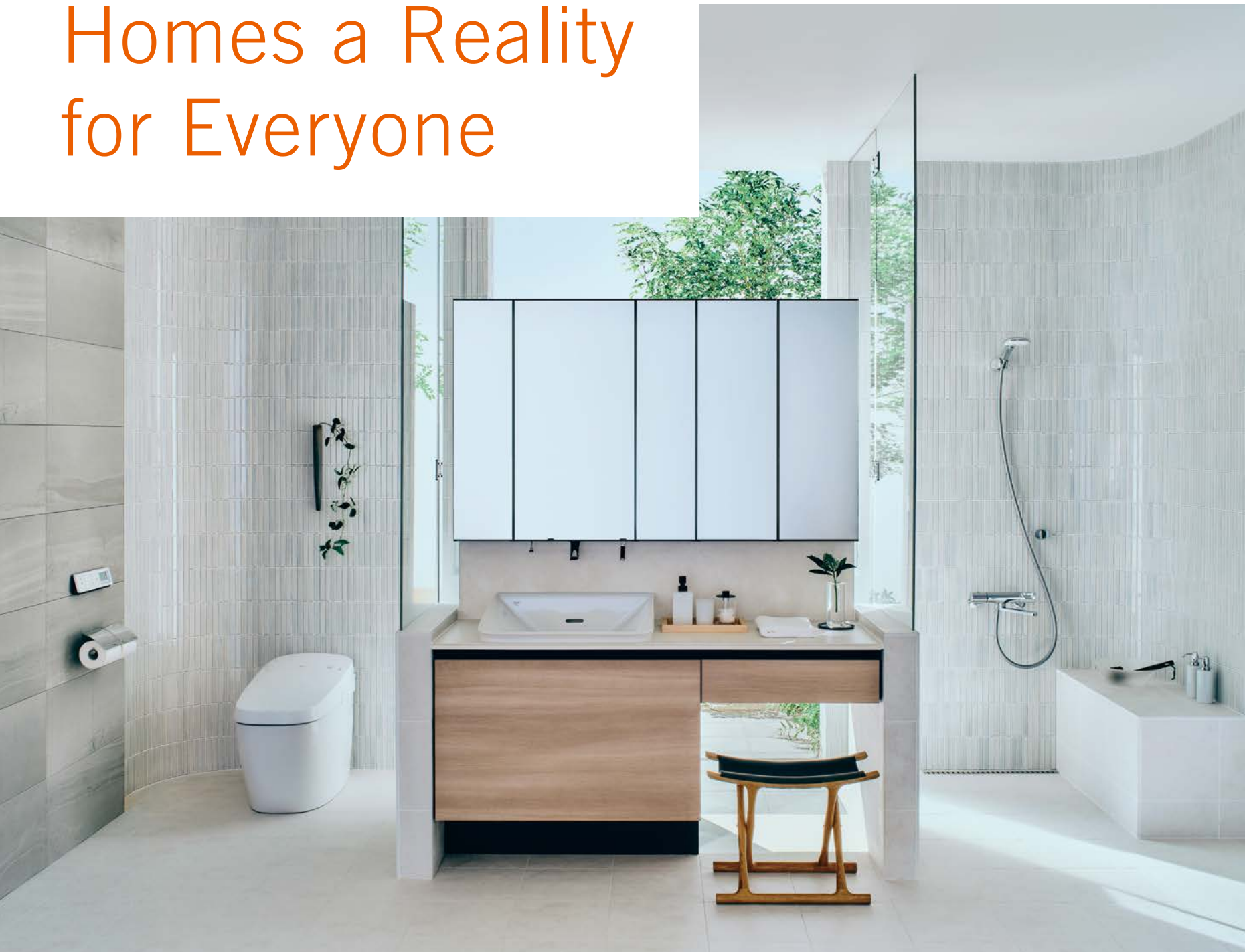


**> LIXIL GROUP
INTEGRATED REPORT
2020**



Making Better Homes a Reality for Everyone



Every person on the planet dreams of a better home. LIXIL makes that possible with pioneering water and housing products.

A better home is made up of surprisingly simple things – baths to escape in after a long day, kitchens that unleash creativity, toilets that provide cleanliness and comfort, doors and windows that connect you with the world outside, showers and faucets to experience water in new ways, and interiors and exteriors that bring spaces to life.

LIXIL makes better homes a reality for everyone, everywhere. We make things that matter to all sorts of different people, to the many communities we are part of, and to sustainably support the world around us. At LIXIL, we are proud that our products touch the lives of more than a billion people every day, but believe we have the potential to do so much more.

LIXIL CORE

Our corporate philosophy defines what we set out to do in the world.

The Group's superior products and services contribute to improving people's comfort and lifestyles

LIXIL BEHAVIORS

The three LIXIL Behaviors provide a unified way of working for all our employees, helping to establish LIXIL as a purpose-led, entrepreneurial company.

DO THE **RIGHT** THING

WORK WITH **RESPECT**

EXPERIMENT AND LEARN

Contents

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LIXIL IN FYE2020

An overview of LIXIL, our purpose, strategy, and the progress we have made over the fiscal year.

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Editorial Policy

This integrated report aims to enhance communication with LIXIL's stakeholders, especially investors, by presenting its 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 the latest news is available on our corporate website.

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Note:

Due to our decision to divest Permasteelisa in May 2020, we have classified the operations of Permasteelisa as discontinued operations. Business results for FYE2019 shown in LIXIL's Annual Report 2019 have been retroactively restated.

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LIXIL at a Glance

WE ARE A GLOBAL LEADER IN OUR INDUSTRY

 1 billion people use our products every day	 Present in over 150 countries
 Approx. 75,000 employees around the world	 Over 100 years of history
 ¥1,694.4 billion consolidated revenue	 ¥58.6 billion core earnings

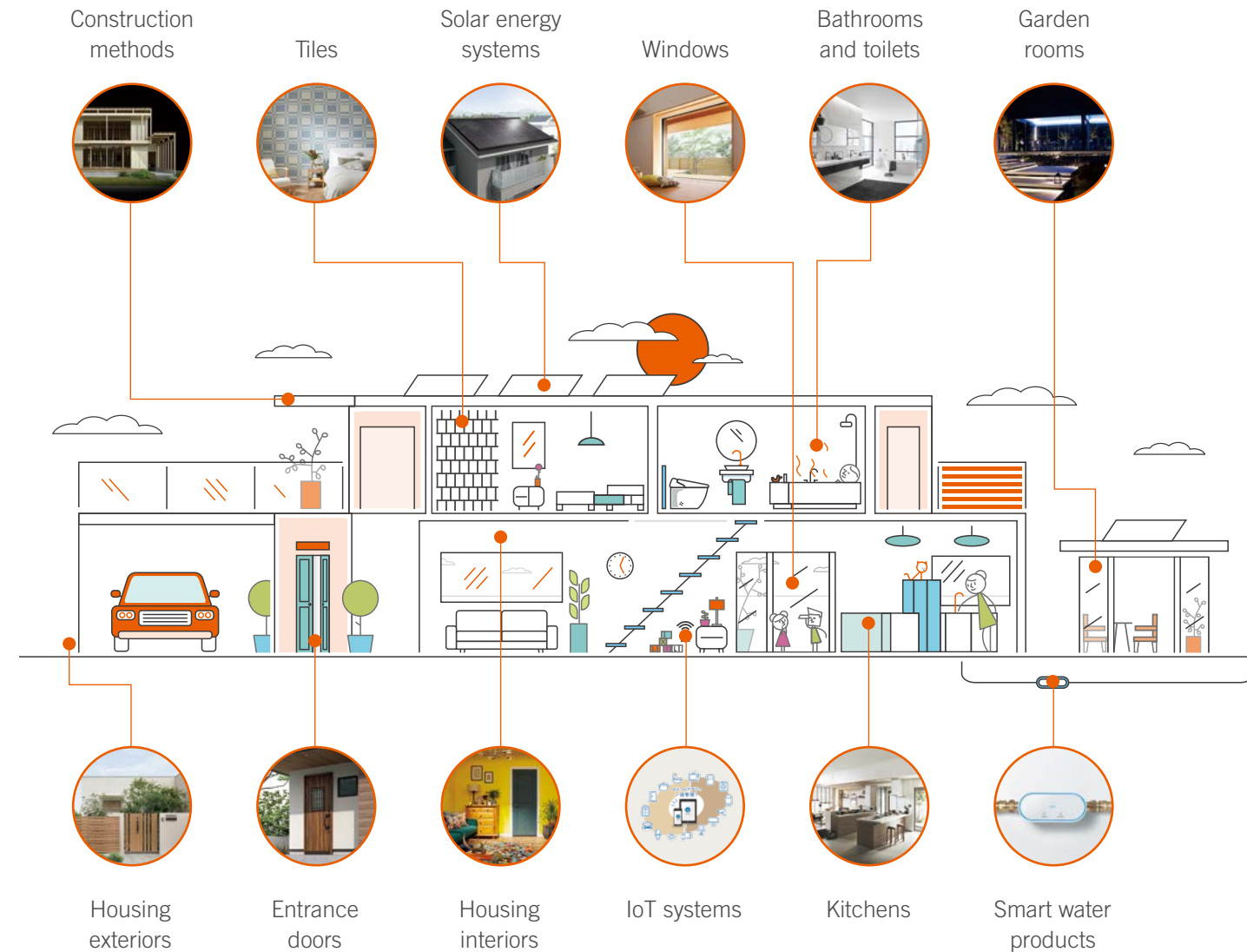
WE MAKE PRODUCTS THAT IMPROVE DAILY LIFE

 16 household product brands	 ¥27.5 billion invested in R&D
 6 global in-house design centers	 12,000+ patents and design applications worldwide

WE STRIVE TO MAKE THE WORLD A BETTER PLACE

 Improved access to sanitation for 18.6 million people in 38 countries	 Products and services helped reduce 66 million tons of CO ₂ emissions
--	--

LIXIL IN THE HOME



MAJOR BRANDS

INAX



American Standard

TOSTEM

LIXIL



DXV



SATO

Stages of LIXIL's Evolution

We continually strengthen LIXIL in order to create superior products and services that improve the comfort and lifestyles of people around the world.

FYE2012–2013

Created LIXIL through the merger of five companies

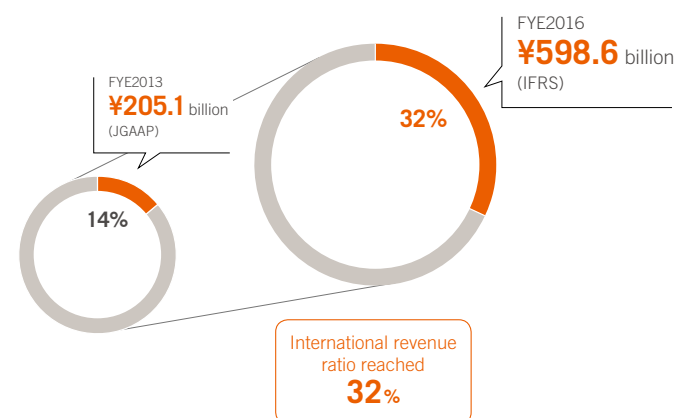
LIXIL was born out of the merger of Tostem, INAX, Shin Nikkei, SUNWAVE, and Toyo Exterior in 2011. Through this integration, we generated synergies between our businesses and established a powerful foundation for sustainable growth, opening the way to delivering a comprehensive lineup of products that cover all aspects of living spaces. The brand name LIXIL is derived from the combination of “LI” from two words that closely represent our business: “LIVING” and “LIFE.”

In 2011, LIXIL adopted the corporate governance structure, a “Company with a Nomination Committee, etc.,” as outlined in Japanese Corporation Law. Under this governance system, we clearly separate the conduct of management from the surveillance of management with the objective of creating a system where executive officers can make management decisions quickly and decisively while securing management transparency.

FYE2014–2016

Established the foundation for business expansion and global growth

From 2011, LIXIL's business rapidly globalized through a series of acquisitions and investments, including integrating some of the most iconic names in our industry such as GROHE, American Standard, and Permasteelisa. This provided us with the product and brand portfolio, as well as global infrastructure, to establish our foothold in key markets around the world.



FYE2017–

Simplifying the balance sheet, improving the organizational structure, and strengthening profitability

In becoming one of the most comprehensive companies in the industry, LIXIL developed a top-heavy organization with areas of overlapping authority and a broad business portfolio. To achieve further growth, we began to simplify our business structure, taking steps to transition from a holding company to an operating company structure in order to focus on our core businesses and strengthen governance*1. We also began to review our portfolio in order to strengthen our balance sheet, focusing on businesses that have synergistic relationships with our core businesses and high potential profitability, in turn enabling us to prioritize our investments in high growth areas*2. With a global foothold established, we established a virtual structure to centrally manage our international operations, strengthening cross-regional collaboration and innovation. We will now continue to build on our competitive advantage through differentiated products, services, and business models, setting LIXIL on the path to higher profitability and sustainable growth.

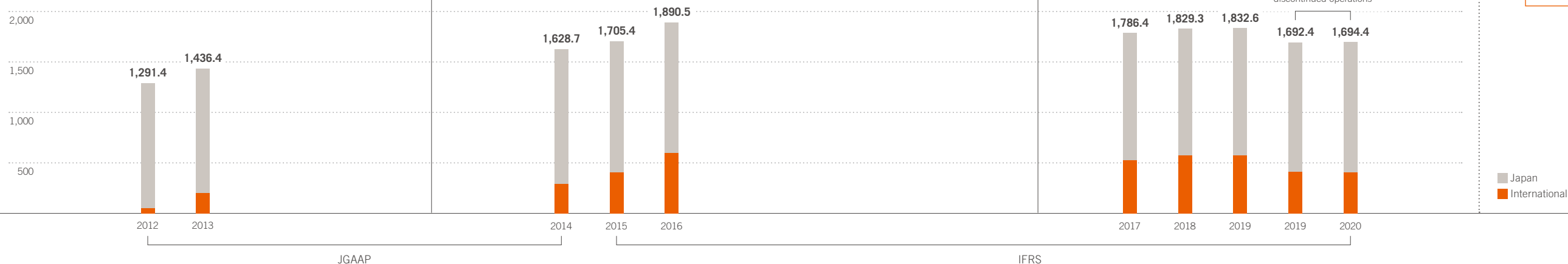
*1 LIXIL decided in March 2020 to merge LIXIL Group Corporation and LIXIL Corporation. Please refer to page 61 for more information.

*2 LIXIL announced its decision to transfer its shares owned in Permasteelisa and LIXIL VIVA in May and June 2020, respectively.

Toward Sustainable Growth

As the world's population and the middle income segment grow, the demand for housing and water technology products and services will continue to expand. We will harness LIXIL's strengths to become a truly differentiated and unique housing and water technology company with the world's most respected and powerful brands. To achieve this aim, we are focusing on actively managing our core businesses to enhance productivity and efficiency, driving synergies across our core business areas, as well as optimizing our business portfolio to accelerate growth and strengthen financial conditions. We will become an organization that can adapt and innovate faster, providing differentiated products and services that will enable us to achieve sustainable growth.

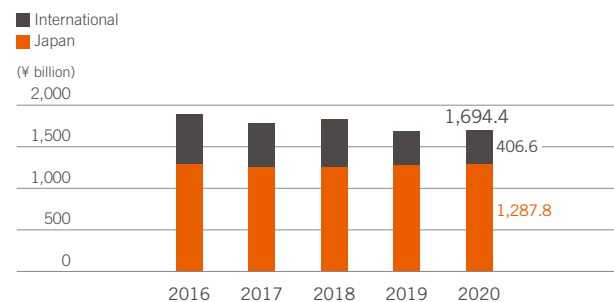
Net sales (JGAAP) / Revenue (IFRS) (Years ended March 31) (¥ billion)



Financial Highlights

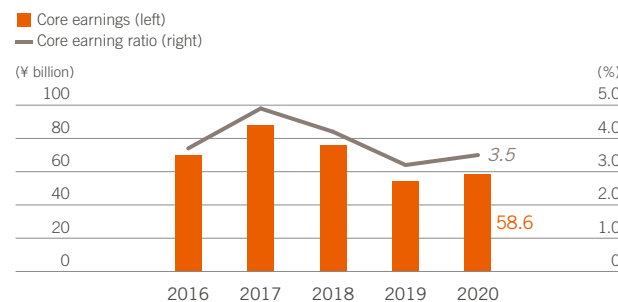
LIXIL Group Corporation and Consolidated Subsidiaries (Years ended March 31)

Revenue



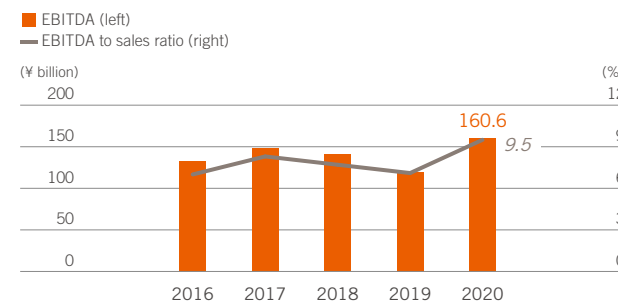
Due to strong first-half performance, revenue increased by 0.1% year on year to ¥1,694.4 billion despite the decline in demand following the consumption tax hike in Japan and the impact of foreign currency translation.

Core earnings / Core earning ratio



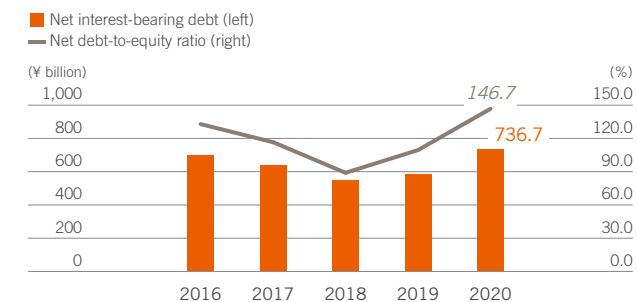
Core earnings increased by 7.5% year on year to ¥58.6 billion due to improvements to production efficiency and domestic price revisions despite costs related to an early retirement incentive program.

EBITDA / EBITDA to sales ratio



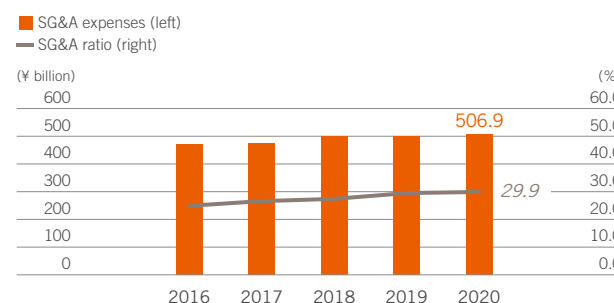
EBITDA increased by 33.7% year on year to ¥160.6 billion due to a ¥33.6 billion increase in depreciation resulting from the application of IFRS 16 “Leases.”

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



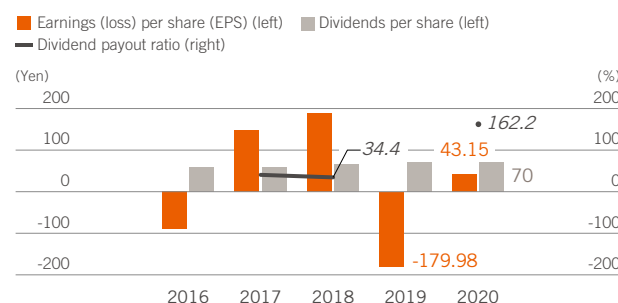
Net interest-bearing debt as of March 31, 2020 increased by ¥152.2 billion year on year to ¥736.7 billion due to an increase in lease liabilities resulting from the application of IFRS 16 “Leases.”

SG&A expenses / SG&A ratio



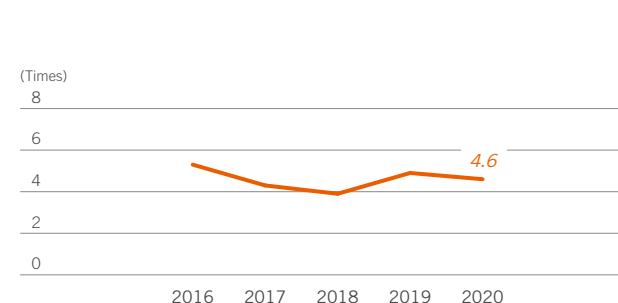
SG&A expenses increased by 1.6% year on year to ¥506.9 billion due to a one-time expense associated with an early retirement incentive program; excluding this expense, SG&A expenses only increased by 0.1 percentage points.

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



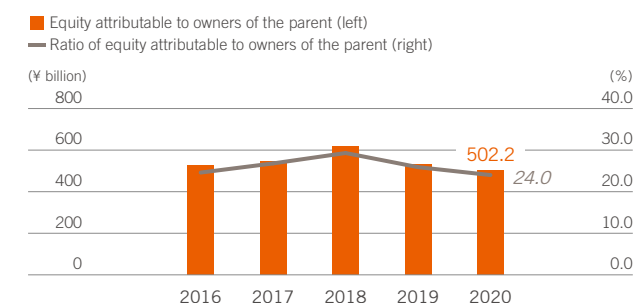
Earnings per share increased year on year by ¥223.13 to ¥43.15 while the dividend remained constant at ¥70 per share.

Net debt-to-EBITDA ratio



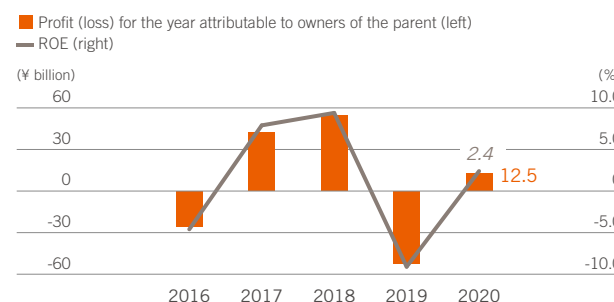
While interest-bearing debt increased due to the application of IFRS 16 “Leases,” the application of this standard also resulted in increased EBITDA, slightly improving net debt-to-EBITDA ratio to 4.6.

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



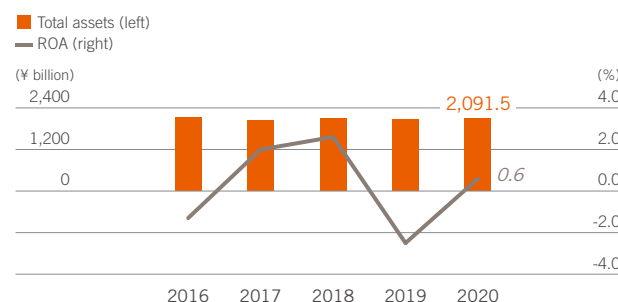
The ratio of equity attributable to owners of the parent as of March 31, 2020 was 24.0%, declining 1.9 percentage points year on year due to the increase in net interest-bearing debt resulting from the application of IFRS 16 “Leases.”

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



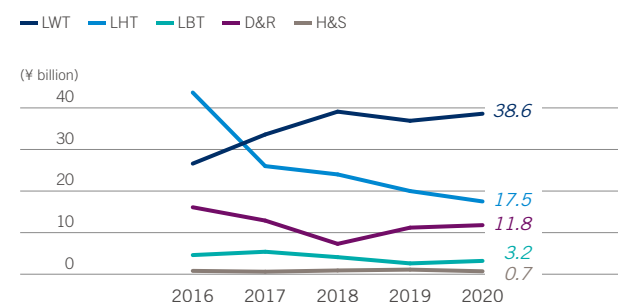
Profit for the year attributable to owners of the parent increased by ¥64.7 billion year on year to ¥12.5 billion due to the increase in core earnings and decrease in loss associated with Permasteelisa.

Total assets / ROA



Despite a holiday occurring at the end of FYE2019, the application of IFRS 16 “Leases” increased right-of-use assets recognized on the balance sheet, increasing total assets by ¥32.0 billion year on year to ¥2,091.5 billion.

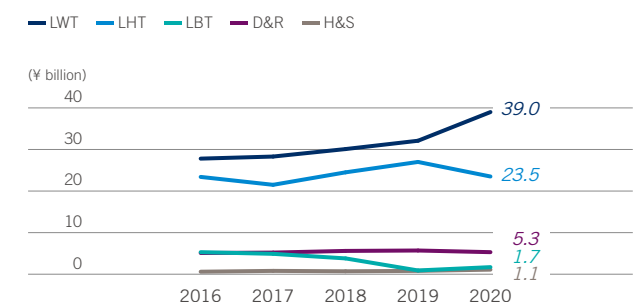
Capital expenditures by business segment



Expenditures derived mainly from investment in new product development, business rationalization, and maintenance costs for LIXIL Water Technology (LWT) and LIXIL Housing Technology (LHT). Improved production efficiency in LHT resulted in decreased capital expenditure.

Notes: 1. Excluding the FYE2020 impact of the application of IFRS 16 “Leases”
2. LBT: LIXIL Building Technology, D&R: Distribution & Retail Business, H&S: Housing & Services Business

Depreciation by business segment



Depreciation was primarily attributable to developing Group-wide IT systems and maintaining facilities. For LWT, depreciation increased due to initiatives to develop products for the domestic and international markets, while for LHT, depreciation decreased slightly due to improved production efficiency.

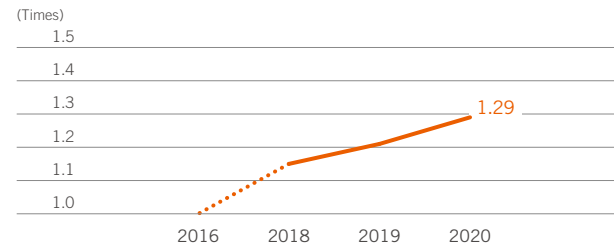
Note: Excluding the FYE2020 impact of the application of IFRS 16 “Leases”

Non-Financial Highlights

(Years ended March 31)

Environment

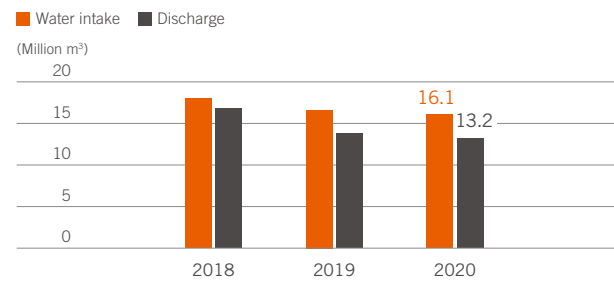
Contribution to reduction in CO₂ emissions from products and services (Measure: number of multiples compared to FYE2016 base year)



We conduct environmental assessments on products at every stage of the development process to make our products and services more energy conscious, and achieved a 1.29 times greater reduction in CO₂ compared to FYE2016.

*The reduction possible when customers use LIXIL's environmentally friendly products and services (in comparison to the reduction due to previous versions of those products)

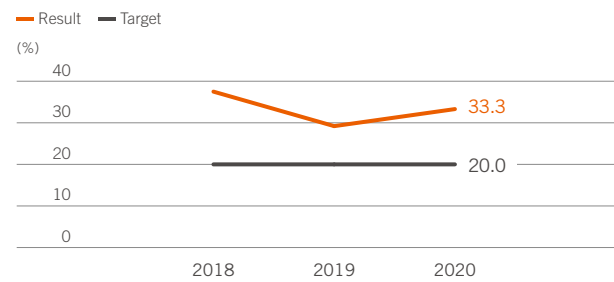
Water intake and discharge*2



By promoting water recycling, we reduced water intake to 16.1 million m³ and water discharge to 13.2 million m³.

