtubs, prefabricated bathrooms, smart products, showerheads, washstand fixtures, washstand cabinet units, kitchen systems, etc.

##### Tile building materials

Tiles for houses and buildings, interior decorative tiles, etc.

#### Direct Customers

- Dealers
- Sales agencies
- Construction companies
- Architectural firms
- Developers
- Wholesalers
- Building material trading companies
- Volume retailers
- General consumers

#### Competitors

- Kohler
- Roca
- Hansgrohe
- Masco (Delta)
- Fortune Brands (Moen)
- Geberit
- TOTO
- Takara Standard
- Cleanup
- Panasonic

#### Product Brands



\* Equivalent to operating income in JGAAP

### LHT LIXIL HOUSING TECHNOLOGY



#### Principal Products and Services

##### Metal building materials

Housing window sashes, entrance doors, shutters, gates, carports, banisters, high railings, etc.

##### Other building materials

Siding, roofing materials, etc.

##### Wooden interior furnishing materials

Window frames, wooden furnishing materials, interior decorative materials, etc.

##### Other

Solar power systems, etc.

#### Direct Customers

- Dealers
- Sales agencies
- Building materials wholesalers
- Homebuilders
- House manufacturers
- Construction companies
- Architectural firms
- Developers
- General consumers

#### Competitors

- YKK AP
- Sankyo Tateyama
- SHIKOKU CHEMICALS
- Takasho
- Panasonic
- DAIKEN
- Eidai
- NODA
- NICHIIHA
- KMEW

#### Product Brands



### LBT LIXIL BUILDING TECHNOLOGY



#### Principal Products and Services

##### Metal building materials

Curtain walls, building window sashes, store facades, etc.

#### Direct Customers

- Construction companies
- Architectural firms
- Dealers
- Sales agencies
- Developers
- House manufacturers

### H&S HOUSING & SERVICES BUSINESS



#### Principal Products and Services

##### Housing solution businesses

Development of homebuilding franchise chains and construction on order, etc.

##### Real estate businesses

Land, building, and real estate management services, support for development of real estate franchises, etc.

##### Financial services business

Housing loans, etc.

#### Direct Customers

- Housing franchise business: Homebuilding franchise members
- Real estate brokerage franchise business: General consumers

#### Product Brands



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## CEO MESSAGE

## WE ARE ACCELERATING TRANSFORMATION TO REALIZE OUR CORPORATE PURPOSE AND SUSTAINABLE GROWTH

**Kinya Seto**

Director, Representative Executive Officer, President, and CEO

I am pleased to report that amid a fast-changing global market environment, LIXIL continues to create value for stakeholders through the steady implementation of the strategy set out in our LIXIL Playbook. The fundamental changes we are making throughout the organization put the company in a uniquely strong position to prosper and achieve sustainable growth for the long term.

Operating in more than 150 countries, LIXIL's corporate purpose is to make better homes a reality for everyone, everywhere. Through products, services and business models that cater to the needs of each customer segment, we are working to achieve our purpose.

To deliver on our purpose, LIXIL is transforming into a more agile, entrepreneurial and inclusive organization. This

change is driven by our increasingly diverse global team of employees, empowered to guide the business forward. We are united by the LIXIL Behaviors—"do the right thing," "work with respect," and "experiment and learn."

The results are clear, with solid progress this past fiscal year

on our strategic goals despite the new challenges. But our focus remains on taking measures today that will create sustainable growth tomorrow.

### Creating Value for the Long Term

It is the aim of any company to create value for the broad range of stakeholders. But only people can create value and that is why people are at the heart of our value creation process. By establishing an inclusive culture and building pride among our employees, we can make them the change agents for the future. This is vital to fostering the exchange of ideas that will generate the innovations we need to drive us forward.

We are focused on empowering employees to create value for all stakeholders via six enablers: clear strategic goals, a clear corporate purpose, an efficient operating structure, the universal LIXIL Behaviors, a modern work environment, and a strong governance foundation.

### The LIXIL Playbook for Sustainable Growth

It is also vital to channel our efforts into identified areas offering the best chances for long-term success. This requires a roadmap that sets clear goals but a flexible approach as

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global conditions change. The LIXIL Playbook sets out our management direction, focusing on four key initiatives:

### 1. Focus and simplify our organization

Our near completion of this important initiative has already paid large dividends and helped in the broader goal of becoming a more agile and entrepreneurial organization. We continue to optimize our business portfolio and implement structural reforms to improve our balance sheet and reduce volatility in business performance.

### 2. Improve profitability of Japanese business

As our single biggest market, the success of the Japan business is crucial to our future. With a declining birthrate and aging population leading to a decline in new home construction, the market faces unique challenges. In response, we are making continued progress with measures including growing renovation-related sales, an ongoing shift to platform-based production, and an expansion of differentiated and high-value-added products. Our business in Japan is today more resilient and profitable.

### 3. Promote growth of international water technology business

Our unparalleled portfolio of global brands in water technology puts us in a unique position across the Americas, Europe and Asia. As consumers in the

post-COVID era focus on their homes, we are providing the best products in the market through an integrated production network and supply chain, as well as an enhanced channel strategy. We will continue to seek further growth by investing in gaps in the product portfolio and in areas offering strong profit margins.

### 4. Establish foundation for long-term growth through innovation

Innovation is embodied in every one of our products and services, driven by our capabilities in technology, design, digitalization, and intellectual assets. It is also the product of a clear methodology and structure, requiring the proper educational and training programs throughout the company in order to create a common language for innovation. These measures will further enable us to capture unmet needs, elevate our brand equity, and improve the customer experience.

Achieving the goals of the LIXIL Playbook requires that we strengthen our competitiveness through our Global People Strategy with diversity and inclusion at its core. We are transforming our HR policies to become more meritocratic, agile, and entrepreneurial. By taking a people-centric approach, we can build greater employee engagement across LIXIL.

We are also accelerating our digital transformation (DX), focusing on both the employee and consumer

experience. Digitalization is critical to better understanding purchasing behavior, improving productivity, and developing new business models.

Our aim is to transform LIXIL into a consumer-centric organization that continuously innovates and provides differentiated products that add value to each of our brands. By strengthening our global design capabilities, we integrate design into the very DNA of the company.

We are also delivering on a comprehensive CR Strategy, the foundation of our ESG activities, to provide value to stakeholders that goes beyond financial results and contributes to the Sustainable Development Goals established by the United Nations. As part of these efforts, we have established a target of net-zero CO<sub>2</sub> emissions through our business processes, products, and services by 2050 and are working on a roadmap with specific interim targets to reach that goal.

### Coping With a Fast-changing Operational Environment

The need for LIXIL to be an adaptable and resilient organization has been amply demonstrated by the changes we have seen in our operating environment over the past two years, the most far-reaching since our company was founded more than a decade ago.

The COVID-19 pandemic not only drastically changed our lifestyles, but also accelerated multiple changes in the

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global business environment. Procurement of everything from raw materials to advanced semiconductor components became more difficult amid numerous lockdowns, and prices began to rise in response. Procurement and logistical issues prompted a shift in some manufacturing to Japan. While this secured parts supply, it also pushed up our costs.

Purchasing activities have been digitized as consumers have been spending more time at home under the

pandemic. Meanwhile, workers are increasingly demanding a more flexible work style as the shift to work-from-home accelerates. Amid intensified competition for top talent, companies are expected to provide a work environment where employees can reach their full potential, develop their careers, and feel fulfilled at work.

These disruptions gathered pace in 2022 as Europe saw armed conflict on a scale few would have predicted as possible in the modern era. This has led to further

shortages, a sudden spike in input prices and further disruptions to global transportation networks.

This has sparked inflationary pressures, with prices in some markets rising at the fastest pace seen in 40 years. Central banks have responded with increases in interest rates with as-yet unknown impacts on demand for housing and related products. We are experiencing a complete paradigm shift. Many long-held assumptions may no longer be true.

### Navigating a New Environment

Responding to these changes requires both short-term measures, such as an ability to adjust pricing more dynamically, as well as the long-term programs we have in place to implement our Global People Strategy. Through these measures we can be truly consumer centric and more resilient to the external environment.

In response to increased costs in raw materials, production, and logistics, we will continue to adopt alternative materials and other measures to reduce costs, as well as pass them on to our sales prices. While this is expected in global markets such as Europe and the United States, this has not usually been the case in Japan, where there has been sharp resistance to higher prices amid an overall background of a deflationary economy. However, with companies in multiple industries now instituting price increases at both the wholesale and retail level, consumers

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have come to expect higher prices to some degree.

One issue in practical terms has been the inclusion of pricing in product catalogs. This has been standard industry practice but has meant that it takes more time to reflect new pricing. To resolve this issue, we have been digitizing our product catalogs and were able to raise sales prices more than twice a year over the previous fiscal year. This took place with the understanding and cooperation of our business partners, and we will continue to act as quickly as possible to further price disruptions.

For the longer term, we believe that we can help insulate ourselves from price fluctuations through the strategic move to less price sensitive mid- to high-price-range products.

To cope with supply-chain issues, we have strengthened our redundancy capabilities and have maintained delivery schedules by shifting some parts production to Japan from Vietnam and China. With commodity prices rising sharply, we are also innovating in the area of raw material usage, such as substituting less-expensive zinc or plastic components for copper in some products.

We have also been promoting the standardization of parts to reduce risks. We have seen that consumers facing the uncertainties surrounding COVID-19 have also changed their purchasing habits with a shift to products that they

know and trust. This has allowed us to focus on a certain range of items that we have ensured to supply without interruption.

A less acute but no less important issue is the global impact of climate change. We are already seeing an increase in severe weather events, which can affect production facilities. To mitigate the related risks and strengthen our resiliency, we are reducing fixed costs and building a flexible production system by expanding platform-based products.

To combat climate change at its source requires fundamental shifts in our working and living environment. LIXIL is committed to being a leader in this area. In Japan, over 90% of existing homes, representing approximately 62 million residences, do not meet current energy-efficiency standards. LIXIL can improve the energy efficiency of these homes with its high-insulation windows and doors, and renovation methods that improve insulation of the entire house, including walls, ceilings, and floors. This will save on heating and cooling and make a significant contribution to the decarbonization of Japan.

In addition, LIXIL is promoting the use of recycled materials in aluminum and resin sashes and the development and commercialization of sustainable materials made from waste plastic and wood. Through these business activities and by promoting the circular use

of resources, we can reduce our environmental footprint and contribute to the reduction of greenhouse gases.

The need for higher-quality housing and the increased cost of the traditional scrap-and-build approach to construction will also contribute to the increased demand for renovation. In Japan, the ratio of new construction to building renovations is 2:1, compared to 1:4 or 1:5 in Europe and the United States. By expanding renovation-related offerings and demonstrating the benefits of renovation, LIXIL will be able to achieve sustainable growth in the Japanese market, even as new construction rates decline.

Within the company, we are also doing our share by downsizing and relocating our headquarters, restructuring our production system, and optimizing the allocation of personnel. These measures help to make us less wasteful, more productive and more profitable.

### Results for the Fiscal Year Ended March 31, 2022

The seismic shocks to global commerce over the past year have produced two clear outcomes for LIXIL: First, an impact on our profits as costs and logistical problems both ratcheted higher, and second, a confirmation that our ongoing strategy is the correct approach to deliver long-term value creation.

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Despite the external issues, FYE2022 showed revenue growth of just under 4% and a double-digit gain in core earnings of 13.2%. At the same time, the results did not reach our targets for the year. While core earnings came in at ¥64.9 billion, we had forecast ¥80 billion. In response, we have moved quickly and decisively on a number of fronts. To cope with higher materials prices, we have made price adjustments and have shortened the time scale

required for future adjustments. As noted, we have switched materials where possible to cushion some of the fallout from a surge in commodity prices. We have also made progress on creating a more agile and resilient supply chain and reducing fixed costs. I expect that some costs will begin to moderate, such as the 5- to 10-fold increase in container shipment costs from the pre-COVID level. On the demand side, our revenue growth will be

driven by better-differentiated products, led by steady growth in the international water technology business, particularly in Europe and the Americas.

These measures tie in with the broader management direction, and we are confident that they will help deliver continued growth for FYE2023. We are targeting core earnings of ¥81 billion and a higher core earnings margin of 5.3%. Demonstrating our commitment to continued improvements on profitability and balance sheet, we are planning an increased dividend of ¥90 for the fiscal year.

### The Future

As CEO, I have relied on the support and contributions of our employees and all our other stakeholders in turning LIXIL from an amalgamation of brands into a sharply focused entity designed for the challenges of the future. The strategy we have crafted together and implemented over the past few years is already proving its value as we deal with the severe shocks to the global economic system caused by nothing less than disease and war. I am confident that LIXIL will be in an equally strong position to face the longer-term challenges of climate change, potential economic uncertainty, and fundamental shifts to the way we all live.

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EXECUTIVE OFFICERS (As of June 21, 2022)\*

\* The number of Company shares and the number of phantom stocks held are as of June 1, 2022.



From the left

**Yugo Kanazawa**

Executive Officer, Executive Vice President, Marketing, Digital, and IT, and Chief Digital Officer  
Number of shares of the Company owned: 13,386  
Number of phantom stocks held: 38,382

**Sachio Matsumoto**

Director, Representative Executive Officer, Executive Vice President, Finance, Treasury, and M&A, and Chief Financial Officer  
Number of shares of the Company owned: 94,844  
Number of phantom stocks held: 87,985

**Shoko Kimijima**

Executive Officer, Executive Vice President, Legal, Compliance, and Corporate Audit, and Chief Legal and Compliance Officer  
Number of shares of the Company owned: 300  
Number of phantom stocks held: 18,060

**Kinya Seto**

Director, Representative Executive Officer, President, and Chief Executive Officer  
Number of shares of the Company owned: 503,908  
Number of phantom stocks held: 344,286

**Jin Song Montesano**

Director, Executive Officer, Executive Vice President, Human Resources and General Affairs, Public Affairs, Investor Relations, External Affairs, and Corporate Responsibility, and Chief People Officer  
Number of shares of the Company owned: 49,158  
Number of phantom stocks held: 41,819

**Satoshi Yoshida**

Executive Officer, Executive Vice President, LIXIL Housing Technology (LHT)  
Number of shares of the Company owned: 14,243  
Number of phantom stocks held: 30,383

**Hiroyuki Oonishi**

Executive Officer, Executive Vice President, LIXIL Water Technology (LWT) Japan  
Number of shares of the Company owned: 18,110  
Number of phantom stocks held: 28,009

**Bijoy Mohan**

Executive Officer, Executive Vice President, LIXIL International  
Number of shares of the Company owned: 0  
Number of phantom stocks held: 220,004

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## EXTERNAL ENVIRONMENT

## MEGATRENDS AND SOCIAL ISSUES

## Megatrends

- Climate change
- Water and resource shortages
- Heightened geopolitical risk
- Supply chain disruptions
- Growing global middle class
- Maturing Japanese market
- Accelerating digitalization
- The changing world of work



## Material Issues (priority list)

- Global sanitation and hygiene
- Climate change mitigation and adaptation
- Water sustainability
- Circular economy
- Environmental impact of product lifecycle
- Environmental management
- Diversity and inclusion

See p.41



## Countermeasures

- Achieve carbon neutrality through business operations, products and services
- Enhance the environmental value of water
- Promote circular use of resources
- Build global sanitation markets through SATO business
- Strengthen supply chains
- Grow international water technology business
- Develop differentiated products
- Implement Global People Strategy
- Promote digital transformation

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## EXTERNAL ENVIRONMENT PRINCIPAL RISKS AND COUNTERMEASURES

At LIXIL, in order to achieve our business objectives, we regularly identify and assess risks that may have an impact on business activities based on company-wide criteria and prioritize risks to be addressed. We classify risks into strategic risks and operational risks, formulate and implement countermeasures for addressing each risk, monitor their progress, and make ongoing improvements. In doing so we realize sustainable value creation for our stakeholders. Furthermore, to address high-priority risks, the Audit Committee monitors whether effective measures are being taken through participation in meetings of the Board of Directors, the Board of Executive Officers, and other committees.

		Risks	Countermeasures
Strategic risks	Changes in the economic environment, fluctuations in exchange rates and interest rates	We operate globally, and our revenue is affected by fluctuations in global demand, prices, and other factors. Factors that could have a negative impact on our business performance and financial position include increases in costs related to raw materials and logistics in particular, as well as significant fluctuations in the number of new housing starts and other factors in Japan, wars and civil unrest in other countries, and a significant rise in market interest rates. Furthermore, fluctuations in exchange rates could affect our business performance including revenue.	Outside Japan, we are building a stable supply system by quickly identifying geopolitical risks, securing alternative suppliers and taking other measures. In Japan, we are expanding sales of mid-range and high-end products and strengthening our home renovation strategy. We also mitigate the impact of exchange rate fluctuations through hedging instruments as necessary and are consolidating fund management operations to improve the efficiency and stability of funding.
	Supply of raw materials	Given that we procure raw materials, materials and parts as needed, soaring raw material prices due to inflation or other factors, fluctuations in commodity prices, and fluctuations in the supply of key resources (such as aluminum and copper), may cause the cost of sales to increase, which could have a negative impact on our business performance and financial position. In addition, defects or shortfalls in materials, parts and other supplies could have a negative impact on confidence in and the reputation of our products. Furthermore, with regard to logistics operations, factors including supply delays due to the COVID-19 pandemic, fluctuations in oil prices, and a surge in labor costs could also have a negative impact on our business performance and financial position.	We are building a stable supply system from the perspective of business continuity planning (BCP) by adjusting selling prices to reflect soaring raw material prices, purchasing from multiple suppliers, conducting responsible procurement surveys of suppliers, securing safety stock, promoting the use of recycled materials, and improving logistics efficiency, as well as shifting to a circular economy model and stabilizing logistics costs.
	Environment (climate change, water, resources)	In recent years, the impact of climate change has led to new laws and regulations, including those for strengthening energy-saving measures, as well as the introduction of carbon taxes. These changes could mean that past practices for production and sales activities may need updating to ensure ongoing regulatory compliance. Global acceleration of the trend toward decarbonization may necessitate an overhaul of production processes that use fossil fuels. Furthermore, the occurrence of serious environmental pollution related to water or natural resources resulting from our business activities, or damage to our manufacturing facilities caused by abnormal weather conditions, could have a negative impact on our business performance and financial position.	We have formed the Environmental Strategy Committee, chaired by the Chief Technology Officer appointed by the Board of Executive Officers, to establish and implement environmental strategies, including the formulation of regulations and policies related to environmental governance, deliberation and decision-making on measures to address important environmental issues including climate change, and management and monitoring of company-wide targets.
	Acquisition and development of human resources and the promotion of diversity	To develop our business on an ongoing basis, we must continue to secure and nurture human resources with specialized expertise and with excellent management skills, such as in business strategy and organizational management. However, particularly in Japan, where the low birthrate and aging population have led to a decline in the working population, there is fierce competition to retain vital human resources. If the acquisition and development of human resources do not proceed as planned, the efficiency of business operations may be impaired from a long-term perspective, which could have a negative impact on our business performance and financial position.	In addition to stepping up initiatives including those to ensure the success of women in the workplace and to support employees with disabilities, we foster a corporate culture that welcomes diverse human resources. This enables employees from a variety of backgrounds to fully demonstrate their individuality and abilities. We are also enhancing our personnel and training systems to better nurture and retain employees.
	Operational risks	Disasters, accidents, and infectious diseases	Given that we conduct production and sales activities at multiple locations around the world, a natural disaster such as an earthquake or typhoon in a region where we do business, an unprecedented accident, or an infectious disease could cause extensive damage to business locations, affecting such things as production, distribution, and sales activities. In particular, the suspension of production activities at any of our plants due to a disaster or accident could have a negative impact on revenue. In addition, any outbreak or spread of an infectious disease that interferes with our business activities or those of our suppliers could have a negative impact on our business performance and financial position.
Information security		Our production, sales and various other business activities are conducted using computer systems and communication networks. As a result, business activities could be disrupted due to communication network failure or an outage in data center functions. In addition, we handle a variety of personal information, including customer information, and the leakage of any such information due to an unforeseen incident could damage social trust in LIXIL, and incur large costs, which in turn could have a negative impact on the company's business performance and financial position.	We have established an Information Security Committee, set out internal regulations on information security, implement preventive measures against threats such as unauthorized access, carry out training for employees, and assess and review these initiatives on a regular basis. Through these measures, we continue to improve our information security management.

Note: The above table provides a selected list of risks with moderate or higher possibility of occurrence and degree of impact. For the full version, please visit our corporate website.

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# VALUE CREATION PROCESS THE RESOURCES WE RELY ON

To ensure sustainable value creation, we have identified critical resources that serve as inputs to our value creation process. These inputs represent unique capabilities within LIXIL.



**Diverse and Purpose-led People**

Approx. 52,000 employees worldwide

LIXIL's global team of employees represents the human capital that is the driving force behind our transformation into an innovative and inclusive organization. They represent the very core of the value creation process.

Our Global People Strategy is built on a commitment to diversity and inclusion. By pursuing inclusion as the goal, we believe diversity will be the natural outcome. By creating an inclusive environment and empowering people everywhere, we can tap into their dedication and commitment to the long-term success of the company.



**Meaningfully Designed Products**

6 major global in-house design studios

Innovative, thoughtful and consumer-centric design is in the very DNA of LIXIL. A team of approximately 120 in-house designers in six major studios around the world represents an unrivalled global pool of knowledge. Through the exchange of ideas across markets and disciplines, they can create products that make a tangible difference in peoples' lives every day.

Their work has been internationally recognized for its quality, innovation and consideration for the environment. We are proud of these efforts that have garnered more than 500 design prizes globally.



**"Monozukuri" Manufacturing Platform**

79 factories worldwide

The time-honored Japanese tradition of "monozukuri" requires careful attention at every stage of the manufacturing process. At LIXIL, we have taken this model and used it to create products of the highest quality at competitive costs.

To achieve this, we have shifted to platform-based products with standardized parts. This means we can meet changing consumer demands quickly while lowering up-front capital investments.

Our global production system and supply chain network allows us to respond to parts shortages, logistics disruptions and related issues in an agile and flexible manner to ensure deliveries without disruption.



**Global Sales Infrastructure**

Present in over 150 countries

LIXIL's global footprint of sales channels and industry-leading brands enables us to capture opportunities in over 150 countries around the world.

Coupled with our global capabilities, we are able to tailor our products to meet local demands. The insights we gather are shared elsewhere, giving LIXIL the ability to leverage the best ideas from around the world.

While each market is different, all share the rapid shift to digitalization as a common thread. By utilizing digital tools, our sales personnel offer a broader range of services, while using their time more productively.



**Sustainable Resource Management**

17.7% reduction in CO<sub>2</sub> emissions from FYE2019

LIXIL plays an important role in combating climate change and preserving the environment. We have launched a wide range of initiatives in procurement, production and operations to reduce carbon emissions, conserve water, and use resources more efficiently.

We are also working to achieve a circular economy, including Cradle to Cradle Certified® products that replicate nature's ability to regenerate to offer the ultimate recycling. Through our products and services, we are helping consumers reduce their own carbon emissions, realize circular use of resources and use water more sustainably.



**Unrivalled Portfolio of Brands**

Over 70% consumer recognition rate in key markets in each region

The creation of LIXIL brought together many of the most powerful brands in our industry, an unparalleled asset that we continue to leverage throughout our geographies and product lines. Each brand has its own voice with consumers and to better leverage this recognition, we have created sub-brands that offer more specific identities and capabilities.

In addition, we are increasingly bringing these brand strengths to other markets, where we can help to exploit market opportunities and fill gaps in product lineups. In this way, we are creating brand equity for the long term.



**Financial Foundation**

Long-term goal of 10% core earnings margin

Despite a highly challenging operating environment, LIXIL has strengthened the balance sheet and raised profitability. To reduce fixed costs, we are reorganizing our production system and instituting structural reforms to improve operational efficiency.

On the revenue side, we have optimized the business portfolio to reduce volatility in our revenue stream and focused on high-value-added products and services in our core areas.

To ensure our long-term financial health, we are targeting a 10% core earnings margin and set targets for each department on attaining a higher return on invested capital (ROIC).



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## VALUE CREATION PROCESS

## THE WAY WE CREATE VALUE

LIXIL's value creation comes from our people, who are empowered to act and create value for stakeholders via six enablers.

## 1 Clear Strategic Goals

We have given management and our employees a mandate to achieve sustainable growth that continuously adds value for all of our stakeholder interests. To achieve this, the LIXIL Playbook outlines our management direction, outlining our strategy for transformation and long-term growth through innovation.

Equally important is our CR Strategy. This is not an "add-on" of vague commitments, it is an integral part of our central strategy. Bringing these together with clear mid- and long-term targets, we are able to fulfill our commitment of becoming a more agile, entrepreneurial, and resilient organization, with a stronger balance sheet and higher profit margins.

## 4 A Modern Work Environment

The restrictions stemming from COVID-19 have brought a sharper focus to the longer-term discussion about workstyles and the role of offices. It has increased calls from employees to have more flexibility to help them meet the needs of job and home.

This transformation also represents an opportunity for the company to rethink what an office is meant to achieve. By adopting more flexible working practices and empowering employees to own their day, we can build a more inclusive environment and also increase productivity. To achieve this, we have bolstered our digital toolkit for employees, helping make them more agile and digital-savvy.

## 2 Universal "LIXIL Behaviors"

With our employees operating in more than 150 markets and in activities ranging from design and manufacturing to sales and customer support, it is vital that we all share the same set of standards in working together, which we call the "LIXIL Behaviors."

By defining how we should interact with everyone in a fair and ethical manner, without regard for seniority or position in the company, we encourage an openness that fosters new ideas and engagement. Only a motivated workforce can be expected to outperform and reach new heights, both in terms of driving the business forward and in achieving their own personal success within LIXIL.

## 5 An Efficient Operating Structure

We are continuing to implement a simplified business structure. With a simplified hierarchy and fewer corporate titles, we can reduce costs and eliminate unnecessary management supervision. This is a central part of our drive to create an empowered, people-focused corporate culture.

In Japan, the measures include streamlining of a very traditional sales structure and reducing corporate functions at headquarters. Globally, we have created a single support function and IT infrastructure, operating as one LIXIL. Through this we are driving a digital transformation to increase productivity and operational efficiencies, important elements in creating a more flexible work model for employees.

## 3 A Clear Corporate Purpose

LIXIL's corporate purpose is to make better homes a reality for everyone, everywhere. We believe this vision not only makes business sense to create long-term value, it also answers the broader question of how LIXIL benefits society.

This is why our CR Strategy is embedded with our broader strategic goals, an approach that helps in two vitally important ways. First, it helps to attract the best employees, who are increasingly concerned about working for a company that is more than the bottom line. Second, it brings our customers and business partners into our work for meeting the Sustainable Development Goals to ensure we are a responsible corporate citizen.

## 6 A Strong Governance Foundation

An empowered organization must be backed by a strong commitment to corporate governance. This starts at the Board of Directors, with separate committees for nominations and compensation for company officers, auditing, and governance. All are chaired by outside directors, who also make up a majority of the Board.

Internal control systems ensure the reliability of operations, as well as the accuracy of financial reporting. In addition, we are strengthening the group-wide management system, with operational committees for compliance and risk control globally.

Every employee plays a role in compliance culture through the Code of Conduct and the "Speak Up!" platform to flag a concern in any part of the organization.

## LIXIL BEHAVIORS

DO THE  
**RIGHT** THINGWORK WITH  
**RESPECT****EXPERIMENT  
AND LEARN**

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# VALUE CREATION PROCESS

## THE VALUE WE CREATE

The success of the value creation process is through the benefits seen to all stakeholders and in the long-term success of the company.

**Outcomes for LIXIL – The Results of Our Work**



Through the past year, we have seen the continued transformation of LIXIL into an agile and entrepreneurial company. The year has also demonstrated that amid external risks, it is more important than ever to have a solid financial base and an operating model that will sustain us for the long term.

But in building for the future, we know that the company must stand for more than profits; it must have a clear social purpose. That is why our corporate purpose of making better homes a reality for everyone, everywhere is so important.

The results of the value creation process are clear. We continue to see employee engagement rise as we give our people the freedom to manage their work day, focus on real business needs, and chart their own career paths.

For customers and business partners, we are transforming ourselves into a more consumer-centric organization, developing products that improve living while speaking to lifestyle tastes and preferences.

For shareholders, we have shed unnecessary costs and delivered differentiated products that increase sales and profitability. We have also strengthened our Environmental, Social, and Governance (ESG) initiatives, demonstrating our commitment to sustainable growth and shareholder returns.



**Employees – The People Who Contribute to LIXIL's Growth**



73% employee engagement score

Our employees represent the very essence of the value creation process. Only through our people can we move ahead as a company.

We have made important strides in bringing diversity and inclusion to a traditionally male-dominated industry. For FYE2023, 53.8% of new-graduate employees in Japan are women, while in the global workforce women now represent 32% of all employees. But we must do more. Looking forward, we are targeting a Board and executive team that are 50% female, with women also to hold at least 30% of manager-level positions.

Attracting a high-caliber workforce means that we must offer a company where employees take pride in what they do and feel personally fulfilled. Success does not need to be represented by promotion, it is about fulfilling one's own personal goals.