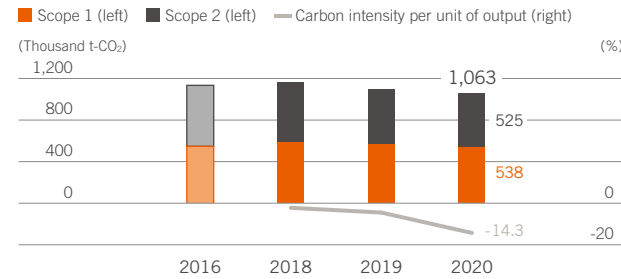
Social

Ratio of female participants in Stage 3 of the Talent Acceleration Program (TAP) for next-generation leaders (LIXIL Corporation, Japan)



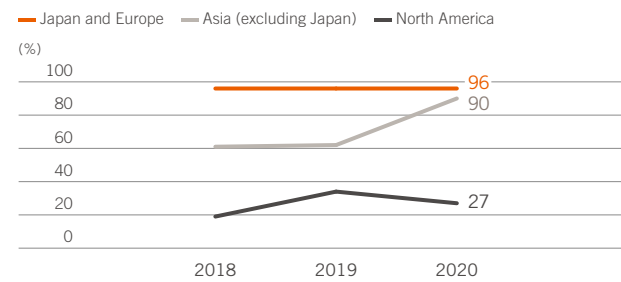
To encourage female participation in the workforce, we set and achieved a targeted 20% ratio of female participants in the younger category of the Talent Acceleration Program (TAP) for nurturing next-generation leaders.

CO₂ emissions from Group activities (Scope 1 and 2)*1



By seeking to increase energy efficiency and utilize renewable energy to further reduce CO₂ emissions, we achieved a reduction in carbon intensity per unit of output of 14.3%.

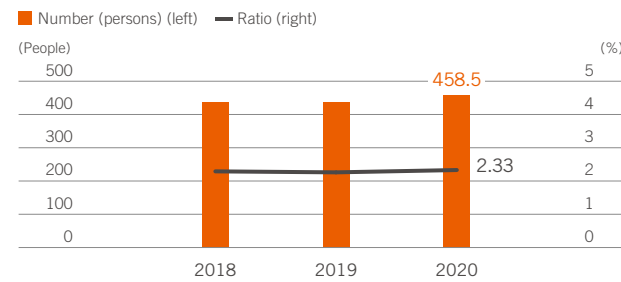
Waste recycling ratio*1



By working with stakeholders to minimize the use of newly introduced resources and promote reuse and recycling, we achieved waste recycling ratios of 96% in Japan and Europe, 90% in Asia (excluding Japan), and 27% in North America.

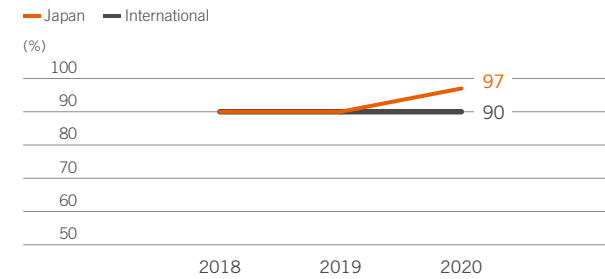
Number and ratio of employees with disabilities*3

(LIXIL Corporation, Japan)



We achieved a 2.33% ratio of employees with disabilities by adjusting working environments to suit the needs of each employee in a broad range of areas, including R&D, production, sales administration, and planning management.

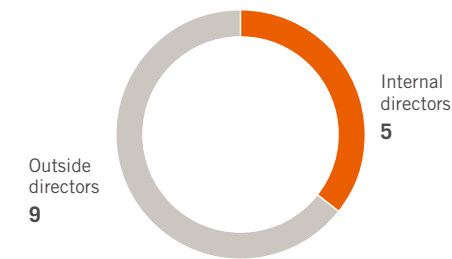
Implementation of responsible procurement surveys*4



We conduct surveys of our suppliers to promote responsible procurement and are achieving our target of a 90% implementation rate (based on purchased amount).

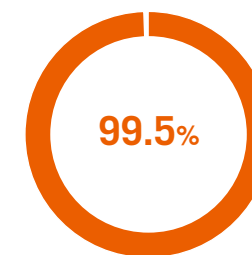
Governance

Number and ratio of independent outside directors



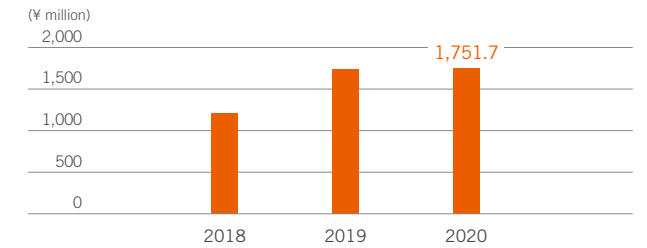
We place great emphasis on diversity in the Board of Directors both in terms of attributes, and expertise or experience.

Attendance rate at Board of Directors' meetings



The Board of Directors met 16 times in FYE2020. The attendance rate for Board of Directors' meetings was 99.5%.

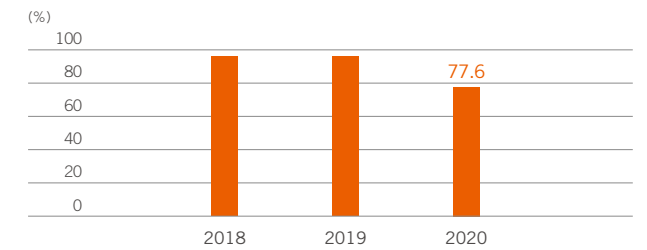
Community development expenditures*5



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.

Compliance training take-up rate*6

(Basic training completion and pledge rate)



We experienced some delays in implementing pledges globally due to COVID-19, resulting in a training take-up rate of 77.6% (partial data).

*1 Scope of coverage: The entire Group (production and non-production bases in Japan, and production bases outside Japan)

*2 Scope of coverage: The entire Group (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.

*3 Directly hired employees in Japan only
FYE2018 and FYE2019 include LIXIL Senior Life Company
FYE2020: number of persons on June 1, 2019. FYE2018, FYE2019: number of persons on March 31, 2017 and 2018, respectively.
Calculated based on the Employment Rate System for Persons with Disabilities issued by Japan's Ministry of Health, Labour and Welfare.

*4 Scope of coverage: Suppliers to LIXIL Corporation and its subsidiaries
Japan: Procurement by operating sites in Japan
International: Procurement by operating sites in international markets, excluding GROHE Group and American Standard Brands

*5 FYE2018 excludes Permasteelisa Group

*6 *Breakdown: Japan 98%, international 53.7%

LIXIL Group's sustainability policies and initiatives are on pages 46-55. For more information on ESG data, please visit our corporate website.

www.lixil.com/en/sustainability/data/

CEO Interview

**Kinya Seto**

Director, Representative Executive Officer,
Executive Officer and President, and CEO

LIXIL was able to reach a number of key milestones in the Medium Term Plan this past year. We asked CEO Kinya Seto about the highlights and where the Company is now headed.

Q1

What do you feel were LIXIL's main achievements over the past year?

Thanks to everyone's contributions, we made tremendous progress this past year to transform ourselves into a more agile and entrepreneurial company. Most visibly, we achieved a positive profit, but far more important were the great efforts that went into fundamentally improving our business, such as changing our working style and our organizational structure. I am pleased to see that, thanks to the strategic changes we have implemented, we are now ahead of our peers in embracing the "new normal" that we are facing globally. In addition, we reached an agreement on the sale of Permasteelisa under LIXIL's building technology business, a strategic divestiture that will enable us to focus on our core businesses and drive long-term profitability and growth.

Q2

You have pursued LIXIL's Medium Term Plan (MTP) since 2017. In the "new normal" of a world affected by COVID-19, do you need to recalibrate your strategy?

Not at all. In fact, the strategy that we set out in our MTP fundamentally prepared us for many of the changes that have come with this new reality. In the MTP, we emphasize differentiated products. With people now spending more time at home, they have a better understanding of the benefits of advanced technology and meaningful designs. Second, the MTP emphasizes the need to motivate our employees and to help them to adapt to a new and more agile way of working. We developed ahead of time the extensive technical infrastructure, software and bandwidth needed to enable the tens of thousands of video meetings that now take place weekly across the organization. And most importantly, steps taken to focus on our core businesses and to simplify our business structure are enabling us to focus our resources to drive growth. Overall, I believe COVID-19 and the global recession have sped up the

LIXIL is now ahead in embracing the "new normal" that we are facing globally.

pace of change beyond what anyone had anticipated, which is why our fast work in all these areas has been so important.

Q3

So how has the COVID-19 pandemic changed how LIXIL works?

There are two significant areas of change. When it comes to demand, we now see a greater focus on hygiene and health-related products. In Japan and many other countries, working people would leave home early each morning and return late, basically just seeing the home as a place to sleep. We found that many people seldom used their kitchens. But with working at home and fewer long commutes, many have now begun to realize the value of their home. They now want healthier and more stylish homes with better-designed products and building materials.

The second part is in how we do business and the digitalization of our commerce model. It is now clear that consumers appreciate the time-saving and immediacy of video meetings where we can share blueprints, design plans and mock-up designs all in a virtual world. Smartphones today can be employed to work up the highly detailed measurements that previously required physical visits, making the purchasing process easier than ever.

CEO Interview

Q4

There have been some big changes at LIXIL Housing Technology (LHT). What are you now seeing as the key trends?

We have been very successful in terms of bringing down unit costs within LHT by continuously improving the efficiency of our production lines as part of our platform strategy. This has helped us to bring down our fixed costs and allows us to renew our product lines at a lower level of investment. We will continue these efforts through this year while also looking to build our brand equity. The key is to give customers a product with better design and better technology.

However, we need to be aware of the broader industry trends. The number of new housing units in Japan, LHT's largest market segment, is expected to decline over the next few years. In addition, new houses are expected to use products and materials with longer lifespans going forward. This means that our higher-quality and differentiated products can continue to sell well.

At the same time, we also expect long-term growth in the renovation market. Similar to what we see in our water technology business, consumers are already starting to look around their residences and trying to find ways to improve space usage now that more people will be working from home. As just one indicator, we are seeing more website traffic for renovation-related products than ever before.

Design is not only how a product looks but also how people experience it.

Q5

For LIXIL Water Technology (LWT), you have talked about the importance of design and brand awareness. Is that another key part of your strategy?

Yes, absolutely. Design is a very important element, not only in how a product looks but also how people experience it. Central to this is our in-house design organization under the global direction of Paul Flowers, LIXIL's Chief Design Officer. Because he oversees products across all our product brands and geographies, we can provide an unmatched level of consistency. It may seem a small thing, but as a consumer, you want the color of your kitchen products all to match, so that an off-white in one LIXIL line will match the off-white tone of other products.

Our brand strategy also provides an important point of differentiation within our industry. Rather than segment products by price, we have given each brand its own identity. If you want a sleek urban type of bathroom, GROHE might be your choice. For a more traditional look with luxurious spaces, American Standard would be suitable. If you want Japanese technology with a more minimal look and feel, then INAX would be the natural choice. By focusing on lifestyle segments, we can avoid eroding brand equity when we want to try new product types and exploit new opportunities in new markets.

Q6

You have also instituted a number of changes in your corporate structure. How does that help LIXIL going forward?

Our goal is to create a flatter organization that enables front-line employees to do their work more efficiently with less unnecessary oversight. In Japan, we delayered our sales structure and have reduced the number of branch offices, area branches and local outlets to drive efficiency. This delayering has also applied to the most senior levels of the company. Today there are 24 corporate officers, down from 114 when I joined.

In terms of our portfolio, we have also simplified our investments with the sale of our controlling interest in the LIXIL VIVA chain of home improvement stores and the sale of Permasteelisa, which has been a goal for some time. These are critical steps to enabling us to focus on our core businesses, drive investment in growth areas, and improve governance.

On top of this, we are merging LIXIL Group Corporation and LIXIL Corporation, a move that will enhance management efficiency by eliminating duplication of resources and improve Group governance. This action in many ways symbolizes our broader efforts to create a flat organization that is purpose-led and entrepreneurial. I see this as our most important job ahead.

Q7

You have talked about making LIXIL a purpose-led organization. Does this mean there is a diminished emphasis on bottom-line profitability?

Just the opposite. In today's world, you must demonstrate that you stand for something. To achieve higher profits, you must create a meaningful company culture. We know that this is very important for our employees and consumers, and I believe that stockholders are now coming to understand this principle as well. If a corporation demonstrates its commitment to improving the world, consumers will take note and reward that company. We also believe this is a central part of making employees more engaged. If a LIXIL employee can see that their daily work is making a contribution, they will help the Company prosper to the benefit of all our stakeholders.

This can be clearly demonstrated by the success of our SATO social business. Through SATO, we provide basic solutions for the two billion people in the world who lack access to basic sanitation. This is no small mission, but it is an important part of our business. For example, in a recent promotion for shower toilets, we said that each sale would be matched with the donation of a SATO toilet in the developing world. Our employees believed this was a great opportunity to get involved and our business partners, seeing the benefit, told us that they wanted to promote more LIXIL products.

We are merging LIXIL Group Corporation and LIXIL Corporation, a move that will enhance management efficiency and improve Group governance.

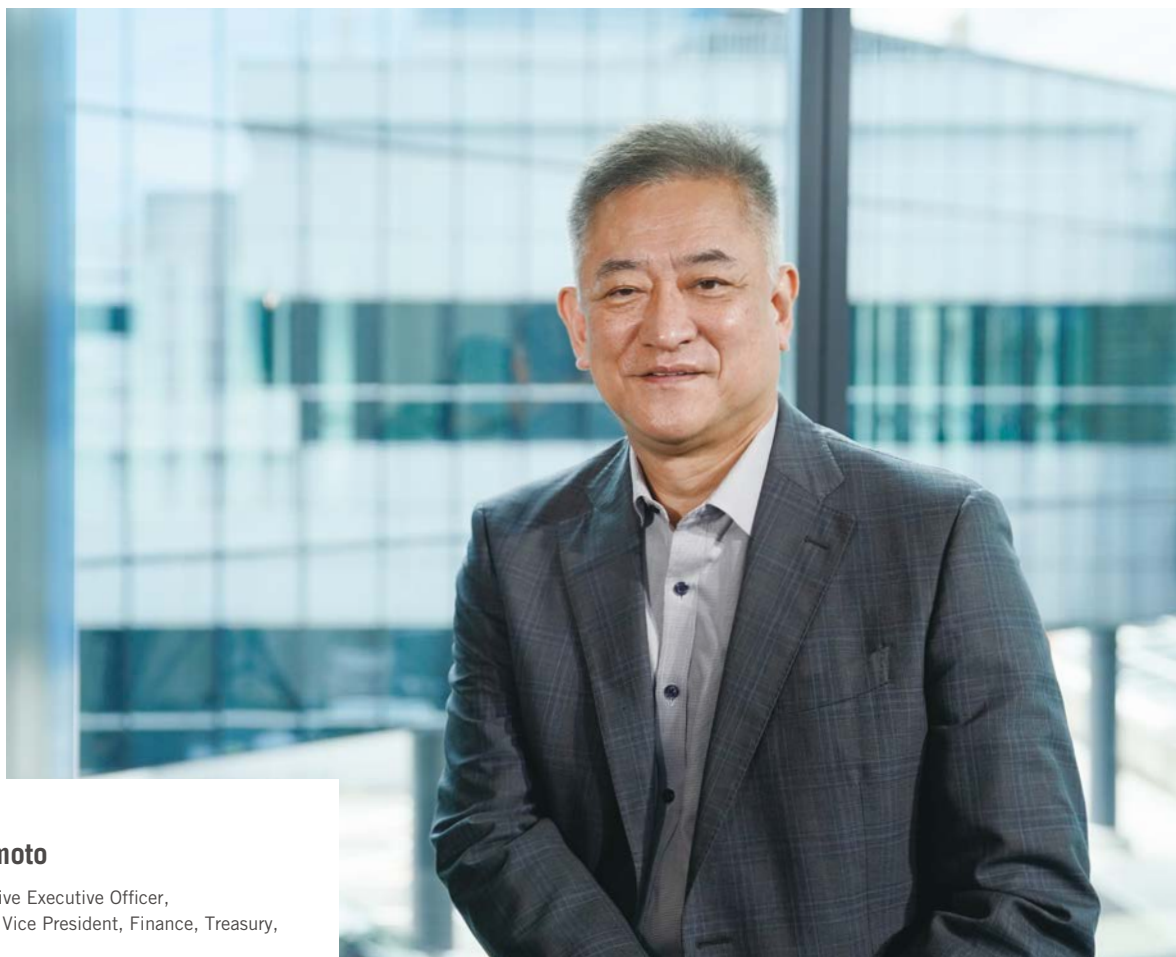
Q8

Based on what you have achieved this past year, what lies ahead for LIXIL?

We know that we will face difficult headwinds for much of the fiscal year. We must leverage the programs that we put in place to continue holding down costs and to embrace new ways of working and dealing with both consumers and professionals in the building industry. We will also keep an eye out for new market opportunities anywhere in the world, using our portfolio of brands to quickly fill market needs as we see them emerge.

And we must live up to our commitment of being a purpose-led organization. As part of this we have rolled out the *SATO Tap*, a new hand-washing solution. With the outbreak of COVID-19, we know that the simple task of hand washing is one of the most important ways to stop the spread of disease, but unfortunately, many people are not in a position to do so regularly. Our ability to develop, manufacture and bring this product to the market just when it is needed demonstrates for me what LIXIL can deliver – for consumers, employees and shareholders.

CFO Interview

**Sachio Matsumoto**

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

LIXIL has steadily made progress in simplifying its business portfolio and strengthening its balance sheet. CFO Sachio Matsumoto discussed the Company's focus and opportunities going forward.

Q1

How do you view overall results last year?

Overall, we were able to achieve our key target for core earnings, even with Permasteelisa – which we reached an agreement to sell—categorized as discontinued operations. This was because all of our business segments exceeded their initial targets, while in the Japan market, we experienced strong demand across the board ahead of the increase in consumption tax in October 2019. We were also able to introduce important internal reforms ahead of schedule, such as the Career Option early retirement incentive program. Considering the impact of the COVID-19 pandemic from the fourth quarter onward, I believe we can be proud of our achievements in the fiscal year ended March 31, 2020.

Q2

What progress have you made in strengthening the balance sheet? What is your target in this area?

We consider improving the balance sheet to be one of our top corporate priorities. Our agreements to sell Permasteelisa and LIXIL VIVA, which are important milestones in our strategy to realign our business portfolio, will significantly help improve the strength of our balance sheet. As key financial indicators, we are targeting a net debt/equity ratio of 1.0 and a net debt/EBITDA ratio of 3.5. We view these as important benchmarks and through the two divestitures, we believe that we are very much on target to meet those ratios by the fiscal year ending March 31, 2021.

On this note, due to the application of new accounting standards (IFRS 16) in the previous fiscal year, the debt ratios within LIXIL VIVA, primarily in relation to store leases, were recalculated at a higher level. The divestiture of the unit, therefore, will significantly help to reduce our lease liabilities and bring us closer toward meeting our targets.

In addition, the proceeds from the sale of the two subsidiaries will help increase liquidity and reduce external borrowing needs.

Q3

With the shift to teleworking, do you see cost-saving opportunities from rent and related areas in 2021 and beyond?

The COVID-19 outbreak toward the end of the fiscal year and the restrictions put in place by governments around the world changed how all of society works, and we believe we will be able to take advantage of reduced commuting time to improve the productivity of our employees while even improving the quality of work. As a result of this shift, a lot more work can be performed outside of the office environment, and therefore this provides us with the opportunity to review our office space requirements and look for potential savings. Fortunately, we had anticipated this trend and had already put in place a more robust infrastructure and work-style reforms to help facilitate this greater use of workspaces outside the office in order to secure leading

talent. Furthermore, with the expansion of working from home, we believe that there will be greater demand for our products and services as people seek to upgrade their workspaces and general environment at home.

Q4

Considering the results last fiscal year, what are the prospects for the medium and long term?

The divestitures of Permasteelisa and our holdings in LIXIL VIVA are important steps in improving our overall balance sheet. With these on track to close, we can focus more fully on improving our core earnings ratio. Our aim is to achieve 7.5% in the medium term and 10% or more in the longer term. To meet these targets, we aim to increase our gross profit margin while achieving lower selling, general and administrative expenses (SG&A).

To improve our gross profit margin, it is important to provide differentiated products and services. We are also working to reduce costs by improving production efficiency through the use of common platforms in product development, and to reduce SG&A expenses through systematization and greater operational efficiency.

In relation to working capital, we have been working for many years to improve our cash conversion cycle (CCC) by reducing accounts receivable and inventories while raising the accounts payable level.

In addition, we have greatly expanded the use of ROIC (return on invested capital) to drive performance throughout the Company. For the past two years we have created ROIC targets as key performance indicators on a global basis, while all executive officers are now given specific compensation-linked targets. All new capital investments will be prioritized on a company-wide basis looking at investment efficiency and cash flow implications. Goals are established on a monthly and quarterly basis to see where improvements are required. This approach of balancing returns against capital and SG&A costs will help to create long-term profitability for the Group.

LIXIL Group Executive Officers

(As of June 30, 2020)

Executive officer photographs were taken at different locations around LIXIL's newly redesigned WING global headquarters, which was unveiled in November 2019.*

*Due to the impact of COVID-19, Bijoy Mohan's image was taken in Singapore.

Profiles and reasons for selection of executive officers of LIXIL Group are available on our corporate website.

www.lixil.com/en/about/governance/board/

To read more about the innovative design of LIXIL's WING headquarters, read "Our Stories" here:

www.lixil.com/en/stories/stories_18/



Kinya Seto

Director, Representative Executive Officer, Executive Officer and President, and Chief Executive Officer (CEO)

Number of Company shares owned	243,308
Shares of Phantom Stocks	139,480



Sachio Matsumoto

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

Number of Company shares owned	86,344
Shares of Phantom Stocks	44,600



Bijoy Mohan

Executive Officer and Senior Managing Director, LIXIL International

Number of Company shares owned	0
Shares of Phantom Stocks	146,815



Hiroyuki Oonishi

Executive Officer and Senior Managing Director, LIXIL Water Technology (LWT) Japan

Number of Company shares owned	13,910
Shares of Phantom Stocks	10,706



Yugo Kanazawa

Executive Officer and Senior Managing Director, Marketing, Digital, and IT, and Chief Digital Officer (CDO)

Number of Company shares owned	10,086
Shares of Phantom Stocks	14,070



Jin Song Montesano

Director, Executive Officer and Senior Managing Director, Human Resources and General Affairs, Public Affairs, Investor Relations, External Affairs, and Corporate Responsibility, and Chief People Officer (CPO)

Number of Company shares owned	7,758
Shares of Phantom Stocks	17,128



Satoshi Yoshida

Executive Officer and Senior Managing Director, LIXIL Housing Technology (LHT) Japan

Number of Company shares owned	10,043
Shares of Phantom Stocks	11,004



Shoko Kimijima

Executive Officer and Senior Managing Director, Legal and Compliance, and Chief Legal & Compliance Officer (CLCO)

Number of Company shares owned	0
Shares of Phantom Stocks	5,961

Megatrends

The world around us continues to evolve, shaping and guiding LIXIL.



1 | A World Affected by COVID-19

The COVID-19 pandemic shows how sudden events can have long-term consequences. Such seismic events also serve to greatly accelerate social and economic change that was already underway. Health awareness has risen, work has shifted from the office to the home, and digital commerce has soared, including a 50-70% surge in digital traffic in developed economies as the virus spread*1. Agility, innovation and resilience will be key to traversing the “new normal.”

Opportunity New health and hygiene-related products employing the best technology are in greater demand

Risk The economic cost of the outbreak and the longer-term risks to business growth remain uncertain throughout the medium term

*1 SSR, April 2020

2 | The Rise of the Middle Class

Despite the economic setbacks caused by COVID-19, the rise of a new global middle class is expected to continue in the long term*2. Already constituting more than half of the world’s population, the number of those considered financially secure is expected to rise to more than five billion people by 2030*3. Established growth markets of China and India are now being joined by the fast-growing nations of Southeast Asia. In all, 88% of the growth in this new middle class is expected to come from Asia*4.

Opportunity Upgraded hygiene and housing are among the first priorities for people as they gain more disposable income

Risk The new middle class is still less affluent than their developed-economy counterparts. Competitive pricing and value for money will be vital to win their business

*2 Brookings Institution, March 2020
 *3 Brookings, September 2018
 *4 Brookings, February 2017

3 | Japan’s Maturing Market

Japan has the fastest-greying population in the world but also holds the world’s largest pool of private savings, a number that continues to grow*5. Despite this wealth, Japan has a lower level of investment in residential property than the US, the UK or Germany*6, showing there is room for growth as people look for more comfortable spaces for teleworking and other stay-at-home activities. Since the COVID-19 outbreak, more time is also being spent on home improvements*7.

Opportunity With people spending more time at home either for work or play, there is a growing market for renovations of existing properties

Risk New housing starts, forecast to decline by one-third between 2020 and 2030, are being further impacted by the uncertainty of the COVID-19 pandemic

*5 Wisdom Tree Japan, September 2018
 *6 Mitsui Fudosan, May 2020
 *7 Unruly Group, April 2020

4 | A New Type of Consumer

The new generation of consumers, whether established millennials in developed economies or the new middle class in emerging markets, have different spending habits. Research shows that the sharing economy and a focus on experiences rather than the purchasing of goods are driving their spending patterns. At the same time, young people in this new global middle class dedicate a large share of their spending to housing and spend at higher rates than older people.

Opportunity Differentiate water and housing products to demonstrate they are more than just products but a part of one’s lifestyle

Risk Mass production of limited items, which is better suited to fast-growing markets, increases risk of being caught in the commodity trap

*8 Harris Group, May 2016
 *9 Visa Business and Economic Insights, December 2018

5 | All Things Digital

Impacted by COVID-19, the march to an internet-based world of commerce is now a sprint, with the transaction value of global mobile payments expected to grow nearly 25% annually over the next five years. This has created a new shopping model that can match up consumers and suppliers from across the globe. Consumers are now showing a willingness to purchase whole new ranges of products through computer-assisted shopping that is far beyond what could be imagined a few years ago. Augmented reality and other powerful tools allow for entire kitchens to be created and purchased online.

Opportunity Gain consumer insight and leverage powerful digital tools to create an entire home environment online

Risk An area that will require continuous investment and upgrading to make sure the Company remains at the cutting edge of technology

*10 Mordor Intelligence, June 2020

6 | The Impact of Climate Change

The total cost of achieving carbon neutrality is estimated at US\$50 trillion, while the economic impact is incalculable*11. But the United Nations warns that “the highest cost is the cost of doing nothing*12.” Despite the growing evidence of the impact on the environment, a global consensus on coordinated action remains elusive. A new sense of purpose is needed urgently before it becomes too late.

Opportunity More advanced products and ways of working that reduce the resources we use are an important contribution to solving the problem

Risk A failure to overcome the steady rise in temperatures could create massive dislocations that would overwhelm our abilities to combat them

*11 Morgan Stanley, October 2019
 *12 United Nations, April 2020

7 | The Changing World of Work

The COVID-19 outbreak has given sudden impetus to the already changing way we work. A U.S. survey found that 48% of employees planned to work from home at least part time even after COVID-19*13. In Japan, it has even shone a light on the prevalent inefficiencies of its corporate culture. Companies will be pressed to cater to the new needs of employees.

Opportunity Transform work style to create a highly engaged, diverse and productive workforce

Risk Inability to adjust organization and engage employees in the “new normal” could impact long-term resilience and efficiency

*13 Gartner, June 2020

8 | What Does a Company Stand For?

More than ever before, a company’s commitment to social issues is vital to long-term success. Studies show that younger consumers look specifically at these issues when deciding on which firms they will select in making their purchases. Among millennials in the US, more than 70% are willing to pay more for a sustainable brand*14. Internally, the fair treatment of all employees and the presence of comprehensive methods to reward and counsel are central to recruitment and retention.

Opportunity Leadership in this area as a socially aware company that brings together the best in global practices is a clear differentiating feature in dealings with all stakeholders

Risk Growing social movements have shown vigilance and action beyond just words are vital to demonstrate commitment

*14 The Nielsen Company, October 2015

Progress of Management Strategy

LIXIL unveiled the Medium Term Plan in 2017. Under the guidance of our four core pillars, we have embarked on a journey that will transform us into an agile, entrepreneurial company that can achieve sustainable growth by contributing to society.

1 Establish a purpose-driven entrepreneurial company

LIXIL aims to develop a people-focused organizational culture that can respond quickly to both the external and internal changes of a world in transition. We believe an entrepreneurial mindset is vital to achieving this, and today we are finding new ways to create a more agile work environment and enabling greater and faster exchange of ideas. We also believe that we must become a company that evokes passion and respect, inspiring and uniting not only our own people around goals that go beyond everyday life, but all of our stakeholders. And as our operating environment shifts, we have to be ready to consistently redefine our business domain to ensure future growth.

FYE2020 MILESTONES

- Announced merger of LIXIL Group Corporation and LIXIL Corporation, which will enable accelerated decision-making, enhanced management efficiency, and improved governance. LIXIL will transition from its current holding company structure to a simplified operating company that places greater focus on actively managing its core water and housing product businesses
- Simplified business portfolio and continued to focus on water and housing products businesses by announcing the divestments of Permasteelisa, LIXIL VIVA, Ken Depot, LIXIL Suzuki Shutter and others. In addition to enabling greater synergies through enhanced integration, these transactions will strengthen LIXIL's balance sheet and financial position
- Established LIXIL International to centrally oversee global businesses and enhance synergies and growth opportunities, while also centralizing reporting lines for core corporate functions – Finance, Legal, HR and IT – enhancing alignment to achieve company-wide goals
- Embraced purpose-driven initiatives across the organization, helping 18.6 million people to date gain access to basic sanitation and achieving our carbon intensity targets two years in advance

2 Develop attractive and differentiated products

In the increasingly commoditized housing products and materials market, LIXIL will drive profitable growth by investing more in brand, design, technology and quality. We believe we can better respond to the individual tastes and preferences of the growing middle-income and high-income segments by differentiating ourselves through products that are meaningful and matter to people. This will further strengthen our intellectual property base, and as we shift to a more asset-light business model, we will be able to bring more products to markets in shorter cycles.

FYE2020 MILESTONES

- Brought design teams in-house under the Global Design Organization and established a new design studio in Singapore, joining existing studios in London, New York, Düsseldorf, Tokyo and Tokoname
- Reworked the entire design process across the organization, clearly differentiating brands from each other and from competitors through design values and signature elements in order to build consistency and enhance brand value
- Unveiled the latest design series of the INAX brand, which went through LIXIL's in-house design process, at Milano Salone last year, resulting in multiple design awards in a single year due to new consumer-centric design concepts
- Established tie-ups between LHT and renowned Swiss and Belgian companies to develop and introduce new high-end products, including frameless large windows and garden annexes, to tap into the growing luxury housing market segment in Japan

3 Achieve competitive costing

To further strengthen our financial position, LIXIL will leverage new technology and infrastructure to create a more efficient and flexible manufacturing supply chain platform. In addition, we will improve productivity of corporate functions while redeploying knowledgeable personnel to consumer-facing roles with resource needs, contributing to greater cost efficiency.

FYE2020 MILESTONES

- Under the “*Kawaranaito* LIXIL” program to transform Japan operations in light of long-term market challenges, LIXIL shifted to a more meritocratic employment system, including introducing a performance review system and new career planning support to help boost productivity, while accelerating the implementation of LIXIL's digital transformation and HR policies in order to provide employees with greater work-life balance and flexibility
- Implemented the Career Option early retirement incentive program in Japan, a solution beneficial to employees, to bring fresh perspectives and energy to management positions and address the aging management structure facing LIXIL and other major companies in Japan
- Implemented Robotic Process Automation (RPA) through in-house developers as a tool to improve productivity of primarily back-office functions by automating recurring operations
- Fully implemented new trading system introduced in FYE2019, enabling faster decision-making on pricing in line with market demand
- Completed implementation of standardized core manufacturing platforms for multiple products in interior and exterior factories in Japan, improving cost control and enabling faster introduction of new products to market

4 Drive growth through strategic marketing

We will harness strategic marketing to increase LIXIL's touch points with consumers and influencers such as contractors, designers and builders. In addition, through the promotion of services such as “LIXIL PATTO Reform,” we will create new demand for home renovation in Japan by providing solutions to challenges holding back market growth.

FYE2020 MILESTONES

- Accelerated digital transformation under the impact of COVID-19 pandemic, harnessing available and proprietary technology that enables consumers to experience showrooms through online consultations and 360-degree images, as well as generate 3D renderings and price quotations in real time
- Targeted investments to support the development of e-commerce platforms, including strengthening direct-to-consumer channels in the US with new products such as the American Standard Filtered Kitchen Faucet
- Expanded IoT products and service portfolio to define the next-generation home and develop the home IoT ecosystem
- Driving demand growth in the Japan renovation market by developing and launching products as well as through new marketing campaigns that address changing lifestyles and work styles in the “new normal”

LIXIL's Businesses

LWT

LIXIL Water Technology

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



American Standard Saybrook Filtered Kitchen Faucet

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

Major brands



SWOT analysis

Strengths	Opportunities
<ul style="list-style-type: none"> • Combined capabilities managed by coordinated global team • Highly regarded brands and strong market positions across all major geographies • A product portfolio spanning all market segments, from the luxurious to the basic ends of the spectrum • Globalized and independent design team creating clear and separate propositions for each brand and its target segments under the unified "LIXIL design thinking" • Sales network in more than 150 countries • Global supply chain network 	<ul style="list-style-type: none"> • Growth opportunities related to COVID-19, which is driving focus on improving health, hygiene, wellness and wellbeing • Higher demand from population growth and increasing income levels around the world • Development of differentiated products for the global market by transferring and consolidating technology and design within LWT, based on development of product platforms using Japanese technology • Increased demand for products catering to increased environmental awareness • Increased home renovation investment as consumers reflect the higher share of time spent at home in their expenditure
Weaknesses	Threats
<ul style="list-style-type: none"> • Strongest footprint is in mature economies • Underinvesting in marketing and brand management in international markets 	<ul style="list-style-type: none"> • Decreasing new housing starts in Japan • Increase in labor cost and material prices • Shortage of skilled labor • Rapid commoditization due to new business models • Downward pricing pressure • Rise of highly cost-competitive manufacturers from developing countries • Economic deterioration and sluggishness due to the impact of COVID-19, particularly the impact on end users in the hospitality and commercial real estate sectors

luxurious to the basic ends of the spectrum, while catering to different lifestyle preferences and local tastes. Leveraging this unique strength, we are now developing LWT's business in emerging markets in particular, where the middle class is expected to grow further.

With the formation of LIXIL International in 2019, a business management structure that covers all operations outside of Japan, LWT is now capable of bringing the global resources of LIXIL, including design, R&D and manufacturing capabilities, together across all regions. Through LIXIL International, we are also honing our competitive edge by enhancing cross-regional and cross-brand synergies, which combined with improved production efficiency, will enable LWT to respond more flexibly to global demand. This global operations framework enables all factories and R&D hubs to be leveraged to supply all brands and regions, creating an efficient and flexible network that optimizes our global footprint, creates scale competitiveness, and builds future-ready processes for quality, demand planning, product development and customer service. This will enable us to deliver true value to business partners and consumers by responding to specific regional needs while leveraging our global operations footprint and managing innovation and manufacturing platforms.

Key Initiatives in FYE2021

- Create clear and differentiated value for end users, professionals, designers and developers as main target groups that will drive industry growth
- Drive sales growth through focus on target groups by strengthening powerful channels, business partner legacies and brands
- Optimize global manufacturing footprint and enable technology platforms approach to maximize productivity, strengthen cost competitiveness, and enhance flexibility. These initiatives allow us to flexibly react to demand fluctuations caused by COVID-19 and ensure continued strong product availability
- Respond faster to increase in demand for renovation and the end-user journey moving increasingly online
- Invest in innovation for future growth and continue to build a platform-based, global product pipeline across all brands. This includes accelerating the development process for synergized products leveraging technologies from Japan for global launch
- Respond to the major macro-trends accelerated by COVID-19 by focusing on home renovation and accelerating development for hygiene-related products, as well as strengthening retail in international markets
- Transform business structure in the Japan market to suit its mature economy, strengthening cost competitiveness
- Employ a scalable and repeatable, high ROIC model of filling category white spots

Market Conditions

The global plumbing fixtures and fittings market is worth ¥5 trillion today and is forecast to grow in the future. In international markets, despite COVID-19-related restrictions causing significant losses in the global market, European and North American markets have been resilient against the backdrop of monetary easing. The world's growing population, which is expected to reach 8.5 billion people in 2030, is also driving new growth. In particular, the growing middle class and increasing need for energy and water conservation technology globally are among key trends expected to increase demand for water technology products in the future. In Japan, the demand for new housing has been decreasing over the

long term, and COVID-19 is accelerating this trend. However, the renovation market, while small, shows potential for growth driven by increased focus on hygiene and healthy homes. With COVID-19, the entire world is now also more focused on hygiene, which is expected to further drive demand for products such as touchless faucets, shower toilets, and water filtration.

Key Strengths

Among LIXIL Water Technology's (LWT) core strengths is a portfolio of powerful, industry-leading brands which include GROHE, American Standard and INAX. Combined, these brands cover all bathroom product categories and all market segments, from the

LIXIL's Businesses

LHT

LIXIL Housing Technology

LHT's brands TOSTEM, INTERIO, EXSIOR, SUPER WALL, and Kawashima Selkon Textiles produce a range of housing-related products, from window sashes to entrance doors, exterior building materials, interior furnishing materials, and fabrics, helping to make better homes a reality.



Interio Lassisa

Principal products and services

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

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

Other building materials
Siding, stone materials, roofing materials, etc.

Interior fabrics
Curtains, etc.

Other
Solar power systems, etc.

Direct customers

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

Competitors

- YKK AP
- Sankyo Tateyama

Major brands



SWOT analysis

Strengths	Opportunities
<ul style="list-style-type: none"> • Top market share in residential window sashes and exterior products in Japan • Extensive nationwide sales and distribution network in Japan • Wide range of production facilities and technologies in Japan and Asia, from aluminum smelting and casting to manufacturing end products • Wide range of products and product categories enabling coordination for the entire home 	<ul style="list-style-type: none"> • Increasing need for highly functional products due to increasing awareness of environmental and health factors among consumers in Japan • Growing demand for new products and services suitable for Japan's aging society • Increasing interest in renovations due to COVID-19 • Expanding market for highly affluent consumers • Increasing need for differentiated products due to population growth and rising income levels in Asian markets
Weaknesses	Threats
<ul style="list-style-type: none"> • Difficulty in developing differentiated products • Commoditization of products • Profit and loss structure vulnerable to change in external factors such as material price/demand fluctuations 	<ul style="list-style-type: none"> • Decrease in new housing starts in Japan • Increase in labor cost and material prices • Decrease in housing-related spending due to stagnant income levels in Japan • Stagnant consumer sentiment due to the impact of COVID-19

products can also be coordinated to provide a seamless design experience in the entire home.

Leveraging the strengths derived from a simple organization structure that facilitates the rapid development, manufacture, and sale of products, we are now strengthening LHT's competitiveness by innovating new designs and technologies, as well as enhancing efficiencies in product development and manufacturing processes by means of synergies within the Group. By relying not only on the resources within LHT but by also establishing business alliances with other companies that possess different technologies and know-how, we will launch differentiated, high-value-added products in quick response to market needs.

Key Initiatives for FYE2021

- **Expand sales of products for the "new normal"**
In response to the changing needs of consumers due to the impact of COVID-19, as well as to stimulate and capture demand for renovation, we will strengthen sales of products that are touchless and reduce close interaction, enable improved ventilation, support working from home, and help users "switch on and off" between work and their personal lives. This includes, for example, our IoT postal delivery box, which reduces face-to-face interaction with delivery personnel.

- **Improve production efficiency**
In FYE2020, while continuing to reduce stock keeping units (SKUs), we adopted a platform approach for exteriors and wooden interior furnishing materials, which contributed to shortening product development periods, improving capital efficiency, and strengthening profitability. In FYE2021, we are steadily reforming the window sash business and expect to see the effects from the following fiscal year.
- **Enhance promotional activities**
We will strive to expand sales of products designed to create healthy, comfortable, secure and safe homes through awareness-raising activities. These include, for example, how to prevent heat stroke indoors, prevent heat shock during winter, and prepare for natural disasters such as typhoons. We will also strengthen the appeal of our power brands, such as TOSTEM, among consumers and influencers to help drive sales of high-value-added products.
- **Expand existing business fields**
Aiming to expand our presence in the growing market for highly affluent consumers, we are collaborating with international manufacturers to launch products of exceptional quality, performance, and design. We will further pursue activities through the Business Incubation Center, which was launched in April 2019, to quickly place highly innovative products on the market.

Market Conditions

In Japan, the number of new housing starts has been decreasing over the long term as a result of the country's aging and shrinking population. COVID-19 is expected to accelerate this rate of decline. Under these circumstances, it has become more important to stimulate and capture demand for renovation, and building material manufacturers are expected to increasingly focus on this field. In the renovation segment, since the quality, performance, and design of the products themselves are of great significance for the owner, understanding the end user's preferences as well as differentiation – through new products, services, and business models that meet diverse needs – will be key.

In international markets, the building materials market – despite having been particularly heavily affected by COVID-19 in Asia – is expected to continue expanding in the medium to long term against a backdrop of economic growth and increases in population and income levels.

Key Strengths

LIXIL Housing Technology (LHT) possesses a wide variety of products with high market share and a robust nationwide sales network. LHT's products are designed to contribute not only to improving the comfort of the home but also address key social issues such as climate change. Due to their wide variety, LHT

LIXIL's Businesses

LBT

LIXIL Building Technology

LBT manufactures products and offers services to support the construction of buildings that are environmentally conscious and which provide better spaces to live, work, study, and play. Major products are curtain walls, building window sashes, and store facades.

Principal products and services

Metal building materials

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

Direct customers

- Construction companies
- Architectural firms

Major brands



LIXIL WING, Hoshi building

H&S

Housing & Services Business

H&S offers comprehensive housing and lifestyle support to customers in Japan throughout all stages of their lives.

Principal products and services

Housing solution businesses

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

Real estate

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
- Housing site ground inspection business: Construction companies and real estate transaction agents
- Real estate brokerage franchise business: General consumers



GL Home WoodsHill

Major brands



D&R

Distribution & Retail Business

D&R provides consumers with a unique array of housing- and lifestyle-related products, materials, and services through its Super VIVA Home and VIVA Home stores in Japan.

Principal products and services

Home centers

Household products, DIY products, building materials, etc.
(Expected to be sold in November 2020)

Direct customers

- General consumers
- Construction professionals

Major brands



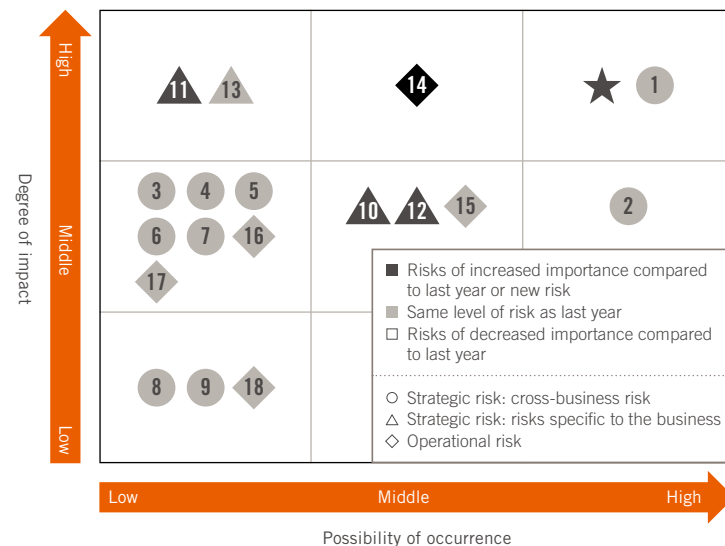
Super VIVA Home in Kaishikishima, Yamanashi

Principal Risks and Countermeasures

In order to achieve our business objectives, we regularly identify, assess and monitor risks according to Group-wide standards. This enables us to better understand the nature of the world we operate in and make better informed management decisions, ensuring we continue to generate value for our stakeholders.

LIXIL regularly monitors strategic and operational risks and implements countermeasures at all levels of the business in order to manage them. In addition, the Audit Committee monitors whether effective measures are being taken to address high-priority risks through participation in the Board of Directors and other committees.

Note: For a full description of LIXIL's strategic and operational risks and countermeasures, please visit: www.lixil.com/en/investor/strategy/risks.html



New: The COVID-19 Pandemic

The COVID-19 pandemic is expected to affect a wide range of LIXIL's business activities. Failure to protect employees through Occupational Health and Safety (OH&S) safeguards could result in personal harm while government regulations such as lockdown measures could affect local operations. The unprecedented and unpredictable nature of the pandemic could also cause supply interruptions, slowdown or suspension of production, and even delays in new product launches. Combined with the economic slowdown, this could negatively affect our business performance and financial position.

Countermeasures:

- Coordinating global HR policies and implementing OH&S protocols and communications processes to prioritize people first
- Leveraging IT infrastructure to transition operations online
- Managing flexible global supply chain to maintain product and material supply
- Securing working capital from financial institutions and ensuring high liquidity through effective capital investments and by managing SG&A expenses

Business Risk (FYE2020 Report)			
Strategic risk	Cross-business risk	★ Risks related to COVID-19	
		(1) Risks related to changes in the economic environment	
		(2) Risks related to fluctuations in exchange rates and interest rates	
		(3) Risks related to the development of new products	
		(4) Risks related to the supply of raw materials	
		(5) Environmental risk	
		(6) Risks related to business restructuring	
		(7) Risks related to the acquisition and development of human resources and the promotion of diversity	
		(8) Risks related to the capacity of facilities	
	(9) Risks related to tie-ups with other companies and corporate acquisitions		
	Business-specific risk	LWT*	(10) Risks related to sales channels
		LHT*	(11) Brand risk
		LBT*	(12) Risks related to competition with competitors and product prices
	Operational risk		(13) Risks related to long-term contracts
			(14) Risks related to disasters, accidents and infectious diseases
			(15) Risks related to information security
			(16) Risks related to litigation and other legal proceedings
			(17) Risks related to product liability and claims
		(18) Recoverability risk of deferred tax assets	

*LWT: LIXIL Water Technology, LHT: LIXIL Housing Technology, LBT: LIXIL Building Technology

Strategic Risks

Strategic risks affect the implementation of LIXIL's business strategy. The following strategic risks were evaluated to have a moderate to high degree of impact or possibility of occurrence.

Strategic risks		Countermeasures
Group-wide	Changes in economic environment	<ul style="list-style-type: none"> • Sales and profits in Japan are affected by housing demand, business conditions, price fluctuations, and industry trends. In particular, changes in housing starts and orders received by construction companies could adversely affect our operating results and financial position. We also engage in production and global sales activities in the Americas, EMENA, APAC and Greater China regions. Should war, trade conflicts, social unrest or other incidents occur, changes to sales activities and our supply chain in these regions could adversely affect our performance. • Growing share in the new construction market, expanding sales in the mid- to high-end market, and strengthening renovation strategy in Japan • Monitoring geopolitical and social developments through external third parties, etc., to identify signs of emerging risks • Operating a stable supply chain system by maintaining appropriate inventory levels, including products and raw materials by securing alternative suppliers
	Fluctuations in exchange rates and interest rates	<ul style="list-style-type: none"> • With significant operations outside of Japan, exchange rate fluctuations could materially impact the yen value of assets and liabilities arising from foreign currency transactions, in addition to sales prices and revenues from products traded in foreign currencies. With funding mainly comprised of interest-bearing debt, such as loans from financial institutions, a significant increase in market rates could increase our interest burden, making it difficult to raise funds through such borrowings and increasing interest expenses. • Operating a system in the Japan Treasury Unit to identify working capital and capital needs for investments and loans, and screening all transactions through the Investment Review Committee • Operating Regional Treasury Centers in China, Singapore, Germany and the US to monitor foreign exchange rates, hedge transactions, and consolidate fund management operations regionally
LWT	Sales channels	<ul style="list-style-type: none"> • LIXIL Americas offers a wide range of medium- and high-end products to suit various lifestyles. Its distribution structure, however, is shifting from conventional sales channels, such as distributors and retailers, to direct sales to consumers, such as through its own e-commerce platform. While striving to transform its business and cost structure, the inability to capture sufficient consumers during this transition could affect profitability and cause LIXIL to record a potential impairment loss on goodwill. • Strengthening sales plans with authorized distributors and expanding sales channels to include construction companies • Developing e-commerce platform to capture direct demand from end users • Implementing management systems to ensure information security and prevent disruptions to digital platforms
	Brands	<ul style="list-style-type: none"> • The GROHE brand has expanded into emerging markets such as Asia and Africa, requiring more flexible pricing and the development of localized products. This could erode GROHE's brand value and earning power. In addition, if the GROHE brand is not strategically managed within the LWT business, the brand and its designs may no longer be sufficiently differentiated, affecting profitability. These factors could cause LIXIL to record a potential impairment loss on goodwill. • Investing in brand to maintain brand value and develop differentiated products • Monitoring and analyzing sales prices of GROHE and competitors globally to implement consistent pricing strategy and maintain optimal price corridor • Maintain brand value and differentiate from other brands in LWT's portfolio through brand and design signature elements
LHT	Competition and competitive pricing	<ul style="list-style-type: none"> • The building and construction materials market in Japan is an oligopolistic market where the pricing decisions of competitors can affect revenue and profitability. While able to launch high-quality, attractive products, LIXIL may not be able to develop a competitive advantage in terms of prices. There is a possibility that our Group's products and services will be exposed to severe price competition, which may adversely affect operating results and financial position. • Promoting the launch of value-added and differentiated products, including through tie-ups with global manufacturers to launch products in growing market segments • Working to raise sales prices, including through trading system that enables faster decision-making on pricing in line with market demand
LBT	Long-term contracts	<ul style="list-style-type: none"> • Building project contracts are characterized by a long cycle of quotations, bids, orders, contracts, construction, and deliveries. With revenue and expenses recognized as the contract progresses, discrepancy between estimates and actual results, which can be affected by a number of factors, could deteriorate the profitability of a project. In addition, changing economic conditions or the financial condition of borrowers during the course of a project may make some receivables uncollectible or necessitate an increase in the allowance for doubtful accounts. • Controlling the overall amount of bonds at the time of tendering and receiving the order, developing an order reception plan according to the operating status of existing projects, and rigorously examining order reception conditions • Strengthening governance through a system to examine bids and approve the conditions of receiving an order according to their monetary importance

Value Creation Process

Starting with our Corporate Purpose, LIXIL's value creation process describes how we create value in a sustainable and meaningful way for our stakeholders and society.

1

Our Corporate Purpose

To make better homes a reality for everyone, everywhere

4

The Value We Create

P.40

Outcomes for LIXIL

By following a strategy that prioritizes responsible business, we are increasing profitability through reduced volatility, an improved balance sheet and generating more consistent returns. Combined with our commitment to contributing to society, this will set us on the path to sustainable growth.

Outcomes for Stakeholders

- Employees** are proud of their company, thriving in an engaging and inclusive workplace that finds shared value in the LIXIL Behaviors and draws competitiveness from its diversity.
- Consumers** have access to brands and meaningfully designed products for the home which improve comfort in a sustainable and responsible manner.
- Partners** benefit from differentiated and high-quality products provided worldwide on a reliable basis, in addition to industry initiatives that create shared value.
- Societies** benefit from contribution that addresses social issues, including promoting global sanitation, innovating to mitigate climate change, and embodying diversity and inclusion.
- Shareholders** benefit from improved future earnings potential and a strong commitment to ESG principles.

Supporting progress of the SDGs

2

The Resources We Rely On

P.34

- Diverse and Purpose-Led People**
Approximately 75,000 employees providing the necessary competencies to achieve LIXIL's purpose
- Global Sales Infrastructure**
Established infrastructure in 150 countries enhanced by new digital business models
- Unrivalled Portfolio of Brands**
16 global product brands meeting the needs of a broad base of consumers around the world
- Meaningfully Designed Products**
Consumer-centric technology and designs to enhance user experience and solve social issues
- "Monozukuri" Manufacturing Platform**
Approximately 100 factories worldwide making multi-brand products better, faster, and more responsibly
- Sustainable Resource Management**
Reducing our environmental footprint through innovation in key areas like sanitation and water
- Financial Foundation**
Balanced investment for medium- and long-term sustainable growth and reliable returns

3

The Way We Create Value

P.38

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

- Strong governance
- Clear strategic goals
- A clear corporate purpose
- An efficient operating structure
- Universal "LIXIL Behaviors"
- A modern work environment

LIXIL's people

The Resources We Rely On



As part of LIXIL’s Value Creation Process, we leverage seven unique resources that enable us to achieve our Corporate Purpose.



Diverse and Purpose-Led People

Approx. **75,000**
employees
working around the world

Today more than ever, long-term corporate success relies on a diverse team of highly engaged employees motivated by meaningful work and broad opportunities to advance through learning and professional growth. For LIXIL, the human element in design, manufacturing and working effectively with partners and consumers is a core requirement. Our approximately 75,000 employees come from many different backgrounds, joining LIXIL from other organizations around the world or as part of legacy companies that became a part of LIXIL. It is therefore vital that we celebrate and leverage that diversity to the fullest and management’s focus is to build a global team of highly engaged employees who are proud to work for LIXIL. As part of leveraging diversity in order to foster the minds and skills we need, for example, over 30% of new graduate recruits at LIXIL in Japan are female, contributing to enhancing the 34.3% ratio of female employees at LIXIL worldwide.

Today’s employees also have higher expectations of their company. Not only must we show a total commitment to the core values of diversity and inclusion, we must be able to demonstrate that it is contributing to society in a positive and sustained manner. These corporate actions contribute to enhanced employee engagement and long-term sustainability, and create the goodwill that enables financial success.

To help ensure we have the right skills for a rapidly changing world, and to become a company that can attract and retain the best talent, we are redefining how we work. Every employee should recognize meritocracy and be empowered to build a fruitful career at LIXIL. We are striving to enable each employee to manage their own career journey and in the new workplace model, ensure they have the tools, learning opportunities, and supportive managers to help guide them and ensure LIXIL has the right capabilities in place to drive the long-term success of the Company.