At a practical level this means demonstrating that we care about employees, that we make use of digital tools to conduct regular 'pulse' surveys, and most importantly it means that we need to listen, not lecture.

**SDGs**




**Consumers – The End Users Who Enjoy Our Products**



¥1,428.6 billion in revenue in FYE2022

We are serving a new generation of consumers who are not satisfied with a commoditized product that merely "does the job." We know that we need to provide products that are well-designed, a pleasure to use and that help to meet today's growing environmental challenges.

Through our 14 brands and newly developed sub-brands around the world, LIXIL meets these needs. We also know that these consumers have a new way of shopping. Therefore, we are enhancing the consumer journey through digital tools and an omnichannel shopping experience.

**SDGs**



**Societies – The Communities and Social Issues We Contribute to Globally and Locally**



Improved access to sanitation for 35 million people in over 45 countries

LIXIL's CR Strategy is an integral part of our overall business strategy. Our employees want to see LIXIL be a force for good, our consumers want to do business with a company they can believe in, and shareholders want to have ownership in a company that puts society at the forefront.

The SATO portfolio of products provides basic sanitation for millions of people, while our environmental strategy focuses on innovations for low-carbon and water-efficient technologies. These are business initiatives with a sound basis in profitability as well as our broader corporate purpose.

**SDGs**



**Partners – The Architects, Distributors and Builders Who Help Create a Home**



78.5% commercial partner satisfaction for products in Japan

Through their expertise and advice, LIXIL's business partners provide a vital link between the homeowner and our products. We support our partners through a variety of services and digital tools that make their everyday work simpler and more efficient. In addition, we look closely at their needs in designing our products.

This sector is, however, facing severe skills shortages in many markets. LIXIL has launched initiatives in the EMENA region and the United States to provide education and training for the next generation of plumbers who can find rewarding and well-paying jobs in this vital sector.

**SDGs**



**Shareholders – Those Who Believe In and Support Us**



Listed on the Dow Jones Sustainability World Index and FTSE4Good Index

Everything we do in value creation benefits our shareholders. Higher profit margins, a more efficient workforce and a robust balance sheet boost our bottom line, while brand reputation and a commitment to ESG principles can build long-term value.

This commitment is demonstrated by our inclusion in respected ESG-related indexes including the Dow Jones Sustainability World Index and the FTSE4Good Index. Our leadership in transparency and strong corporate governance helps to reduce our business risks and protect the interests of our owners.

**SDG**



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## CFO MESSAGE

## WE ARE STRIVING TO DELIVER GREATER SHAREHOLDER RETURNS THROUGH FURTHER IMPROVEMENT OF CAPITAL EFFICIENCY

## FYE2022 in Review

The FYE2022 business environment was extremely challenging in that we had to deal with increasing raw material prices and logistics costs as well as supply chain disruptions, amid the continuing impact of the COVID-19 pandemic.

Revenue increased by ¥50.3 billion year on year to ¥1,428.6 billion, and core earnings increased by ¥7.6 billion to ¥64.9 billion. Although we fell short of the full-year forecast for core earnings, we were able to achieve the full-year forecast for profit for the year attributable to owners of the parent (equivalent to “net profit” under JGAAP).

The main factors for lower-than-forecast core earnings were concentrated in the fourth quarter, and included the escalation of geopolitical issues, which led to higher raw material and construction material prices, logistics disruptions and earlier-than-anticipated cost increases, and additional costs to ensure the stable supply of products.

We estimate the impact of these factors to be ¥50 billion, of which about ¥35 billion was offset by the effects of previously ongoing structural reforms, price optimization, and additional measures to reduce selling, general and administrative (SG&A) expenses. However, due to the delay between when the additional costs were incurred in the fourth quarter and when the effects of the corresponding measures are realized, core earnings fell short of the full-year forecast by ¥15 billion. Nevertheless, excluding the impact of such large and sudden price increases, or factoring in the delayed effects of the above measures, we believe that we could have confidently achieved the full-year forecast. Therefore, as a result of various structural reforms over the past several years, we believe that we have made progress in

## Sachio Matsumoto

Director, Representative Executive Officer,  
Executive Vice President, Finance, Treasury, and M&A, and Chief Financial Officer



our transformation and now have a business structure capable of achieving our medium-term target of a 7% to 7.5% core earnings margin. Strengthening our business structure has enabled us to improve our gross profit margin despite increasing raw material and construction material prices and logistics costs, and we feel

that we have steadily enhanced our management resilience to changes in the external environment.

Meanwhile, we need to establish a stable financial foundation in order to achieve medium-to-long-term, sustainable growth.

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To enhance both profitability and our financial position, we have been working to improve capital efficiency by adopting an asset-light approach and reduce interest-bearing debt, with the medium-term targets of improving the net debt-to-EBITDA ratio to 3.5 times or less and the ratio of equity attributable to owners of the parent (equivalent to “equity ratio” under JGAAP) to 35% or more. In FYE2022, we achieved our net debt-to-EBITDA ratio target, as we did last year, while also mostly achieving our medium-term target for the equity ratio, which puts us on track to improving the soundness of our financial position.

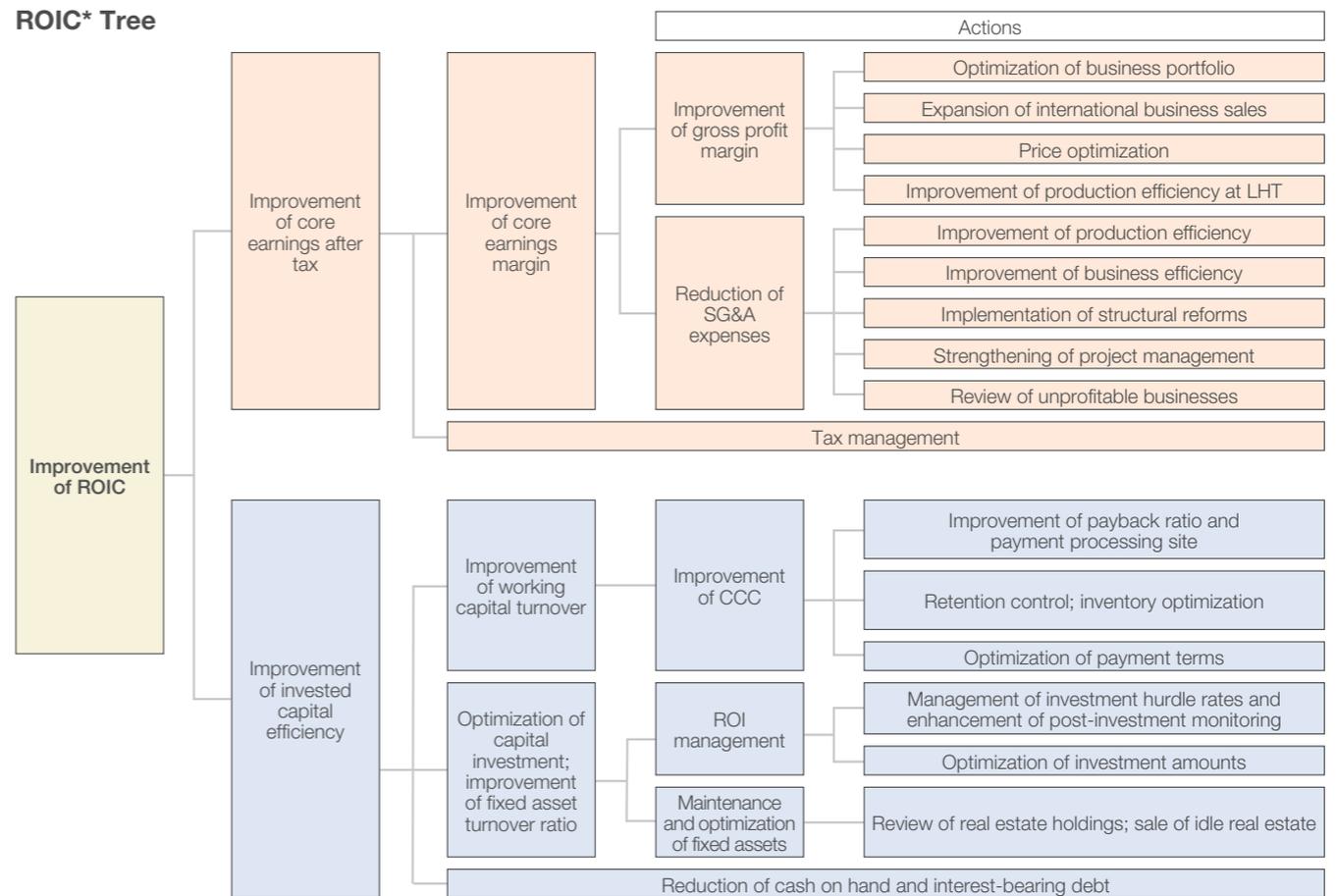
### Improving Capital Efficiency Through ROIC Management

We seek to improve capital efficiency by strengthening our financial position and improving profitability. To that end, we have been increasing the incentive to achieve results by incorporating Return on Invested Capital (ROIC) into performance metrics, setting targets by organization expanding the use of ROIC, and managing and reporting progress on a monthly basis. We began rolling out these efforts globally in 2019.

**Improvement of gross profit margin:** We are working to improve our gross profit margin through initiatives to overcome changes in the business environment from the perspectives of selling prices and reduction of production costs.

For selling prices, we are shifting to high-value-added and differentiated products, establishing pricing that can accommodate changes in the external environment, and building the necessary frameworks. For production costs,

### ROIC\* Tree



\* Calculation: Operating profit × (1 – Effective tax rate) / (Working capital + Fixed assets)

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we are adopting an asset-light approach to reduce fixed expenses. In FYE2022, LHT finished revamping all window series products and completed the transition to a platform-based production system.

**Reduction of SG&A expenses:** In addition to regular efforts to enhance productivity through the use of digital technology, consolidate and optimize showrooms and sales offices, and optimize personnel allocation, we plan to relocate our headquarters to smaller space from August 2022 through March 2023. This move reflects greater emphasis on working from home and autonomous styles of working that are suited to each employee's way of life. We will continue reducing fixed costs and improve capital efficiency by further promoting the use of digital tools to increase productivity and utilizing shared services for back-office operations.

**Tax management:** We will promote fair and appropriate tax payment and tax management.

**Improvement of CCC:** As a consequence of our response to supply chain disruptions, the cash conversion cycle (CCC) increased by 1.3 days year on year to 81.4 days, mainly due to a longer inventory turnover period as part of the strategic buildup of inventory to stabilize product supply. In light of recent events, we need to reduce SKUs and maintain higher inventory levels in the near term, but we will also continue improvement measures as progress is made in stabilizing the supply chain.

**ROI management:** We have been introducing investment evaluation guidelines that target improved investment efficiency. We apply hurdle rates for investment decision-making, which are calculated for each project and

depend on the investment goal, taking into account differences in country risk and the inflation rate of the relevant market.

**Maintenance and optimization of fixed assets:** In line with our policy of adopting an asset-light approach to improve capital efficiency, as another step following the FYE2021 decision to cease activities at the Maebashi plant, in FYE2022 we decided to cease activities at the Yokohama plant and integrate its production lines into other plants. We have also resolved to relocate our headquarters to smaller space.

**Reduction of cash on hand and interest-bearing debt:** In FYE2022, we repaid ¥70.8 billion of interest-bearing debt, including the redemption of ¥60.0 billion of convertible bonds. Net interest-bearing debt decreased ¥60.1 billion from the previous year to ¥424.3 billion.

### Policy on Capital Allocation and Shareholder Returns

We are currently in the phase of laying the foundations for future growth through innovation, and as such we are not considering any large M&As or capital investments. Consequently, we do not have any plan for large borrowings or a capital increase for the time being. However, we do plan to continue increasing operating cash flow through growth investments in intangible assets such as IT, talent, design, and branding that will lead to LIXIL's long-term sustainable growth. We will also generate the necessary funds for growth investments by optimizing our asset holdings.

In FYE2023, we expect a one-off increase in capital expenditures, in areas such as IT investments to strengthen

security against the recently growing threat of cyberattacks, and for the relocation of our headquarters. However, we will continue our policy of allocating more capital to investment goals and projects with high capital efficiency and potential for future growth, targeting a steady level of approximately ¥65 billion (excluding the effects of one-off increases).

Our basic policy on shareholder returns is to maintain a consolidated dividend payout ratio of 30% or more, and to return profits to shareholders in a stable manner, taking into consideration financial condition and profit level. In FYE2022, given that measures to improve financial soundness are on track and we are confident of stable growth in operating cash flow as a result of our structural reforms, the decision was made to increase the year-end dividend by ¥5, resulting in an annual dividend of ¥85 per share. Our forecast for FYE2023 is another ¥5 increase in the annual dividend to ¥90 per share.

The focus of our management direction is on improving capital efficiency by adopting an asset-light approach and on creating further synergies within our current business portfolio. In light of that direction, as well as progress made in strengthening our financial position, we have decided to buyback and cancel shares, in addition to cancelling treasury stock held by the Company. This decision is based on the belief that doing so will contribute to the enhancement of our corporate value from the perspectives of improving capital efficiency and strengthening shareholder returns.

We will strive to deliver greater shareholder returns through the ongoing generation of returns in excess of our cost of capital.

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## CR CHAIRPERSON / CPO MESSAGE

WE ARE ACCELERATING CR INITIATIVES BASED  
ON OUR CLEAR CORPORATE PURPOSE

At LIXIL, our corporate purpose – to make better homes a reality for everyone, everywhere – guides everything we do. It shapes the way we do business and drives our relationships with the wider world. By delivering safe sanitation and hygiene to all those in need worldwide, we create a positive social impact on how people everywhere can live better lives. We design our business to conserve natural resources, driven by the responsibility we feel to protect and improve our environment so that future generations can enjoy better homes. And by building this vision inclusively, we create opportunities, ensuring our business reflects society through a diverse and inclusive workforce. By living our purpose, we make a meaningful and positive impact for all of our stakeholders, and in turn, we are able to deliver sustainable growth and long-term performance.

**Human Capital**

Our focus on purpose starts with our people. At LIXIL, the idea of putting our people first is central to what we do every day. As a maker of pioneering water and housing products, LIXIL must be a consumer-centric organization that understands our users and offers innovative products and solutions in anticipation of their needs. Employees are at the heart of such value creation, so it is critical that we empower every employee to exercise their full potential.

**Jin Song Montesano**

Director, Executive Officer, Executive Vice President, Human Resources and General Affairs, Public Affairs, Investor Relations, External Affairs, and Corporate Responsibility, and Chief People Officer



Over the last two years, we have taken significant steps in revising our Global People Strategy with a clear mission to transform LIXIL into an innovative and inclusive community

that empowers everyone, everywhere. This strategy includes a core focus on embedding inclusion into our DNA, elevating talent worldwide, and enhancing Employee Experience.

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**Diversity & Inclusion (D&I)**

We have been on a journey to embed D&I within the organization not only because it's the right thing to do but also for its strategic value to strengthen our long-term competitive advantage. By pursuing inclusion as our goal, we believe diversity will be the natural outcome. Driving inclusion will allow us to integrate more diverse knowledge and perspectives, better catering to the needs of our diverse customer base.

To embed this change, we are focused on gender equity as a proxy for broader diversity and have continued to make progress. Our talent management has been strengthened with mentoring programs, D&I training, and the identification of female talent through our People and Organizational Development (POD) process. We also launched five Employee Resource Groups (ERGs) targeted to strengthen links amongst employees based on shared characteristics, backgrounds, or life experiences and implemented a fully flexible working arrangement. Such initiatives to build an inclusive environment have also contributed to driving inclusion in our workforce.

**Elevating Talent**

To elevate talent across the organization and thereby ensure LIXIL's sustainable growth, we have developed and implemented a rigorous succession planning system, designed to select successors for key global positions strategically from both business continuity and future business needs perspectives. This system is supplemented by our distinct learning and development programs tailored to strengthen the leadership pipeline and meet the diverse needs of our workforce.

To select senior leaders, we are offering an Innovation Training Program in collaboration with the Tuck School of Business. The custom-built global program is designed to help us transform into a more entrepreneurial organization with innovation as the common language. We have also built the NEXT and NEXT 2nd acceleration programs, designed to train high potential talent and prepare them for global opportunities and leadership roles. We also encourage proactive learning and career development by providing access to LinkedIn Learning to all managers.

**Enhancing the Employee Experience**

Nowhere has the Employee Experience evolved more than in Japan, where we implemented comprehensive changes to HR policy and practice. In April 2022, we revised our grading structure for managers and above to enable a more meritocratic organization. For all employees in Japan, we introduced more flexible working policies, including Superflex, further strengthening ways to support our employees to succeed in their careers at different stages of their lives.

Listening to our employees is another critical element for LIXIL in enhancing the Employee Experience. We have significantly strengthened our employee listening capability, including updating our employee survey, LIXIL Voice. The survey now tracks three critical drivers of Employee Experience: Engagement, Inclusion, and Well-being.

The COVID-19 pandemic has accelerated a shift in working styles, employee expectations, and the relationship between the company and our employees, which has proved to be beneficial for our employees as well as for the company. We are committed to continuing our endeavor to enhance the Employee Experience.

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**Committed To Making a Positive Impact**

Along with investment in human capital, contributing to the resolution of social and environmental issues is a vital issue for companies and a major responsibility to society. The world is at a critical point in the fight against climate change, and COP26 was considered the most significant climate talks since the 2015 Paris Agreement. During the conference, there were notable successes and some setbacks — both having implications for businesses globally.

For LIXIL, addressing social and environmental issues is fundamental to delivering on our purpose as a company and our long-term viability as a business. We are proud of the progress we are making, as it helps us manage the risks and opportunities in a fast-changing world while enabling us to make a positive impact on our planet. Under our CR Strategy, we have continued our efforts to contribute to the resolution of issues surrounding Global Sanitation & Hygiene and Water Conservation & Environmental Sustainability through our business activities, in addition to the D&I initiatives mentioned above.

**Global Sanitation & Hygiene**

Our social business SATO, which contributes to UN SDG 6.2 by enabling access to adequate and equitable sanitation and hygiene for all, continues to gather momentum. I am

delighted to report that SATO shipments have exceeded 1 million units globally for the third consecutive year, and we are on track to deliver on our ambitious goal of improving the lives of 100 million people through safe sanitation and hygiene by 2025.

As the global sanitation challenge is immense, in FYE2022, we focused on corporate partnerships to accelerate change at scale, which has led to the adoption of SATO toilets at scale in Africa. Our shared-valued partnership with UNICEF has been expanded to increase the availability of affordable products in three of the world's most populous countries: India, Indonesia, and Nigeria. We have also entered a new Partnership for Better Living with USAID, which is designed to impact at least 2 million more people in the next five years.

Last year, we also looked at new ways of empowering women who suffer the most from the lack of sanitation and hygiene. In India, we raised awareness about hand hygiene and *SATO Tap* and equipped 100 women with soap-making skills through workshops, which were very well received and will be replicated in the future.

SATO products are now in homes, schools, and public institutions in more than 45 countries worldwide. They have transformed lives, improved health, created jobs, saved water, and ensured children can stay in school. We are energized at

the impact SATO products have in bettering lives around the world and remain committed to furthering this cause.

**Water Conservation & Environmental Sustainability**

Our corporate purpose cannot be achieved without taking into consideration the field of global environmental conservation. We believe that, as a business, we can be a force for good, innovating and scaling solutions to climate change to create a positive impact on this planet. Of the 20 material issues we identified as important not only for LIXIL but to society, we are treating five environmental themes as priority issues.

In 2019, we established our Environmental Vision 2050 for a Zero Carbon and Circular Living and determined the three focus areas to achieve this vision: Climate Change Mitigation and Adaptation, Water Sustainability, and Circular Economy. We are committed to being a leading company in environmental impact, so we can live our purpose for future generations – by reaching net-zero carbon emissions and preserving water and other natural resources in our own operations, but also with our business partners.

In the field of Climate Change Mitigation and Adaptation we are increasingly switching to renewable energy and reducing overall energy consumption in our plant, logistics centers, and sales offices. The ratio of renewable energy usage across the company has increased to 16% in

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FYE2022. Japan's Green Growth Strategy for achieving CO<sub>2</sub> neutrality by 2050 also requests new solutions to reduce emissions in housing. In the past year, we launched our high-performance window "TW" with excellent heat insulation properties and have fully remodeled all our sashes for new construction. By FYE2026, we aim to reach 100% sales ratio of high-performance windows for detached houses in Japan.

As for Water Sustainability, we continue to promote the efficient use of water across our business activities. We monitor and track our overall production consumption without compromising performance across all brands to reduce water and energy consumption. We are also striving to preserve water by providing products and services that reduce its consumption. For example, our touchless faucets have reduced up to 30% in water consumption. Across our global water brands, we are expanding our line-up of touchless faucets, water-saving toilets, and other products equipped with water- and energy-saving and water-purification technologies that enhance environmental value of water. We aim to raise the sales ratio of energy and water-saving faucets and water-saving toilets in Japan to 100% by FYE2031.

In the area of Circular Economy, we continue to further expand our Cradle to Cradle Certified® portfolio from Fittings to other business units. We are also working on a "product passport" in the form of a standardized Environmental

Product Declaration (EPD), which increasingly are being requested in several markets in Europe (i.e. France and Nordics). We have introduced a water circulation system at our Tlaxcala Plant in Mexico to recycle wastewater used for product cleaning and leakage testing, which contributes to the reuse of 49,620 m<sup>3</sup> of water per year in the manufacturing process. We are also utilizing recycled materials to manufacture products and establishing a process to reuse and upcycle plastics in windows.

We recognize that environmental issues can be both risks and opportunities for us, and our environmental divisions, business units, and management are working together to promote our strategies and measures effectively. In order to further strengthen our efforts to achieve our Environmental Vision 2050, in November 2021, we set up the Environmental Strategy Committee as an expansion of the existing Environmental Committee. We are currently formulating a company-wide Environmental Strategy that sets a clear direction on how we want to make an impact on the environment, the full details of which we plan to announce this fiscal year.

While we have much progress to make, our continued strong commitment to make a positive environmental impact has been recognized globally. We are proud to earn a place on the CDP Supplier Engagement Leadership Board for the

second consecutive year, recognizing our ongoing efforts to mitigate climate change across the supply chain. LIXIL was also recognized in the CDP's survey of water resources management, earning a place on the CDP's 2021 Water Security A List, and has been selected for inclusion in the Dow Jones Sustainability World Index (DJSI World) for the third consecutive year.

At LIXIL, our people strategy and CR Strategy are core to delivering on our corporate purpose. We are confident that we can live our purpose and create a positive impact for our stakeholders through executing these strategies.



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## MANAGEMENT DIRECTION

At LIXIL, we are advancing the four strategic initiatives set out in the LIXIL Playbook to deliver on our corporate purpose of making better homes a reality for everyone, everywhere and achieve sustainable growth and value creation. We are committed to having a positive impact on society through our business activities, which is why our CR Strategy is embedded within the LIXIL Playbook and forms an integral part of our value creation process.

### The LIXIL Playbook

LIXIL's medium- and long-term management direction is clearly defined in the LIXIL Playbook, which covers four strategic initiatives, as well as a foundation based on empowering our people for sustainable growth.



The LIXIL Playbook ▶ p.28

### Corporate Responsibility (CR) Strategy

The CR Strategy forms an essential part of our ambition to achieve sustainable growth and corporate value creation in that it is deeply linked to our core business strategy, our material issues, and our value creation process, through which LIXIL creates value for all of its stakeholders. The CR Strategy outlines three core pillars of activity where we will use our unique expertise and business operations to drive a positive impact on global issues that require urgent action. Our strategy stands upon a foundational commitment to ethical business practices.



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## IMPROVE PROFITABILITY OF JAPANESE BUSINESS

Success in the Japan market is critical to the company's future. To tackle the challenges of a shrinking population and a decline in new home construction, we have implemented strategies to make our business more agile, resilient and profitable.

**Improving Capital Efficiency and Productivity**

A key element in bringing down unnecessary capital spending is to make sure that our expenditures become more efficient. To achieve that, we have strengthened our platform production model for both LHT and LWT and moved to greater use of standardized parts to lower costs and shorten the time we need to launch products. This new model provides for more competitive pricing points and improved profit margins.

We are also making changes to our work practices to eliminate unnecessary tasks and ensure that our employees are adding value to the customer experience. As part of this we are making greater use of digital tools that allow employees to focus on the customer and enhance the consumer journey.

We have also implemented new flexible working practices, including Superflex and working from home. This has not only lowered costs but also helped to raise employee satisfaction. As a result of this shift, we also announced plans to continue our workstyle transformation by moving to a smaller and more tailored headquarters office designed for communication and human connection.

**Promoting Price Optimization**

Supply chain disruptions and a sudden surge in commodity prices have underscored the need to be able to raise prices in order to avoid serious impact to profit margins and our bottom line. We have been able to carry out such measures when needed in other key markets such as Europe and North America.

In Japan, however, the traditional practice has been different, with limited price rises linked to the issuance of new catalogs. It was therefore vital to break out of this system that was tenable only within Japan's deflationary environment.

Reflecting the importance of long-term relationships in Japan business, we have gained the understanding of our business partners and have instituted price rises where necessary multiple times within the last financial year.

This has been facilitated by the move from expensive printed versions of our catalogs to digital versions, in which the listed prices can be updated as necessary. This is an important way to allow us to keep up with a fast-changing environment that has not been seen in Japan previously.

**Expanding Renovation-related Sales**

A hallmark of the LIXIL culture is to see opportunity where others see risk. Traditionally, Japan has had a scrap-and-build model of creating new housing suitable for only a short time frame. The ratio of new construction versus renovation spending has been more than 2:1, compared with 1:4 or lower in other established markets in Europe and North America.

But the market is now seeing a fundamental shift due to a shrinking population and a desire by young people for a higher-quality and environmentally responsible lifestyle. This trend has greatly accelerated during the COVID-19 pandemic as people spent more time at home and saw the benefits of improved surroundings.

This increased demand comes in both of our core product areas of water-related products in LWT and housing products in LHT including better insulating windows, doors and *Super Wall* renovation methods. With 90% of Japanese homes failing to meet current energy standards, the needs—and the opportunities—are substantial.

**Shifting to High-value-added Products**

The fundamental changes in lifestyles mean greater interest among consumers for higher-price products with differentiated features that also support our planet. We are expanding products and services that help people live more sustainably by conserving water and energy for heating while also making greater use of recycled materials. Superior design plays a critical part in producing products that will not only meet the needs of our customers but also match their spirit.

As one example, we have launched *NODEA*, a high-end luxury brand in the LHT sector that targets Japan's highly affluent consumer segment, the second largest in the world. Using an asset-light model and based on the concepts of openness, space and encounters, *NODEA* provides large-scale windows that seamlessly connect indoors and outdoors to provide a feeling of expansiveness and a closeness to nature.

Superior products are also highly cost effective for consumers. LIXIL's triple-glazed *TW*, a high-performance hybrid window, can reduce heat loss by 80% compared to single-pane glass.

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**Bijoy Mohan**  
Executive Officer, Executive Vice President,  
LIXIL International

PROMOTE GROWTH OF INTERNATIONAL WATER TECHNOLOGY BUSINESS

An unparalleled portfolio of brands, agile manufacturing capability, and innovation continue to drive LIXIL's global growth. With a clear strategy in place, we are well-positioned to grow sustainably in international markets.

Markets

- Americas
- EMEA
- Greater China
- APAC

Key Strengths

- Highly regarded and clearly differentiated house of brands that can fill product gaps in each region
- Comprehensive product portfolio covering luxurious to base of the pyramid (BoP)
- Truly global supply chain and production footprint
- Strong innovation pipeline
- Award-winning in-house design team
- Sales channels in over 150 countries

Risks

Increase in materials, shipping and labor costs

Mitigants

- Timely price adjustment and mix optimization
- Shift to mid- to high-end products
- Switch to alternative materials

Supply chain disruptions

- Strengthen nearshoring and redundancy in supply chain
- Long-term measures for securing raw materials

Business Overview

Risks

Supply chain disruptions

Mitigants

- Complexity reduction, e.g., component standardization
- Back up production plan
- Increase in inventory levels

Commoditization of products

- Develop innovative, differentiated and high-value-added products and services
- Enhance consumer journey and customer experience to cultivate brand affinity and loyalty

Skilled labor shortages

- Develop easy-to-install and prefabricated products
- Nurture the next generation talent

Opportunities

- Global bathroom fixtures and fittings market is worth approx. ¥6 trillion today and forecast to grow at a CAGR of +4%
- Strong demand for solutions that improve health, hygiene, wellness, and well-being due to the COVID-19 pandemic
- Robust demand for home improvement due to increased time spent at home
- Shift to e-Commerce and omnichannel shopping
- Increased demand for sustainable products due to heightened environmental awareness

Strategy

- Expand profitable product categories and fill product gaps in each region by leveraging the multi-brand portfolio
- Lift the average sales price by providing innovative, high value, and differentiated products and services
- Enhance channel strategy according to each region's unique needs
- Attract consumers early in their purchase journey and enhance consumer experience
- Strengthen market segmentation, delivering on specific needs and wants of each segment
- Reduce the environmental footprint of products and services, as well as business operations
- Strengthen global innovation platforms utilizing technologies within LIXIL

Achievements for FYE2022

- Sales: ¥448.4 billion, +19%YoY
- Core earnings: ¥43.4 billion, +39%YoY
- Ratio of international revenue in LWT increased to 52% from 48% in FYE2021

Targets for FYE2023

- Sales target: ¥502 billion, +12%YoY
- Core earnings target: ¥50 billion, +15%YoY
- Target ratio of international revenue in LWT: 54%

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## THE LIXIL PLAYBOOK PROMOTE GROWTH OF INTERNATIONAL WATER TECHNOLOGY BUSINESS

**Sub-brands Enhance Market Segmentation**

A great brand is timeless but is not static. It continues to adapt to the times and the shifting needs of consumers. Such is the case for GROHE, the epitome of style and quality with its roots in Germany. In looking at the various ways that GROHE can be harnessed, we have formulated three sub-brands that can provide unique value niches to different segments of the water technology universe.