Global Sales Infrastructure

Sales presence in
over 150
countries

LIXIL is present in more than 150 countries via a global footprint of sales channels and industry-leading brands that have been brought together to form our company. This provides us with an unmatched ability to identify and act on market opportunities as they emerge virtually anywhere in the world. We are today continuing to drive integration to further strengthen this global resource. In 2018, we formed the Synergy Creation Office, which helped to identify synergies across the regions in activities ranging from technology and product development to manufacturing and human resources. The ability to identify and quickly act on synergies across our global business is now further strengthened with the establishment of LIXIL International, overseeing the management of all international markets.

Digital technologies too are allowing the business to move closer to the consumer. With heightened awareness of health and hygiene following the COVID-19 outbreak, the importance of these technological capabilities has been further heightened. In markets such as Japan, the digitalization of showrooms using proprietary technology is



bringing new opportunities, while big data is contributing to product development. In the US, direct-to-consumer business models are allowing us to further cater to consumer needs, while in China, one-stop shop services bound by digital are solving traditional consumer pain points. The use of digital technology is serving as a bridge across markets worldwide.



Unrivalled Portfolio of Brands

Over **70%**
consumer recognition
rate for our brands

LIXIL brings together a unique portfolio of brands. Brands such as GROHE, American Standard, INAX and TOSTEM are industry-leading names, and in each of our business regions our brands have over 70% consumer recognition rate in multiple key markets. While each brand has its own unique personality and strengths, together they provide LIXIL with an unmatched offering and ability to meet the full scope of consumer preferences and needs. With our brands positioned as the jewels of our global growth strategy, LIXIL has moved from a company of individual brands to a “house of global brands,” serving every market segment and the breadth of consumers’ different lifestyles, tastes, and preferences. Through the unique processes and tools we have created, each brand has a clearly defined persona and appeals to different consumer segments ensuring they compliment each other and do not compete. By sharpening values and characteristics of each of these unique brands, we are also able strengthen touch points with consumers and build engagement and brand equity over the long term.

Management of our brands is fully aligned with how we think about design and the use of our technology and innovations. Leveraging our portfolio of global brands, we strategically integrate the advanced technology that has been developed in Japan to offer new and unique solutions to consumers and further build brand equity. At the same time, the design and marketing capabilities that have been refined by our international markets are now augmenting the strong technological capabilities

The Resources We Rely On



that have traditionally been the foundation of the INAX brand. Through such initiatives, we will further enhance the brand recognition and long-term equity of LIXIL's global house of brands.



Meaningfully Designed Products

6 design studios
in Europe, North America,
and Asia

LIXIL's design thinking approach brings the voice of the consumer to the heart of our product development process and is an important differentiator for the entire company. Designs that anticipate consumer needs and support lifestyles around the world have been vital to the success of our brands and create unique consumer experiences. Driving this is approach is the LIXIL Global Design Organization with six design studios in Europe, North America and Asia. Bringing design processes in-house and overhauling them, the Design Organization has won numerous awards for its innovative creations as well as contributions to brand communications. As an in-house resource, the design team is now involved in every step of the product development process.

With consumers increasingly seeking a coordinated

home environment instead of a collection of various items, LIXIL's design strategy and in-house capabilities offer a comprehensive approach, emphasizing vital elements to enable consumers to create a seamless design experience in the home.



"Monozukuri" Manufacturing Platform

Approx.
100 factories
around the world

LIXIL operates approximately 100 factories worldwide spread out across its regions. Our unmatched network of infrastructure allows us to meet demand anywhere in the world, an especially important capability at a time when global supply chains are constrained. The benefit of this capability, now managed as an integrated global operations network, became clear during the various stages of the COVID-19 outbreak where manufacturing could be shifted away from countries facing isolation orders to those less affected. As the impact of the virus shifted, so too could LIXIL's manufacturing, helping to ensure a steady supply of key products across key markets.

This global network model for operations, combined with the multi-product and multi-brand production capabilities of various factories, also gives LIXIL an unmatched ability to efficiently "go to market" with new, innovative products serving all market needs and without the need for expensive plant construction and related capital investments. This helps to lower ongoing costs and meet market needs with greater flexibility.

LIXIL's commitment to quality is another feature of its manufacturing capabilities. Cross-regional training and the chance to take the Japanese "monozukuri" model of manufacturing to other countries have helped our global operations to offer high-quality products. To further drive improvements in our global manufacturing network, LIXIL has appointed two leaders to establish unified technology and manufacturing organizations across LIXIL International's fixtures and fittings operations. This investment will help us manage operations more centrally, drive synergies across our brands, and enable cost efficiencies.



Sustainable Resource Management

14.3 %
decrease in CO₂ emissions
per unit of output

To truly be a purpose-led organization that contributes positively to society, every organization must look to reducing its impact on the environment. This requires a program of constant improvement as technology and innovation are brought together in line with the aims of the 2015 Paris Climate Agreement.

Since first implementing our Corporate Responsibility strategy in 2016, we have achieved our carbon intensity target two years ahead of schedule. Today, LIXIL accounts for 1,314 kg-CO₂ / ¥1 million in revenue representing a drop of 14.3% per unit of output. The company is accelerating its activities, and now commits to pursuing a net-zero carbon footprint and helping the world transition to a circular economy through its products by 2050. This program cuts across the entire organization. Manufacturing is of course a central element, but the program also covers activities from initial procurement through to product disposal.

Water resource management is an equally important part of this process, and particularly relevant in the context of our products. It is estimated that by 2050, over 40% of the world's population will not have access to a sufficient water supply*. Through innovation in our products, including ways to use less water in daily sanitation, we can help achieve global water sustainability.

*OECD Environmental Outlook to 2050 (2012)



Financial Fundamentals

Long-term goal of
10 %
core earnings ratio

A strong financial base is a critical part of LIXIL's success, both to reward our stockholders and to provide us with the capital needed to make profitable investments. Our goals in this area are ambitious but achievable. For the medium term, we are targeting a core earnings ratio of 7.5% and for the longer term, we are raising that to 10%. To help ensure we can meet these goals, we are including specific earnings-linked targets on Return on Invested Capital (ROIC) for each executive officer. We believe that the ROIC metric not only enables management to see the progress that is achieved in every part of the business but it also guides management on the adjustments needed regarding our actions to ensure that execution remains on track.

At the same time, we are strengthening the balance sheet through a reduction in our overall debt by limiting future capital expenditures through a better utilization of our assets. As part of this, we aim to achieve a net debt/equity ratio of 1.0 or less and will also target a net debt/EBITDA (earnings before interest payments, taxes, depreciation and amortization) ratio of 3.5. Through the planned sales of Permasteelisa and the LIXIL VIVA home improvement store division, we will make significant progress on both measures. These divestitures will also help the management team to better focus on our core areas of growth and look to improve the key metrics for each business area. While we have adopted ROIC as an internal benchmark to measure performance and to incentivize our senior managers, management and the finance operation will also closely monitor other measures including the core earnings ratio, return on equity, net debt/EBITDA, and the ratio of equity attributable to the owners of the parent.

The Way We Create Value

At LIXIL, we believe our people are the ultimate drivers of value creation.

We understand that, fundamentally, an idea has zero value until it is successfully implemented.

Our people enable us to realize the aims of our strategies.



Creating a truly global team of engaged and committed colleagues is the most important - and yet most complex – challenge for any organization. At LIXIL, our unique history of formation through numerous mergers and acquisitions make this task especially challenging. To realize this important goal, we take a multi-faceted approach to ensuring that our people are not just “labor inputs” in the value creation system, but are the very heart of the enterprise. From the product developers, designers and manufacturing staff to those who meet directly with consumers to sell our products, our people and their efforts realize the unique competitive advantage of LIXIL.

We believe this approach ensures LIXIL has the resilience and agility to serve local markets and to collaborate seamlessly to maximize opportunities with a global, or enterprise, mindset. It ensures the LIXIL name represents an ethical and commercially successful enterprise. With every employee working in this way, the company can achieve its purpose to make better homes a reality for everyone, everywhere.

01 Clear Strategic Goals

Through the contribution of our employees, LIXIL is delivering on a set of goals laid out in the Medium Term Plan (MTP) announced in 2017. A clear strategy is vital for any organization to succeed, especially one such as LIXIL with a portfolio of brands and

operations around the world. We are ultimately focused on achieving sustainable competitiveness and growth by improving profit margins and contributing to society. To achieve this, we set out four specific goals: (1.) to establish a purpose-driven entrepreneurial company able to deliver sustained growth, (2.) to further develop attractive and differentiated products to meet the evolving needs of the market, (3.) to make our costs more competitive and (4.) to leverage strategic marketing initiatives to bolster growth. This paves the way to becoming a more agile and resilient company that can reward its stakeholders for many years to come.

02 A Clear Corporate Purpose

At LIXIL, we work to make better homes a reality for everyone, everywhere. We believe that contributing to society through our core business is central to our long-term sustainability. Creating a sense of purpose inspires and motivates employees beyond their everyday goals, while forging deeper connections with our external stakeholders. LIXIL is uniquely placed to play an important part in society, from redefining how people live to providing solutions addressing social issues. As part of this, we are taking important steps to reduce the impact of living spaces on the environment through eco-friendly products and services, while developing solutions that improve quality of life and comfort. We also believe that taking part in solving society’s challenges goes beyond corporate responsibility programs, it is a part of our daily business and will benefit all of our stakeholders. Through our SATO social enterprise and similar initiatives, for example, our goal is to better the lives of 100 million people through improved hygiene and sanitation by 2025.

03 An Efficient Operating Structure

Complex operating structures benefit no one. They confuse employees unnecessarily because information is distorted as it moves down the line, raise direct costs and most significantly, create the unseen costs of slowing down decision making. When LIXIL was formed through the integration of renowned industry leaders in Japan and international markets, it inherited a top-heavy structure with overlapping areas of authority and a broad

business portfolio. We have since begun implementing organizational changes – large and small – that are making LIXIL leaner, simpler and faster, allowing employees to get on with the job of producing success. LIXIL is transitioning from a holding group model to an integrated operating company structure that enables faster decision-making. In Japan, we have delayered the structure of our sales force, while internationally, we are integrating and centralizing operations. Each of these moves, supported by HR policies that empower employees and digital tools that bring them closer together, will help to make LIXIL a more agile company and at the same time help lower costs.

04 Universal “LIXIL Behaviors”

LIXIL’s creation brought together front-runners that achieved success through each of their unique cultures. To create a common foundation from which all employees can work toward the same goals, we introduced three core LIXIL Behaviors. These apply to everyone in the company, no matter their role or location and are designed to augment the strong brand cultures that remain important for our success. First is “Do the right thing.” Decisions should be made on the basis of a strong sense of ownership and what is best for the company, encouraging employees to speak up and share opinions despite past norms defined by rank and hierarchy. This removes the traditional hierarchical approach in which employees too often make a decision based on what “the boss would want.” Second is to “Work with respect” in order to create an environment in which all employees can exchange their opinions and ideas openly and equally. We must focus on the quality of an idea, not where it came from. Third is to “Experiment and learn.” Highly innovative cultures recognize the value of failure; it is not an opportunity to lay blame, but rather an opportunity to learn so as to get the next version of the effort right. Designing experiments to keep the cost of failure low and the learning value high is a key part of LIXIL’s new culture. We believe this new culture will encourage more experimentation and lead to important innovations for our future. Not only can employees feel more empowered in this new atmosphere, they will also be able to work with greater agility, enabling LIXIL to respond to the increasingly competitive landscape and implement innovations faster.

05 A Modern Work Environment

The COVID-19 pandemic has resulted in rapid and fundamental changes in the way people work around the world. Companies must quickly introduce new infrastructure, new working models and new ways of interacting with their stakeholders. At LIXIL, we believed in the need to make these fundamental changes as early as 2017, helping prepare us for this “new normal.” To bring our operations on par with global standards, and especially to accelerate our Japan operations to this standard, we have embraced remote working for employees to enable everyone to better cater to their own lifestyles and needs, while providing employees the right to manage their own flextime. As part of our digital journey, social platforms such as Workplace by Facebook are driving real-time, informal, networked communications by increasing the number of contacts employees are exposed to and lowering the barriers to communicate, collaborate, and learn from one another. More productive online meetings that bring together our sales people with distributors, architects and consumers are fast becoming the new norm. We are transforming our office environments, including the company’s Tokyo headquarters, creating an environment that enables people to work more collaboratively, comfortably, and flexibly.

06 A Strong Governance Foundation

Strong corporate governance is crucial to improving accountability and transparency. The company operates a governance structure with a Nomination Committee, Audit Committee, and Compensation Committee under the Board of Directors, and last year also additionally established a Governance Committee as a voluntary permanent committee to monitor and supervise corporate governance. Members and the chairperson of each of these committees are outside directors. The Nomination Committee also announced details of strengthened processes for the selection of candidates for the Board of Directors and executive officers. In addition, the merger between LIXIL Group and LIXIL Corporation is scheduled to be completed in December 2020 to enhance the company’s agility by enabling faster decision-making and improve Group governance. The LIXIL Group Code of Conduct, and Group-wide financial and accounting management policies are reinforced through education and training for directors, executive officers and employees.

The Value We Create



Through our unique resources and by enabling our people to create new value, LIXIL strives to create sustainable value for all of its stakeholders.



Outcomes for LIXIL – The Results of Our Work

Value creation is the ultimate measure of a corporation. A company that can add value in everything that it does is destined for long-term success.

At its core, LIXIL's value creation process is designed to create higher profitability and sustainable growth, which allows us to meet our corporate purpose of making better homes a reality for everyone, everywhere. We believe value creation should not be confused with business aggregation. Focusing only on growing market share can actually lead to the reduction of value since it can increase coordination costs and lower profitability. Sales growth and the expansion of our business should instead come from greater competitiveness.

To achieve this, we have to differentiate ourselves to compete with low-cost manufacturers offering commoditized products, established manufacturers expanding their offerings, and e-commerce platforms disrupting traditional sales channels. Being agile and succeeding in selling the best products and services at the right price will provide us with the consistent returns that can then be used to reward our shareholders, allow us to re-invest in new and profitable growth areas, and weather the volatility of markets. With a profit-driven model in place, we can then pursue higher growth rates and market expansion, driving long-term, sustainable growth.

But sustainable profit creation also requires success across a range of stakeholder commitments that go well beyond traditional financial metrics. This is especially true in a fast-changing global environment in which there is broad demand for corporations to play a greater role in benefiting society.

At LIXIL, we do this through products that improve people's lives as well as contributing to solving social issues. In addition, our operations must minimize their impact on the environment. These initiatives combined are an important part of employee engagement, are increasingly seen as factors in the purchasing decisions of consumers, and are a sign of long-term sustainability. They therefore help to create a stronger company and that will in turn benefit shareholders.

The Value to Stakeholders – How They Judge What We Have Done

Each set of LIXIL stakeholders have their own priorities that create an interlocking set of expectations for us to meet.



Employees – The people who contribute to growing LIXIL

How we engage

- Employee pulse surveys to respond quickly to HR policy needs
- Global internal communications platforms
- Employee networks to support employee activities and interests
- Union relations
- Speak Up! compliance hotline

SDGs



Over 51% of all employees are proud to work at LIXIL

Our achievement standards

Through our ongoing efforts, we have been able to raise employee engagement and to build a greater sense of commitment to the Company. Our surveys show that 51% of all employees strongly agree or agree they are proud to work for LIXIL.* They also show a strong affiliation with the Company's business goals of helping people meet their housing needs and contributing to better sanitation standards for people around the world. All employees should feel connected and that they are contributing to making better homes a reality, not only those who are directly working on SATO and improving sanitation.

Ensuring meritocracy and giving our people control over their career path is also vitally important. LIXIL believes that employees anywhere can create their own career journeys. With the vertical integration of core functions such as human resources, we can strengthen functional excellence and enhance transparency. We

also embrace diversity and want to turn the energy and creativity generated by diversity into a source of strength. Creating an inclusive environment is therefore at the core of the Company's HR activities.

The workplace is also an important indicator of how a company views its employees. Even before the restrictions imposed by COVID-19, we encouraged home working and the expanded use of technology to connect employees with each other, consumers and partners. This not only raised employee satisfaction, it also boosted productivity. LIXIL's latest employee survey taken in April to measure the response to remote working indicated a 10% increase in engagement among employees based in Japan compared to data from December.

*82% including employees who "slightly agree"



The Value We Create



Consumers – The end users who enjoy our products

How we engage

- Sales and marketing activities
- Design, technology and social trend research
- Customer services
- Exhibitions

SDGs



Our achievement standards

Innovation is central to LIXIL's brand value. However, to be truly meaningful, innovation must represent new features and functionality that anticipate the needs of those around the world who use our products. Our brands are also designed to appeal to consumer lifestyle tastes and preferences, from the cosmopolitan to the more traditional. Combined with our technology and wide range of products, it means that we can create a coordinated range of products that together create a lifestyle sought by the consumer.

The combination of our technology, design and marketing strategies is today driving growth. In FYE2020, ¥4.9 billion of LIXIL Water Technology's sales were driven by products born from cross-brand and cross-regional synergy as well as new business areas such as direct-to-consumer channels.

We also share consumers' concerns about environmental issues and recognize the desire for home products to utilize technology and functionality to reduce their environmental impact. Beyond their own homes, consumers also want to do business with companies that share their concerns and demonstrate a commitment to combating climate change and conserving increasingly scarce water supplies.

In light of global trends such as aging populations, we are also today focusing our efforts on expanding Universal Design (UD). Based on these design principles, LIXIL intends to develop and offer products and services that incorporate ideas from multiple perspectives to enable all individuals to live full and comfortable lives in the home.

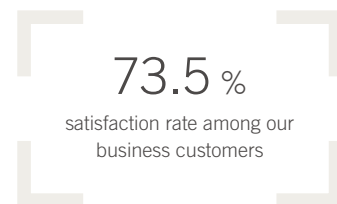


Partners – The architects, distributors and builders who help create a home

How we engage

- Partner surveys
- Construction-related training programs
- Safety and product education sessions
- Responsible procurement survey of suppliers

SDGs

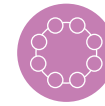


Our achievement standards

For the professionals with whom we do business, our commitment is to use our global resources to provide high-quality products worldwide on a reliable basis. These products must be fully compatible and meet all safety and regulatory standards in each market. Our surveys show there is a 73.5% satisfaction rate among our partners in Japan and that we enjoy a 89% conformity rate for responsible procurement.

We also work together with partners to help overcome shared challenges to provide the best products at competitive prices. In Japan, LIXIL's PATTO Reform campaign brings together LIXIL as a manufacturer, distributors and construction contractors to make the entire renovation process faster, simpler and clearer for consumers. By bringing transparency to the purchase of housing products, we ensure consumers are getting the best value and can undertake renovation projects in confidence. The program is designed to fill an identified gap, and is just one example of LIXIL's ability to identify and act upon new market opportunities.

We further reinforce our ties to the industry by offering differentiated products that partners can more easily sell into the consumer market. LIXIL's corporate responsibility and environmental commitments further help consumers feel that they are contributing to strong social practices when purchasing and using LIXIL products.

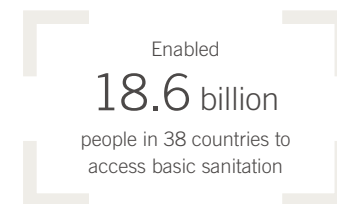


Societies – The communities and social issues we contribute to globally and locally

How we engage

- Human rights due diligence
- Dialogue and information-exchange sessions
- Volunteer activities

SDGs



Our achievement standards

As a company operating globally, we must be in tune with the needs of society and of each community where we operate. Our programs must therefore be both global and local. One of our primary assets in this area is the ability to leverage our technology and know-how to make a difference in the world.

At the global level, the *SATO Toilet System* and *SATO Tap* handwashing station provide unique solutions for developing countries, while facilitating the development of local production and sales structures to ensure they become locally rooted businesses. To date, we have already helped 18.6 million people in 38 countries gain access to basic sanitation – but know we have much more work to do.

We are also executing on an environmental strategy under which we pursue innovation in low-carbon and water-efficient technologies, including the goal of a net-zero carbon footprint. With the use of our products accounting for more than 90% of their total environmental impact over their life cycle, this is how we can make a difference.

At the local level, our employees play a direct role in helping society, contributing to the communities where they work and live. These programs help us “pay back” our neighbors and provide our people with the pride of knowing that they have helped. To further encourage their involvement, all LIXIL employees can use company time to participate in Community Day programs. Last year more than 15,000 employees in 33 countries demonstrated their desire to make their communities a better place.

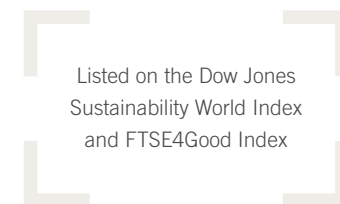


Shareholders – Those who believe in and support us

How we engage

- Annual General Meeting of Shareholders
- Regular meetings with investors
- Announcements from the Investor Relations team
- The Investor Relations website provides all pertinent information

SDGs



Our achievement standards

All of our efforts in value creation accrue to the benefit of our shareholders. This of course means improving profit margins and boosting our long-term corporate value. But long-term corporate value comes from a much wider range of goals. By engaging more effectively with our employees, creating a respected brand for consumers, helping our partners and contributing to society, we help to raise our future earnings potential and therefore reward our shareholders. A commitment to ESG principles, for example, is not just about “doing the right thing;” it also strengthens our valuations. LIXIL is today listed in indexes such as the Dow Jones Sustainability World Index and FTSE4Good Index.

Good corporate governance forms a key part of this work. Data-driven research shows that companies that open up their decision-making processes, invite more external oversight and practice diversity at the top levels solidly outperform companies that take a narrow view of how to manage. LIXIL's Board today has a majority of independent external directors and each of the Board's committees is chaired by an outside director.

Communication of our values is also important to demonstrate to the investor community that our strategy is robust and offers a path to success. The support of investors is central to succeeding in our mission to build a company that can generate more consistent returns, reduce stock volatility by better coping with external factors and proceed on a path to sustainable growth.

CR Chairperson's Message

**Jin Song Montesano**

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

Reaffirming Our Purpose and Setting New CR Strategy Goals

LIXIL's purpose is to make better homes a reality for everyone, everywhere. Our Corporate Responsibility (CR) activities play a crucial role achieving this. At the same time, our commitment to contributing to society builds pride among our employees and a deeper connection with external stakeholders, which forms the basis for the organization's sustainable growth.

LIXIL's CR activities have continued to gain global recognition, including a listing in the Dow Jones Sustainability World Index for the first time in 2019. We are proud of this recognition as a global sustainability leader and remain committed to improving our performance. Reflecting progress made so far and changes in the business environment, we set new goals for our three CR strategic pillars in FYE2020.

Concerning Global Sanitation & Hygiene, cumulative deliveries of SATO products have helped change the lives of 18.6 million people in over 38 countries thus far. Although we are proud of this impact, this is behind our targets, and as a result we have extended our timeline to improve sanitation for 100 million people worldwide to 2025. We have learned important lessons since first announcing our target and now know what is needed to quickly scale up our activities. Armed with

this knowledge, we are more determined than ever to make it a reality.

Since launching our "Make a Splash! Toilets for All" partnership with UNICEF in July 2018, we are making progress in forming sustainable sanitation markets in Kenya, Ethiopia, and Tanzania. Together, we are accelerating advocacy and supporting local campaigns to improve the sanitary environment, in collaboration with local governments. These activities have the exciting potential to extend to other countries. Our core activities with UNICEF have also further benefited from donations totaling ¥10 million from employees through "Team Splash!" as well as ¥26 million raised from the 3rd annual "Toilets for All" cause-related marketing campaign in Japan.

We have also expanded the stakeholders we work with to develop the sanitation market. Last year, we signed a memorandum of understanding with the Japan International Cooperation Agency (JICA), to collaborate on improving sanitation and access to clean water in developing economies.

In addition, to strengthen handwashing practices in developing markets, we recently launched the *SATO Tap*, an affordable handwashing solution that can be used anywhere in the home without access to running water. LIXIL has committed US\$1 million to support accelerated rollout and enable sustained handwashing practices through this innovation.

In the area of Water Conservation & Environmental Sustainability, we accomplished our 2016 carbon intensity target two years early and announced our new Environmental Vision 2050. Our goal is to achieve net-zero carbon emissions from housing and lifestyle solutions, as well as operations, by 2050. In addition, we strive to become a leader in the field of preserving water and limited resources for future generations.

We continue to incorporate our CR commitments in our products, services, and business operations. GROHE converted all its production plants to run on green electricity in July 2019. In Japan, we participated in the Ministry of Environment's "Practical Guide for Scenario Analysis in line with the TCFD Recommendations," using LIXIL Housing Technology's sash door and Zero Energy House (ZEH) as examples. We are also continuing our shift to 100% renewable energy in our business centers and are working globally to eliminate, reduce, or replace plastics throughout the product life cycle. LIXIL has been named in the CDP's prestigious Water A List for two consecutive years, reflecting our leadership in water stewardship.

Regarding Diversity & Inclusion, we have committed

to ensuring all of our products and services in Japan are based on our Universal Design concept by 2030. Last year, our new *Resilience Toilet*, which operates on a minimal amount of water during emergencies, won the Japan Resilience Award. We designed a new restroom concept to enhance gender inclusivity, which we have applied in our headquarters. We also presented a prototype of an AI toilet that uses image sensing technology to check the health of the elderly.

To foster a more inclusive environment in the company, we formed a new Global Diversity & Inclusion Department in September 2019 to implement unified Diversity & Inclusion strategies and measures across the organization. We have since established a new Diversity & Inclusion Committee, chaired by CEO Kinya Seto, to ensure that these activities are driven by our business leaders at the most senior level. In addition, in July 2020 we issued an updated statement on our Diversity & Inclusion commitments. In recognition of our workplace Diversity & Inclusion initiatives, LIXIL has been awarded Gold in the PRIDE Index for three consecutive years.




I am pleased to report that we saw a further increase in employees' participation in LIXIL Community Day in FYE2020 to over 15,000 employees across 33 countries. In Japan, our employees conducted educational classes for 4,026 elementary school children to drive awareness for sustainable living.

The unprecedented spread of the COVID-19 virus has forced us all to reflect on how our business contributes to society while protecting our employees' health and safety. Across the globe, we have managed to come together to respond flexibly. I am proud to see employees taking the initiative to contribute to society and collaborating across teams and borders via our internal platforms. I look forward to working with our employees, customers, and partners to further strengthen our contribution in this new normal.

Corporate Responsibility Strategy

LIXIL is committed to improving the quality of people’s lives around the world and to pursuing the growth of its businesses through responsible and sustainable innovations.

Leading with three strategic pillars

<p>Global Sanitation & Hygiene</p>  <p>Promote and enable access to safe and hygienic sanitation practices, especially for women and girls, while preventing the harmful transmission of diseases for children</p> <p>Sanitation for All</p> <p>By 2025, improve the livelihood of 100 million people through sanitation and hygiene initiatives</p>	<p>Water Conservation & Environmental Sustainability</p>  <p>Conserve water, energy, and other natural resources utilized in and by LIXIL products and services, including in the supply chain, production, distribution and during end use</p> <p>Zero Carbon and Circular Living</p> <p>By 2050, achieve net-zero carbon emissions from housing and lifestyle solutions as well as operations, and become a leading company based on a model that preserves water and natural resources for future generations</p>	<p>Diversity & Inclusion</p>  <p>Leverage the knowledge and perspectives of a diverse workforce as a key driver of growth and innovation, and improve quality of life for all people through our products and services, irrespective of their age, gender, and the level of disability</p> <p>Inclusive for All</p> <p>By 2020, establish the culture of diversity and inclusion within our organization and among all employees</p> <p>By 2030, ensure all products and services* are based on LIXIL’s Universal Design concept</p>
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*Scope: Products and services in Japan (as of August 2019)

Our strategy stands upon a foundational commitment to ethical business practices.



Our Approach to CR

In order to realize LIXIL Core, “The Group’s superior products and services contribute to improving people’s comfort and lifestyles,” it is important to pursue sustainable innovation, achieve profitable growth and meet the evolving expectations of our stakeholders.

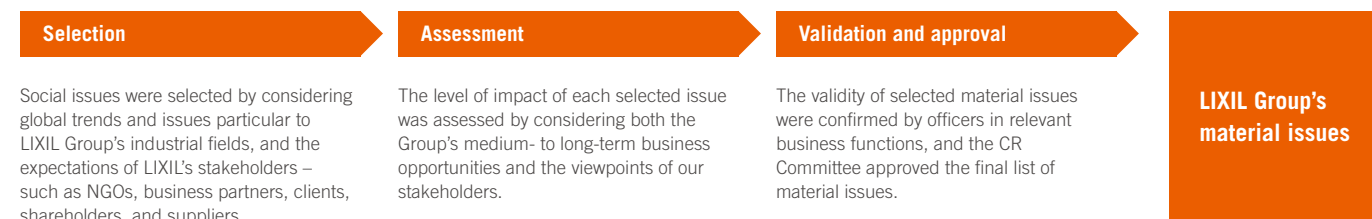
In markets around the world, Environmental, Social, and Governance (ESG) investing is becoming more mainstream, as is the understanding that ESG factors impact corporate value in the medium and long term. For companies, it is essential that their corporate strategies are connected to environmental and social initiatives.

Within this context, LIXIL aims to meet our social responsibilities and increase the trust of our

stakeholders. We conduct CR activities based on 16 identified material issues (see pages 48-49) to build the foundation for sustainable corporate growth. These issues are categorized into Governance, Fair Business Practices, Human Rights, Labor Practices, Quality and Satisfaction, Supply Chain, and Stakeholder Engagement, and form the basis of our CR activities. Tackling these material issues helps us fulfill our social responsibility, build credibility with stakeholders, and strengthen the LIXIL brand. Addressing these issues also contributes to risk management by helping to reduce reputational risk.

We identified Global Sanitation & Hygiene, Water Conservation & Environmental Sustainability, and Diversity & Inclusion as three social issues that are of highest priority to us. We call these our three strategic

Selection process of material issue



Selection
Social issues were selected by considering global trends and issues particular to LIXIL Group’s industrial fields, and the expectations of LIXIL’s stakeholders – such as NGOs, business partners, clients, shareholders, and suppliers.

Assessment
The level of impact of each selected issue was assessed by considering both the Group’s medium- to long-term business opportunities and the viewpoints of our stakeholders.

Validation and approval
The validity of selected material issues were confirmed by officers in relevant business functions, and the CR Committee approved the final list of material issues.

LIXIL Group’s material issues

pillars, and seek to help solve these challenges by leveraging our core Group strengths. We believe addressing these fields will offer the greatest opportunities and form the foundation for our sustainable, long-term growth.

Supporting International Initiatives

LIXIL should take active leadership as a global company of pioneering water and housing products to help solve social issues through our business activities.

The UN Sustainable Development Goals (SDGs) serve as a guide and our CR strategy reflects the underlying SDG vision. We also fully support the principles set out in the UN Global Compact (UNGC). Since becoming a signatory, we have continued to implement UNGC principles in the four areas of human rights, labor, environment, and anti-corruption. In March 2019, we expressed support for the Task Force on Climate-Related Financial Disclosures (TCFD), and began conducting scenario analyses proactively.

LIXIL’s efforts have received external recognition, including the receipt of the Deputy-Chief’s Award (by Japan’s Foreign Minister) at the second Japan SDGs



Awards presented by the Japanese government’s SDGs Promotion Headquarters. Such recognition from external organizations provides a great opportunity for us to confirm the direction of our decision-making and spur an even greater contribution to valuable international initiatives.

CR Management Structure and Material Issues

Management should demonstrate leadership and collaborate with our core technology units to swiftly and appropriately tackle material issues. That is why the Corporate Responsibility (CR) Committee, which takes the lead in our CR initiatives, is made up of officers from each functional division at LIXIL’s head office and representatives from each technology business unit. The CR Committee meets quarterly and aims to formulate a faster response to sustainability issues in economic, environmental, and social areas. The results of CR Committee discussions are, as necessary, approved by LIXIL’s Board of Directors and Executive Officers Committee. Once adopted, the initiatives are then implemented by each functional division at the direction of the officer responsible for each initiative. In FYE2020, the CR Committee discussed and determined the updated CR strategy and commitments, key human rights issues, and TCFD response. The materiality selection process, as per the above diagram, enabled us to identify the issues that matter the most to our stakeholders and the Group.

LIXIL's Material Issues

For further details regarding the Group's material issues and CR activities and outcomes, please refer to the sustainability section of our corporate website.

 www.lixil.com/en/sustainability/

Action plan and progress for each material issue

● On track ◐ Needs attention

Material issues	Target	FYE2021 targets	FYE2020 progress	Progress	
Governance	Corporate governance	Establish governance structure that meets global standards	<ul style="list-style-type: none"> Reorganize and implement Group governance rules and procedures, and clarify rules, approval processes, etc. 	<ul style="list-style-type: none"> Conducted governance seminars for Group companies in Japan Reviewed jurisdiction rules in relation to organizational changes at international Group companies Established Governance Committee as a voluntary and permanent committee under the Board of Directors Announced plans to merge LIXIL Group Corporation and LIXIL Corporation, which will strengthen monitoring and supervision Revised and clarified Nomination Committee's systems and operations 	●
	Compliance	Develop a comprehensive and effective compliance system across the Group	<ul style="list-style-type: none"> Group-wide ratio of basic training completion and Group Code of Conduct pledge: 100% Establish a system to operate and improve compliance structure, and ensure appropriate allocation and effective use of resources Utilize the same concern-raising system in the Group, and publicize important compliance indicators such as the number and summary of reported concerns 	<ul style="list-style-type: none"> Group-wide ratio of basic training completion and Code of Conduct pledge: 77.6% (98% in Japan, 53.7% international) Target not achieved due to variation in training completion rates by region and employee level. Training to be continued in FYE2021 Awareness of the concern-raising system in Japan: 63.3%; education and awareness-raising activities are ongoing Held regional compliance events from October to November; implemented educational and awareness-raising activities 	◐
	Risk management	Establish and operate a Group-wide enterprise risk management system	<ul style="list-style-type: none"> Adoption rate of the crisis management system in Group companies: 100% 	<ul style="list-style-type: none"> Adoption rate of the crisis management system in Group companies: 100% Achieved timely escalation to the Group HQ for crisis events, including those that occurred outside Japan Created a handbook to disseminate initial response and escalation rules for work sites 	●
Fair Business Practices	Anti-corruption	Develop an effective anti-corruption system across the Group	<ul style="list-style-type: none"> Adoption rate of global policies at Group companies: 100% Completion rate of compliance-related education and training across the Group: 100% 	<ul style="list-style-type: none"> Adoption rate of global policies at Group companies: 100% (adoption rate by company unconfirmed) Completion rate of compliance-related education and training across the Group: target not achieved (the results vary by region and policy) Compliance violations: 0 	◐
Human Rights	Human rights due diligence	Appropriately manage human rights considerations that fall within the scope of the Group's operational influence across the entire value chain	<ul style="list-style-type: none"> Conduct global human rights due diligence and pinpoint human rights risks 	<ul style="list-style-type: none"> Employed multiple means to help grasp potential human rights risks, especially surveys by the Human Rights Due Diligence Task Force Determined seven key issues in which to focus our energies to reduce potential human rights risks 	●
Labor Practices	Diversity and equal opportunity 	Secure highly competent people by respecting diversity across the Group	<ul style="list-style-type: none"> Ratio of women among recent graduate recruits: 30% or greater (LIXIL Corporation, Japan) Ratio of female participants in Stage 3 of the Talent Acceleration Program (TAP) for next-generation leaders: 20% or greater (LIXIL Corporation, Japan) 	<ul style="list-style-type: none"> Ratio of female undergraduate and graduate students recruited: 30.5% Ratio of female managers: 5.7% Ratio of female participants in Stage 3 of the Talent Acceleration Program (TAP) for next-generation leaders: 33.3% 	●
	Occupational health and safety	Establish the foundations of an occupational health and safety management system across the Group	<ul style="list-style-type: none"> Operational coverage of the occupational health and safety management system across the Group: 100% 	<ul style="list-style-type: none"> Acquisition of occupational health and safety performance data (based on number of employees): 100% Conducted regular internal audits of the occupational health and safety management system and its operational status at each business 	●
	Working environment	Build a worker-friendly environment for all employees	<ul style="list-style-type: none"> Ratio of employees who rate their work-life balance as favorable in Group-wide employee opinion surveys: 46% (increased 10% from the 42% recorded in FYE2018) 	<ul style="list-style-type: none"> Ratio of employees who rate their work-life balance as favorable in the opinion surveys: 44% 	◐
	Talent development	Promote more employee-driven talent development to encourage a bottom-up corporate culture	<ul style="list-style-type: none"> Cumulative participants in the Talent Acceleration Program (TAP) for next-generation leaders: 1,300 (LIXIL Corporation, Japan) Coverage ratio of the basic training program for third-year employees: 100% (LIXIL Corporation, Japan) 	<ul style="list-style-type: none"> Participants in the Talent Acceleration Program (TAP) for next-generation leaders: 70; cumulative participants: 1,265 Coverage ratio of the basic training program for third-year employees: 100% First-year follow-up training participants: 192; second-year communication training participants: 217; third-year communication training participants: 161 employees 	●
Quality and Satisfaction	Product safety	Eliminate product accidents	<ul style="list-style-type: none"> Number of serious product accidents in the entire Group: 0 	<ul style="list-style-type: none"> Number of serious product accidents across the Group: 7 Held product-related crisis management meetings for serious accidents. Decided the need for countermeasures on a case-by-case basis. Implemented product improvements and awareness-raising on safe use 	◐
Environment	Climate change mitigation and adaptation 	Promote efficient use of energy in business activities and the provision of products and services that contribute to climate change initiatives	<ul style="list-style-type: none"> CO₂ emissions reduction attributable to Group products and services: expand by 1.36 times vs. FYE2016 CO₂ emissions from Group activities: reduce by 8% vs. FYE2016 CO₂ emissions intensity for LIXIL transportation: reduce by 5% vs. FYE2016 	<ul style="list-style-type: none"> CO₂ emissions reduction attributable to Group products and services: expand by 1.29 times vs. FYE2016 (65,868 thousand t-CO₂) CO₂ emissions from Group activities: reduced by 6.3% vs. FYE2016 (14.3% reduction of carbon intensity per unit of output) CO₂ emissions intensity for transportation carried out in Japan by LIXIL as the consigner: reduced by 2.8% vs. FYE2016 	●
	Water sustainability 	Promote efficient use of water in business activities and the provision of products and services that contribute to water conservation	<ul style="list-style-type: none"> Improve water-use efficiency at key water-risk management sites 	<ul style="list-style-type: none"> Promoted initiatives aimed at reducing water use and the volume of waste water and expanding recycled water use at five key sites 	
	Circular economy 	Promote the sustainable use of raw materials from procurement to disposal	<ul style="list-style-type: none"> Waste recycling rates at places of business: 95% (Japan, Europe), 66% (Asia), 40% (North America) 	<ul style="list-style-type: none"> Waste recycling rates: 96.2% (Japan, Europe), 90.4% (Asia), 26.6% (North America) 	
Supply Chain	Supply chain management	Identify suppliers' CR risks and establish mechanisms to respond accordingly	<ul style="list-style-type: none"> Increase the coverage of the Group-wide supplier CR survey to 90% in Japan, 60% international (based on purchased amount), and the conformity rate to 90% (Japan) 	<ul style="list-style-type: none"> Coverage ratio of Group-wide supplier survey: top 97% of suppliers in terms of purchased amount in Japan, 90% international. Average conformity rate: 89% (Japan) Continued follow through activities, expect to achieve targets as planned in FYE2021 	●
Stakeholder Engagement	Contribute to global sanitation and hygiene 	Help improve global sanitation and hygiene through our business	<ul style="list-style-type: none"> Cumulative users: 100 million 	<ul style="list-style-type: none"> Cumulative shipments of SATO toilets: over 3.8 million units (18.6 million cumulative users). Shipped to over 38 countries Changed the target for providing SATO toilets to 100 million people from FYE2021 to FYE2026 	◐
	R&D to solve social problems 	Help solve issues experienced by the elderly and people with disabilities through our products	<ul style="list-style-type: none"> Research activities using digital and other means: 10 	<ul style="list-style-type: none"> Research activities using digital and other means: 5; external announcements: 2 	●

Global Sanitation & Hygiene



Global Sanitation & Hygiene

Relevant SDGs



Critical Social Issues

An estimated two billion people around the world do not have access to safe and sanitary toilets. Poor hygiene and sanitation puts lives at risk, and every day an estimated 800 children under the age of five die from diarrheal diseases caused by unsanitary living conditions and lack of clean water. The lack of school toilets can be a barrier for girls to continue with their schooling after reaching puberty, and open defecation can expose them to serious threats such as violence or harassment.

In total, global economic losses caused by poor sanitation are estimated to have reached US\$223 billion in 2015*. The second target of UN Sustainable Development Goal 6 aims to solve this global challenge: “By 2030, achieve access to adequate and equitable sanitation and hygiene for all and end open defecation, paying special attention to the needs of women and girls and those in vulnerable situations.” Overcoming the global sanitation challenge, however, will require the collaboration of a range of stakeholders from various sectors such as governments, NGOs, and private companies.

* “The True Cost of Poor Sanitation,” a 2016 collaborative research conducted by Oxford Economics, the international NGO WaterAid, and LIXIL Group

LIXIL's Response

LIXIL set a target to provide basic sanitation and improve sanitary environments for 100 million people by FYE2021, but, in FYE2020, decided to extend that time frame until FYE2026. While, unfortunately, we did not achieve the initial target, we are now accelerating efforts by bridging gaps and increasing shipments of our simple SATO Toilet Systems for developing nations. Our Bangladesh SATO operation has already become profitable, demonstrating that it can make a positive social impact while sustaining itself financially. Building on knowledge acquired to date, we plan to further expand the use of SATO products, and conduct further research and development in our water-conserving *Micro Flush Toilet System*, and our *Portable Toilet System*, which facilitates the efficient and hygienic collection of human waste.

We are proactively seeking collaboration opportunities with specialist organizations, NGOs, and business partners to help achieve these targets. Our “Make a Splash!” partnership with UNICEF and our partnership with the Bill & Melinda Gates Foundation to develop a “reinvented toilet” that does not require sewer connection are both examples of our efforts to use our

combined expertise to address global sanitation challenges.

Achievements and Challenges

The SATO business is based on a grassroots social enterprise concept. Its products are produced in six Asian and African countries, and approximately 3.8 million units have been delivered to more than 38 countries so far. This equates to improving the sanitation and hygiene of approximately 18.6 million people. In FYE2020, SATO shipments topped one million for the first time, rising over 40% year on year to 1.16 million units.

SATO Toilet Systems are designed to be affordable, so it is important to sell a certain volume to break even. In Bangladesh, where the SATO business turned profitable in FYE2019, we expanded production in partnership with the biggest local plastics manufacturer, RFL. We also worked together with the NGO, Bangladesh Rural Advancement Committee (BRAC), to increase awareness of hygiene and potential toilet solutions. We believe the achievement of a financially viable and sustainable SATO business is immensely significant.

Our “Make a Splash!” partnership with UNICEF aims

to apply our joint expertise to establishing competitive sanitation markets on a global scale. LIXIL is committed to developing products tailored to local needs and encouraging their broader use, providing a solution in response to UNICEF’s awareness-raising and behavior change initiatives to spur demand for toilets in target countries. In FYE2020, LIXIL started to help establish a market for sanitary products in Tanzania by cooperating on a local government campaign to guarantee access to toilets for all local citizens by 2025. We are also working on tailored initiatives for Ethiopia and Kenya.

SATO, our first commercial solution for communities that are not connected to water or sewerage systems, took several years to establish itself in local areas. In addition to its performance in terms of profitability and sales volumes, we view the social impact of the solution as a key element of the business’s success. The expansion of our social business through our partnership with UNICEF is a source of motivation for LIXIL employees.

LIXIL believes further expanding the reach of SATO, particularly in India and Africa, is the most significant of its initiatives to overcome global sanitation challenges. To this end, it is vital to accurately understand local challenges, develop locally tailored solutions, and build a business model to effectively deliver those solutions.

Countries using SATO Toilet Systems



Achievements through FYE2020

SATO shipped to more than **38** countries

Cumulative total of SATO units delivered: approximately **3.8** million

Number of people whose sanitary environment has been improved: approximately **18.6** million

Water Conservation & Environmental Sustainability



Water Conservation & Environmental Sustainability

Relevant SDGs



Critical Social Issues

The 2015 Paris Agreement seeks to limit the rise in average global temperatures compared to pre-industrial levels to less than two degrees Celsius, and aims to contain that rise below 1.5 degrees Celsius. To achieve this, the world must reduce CO₂ and other greenhouse gas emissions to net zero by 2050.

In addition, an estimated 800 million people around the world today do not have access to safe drinking water. By 2050, over 40% of the world's population won't have access to sufficient water supply due to the depletion of water resources.

Furthermore, global resource consumption is expected to more than double by 2050. To help address this situation, the world is gradually shifting from a one-way economy, which mines resources, makes products in large quantities, and eventually discards them, to a circular economy that closes resource loops.

LIXIL's Response

In FYE2020, LIXIL established its Environmental Vision 2050, which sets out parameters for company action

looking toward 2050, to increase motivation and drive for its ongoing environmental activities. Our Zero Carbon and Circular Living policy aims to reduce CO₂ emissions from our business processes, products, and services to net zero, and we strive to be a leader in the field of preserving water and limited resources for future generations by 2050.

To achieve the vision, we have determined three focus areas: climate change mitigation and adaptation, water sustainability, and circular economy. We will advance the process of deciding medium- to long-term targets and action plans, and seek to fully grasp and reduce the environmental impact of our business across the whole value chain.

We have also declared our support for the Task Force on Climate-related Financial Disclosures (TCFD) and are currently analyzing the impact of climate change on our business and considering our best response. Our aim is to nurture greater trust and sustainably enhance corporate value by promoting the appropriate disclosure of climate-related information and increasing communication with stakeholders.

Achievements and Challenges

Climate change mitigation and adaptation: We strive to further improve the environmental performance of many of our products and services by offering, for instance, windows and doors with improved thermal insulation to help reduce energy used for heaters or air conditioners, or faucets designed to reduce the volume of hot water used. We are now introducing renewable energy sources for our business processes. We have already switched to renewable energy at all GROHE production sites, our LIXIL Kyoto showroom, INAX MUSEUMS, and LIXIL head office, and plan to expand this shift going forward.

Water sustainability: We provide customers with water-related solutions, including water-conserving toilets and faucet fittings, smart controllers that can detect water leaks, and products equipped with advanced water purification technology. We are also reducing water use and the volume of waste water, and expanding recycled water use at production sites that were judged high risk in water risk surveys. Going forward, we will further promote sustainable water usage by also focusing on

water quality, regulations, reputation, and other risks.

Circular economy: We promote the sustainable use of raw materials and strive to close resource loops across the entire product life cycle from procurement through manufacturing, product use, and disposal. We seek to do this by using recycled resources, designing products with a longer lifespan and/or reuse potential, providing functions or parts that can update or replace some parts of existing products, and expanding service-type products that can be used only when needed. We are also striving to reduce single-use plastic in our supply chain to help address the increasingly severe issue of ocean plastic pollution. That includes changing out plastic product packaging for paper materials and reducing the amount of stretch film used in product transportation.

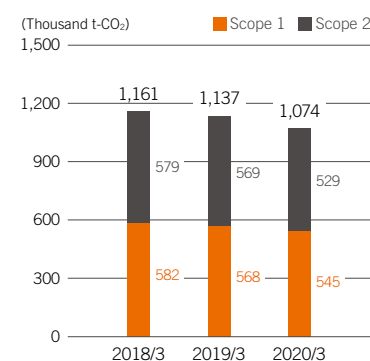
As a comprehensive living and housing solutions company, LIXIL aims to achieve both global environmental sustainability and business growth by seeking to provide solutions that offer healthy, comfortable, and environmentally conscious living for consumers and working to reduce the environmental footprint of our business activities.

FYE2021 targets

Contribute to realizing a sustainable society through innovative products and services, and improving environmental efficiencies of all operational processes.

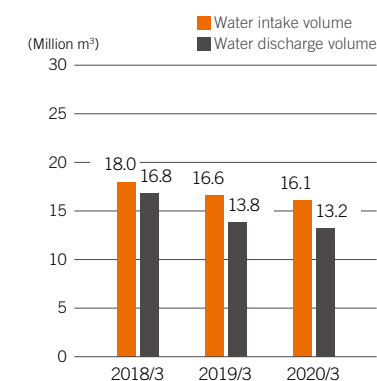
Climate change mitigation and adaptation / water conservation / sustainable use of resources	• Expand CO ₂ emissions reduction attributable to Group products and services by 1.36 times compared to FYE2016 *Includes data on water resource protection (indirect CO ₂ emissions reductions relating to water use)
	• Reduce CO ₂ emissions from Group activities by 8% compared to FYE2016
	• Reduce distribution-linked CO ₂ emissions by 5% compared to FYE2016
	• Complete water-risk evaluation across all production sites, determine and implement KPI and targets for high-priority sites
	• Recycling rate of waste products from LIXIL facilities: 95% (Japan, Europe), 66% (Asia), 40% (North America)

CO₂ emissions from Group activities (Scope 1 and 2)*

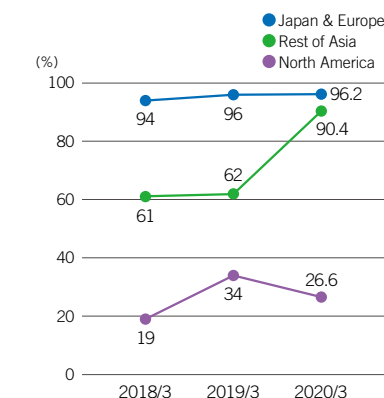


* Data coverage is different from LIXIL's target due to the change of scope.

Water intake and water discharge



Waste recycling rate*



* The recycling rate of waste resulting from all production and sales.

Diversity & Inclusion



Relevant SDGs



Diversity & Inclusion



Critical Social Issues

Populations are aging in many different regions around the world. By 2050, more than one in every five people around the world is projected to be over the age of 60, with many people living either alone or with their spouse only. Approximately 15% of the world's population today live with some degree of disability, and this rate is increasing every year. To achieve the global goal of leaving no one behind, designing products, buildings, and living spaces that can be used by as many people as possible, including the elderly and people with disabilities, is vital. We are expected to help realize a sustainable society that helps improve the quality of people's lives through products and services and provides opportunities for elderly people, people with disabilities, women, and all other people to actively participate and shine in society.

LIXIL's Response

LIXIL is investing in developing its Universal Design (UD) solutions aimed at helping everyone live comfortably. To further our activities, in FYE2018 we launched the UD

Committee led by senior managers. We hold workshops with participants from across the Group, including design, R&D, marketing, and corporate communications. In these workshops, we focus our UD concepts on four themes: easy to understand; easy to use; safe and secure; and easy to love. Based on these concepts, LIXIL applies various perspectives to its product and service development to ensure people of all ages can live comfortable and fulfilling lives.

In FYE2018, we established our LIXIL Diversity & Inclusion Declaration (see right page), which states "We leverage our differences to create new energy and engagement in the workplace generated by open and honest dialogue across our organization. These efforts will enable our employees to build an entrepreneurial mindset that will drive growth and sustainable innovation." LIXIL has set four focus areas for the declaration, and each local operation pursues initiatives to improve their most relevant focus areas.

Achievements and Challenges

The new *Resilience Toilet* can be used like a regular toilet even during times of natural disasters by people of

all ages and genders, including those who may require special care. Under normal circumstances, each flush uses five liters of water. In the event of a disaster, the volume of water required to flush can be switched to one liter, without compromising its functionality. The *Resilience Toilet* is designed for convenience, cleanliness, and safety. We are promoting its adoption at schools and gymnasiums that serve as emergency shelters when a disaster strikes, as well as at municipal buildings that serve as disaster response centers. We will continue to develop new products and services that meet the diverse needs of our end users.

The level of diversity and inclusion that LIXIL aims for must take into account the cultural and social norms of each region. We believe the benefits of diversity can be maximized by leveraging a variety of personal characteristics. We will continue our diversity efforts in each region, consider taking a cross-regional approach

to human resource development and deployment, and endeavor to make diversity and inclusion a core part of the Group's culture.

LIXIL Diversity & Inclusion Declaration

Four Focus Areas

Gender & Age

We will drive business performance by embracing diversity and ensuring that all employees have equal opportunities to be recruited, developed, advanced, and retained globally, regardless of gender or age.

Disability

We will raise awareness, provide education and resources, and proactively create a culture that embraces, enables, values, and maximizes the contributions of persons with disabilities.

Family & Life

We will support employees through various life stages and events, thereby allowing them to contribute to business success while also fulfilling personal and family priorities and obligations.

Culture & Identity

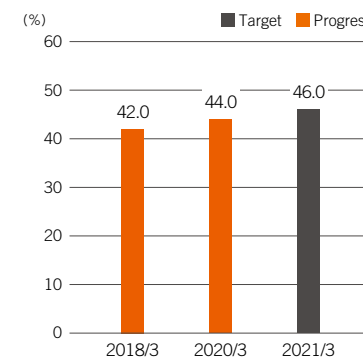
We will foster mutual understanding, respect, and communication in order to fully embrace the diversity in race, religion, culture, gender identity, and sexual orientation of everyone at LIXIL.

FYE2021 targets

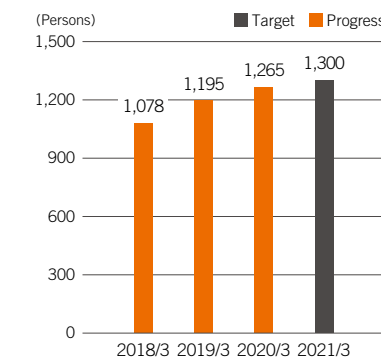
Build a strong organization and workplace where all employees can achieve their full potential.

Working environment	• Increase favorable response rate by 10% year on year in the work-life balance category of the Group-wide employee opinion surveys. (The survey was conducted once every two years through FYE2020. We are seeking to accelerate the cycle of improvements by conducting the survey four times a year from FYE2021.)
Diversity and equal opportunity	• Establish a culture of diversity and inclusion within our organization and among all employees.
Occupational health and safety	• Achieve 100% operational coverage of Group-wide occupational health and safety management system.
Human resource development	• Provide common learning opportunities for 800 next-generation leaders across the Group. • Expand the number of employees participating in the Talent Acceleration Program (TAP) for next-generation leaders to 1,300 cumulatively (in Japan).