For many, *GROHE SPA* will be seen and appreciated at the world's best hotels and resorts, where its sleek styling provides a sense of luxury. The name is of course well known to architects and designers seeking to recreate this luxury in the homes of affluent consumers. *GROHE SPA* products are quite rightly the products of a showroom.

*GROHE Professional*, which offers our core and broadest range, aims to better meet the needs of construction professionals. The products are specially designed to make the installation process more efficient and cost effective. The GROHE brand also serves as the basis for training programs for those in the industry.

No such training is required for *GROHE QuickFix*. In this product range, the homeowner takes center stage, using a specially designed one-box solution that includes everything needed for installing high-quality fixtures. The product line targets consumers in the expanding DIY market.

**Digital Transformation Elevates the Brand Experience**

We know that consumers today value experiences over products. This means that we need to transform the selling process from merely presenting a product to showing how it will fit into the desired lifestyle of the consumer. Innovative new approaches in Europe and the Americas are paving the way, with an eye toward global rollout in the future.

To enhance the customer journey and brand experience, *GROHE X* is a multimedia content hub that offers product presentations, inspiration and know-how to help guide product professionals and their customers. Launched in March 2021, *GROHE X* is the first digital platform of its kind tailored to the interests of B2B target groups. With content in 13 languages, it has attracted half a million visitors and won numerous awards.

In the Americas, LIXIL has pulled together elements from iconic American Standard and GROHE to give us a footprint in the growing trend toward omnichannel shopping. The new digital tools present innovative ways for consumers to explore, be inspired and shop. The features include shoppable looks, 3D and Augmented Reality (AR), and a customization visualizer that allow consumers to build the bathroom or kitchen of their dreams. As our consumers engage with these new applications, LIXIL is there every step of the way with a team of design specialists available through virtual conferencing, chat messaging, phone or email.



GROHE QuickFix

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## THE LIXIL PLAYBOOK

## ESTABLISH FOUNDATION FOR LONG-TERM GROWTH THROUGH INNOVATION

Innovation in products and services is a vital input to delivering long-term growth. Through our entrepreneurial spirit, we foster new avenues to discovery.

**Reinventing How We Innovate**

Innovation does not just happen. It is the result of having the best people who have the right skills and mindset and a corporate culture that gives them the necessary freedoms, including the freedom to fail.

The benefits of innovation in turn encompass every part of our business, which makes the innovation process so important to our future. It is a key part of the LIXIL Playbook and critical to our long-term growth. For our customers, we deliver innovation by leveraging our technology, digital and design capabilities, and our global multi-brand portfolio. The global design and R&D teams and new business units start with gathering and analyzing consumer insights to innovate products and services that provide meaningful value to consumers.

We are building an entrepreneurial organization by embedding "Experiment and Learn" as a core value within the LIXIL Behaviors. Employing the "Three Box Solution" approach to spur innovation outside of existing business areas, LIXIL has engaged with the Tuck School of Business to design a specially tailored training program for LIXIL leaders around the world.

In addition to innovating within our existing businesses and making innovation a centerpiece in our broader digital strategy (see p.31), we are creating new business

structures that focus on innovation outside of our existing businesses. We are also engaging employees and stimulating innovation by conducting contests and recognizing those within the organization who develop viable new ideas. Our growing body of intellectual capital is itself a source of growth for the future.

**Innovating With a Purpose**

Through our innovations we are able to solve the real-life challenges facing customers around the world, improving people's lives while delivering on our broader corporate goals of sustainability. SATO toilets and the *SATO Tap* are designed to improve the sanitation and hygiene of the many millions who live in underserved communities in developing economies. As a social business, SATO is also a clear demonstration that we see corporate responsibility as a core part of our daily work.

Innovation is also an integral part of creating the products and services that will be needed to fight the water-related challenges posed by increasingly severe climate change. LIXIL's energy-saving faucets and shower heads, as well as advanced water systems are all designed to recognize that clean, fresh water is an increasingly scarce resource. At the same time, advanced building materials such as high-performance windows can cut energy



Cradle to Cradle Certified® faucet and shower rail set

consumption both in winter and summer. And the materials themselves need to be utilized and re-utilized with greater care, including circular use of resources, as demonstrated by our newly launched Cradle to Cradle Certified® products.

The harnessing of advanced technology and the Internet of Things (IoT) also plays a central role in innovation. The IoT-enabled *Life Assist 2* creates a smart home ecosystem that enables shutters, windows, heating and air conditioning to all work together to create comfortable homes with a minimal environmental impact. The subscription-based *LIXIL Toilet Cloud* (see p.37) provides a technology solution for making cleaning public toilets more efficient.

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## THE LIXIL PLAYBOOK ESTABLISH FOUNDATION FOR LONG-TERM GROWTH THROUGH INNOVATION

**Differentiating Through Consumer-centric Design**

Design represents the voice of the consumer in the organization. It provides the objective barometer, keeping our brands relevant and adding value for the consumer.

The design process at LIXIL helps to define the most important aspects of each product. Not only how it looks but how well it meets the needs of the user. Every element helps to create products that are unique, functional and differentiated.

That is why we pulled together the best design talent to build the global team that drives this process. Today, that team is based in some of the most creative cities in the world including Tokyo, Singapore, Shanghai, New York, Düsseldorf, and London.

Our passion is to understand not just how products are used but also to identify the behaviors and emotions of consumers through “presearch.” This process gives us a deeper understanding of consumers’ relationship to our water and housing products. The team repeatedly verifies, tests, and refines each design.

By incorporating brand-specific design values and unique signature elements into our products, we create relevant, consistent solutions that are clearly differentiated and intuitively identifiable. This helps to build equity for each brand and generate more long-term value.

And good design is also globally mobile. Innovations in each region and brand are looked at for potential use everywhere, making LIXIL unique in the ability to monetize what we create.

The results speak for themselves. Across the globe, the LIXIL design team has chalked up more than 500 prestigious design awards.

**Strategically Developing Intellectual Assets**

An important way to offer differentiated products is through careful management of our intellectual properties. Therefore, we ensure our IP strategy is fully aligned with our management, business, and R&D strategies in order to further improve our competitive advantage and achieve long-term growth through innovation.

The IP Division is overseen by the company’s Chief Technology Officer (CTO), who cooperates closely with the rest of the management team in formulating intellectual property strategies for the company. The IP Division works with the leaders of business divisions to develop the broad range of IP strategies that match their business plans and to address the unique challenges of each division. By deploying IP landscaping to inform management strategy decisions, we ensure that our intellectual properties form a key element in management’s broader strategy.

The IP Division also works with all the company’s business units to look at IP acquisitions that may be necessary to create and launch new differentiated products and strategically build our IP assets. This work begins at the initial technology development and product planning stages and involves comprehensive IP landscaping and analysis of our marketing strategies. Through this work, we ensure our technology is secure from any copying or acquiring of related intellectual properties by competitors. Moreover, by protecting the uniqueness and functionality of our designs, we can maintain our competitive advantage.



SATIS S, winner of IF DESIGN AWARD 2021

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DIGITAL TRANSFORMATION (DX)

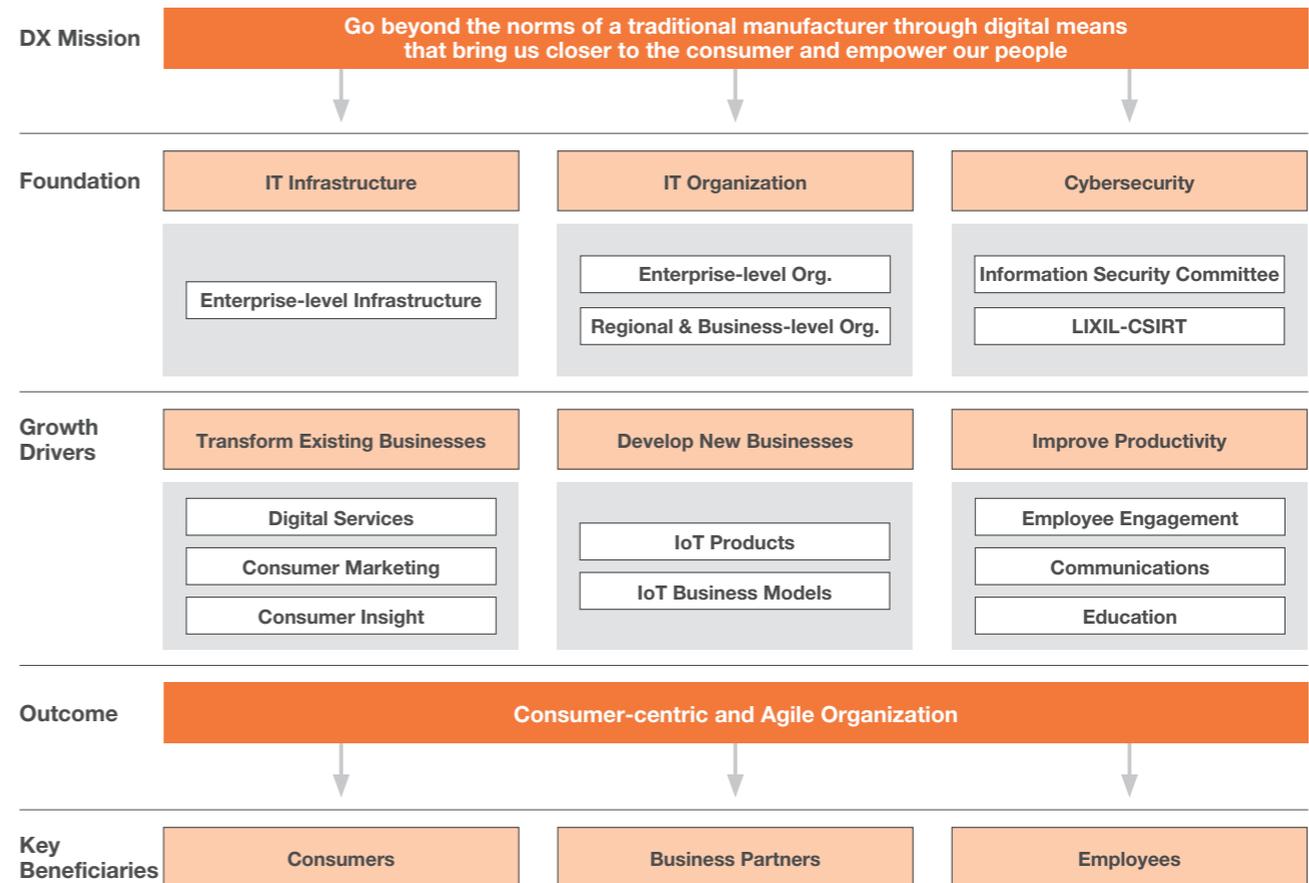
COVID-19 has created a seismic shift in the global business environment. To respond in an agile and flexible way, LIXIL has accelerated its digital transformation. We are becoming a more consumer-centric organization, transforming existing businesses, developing new businesses, and improving productivity.

Reinforcing IT Infrastructure

Better management of data across our global brand portfolio is an important way to help accelerate international business growth. By implementing a globally standardized and centralized system of master data governance, including products and materials data, we can optimize our global production system and supply chain. As part of business continuity planning, we are migrating to the cloud to boost security and minimize security risks. This is one of many initiatives that will drive further evolution in the digital workplace, enabling a more flexible response to accelerating change and further improving the productivity of telecommuting staff.

Transforming Existing Businesses

The LIXIL Online Showroom, introduced in the spring of 2020, has become even more convenient and functional by leveraging AI. We are using digital technology to improve the customer experience and optimize the sales process in markets around the world. In the Americas, end users can view products on our websites in their home environment using an augmented reality experience. In the EMENA region, we launched *GROHE X*, a multimedia content and communication platform that strengthens our touch points with customers and provides a range of improved services. In Japan, we have launched *LIXIL X*, a video platform for business and end users. We also offer *Reform Accel Advance*, which supports sales discussions on renovation projects by providing cost estimates and 3D images of finished projects in real time. In addition, the *e-Connection* service allows customers to search for specific products,



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## THE LIXIL PLAYBOOK DIGITAL TRANSFORMATION (DX)

work up their own cost estimates and place orders for water-related products.

### Developing New Businesses

LIXIL is rolling out new service-based business models to help create more secure and comfortable homes. These include the smart water controller *GROHE Sense Guard* and the smart home system *Life Assist 2*, which both utilize IoT technology. Outside of the housing sector, we have launched *LIXIL Toilet Cloud* (see p.37), an innovative service that makes cleaning public toilets more efficient. We are also expanding our lineup in the fast-growing home delivery market. In 2018, we introduced *Smart Delivery Post*, an IoT delivery box. And in 2021, we began offering the smart drop-off box *Mercari-Post*, designed for delivering and shipping items listed on the Mercari marketplace app. Within the office environment, the *Segel E-Control system* automatically controls office windows according to changes in the internal and external environment to save energy.

### Improving Productivity

To enable more data-driven and speedy decision-making, we have created the LIXIL Data Platform (LDP), a cloud-based data integration platform. With this platform, backed by a rich pool of data, we are creating an environment in which employees can use the latest tools to quickly process and analyze data. To make digital technology accessible for all employees, we have added an education program in digital fundamentals and introduced a no-code development tool to enable employees without specialized knowledge to become “citizen developers” and develop their own business tools.

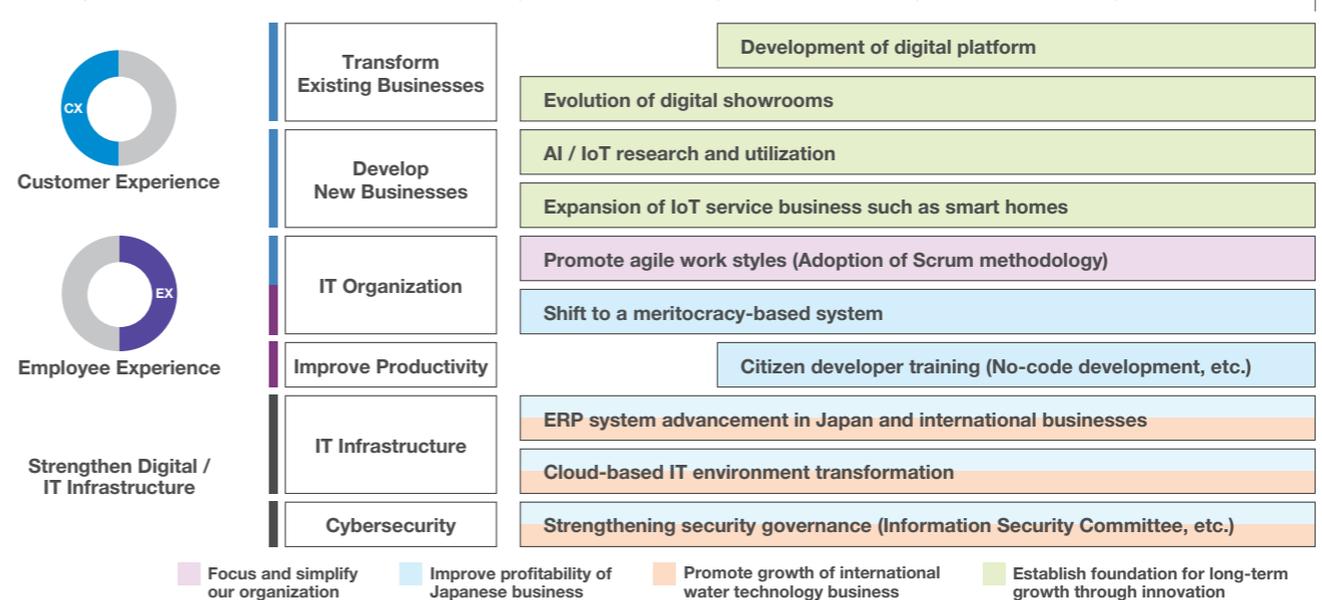
Since the introduction of the no-code tool in July 2021, 560 applications have been developed by employees and are in use. Meanwhile, in our digital division, we are promoting agile ways of working via the “Scrum” methodology, speeding up development and shrinking delivery times.

### Strengthening Information Security

LIXIL will continue to offer a flexible work style that includes telecommuting for our employees even when the pandemic ends. This brings the need to strengthen our information security measures and protection of personal and

confidential information throughout the company. This work is being carried out by the Information Security Committee, under the supervision of the Chief Digital Officer. To ensure that the security of information systems is strengthened throughout the company and that governance related to data protection meets all global standards, we have established the Information System Security Subcommittee, which has responsibility for boosting security of information systems in all regions, and the Data Privacy and Governance Subcommittee, which is responsible for strengthening governance related to data protection.

LIXIL Digital Transformation Roadmap



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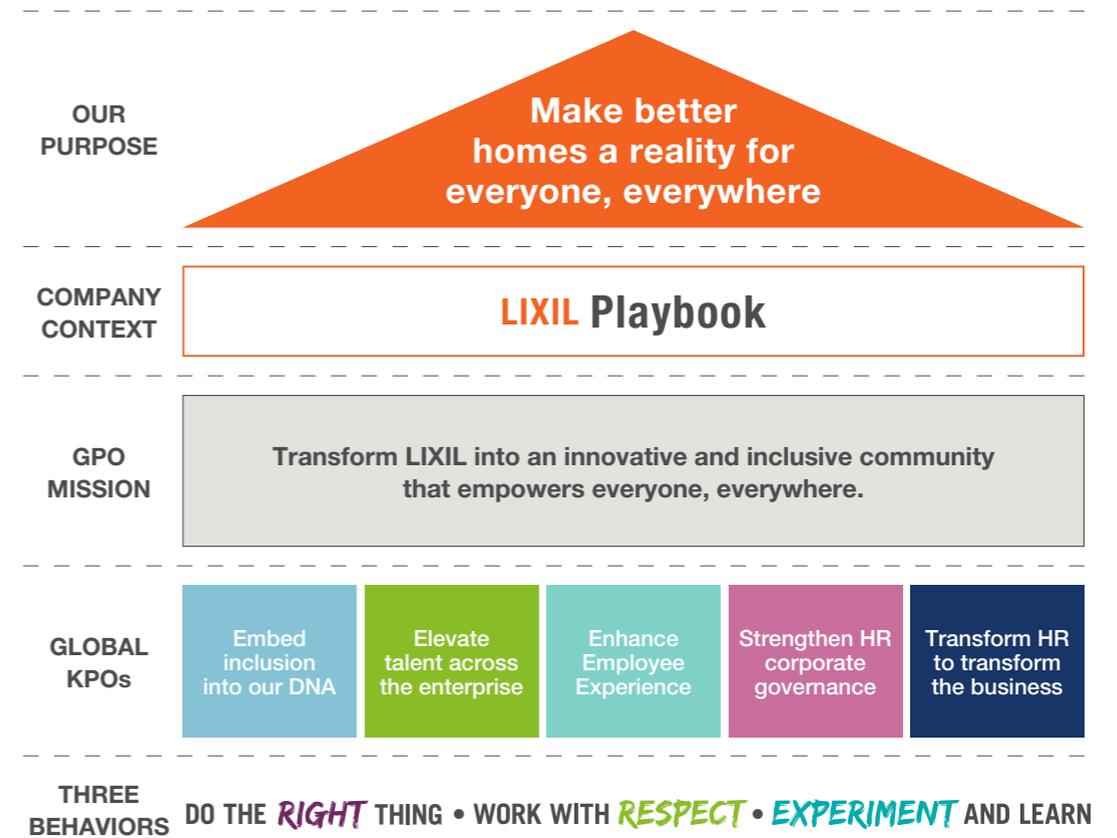
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GLOBAL PEOPLE STRATEGY

The world of work and the relationship between companies and employees continues to rapidly evolve. If people are our most important asset, investing behind the growth and development of our people is critical to our success as a company. To achieve its mission of transforming LIXIL into an innovative and inclusive community that empowers everyone, everywhere, LIXIL's GPO (Global People Organization) has set the following five key performance outcomes (KPOs) in the GPO strategy for FYE2022 to FYE2025.

- I. **Embed inclusion into our DNA** by implementing a holistic, strategic, and leader-led effort across LIXIL. Our belief is that inclusion is the goal and that diversity will be the result that follows. Everyone from senior executives to managers and employees must understand why D&I matters to LIXIL's future competitiveness and recognize the close relationship between an active D&I culture and an innovation culture.
- II. **Elevate talent across the enterprise** so we can more effectively enable LIXIL's transformation and the innovation culture we need to build for our future. From designing and delivering unbiased talent acquisition strategies to accelerating talent development, our efforts to build foundational infrastructure will enable us to leverage our global scale through the harmonization of human resource systems and processes.
- III. **Enhance Employee Experience** across LIXIL by putting people at the heart of our work. This process starts with effective employee listening. Direct access to timely data, analytics and reporting will empower people managers to leverage insights to support the Career Journey of their teams and to proactively discuss their development.
- IV. **Strengthen HR corporate governance** to build a stronger model and framework for people data and governance at LIXIL. Key to this is establishing global systems and processes that will enable consistent and transparent reporting and decision-making.
- V. **Transform HR to transform the business** to redefine the evolving role of HR at LIXIL as the company's needs evolve and prioritize specific HR competencies that will deliver a world-class Employee Experience.

Global People Strategy House



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## THE LIXIL PLAYBOOK GLOBAL PEOPLE STRATEGY

### HR Reform in Japan

As our largest and most strategic market, Japan is leading the shift in LIXIL's transformation toward a more agile, meritocratic, and entrepreneurial way of working that will enable us to realize our purpose. We aim to foster a growth mindset for innovation based on meritocracy and D&I, and to that end, we are transforming our HR Policy and Programs so that they empower our people to fully utilize their capacity and grow, regardless of individual background including age, gender, nationality, and disability.

Historically, talent management practices have been differentiated between Japan and across the rest of the world. In Japan, our Talent Management practices were based on seniority. While this was aligned to the local market, we accelerated our transformation journey in Japan to build a more diverse and inclusive workforce at LIXIL. This is foundational work and is critical for LIXIL as a company that was built through the merging of individual companies with distinct philosophies, strategies and policies.

From April 2020, we globalized our Corporate Functions across the enterprise to make the shift toward a harmonized foundation in talent management. From April 2022, we introduced comprehensive changes to HR policy and practice for Japan managers and above, and this will become the basis for future harmonization across all levels in Japan. We drive enterprise and meritocratic thinking by linking short-term incentives more closely to company and individual performance. We continue to evolve the way we work, with a focus on flexible working and streamlining office

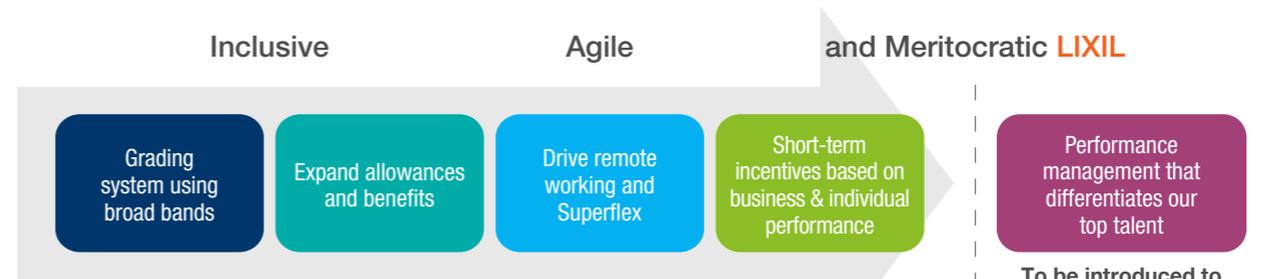
space to promote collaboration and face-to-face connections. We are also reassessing our performance management practices to shift focus away from bonus outcomes and toward a genuine feedback and development

approach to managing performance. While this is challenging in a remote working environment, this will be a central focus in our manager effectiveness education program commencing this year.

### Transforming Japan To Drive LIXIL's Transformation



Changes for a more ...



Changes effective from April 2022 for all People managers at LIXIL

To be introduced to all employees from April 2023\*

\* Subject to Union agreement

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## LIXIL'S CORE BUSINESSES

## LIXIL WATER TECHNOLOGY (LWT) — Japan Business —



LWT makes attractive and purposefully designed products for bathrooms and kitchens through powerful global brands such as INAX and GROHE, as well as product brands in Japan such as RICHELLE and SPAGE.

**Hiroyuki Oonishi**Executive Officer, Executive Vice President,  
LIXIL Water Technology (LWT) Japan**Strategic Goals**

- Improve profitability and create new business model for renovation to strengthen cost competitiveness and achieve sustainable growth
- Merge Japanese technology with global design to develop competitive products, and leverage global production and procurement to lower costs

**Market Overview**

- Demand for new housing in Japan forecast to decrease over the medium to long term due to population decline
- Increase in new renovation demand and growing share of the consumer journey and transactions conducted online as people spend more time at home due to the COVID-19 pandemic

**Key Strengths**

- Combined global capabilities managed by core global team
- Highly regarded and clearly differentiated house of brands
- Comprehensive product portfolio covering luxury to mass-market segments

(International Water Technology Business: See p.27)

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## LIXIL'S CORE BUSINESSES LIXIL WATER TECHNOLOGY (LWT) — Japan Business —

## Growth Opportunities and Management Strategy

## Growth Opportunities

- Rising worldwide interest in health and hygiene spurred by the COVID-19 pandemic
- Lifestyle changes to adapt to the “new normal”
- Rise of ethical consumption and interest in sustainable products, reflecting growing environmental awareness



## Management Strategy

- Expand sales and accelerate development of health and hygiene-related products
- Respond to lifestyle changes by expanding sales of renovation products and growing new businesses
- Leverage digital platforms to expand reach of sales channels
- Enter profitable market segments and gain market share by leveraging brand, product, and service strengths
- Create more sustainable products and materials

## Risks and Countermeasures

## Risks

- Decrease in new housing construction in Japan
- Supply chain risks including labor costs, logistics costs, high raw material prices, and procurement of materials
- Shortage of skilled labor
- Commoditization of products



## Countermeasures

- Create new demand by strengthening renovation and new business strategies
- Achieve both resilience and efficiency in the supply chain through redundancy and end-to-end optimization
- Develop easy-to-install and prefabricated products, and expand installer network
- Continue targeted investment in innovation, brands, and design
- Provide clearly differentiated value

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LIXIL'S CORE BUSINESSES LIXIL WATER TECHNOLOGY (LWT) — Japan Business —

Progress on Major Initiatives

New Ideas for Increased Time Spent at Home

LIXIL has launched @Home Living, our solution to meet the needs of lifestyles changes in the new normal. Under this new concept, we have reimagined how rooms with plumbing fixtures might connect seamlessly throughout the home—for example, by installing a sink near a home office area, or a compact wash space near the front door for handwashing after returning home. As people spend more time at home, new bathing needs are emerging. In response, we recently introduced the *Body Hug Shower*, which is designed for user comfort, and the *Eco Aqua Shower SPA*, a shower head with three spray modes that offers a novel shower experience.



Body Hug Shower

Service Combining Our Technology and Expertise as a Toilet Manufacturer With the IoT

LIXIL has developed a new cloud-based service, *LIXIL Toilet Cloud*, leveraging IoT technology to resolve the restroom maintenance issues of facility managers. With this service, AI developed by LIXIL monitors the usage status of restrooms to plan the optimal cleaning regime in real time based on facility characteristics, and issues instructions as appropriate. This reduces unnecessary and irregular cleaning, effectively optimizing daily cleaning. Joint field tests at various facilities, including our own offices and those of the West Japan Railway Company, have demonstrated the effectiveness of the service. By expanding this service to more facilities we will help to maintain comfortable and clean restrooms.



LIXIL Toilet Cloud

New Business Development

Among our initiatives to create new businesses, we have developed and begun general sales of *KINUAMI U*, a shower head in which the hot water can be switched to foam mode to generate a warm, dense soapy foam that covers the body. In the development of this product, we used crowdfunding to capture market needs and make a series of product improvements. We also continue to promote rental and leasing of *withCUBE*, a portable bathroom that is more spacious than standard products and can be installed anywhere and outfitted flexibly depending on intended use. Based on the concept of “peace of mind and comfort for all,” it was developed as an easy access public toilet that anyone can comfortably use, irrespective of age, gender, or level of ability or disability. This is one example of our commitment to responding rapidly to market needs.