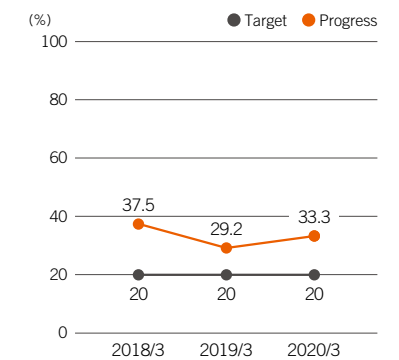
Favorable responses in work-life balance category of our group-wide employee opinion surveys



Cumulative number of participants in the Talent Acceleration Program (TAP) for next-generation leaders (LIXIL Corporation, Japan)



Female participation ratio in Stage 3 of the Talent Acceleration Program (TAP) selective training for young next-generation leaders (LIXIL Corporation, Japan)



Change in the participation ratio since FYE2018 in Stage 3 of the Talent Acceleration Program (TAP) for next-generation leaders

Corporate Governance Dialogue

ROUND-TABLE DISCUSSION

To discuss the importance of strong corporate governance and the steps that LIXIL is taking in this area, we brought together CEO and director Kinya Seto, Chairperson of the Board Masatoshi Matsuzaki, and all outside directors of the Company for a group discussion.



Kinya Seto
 Director, Representative Executive Officer,
 Executive Officer and President, and CEO



Matsuzaki: Fourteen directors were appointed at the Annual General Meeting of Shareholders in 2019, marking a new start for LIXIL. Today, I'd like to look back on our governance reforms over the past year and speak with each outside director serving on a committee about initiatives we have taken. But first, as an internal director, what are your thoughts, Mr. Seto?

Seto: Initially, a lot of attention was paid to whether the Board, coming from separate slates at that time, could function and hold constructive discussions. But when we first met, I could feel the enthusiasm and determination on the part of all Board members to improve the Company. I knew from then that we would be able to move forward. Over the past year, I think we have had many open and meaningful discussions and very much benefited from the diverse skills and experience of outside directors.

Matsuzaki: As chairperson of the Governance Committee, Mr. Suzuki, you presented the results of a report on governance issues at LIXIL's financial results briefing on October 31, 2019. The Governance Committee had been created to ensure that we looked closely at governance reform. Based on the results of this review, could you tell us where the problems were and what measures were taken to improve governance?

Suzuki: In conclusion, we did not find any irrational points in the third-party investigative report of April 2019. However, while LIXIL has a basic governance framework in place, having been established as a company with a nomination committee, there were still issues related to the nomination process. Through our evaluation, we found that even with a governance

Corporate Governance Dialogue

**Masatoshi Matsuzaki**

Outside Director, Chairperson of the Board, Member of Nomination Committee, and Member of Governance Committee

**Teruo Suzuki**

Outside Director, Chairperson of Audit Committee and Member of Governance Committee
Certified public accountant

**Yuji Nishiura**

Outside Director, Chairperson of Nomination Committee, Member of Compensation Committee, and Member of Governance Committee

**Daisuke Hamaguchi**

Outside Director, Chairperson of Compensation Committee, Member of Nomination Committee, and Member of Governance Committee

**Kaoru Onimaru**

Outside Director, Chairperson of Governance Committee, Member of Nomination Committee, and Member of Audit Committee

**Tamio Uchibori**

Outside Director, Member of Audit Committee, Member of Compensation Committee, Member of Governance Committee
Licensed tax accountant

structure in place, it will not work properly without an independent entity to oversee operations and make recommendations. Therefore, we established the Governance Committee to ensure the effectiveness of the Board of Directors. In order to ensure that the Board of Directors can operate with objectivity, fairness, and transparency, as well as maintain a system that can monitor and supervise each committee from an independent standpoint, we proposed to make the Governance Committee permanent. In addition, it must consist of only outside directors and should meet at least quarterly.

We have also focused on our communications with stakeholders. We have reported to them directly on governance issues and will enhance our dialogue going forward.

Matsuzaki: The role of the Nomination Committee is also critical in this. Mr. Nishiura, as the chairperson of the committee, how did you contribute to reforming governance?

Nishiura: I believe that we have been able to create a solid foundation for good corporate governance. The Nomination Committee was at the center of last year's governance issues, and to carry out our role properly, we focused on three main points. First, we clarified the role of the Nomination Committee, reviewed the rules to prevent ambiguous interpretations, and revised the corporate governance guidelines. Second, since it was necessary to endorse the appointment of director candidates in a fair, impartial and highly transparent process, we conducted a survey of all directors. After deciding on the most suitable size of the Board of Directors, we then discussed who we would like to

elect as candidates. A nomination vote by all directors was adopted for the appointment of outside directors. Third, because the work of the Nomination Committee had been seen as a "black box," we interviewed all executive officers, including retired and newly appointed ones. Taking into account their range of opinions, we began to review the term of office of the executive officers and submitted our proposals to the Annual General Meeting of Shareholders.

Matsuzaki: Mr. Hamaguchi, having led the Compensation Committee in its work to create a new compensation framework within a limited period of time, what were the key aspects of the new compensation system created by your committee?

Hamaguchi: In our view, executive compensation is about more than just rewarding executives for the work they have done, it is also an important tool to contribute to the achievement of management goals. To that end, we reviewed the compensation policy with a focus on incentivizing executive officers, who are the ones who turn a management strategy into results. As part of this, we decided to remove sales targets from their performance-linked compensation KPIs (key performance indicators) and shifted to ROIC (return on invested capital) instead. Through this, we want to encourage executives to play their part in achieving management goals, including focusing on core business operations, company profitability, and improving capital efficiency. We also adopted a new stock-linked compensation system as part of our strategy to globalize management and actively appoint foreign executives.

Matsuzaki: Ms. Onimaru, in light of your extensive and

distinguished legal background, what did you focus on as a member of the Nomination Committee from the perspective of governance?

Onimaru: By law, a company that includes a Nomination Committee should have the highest standards of governance. As part of this, it was important to review the rules and how they were applied when Mr. Seto was replaced as CEO under somewhat unclear circumstances. The guidelines themselves were not the problem. What we found was that they had been interpreted in an arbitrary manner. We therefore felt it was important to rigorously strengthen the rules of the Nomination Committee and to enhance the rules of the Board of Directors and the bylaws of the Company to prevent the recurrence of similar governance problems.

Matsuzaki: Mr. Uchibori, from your experience as LIXIL's statutory auditor and as a member of the Audit Committee, how important is the role of outside directors in terms of governance?

Uchibori: It is important to note that LIXIL's Board of Directors from 2020 will consist of just three internal directors along with six independent outside directors. This is very important to show the independence of the Board and its ability to provide oversight to the Company's executive team. It also means that we cannot sit on the sidelines and only require the internal directors to decide the future direction of the Company. As outside directors we must make every effort to provide meaningful contributions to the future of LIXIL.

Matsuzaki: Lastly, regarding the management of the Board of Directors, the role of the chairperson is to ensure that the Board functions smoothly, and to ask

questions to help foster focused discussions. I also believe that while the Board should appropriately supervise management execution, we should also ensure that we do not act solely as a brake to slow down the speed of business execution by the executive officers. In the past year, I believe that sound decision-making was made possible by the timely and transparent provision of information from the executive team.

Matsuzaki: LIXIL Group Corporation and LIXIL Corporation will merge on December 1, 2020, and the new LIXIL will be formed with nine directors. Over the next year, I would like to discuss how, as the Board of Directors, we can contribute to the Company and what role we play in order to achieve sustainable growth and increase corporate value. First, I would like to ask Mr. Uchibori and Ms. Onimaru for their thoughts.

Uchibori: From the perspective of improving corporate value, the simple and most direct way is through raising the stock price and therefore our total market capitalization. This comes initially through achieving the CEO's medium- and long-term goals and strategic vision. Second, we must set concrete reduction targets and improve the financial structure to raise profitability. The third important element is the creation of the appropriate corporate governance system.

Onimaru: In relation to legal affairs, we will endeavor to further revise the Company's bylaws to help strengthen governance.

Matsuzaki: As the incoming chairperson of the Nomination Committee, Mr. Nishiura, what are your plans to continue strengthening LIXIL's governance?

Corporate Governance Dialogue



Nishiura: This year, I'm determined to work on necessary steps to further strengthen governance and introduce advanced governance models. First, we will revise the rules based on the integration of LIXIL Group Corporation and LIXIL Corporation. Second, we will undertake a review of the number of members of the Board of Directors, the ratio of internal directors, the term, timing and conditions of replacing members, and the method of recruiting new outside directors. Third, including Mr. Seto's opinion, we will formulate a CEO succession plan. To do so, we will establish the requirements for the next CEO, the selection process, a candidate pipeline, and other issues.

Matsuzaki: Mr. Hamaguchi, as an outside director, what kind of role do you think we should play?

Hamaguchi: It is often said that the role of outside directors is to supervise and monitor, but it is actually somewhat different. To use a sports analogy, we are not like baseball coaches, who direct players every minute of the game. That is done by the CEO and their executive team. On the other hand, outside directors must sometimes play a leading role, such as in a crisis caused by a scandal or sudden worsening of the business, and we must not shirk from this duty. To prevent a crisis situation, it is necessary to communicate with the executives on a daily basis, give advice and support if necessary, and at the same time monitor the work of the executive team closely.

Matsuzaki: Mr. Suzuki, what do you think will be the future challenges for members of the Audit Committee, especially in relation to corporate governance?

Suzuki: With the merger of LIXIL Group Corporation

and LIXIL Corporation, I think the immediate issue will be to ensure proper Group governance of the merged entity. For the future, we will further enhance our system for full-time corporate auditors so that we can conduct sufficient audits. It is also necessary to consider integrating and reorganizing the governance of subsidiaries, and the governance of the Group companies themselves.

Matsuzaki: Mr. Seto, from your perspective as CEO and an executive officer, what role do you think the Board of Directors should fulfill in order to further improve governance?

Seto: I believe that the reduction in the number of Board members will promote more active discussions, which will help us move more quickly as a company. I also think that it is important to have outside directors perform as a "checking function" for the management team to ensure we do not move too quickly. At the same time, having Board members see top-level executive officers taking part in the discussions will be a benefit and can be an important tool in succession planning. I am confident that the LIXIL Board is a strong group that will openly discuss the future vision of the Company and help to guide management.

Matsuzaki: I think it is important for the chairperson to set the agenda, taking into account the views of the directors and the interests of all stakeholders. I will seek to fulfill my responsibilities at LIXIL in a balanced manner that allows an appropriate level of decision-making by the Board without impeding the speed of business execution.

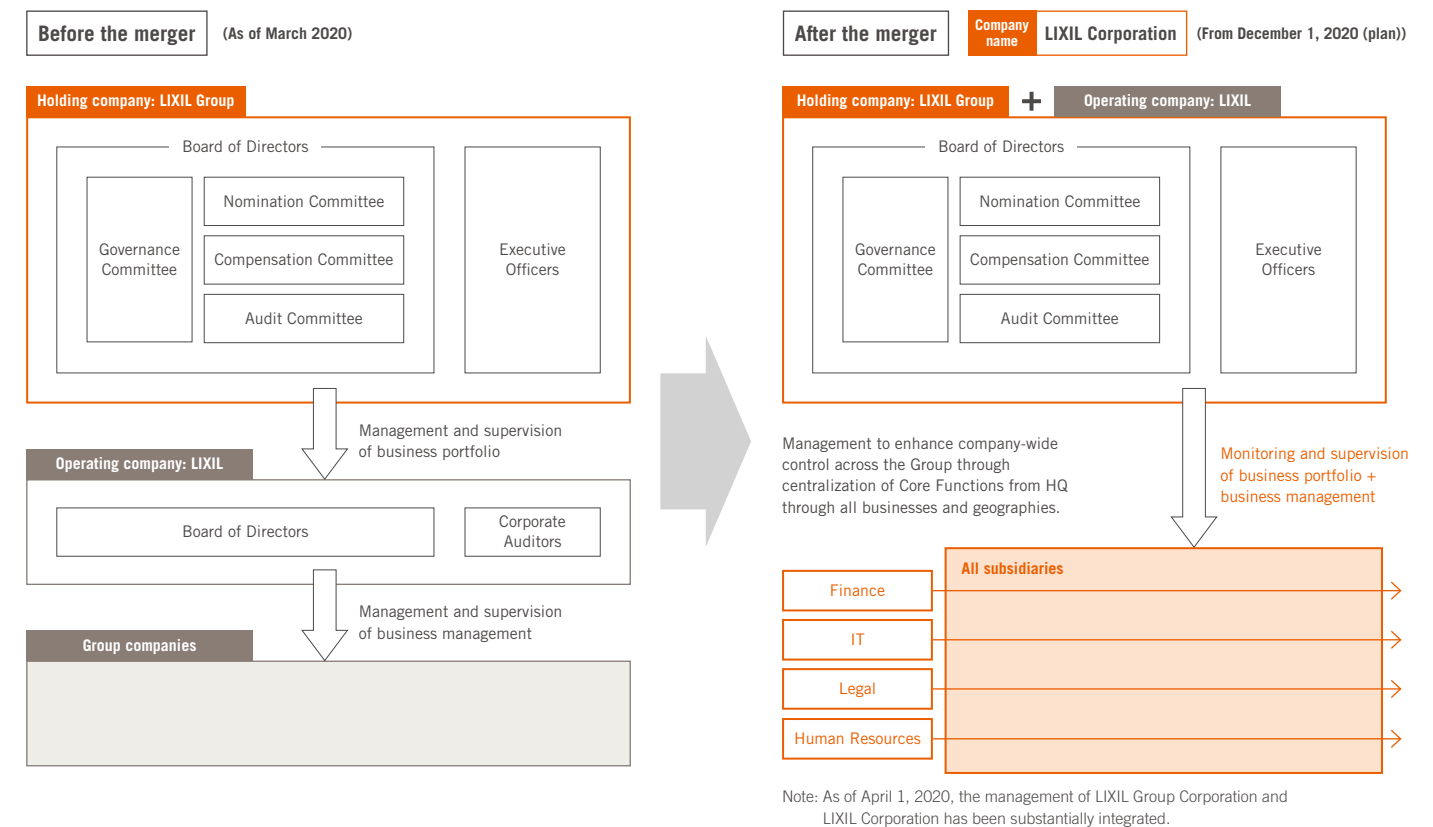
Group Governance Reform

Under the holding company structure, LIXIL Group has been accelerating its business development. However, as LIXIL Group's strategy has evolved, the highest priority of the Company now is to enhance corporate value by placing greater focus on its core businesses inside and outside of Japan and driving synergies across these business areas.

Dissolving the two-tier structure of the Company and LIXIL Corporation will enable faster decision-making and improve

management efficiency, as well as improve corporate governance by simplifying the Group management system and increasing the transparency of management. Therefore, the Company has decided to merge with LIXIL Corporation on December 1, 2020, change the company name to LIXIL Corporation, and move to an operating company system.

Governance structure of LIXIL Group Corporation, LIXIL Corporation, and other operating companies



Strengthen monitoring and supervision by the Board of Directors

1. Pursue effectiveness of monitoring and supervision
In addition to monitoring and supervising the portfolio management of the holding company, the Board of Directors will also monitor and supervise the business operations
2. Improve management transparency
By dissolving the two-tier structure, the Board of Directors will support the decisive management executions of LIXIL Corporation, the largest operating company in the Group

Strengthen Group companies' management and improve management efficiency

1. Enable faster decision-making
2. Eliminate duplication of management and human resources (reduce additional operating costs)
3. Improve management control and supervision across the Group by headquarter function

Selection Process of Director Candidates and Formulation of Draft Reports to the Board of Directors on the System for Executive Officers

As a “Company with Nomination Committee, etc.,” in deciding upon the candidates for director seats, the Nomination Committee will apply the Company’s own criteria, specified in Article 24 of the LIXIL Group Corporate Governance Guidelines (the “Guidelines”), while considering not only the individual qualities of director candidates but also the appropriate composition of the Board of Directors. Criteria regarding the appointment, election, removal, and dismissal of executive officers and the Representative

Executive Officer (CEO) are set forth in Article 25 of the Guidelines. When independent outside director candidates are decided, the Company’s own independence criteria will be used, as set forth in Article 29 of the Guidelines.

The LIXIL Group Corporate Governance Guidelines are available on our corporate website.

www.lixil.com/en/about/governance/policies.html

Selection process of director candidates

A. Composition of Board of Directors	<ul style="list-style-type: none"> • Summarization of the results of replies to surveys to all directors (October 2019) • Individual hearings concerning the details of replies to surveys (November 2019) 	
B. Selection of director candidates	Internal directors	Outside directors
	<ul style="list-style-type: none"> • Organization of outlooks and points of selection • Exchange of opinions by the Chairperson of the Board of Directors, Chairperson of the Nomination Committee and CEO • Discussions by the Nomination Committee on proposals from the Chairperson of the Nomination Committee 	<ul style="list-style-type: none"> • Recommendation and vote by all directors (December 2019–January 2020) • Individual hearings concerning details of votes (January 2020) • Hearing of opinions other than directors • Report and proposal concerning the above results (February 2020)

Based on the above, director candidates were determined through discussion at the Nomination Committee meeting held in March 2020.

Formulation process of draft reports to the Board of Directors on the system for executive officers

STEP 1.	August–October 2019	Revisions on rules and guidelines concerning executive personnel
STEP 2.	August–September 2019	Individual meetings with current executives (deepening understanding of executives)
STEP 3.	December 2019	Agreement on receiving proposal on the executive officer system for the next term, assuming the reappointment of CEO Seto
STEP 4.	January 2020	Proposal from CEO concerning executive officer system for the next term
STEP 5.	February 2020	Meetings with resigning candidates and newly appointed candidates (confirmation of intention)
STEP 6.	February 2020	Confirmation of policy on CEO reappointment and discussion on draft reports concerning selection of executives for the next term
STEP 7.	March 2020	Resolution on draft reports to the Board of Directors on the system for executive officers

Based on the above, a resolution on the draft report from the March 2020 Nomination Committee was made at the Board of Directors’ meeting, and the new executive system started from April 1, 2020.

CEO Succession Plan

The Nomination Committee has received explanation from Kinya Seto, CEO, with respect to CEO candidates for the next term, on the following points.

1. Measures and subjects at time of emergency
2. Mid- to long-term CEO successor candidates (internal)
3. Personnel who may possibly become CEO successor candidates in the future

The CEO Succession Plan is currently being considered by the Nomination Committee and will continue being considered by the Nomination Committee from next fiscal year onwards as well.

Reference: Nomination Committee Report on page 66

LIXIL Group Board of Directors

(As of June 30, 2020)



Kinya Seto

Director, Representative Executive Officer, Executive Officer and Vice President, Finance, and Chief Executive Officer (CEO)
 Representative Director, Chairman, President and CEO, Chairperson of the Board of LIXIL Corporation
 Number of the Company shares owned: 243,308
 Shares of Phantom Stocks: 139,480



Sachio Matsumoto

Director, Representative Executive Officer, Executive Officer and Vice President, Finance, Treasury, and M&A, and Chief Financial Officer (CFO)
 Representative Director and Executive Vice President, CFO of LIXIL Corporation
 Number of the Company shares owned: 86,344
 Shares of Phantom Stocks: 44,600



Jin Song Montesano

Director, Executive Officer and Senior Managing Director, Human Resources and General Affairs, Public Affairs, Investor Relations, External Affairs, and Corporate Responsibility, and Chief People Officer (CPO)
 Director, Executive Vice President, CPO of LIXIL Corporation
 Number of the Company shares owned: 7,758
 Shares of Phantom Stocks: 17,128



Tamio Uchibori

Outside Director, Member of Audit Committee, Member of Compensation Committee, Member of Governance Committee
 Licensed tax accountant
 Director and Senior Managing Executive Officer of MinebeaMitsumi Inc. (former)
 Number of the Company shares owned: 0
 Shares of Phantom Stocks: 1,921



Kaoru Onimaru

Outside Director, Chairperson of Governance Committee, Member of Nomination Committee, Member of Audit Committee
 Lawyer
 Justice of the Supreme Court of Japan (former)
 Number of the Company shares owned: 0
 Shares of Phantom Stocks: 1,921



Teruo Suzuki

Outside Director, Chairperson of Audit Committee and Member of Governance Committee
 Certified public accountant
 Deputy Chair of KPMG AZSA LLC (former)
 Number of the Company shares owned: 0
 Shares of Phantom Stocks: 1,921



Yuji Nishiura

Outside Director, Chairperson of Nomination Committee, Member of Compensation Committee, and Member of Governance Committee
 Chair and CEO, Sumitomo Mitsui Trust Club Co., Ltd. (former)
 Number of the Company shares owned: 0
 Shares of Phantom Stocks: 1,921



Daisuke Hamaguchi

Outside Director, Chairperson of Compensation Committee, Member of Nomination Committee, and Member of Governance Committee
 Management Execution Director and Chief Investment Officer, Pension Fund Association (former)
 Number of the Company shares owned: 0
 Shares of Phantom Stocks: 1,921



Masatoshi Matsuzaki

Outside Director, Chairperson of the Board, Member of Nomination Committee, and Member of Governance Committee
 Director and Chair of the board of directors of Konica Minolta, Inc. (incumbent)
 Number of the Company shares owned: 0
 Shares of Phantom Stocks: 1,921

Profiles and reason for nomination of directors of LIXIL Group Board are available on our corporate website. www.lixil.com/en/about/governance/board/

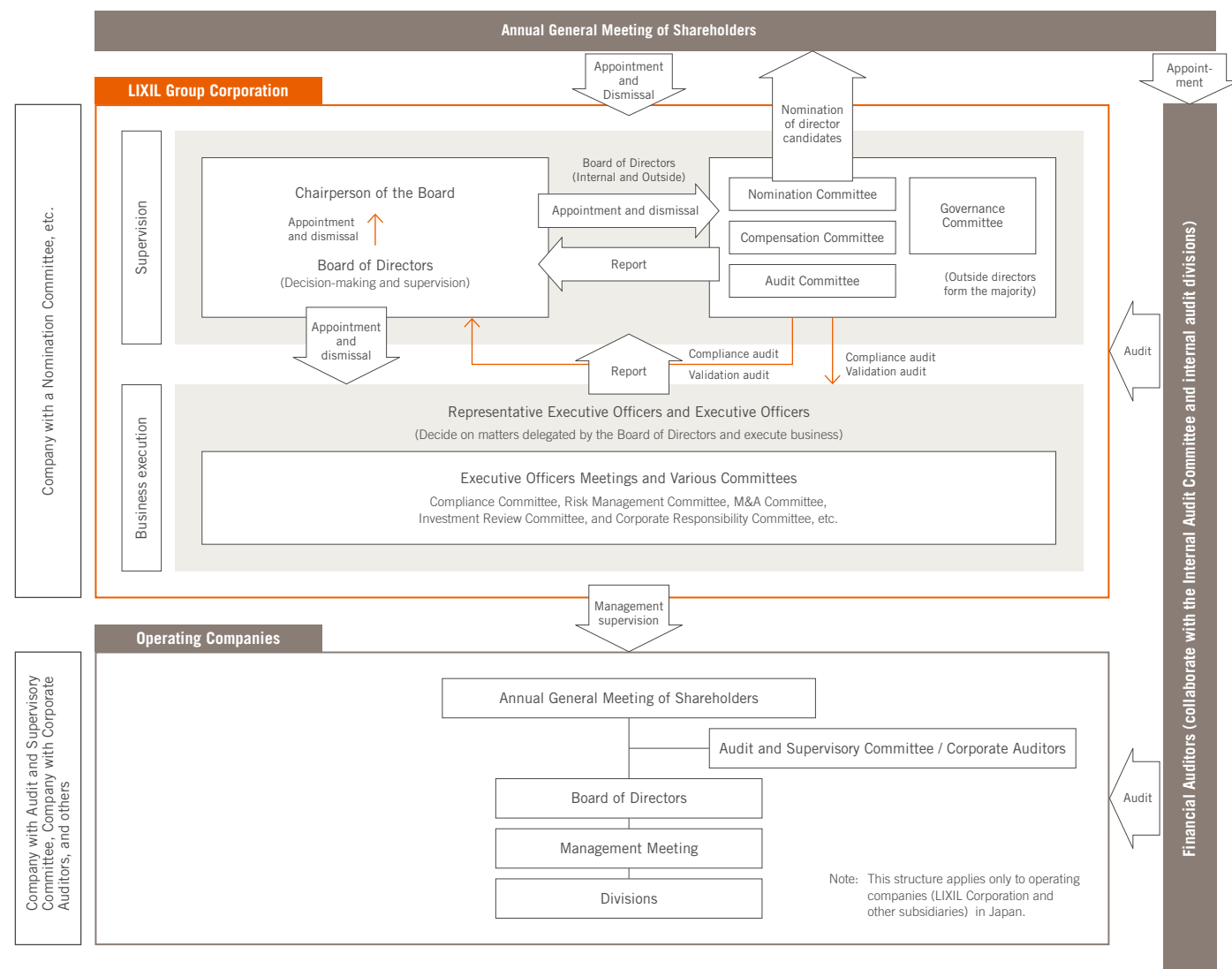
Corporate Governance at LIXIL Group

LIXIL Group Corporation has adopted the corporate governance structure of a “Company with Nomination Committee, etc.” as outlined in Japan’s Companies Act. Under this governance system, the Company separates the conduct of management from the supervision of management. This enables it to leverage a system where its executive officers can make management decisions quickly and decisively while securing management transparency.

In order to monitor, supervise and continuously enhance its corporate governance, the Company has established the Governance Committee within the Board of Directors as a

permanent voluntary committee, and also convenes meetings under the Compliance Committee, Risk Management Committee, M&A Committee, Investment Review Committee, and Corporate Responsibility Committee, among others. These committees discuss management strategies, medium- and long-term policies, and investment-related matters in order to accelerate decision-making while enhancing the effectiveness of the Company’s governance.

Governance structure (July 1, 2020)



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

www.lixil.com/en/about/governance/

Number of meetings held during FYE2020

Board of Directors	16	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. From June 25, 2019, the committee consisted of 11 outside directors and 3 internal directors in FYE2020. Except for one outside director’s attendance of 90.9%, all directors attended all the Board of Directors’ meetings held.
Nomination Committee	17	Made decisions on the content of proposals to be submitted to the Annual General Meeting of Shareholders regarding the election and dismissal of directors. Reported its opinion to the Board of Directors when requested, such as on the appointment, election, removal, and dismissal of candidates for executive officer and Representative Executive Officer (CEO), and on the appointment and removal of the members and chairpersons of each committee, etc.
Compensation Committee	14	Made decisions regarding the compensation of directors and executive officers and their individual compensation received from the Company as consideration for duties.
Audit Committee	17	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 Annual General Meeting of Shareholders regarding the selection and dismissal of financial auditors.
Governance Committee	6	Monitor, supervise and continually enhance the Company’s corporate governance and discuss or advise the Board of Directors to enhance the effectiveness of the Board of Directors. Following the establishment of the committee on October 31, 2019, the committee consisted of four outside directors and one internal director in FYE2020. All directors attended all the committee meetings held.
Executive Officers Meeting	26	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 committee decided on important matters relating to the execution of business in the Company and the Group as a whole.
Internal Audit Committee*1	1	Undertook inspections and checks of legal compliance and appropriateness of corporate activity and of management conformity, not only within legal requirements, but also in view of standards determined by the Company.
Compliance Committee	3	Reported on the status of compliance measures at each Group company, reviewed compliance activities, and discussed the strategy.
Risk Management Committee*2	3	Endeavors to improve the ability to deal with future risks by predicting extraordinary risks of the Company and the Group and establishing systems to address them in advance.
Corporate Responsibility Committee	3	Selected and reviewed material issues for the overall Group, 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.
M&A Committee	34	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 executive officers.
Investment Review Committee	31	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 executive officers.

*1 From the Executive Officers Meeting held on November 8, 2019, the functions of the Internal Audit Committee have been transferred to the Executive Officers Meeting and the Audit Committee for the purpose of strengthening governance in line with changes in the Audit Committee system and achieving more effective reporting of the Executive Officers Meeting.

*2 From November 2019, the Risk Management Meeting described in Annual Report 2019 was reorganized into the Risk Management Committee to improve the ability to deal with future risks by predicting extraordinary risks of the Company and the Group and establishing a system to address them in advance. Risk Management Meetings have continued to be held in each business unit and Group companies.

Composition of the Board of Directors (As of June 30, 2020)

Directors / Executive officers



Internal directors / Outside directors



Gender diversity



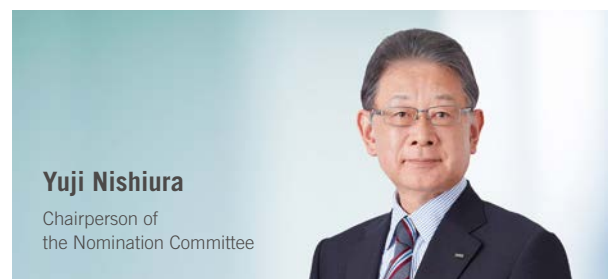
Nationality



	Independent Directors	Nomination Committee	Compensation Committee	Audit Committee	Governance Committee
Kinya Seto					
Sachio Matsumoto					
Jin Song Montesano					
Tamio Uchibori	✓		✓	✓	✓
Kaoru Onimaru	✓	✓		✓	Chairperson
Teruo Suzuki	✓			Chairperson	✓
Yuji Nishiura	✓	Chairperson	✓		✓
Daisuke Hamaguchi	✓	✓	Chairperson		✓
Masatoshi Matsuzaki	✓	✓			✓

Nomination Committee Report

We will further strengthen governance by not only “reinforcing our defense” but also “going on the offense.”



Issues and Initiatives in FYE2020

The Nomination Committee has contributed to improving governance at LIXIL Group, one of the Company's highest priorities, by tackling the following three main issues. The first issue is revising the Nomination Committee's regulations. The aim of this is to prevent arbitrary interpretations of the regulations and abuse of the Nomination Committee system. The second is reviewing the structure of the Board of Directors and nomination of director candidates, while ensuring a high level of transparency in these processes. Third, in order to strengthen our supervisory function, we held thorough discussions with all executive officers, and also considered whether to align the terms of executive officers with fiscal years.

Progress on Issues in FYE2020

We have completed the first stage of revising regulations, which has led to improved governance. Regarding the structure of the Board of Directors, the scope of the Board has been reduced, the ratio of outside directors increased, and efforts made to increase diversity. In particular, the committee made a bold change to give all directors voting rights to elect candidates in elections of outside directors. The Nomination Committee has also facilitated diverse channels of communication with executive directors and formed a consensus on aligning

the terms of executive officers with fiscal years. We are confident LIXIL Group has made significant progress in reforming its governance this fiscal year.

Issues to Address in FYE2021

We will tackle three main issues in FYE2021. First, continuing from FYE2020, we will continue to investigate regulations related to the Nomination Committee. We believe the revision of regulations will pass a significant milestone this term. Second, we will help address the formulation of a CEO succession plan. While this is not an official function of the Nomination Committee, our active contribution is required and is considered critical in ensuring strong governance. Third, we will again consider the role of outside directors. Last fiscal year we reviewed the structure of our Board of Directors. In FYE2021, however, we will go one step further by considering matters such as evaluating outside director candidates and their nomination and election process.

Nomination Committee members, meetings convened, and attendance*1 in FYE2020

Member	Meetings convened	Attendance
Yuji Nishiura (Chairperson)	12	100%
Kaoru Onimaru	12	100%
Haruo Kawahara	12	100%
Masatoshi Matsuzaki	12	100%
Keiichiro Ina	12	100%

*1 Since June 25, 2019

Nomination Committee members*2 in FYE2021

Member
Yuji Nishiura (Chairperson)
Kaoru Onimaru
Daisuke Hamaguchi
Masatoshi Matsuzaki

*2 Since June 30, 2020

Compensation Committee Report

We will enhance corporate value through an executive compensation system that motivates officers to achieve business objectives and thorough corporate governance.



Issues and Initiatives in FYE2020

The Compensation Committee contributes to sustainably achieving LIXIL Group's Core Philosophy – “The Group's superior products and services contribute to improving people's comfort and lifestyles” – by motivating executive officers to achieve the Company's business objectives. We also believe that the Compensation Committee plays a critical role in ensuring all directors and executive officers (“officers”) are involved in achieving thorough corporate governance.

FYE2020 has been a year in which the Company has changed course significantly under our corporate strategy, accelerating efforts to focus our business portfolio and enhance profitability by improving capital efficiency. Therefore, the executive compensation system has been changed to align with this new direction.

Progress on Issues in FYE2020

In FYE2020, the Compensation Committee made progress on the following issues:

1. We have implemented a compensation mix to attract and retain human resources globally. This is based on a clear compensation policy and made up of an Annual Base Salary according to roles and responsibilities, performance-linked compensation, and stock-linked compensation. The Annual Base Salary was decided by considering various factors,

- including management responsibilities, the experience of each officer, the level of difficulty in securing personnel, and geographic location.
2. To create a strong incentive to improve capital efficiency, we have reviewed our performance-linked compensation system. In terms of business target items eligible for performance-linked compensation, revenue, which indicates growth, has been removed. Instead, we refer to return on invested capital (ROIC), a new management indicator; core earnings; and profit for the year attributable to owners of the parent. Moreover, the payout curves have been updated to be more rational.
3. To promote the integration of global Group management, a new unified, global system of stock-linked compensation (“Phantom Stock”) was introduced. In addition, to strengthen Group-wide governance related to the executive compensation, the Compensation Committee manages compensation for executives of international corporations, while to develop more transparent operations, we introduced new executive officer delegation contracts and compensation regulations.

Issues to Address in FYE2021

We will continually monitor whether the executive compensation system is functioning appropriately in relation to the corporate strategy and in response to changing economic and social conditions, and consider revising the system as necessary.

Compensation Committee members, meetings convened, and attendance*1 in FYE2020

Member	Meetings convened	Attendance
Daisuke Hamaguchi (Chairperson)	12	100%
Haruo Kawahara	12	100%
Yuji Nishiura	12	100%
Zenji Miura	12	100%

*1 Since June 25, 2019

Compensation Committee members*2 in FYE2021

Member
Daisuke Hamaguchi (Chairperson)
Tamio Uchibori
Yuji Nishiura

*2 Since June 30, 2020

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 who are necessary to foster business growth globally.
- Ensure a fair and reasonable decision process with regards 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 the Compensation Committee.
- Individual compensation shall be managed in consideration of each individual duty, performance, experience, and priority of attracting and retaining personnel, etc.

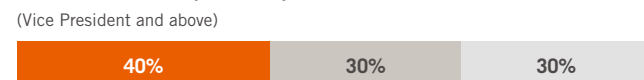
Compensation System

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 business. In principle, when a director concurrently serves as an executive officer, the compensation system for executive officers shall be applied.

Directors' compensation system



Executive officers' compensation system



■ Annual Base Salary ■ Performance-linked compensation ■ Stock-linked compensation

Achievement level of performance targets for FYE2020

Performance target item	Percentage of all performance targets	Performance target	Result	Achievement level of performance target (Performance target/result × 100)	Achievement level of performance target × ratio of each performance target item to overall target
ROIC*1	40%	2.3%	3.0%	130.3%	52.1%
Core earnings	30%	¥47,000 million	¥58,576 million	124.6%	37.4%
Profit for the year*2	30%	¥15,000 million	¥12,518 million	83.5%	25.0%
Total	100%	—	—	—	114.6%

*1 ROIC = Core earnings × (1 - tax rate) / (Total equity + Interest-bearing debt)

*2 Profit for the year attributable to owners of the parent

Annual Base Salary

Annual Base Salary for directors and executive officers shall be determined based on the compensation in the 50th percentile of a group of Japanese companies with sales of ¥1 trillion to ¥2 trillion, on the data from external specialized agencies, taking into consideration the 25th percentile to 75th percentile of the above data. For the directors and executive officers who live abroad, reference shall be made to the data in each country.

Performance-linked Compensation

To encourage the executive officers to work together to achieve single-year management goals – and to ensure that they are fairly and equitably rewarded in accordance with the results of their performance – individual performance that was included in the formulas up to the previous business year is being abolished, and the formula for the relevant business year calculated only on company-wide performance.

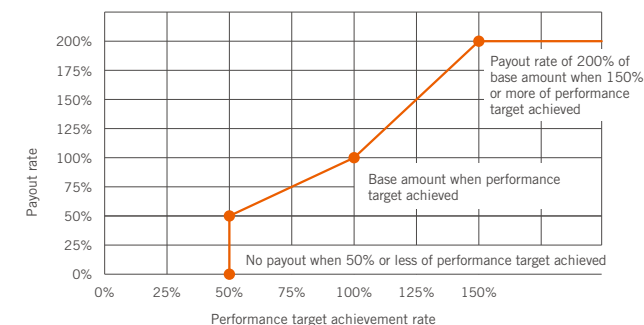
$$\text{Performance-linked compensation} = \text{Base amount of performance-linked compensation} \times \text{Payout rate according to achievement rate of performance targets}$$

The base amount of performance-linked compensation shall be determined by multiplying the Annual Base Salary by a coefficient set for each position.

Position	Base amount of performance-linked compensation (model case)
Vice President and above	Annual Base Salary × 75%
Senior Managing Director and above	Annual Base Salary × 50%

Payout rate based on the achievement level of business target will be calculated as shown below.

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



Clawback Clause and Other

In the event that the Company has to correct its accounts after the fact 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 on the basis of the cause arising and after deliberating any revision to 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 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 the FYE2020. The aim

is threefold: to encourage directors and executive officers to monitor, supervise, and make management decisions to achieve a sustained improvement in the Company's corporate value over the medium to long term; to further promote shared value between the directors and executive officers and shareholders of the Company; and to attract and retain personnel from around the globe who will contribute to further raising corporate value by standardizing global executives' compensation in the Group. This compensation plan grants shares of Phantom Stock but substantially has the same effect as granting own stocks.

As the Phantom Stock plan was commenced during the FYE2020, the date of grant was set at November 5 for both directors and executive officers. From the FYE2021, onward, executive officers shall be granted the Phantom Stock on the day the business year starts and directors on the day of the Annual General Meeting of Shareholders.

The amount of grant is calculated by multiplying the Annual Base Salary by the coefficient set for each position, and the number of shares of Phantom Stock granted to officers is calculated by dividing by the average closing price of the Company's stock price for 30 business days prior to the grant date.

Position	Amount of grant (Model case)
Outside director	Annual Base Salary × 20%
Vice President and above	Annual Base Salary × 75%
Senior Managing Director and above	Annual Base Salary × 25%

The holding periods for Phantom Stock are one year for directors and three years for executive officers.

Information on the amounts of compensation for those officers with total compensation of ¥100 million or more is posted on the Company's website.

www.lixil.com/en/about/governance/compensation.html

Total amount of compensation by officer title, by type of compensation and number of officers receiving (FYE2020)

Officer title	Total compensation (¥ millions)	Total compensation by type (¥ millions)					Number of officers receiving
		Annual Base Salary	Performance-linked compensation	Stock-linked compensation	Restricted stock	Other	
Directors (excluding outside directors)	192	90	—	10	92	—	6
Executive officers	1,290	539	426	156	50	119	13
Outside directors	154	134	—	14	6	—	13
Total	1,636	763	426	180	148	119	32

The total compensation shown above, which are amount calculated under JGAAP, consists of both the compensation paid by the Company and the compensation paid by the Company's subsidiaries.

There is no compensation system that uses ESG performance as a direct evaluation index in the fiscal year under review. However, for the purpose of motivating directors and executive officers to contribute to the sustainable enhancement of the Company's

corporate value, in addition to having introduced stock-linked compensation, it was decided to also base the performance indicators for executive officer performance-linked compensation on sustainable business strategies.

Audit Committee Report

By strengthening LIXIL Group’s audit structure and internal control systems, we aim to build an enhanced compliance structure.



Teruo Suzuki
Chairperson of the Audit Committee

Initiatives in FYE2020

The Function of the Audit Committee

LIXIL Group’s Audit Committee aims to conduct efficient and effective audits while collaborating closely with the internal auditors of the Company and its subsidiaries, as well as with corporate auditors (“Kansayaku”). Its activities include auditing the effectiveness of the internal control systems of the Company and its main subsidiaries, and monitoring the execution of duties by directors and executive officers. This is conducted via various means such as regularly receiving audit reports – and giving directions as appropriate – from internal auditors and corporate auditors, interviewing executive officers and other personnel, attending important Company meetings, and reviewing internal documentation such as financial reporting, disclosures, and minutes of important meetings. Moreover, the Group’s corporate auditors’ meetings are held periodically to share information on each subsidiary and Group-wide auditing policies.

Additionally, Audit Committee members also serve as corporate auditors of LIXIL Corporation – a key subsidiary – to further strengthen the Group’s auditing function.

Supporting the Audit Committee

The Audit Committee Office was established to help the committee and committee members exercise their authority as stipulated by law and in Company regulations, and to monitor the compliance and validate the work of

directors and executive officers. The Audit Committee elects four corporate auditors who are then assigned as auditors to 32 Group companies, where they serve as the auditing function in order to strengthen corporate governance. As corporate auditors are assigned directly by the Audit Committee, they are immediately required to report any issues identified related to operational audits or internal controls to the Audit Committee. Executive officers cannot give orders or instructions with regard to any directions issued by the Audit Committee or Audit Committee members to the Audit Committee Office and corporate auditors. Meanwhile, the Audit Committee is responsible for deciding on personnel changes and performance evaluations of members in the Audit Committee Office and corporate auditors.

Initiatives in FYE2021

The Audit Committee for FYE2021 consists of three independent outside directors. Of the members, the chairperson, Teruo Suzuki, is a certified public accountant with significant auditing experience, while Tamio Uchibori is a licensed tax accountant. Therefore, they have significant knowledge and experience in finance, accounting, and taxation. The Audit Committee will aim to become even more effective and efficient under the new unified Group management structure to be established after the integration of LIXIL Corporation planned for December 2020.

Audit Committee members, meetings convened and attendance*1 in FYE2020

Member	Meetings convened	Attendance
Zenji Miura (Chairperson)	10	100%
Teruo Suzuki	10	100%
Tamio Uchibori	10	100%
Daisuke Hamaguchi	10	100%
Ryuichi Kawamoto	10	100%

*1 Since June 25, 2019

Audit Committee members*2 in FYE2021

Member
Teruo Suzuki (Chairperson)
Tamio Uchibori
Kaoru Onimaru

*2 Since June 30, 2020

Governance Committee Report

We will respect diversity and promote the creation of structures that are not bound by existing frameworks.



Kaoru Onimaru
Chairperson of the Governance Committee

Background to Establishment of Governance Committee

At the Board of Directors’ meeting held in October 2019, the Board of Directors resolved to establish the Governance Committee as a permanent voluntary committee within the Board of Directors and carried out activities with the aim of strengthening the Company’s corporate governance, increasing transparency and objectivity for all stakeholders, and growing corporate value.

Composition of Current Governance Committee

Based on the results of the effectiveness evaluation of the Company’s FYE2020 Board of Directors and other factors, the Governance Committee for the current fiscal year will pursue further transparency and objectivity. To

evaluate the governance of the Company by conducting discussions from an open and independent perspective, the decision was made that the Committee be composed entirely of outside directors.

Aspirations for Current Term’s Activities

The Governance Committee makes full use of the wide range of knowledge of its outside directors, who have been chosen for diversity, and is not limited by existing frameworks. The Governance Committee also exchanges opinions to enhance the Board of Director’s effectiveness and will maintain LIXIL Group’s robust governance system that continues to undergo reform.

Reference: Governance Dialogue on page 56

Board of Directors’ Effectiveness Evaluation

To strengthen and improve the governance systems needed to support the sustainable growth and the creation of medium- and long-term corporate value of LIXIL Group as a whole, the Company conducts an evaluation and analysis of the effectiveness of its Board of Directors once a year.

Effectiveness Evaluation Process

The Company, led by the Governance Committee, conducted a questionnaire survey and other evaluations from February to May 2020. Responses were obtained from 14 directors and six executive officers (besides another three persons serving concurrently as directors).

Main Categories of Evaluation of Effectiveness of the Board of Directors Conducted by Directors

1. Items relating to operation of Board of Directors’ meetings
2. Items relating to the agenda of Board of Directors’ meetings
3. Items relating to the system that supports Board of Directors’ meetings
4. Items relating to dialogues between the Board of Directors and shareholders, investors, and stakeholders
5. Items relating to outside directors

Main Categories of Evaluation of Effectiveness of the Board of Directors Conducted by Executive Officers

1. Items relating to the agenda of Board of Directors’ meetings
2. Items relating to the system that supports Board of Directors’ meetings
3. Items relating to dialogues between the Board of Directors and shareholders, investors, and stakeholders

Overview of Evaluation Results and Future Efforts

Based on the ratings and comments from all the directors and executive officers, as the Company’s Board of Directors, we have concluded that the Board of Directors “functioned effectively” during FYE2020.

The Company’s Board of Directors had discussions based on the points evaluated by the respondents and a number of suggestions from each director and executive officer. The Board of Directors will improve the effectiveness of the Board of Directors, setting the following three points as the priority issues for FYE2021:

- 1) To establish a common understanding of the matters for which the Board of Directors is responsible, the matters for which the executive officers are responsible and the matters for which the Board of Directors and the executive officers are jointly responsible.
- 2) To clarify the matters to be supervised by the Board of Directors and each committee (the Nomination Committee, the Compensation Committee, the Audit Committee and the Governance Committee)
- 3) To expand opportunities to have discussions with stakeholders

Internal Control Systems and Compliance

Risk Management

Internal Control Systems

LIXIL Group builds, operates, and evaluates internal control systems to ensure the reliability of operations as well as the accuracy and appropriateness of financial reporting in order to enhance corporate value. In addition, we are strengthening our Group-wide operational management system through risk-consciousness and, as a corporate Group that emphasizes compliance management, building various systems that comply with laws and regulations.

LIXIL Group Enterprise Risk Management (ERM)

LIXIL Group strives for the continuity and stable development of 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)

Risks to the Group's medium term plan are identified and assessed, then prioritized as material risks for focused management. A risk owner is determined for each risk and is responsible for responding to and reporting on the assigned risks.

LIXIL Group takes both a top-down and bottom-up approach in risk management in order to respond to various risks. While the HQ management is actively involved in managing Group-wide material risks, efficient coordination with regional/local business operations is sought by placing risk managers in major regions. LIXIL Group is also working to foster a corporate culture of Group ERM that enables executive officers and employees to have a consistent mindset in managing risks with the understanding of the business characteristics of every region.

Crisis Management (CM)

In order to prepare for crises, a crisis management framework has been established in each LIXIL Group company. The Crisis

Management Basic Policy has been created to stipulate such matters as basic principles, definitions, and structures related to crisis management, and has been thoroughly implemented in domestic and international Group companies. A Group-wide response framework has been clarified and a crisis management handbook has been created and distributed so that when an incident may possibly develop into a crisis, losses will be minimized through prompt initial response, timely escalation, sharing of information among relevant departments for management decision-making, and external disclosure of information done consistently and sincerely.

Anticipating that management may not always be able to gather in one location in the event of a crisis, the Crisis Countermeasures Division for the head office has been made available online to allow timely and prompt decision-making remotely.

Understanding the importance of cybersecurity, LIXIL Group has established and operates the LIXIL Computer Security Incident Response Team (LIXIL-CSIRT) to minimize the impact of cyberattacks. We constantly monitor computers and networks to detect problems at an early stage and analyze the impact and cause of the problems in order to respond quickly.

Information concerning "Business Risks" is available on our corporate website.

www.lixil.com/en/investor/strategy/risks.html

Compliance

LIXIL Group Code of Conduct

The LIXIL Group Code of Conduct (the "Code of Conduct") is a set of rules to be adhered to by all Group officers and employees worldwide with the aim of undertaking business activities appropriately and with a shared sense of values and ethics across the entire Group. The Code of Conduct is available in 18 languages and is regularly updated. The Company has adopted a system whereby every year all Group company officers and employees are required to participate in training on the Code of Conduct and acknowledge they will comply with its terms. To integrate and clarify in detail the Code of Conduct across the Group, LIXIL Group established Global Policies for 10 areas – including anti-corruption, fair competition, and protection of personal information – and, where necessary, established guidelines subordinate to its policies. These policies are translated into major languages and LIXIL Group has implemented education and training programs for officers and employees to facilitate their understanding of the policies.

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

www.lixil.com/en/about/governance/pdf/LIXIL_CoC_en.pdf

Corporate Culture

Company management is working to raise compliance awareness and embed a culture of compliance by discussing compliance issues, making use of opportunities provided by "all-employee" meetings and site visits, as well as increasing the use of communication tools within the Group. We also plan educational events such as quizzes and contests in Japan and global every year so that all employees can voluntarily increase their compliance awareness in a fun setting.

Compliance Committees

In addition to the compliance committees of the Group and within

subsidiaries in Japan, compliance committees have been established in each business unit. This is to strengthen compliance measures globally and to improve the reporting system of business units to the Group compliance committee. We hold compliance reviews, report those findings to each compliance committee and the Group compliance committee, and use these platforms to pursue Group-wide initiatives, better visualize the state of compliance, review compliance activities, and discuss countermeasures.

Education and Training Programs

LIXIL Group holds education and training programs for new employees, new managers, and executives to develop its compliance culture. The Group is also implementing education and training programs on Global Policies for all officers and employees. The Group will continue to further develop its education and training programs by planning suitable programs that utilize e-learning and face-to-face training and are based on the risks of each area in which the Group operates. In addition, the Group publishes newsletters both in Japan and outside of Japan and has been striving to increase and cultivate employees' knowledge and awareness of compliance.

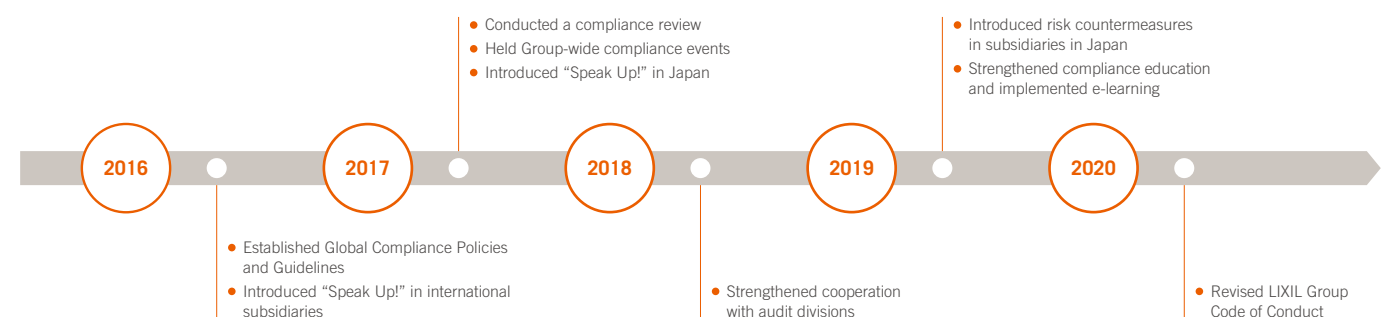
Concern-Raising System "Speak Up!"

LIXIL Group has established an internal concern-raising system with the aim of gathering information on compliance breaches, taking measures to prevent fraudulent and unlawful behavior, and responding quickly where action is required. The 24-hour, multilingual concern-raising system "Speak Up!" was introduced in all international subsidiaries in 2016, and in Japan in 2017. In 2019, we created a global management structure for compliance information by dissolving and merging the former internal reporting system in Japan with the "Speak Up!" system. The reported compliance concerns are analyzed for trends and the results used in initiatives such as the development of the compliance structure and employee education to prevent fraudulent and unlawful behavior.

Risk Management Initiatives (Years ended March 31)



Compliance Initiatives (Years ended March 31)



Internal Control Systems and Compliance

Internal Audit

How LIXIL Group Sees Internal Audit

Corporate Audit, a corporate function, is responsible for managing all of the Group's internal audit organizations in Japan and international markets, and ensures all Group audits are conducted without omission. (At the end of April 2020, the Group's internal audit organizations consisted of 64 people in total.) 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 Group-wide governance as well as internal control, and contribute to the development of human resources.

Strengthening Internal Audit System to Achieve Sustainable Growth

All LIXIL Group audit organizations, including our global teams report to Corporate Audit which in turn ensures detailed information is shared in a timely manner with each global team. Additionally, the head of Corporate Audit reports directly to the CEO of LIXIL Group, and as the corporate function's representative, to the Audit Committee of the Board of Directors. By unifying the internal audit chain of command globally, LIXIL Group has implemented a new and stronger system of information sharing (as of April 1, 2020, the internal audit organizations transitioned to a new system of stronger cooperation with the global headquarters).

Under this new 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. Similar in structure to the transformed and globally unified executive management departments for finance, legal and compliance, IT, and HR, Corporate Audit's organizational structure is lean and simple in order to increase transparency. This is a significant change in course from the previous expansive network which resulted in

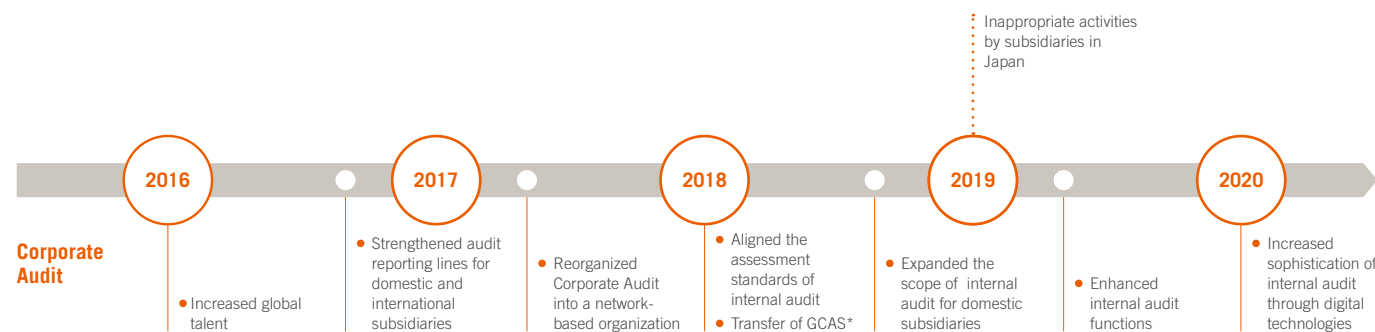
concerns over functional and geographic redundancies and excesses. Operations are carried out thoroughly in accordance with the clearly defined roles and responsibilities for each department and the Group within various large categories such as domestic (Japanese) and international operations.

Increased Sophistication of Internal Audit through Digital Technologies

LIXIL Group is advancing a comprehensive IT reform project to enhance existing internal audit activities by establishing a new IT department within Corporate Audit. 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.