KINUAMI U

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## LIXIL'S CORE BUSINESSES

## LIXIL HOUSING TECHNOLOGY (LHT)



Through LHT's portfolio of brands including TOSTEM, EXSIOR, INTERIO, SUPER WALL, and NODEA, we offer windows, doors, exterior building materials, and housing interiors, and other products in our quest to make better homes a reality.

**Satoshi Yoshida**Executive Officer, Executive Vice President,  
LIXIL Housing Technology (LHT)

## Strategic Goals

- Shift to a business model focused on profitability
- Create demand to establish a foundation for growth

## Market Overview

- Demand for new housing in Japan forecast to decrease over the medium to long term due to population decline
- Building material manufacturers shifting focus to the home renovation sector due to decline in new housing demand
- The COVID-19 pandemic and, in recent years, a higher number of natural disasters are increasing interest in new ways of living as well as in safe and secure homes
- Building materials markets, particularly in Asia, continue to expand as a result of medium-to-long-term economic, population, and income growth

## Key Strengths

- Leading market share in residential sash and door, and exterior product market sectors in Japan
- Leadership in decarbonization of homes and buildings, and in recycling of materials
- Extensive nationwide sales and distribution network in Japan
- Wide range of products and product categories, enabling complementary design for the entire home
- Simple organizational structure that facilitates the rapid development, manufacture, and sale of products
- Implementation of platform-based production in each business division
- Strong cooperative structure with suppliers

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## LIXIL'S CORE BUSINESSES LIXIL HOUSING TECHNOLOGY (LHT)

## Growth Opportunities and Management Strategy

## Growth Opportunities

- Increasing need for environmentally friendly materials and high-performance housing, reflecting growing awareness of ethical consumption
- Growing demand for new products and services suitable for Japan's aging population
- Lifestyle changes due to the COVID-19 pandemic
- Growing market for highly affluent consumers
- Increasing need for differentiated products due to population growth and rising income levels in Asian markets
- Increasing demand for energy-efficient products due to strengthening of energy saving standards



## Management Strategy

- Develop differentiated high-value-added products and business models
- Expand market share in net zero energy houses and buildings (ZEH/ZEB)
- Provide products and services that meet end-user needs and resolve social issues
- Respond to lifestyle changes by expanding range of products and materials as well as sales in home renovation market
- Develop products to meet each market's needs, utilizing technologies and resources from Japan
- Strengthen product supply and sales structure to meet market characteristics of each country/region

## Risks and Countermeasures

## Risks

- Decrease in new housing construction in Japan
- Further increases in cost of raw materials, construction materials, and parts
- Intensifying difficulty of securing global logistics channels
- Supply chain disruptions
- Increase in operating costs in conjunction with environmental measures



## Countermeasures

- Create new demand by strengthening renovation and new business strategies
- Bring environmentally friendly products and services to market faster
- Review and improve procurement policy
- Price products in line with market conditions
- Strengthen supply chain management
- Raise energy efficiency at production and distribution bases

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## LIXIL'S CORE BUSINESSES LIXIL HOUSING TECHNOLOGY (LHT)

## Progress on Major Initiatives

Contributing to Decarbonization with  
High-performance Housing

Japan has set a goal of reducing CO<sub>2</sub> emissions from the household sector, which includes residential housing, by 66% of FYE2014 levels, a higher target than any other industry sector. Enhancing energy efficiency with improved thermal insulation will be key to achieving this target. To achieve carbon neutrality in housing, LIXIL has overhauled all of its window series to promote higher performance in housing, and began sales of its *EW* resin window and *TW* triple-glazed, high-performance hybrid window. For existing homes in Japan, 90% of which do not meet the current energy-saving standards, we are contributing to decarbonization with window renovation products such as our *Replus* high-insulation frame and have begun rolling out *Marugoto Dannetsu Reform*, which offers high-performance insulation for the entire home.



TW, high-performance hybrid window

## Promoting Use of Recycled Materials

We are continuing our efforts for the recycling of environmentally friendly materials. For windows, we launched *EW*, a resin window developed jointly with Germany-based profine Group, which has advanced resin recycling technology. We also launched *Kinari Modern*, a new housing interior brand under the *Lasissa D series*. This series uses environmentally friendly materials sourced in Japan, including coniferous plywood that helps to preserve forests, and molded board made from recycled thinned wood. Furthermore, by mixing waste plastics, which had been considered difficult to recycle, with waste wood, we have begun developing new materials that are usable as paving materials for sidewalks, plazas, and other applications. These products are expected to broaden the possibilities of plastic recycling, and as such we are optimizing our organizational structure for establishment of new technologies and the shift to mass production.



Kinari Modern, Lasissa D series

## Business Growth in Asia

Leveraging technologies we have cultivated in Japan, we are expanding sales of LHT throughout Asia. As populations and income levels rise, so does the need for high-performance housing, making Asia a market with excellent growth potential. Under the auspices of LHT Japan, LHT's international department works to capture this opportunity and provide windows, housing interiors, entrance doors, and other products to local customers. In January, we launched *ATIS*, a new series of aluminum windows for the Asian market. We will further strengthen coordination among development, production, and sales, and improve product development and operations to enhance our competitiveness and our presence in the Asian market, including the steadily growing Indian market.



ATIS, aluminum windows

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## CORPORATE RESPONSIBILITY (CR) STRATEGY OVERVIEW

We leverage our specialist expertise and business scale to pursue initiatives focused on three strategic pillars, selected from among the most urgent issues relating to the regions in which we operate.

### Positioning and Approach of CR Strategy

Integral to achieving LIXIL's Purpose, is the development of safe and comfortable products and services through the pursuit of responsible and sustainable innovation based on the CR Strategy. We believe that to ensure the fulfillment of our CR Strategy, it needs to be integrated into our major business strategies. Successfully doing so will not only benefit society as a whole, but will also make our employees proud and play an important part in enhancing LIXIL's long-term sustainability, such as by attracting ESG investment and promoting innovation.

### Three Strategic Pillars and Material Issues

Our CR Strategy is based on three strategic pillars of activity that encompass the most pressing social issues relevant to our business: Global Sanitation & Hygiene, Water Conservation & Environmental Sustainability, and Diversity & Inclusion. LIXIL has identified material issues that we, our stakeholders, and society, in general, consider to be of the highest importance for improving our company's sustainable growth and corporate value for driving progress on sustainable development. The priority of each material issue was determined considering the degree of risk and its impact. Material issues that are labeled as "Priority" are deeply related to the three pillars of our CR Strategy. As we work toward our goals, we confirm progress and results with respect to each of these pillars annually based on action plans and KPIs aligned with our material issues.

### Management Structure Through the CR Committee

The CR Committee develops and reviews our CR Strategy and tracks progress with regard to each of the three strategic pillars. The committee, comprising executive officers and leaders from corporate functions and our business units, meets quarterly with a focus on developing swift responses to sustainability issues. The results of the committee's discussions and deliberations are promptly reported to the Board of Executive Officers, enabling

necessary decisions to be made. Moreover, proposals put forward by the committee are quickly implemented as concrete actions by the relevant departments. In FYE2022, the structure and functions of the CR Committee were reorganized to improve the application of the Board of Directors' supervisory responsibilities with respect to sustainability issues. This also reinforced the committee's role as a forum for cross-functional discussion of individual policies and measures.



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## LIXIL'S CR STRATEGY

## GLOBAL SANITATION &amp; HYGIENE

We have set the goal of improving sanitation and hygiene for 100 million people around the world by 2025 through the development of the SATO brand that provides toilet and handwashing solutions for developing economies, and through other collaborative efforts.

### For a Safe and Hygienic Toilet and Handwashing Environment

Of the global population, an estimated 1.7 billion people (about one in five) live without access to safe sanitation toilets\*1. Moreover, roughly 2.3 billion people (about one in three) lack basic handwashing facilities at home. Unsanitary conditions threaten people's lives and hamper opportunities for growth and development across entire regions. A recent report from the World Health Organization (WHO) and United Nations International Children's Emergency Fund (UNICEF) on Sustainable Development Goal 6 (clean water and sanitation)\*2 called for a quadrupling of progress to achieve the ambitious targets for 2030.

\*1 Based on *Progress on household drinking water, sanitation and hygiene, 2000-2020*, WHO/UNICEF Joint Monitoring Programme for Water Supply, Sanitation and Hygiene (JMP) (total for "Open defecation," "Unimproved" and "Limited")  
\*2 <https://www.unwater.org/sdg6-update-the-world-is-off-track/>

### SATO Brand of Toilet Systems and Handwashing Stations for Developing Markets

SATO was developed for emerging markets lacking access to reliable sanitation. Designed to be inexpensive and easy to install in homes, the brand has a current lineup of more than 40 toilet-related products tailored to local needs. In FYE2022, we commercialized *SATO Tap*, a handwashing station developed in 2020 as an affordable handwashing solution for use in the home or local community. Its use helps prevent the spread of infectious diseases such as COVID-19, and contribute to better sanitation for all users. For the third consecutive year, shipments of SATO have exceeded 1 million units, with approximately 6.5 million units shipped to 45 countries to date.

Through SATO and other initiatives, LIXIL has contributed to improved sanitation for approximately 35 million people to date. We are making steady progress toward our goal of improving sanitation for 100 million people worldwide by 2025.

### Contributing to Local Job Creation in Each Region

With SATO, we are also focusing on building regional production and sales systems, and nurturing local human capital. Our Make-Sell-Use business model fosters rural entrepreneurship, generating regional employment and facilitating ongoing local improvements. This collaboration with local residents and various other stakeholders, accelerates our efforts to resolve global sanitation and hygiene challenges, and strengthens the foundation for our long-term growth as a company.



### Working with Public and Private Partners To Build Sustainable Frameworks

We are cooperating with public and private partners on several projects to generate greater awareness of sanitation and hygiene in each region. The School Toilet Enhancement Program (STEP) is one such program that aims to upgrade toilets and handwashing facilities for 50,000 students at 145 schools across Africa by March 2023 and thereby reduce sanitation-related infections, and spread awareness among families and local communities. In addition, in FYE2022 we expanded and strengthened partnerships and joint projects with UNICEF and the United States Agency for International Development (USAID). Moreover, in collaboration with the Japan International Cooperation Agency (JICA), NGOs, and local manufacturers and retailers, we are working to build sustainable frameworks that help improve quality of life and empower rural entrepreneurship in each region.

### Other Initiatives To Achieve Our Goal

In addition to the SATO business, we are working on a variety of other initiatives to improve access to safe sanitation. In the U.S. state of Alabama, we are working with various stakeholders to demonstrate innovative sanitation solutions for households without access to safe drinking water and sanitation and are exploring opportunities to partner with other state governments to expand these solutions. Through initiatives such as the GROHE Installer Vocational Training & Education (GIVE) Program in Europe, the Middle East, and North Africa and Trade Up program in the U.S., we train installers and contribute not only to job creation but also to maintaining the health and safety of local communities. Furthermore, LIXIL is a co-founder of the Toilet Board Coalition (TBC), a global alliance of public and private sector partners that aims to develop sustainable solutions to the sanitation crisis, and as such has assisted in the running of the organization, mentored entrepreneurs seeking to tackle sanitation issues, and engaged in advocacy.



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## WATER CONSERVATION &amp; ENVIRONMENTAL SUSTAINABILITY

We are convinced that LIXIL can be a force for good, innovating and scaling solutions to have a positive impact for the planet. Promoting company-wide activities based on clearly defined goals, thereby ensure that future generations will continue to enjoy the benefits of water and other finite resources.

### Our Positive Impact on Environmental Issues as a Housing Equipment Manufacturer

Building-related operations account for an estimated 27% of the world's energy-related CO<sub>2</sub> emissions, with residential building operations accounting for 17%<sup>\*1</sup>. Since the 1960s, domestic water consumption has increased by over 600%<sup>\*2</sup>. Furthermore, global resource consumption is expected to double by 2060<sup>\*3</sup>. As a developer and provider of water-related and building material products, LIXIL is committed to reducing CO<sub>2</sub> emissions and promoting sustainable use of water and other natural resources through our business activities, products, and services, across the value chain from procurement through production, distribution, end-use, and product disposal. While pursuing these efforts, to secure growth and sustainable value creation, but also to enhance the positive impact that we have on the environment.

<sup>\*1</sup> Tracking Buildings 2021, IEA

<sup>\*2</sup> World Resources Institute

<sup>\*3</sup> Global Material Resources Outlook to 2060

### Five Material Issues and LIXIL Environmental Vision 2050

In order to develop our multi-faceted approach to this area, we have identified the following five environment-related material issues.

- (1) Climate change mitigation and adaptation
- (2) Water sustainability
- (3) Circular economy
- (4) Environmental impact of product life cycle
- (5) Environmental management

LIXIL Environmental Vision 2050 calls for "Zero Carbon and Circular Living" and defines (1), (2), and (3) above as focus areas for achieving the vision. As a foundation for promoting these focus areas, we are also working to reduce environmental impact throughout product lifecycles (4) and to strengthen our company-wide environmental management (5). By 2050, we aim to achieve net-zero carbon emissions and preserve water

and natural resources for future generations through operations and our housing and lifestyle solutions.



ZERO CARBON AND CIRCULAR LIVING

### Three Focus Areas To Achieve Our Vision

#### 1. Climate change mitigation and adaptation

Energy consumed during product use accounts for a large portion of the CO<sub>2</sub> emitted by LIXIL's products and services in the process from raw material procurement to product disposal. Therefore, we will reduce CO<sub>2</sub> emissions not only from our business activities but also from the entire supply chain, from the procurement of raw materials to the use and disposal of products. In addition, we will continue to develop and provide environmentally friendly products with high heat insulation and excellent water- and energy-saving properties, thereby achieving net-zero CO<sub>2</sub> emissions.

#### 2. Water sustainability

As a leading company in water-related products, we are committed to pursuing water sustainability in Japan and elsewhere so that people can get the most out of the water they use. In addition to promoting the development of water-saving products and products with superior water purification functions, we are also working to improve streamlining the use of water in our production processes.

#### 3. Circular economy

LIXIL is actively contributing to the transition from a linear economy that consumes large amounts of water and natural resources to a circular economy. We promote circular manufacturing practices that consider the entire product lifecycle, from raw material procurement through to manufacturing, end-use, and product disposal. In our production processes, we aim to make effective use of resources by reducing waste and improving the recycling rate, and we also promote the use of recycled materials as raw materials for our products. We are also pursuing initiatives

based on the LIXIL Plastics Action Statement to reduce the amount of plastic used, recycle plastic, and develop alternative materials.

#### Three Focus Areas to Achieve Our Vision

-  **CLIMATE CHANGE MITIGATION AND ADAPTATION**  
Achieve Net-Zero GHG Emissions through Our Business Operations, Products, and Services
-  **WATER SUSTAINABILITY**  
Enhance the Environmental Value of Water Resources by Saving, Circulating, and Purifying Water
-  **CIRCULAR ECONOMY**  
Help Transition to a Circular Economy and Preserve Natural Resources for Future Generations

### Achievements of the Medium-term Environmental Plan and New Targets

Over the course of our five-year medium-term environmental plan, which ran until FYE2021, LIXIL engaged in energy-saving activities at our factories and offices, technological development for energy efficiency, and the introduction of renewable energy. As a result, we were able to reduce CO<sub>2</sub> emissions from our business activities well beyond the initial targets. In addition, we actively promoted the recycling of waste materials at our production sites across the globe, and the recycling rate in Asia in particular improved significantly. In FYE2022, we analyzed risks and opportunities using the TCFD framework, as well as worked to develop new targets in the area of climate change mitigation and adaptation. By 2030, we aim to reduce CO<sub>2</sub> emissions from our business sites (Scope 1 and 2) by 50% compared to FYE2019 and to reduce CO<sub>2</sub> emissions from supply chains (Scope 3) by 30% compared to the same year.

### LIXIL's Environmental Governance Structure ▶ p.52

We have established a new Environmental Strategy Committee (ESC), whose activities are overseen by the Board of Directors. The ESC works closely with management and business units to formulate company-wide environmental strategies and ensure that they are appropriately disseminated throughout our operations.

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RESPONSE TO TCFD RECOMMENDATIONS

With regard to the material issue of Climate Change Mitigation and Adaptation, LIXIL announced its endorsement of the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) in March 2019. Based on the TCFD recommendations, we have identified and assessed the risks and opportunities that climate change issues pose to LIXIL, and will disclose this information in accordance with the disclosure framework (Governance, Strategy, Risk Management, and Metrics and Targets). We are reflecting the results of the assessment in our environmental strategy after reporting to and approval by the Board of Executive Officers and Board of Directors.



<p><b>1. Governance</b></p>	<p>Oversight by the Board of Directors</p>	<p><b>2. Strategy</b></p>	<p>Strategic Response to Key Climate-related Risks and Opportunities</p>
<p>LIXIL established the Environmental Strategy Committee (ESC), which is responsible for formulating and implementing environmental strategies. This includes creating rules and policies related to environmental governance, discussing and deciding on measures to address environmental issues such as climate change, and managing and monitoring group-wide environmental targets. The committee is chaired by the Chief Technology Officer appointed by the Board of Executive Officers. The topics discussed and decided upon by the ESC are reported to the Board of Executive Officers on a quarterly basis via the CR Committee. The Board of Executive Officers discusses and approves targets and action plans relating to material issues, including environmental issues, and the Board of Directors receives half-yearly reports on progress toward these targets, which form the basis for discussion and oversight.</p>		<p>Looking ahead to 2030 as a milestone year toward achieving the LIXIL Environmental Vision 2050, we conducted scenario analyses based on the TCFD recommendations. We assume two scenarios: the 1.5°C scenario, which is in line with the goal of the Paris Agreement, and the 4°C scenario, under which environmental regulations are not tightened and physical risks increase. Based on these two scenarios, we are working to identify the transition risks posed by climate change due to changes in policy, regulation and the market, as well as physical risks such as extreme weather events, to understand their financial impact, and to reflect them in the group's environmental strategies.</p>	
<p><b>3. Risk Management</b></p> <p>Process for Identifying, Assessing, and Managing Climate-related Risks and Opportunities</p> <p>For climate-related risks and opportunities, LIXIL identifies significant climate-related risks and opportunities and assesses their impact by conducting scenario analyses based on the TCFD recommendations under the direction of the ESC. Significant risks and opportunities are reflected in our environmental strategies, environmental targets, and action plans. We are promoting and developing measures for the improvement of environmental performance and management of risk, and structuring processes to monitor and review progress. Moreover, by tying climate-related transition risks and opportunities to strategic risks, and physical risks to operational risks, we are aligning our approach with organization-wide integrated risk management.</p>		<p><b>4. Metrics and Targets</b></p> <p>Metrics for Assessing Climate-related Risks and Opportunities</p> <p>Our Environmental Vision includes a commitment to achieving Zero Carbon and Circular Living, and we aim for net-zero CO<sub>2</sub> emissions from our business processes, products, and services by 2050. As metrics for assessing climate-related risks and opportunities toward 2030, which is a milestone year on the way to 2050, we manage Scope 1, 2, and 3 CO<sub>2</sub> emissions and the sales composition ratio of environmentally friendly products that contribute to CO<sub>2</sub> reduction in residential buildings. We plan to update our target for Scope 1, 2, and 3 CO<sub>2</sub> emissions to be in line with the new 1.5°C standard under the Science Based Targets initiative.</p>	

Note: "2030" and "2050" in this document refers to our fiscal year, starting in 2030 or 2050. For more details, please visit our website: <https://www.lixil.com/en/sustainability/environment/tcdf.html>

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## RESULTS OF SCENARIO ANALYSIS

LIXIL has identified and assessed climate-related risks and opportunities under two scenarios, 1.5°C and 4°C, with reference to the International Energy Agency (IEA) and the Intergovernmental Panel on Climate Change (IPCC), recognizing 2030 as a milestone toward our Environmental Vision.

Risk/Opportunity Category			Estimated Financial Impact		Strategic Response	Metrics and Targets	
			1.5°C Scenario	4°C Scenario			
Risks	Transition	① Increased operating costs due to introduction of carbon taxes	10 billion yen*1	No additional tax burden	<ul style="list-style-type: none"> <li>Improve energy use efficiency</li> <li>Expand the use of renewable energy</li> <li>Strategic capital investment</li> <li>Verify implementation of decarbonization technologies</li> </ul>	Carbon emission reduction by FYE2031 (vs. FYE2019)	Carbon emission reduction by FYE2051
		② Increased raw material and component procurement costs due to market changes	Financial impact not calculated due to lack of parameters necessary for quantification				
	Physical	③ Loss of revenue opportunities due to damage to the company's plants caused by typhoons, floods, etc.	1.5 billion yen*2		<ul style="list-style-type: none"> <li>Promote business continuity planning (BCP)</li> <li>Develop backup production systems</li> <li>Enroll in insurance programs that cover fixed assets owned</li> </ul>	—	
Opportunities		④ Increased demand for energy-saving products and services for new ZEH construction and energy-efficiency remodeling	20 billion yen*3	Maintain current trends	<ul style="list-style-type: none"> <li>Develop and promote eco-friendly products (high-performance windows, solar photovoltaic systems, high-efficiency housing, energy and water-saving faucets and showers, etc.)</li> </ul>	—	<ul style="list-style-type: none"> <li>Ratio of number of high-performance windows sold for detached houses (Japan) 100% by FYE2026</li> <li>Ratio of number of energy and water-saving faucets and water-saving toilets sold (Japan) 100% by FYE2031</li> </ul>
		⑤ Increased demand for products that use low-carbon, eco-conscious materials or resources	Financial impact not calculated due to lack of parameters necessary for quantification		<ul style="list-style-type: none"> <li>Develop and promote low emission products using recycled materials (resin window frames, artificial wood deck etc)</li> </ul>		
		⑥ Increased demand for products related to disaster preparation, response, and recovery			<ul style="list-style-type: none"> <li>Develop and promote disaster prevention and mitigation products (storm shutters, sun blinds, storage of electricity, Resilience Toilet, etc)</li> </ul>		

\*1 Financial impact calculation is based on the assumption that a carbon tax (using IEA's estimates of carbon prices considered necessary to achieve the 1.5°C target) is imposed on Scope 1 and 2 carbon emissions.

\*2 Average loss is calculated based on the following steps: (1) identified any production sites with flood risks (based solely on production site location; risk mitigation measures set forth in our business continuity plans (BCP) are not incorporated), using the World Resources Institute's (WRI) Aqueduct Floods tool and hazard maps provided by Japanese municipalities; and (2) multiplied two factors: the number of days of stalled operations for sites in each inundation height zone indicated in Japan's Ministry of Land, Infrastructure, Transport and Tourism (MLIT) Manual for Economic Evaluation of Flood Control Investment; and the daily production volume of each site.

\*3 Profit calculated based on the share, price, and profit margin of key products. This calculation assumes an increased ZEH percentage of new and existing housing in 2030 to achieve the Japanese government's 66% reduction target for the residential sector by 2030.

\*4 Excluding use-phase emissions from products that indirectly consume energy such as hot water supply during use.

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# LIXIL'S CR STRATEGY

## DIVERSITY & INCLUSION

Based on the belief that we must create a truly inclusive workplace to attract and empower a diverse workforce, we are accelerating our transformation in line with our Diversity & Inclusion (D&I) Strategy.

### An Organization That Creates New Value by Getting Closer to All People

As society changes, so too do customer segments and needs, and LIXIL sees this as an opportunity for transformation. In the Japanese market, it is projected that by 2050 one in five people will be over the age of 60, with many of them living either alone or with their spouse only. In the global market, approximately 15% of the world's population today live with some degree of disability, and this percentage is increasing every year. Given this situation, we firmly believe that in order to achieve sustainable development and grow as a business, we need to transform ourselves into an organization that is close to all consumers, including seniors and people with disabilities, and to become an organization that can create new value while capturing diverse needs. To fulfill our corporate purpose to make better homes a reality for everyone, everywhere, we are accelerating human resource acquisition and development that is predicated on diversity, as well as the creation of an inclusive work environment. We believe that the various insights and ideas of our employees will be the driving force behind the development of novel products and innovations that take into account minority needs.

### Embedding a Culture of Inclusion by 2030

LIXIL promotes diversity and inclusion (D&I) with the aim of fostering an inclusive culture that embraces employee diversity and creating an environment that engages and includes all employees. Under our D&I Strategy, we seek to embed this

culture of inclusion across LIXIL, embracing diversity in gender, age, race, ethnicity, nationality, disability, or sexual orientation, and to achieve key gender equity goals by 2030. One focus in terms of D&I promotion is on creating a workplace where people with disabilities play an active role. In addition to achieving these goals, we are also providing products and services based on universal design concepts. These products and services leverage the insights of our diverse employees to help improve the quality of life for all people irrespective of age, gender, or disability. In FYE2022, we have conducted workshops and e-learning globally to promote understanding of D&I and we have incorporated D&I elements into our People & Organizational Development (POD) process to accelerate the identification and development of diverse talents within the company. We have also established five global Employee Resource Groups (ERGs) focused on Better Together, Multi-cultural, Ability, Working Parents & Caregivers, and LGBTQ+. An executive officer has been appointed to each group as an executive sponsor to support activities to embed a culture of inclusion into LIXIL's DNA.



### D&I Promotion Structure

LIXIL has been harnessing the vitality generated by its diversity to promote initiatives tailored to the challenges of each region. In recent years we have further ramped up efforts, and in FYE2021 we set up the D&I Committee consisting of the CEO and executive officers to analyze the current status of D&I and issues, and then updated our D&I strategy. Furthermore, in FYE2022 we formulated ten action plans to achieve our goals, and are implementing measures that incorporate the D&I perspective in human resource development and workplace environment creation in a phased manner. In this way we will achieve our goals of establishing a culture of inclusion through the creation of a workplace where diverse employees can play a more active role, and the expansion of employment opportunities.



• LIXIL and Toyota Motor Corporation jointly developed the *Mobile Toilet*, which wheelchair users can use with greater ease when outside the home.



• LIXIL launched its *DOAC* front door electric opening system in 2020. *DOAC* enables people to lock or unlock and open or close their front door without touching it using a remote control. This helps people with disabilities, wheelchair users, seniors, and others get in and out of the house more easily.

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## MESSAGE FROM THE CHAIRPERSON OF THE BOARD OF DIRECTORS



**Masatoshi Matsuzaki**  
Chairperson of the Board of Directors

Board of Directors' members, meetings convened,  
and attendance in FYE2022

Directors	Independent directors	Meetings convened	Attendance
Kinya Seto		15	15
Sachio Matsumoto		15	15
Jin Song Montesano		15	15
Masatoshi Matsuzaki	○	15	15
Tamio Uchibori	○	15	15
Shiho Konno*1	○	11	11
Teruo Suzuki	○	15	15
Yuji Nishiura	○	15	15
Daisuke Hamaguchi	○	15	15
Mariko Watahiki*1	○	11	11
Kaoru Onimaru*2	○	4	4

\*1. Appointed June 22, 2021 \*2. Resigned June 22, 2021

## The restructure of our governance is progressing steadily. We will shift our focus to oversight for sustainable growth.

As Chairperson of the Board of Directors, I run board meetings based on the Board's role of actively overseeing business execution. We work proactively to understand what is happening in business execution, where the risks and opportunities lie, and so on, and then back the management team if we think their approach makes sense. But we also guide them in making necessary revisions and changes. In other words, the Board operates on the belief that pointing out risks and possibilities that management may be unaware of will lead to stronger corporate value.

The LIXIL Playbook, which lays out medium-to-long-term strategy direction, was devised by the executive team last year. For the past year, we have been supervising execution of the Playbook, keeping in mind its four strategic initiatives and the support measures for employees implementing the strategy. We have evaluated whether decision-making by executive officers conforms to the overall strategic direction, and through reports from executive officers we have checked their implementation of strategic and support measures in their areas of responsibility. In addition to reports from executive officers, the Board's agenda has been expanded to cover topics relating to promotion of strategic measures, such as the status of initiatives by the Synergy Creation Office and of design and branding work, and progress was confirmed by the executives in charge.

We have been restructuring our governance for the last

three years. To objectively confirm our level of achievement in this endeavor, we employed a third-party organization in FYE2022 to conduct an effectiveness assessment. The results confirmed that the restructuring is progressing steadily, so we will conduct meetings of the Board of Directors with an even sharper focus on contributing to sustainable growth, which is our primary purpose.

Specifically, the executive team will review the Playbook in light of the recent changes in the operating environment, particularly structural changes, and after the results of that review are shared I would like to set new items for monitoring by the Board of Directors. In addition, with respect to the role of the Board of Directors in sustainability issues, which is also an issue in last year's revision to Japan's Corporate Governance Code, LIXIL has confirmed the priority areas and the promotion framework that the executive team will work on. We will continue to supervise the implementation of those efforts. Finally, I would like to manage the Board in a way that facilitates strategic discussions for sustainable growth.

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## BOARD OF DIRECTORS' EFFECTIVENESS EVALUATION

We evaluate the effectiveness of the Board of Directors at least once a year for the following purposes:

- (1) To confirm the effectiveness of the Board of Directors (i.e., the current structure)
- (2) To identify medium-to-long-term issues for improving the effectiveness of the Board of Directors and committees

### Progress on Priority Issues from FYE2021

We have implemented improvement measures for the following two areas identified as priority issues.

Priority issues	(1) To improve the management structure of the Board of Directors, and ensure sufficient time to discuss (number of meetings, contents and volume of meeting materials, method of dealing with advance questions, etc.)	(2) To define stakeholder, and organize how to communicate as the Board of Directors
Implemented improvements	Focus on material issues by reviewing annual plan of the matters to be submitted and reviewing implementation method for reporting and proposing resolutions to the Board of Directors	Deliberations by the Board of Directors to clarify the scope of stakeholders the Board of Directors should oversee  Create a structure in which the status of communications with stakeholders is regularly (quarterly) reported to the Board of Directors

### Evaluation Process and Results for FYE2022

At the lead of the Governance Committee, an evaluation of directors and executive officers was conducted by a specialized agency (third-party), consisting of a questionnaire and personal interviews with all 10 directors and all five executive officers (excluding those concurrently serving as directors).

Main concerns during evaluation	(1) Does the Board of Directors remain effective (e.g., function, operation, structure)? (2) Is there sufficient monitoring of execution? (3) Does each Committee remain effective (e.g., operation, structure, cooperation system)?
Results summary (evaluation by outside specialist)	LIXIL's Board of Directors remains highly effective. As the perspective and commitment of outside directors aid a highly effective Board of Directors, it is important to have a succession plan for outside directors to maintain and improve that effectiveness.

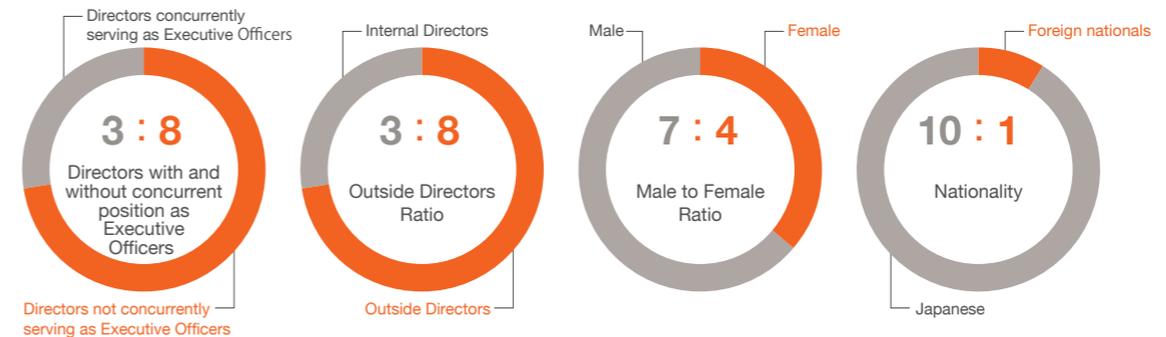
### Initiatives and Priority Issues for FYE2023

Based on the results of the effectiveness evaluation and the deliberations of the Board of Directors and the Governance Committee, it was decided to set the following priority issues to achieve "the Board of Directors as it should be" in the next phase of "the restructuring of the governance system."

Priority issues	(1) Reconfirm the role of the Board of Directors and strengthen strategy discussions to suit the new phase (2) Re-examine the ideal committee activities required of a company with a nomination committee, etc. (3) Implement an outside director succession plan to continuously support the newly restructured governance system (4) Updated a CEO succession plan to achieve continued corporate value improvement
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Owners will be assigned for each issue and, under the supervision of the Governance Committee, measures will be implemented to resolve the issues.

### Board of Directors' members in FYE2023 (As of June 21, 2022)



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ELECTION OF DIRECTOR CANDIDATES

Month	Internal director candidates (reappointment/ new appointment)	Outside director candidates (reappointment)	Outside director candidates (new appointment)
Jul. 2021	Beginning of considerations by the Nomination Committee on the composition of the Board of Directors for the next term		
Aug.		Decision to introduce Outside Director assessment system	Formulation of Outside Director search plan
Sep.		Examination of method of implementing Outside Director assessments	<b>Preparation of director candidate list</b> Creation of a candidate list based on external search firm results and recommendations from directors (updated on an ongoing basis thereafter)
Oct.	Implementation of assessment of the composition of the Board of Directors by an outside specialist agency		
Nov.	(Main assessment criteria) ● Experience, knowledge, and expertise required of the Board of Directors	Implementation of assessment of Outside Directors by an outside specialist agency	Interview of candidates for new appointment by the Nomination Committee
Dec.	● Ensuring diversity and others		
Jan. 2022	Examination of the framework for the next term based on the results of discussions, etc. with the Chairperson of the Nomination Committee and the CEO	Determination of policy for an Outside Director succession plan	Implementation of the Company's prescribed process for nomination of Director candidates (confirming independence, etc.)
Feb.		Deliberation on the Board of Directors composition/committee composition, etc. for the next term	
Mar.	Determination of proposed Director candidates/ proposed committee composition, etc. for the next term		
Apr.	Finalization of skills matrix used from the end of the Shareholders' Meeting held in June 2022		
May	Disclosure of skills matrix		
Jun.	<b>Election of directors</b> Submission to the Shareholders' Meeting of proposal for election of director candidates; election of directors for a one-year term based on votes on the proposal		

Assessment System for Outside Directors

We have introduced periodic individual assessments of Outside Directors for the purpose of assessing their contribution to the Company. The first assessment was conducted in FYE2022, as follows.

(Summary of assessment method)

Subjects of assessment: Seven outside directors

Assessment method: Individual interviews with all directors, executive officers, and others, by a specialized agency (third-party)

Main perspectives in the assessment:

- Whether the individual took actions that contributed to the restructuring of the Company's corporate governance
- Whether the individual asked appropriate questions in line with the objectives of the agenda
- Contributions the individual made to any committees of which he or she was a member

The results of the assessment were reported to the respective outside director for the purpose of future improvement, and were used in consideration by the Nomination Committee on the succession plan for outside directors.

Composition of the Board of Directors and Committees in FYE2023\*

Experience/Knowledge /Expertise needed for LIXIL

	Kingya Seto	Sachio Matsumoto	Jin Song Montesano	*Tamio Uehibori	*Teruo Suzuki	*Mayumi Tamura	*Yuji Nishihara	*Daisuke Hamaguchi	*Masatoshi Matsuzaki	*Marko Watahiki
Practical Experience in Corporate Management	●	●	●			●	●		●	
Experience in Global Business and Management	●	●	●	●		●	●		●	
Experience in Negotiation with Government agencies	●	●	●	●	●	●		●	●	●
Accounting, finance, and M&A	●	●		●		●	●	●	●	
Legal and compliance	●	●		●	●	●	●	●	●	●
Risk management	●	●	●	●	●	●	●	●	●	●
Human resources development and labor	●		●		●		●		●	●
Sales and marketing	●		●				●			
Manufacturing, technology, and R&D	●		●						●	
IT and digital	●		●	●	●	●			●	

Chairperson of the Board and Committee Membership

Chairperson of the Board of Directors									○	
Nomination Committee				●			○	●	●	●
Audit Committee			●	●	○	●				
Compensation Committee			●				●	○	●	
Governance Committee			●	●	●	●	●	●	○	●

\*Since June 21, 2022 ★Independent officer ○Chairperson ●Committee member

Skills Required of Directors

LIXIL's Nomination Committee believes that in order for the Board of Directors to effectively fulfill its roles and responsibilities relating to the supervision of the execution of duties, the Board of Directors must be composed of individuals with extensive experience, expertise, and other knowledge. Areas of experience and expertise considered particularly important by the Nomination Committee are shown in the first column. Emphasis is placed on ensuring an appropriate balance and sufficient diversity of the Board of Directors as a whole, as well as on the succession of the Board of Directors.

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## LIXIL BOARD OF DIRECTORS (As of June 21, 2022)\*

\* The number of Company shares and Phantom Stocks held are as of June 1, 2022.

**KINYA SETO**

Director, Representative Executive Officer,  
President, and Chief Executive Officer  
Number of Company shares owned: 503,908  
Number of Phantom Stocks held: 344,286

**SACHIO MATSUMOTO**

Director, Representative Executive Officer,  
Executive Vice President, Finance, Treasury,  
and M&A, and Chief Financial Officer  
Number of Company shares owned: 94,844  
Number of Phantom Stocks held: 87,985

**JIN SONG MONTESANO**

Director, Executive Officer, Executive  
Vice President, Human Resources and  
General Affairs, Public Affairs, Investor  
Relations, External Affairs, and Corporate  
Responsibility, and Chief People Officer  
Number of Company shares owned: 49,158  
Number of Phantom Stocks held: 41,819

**TAMIO UCHIBORI**

Outside Director, Member of Audit Committee,  
Member of Compensation Committee, and  
Member of Governance Committee  
Licensed tax accountant  
Number of Company shares owned: 0  
Number of Phantom Stocks held: 1,700

**SHIHO KONNO**

Outside Director, Member of Nomination  
Committee, Member of Audit Committee,  
and Member of Governance Committee  
Lawyer  
Number of Company shares owned: 0  
Number of Phantom Stocks held: 1,700

**TERUO SUZUKI**

Outside Director, Chairperson of Audit  
Committee and Member of Governance  
Committee  
Certified public accountant  
Number of Company shares owned: 0  
Number of Phantom Stocks held: 1,700

**MAYUMI TAMURA**

Outside Director, Member of Audit  
Committee and Member of Governance  
Committee  
Number of Company shares owned: 0  
Number of Phantom Stocks held: 0

**YUJI NISHIURA**

Outside Director, Chairperson of Nomination  
Committee, Member of Compensation  
Committee, and Member of Governance  
Committee  
Number of Company shares owned: 0  
Number of Phantom Stocks held: 1,700

**DAISUKE HAMAGUCHI**

Outside Director, Chairperson of  
Compensation Committee, Member of  
Nomination Committee, and Member of  
Governance Committee  
Number of Company shares owned: 0  
Number of Phantom Stocks held: 1,700

**MASATOSHI MATSUZAKI**

Outside Director, Chairperson of the Board,  
Chairperson of Governance Committee, and  
Member of Nomination Committee  
Number of Company shares owned: 0  
Number of Phantom Stocks held: 1,700

**MARIKO WATAHIKI**

Outside Director, Member of Nomination  
Committee, Member of Compensation  
Committee, and Member of Governance  
Committee  
Lawyer  
Number of Company shares owned: 0  
Number of Phantom Stocks held: 1,700

Profiles and reasons for nomination  
of directors of LIXIL Corporation are  
available on our corporate website.

 [www.lixil.com/en/about/board](http://www.lixil.com/en/about/board)

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## CORPORATE GOVERNANCE AT LIXIL

LIXIL Corporation has adopted the corporate governance structure of a "Company with Nomination Committee, etc." as outlined in Japan's Companies Act. Under this structure, corporate governance is founded on management execution by executive officers and other management personnel, and management supervision by the Board of Directors. However, the Board of Directors' role goes beyond simply supervising management execution. By establishing an environment that supports an appropriate risk appetite on the part of management, the Board facilitates the construction of a framework that ensures decision-making is well-reasoned, quick and decisive.

In order to continuously enhance corporate governance, the Company has voluntarily established the Governance Committee and convenes various voluntary committees as appropriate, comprising members of the executive team. These committees discuss management strategies, CR Strategy, medium- and long-term policies, and investment-related matters, thereby accelerating decision-making while enhancing the effectiveness of governance.

### Sustainability Promotion and Risk Management Structure



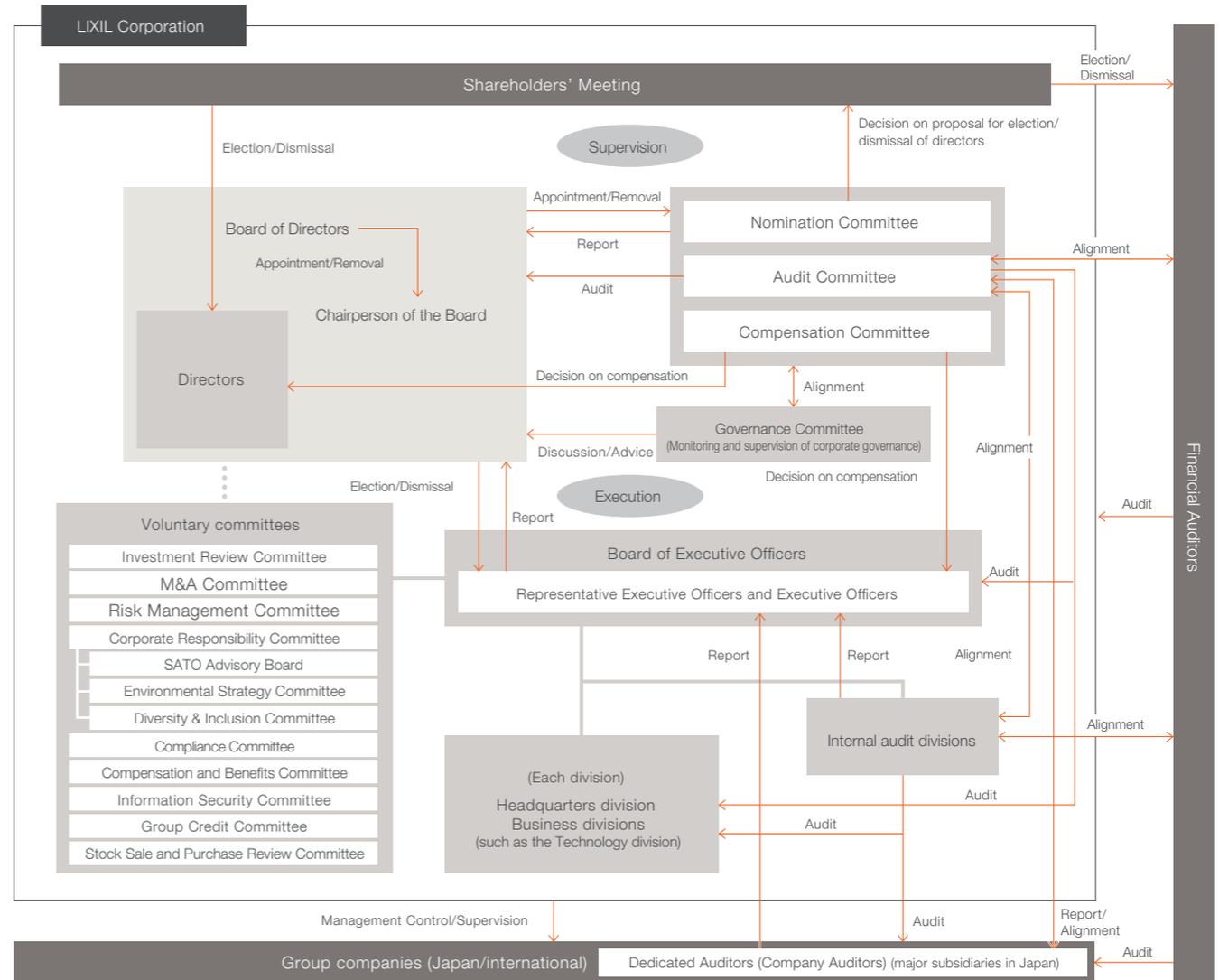
These bodies work with the relevant committees to make adjustments to CR- and ESG-related items, and manage and track commitments in the field of priority CR initiatives.

The Board of Directors is responsible for reviewing the CR Strategy formulated by the executive team and approving it as a policy, and continuously verifies that CR policy is aligned with LIXIL's management strategies (in terms of allocation of management resources to priority areas such as investments in human capital or intellectual property; business portfolio composition; and other aspects).

For further details regarding the Company's corporate governance, internal control systems, and other related matters, please visit our corporate website.

[www.lixil.com/en/about/governance](http://www.lixil.com/en/about/governance)

### Governance Structure (As of June 21, 2022)



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## CORPORATE GOVERNANCE AT LIXIL

## Number of meetings held during FYE2022

<b>Board of Directors</b>	15
Made decisions on matters specified by law, basic management policies, and important management matters, while monitoring the conduct of duties of directors and executive officers.	
<b>Nomination Committee</b>	12
Made decisions on the content of proposals to be submitted to the Shareholders' Meeting regarding the election and removal of directors. Reported its opinion to the Board of Directors when requested, such as on the election, appointment, removal, and dismissal of candidates for executive officer and Representative Executive Officer (CEO), and on the appointment and dismissal of the Chairperson of the Board, members, and chairpersons of each committee, etc.	
<b>Audit Committee</b>	15
In addition to auditing the conduct of duties by directors and executive officers, discussed and made decisions on auditing policy, auditing plans, and the content of proposals to be submitted to the Shareholders' Meeting regarding the election and removal of financial auditors.	
<b>Compensation Committee</b>	11
Made decisions regarding the compensation of directors and executive officers and their individual compensation received from the Company as consideration for duties.	
<b>Governance Committee</b>	8
Continually enhances the Company's corporate governance, discusses or advises the Board of Directors on matters such as reviewing and amending the LIXIL Corporate Governance General Policy, and manages the implementation of the evaluation of the effectiveness of the Board of Directors.	
<b>Board of Executive Officers</b>	14
As the decision-making body responsible for the execution of business activities in accordance with the basic policies approved by the Board of Directors, this Board decided on important matters relating to the execution of business in the Company and the LIXIL group of companies as a whole. All Executive Officers attended all the Board of Executive Officers meetings held.	
<b>Investment Review Committee</b>	33
Deliberated and made decisions on material investments (excluding those relating to M&A), financing, and matters relating to the establishment, reorganization, and restructuring of subsidiaries (conducted by the Company and its subsidiaries) within the authority delegated by the Board of Executive Officers.	
<b>M&amp;A Committee</b>	21
Deliberated and made decisions on matters relating to M&A (including divestment of business) conducted by the Company and its subsidiaries, within the authority delegated by the Board of Executive Officers.	
<b>Risk Management Committee*1</b>	0
Endeavors to improve the ability to deal with future risks by predicting extraordinary risks of the Company and the LIXIL group of companies and establishing systems to address them in advance.	

<b>Corporate Responsibility Committee</b>	4
Selected and reviewed material issues for the overall LIXIL group of companies, formulated the targets as well as the initiatives of the CR Strategy, and provided oversight and guidance for the implementation of priority themes and activities.	
<b>SATO Advisory Board</b>	3
Reviewed and provided guidance on SATO's overall business strategy and key operational issues such as annual targets and strategic plans, internal and external partnerships, and risk management.	
<b>Environmental Strategy Committee*2</b>	4
Established and implemented environmental strategies, including the formulation of regulations and policies related to environmental governance, deliberation and decision-making on measures to address environment-related issues, and management and monitoring of group-wide environmental targets.	
<b>Diversity and Inclusion Committee</b>	2
Supervised formulation and implementation of basic diversity and inclusion policies and roadmaps throughout the LIXIL group of companies.	
<b>Compliance Committee</b>	4
Resolved the important compliance strategy and plans as well as reported on training and promotional activities of the LIXIL group of companies.	
<b>Compensation and Benefits Committee</b>	10
Made decisions regarding compensation and benefits structures for executives as well as employees of the Company and the LIXIL group of companies and executives' individual compensation, except for the matters to be exclusively resolved by the Compensation Committee, while monitoring HR policies in terms of compensation and benefits.	
<b>Information Security Committee</b>	4
As the committee responsible for decision-making on fundamental matters related to group-wide information security and data privacy, decided on and approved relevant policies, resolved issues, approved implementation of countermeasures, and conducted measures to ensure awareness.	
<b>Group Credit Committee</b>	5
Resolved and deliberated on credit management related to business transactions with third parties conducted by the Company and its subsidiaries in order to accelerate decision-making and enhance effectiveness of governance.	
<b>Stock Sale and Purchase Review Committee</b>	14
Conducted reviews and examined insider trading regulations in order to prevent rule violations as well as to fulfill the Company's social responsibilities as a business in the event that officers or employees give prior notification they will be engaging in the sale or purchase of the Company's shares and others.	

\*1 There was no meeting in FYE2022 due to the establishment of a task force for risk management in each region and the flexible cooperation between headquarters and the task force.

\*2 From November 2021, the Environmental Committee described in Integrated Report 2021 was reorganized into the Environmental Strategy Committee to enhance environmental governance and build and implement environmental strategy.

## Status of Cross Shareholdings

The LIXIL group maintains cross shareholdings in cases where it is deemed necessary in terms of facilitating sales activities or as part of external alliances required for the Company's business activities. Every year, we conduct a comprehensive evaluation of each cross-held stock in terms of the status of business dealings between the issuer and the Company, the total amount invested, and whether the cost of capital matches the benefits and risks of the holding. The Board of Directors subsequently verifies the content of these evaluations. Due to changes in the LIXIL group's operating environment, we are working to reduce cross shareholdings in cases where reevaluation indicates that the rationale for the cross shareholding is no longer valid. As a result, as of March 31, 2022, the total number of (listed) cross-held stocks was 49.

## Cross shareholdings and balance sheet amounts\*

Category		FYE2019	FYE2020	FYE2021	FYE2022
Number of cross-held stocks	Listed	57	58	53	<b>49</b>
	Unlisted	108	105	102	<b>98</b>
	Total	165	163	155	<b>147</b>
Balance sheet amounts (¥ million)	Listed	45,051	36,185	50,317	<b>38,733</b>
	Unlisted	1,969	1,343	1,330	<b>1,313</b>
	Total	47,020	37,528	51,647	<b>40,046</b>

\* Total cross shareholdings held by the Company or the former LIXIL Corporation.

## Cross shareholdings



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## MESSAGE FROM THE CHAIRPERSON OF THE NOMINATION COMMITTEE



**Yuji Nishiura**  
Chairperson of the Nomination Committee

## Issues and Initiatives in FYE2022

Our major goal for FYE2022 was to complete the restructuring of LIXIL's corporate governance, which began in 2019. To this end, we continued to work on the following issues:

- (1) Revising rules and regulations related to the Nomination Committee (including compliance with Japan's revised Corporate Governance Code)
- (2) Clarifying and improving transparency of the appointment and election process for CEO, director, and executive officer successor candidates
- (3) Introducing an evaluation system for officers (including outside directors)
- (4) Reviewing the composition of the Board of Directors (skills matrix, diversity, etc.)
- (5) Reviewing the composition of committees (the three statutory committees and the Governance Committee)

## Progress in FYE2022

The restructuring proceeded as planned. Our corporate governance has become increasingly stable and is highly regarded by various external organizations.

## Nomination Committee members, meetings convened, and attendance in FYE2022

Member	Meetings convened	Attendance
Yuji Nishiura (Chairperson)	12	12
Daisuke Hamaguchi	12	12
Masatoshi Matsuzaki	12	12
Mariko Watahiki*1	10	10
Kaoru Onimaru*2	2	2

\*1 Appointed June 22, 2021 \*2 Resigned June 22, 2021

## Nomination Committee members\* in FYE2023

Member
Yuji Nishiura (Chairperson)
Shiho Konno
Daisuke Hamaguchi
Masatoshi Matsuzaki
Mariko Watahiki

\* Since June 21, 2022

One area of particular focus during FYE2022 has been consideration of how outside directors should be appointed. Specifically, we reviewed our election criteria and system, and formulated a policy for a succession plan. We also conducted our first ever evaluation of outside directors on an individual basis.

All committee activities related to governance (the three statutory committees and the Governance Committee) are steered by outside directors. We therefore recognize that the election and smooth succession of outside directors is one of the most important issues in ensuring more stable and better-quality governance.

In FYE2022, one new outside director was elected through the above efforts.

## Future Direction

Based on its fundamental role in electing director and executive officer candidates for the next term, the Nomination Committee will also work on measures aimed at the evolution of corporate governance and the transition to the next generation. Specifically, we will focus on:

- (1) Improving the CEO succession plan (update the plan and the list of candidates)
- (2) Promoting the succession plan for outside directors (expand the list of candidates for new directors and promote actual search activities)
- (3) Identifying and promoting the understanding of the next generation of management personnel (conduct group interviews, etc.)

Through these efforts, we will ensure stable governance and contribute to the Company's sustainable growth.

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## MESSAGE FROM THE CHAIRPERSON OF THE AUDIT COMMITTEE



**Teruo Suzuki**  
Chairperson of the Audit Committee

## Initiatives in FYE2022

## The Function of the Audit Committee

The Company's Audit Committee aims to conduct efficient and effective audits in close collaboration with the internal audit divisions of the Company and its subsidiaries. The Company is strengthening corporate governance with more effective auditing by assigning corporate auditors ("Kansayaku") to key subsidiaries as part of a system to enhance internal control within the group of companies. The Audit Committee Office was established to provide support to the Audit Committee. The Audit Committee is responsible for deciding on personnel changes and performance evaluations for Audit Committee Office members and corporate auditors to ensure independence from executive officers.

## The Activities of the Audit Committee

The Audit Committee convenes in the month before Board of Directors' meetings, as well as whenever necessary. This fiscal year, the committee met 15 times. The Audit Committee conducted most activities using online meeting platforms while COVID-19 quasi-emergency measures

were in effect. Under the annual auditing plan, there were four opportunities for exchanging opinions with the Representative Executive Officer and four hearings were held with executive officers during the year. At the monthly Audit Committee meetings, Corporate Audit and directly appointed corporate auditors presented audit reports and the committee members gave directions as appropriate. Also, three meetings of group company corporate auditors were held to share information on each subsidiary and group-wide auditing policies. Site inspections of four subsidiaries and one factory in Japan were also partially conducted using online meeting platforms. For bases outside Japan, the Audit Committee received reports on the results of audits from Corporate Audit, and held discussions with auditors and accounting auditors at locations in Asia (including China), North America, and Europe via online meeting platforms. In addition, the committee confirmed the status of digital transformation and environmental initiatives.

Eight information-exchange sessions were held with accounting auditors, and discussions took place regarding the accounting auditors' management letter, reports on the status of audits, and key audit matters (KAM).

## Audit Committee members, meetings convened, and attendance in FYE2022

Member	Meetings convened	Attendance
Teruo Suzuki (Chairperson)	15	15
Tamio Uchibori	15	15
Shiho Konno <sup>*1</sup>	9	9
Kaoru Onimaru <sup>*2</sup>	6	5

\*1 Appointed June 22, 2021 \*2 Resigned June 22, 2021

## Audit Committee members\* in FYE2023

Member
Teruo Suzuki (Chairperson)
Tamio Uchibori
Shiho Konno
Mayumi Tamura

\* Since June 21, 2022

## Initiatives in FYE2023

The composition of the FYE2023 Audit Committee was decided at the Board of Directors' meeting that took place after the Annual Shareholders' Meeting held on June 21, 2022. The committee, in continuation from FYE2022, will aim to establish and further develop group-wide audit frameworks within and outside Japan, as well as conduct effective, efficient, and transparent auditing activities.

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## MESSAGE FROM THE CHAIRPERSON OF THE COMPENSATION COMMITTEE



**Daisuke Hamaguchi**  
Chairperson of the Compensation Committee

## Issues and Initiatives in FYE2022

In FYE2022, the management team promoted initiatives for growth by consistently reviewing and strengthening the business of the Company and its organization to take on the array of operational challenges arising from the external global environment, while also pinpointing new business opportunities within the context of society's new normal.

This situation has prompted renewed and acute awareness on the part of the Compensation Committee of the importance of securing highly capable officers who will contribute to society through global business. After repeated discussions with the CEO and specialized external agencies on the subject of a compensation system for executive officers that is competitive by global standards, the committee has determined the following policy going forward.

- Align compensation standards closer to global compensation levels, rather than relative to Japanese industry standards
  - When determining individual compensation, regardless of title, place greater emphasis on criteria such as each individual's role and responsibilities, business performance, experience, and the need to attract and retain personnel
- The committee also reviewed compensation for outside directors as necessary, taking into account the possibility of increased competition for leading talent given revisions to Japan's Corporate Governance Code and other factors.

## Progress in FYE2022

While maintaining the existing general framework for the compensation system, the following decisions were made regarding outside directors' and executive officers' compensation for the period between the Annual Shareholders' Meetings of June 2021 and June 2022.

- (1) For outside director compensation, we have increased the amount of stock-linked compensation (performance-linked compensation remains zero) to that of the top group of Japanese companies with the aim of further deepening the alignment of interests with those of shareholders.
- (2) Executive officers' compensation levels were confirmed from compensation data provided by specialized external agencies on peers in various countries, based on industry and sales volume. Next, total compensation for individuals was determined by comparing Company data with these data, and taking into account factors such as each executive officer's individual role and responsibilities, business performance, experience, and the need to attract and retain personnel. The difference in compensation amounts between Japanese and global levels will be eliminated in stages. As the Company further strengthens initiatives on ESG-related issues, our policy will be to increase the weighting of stock-linked compensation in the compensation mix to boost the incentive for enhancing corporate value over the medium to long term.

Compensation Committee members, meetings convened,  
and attendance in FYE2022

Member	Meetings convened	Attendance
Daisuke Hamaguchi (Chairperson)	11	11
Tamio Uchibori	11	11
Yuji Nishiura	11	11

Compensation Committee members\*  
in FYE2023

Member
Daisuke Hamaguchi (Chairperson)
Tamio Uchibori
Yuji Nishiura
Mariko Watahiki

\* Since June 21, 2022

## Future Direction

The committee will continue its activities while constantly determining whether the executive compensation system is functioning appropriately as a system that strongly motivates the management team to work together toward achieving management goals while responding to drastically changing economic and social conditions, and the accompanying changes in the Company's management strategy.

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## GOVERNANCE

### EXECUTIVE COMPENSATION

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## EXECUTIVE COMPENSATION

### Compensation Basic Policies for Directors and Executive Officers

The compensation for directors and executive officers is determined in accordance with the following basic policies:

- Foster improvement of short-, medium-, long-term, and sustainable business results and corporate value
- Attract and retain the best talent necessary to foster business growth globally
- Ensure a fair and reasonable decision-making process with regard to compensation that will provide accountability to shareholders, employees, and all stakeholders
- Consider and discuss based on the economic and social situation, our business condition and objective indexes and advice of external specialized agencies at meetings of the Compensation Committee
- Individual compensation shall be managed in consideration of role and responsibility, business performance, experience and difficulty of securing personnel

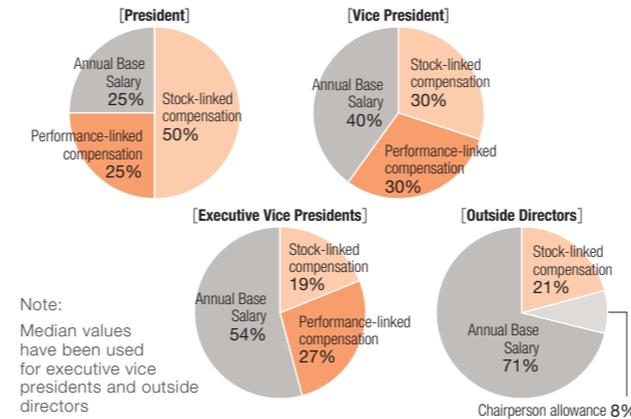
### Compensation System

The compensation structure for directors, who monitor and supervise the Company's management, shall be separate from that for executive officers, who are responsible for the performance of the business. In principle, when a director concurrently serves as an executive officer, the compensation system for executive officers shall be applied.

### Compensation Mix

In line with the intent of the above basic policies, the Compensation Committee determines the mix of compensation for each officer, taking into consideration factors such as individual responsibilities, performance,

experience, and the priority of attracting and retaining personnel, as well as ESG-related issues to be addressed. The committee sets a higher ratio of stock-linked compensation to total compensation for officers who are expected to contribute significantly to increasing corporate value from a medium-to-long-term perspective, especially through structural reform or initiatives related to ESG issues. The chart below shows the base amount for performance-linked compensation and the grant amount for stock-linked compensation, which differ from the actual disbursement amounts.



Note: Median values have been used for executive vice presidents and outside directors

### Achievement Level of Performance Targets for FYE2022

Performance target	Percentage of performance target total	Target	Result	Achievement level of performance target ((Target ÷ Result) × 100)
ROIC	40%	5.1%	4.5%	88.2%
Core earnings	30%	¥80,000 million	¥64,875 million	81.1%
Net profit	30%	¥47,000 million	¥48,603 million	103.4%
Achievement level of performance targets for all items (Total number of each performance target achieved multiplied by the percentage of the total performance target)				90.6%

### Annual Base Salary

Annual Base Salary is determined based on the Compensation Basic Policies, taking into consideration responsibilities, performance, experience, and the priority of attracting and retaining personnel, etc., while referring to compensation levels inside and outside Japan.

### Performance-linked Compensation

To encourage the executive officers to work together to achieve single-year management goals-and to ensure that they are rewarded fairly and equitably in accordance with the results of their performance-performance-linked compensation is calculated based only on Company-wide performance.

$$\text{Performance-linked compensation} = \text{Base amount of performance-linked compensation} \times \text{Payout rate according to achievement rate of performance targets}$$

The base amount of performance-linked compensation is determined as a certain ratio of the Annual Base Salary for each executive officer in consideration of their responsibilities and related factors.

### Payout Rates According to Achievement Level of Performance Targets

Achievement level of performance targets	Payout rate
Less than 50%	0%
50% or more but less than 100%	Same as achievement level
100% or more but less than 150%	((Achievement level of performance target - 100) × 2 + 100)%
150% or more	200%

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## EXECUTIVE COMPENSATION

Because temporary factors such as structural reforms were expected to have a significant impact on operating profit and profit attributable to owners of the parent (net profit) in FYE2021 we decided to introduce a special measure to limit performance targets to only core earnings, which best reflects business conditions. However in FYE2022, given that higher investment efficiency continues to be an important management goal, in addition to core earnings, ROIC and net profit were once again included as performance targets, as in FYE2020. As shown on the previous page, the payout rate for FYE2022 was 90.6%.

In view of their important role in monitoring and supervising the Company's management, outside directors are not paid performance-linked compensation.

**Clawback Clause and Other Considerations**

In the event that the Company has to correct its accounts after their announcement due to a serious accounting error or illegality, the Compensation Committee could decide to amend a compensation amount or demand the return of compensation already paid to an eligible executive officer. Either action would be taken depending on the reason for the revision and after deliberating the effect of the revision on planned performance-linked compensation in the future or any return of paid performance-linked compensation. Furthermore, in the case of an unexpected event at the beginning of the applicable period for the evaluation of performance-linked compensation, the Compensation Committee would be able to adjust the method of calculating performance-linked compensation. Any adjustment would be carried out based on an internal verification of the facts

**Total Amount of Compensation by Officer Title, by Compensation System, and Number of Officers Receiving (FYE2022)**

Officer title	Total amount of compensation (¥ million)	Total amount of compensation by type (¥ million)				Number of officers receiving
		Annual Base Salary	Performance-linked compensation	Stock-linked compensation	Various allowances	
Outside directors	149	121	—	28	—	8
Executive officers	974	484	314	5	171	8
Total	1,123	605	314	33	171	16

Notes: 1. The total amount of compensation shown above is the amount calculated under JGAAP and consists of both compensation paid by the Company and compensation paid by the Company's subsidiaries.

2. The amount of compensation for outside directors includes chairperson allowances.

3. Performance-linked compensation and stock-linked compensation are the amounts that should be expensed in the current fiscal year.

4. Various allowances were provided, including subsistence supplement and income tax allowances.

and, if necessary, the views of external specialized agencies, and after comprehensively considering the event and the management responsibilities of the eligible executive officer(s).

**Stock-linked Compensation**

The Company has been applying a stock-linked monetary compensation plan ("Phantom Stock") since FYE2020. The aim is threefold: to encourage directors and executive officers to monitor, supervise, and make management decisions to achieve sustained improvement in the Company's corporate value over the medium to long term; to further promote shared value between officers and shareholders of the Company; and, by standardizing global officers' compensation, retain talented personnel from around the world. This compensation plan grants shares of Phantom Stock but substantially has the same effect as granting shares.

Phantom Stock is granted on the date of the Annual Shareholders' Meeting for directors, and on the date

of the beginning of the fiscal year for executive officers. The number of shares granted is determined by dividing the grant amount, which is calculated by multiplying the Annual Base Salary by a percentage set in accordance with each executive's position and responsibilities, by the share price\* at the time of grant. The holding period of Phantom Stock is one year for directors and three years for executive officers, and the amount is determined and settled by multiplying the share price at the end of the holding period by the number of shares granted. In other words, the amount of compensation increases or decreases in accordance with changes in the share price during the holding period.

\* The average closing price of the Company's stock price over the 30 business days preceding each of the grant date and the final settlement date will be used.

Information concerning amounts of compensation for those officers with total compensation of ¥100 million or more is available on our corporate website.

 [www.lixil.com/en/about/governance/compensation.html](http://www.lixil.com/en/about/governance/compensation.html)

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## MESSAGE FROM THE CHAIRPERSON OF THE GOVERNANCE COMMITTEE



**Masatoshi Matsuzaki**  
Chairperson of the Governance Committee

## Issues and Initiatives in FYE2022

The Governance Committee's objective is to complement the functions of and collaborate with the Board of Directors and the three statutory committees in continuously strengthening LIXIL's corporate governance.

In FYE2022, the Governance Committee primarily focused on (1) evaluating the effectiveness of the Board of Directors, (2) ensuring compliance with Japan's revised Corporate Governance Code, and (3) supervising the appropriate and timely disclosure of information.

## Progress in FYE2022

(1) In evaluating the effectiveness of the Board of Directors, in FYE2022 a third-party organization was employed to administer a questionnaire and conduct interviews to comprehensively and objectively measure progress in our three-year effort to restructure LIXIL's corporate governance. The results confirmed that the restructuring is progressing steadily and that the Board and committees have maintained a high level of effectiveness. At the same time, we were able to discuss issues for further

improvement. Having determined the parties that will take ownership of these issues, work is underway to formulate policies to address them.

(2) In ensuring compliance with Japan's revised Corporate Governance Code, for revised sections that the Company needs to respond to, the Governance Committee confirmed the response policy formulated by the executive team. For revised sections that the Board of Directors needs to respond to, such as initiatives regarding sustainability issues, the committee deliberated on a response policy. LIXIL's Corporate Governance General Policy was then revised to reflect the results of these activities.

(3) In supervising the appropriate and timely disclosure of information, we received policy and scheduling reports from respective departments tasked with the preparation of the notice of convocation of the Annual Shareholders' Meeting, the integrated report, and the annual securities report, and offered advice from the perspective of enhancing appropriateness and timeliness. As a result, we were able to speed up publication of the integrated report and improve the consistency of descriptions in each of the documents disclosed.

(Board of Directors' effectiveness evaluation: See p.49)

Governance Committee members, meetings convened,  
and attendance in FYE2022

Member	Meetings convened	Attendance
Masatoshi Matsuzaki (Chairperson)	8	8
Tamio Uchibori	8	8
Shiho Konno* <sup>1</sup>	6	6
Teruo Suzuki	8	8
Yuji Nishiura	8	8
Daisuke Hamaguchi	8	8
Mariko Watahiki* <sup>1</sup>	6	6
Kaoru Onimaru (Former chairperson)* <sup>2</sup>	2	2

\*<sup>1</sup> Appointed June 22, 2021 \*<sup>2</sup> Resigned June 22, 2021

Governance Committee members\*  
in FYE2023

Member
Masatoshi Matsuzaki (Chairperson)
Tamio Uchibori
Shiho Konno
Teruo Suzuki
Mayumi Tamura
Yuji Nishiura
Daisuke Hamaguchi
Mariko Watahiki

\* Since June 21, 2022

## Future Direction

Given the purpose of the Governance Committee, it will continue to be composed only of outside directors in FYE2023. Addressing the issues identified in the FYE2022 effectiveness evaluation will be important to further enhancing corporate governance and ensuring its ongoing effectiveness. In FYE2023, we will focus on following up on the status of these issues and, in the process, hold discussions about the role outside directors should play in facilitating sustainable growth of the Company, and how the Board of Directors and committees can best accomplish their respective missions.

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## INTERNAL CONTROL SYSTEMS AND COMPLIANCE

### Risk Management

#### Internal Control Systems

LIXIL and its group companies build, operate, and evaluate internal control systems to ensure the appropriateness and efficiency of operations, as well as the reliability of financial reporting in order to enhance corporate value. In addition, we are strengthening our group-wide operational management system through risk awareness and, as a corporate group that emphasizes compliance management we are building various systems that comply with laws and regulations.

#### Enterprise Risk Management (ERM)

The LIXIL group strives to stably and continuously develop its business through the implementation and operation of ERM for the entire group. Risks related to crises that require immediate response when they occur are also controlled through crisis management as part of ERM.

#### Risk Management (RM)

To establish and nurture an entrepreneurial spirit, the LIXIL group promotes a system of managing risks whereby leaders identify risks that may influence the achievement of management targets and take on the role of risk owner responsible for responding to those risks. They analyze the risk and risk response from the perspective of its impact and the likelihood of manifestation, and then share, report on, and respond to the risk. Risks are largely categorized into strategic risks and operational risks. For strategic risks, efforts are made to collaborate with relevant departments to ensure the framework encompasses a

### Risk Management Initiatives (Years ended March 31)



wide range of perspectives. This includes medium-to-long-term perspectives such as management policies, business strategies, and Corporate Responsibility Strategy, as well as the perspectives of stakeholders. The risk management system established for operational risks is autonomous, whereby each organization and region holds meetings or sets agendas regularly, or as necessary, to discuss and respond to risks, which they then report to headquarters.

The LIXIL group takes both a top-down and bottom-up approach to respond to various risks. Also, risk managers in major regions ensure efficient coordination among those at headquarters, regional operations, and local business operations. Through such coordinated activities and the visualization of risks, we aim to increase the risk awareness of LIXIL officers and employees, and establish and implement ERM where agile and appropriate decisions on risk appetite can be made as part of strategy implementation. A further result of these activities is the internal and external disclosure of important group risks and countermeasures.

#### Crisis Management (CM)

The LIXIL group has established a crisis management

framework covering all group companies. We develop crisis management policies that enable a swift initial response and escalation when a crisis occurs. We have also put in place frameworks for the establishment of crisis task forces whenever necessary at various levels, such as at headquarters, departments, or local business premises. Moreover, we have established the Issue Assessment Team (IAT) and created a system for timely communication of crisis information to management, which supports efficient decision-making by the crisis management task force at headquarters.

Understanding the importance of cybersecurity, where needs are becoming increasingly sophisticated, the LIXIL group has established and operates the LIXIL Computer Security Incident Response Team (LIXIL-CSIRT) to minimize the impact of cyberattacks. To ensure a quick response, we constantly monitor computers and networks to detect problems at an early stage and analyze the impact and cause of the problems. We are also developing a Business Continuity Plan for possible cyberattacks.

Information concerning "Business Risks" is available on our corporate website.  
[www.lixil.com/en/investor/strategy/risks.html](http://www.lixil.com/en/investor/strategy/risks.html)

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INTERNAL CONTROL SYSTEMS AND COMPLIANCE

Compliance

LIXIL Code of Conduct

The LIXIL Code of Conduct (the “Code of Conduct”) is a set of rules to be adhered to by all employees worldwide in order to undertake business activities appropriately and with shared values and ethics. The Code of Conduct is available in 19 languages and is regularly updated. Every year, the Company requires all group company officers and employees to participate in training on the Code of Conduct and pledge to comply with its terms. Furthermore, global policies and detailed rules aligned with the Code of Conduct have been put in place for specific fields posing a high risk to the LIXIL group.

For further details regarding the Code of Conduct, please visit our corporate website.

[www.lixil.com/en/about/governance/pdf/LIXIL\\_CoC\\_en.pdf](http://www.lixil.com/en/about/governance/pdf/LIXIL_CoC_en.pdf)

LIXIL Human Rights Principles

The LIXIL group reviewed the LIXIL Human Rights Principles in June 2021, and made revisions to strengthen governance and efforts to respect human rights, and to improve the transparency of processes for addressing human rights issues and fulfilling accountability responsibilities.

For further details regarding the Human Rights Principles, please visit our corporate website.

[www.lixil.com/en/sustainability/society/h\\_rights.html](http://www.lixil.com/en/sustainability/society/h_rights.html)

Compliance System

In addition to the compliance committees of the LIXIL group and affiliates in Japan, compliance committees have been established in each region. These committees provide a platform for reviewing initiatives and discussing countermeasures.

In January 2022, LIXIL transitioned to a new system aimed at enhancing risk management and further solidifying the LIXIL group’s compliance culture and system. The

Compliance Initiatives (Years ended March 31)



new system promotes efficiency and standardization of compliance policies, procedures and programs at the global level.

Corporate Culture

LIXIL group management is working to raise compliance awareness and embed a culture of compliance through measures such as video messages about compliance from management. We also conduct educational events such as contests in Japan and globally so that employees can increase their compliance awareness in an engaging setting on their own accord.

Education and Training Programs

The LIXIL group provides compliance education and training on laws and regulations for new employees, new managers, and executives. Programs are also conducted for all officers and employees on global policies. The LIXIL group has developed effective education and training programs-suited to the risks of each area in which the group operates-utilizing e-learning and short videos. In addition, the LIXIL group publishes newsletters and distributes information in workplaces, and strives to continue cultivating employees’ knowledge and awareness of compliance.

Review Process

Compliance Reviews are conducted regularly by management to check the compliance systems of their own organizations. Compliance Surveys are also completed by all officers and employees to gain an understanding of the extent to which compliance culture has been embraced within the LIXIL group. The effectiveness of this approach is confirmed through the reporting of the results to the compliance committees, and the results are then reflected in initiatives.

Concern-raising System “Speak Up!”

An internal concern-raising system has been established with the aim of gathering information on compliance breaches, taking measures to prevent fraudulent and unlawful behavior, and responding quickly where action is required. Since the 2017 introduction of the 24-hour concern-raising system Speak Up!, the number of compliance concerns received has totaled more than 300 per year for Japan and international operations combined. In addition to regularly informing employees about the system, to facilitate understanding of how to use it, in 2021 we produced an animated video and distributed it worldwide. When a concern is reported, depending on the nature of the concern, the relevant department conducts an investigation, analyzes trends, and takes proactive measures such as organizational improvements and employee education to prevent wrongdoing and violations.

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## INTERNAL CONTROL SYSTEMS AND COMPLIANCE

### Internal Audit

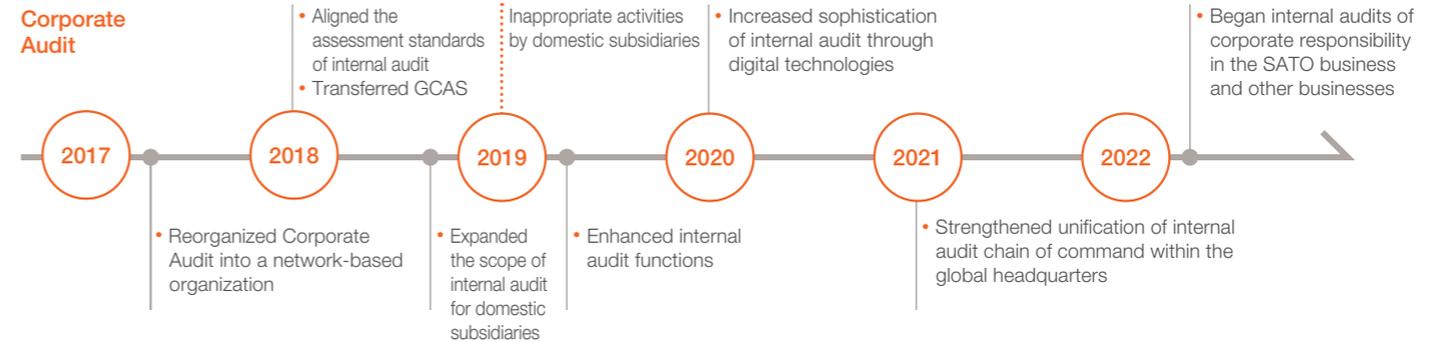
#### How LIXIL and Its Group Companies See Internal Audit

Corporate Audit, a corporate function, is responsible for managing the internal audit organizations of all LIXIL group companies in Japan and international markets, and ensures all of those audits are conducted in a unified and comprehensive manner. (At the end of March 2022, the number of people involved in the internal audit organizations of all LIXIL group companies totaled 54.) Corporate Audit is responsible for carrying out traditional internal audit processes such as accounting audits, operational audits, and assessment of internal controls. Additionally, it continuously reviews internal audit systems and processes in order to help achieve sustainable group-wide growth, strengthen governance as well as internal control, and contribute to the development of human resources.

#### Strengthening Internal Audit System To Achieve Sustainable Growth

All audit organizations of LIXIL group companies, including our global teams, report to the leader of Corporate Audit, who, in turn, ensures detailed information is shared in a timely manner with each global team. Additionally, to ensure cooperation, the leader of Corporate Audit reports directly to the Director, Representative Executive Officer, President, and CEO of LIXIL Corporation to enable the Board of Directors to fulfill its function as a publicly listed company, and as the corporate function's representative, to the Audit Committee of the Board of Directors.

#### Internal Audit Initiatives (Years ended March 31)



This system unifies the internal audit chain of command globally and strengthens information sharing.

Under this system, the mission of Corporate Audit is to continuously provide value through internal auditing practices that enable top management to respond quickly to internal and external environmental changes. Operations are carried out thoroughly in accordance with the clearly defined roles and responsibilities for each department and the whole group in Japan and international regions. In 2022, we began conducting operating audits and monitoring of the SATO business, which plays a central role in Global Sanitation & Hygiene, one of the three strategic pillars of our Corporate Responsibility Strategy. We are also strengthening our sustainability initiatives in the internal audit system.

#### Accelerating Sophistication of Internal Audit through Digital Technologies

In order to make forecasts and provide value-added insights in rapidly changing business environments, which now include remote work and online showrooms, we are actively working to integrate advanced technology into

internal auditing practices. This includes the utilization of not only the expertise of accounting experts traditionally used in internal auditing, but also digital technologies and data science. As such, the LIXIL group is advancing a comprehensive IT reform project, part of which is the April 2020 establishment of an IT department within Corporate Audit, to enhance internal audit activities. This IT department is utilizing digital tools to improve efficiency and strengthen auditing work through (1) the timely visualization of auditing work; (2) the aggregation and unification of audit data; and (3) data analysis, while also aiming to expand the area of group-wide IT-related auditing.



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## CONSOLIDATED 11-YEAR SUMMARY

LIXIL Corporation and Consolidated Subsidiaries

(¥ million)

	JGAAP					IFRS					
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Years ended March 31											
<b>Results of Operations</b>											
Net sales (JGAAP) / Revenue (IFRS)	¥1,291,396	¥1,436,395	¥1,628,658	¥1,705,427	¥1,890,450	¥1,633,229	¥1,829,344	¥1,692,432	¥1,514,449	¥1,378,255	¥1,428,578
Operating income (JGAAP) / Core earnings (IFRS)	17,915	50,485	69,080	51,722	70,069	89,781	76,046	54,485	52,290	57,288	64,875
Operating income margin (JGAAP) / Core earnings margin (IFRS) (%)	1.4	3.5	4.2	3.0	3.7	5.5	4.2	3.2	3.5	4.2	4.5
Operating profit (loss) (IFRS)				48,041	39,011	69,251	59,107	49,011	32,010	35,842	69,471
Profit (loss) for the year attributable to owners of the parent*1	1,868	21,347	20,952	30,864	(25,605)	42,503	54,581	(52,193)	12,518	33,048	48,603
Research and development expenses	15,350	14,025	17,380	18,211	25,523	26,089	27,875	28,188	27,508	23,975	22,864
Capital expenditures	52,107	73,795	64,321	61,454	72,083	68,215	69,953	67,639	68,635	68,498	48,634
Depreciation and amortization	39,370	44,736	49,168	50,404	62,205	60,701	64,661	68,502	105,557	84,786	80,722
EBITDA*2	59,887	100,627	124,822	102,126	132,274	146,441	140,707	120,053	134,832	137,895	145,597
<b>Cash Flows</b>											
Cash flows from operating activities	33,979	28,432	83,533	98,563	121,085	132,531	116,362	69,351	157,701	151,043	118,296
Cash flows from investing activities	(142,067)	(12,397)	(218,333)	(119,041)	19,122	(58,052)	(52,606)	(72,328)	(41,314)	(54,151)	(24,805)
Cash flows from financing activities	138,348	(31,753)	153,144	46,618	(154,403)	(79,899)	(43,843)	1,579	(153,285)	(93,425)	(108,094)
Cash and cash equivalents, end of year	127,351	114,662	139,039	147,708	129,646	121,563	138,751	141,421	95,862	111,061	100,404
<b>Financial Position</b>											
Total assets	1,481,063	1,465,689	1,786,294	1,915,427	2,130,120	2,042,165	2,107,131	2,059,544	2,091,529	1,741,814	1,782,882
Equity attributable to owners of the parent*3	528,414	561,161	593,487	583,747	524,806	547,244	616,897	533,656	502,165	552,271	612,385
Total equity	538,776	566,312	601,795	590,855	537,308	559,431	649,573	567,167	535,137	554,767	614,968
Net interest-bearing debt	266,771	307,089	463,479	559,971	697,413	638,345	549,159	584,537	736,689	484,444	424,299
<b>Per Share Data</b>											
Earnings (loss) per share*1 (EPS)(¥)	¥6.49	¥73.42	¥72.06	¥105.80	¥(89.33)	¥148.01	¥189.13	¥(179.98)	¥43.15	¥113.92	¥167.21
Equity attributable to owners of the parent per share (BPS) (¥)	1,817.34	1,930.02	2,041.34	2,038.56	1,828.84	1,902.18	2,128.77	1,839.59	1,730.99	1,902.89	2,106.30
Dividends per share (¥)	40	40	55	60	60	60	65	70	70	75	85
<b>Key Ratios</b>											
EBITDA to sales ratio*2 (%)	4.6	7.0	7.7	6.0	7.0	9.0	7.7	7.1	8.9	10.0	10.2
ROE (%)	0.4	3.9	3.6	5.3	(4.6)	7.9	9.4	(9.1)	2.4	6.3	8.3
ROA (%)	0.1	1.4	1.3	1.7	(1.3)	2.0	2.6	(2.5)	0.6	1.7	2.8
Total assets turnover (times)	1.0	1.0	0.9	0.9	0.9	0.8	0.9	0.8	0.7	0.7	0.8
Equity ratio (JGAAP) / Ratio of equity attributable to owners of the parent (IFRS) (%)	35.7	38.3	33.2	30.5	24.6	26.8	29.3	25.9	24.0	31.7	34.3
Dividend payout ratio (%)	616.3	54.5	76.3	56.7	—	40.5	34.4	—	162.2	65.8	50.8
Net debt-to-equity ratio*4 (%)	50.5	54.7	78.1	95.9	132.9	116.6	89.0	109.5	146.7	87.7	69.3
Number of employees*5	48,163	45,602	51,419	—	60,677	59,248	61,140	62,940	61,634	51,879	51,640
<b>Stock Indicators</b>											
Stock price (closing), end of year (¥)	¥1,733	¥1,858	¥2,846	¥2,847	¥2,295	¥2,825	¥2,376	¥1,478	¥1,345	¥3,075	¥2,290
Market capitalization	542,523	540,221	827,426	891,265	718,459	884,378	743,817	463,086	421,414	963,456	717,501
Price earnings ratio (times)	267.0	25.3	39.5	26.9	—	19.1	12.6	—	31.2	27.0	13.7
Price book-value ratio (times)	0.95	0.96	1.39	1.40	1.25	1.49	1.12	0.80	0.78	1.62	1.09

\*1 Figures are after amortization of goodwill (JGAAP).

\*2 EBITDA is calculated under JGAAP as operating income + depreciation and amortization + goodwill amortization, and under IFRS as core earnings + depreciation and amortization.

\*3 Equity attributable to owners of the parent is calculated under JGAAP as total net assets - stock acquisition rights - non-controlling interests.

\*4 The net debt-to-equity ratio is calculated as net interest-bearing debt ÷ total equity based on the fiscal year-end.

\*5 The number of employees from FYE2016 is on an IFRS basis, the definition of which differs from the number under JGAAP.

Note: Under JGAAP, figures of less than ¥1 million are truncated, while under IFRS, figures of less than ¥1 million are rounded.

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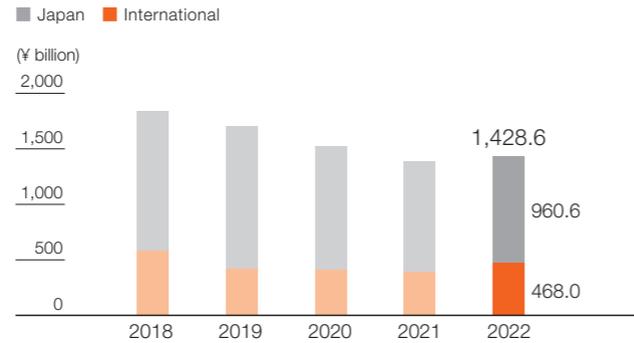
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## FINANCIAL HIGHLIGHTS

LIXIL Corporation and Consolidated Subsidiaries (Years ended March 31)

### Revenue



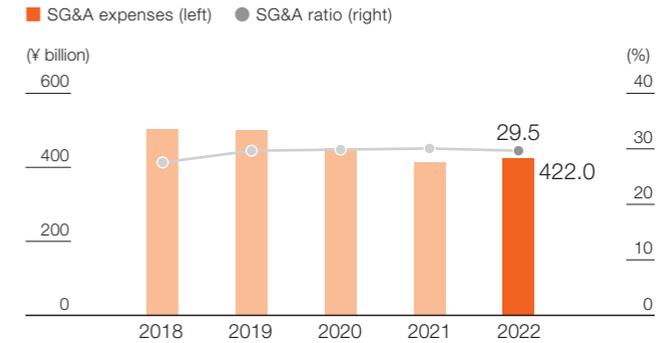
Revenue increased by 3.7% year on year to ¥1,428.6 billion. Despite the impact of procurement difficulties and logistic disruptions in parts of the Japan business, revenue increased on continued strong sales growth in the Americas and Europe.

### Core earnings / Core earnings margin



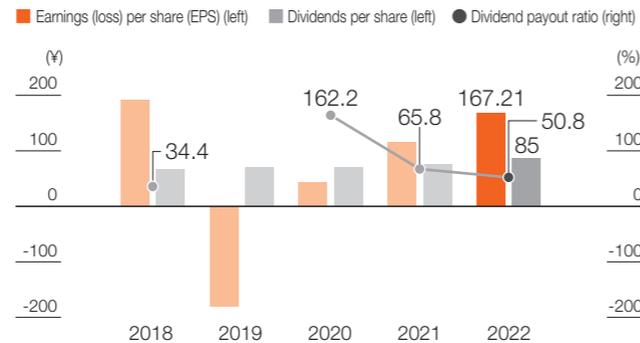
Core earnings increased by 13.2% year on year to ¥64.9 billion. Factors included increased gross profit due to price optimization and a higher percentage of sales from international business, and an improved SG&A ratio due to measures to raise productivity.

### SG&A expenses / SG&A ratio



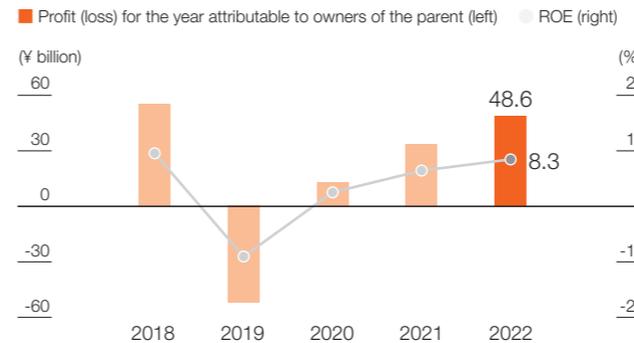
SG&A expenses increased by 2.4% year on year to ¥422.0 billion, and the SG&A ratio improved by 0.3 percentage points. Despite factors such as an increase in expenses and logistics costs in tandem with sales growth, measures to reduce SG&A expenses and raise productivity were successful.

### Earnings (loss) per share (EPS) / Dividends per share / Dividend payout ratio



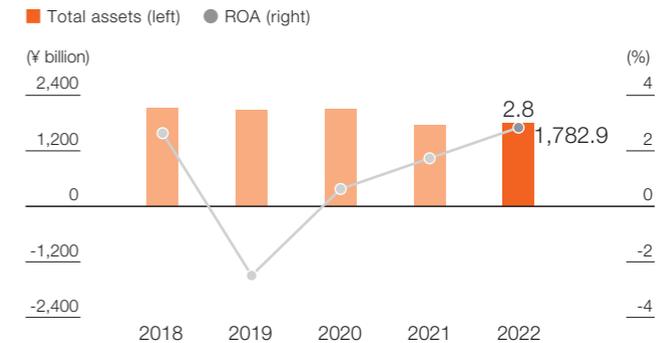
Earnings per share increased year on year by ¥53.29 to ¥167.21, while annual dividends increased by ¥10 to ¥85 per share.

### Profit (loss) for the year attributable to owners of the parent / ROE



Profit for the year attributable to owners of the parent increased by ¥15.6 billion year on year to ¥48.6 billion. Major contributors were progress in structural reforms and a reduction in factors contributing to fluctuations in performance, due to concentration on core businesses.

### Total assets / ROA



Total assets increased by ¥41.1 billion year on year to ¥1,782.9 billion. Factors included an increase in inventories, based on the need to avoid supply chain disruptions, and a reduction in fixed assets through the promotion of an asset-light approach.

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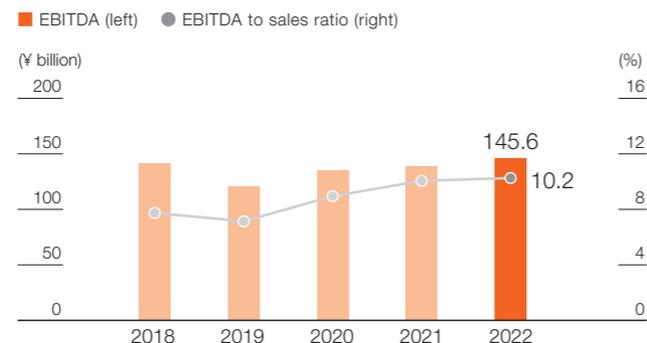
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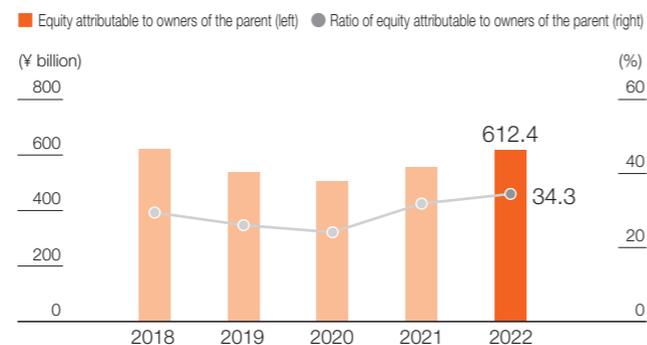
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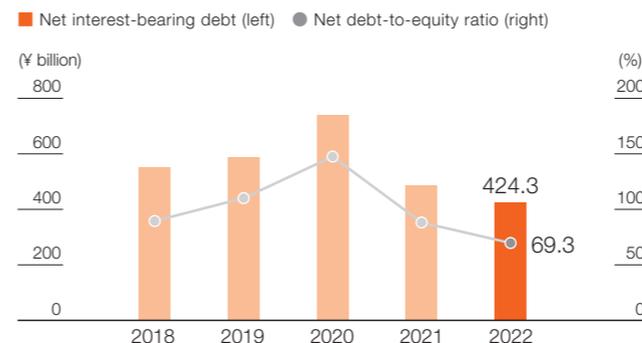
## EBITDA / EBITDA to sales ratio



EBITDA to sales ratio increased by 0.2 percentage points year on year to 10.2%. Despite the harsh external environment, core earnings increased due to profitability improvement initiatives and other factors.

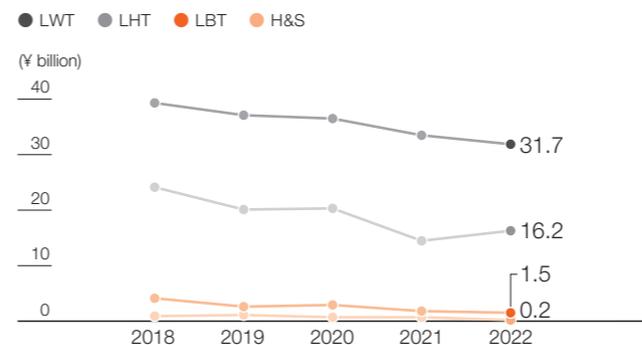
Equity attributable to owners of the parent /  
Ratio of equity attributable to owners of the parent

Ratio of equity attributable to owners of the parent increased by 2.6 percentage points to 34.3%. Factors were improved business profitability and a ¥70.8 billion reduction in interest-bearing debt following the redemption of convertible bonds.

Net interest-bearing debt /  
Net debt-to-equity ratio

Net interest-bearing debt decreased by ¥60.1 billion year on year to ¥424.3 billion due to efforts to reduce interest-bearing debt, including redeeming convertible bonds.

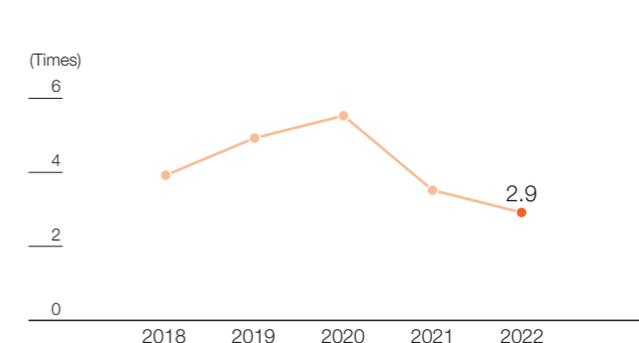
## Capital expenditures by business segment



Major capital expenditures were investment in core businesses, namely for new product development, streamlining, and maintenance and upgrade costs. Reduced capital expenditures benefited from the promotion of an asset-light approach and measures to improve capital efficiency.

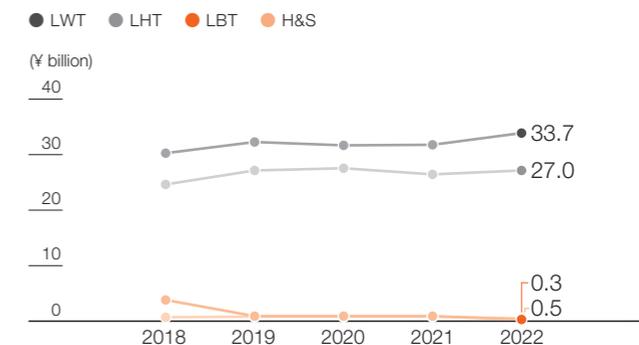
Notes: 1. Excluding the impact of IFRS 16 Leases applied from FYE2020  
2. LWT: LIXIL Water Technology, LHT: LIXIL Housing Technology, LBT: LIXIL Building Technology, H&S: Housing & Services Business

## Net debt-to-EBITDA ratio



Net debt-to-EBITDA ratio improved from 3.5 times to 2.9 times. Factors were improved business profitability, and progress in measures such as prioritizing investments by focusing on ROIC.

## Depreciation by business segment



Depreciation was mainly associated with developing LIXIL's group-wide IT systems and maintaining and upgrading facilities. Depreciation at LWT increased due to the ongoing development of products for the Japanese and international markets, and increased at LHT due to accelerated depreciation of plant assets scheduled for streamlining.

Note: Excluding the impact of IFRS 16 Leases applied from FYE2020

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NON-FINANCIAL HIGHLIGHTS

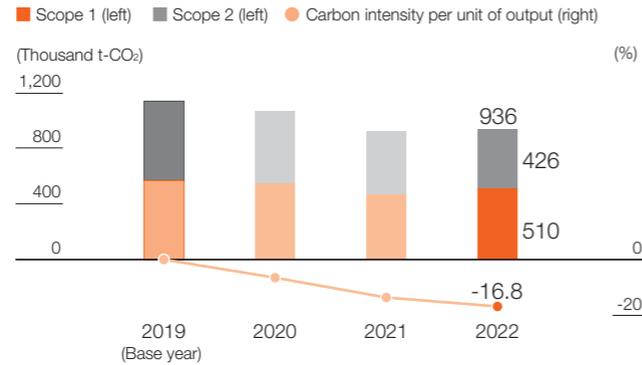
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(Years ended March 31)

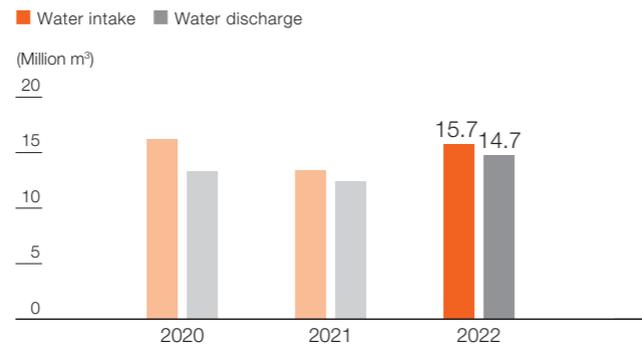
Environment

CO<sub>2</sub> emissions from operational activities (Scope 1 and 2)<sup>1</sup>



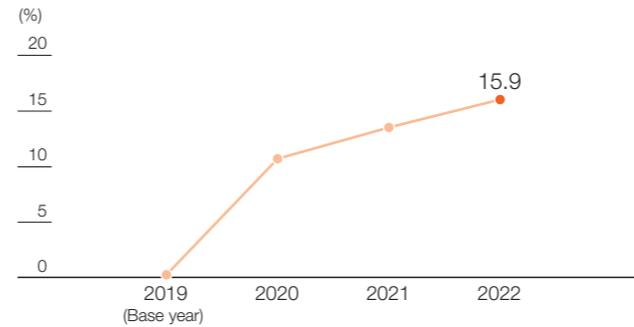
By seeking to increase energy efficiency and utilize renewable energy to further reduce CO<sub>2</sub> emissions, we achieved a 17.7% reduction in CO<sub>2</sub> emissions and a 16.8% reduction in carbon intensity per unit of output.

Water intake and discharge<sup>2</sup>



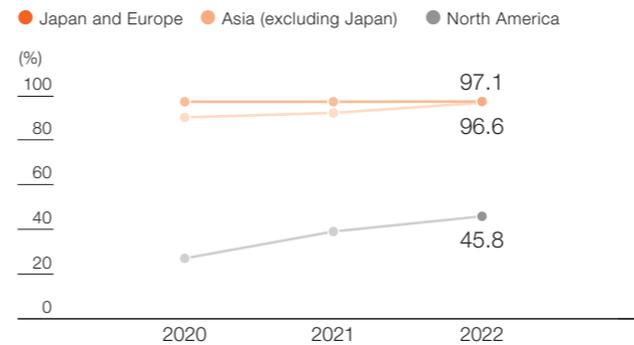
By promoting water recycling, we reduced water intake to 15.7 million m<sup>3</sup> and water discharge to 14.7 million m<sup>3</sup>.

Ratio of electricity usage from renewable energy sources<sup>1</sup>



By switching to renewable energy for electricity used at our business sites, we achieved 15.9% at the end of FYE2022.

Waste recycling ratio<sup>1</sup>



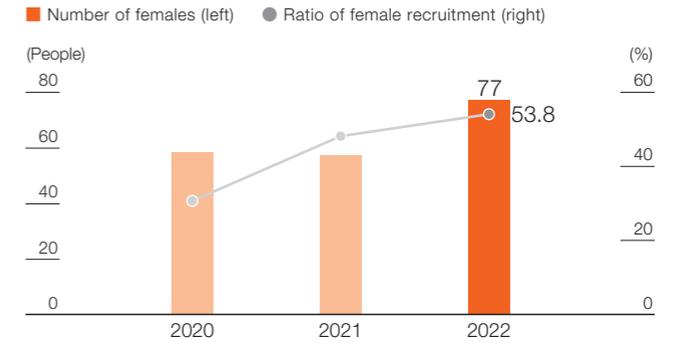
By minimizing the use of newly introduced resources and by promoting reuse and recycling, we achieved waste recycling ratios of 97.1% in Japan and Europe.

LIXIL's sustainability policies and initiatives are on p.41. For more information on ESG Data, please visit our corporate website.

[www.lixil.com/en/sustainability/data/performance.html](http://www.lixil.com/en/sustainability/data/performance.html)

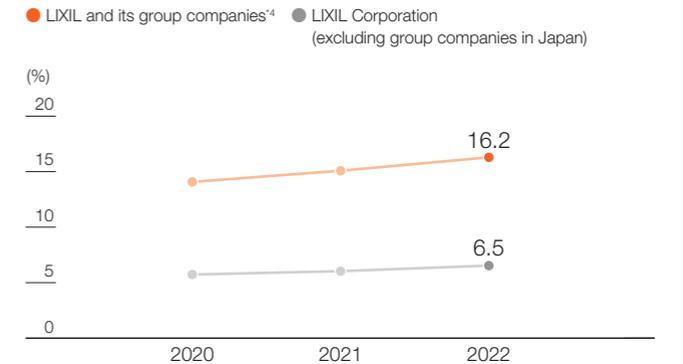
Social

Ratio of female new graduate recruitment<sup>3</sup>



We have achieved the target of 50% and will continue to achieve this target in FYE2023.

Ratio of female managers



We have set a target of 30% female managers across the organization by 2030.

04 DATA

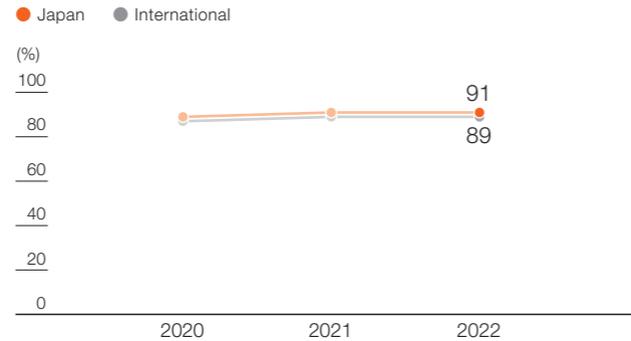
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(Years ended March 31)

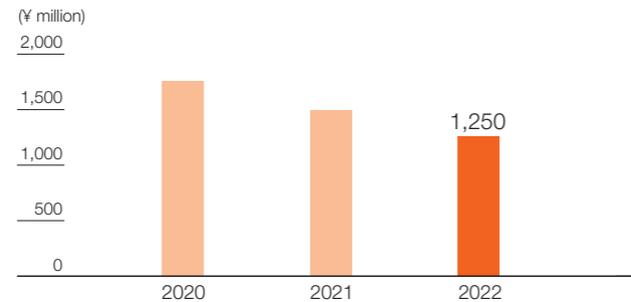
Responsible procurement survey (conformity rate)<sup>5</sup>



We conduct surveys of suppliers to promote responsible procurement. We achieved the target of 90% conformity rate in Japan.

<sup>5</sup>International targets are yet to be determined as the scope of coverage is being re-examined.

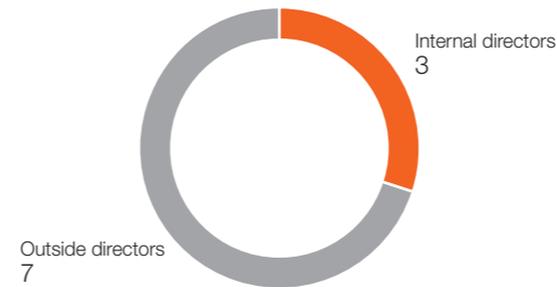
Community development expenditures<sup>6</sup>



We are working to return LIXIL assets appropriately and efficiently to society and pursuing various initiatives to help solve problems as a responsible member of the community.

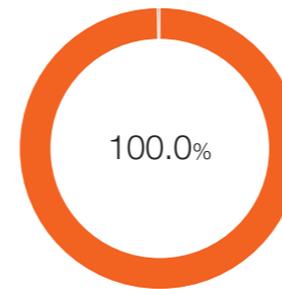
Governance

Number and ratio of outside directors (in FYE2022)



The Board of Directors consists of ten members including seven outside directors and three internal directors (including three women). The ratio of independent outside directors was 70%.

Attendance rate at Board of Directors' meetings (in FYE2022)

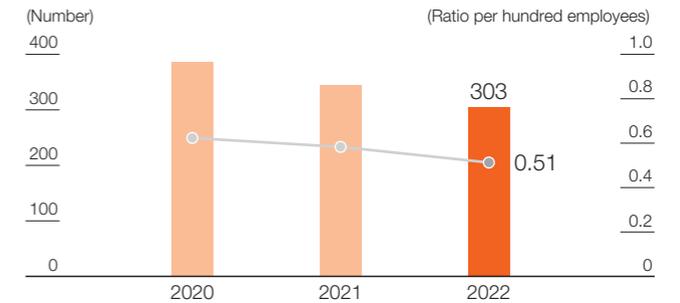


The Board of Directors met 15 times in FYE2022. The attendance rate for the meetings was 100%.

LIXIL's sustainability policies and initiatives are on p.41. For more information on ESG Data, please visit our corporate website.

[www.lixil.com/en/sustainability/data/performance.html](http://www.lixil.com/en/sustainability/data/performance.html)

Reports of possible compliance issues



We collect information on any compliance violations, ensure early action on any wrongdoings and violations, and implement preventive measures. No compliance violations that have a significant impact on the management of the company, including serious violations of laws and regulations occurred.

<sup>1</sup> Scope of coverage: LIXIL Corporation and its group companies (production and non-production bases in Japan, and production bases outside Japan)  
<sup>2</sup> Scope of coverage: LIXIL Corporation and its group companies (production and non-production bases in Japan, and production bases outside Japan.) Excludes tenanted properties, etc. that we cannot access to assess the water intake.  
<sup>3</sup> Scope of coverage: LIXIL Corporation (excluding group companies in Japan) Ratio of females with college or graduate degrees hired.  
<sup>4</sup> Directly hired employees only. Excludes consolidated subsidiaries with less than 100 direct employees in Japan.  
<sup>5</sup> Scope of coverage: Suppliers to LIXIL Corporation and its subsidiaries, excluding American Standard Brands  
 Japan: Procurement by operating sites in Japan  
 International: Procurement by operating sites in international markets  
<sup>6</sup> Scope of coverage: LIXIL Corporation and some overseas subsidiaries

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## REVIEW AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL POSITION

In the fiscal year ended March 31, 2022 (FYE2022), Japan's economy, which had been subdued for some time due to the prolonged impact of the COVID-19 pandemic, seemed to pick up in stages. However, the outlook remains uncertain given repeated surges in case numbers as new variants of the virus continue to emerge. The housing sector showed indications of recovery, driven by factors that included rising demand for housing during the pandemic and various government measures to encourage home ownership. Investment was firm and the number of new housing starts rose for the first time in three years, reaching 866,000 units (up 6.6% year on year). However, there are concerns about the impact of construction delays and the subsequent delays in the delivery of properties due to difficulties in procuring construction materials and parts from outside Japan.

In the global economy, economic activity seems to be recovering and is shifting toward normalization as restrictions on movement are eased following from the widespread uptake of vaccinations, mainly in developed countries. Nevertheless, it is clear that there is still need for caution in Japan and indeed worldwide, due to factors including repeated surges in case numbers as new virus variants continue to emerge worldwide, uncertainty in procurement and supply of parts (semiconductors being a prime example), supply chain disruptions, increase of resource and energy prices, and significant increases in logistics costs (mainly marine transportation). In addition, geopolitical risk related to Russia's military invasion of Ukraine in February and the imposition of economic sanctions against Russia by various countries have also added to the uncertain outlook.

## Operating Results

## Overall Business Results in FYE2022

In FYE2022, the business environment was extremely challenging, with the continued impact of COVID-19 and the need to address supply chain disruptions in addition to increases in construction material and energy prices, and logistics costs. Despite these conditions, we were able to increase both revenue and earnings. Although those results fell short of our initial targets, we were able to achieve the full-year forecast for profit for the year attributable to owners of the parent.

The main factors for lower-than-forecast core earnings included the escalation of geopolitical issues, which led to higher construction material and energy prices, logistics disruptions and more frequent cost increases, and additional costs to ensure the stable supply of products. However, a significant portion of this deterioration in earnings was covered by the effects of structural reforms that were

already under way, selling price adjustments, and additional measures to reduce SG&A expenses. Excluding the impact of such large and sudden cost increases, or by factoring in the delayed effects of measures we have taken, we believe that we would have comfortably achieved the full-year forecast. Therefore, we believe the various structural reforms we have implemented over the past several years have been successful in driving progress in our transformation, enabling us to reach a position from which we can achieve our medium-term target of a 7.5% core earnings margin. Strengthening our business structure has enabled us to improve our gross profit margin despite increasing construction material and energy prices and logistics costs, and we feel that we have steadily enhanced our management resilience to changes in the external environment. In FYE2022, LIXIL Housing Technology (LHT) completed the transition to a platform-based production, which we expect will lead to stronger business operations.

## Overview of Financial Results for the Fiscal Year Ended March 2022

(¥ billion)

Year	FYE2021	FYE2022	Increase/Decrease	Rate of change
Revenue	1,378.3	1,428.6	+50.3	+3.7%
Gross profit (%)	469.2 34.0%	486.9 34.1%	+17.6 +0.0pp	+3.8% —
Selling, general and administrative expenses	411.9	422.0	+10.1	+2.4%
Core earnings (%)	57.3 4.2%	64.9 4.5%	+7.6 +0.4pp	+13.2% —

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## REVIEW AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL POSITION

## Operating Results in FYE2022

The financial results for LIXIL Corporation ("LIXIL") and its consolidated subsidiaries (together, "the LIXIL group") for FYE2022 were as follows. While the business in Japan faced supply delays due to difficulties in procuring parts and the effects of overstretched logistics chains, results in the international business were supported by continued strong demand, especially in Europe, the Middle East and Africa, and North America, and by a recovery in economic activity in Asia Pacific, resulting in revenue of ¥1,428.6 billion (up 3.7% year on year). In terms of earnings, although there was a significant increase in costs due to external factors such as increasing construction material and energy prices in Japan and international markets, especially in the second half of the year, as well as rising logistics costs due to supply chain disruptions, we were supported by the results of our focused structural reforms, selling price adjustments, measures to improve profitability, and other initiatives. Consequently, core earnings totaled ¥64.9 billion (up 13.2% year on year), operating profit was ¥69.5 billion (up 93.8% year on year), partly due to the absence of one-time expenses related to the voluntary retirement program implemented in the previous fiscal year, and profit before tax for continuing operations was ¥67.3 billion (up 99.0% year on year). As such, each of these figures represents an increase compared to the previous fiscal year, when the impact of COVID-19 was most pronounced.

As a result, profit for the year attributable to owners of the parent after deducting noncontrolling interests amounted to ¥48.6 billion (up 47.1% year on year), despite the absence of profit for the year from discontinued operations recorded in the previous fiscal year following the sale of subsidiaries.

## LIXIL Water Technology

For LIXIL Water Technology, both Japanese and international demand showed signs of recovery from the previous year, which saw a decline in demand associated with the impact of COVID-19. This recovery was led by strong demand in international

## Overview of Financial Results by Segment

(¥ billion)

		FYE2021	FYE2022	Increase/Decrease	Rate of change
LIXIL Water Technology	Revenue	783.8	862.2	+78.4	+10.0%
	Core earnings	62.1	76.6	+14.5	+23.3%
	(%)	7.9%	8.9%	+1.0pp	—
LIXIL Housing Technology	Revenue	474.3	466.7	-7.6	-1.6%
	Core earnings	31.4	28.2	-3.2	-10.3%
	(%)	6.6%	6.0%	-0.6pp	—
LIXIL Building Technology	Revenue	93.4	89.3	-4.1	-4.3%
	Core earnings	2.6	3.5	+0.9	+33.9%
	(%)	2.8%	3.9%	+1.1pp	—
Housing & Services Business	Revenue	46.6	30.3	-16.3	-35.0%
	Core earnings	2.1	-0.1	-2.3	—
	(%)	4.6%	-0.5%	-5.0pp	—
Adjustment	Revenue	-19.8	-19.8	-0.1	+0.3%
	Core earnings	-41.0	-43.3	-2.3	+5.5%
	(%)	—	—	—	—
Total	Revenue	1,378.3	1,428.6	+50.3	+3.7%
	Core earnings	57.3	64.9	+7.6	+13.2%
	(%)	4.2%	4.5%	+0.4pp	—

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operations, particularly in Europe, the Middle East and Africa, and North America, and as a result revenue increased to ¥862.2 billion (up 10.0% year on year). Core earnings increased to ¥76.6 billion (up 23.3% year on year) due to an increase in gross profit in line with the increase in revenue. Furthermore, we achieved a higher profit margin as a result of selling price adjustments in response to increasing construction material prices, and the fact that renovation and mid- to high-end products accounted for a greater portion of the sales mix in Japan.

## LIXIL Housing Technology

For LIXIL Housing Technology, although demand for renovation products was firm given growing recognition of the “new normal” in the post-COVID-19 era and changing consumer sentiment due to increased time spent at home, revenue decreased to ¥466.7 billion (down 1.6% year on year) due to the impact of the sale of a subsidiary in the previous fiscal year, among other factors. While profitability improved due to ongoing selling price adjustments, control of SG&A expenses, and structural reforms including those to improve production efficiency, core earnings decreased to ¥28.2 billion (down 10.3% year on year) due to cost increases, including higher than expected prices of aluminum ingots, a main raw material, and higher logistics costs.

## LIXIL Building Technology

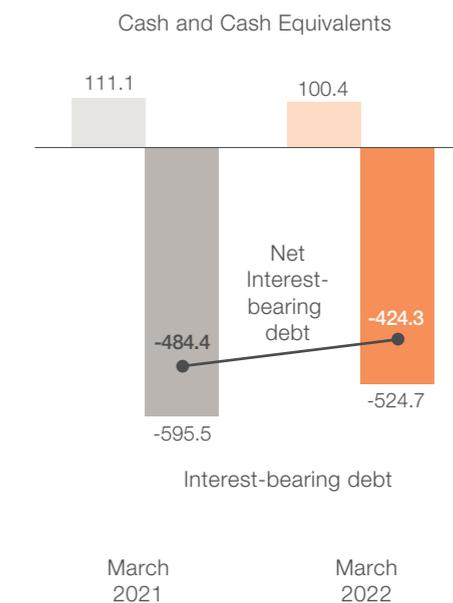
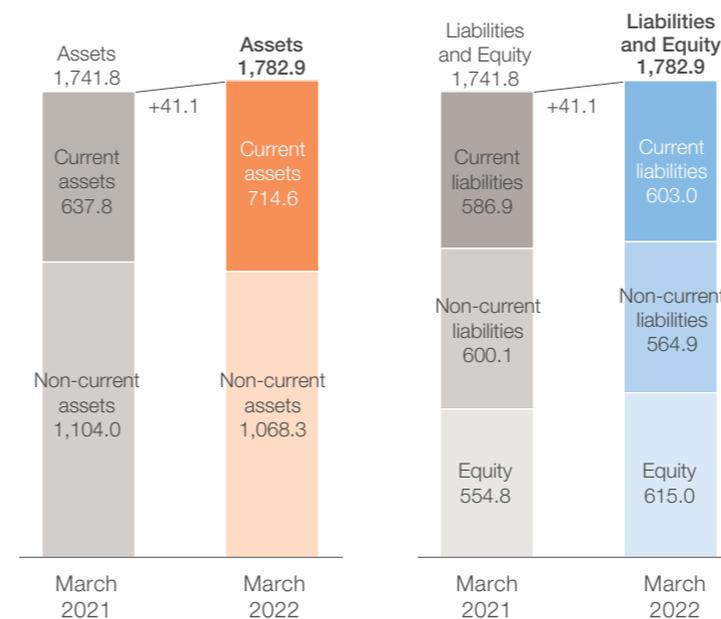
For LIXIL Building Technology, revenue decreased to ¥89.3 billion (down 4.3% year on year) due to delays in the supply of building materials as a result of changes in work processes, mainly for large properties. However, core earnings increased to ¥3.5 billion (up 33.9% year on year) due to efforts to improve profitability with ongoing structural reforms and the progress of measures to enhance productivity.

## Housing &amp; Services Business

For the Housing & Services Business, revenue was ¥30.3 billion (down 35.0% year on year) due to the significant impact of the sale of a subsidiary in the previous fiscal year. Despite efforts to control SG&A expenses, core earnings showed a loss of ¥0.1 billion (versus core earnings of ¥2.1 billion in the previous fiscal year) due to the impact of the aforementioned sale of a subsidiary as well as increasing construction material prices.

## Consolidated Financial Position

(¥ billion)



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## Financial Position (As of March 31, 2022)

The LIXIL group aims to build a stable financial base in order to achieve medium-to-long-term sustainable growth. Thus, we are working to strengthen our balance sheet through various measures. In FYE2022, we made significant progress in these measures and we believe that we are on track to restore our financial soundness.

## Assets, Liabilities and Equity as of March 31, 2022

Total assets as of March 31, 2022 amounted to ¥1,782.9 billion (up ¥41.1 billion from the previous fiscal year end). Current assets were ¥714.6 billion (up ¥76.8 billion from the previous fiscal year end), mainly due to an increase in inventories as we secured safety stock to mitigate procurement and supply risks caused by supply chain disruptions and price increases, as well as the effect of reclassifying non-current assets related to the current headquarters building as assets held for sale in connection with the planned headquarters relocation in FYE2023. Non-current assets were ¥1,068.3 billion (down ¥35.8 billion from the previous fiscal year end), with main factors being the impact of the abovementioned reclassification, the reduction in capital expenditure and the sale of idle assets, and a decrease in other financial assets due to the sale of cross-held shares.

Total equity was ¥615.0 billion. As a result of efforts to improve capital efficiency based on the

adoption of an asset-light approach and to reduce interest-bearing debt, the net debt-to-EBITDA ratio was 2.9 times, a further improvement over the previous fiscal year, and the ratio of equity attributable to owners of the parent was 34.3% (an improvement of 2.6 percentage points year on year).

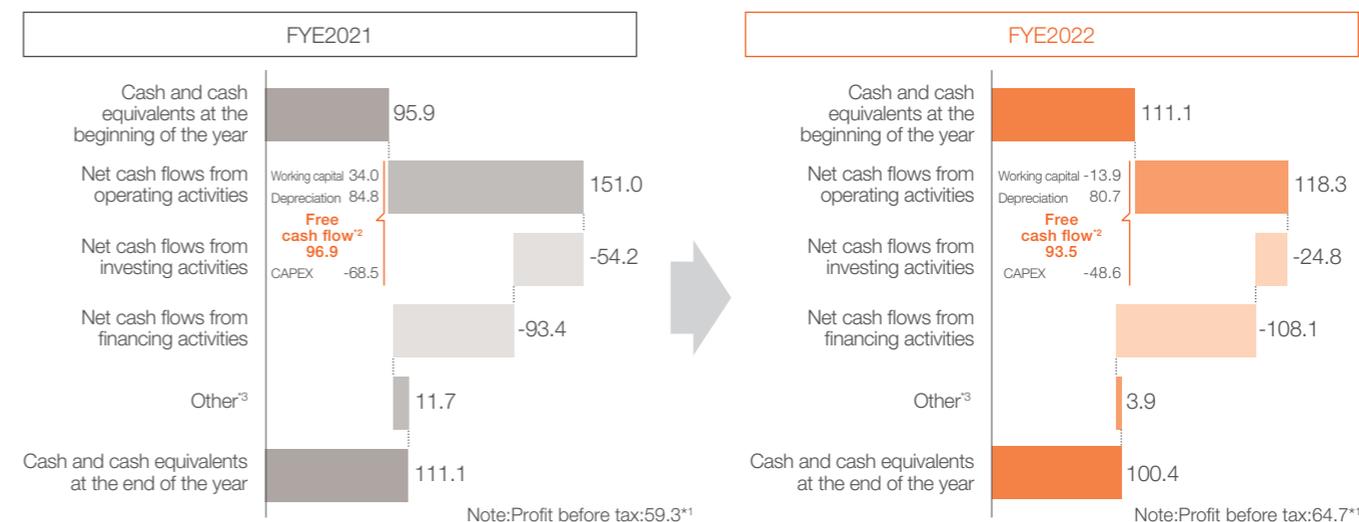
## Cash Flows (FYE2022)

Cash and cash equivalents as of March 31, 2022 totaled ¥100.4 billion (down ¥10.7 billion from the previous fiscal year end), after accounting for exchange rate differences and other factors.

## Net Cash Flows From Operating Activities

Net cash provided by operating activities was ¥118.3 billion (down ¥32.7 billion year on year). Main factors included changes in working capital (including changes related to inventories, trade and other receivables, and trade and other payables), as well as the absence of gain on sale of subsidiaries in

## Cash Flow Status and Cash Balance (¥ billion)



<sup>\*1</sup> Includes discontinued operations

<sup>\*2</sup> Free cash flow = Net cash flows from operating activities + Net cash flows from investing activities

<sup>\*3</sup> Other = Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies + Net increase (decrease) in cash and cash equivalents included in assets classified held for sale

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the previous fiscal year, despite an increase in profit before tax from continuing operations.

**Net Cash Flows From Investing Activities**

Net cash used in investing activities was ¥24.8 billion (down ¥29.3 billion year on year). Factors included a reduction in capital expenditure and improved investment efficiency through the transition to a platform-based production, as well as proceeds from the sale of cross shareholdings.

**Net Cash Flows From Financial Activities**

Net cash used in financial activities was ¥108.1 billion (up ¥14.7 billion year on year). Factors included the payment of dividends and lease liabilities, as well as the redemption of bonds at maturity, and the flexible adoption of and repayment of interest-bearing debt.

**Outlook for FYE2023**

While the economic environment is expected to continue to pick up with the rollout of vaccination programs and other measures to prevent the spread of COVID-19, for both Japan and international markets, the outlook is expected to remain uncertain due to concerns about continued pressure on business performance, including increasing construction material and energy prices and rising distribution costs due to container shortages, in addition to global uncertainty related to geopolitical risks such as the conflict in Russia and Ukraine.

In this business environment, the LIXIL group has enhanced its agility as an organization and its ability to respond to change, and made steady progress on each of the four strategic initiatives set forth in its fundamental management direction. Although the business environment is likely to remain uncertain, we are confident that we can achieve sustainable growth over the medium to long term. By advancing our efforts toward the goals of our Corporate Responsibility Strategy, we will further enhance the value we provide to stakeholders and, in turn, realize our purpose of making better homes a reality for everyone, everywhere.

**FYE2023 Forecast**

- Revenue: ¥1,520.0 billion (up 6% year on year)
- Core earnings: ¥81.0 billion (up 25% year on year; core earnings margin 5.3%)
- Operating profit: ¥78.0 billion (up 12% year on year)
- Profit before tax: ¥76.0 billion (up 13% year on year)
- Profit for the year attributable to owners of the parent: ¥51.0 billion (up 5% year on year)
- Cash dividends: Planned increase to ¥90 per share for the full year, with interim and year-end dividends of ¥45 per share each.

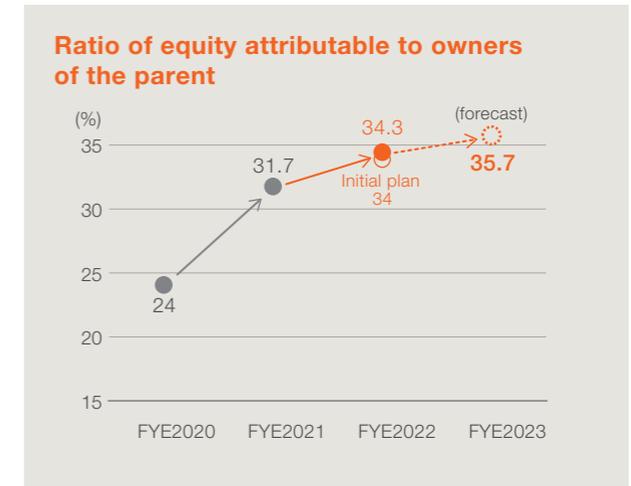
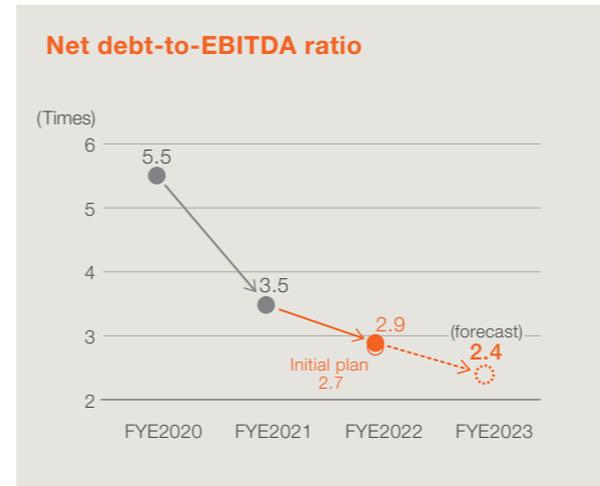
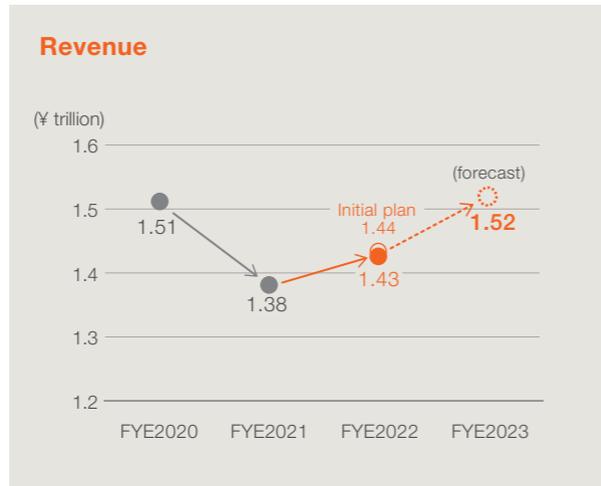
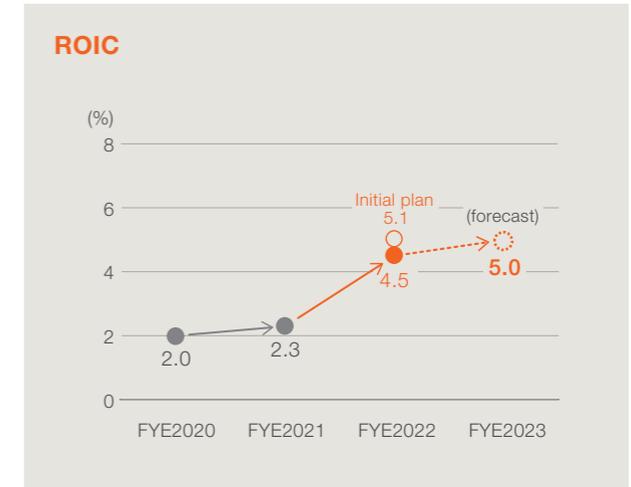
The above forecasts for FYE2023 are based on the information available to LIXIL as of the date of publication, and include risks and uncertainties. Actual results may differ materially from the forecasts above due to various factors.

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\* Figure before the effect of share buybacks announced on April 28, 2022

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## PRINCIPLE GROUP COMPANIES

(As of March 31, 2022)

## Consolidated Subsidiaries

Name	Location	Paid-in capital (¥ million)	Equity owned by the holding company (%)	Business segment
LIXIL Total Service Corporation	Koto-ku, Tokyo	100	100	LWT, LHT
Dinaone Corporation	Tokoname, Aichi	90	100	LWT
TM.S Corporation	Koto-ku, Tokyo	60	100	LWT
LIXIL Europe S.à r.l.	Luxembourg	€ thousand 57,143	100	LWT
Grohe AG	Düsseldorf, Germany	€ thousand 60,885	100	LWT
Other 47 affiliate companies of LIXIL Europe S.à r.l.	—	—	—	LWT
ASD Holding Corp.	New Jersey, USA	US\$ thousand 412,955	100	LWT
10 affiliate companies of ASD Holding Corp.	—	—	—	LWT
A-S CHINA PLUMBING	Cayman, Islands	US\$ thousand 24,907	100	LWT
A-S (China) Co., Ltd.	Shanghai, China	US\$ thousand 30,000	100	LWT
LIXIL Vietnam Corporation	Hanoi, Vietnam	VND million 743,386	100	LWT
LIXIL (China) Investment Co., Ltd.	Shanghai, China	CNY thousand 450,605	100	LWT
LIXIL Building Materials Manufacturing (Suzhou)	Suzhou, Jiangsu, China	CNY thousand 395,464	100	LWT
LIXIL Sanitary Fitting Manufacturing (Suzhou)	Suzhou, Jiangsu, China	1,730	100	LWT
Taiwan Inax Corporation	Taipei, Taiwan	NT\$ thousand 282,677	92	LWT
LIXIL India Sanitaryware Private Limited	Andhra Pradesh, India	INR thousand 69,823	100	LWT
LIXIL AFRICA HOLDINGS (Pty) Ltd.	Krugersdorp, South Africa	ZAR million 2,616	100	LWT
LIXIL Total Hanbai Corporation	Koto-ku, Tokyo	75	100	LHT
G TERIOR Corporation	Koto-ku, Tokyo	316	100	LHT
Asahi Tostem Exterior Building Materials Co., Ltd.	Koto-ku, Tokyo	100	80	LHT

Name	Location	Paid-in capital (¥ million)	Equity owned by the holding company (%)	Business segment
LIXIL Toyo Sash Shoji Co., Ltd.	Koto-ku, Tokyo	100	100	LHT
Sonitech Corporation	Koto-ku, Tokyo	66	100	LHT
Kuwata Co., Ltd.	Suma-ku, Kobe, Hyogo	30	100	LHT
Oita Tostem Co., Ltd.	Oita, Oita	50	100	LHT
Nishi Kyushu Tostem Co., Ltd.	Saga, Saga	30	100	LHT
LIXIL TEPCO Smart Partners Inc.	Koto-ku, Tokyo	450	60	LHT
LIXIL INTERNATIONAL Pte. Ltd.	Singapore	30,565	100	LHT
TOSTEM THAI Co., Ltd.	Pathumthani, Thailand	Baht million 2,767	100	LHT
LIXIL Manufacturing (Dalian) Corporation	Dalian, Liaoning, China	US\$ thousand 43,500	100	LHT
LIXIL GLOBAL MANUFACTURING VIETNAM Co., Ltd.	Dong Nai, Vietnam	4,310	100	LHT
PT. LIXIL ALUMINIUM INDONESIA	Cileungsi, Indonesia	IDR million 173,617	75	LHT
LIXIL WINDOW SYSTEMS PRIVATE LIMITED	Haryana, India	INR thousand 858,318	100	LHT
LIXIL Renewal Corporation	Koto-ku, Tokyo	100	100	LBT
LIXIL Living Solution Corporation	Koto-ku, Tokyo	100	100	H&S
LIXIL Housing Research Institute, Ltd.	Koto-ku, Tokyo	100	100	H&S
LIXIL REALTY, Corp.	Taito-ku, Tokyo	160	100	H&S
GHS Corporation	Koto-ku, Tokyo	100	100	H&S
LIXIL Home Finance Corporation	Chiyoda-ku, Tokyo	500	100	H&S
LIXIL Group Finance Corporation <sup>1)</sup>	Koto-ku, Tokyo	100	100	(Financing services for Group companies)
44 other companies <sup>2)</sup>				

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## PRINCIPLE GROUP COMPANIES

(As of March 31, 2022)

## Equity-Method Affiliates

Name	Location	Paid-in capital (¥ million)	Equity owned by the holding company (%)	Business segment
Sanyo Homes Corporation <sup>3</sup>	Nishi-ku, Osaka, Osaka	5,945	27 <sup>4</sup>	—
48 other companies				

\*1 The Company decided to merge with LIXIL Group Finance Corporation on May 12, 2022, and concluded a merger agreement on the same date.

\*2 LIXIL Africa (Pty) Ltd. is an insolvent company with liabilities of ZAR 1,559 million in excess of assets as of March 31, 2022.

\*3 The company submits securities reports.

\*4 "Equity owned by the holding company" shows the ratio of the number of shares owned by the Company to the total number of issued shares (excluding treasury stock) of Sanyo Homes Corporation as of March 31, 2022.

## GLOBAL MANUFACTURING AND SALES SITES

(As of March 31, 2022)

## Number of factories

79  
sites

Japan	39	International	40
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	Japan	Americas	Europe	China/ Asia Pacific
LWT	20	9	4	21
LHT	19*	—	—	6

\* Seven of the LHT factories also manufacture commodities for LBT.

## Number of showrooms

111  
sites

Japan	84	International	27
-------	----	---------------	----

	Japan	Europe	China/ Asia Pacific
	84	8	19

Home reform shops and reform network members in Japan **11,800** stores

Homebuilding franchise members in Japan (H&S) **201** stores

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## BASIC POLICY FOR INVESTOR RELATIONS

The Company's investor relations (IR) activities facilitate communication with the Japanese and international capital markets, thereby helping to enhance corporate value. These IR activities convey messages from senior management to markets while providing senior management with feedback from markets in an unflagging effort to boost corporate value.

Based on the timely disclosure rules of the Tokyo Stock Exchange, the Company discloses important information, including decisions, events, or information regarding accounts settlement, that might affect investment judgments. It is also the Company's policy to disclose information that does not fall under the timely disclosure rules as proactively and fairly as possible, in order to better meet investors' needs.

Investor Relations

 [www.lixil.com/en/investor](http://www.lixil.com/en/investor)

## Activities for FYE2022

- Communicated management messages to the markets (for institutional investors and analysts)  
Earnings briefing sessions: 4 (quarterly)  
One-on-one meetings: 285  
Briefing sessions regarding management strategy and business strategy: 3  
Small meetings: 3  
Investor conferences participated in: 3  
Social gathering with shareholders: 1
- Feedback from markets to the Company  
Reported on IR activities at Board of Directors: Regularly, as well as 4 times/year after earnings briefing sessions  
Exchanged opinions with business divisions on business condition and market outlook: Regularly  
Shared information with management via e-mail: Regularly

## External Recognition (From April 2021 to June 2022)



## Gomez IR Site Ranking 2021

Awarded silver prize in the overall IR site ranking and first place in the "Metal Products" industry category (December 2021)



## FTSE4Good Index Series

## FTSE Blossom Japan Index

## FTSE Blossom Japan Sector Relative Index

Selected as a constituent of the FTSE4Good Index Series and the FTSE Blossom Japan Index for the fifth consecutive year, and selected as a constituent of the newly established FTSE Blossom Japan Sector Relative Index (June 2021, March 2022)



## CDP Water Security

Received the highest A rank (December 2021)



## CDP Supplier Engagement Leaderboard

Received the highest rating for the second consecutive year (February 2022)

## DISCLAIMER

The inclusion of LIXIL Corporation in any MSCI index, and the use of MSCI logos, trademarks, service marks, or index names herein, does not constitute a sponsorship, endorsement or promotion of LIXIL Corporation by MSCI or any of its affiliates. The MSCI indexes are the exclusive property of MSCI. MSCI and the MSCI index names and logos are trademarks or service marks of MSCI or its affiliates.

2021 CONSTITUENT MSCI JAPAN  
EMPOWERING WOMEN INDEX (WIN)

## MSCI Japan Empowering Women Index

Selected for five consecutive years as a constituent of the MSCI Japan Empowering Women Index (WIN) (June 2021)

Member of

Dow Jones  
Sustainability Indices

Powered by the S&amp;P Global CSA

## Dow Jones Sustainability World Index

Selected as a constituent of DJSI World for the third consecutive year, and concurrently selected as a constituent of DJSI Asia/Pacific (November 2021)



## Nikkei SDGs Management Survey

Received 4.5 stars in the Nikkei SDGs Management Survey and 4 stars in the Nikkei Smart Work Management Survey (November 2021)

IR Special Award  
"Most Liked!" IR Award

Received IR Special Award and the "Most Liked!" IR Award in the 2021 IR Awards held by the Japan Investor Relations Association (November 2021)

## DX Brand 2022

Selected as a Digital Transformation Stock 2022 jointly by the Ministry of Economy, Trade and Industry, the Tokyo Stock Exchange, and the Information-technology Promotion Agency, Japan (June 2022)



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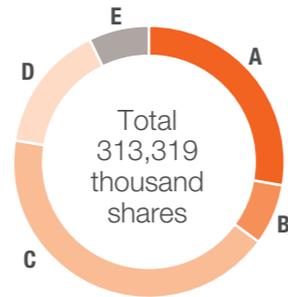
SHAREHOLDER INFORMATION

(As of March 31, 2022)

Number of shares and shareholders

Number of shares authorized	1,300,000,000
Number of shares outstanding (Excluding treasury stock of 22,580,170 shares)	290,738,989
Number of shareholders	45,481

Distribution of ownership among shareholders (Thousand shares)



A Financial institutions	87,837
B Japanese companies	22,172
C International investors	132,993
D Individuals and others	47,735
E Treasury stock	22,580
Total	313,319

Major shareholders (Thousand shares)

Name of shareholder	Number of shares held	Ratio of shareholdings
The Master Trust Bank of Japan, Ltd. (Trust Account)	48,591*	16.71%
JP MORGAN CHASE BANK 385632 (Standing Proxy: Settlement & Clearing Services Division, Mizuho Bank, Ltd.)	27,431	9.44%
Custody Bank of Japan, Ltd. (Trust Account)	12,530*	4.31%
SSBTC CLIENT OMNIBUS ACCOUNT (Standing Proxy: The Hongkong and Shanghai Banking Corporation Limited Tokyo Branch)	9,526	3.28%
LIXIL Employee Stock Ownership	6,361	2.19%
NORTHERN TRUST CO. (AVFC) SUB A/C AMERICAN CLIENTS (Standing Proxy: The Hongkong and Shanghai Banking Corporation Limited Tokyo Branch)	5,532	1.90%
STATE STREET BANK CLIENT OMNIBUS OM04 (Standing Proxy: The Hongkong and Shanghai Banking Corporation Limited Tokyo Branch)	5,489	1.89%
STATE STREET BANK WEST CLIENT – TREATY 505234 (Standing Proxy: Settlement & Clearing Services Division, Mizuho Bank, Ltd.)	4,244	1.46%
Daiichi Life Insurance Company, Limited (Standing Proxy: Custody Bank of Japan, Ltd.)	3,937	1.35%
STATE STREET BANK AND TRUST COMPANY 505001 (Standing Proxy: Settlement & Clearing Services Division, Mizuho Bank, Ltd.)	3,904	1.34%

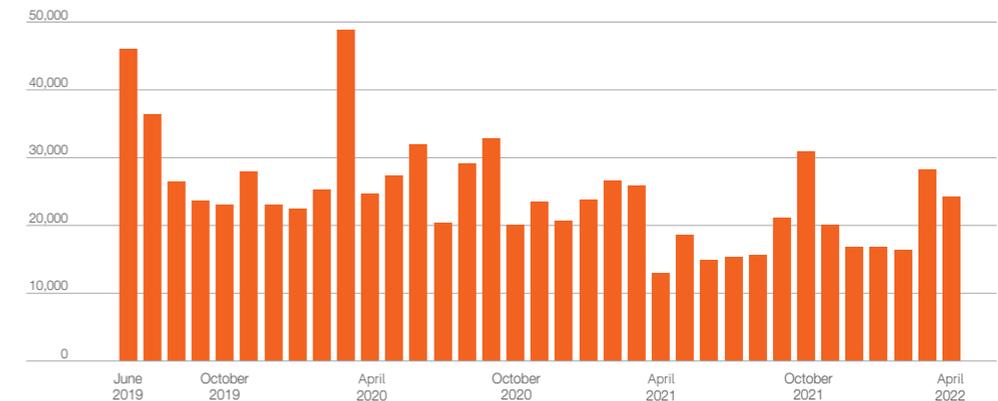
Notes:  
In addition to the above, LIXIL Corporation holds 22,580 thousand shares of treasury stock. Shareholding calculations exclude treasury stock.  
\* indicates a trust service arrangement.

Share price movement\*



\* Relative stock price trend based on the closing stock price as of June 30, 2019.

Stock trading volume (Thousand shares)



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**CORPORATE DATA**

(As of March 31, 2022)

**Company Name**  
LIXIL Corporation

**Established**  
September 19, 1949

**Registered Office**  
2-1-1 Ojima, Koto-ku, Tokyo 136-8535, Japan

**Paid-In Capital**  
¥68,418 million

**Fiscal Year End**  
March 31

**Employees**  
Consolidated employees: 51,640

**Accounting Auditors**  
Deloitte Touche Tohmatsu LLC

**Overview of Major Businesses**  
The Company manufactures and sells building materials and housing equipment for housing and buildings, and operates housing-related businesses as well as related services.

**Common Stock Listings**  
Tokyo Stock Exchange Prime Market  
Nagoya Stock Exchange Premier Market

**Transfer Agent and Special Management of Accounts**  
Mitsubishi UFJ Trust and Banking Corporation

**Annual Shareholders' Meeting**  
Normally held in June

**LIXIL Online Information**

**Corporate Website**

In addition to the Company profile, CR activities, and the latest news, our corporate website also contains sections covering recent business initiatives within the Company and insights from the Company's CEO.

 [www.lixil.com](http://www.lixil.com)

**Financial Information**

Our IR website offers comprehensive content for shareholders and other investors, including information regarding financial results, streaming video of results briefings, and performance data.

 [www.lixil.com/en/investor](http://www.lixil.com/en/investor)

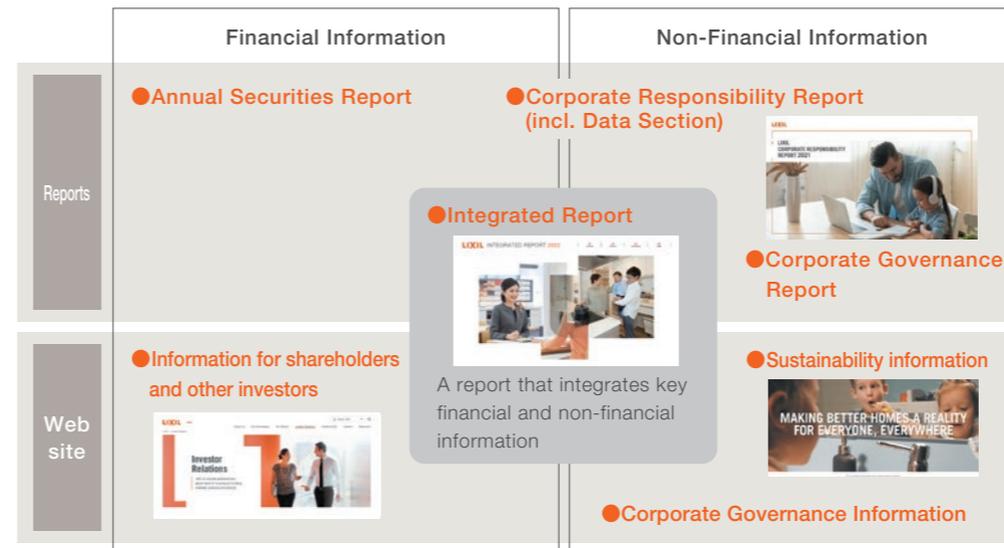
**Non-Financial Information**

Our sustainability website introduces LIXIL's CR Strategy and initiatives around the world in order to contribute to achieving the SDGs, under our corporate purpose: "make better homes a reality for everyone, everywhere."

 [www.lixil.com/en/sustainability](http://www.lixil.com/en/sustainability)

**Overview of Information Disclosure**

Please visit our website for more information on these subjects.



**Cautionary Statement with Respect to Forward-Looking Statements**

Statements made in this integrated report with respect to plans, strategies, and future performances that are not historical facts are forward-looking statements. LIXIL Corporation cautions that a number of factors could cause actual results to differ materially from those discussed in the forward-looking statements.



**LIXIL Corporation**  
[www.lixil.com](http://www.lixil.com)

TSE Securities Code: 5938