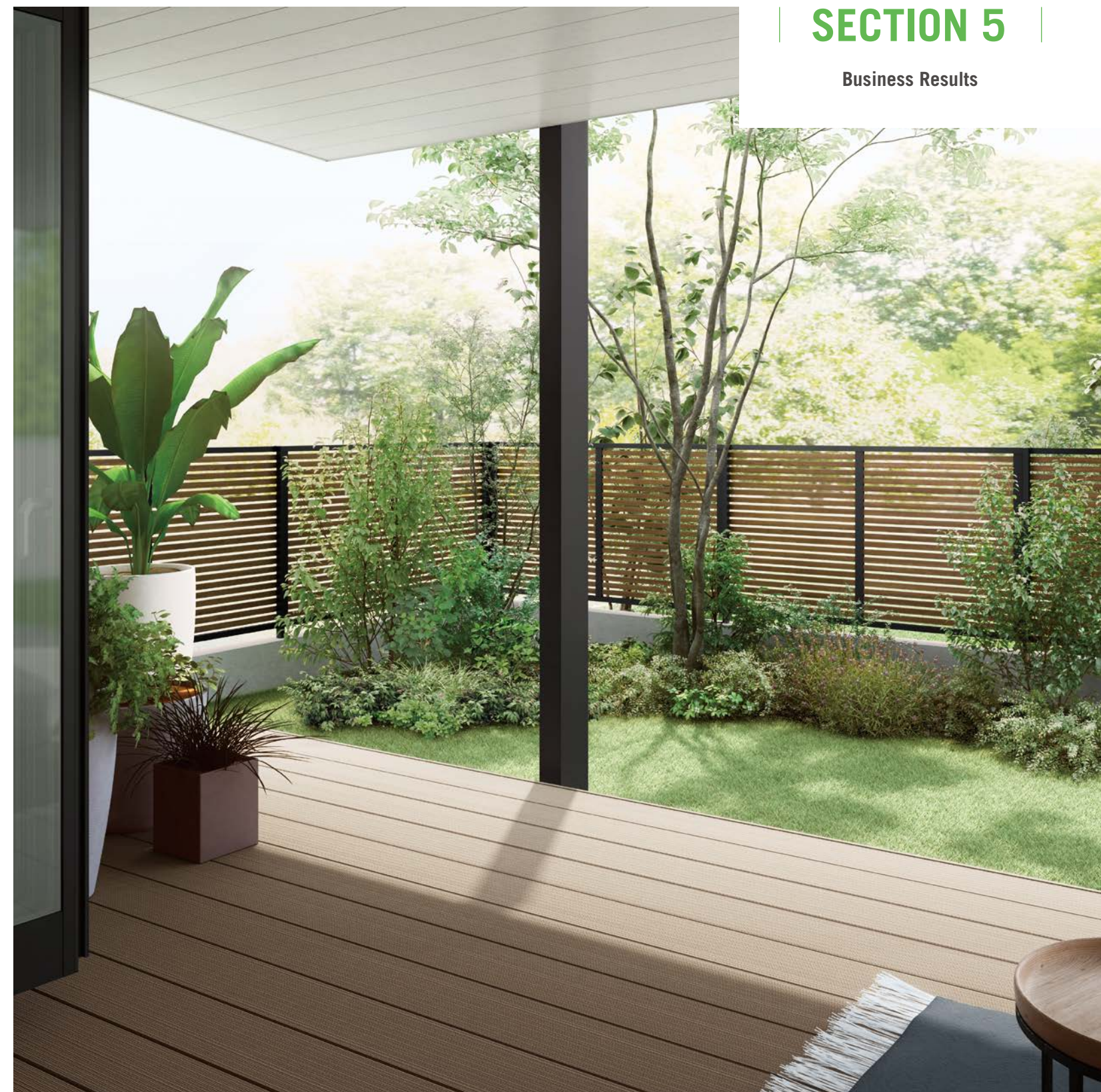
Internal Audit Initiatives (Years ended March 31)



*Global Corporate Audit Staff

SECTION 5

Business Results



Consolidated 11-Year Summary

LIXIL Group Corporation and Consolidated Subsidiaries

(Millions of yen)

Years ended March 31	JGAAP							IFRS					
	2010	2011	2012	2013	2014	2015	2016	2015	2016	2017	2018	2019*5	2020
Results of Operations													
Net sales (JGAAP) / Revenue (IFRS)	¥ 982,607	¥1,214,939	¥1,291,396	¥1,436,395	¥1,628,658	¥1,673,406	¥1,845,117	¥1,705,427	¥1,890,450	¥1,786,447	¥1,829,344	¥1,692,432	¥1,694,439
Operating income (JGAAP) / Core earnings (IFRS)	25,984	40,409	17,915	50,485	69,080	51,674	56,259	51,722	70,069	88,312	76,046	54,485	58,576
Operating income ratio (JGAAP) / Core earnings ratio (IFRS) (%)	2.6	3.3	1.4	3.5	4.2	3.1	3.0	3.0	3.7	4.9	4.2	3.2	3.5
Operating profit (loss) (IFRS)								48,041	39,011	67,535	59,107	49,011	39,121
Profit (loss) for the year attributable to owners of the parent*1	(5,332)	15,780	1,868	21,347	20,952	22,013	(18,664)	30,864	(25,605)	42,503	54,581	(52,193)	12,518
Research and development expenses	14,756	13,688	15,350	14,025	17,380	18,199	—	18,211	25,523	26,362	27,875	28,188	27,515
Capital expenditures	30,844	45,779	52,107	73,795	64,321	62,622	76,403	61,454	72,083	68,215	69,953	67,639	68,635
Depreciation and amortization	32,916	36,289	39,370	44,736	49,168	50,724	60,451	50,404	62,205	60,701	64,661	68,502	105,557
EBITDA*2	60,485	80,106	59,887	100,627	124,822	108,887	128,692	102,126	132,274	149,013	140,707	120,053	160,569
Cash Flows													
Cash flows from operating activities	68,074	48,680	33,979	28,432	83,533	138,931	137,012	98,563	121,085	132,531	116,362	69,351	157,701
Cash flows from investing activities	(27,334)	(13,543)	(142,067)	(12,397)	(218,333)	(129,228)	16,547	(119,041)	19,122	(58,052)	(52,606)	(72,328)	(41,314)
Cash flows from financing activities	(27,825)	(41,687)	138,348	(31,753)	153,144	10,010	(171,758)	46,618	(154,403)	(79,899)	(43,843)	1,579	(153,285)
Cash and cash equivalents, end of year	89,302	92,329	127,351	114,662	139,039	160,378	138,801	147,708	129,646	121,563	138,751	141,421	95,862
Financial Position													
Total assets	1,033,504	1,166,834	1,481,063	1,465,689	1,786,294	1,875,249	2,060,873	1,915,427	2,130,120	2,042,165	2,107,131	2,059,544	2,091,529
Total equity	516,322	536,408	538,776	566,312	601,795	613,651	637,517	590,855	537,308	559,431	649,573	567,167	535,137
Net interest-bearing debt	158,980	175,487	266,771	307,089	463,479	418,720	528,386	559,971	697,413	638,345	549,159	584,537	736,689
Per Share Data													
Earnings (loss) per share*1 (EPS) (yen)	¥ (19.12)	¥ 55.50	¥ 6.49	¥ 73.42	¥ 72.06	¥ 75.46	¥ (65.11)	¥ 105.80	¥ (89.33)	¥ 148.01	¥ 189.13	¥ (179.98)	¥ 43.15
Equity attributable to owners of the parent per share (BPS) (yen)	1,842.78	1,850.34	1,817.34	1,930.02	2,041.34	2,104.27	1,894.55	2,038.56	1,828.84	1,902.18	2,128.77	1,839.59	1,730.99
Dividends per share (yen)	40	40	40	40	55	60	60	60	60	60	65	70	70
Key Ratios													
EBITDA to sales ratio*2 (%)	6.2	6.6	4.6	7.0	7.7	6.5	7.0	6.0	7.0	8.3	7.7	7.1	9.5
ROE (%)	(1.0)	3.0	0.4	3.9	3.6	3.7	(3.3)	5.3	(4.6)	7.9	9.4	(9.1)	2.4
ROA (%)	(0.5)	1.4	0.1	1.4	1.3	1.2	(0.9)	1.7	(1.3)	2.0	2.6	(2.5)	0.6
Total assets turnover (times)	0.9	1.0	1.0	1.0	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.8	0.8
Equity ratio (JGAAP) / Ratio of equity attributable to owners of the parent (IFRS) (%)	49.7	45.2	35.7	38.3	33.2	32.1	26.4	30.5	24.6	26.8	29.3	25.9	24.0
Dividend payout ratio (%)	—	72.1	616.3	54.5	76.3	79.5	—	56.7	—	40.5	34.4	—	162.2
Net debt-to-equity ratio*3 (%)	30.9	33.3	50.5	54.7	78.1	69.5	97.2	95.9	132.9	116.6	89.0	109.5	146.7
Number of employees*4	35,976	41,090	48,163	45,602	51,419	52,427	—	—	60,677	59,248	61,140	62,940	61,634
Stock Indicators													
Stock price (closing), end of year (yen)	¥ 1,903	¥ 2,160	¥ 1,733	¥ 1,858	¥ 2,846	¥ 2,847	¥ 2,295	¥ 2,847	¥ 2,295	¥ 2,825	¥ 2,376	¥ 1,478	¥ 1,345
Market capitalization	595,742	676,197	542,523	540,221	827,426	891,265	718,459	891,265	718,459	884,378	743,817	463,086	421,414
Price earnings ratio (times)	(99.5)	38.9	267.0	25.3	39.5	37.7	—	26.9	—	19.1	12.6	—	31.2
Price book-value ratio (times)	1.03	1.17	0.95	0.96	1.39	1.35	1.21	1.40	1.25	1.49	1.12	0.80	0.78

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

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

*5 Due to the LIXIL Group's decision to divest Permasteelisa in May 2020, business operations of Permasteelisa are classified as discontinued operations from FYE2020. FYE2019 results have also been restated for comparison.

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

Recent M&As (Figures as of the acquisition)

July 2009	April 2010	April 2010	August 2011	December 2011	August 2013	January 2014	October 2014
American Standard Asia Pacific	Shin Nikkei Company, Ltd.	SUNWAVE CORPORATION	Kawashima Selkon Textiles Co., Ltd.	Permasteelisa S.p.A.	ASD Holding Corp. (ASB)	GROHE Group S.à r.l.	GROHE DAWN WaterTech Holdings Pty Ltd.*9
Sales	¥23.5 billion	¥110.0 billion	¥34.3 billion*7	¥116.0 billion	¥82.0 billion	¥157.5 billion	¥12.9 billion
Acquisition cost	¥17.6 billion	¥0.7 million	¥2.2 billion and share exchange	¥60.8 billion	¥30.5 million	¥80.1 billion	¥8.6 billion
Equity owned	100%	100%	100%	100%	100%	44%*8	51%*10
Goodwill	¥2.1 billion (net)	¥5.4 billion	¥6.1 billion (negative)	¥34.3 billion	¥14.7 billion	¥157.3 billion	¥1.2 billion
Intellectual property	¥3.5 billion		¥1.7 billion	¥35.0 billion	¥21.7 billion	¥209.3 billion	¥7.8 billion
		*6 100% in March 2013	*7 Excludes interior fabric business for vehicles which the Company separated from the main business			*8 100% in September 2016	*9 Currently LIXIL AFRICA HOLDINGS (Pty) Ltd. *10 100% in December 2017

Review and Analysis of Operating Results and Financial Position

In FYE2020, Japan's economy experienced a recovery in job growth and consumer spending on the back of improved corporate profits. Despite showing signs of a moderate economic recovery, however, consumer sentiment deteriorated due to natural disasters such as major typhoons, as well as to the consumption tax increase in October 2019. In addition, affected by the spread of COVID-19, its economic outlook remains uncertain. Regarding the housing sector, investment in houses for rent continued to fall sharply, as in FYE2019, while investment in owner-occupied houses and houses for sale also fell below the previous year's level. As a result,

Status of Operating Results

Since LIXIL decided to divest its shares in its consolidated subsidiary Permasteelisa S.p.A. (Permasteelisa) in May 2020, the operations of Permasteelisa and its subsidiaries are classified as discontinued operations. Accordingly, the figures of revenue, core earnings, operating profit, and profit (loss) before tax stated in this section are for continuing operations only and exclude discontinued operations. Also, the percentages of year-on-year changes and the results of the previous fiscal year have been revised to reflect the said reclassification.

Revenue in FYE2020

LIXIL Group generated ¥1,694.4 billion in revenue in FYE2020, up by 0.1% year on year. In the Japan market, LIXIL Housing Technology (LHT), LIXIL Water Technology (LWT), and Distribution & Retail Business (D&R) contributed to the revenue increase to ¥1,323.1 billion, up by 0.6% from the previous fiscal year. Their strong revenue growth recorded during the first half of the fiscal year offset the drop in the second half, which was attributable to the rebound from the consumption tax hike and the decrease in demand affected by the COVID-19 spread. In international markets, revenue declined to ¥398.6 billion, down by 2.5% from the previous fiscal year, although revenue on a local currency basis, which excluded the negative effect of foreign exchange translation of ¥15.0 billion generated by the depreciation of the euro, recorded a 1.2% increase year on year.

FYE2020 revenue by segment for the domestic and international businesses

	(¥ billion)		
	FYE2019	FYE2020	Increase/decrease
Japan	1,315.5	1,323.1	7.6
LWT	435.3	438.2	2.9
LHT	530.0	533.9	3.9
LBT*	115.9	112.8	-3.1
D&R	176.4	184.2	7.8
H&S*	57.9	54.0	-3.8
International	408.6	398.6	-10.0
LWT	397.8	390.3	-7.5
LHT	10.8	8.3	-2.5
Adjustment	-31.6	-27.2	4.4
Total	1,692.4	1,694.4	2.0

*LBT: LIXIL Building Technology, H&S: Housing & Services Business.

the number of new housing starts in FYE2020 was 884,000, down by 7.3% year on year, and is expected to continue to decline over the medium to long term. Accordingly, the business environment continues to be challenging for LIXIL Group.

In terms of the global economy, the impact of the COVID-19 pandemic from January 2020 onward, the US-China trade conflicts and other trade issues, and the slowdown in China's economic growth has been greater than anticipated. Consequently, there are concerns of a serious and long-term impact on not only on the domestic but also on the global economy.

Core Earnings in FYE2020

LIXIL Group posted core earnings of ¥58.6 billion in FYE2020, up by 7.5% year on year. In the Japan market, selling, general and administrative (SG&A) expenses increased mainly due to the one-time expenses recorded in relation to the Career Option Program, an early retirement incentive program adopted as part of the comprehensive HR initiative "Kawaranaito LIXIL." However, this expense increase was covered primarily by the positive effect brought by price revision in LHT, as well as by the improvement of production efficiency through the progression of the platform strategy and other measures, leading to the overall increase in core earnings. With regard to the international markets, all regions except South East Asia recorded increased core earnings. In the North America region, ongoing initiatives to improve sales prices and reduce SG&A expenses have been successful. The Europe region and the China region also posted strong sales.

FYE2020 core earnings by segment for domestic and international businesses

	(¥ billion)				
	FYE2019	FYE2020		Increase/decrease	
		Actual	Reference*	Actual	Reference*
Japan	65.3	70.5	74.8	5.2	9.4
LWT	29.2	29.4	30.8	0.2	1.7
LHT	21.3	29.2	31.1	7.8	9.8
LBT	3.7	2.7	3.3	-1.0	-0.4
D&R	7.8	6.3	6.3	-1.4	-1.4
H&S	3.5	3.0	3.2	-0.5	-0.2
International	30.5	31.3	31.3	0.8	0.8
LWT	31.1	32.1	32.1	1.1	1.1
LHT	-0.6	-0.9	-0.9	-0.3	-0.3
Adjustment	-41.4	-43.2	-41.9	-1.9	-0.6
Total	54.5	58.6	64.2	4.1	9.6

*Reference value: Figures excluding the impact of expenses incurred from the early retirement benefit program (the Career Option Program).

Profit (Loss) Attributable to Owners of the Parent in FYE2020

LIXIL Group recorded net profit of ¥12.5 billion, up by ¥64.7 billion from the previous fiscal year. Despite the expenses recorded as other expenses in relation to COVID-19 countermeasures, the increase in core earnings and the decrease in loss generated by Permasteelisa led to overall profit.

Forecast of Operating Results for FYE2021

The impact of the COVID-19 pandemic on operating results varies significantly by the region where LIXIL Group operates, while the respective circumstances are changing rapidly and substantially. LIXIL Group will announce its forecast of operating results for FYE2021 once the impact of COVID-19 is better assessed.

With the COVID-19 pandemic having a serious impact globally, LIXIL Group has taken prompt measures against the outbreak, setting the safety of its employees and other stakeholders as its top priority. Although production activities were temporarily suspended in certain countries, LIXIL Group has continued to

deliver products to customers worldwide by leveraging its strength in a global supply chain network. In order to fully support the growing interest in hygienic and healthy housing, which is expected in a future both "with COVID-19" and "post-COVID-19," LIXIL Group is committed to enhancing the following three initiatives while implementing its Medium Term Plan: (1) improving efficiency through work-style reforms centered around working from home and through accelerated digitalization, (2) accelerating progress globally, and (3) strengthening product lineups for the new normal. In particular, the Group offers a wide range of products that are useful for preventing infectious diseases, and is confident that LIXIL Group will be able to contribute to society through sustainable business activities. LIXIL Group is also determined to establish a more agile business operating structure and to drive innovation through employee-focused initiatives, in order to enhance its competitiveness for sustainable growth.

Financial Position as of March 31, 2020

In accordance with the decision made in May 2020 to divest shares in Permasteelisa, the assets and liabilities comprising discontinued operations are classified as "assets held for sale" and "liabilities directly associated with the assets held for sale," respectively, effective from March 31, 2020.

Consolidated financial position

	(¥ billion)					
	[A]	[B]	Increase/decrease			
			Impact of application of IFRS 16*	Reclassification due to the decision to transfer shares in Permasteelisa	Others (actual increase/decrease)	[B]-[A] Total increase/decrease
March 2019	March 2020					
Cash and cash equivalents	141.4	95.9	—	-7.0	-38.6	-45.6
Trade and other receivables	401.7	307.1	—	-19.9	-74.7	-94.6
Inventories	234.6	227.6	—	-2.2	-4.9	-7.0
Assets held for sale	11.4	58.2	—	53.5	-6.6	46.8
Property, plant and equipment	552.8	496.9	—	—	-55.9	-55.9
Right of use assets	—	215.0	—	—	215.0	215.0
Other	717.7	690.9	166.3	-24.4	-168.7	-26.8
Total assets	2,059.5	2,091.5	166.3	0	-134.4	32.0
Trade and other payables	392.4	336.5	—	-30.8	-25.1	-55.9
Interest-bearing debt	726.0	832.6	166.3	-4.7	-55.1	106.6
Liabilities directly associated with the assets held for sale	5.0	91.9	—	89.9	-3.0	86.9
Other	369.0	295.4	—	-54.4	-19.2	-73.6
Total liabilities	1,492.4	1,556.4	166.3	0	-102.3	64.0
Treasury shares	-48.9	-48.9	—	—	0	0
Other	616.1	584.0	—	—	-32.1	-32.1
Total equity	567.2	535.1	—	—	-32.0	-32.0
Equity ratio (%)	25.9%	24.0%				-1.9pp
Net assets per share (yen)	1,839.59	1,730.99				-108.60
Number of shares (in thousands)	290,095	290,103				8
Net interest-bearing debt	584.5	736.7				152.2

*The impact amounts as of the beginning of FYE2020 incurred due to the mandatory application of new accounting standard (IFRS 16 "Leases") effective from the beginning of FYE2020.

Review and Analysis of Operating Results and Financial Position

Assets

Total assets as of March 31, 2020, amounted to ¥2,091.5 billion, up by ¥32.0 billion year on year, as a result of a ¥149.0 billion decrease in current assets and a ¥181.0 billion increase in non-current assets. The decrease in current assets was mainly attributable to a ¥38.6 billion decrease in cash on hand due to the repayment of interest-bearing debt, and to a ¥74.7 billion decrease in trade and other receivables reflecting the year-end date of FYE2019 falling on a holiday. The increase in non-current assets was contributed to by the adoption of the new accounting standard (IFRS 16 “Leases”) and the effect of exchange rate fluctuations due to the depreciation of the euro. The adoption of IFRS 16 “Leases” resulted in the decrease in property, plant and equipment and the increase in right of use assets, accounting for net ¥159.1 billion of the increase in non-current assets.

Liabilities

Total liabilities as of March 31, 2020, stood at ¥1,556.4 billion, up by ¥64.0 billion year on year, reflecting a ¥131.5 billion decrease in current liabilities and a ¥195.5 billion increase in non-current liabilities. While trade and other payables decreased by ¥25.1 billion due to the year-end date of FYE2019 falling on a holiday,

the increase in interest-bearing debt brought by the adoption of IFRS 16 and other increasing factors overcame the decrease.

Equity

Total equity as of March 31, 2020 amounted to ¥535.1 billion, including ¥502.2 billion of equity attributable to owners of the parent which decreased by ¥31.5 billion year on year. Major decreasing factors included ¥20.3 billion dividends paid, and ¥24.2 billion other comprehensive loss recorded mainly due to the foreign exchange translation differences from international subsidiaries and the fluctuations in the fair value of financial assets.

The ratio of equity attributable to owners of the parent (equity ratio) was 24.0%, and the equity per share attributable to owners of the parent (net assets per share, BPS) was ¥1,730.99.

The impact of the adoption of the new accounting standard (IFRS 16 “Leases”) is as follows.

- A ¥33.6 billion increase in net cash flows from operating activities due to the increase in depreciation and amortization
- A ¥41.0 billion decrease in net cash flows from financing activities due to the increase in lease liabilities paid

Cash Flows from Operating Activities

Net cash provided by operating activities for FYE2020 amounted to ¥157.7 billion, up by ¥88.4 billion year on year. Major factors of this increase were the decrease in income taxes paid and a ¥33.6 billion increase in depreciation as a result of the adoption of the new accounting standard IFRS 16 “Leases,” along with the improved working capital balance reflecting the year-end date of FYE2019 falling on a holiday.

Cash Flows from Investing Activities

Net cash used for investing activities was ¥41.3 billion, down by ¥31.0 billion year on year. Major cash-outflow factors included purchases of property, plant and equipment and intangible assets, while there was a cash-inflow effect of ¥12.4 billion in relation to the sale of subsidiaries and disposal of interests in affiliated companies.

Cash Flows from Financing Activities

Net cash used for financing activities for FYE2020 was ¥153.3 billion, reversing ¥1.6 billion net cash generated for FYE2019. This net cash outflow was attributable mainly to dividends paid, a ¥60.0 billion increase in redemption of bonds, and a ¥41.0 billion increase in lease liabilities paid due to the adoption of IFRS 16 “Leases,” in addition to a net ¥42.0 billion decrease in interest-bearing debt as external funding for working capital on top of the increase in net cash provided by operating activities.

Financial Resources and Liquidity of Funds

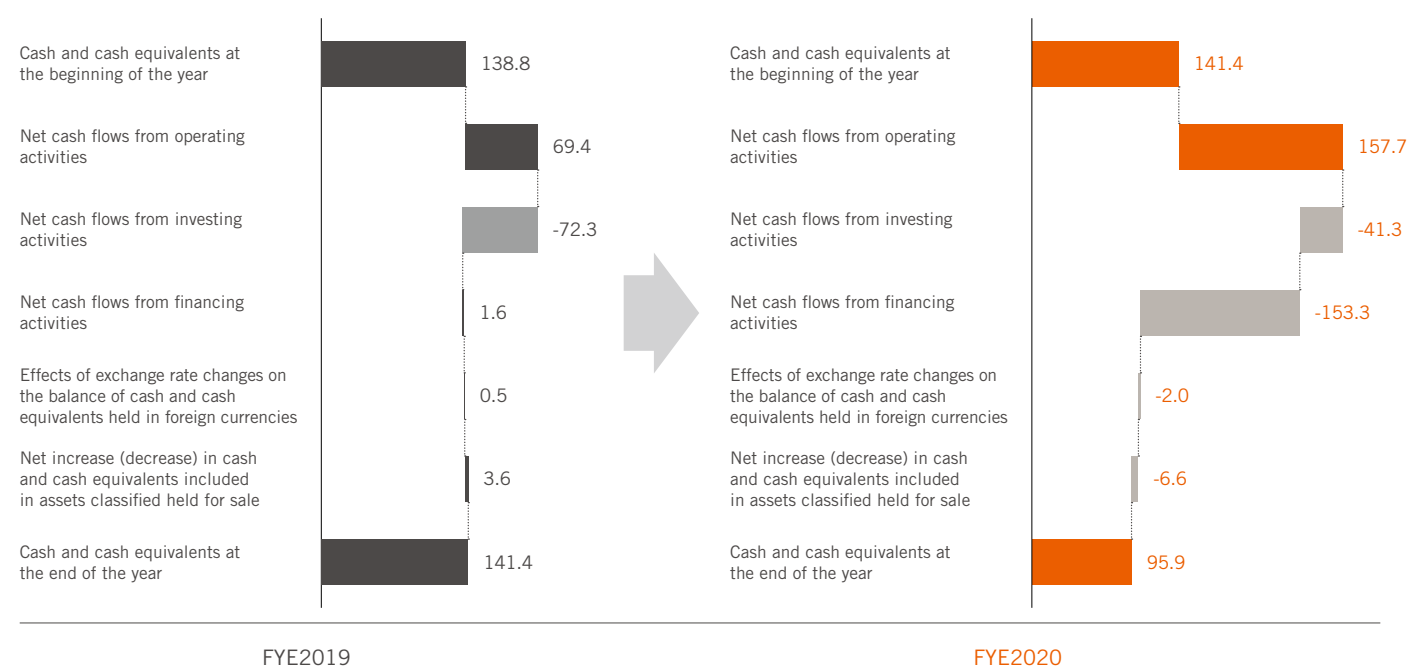
LIXIL Group strives to generate operating cash flows and considers a wide range of fundraising methods to procure a stable and flexible supply of funds necessary for its business activities while maintaining a sound financial position. Regarding cash on hand, in principle the Group maintains funds adequate to cover the settlement of its liabilities in an emergency. To ensure financial flexibility, the Group works to diversify the sources of funds, in addition to bank borrowings and funds from other financial institutions, by arranging for a commercial paper issuance line, establishing commitment lines, and implementing the securitization of trade notes and accounts receivable.

In response to concerns of further deterioration in the business environment due to the spread of COVID-19, in addition to the basic policies described above, LIXIL Group is working to establish new short-term funding to prepare for such an economic decline. Also, LIXIL Group is striving to further secure liquidity on hand by prioritizing capital investment projects, rigorously managing inventory, and implementing measures to reduce SG&A expenses within the Group.

Cash Flows in FYE2020

Cash and cash equivalents as of March 31, 2020 amounted to ¥95.9 billion, down by ¥45.6 billion year on year.

Consolidated statement of cash flows (¥ billion)



Changes in key indicators of financial condition

	FYE2016	FYE2017	FYE2018	FYE2019	FYE2020
Ratio of cash flows to net interest-bearing debt (times)*1	5.8	4.8	4.8	8.4	4.2
Net debt-to-equity ratio (%)*2	132.9	116.6	89.0	109.5	146.7
Interest coverage ratio (times)*3	16.7	7.7	15.5	14.9	26.5

*1 (Interest-bearing debt – cash and cash equivalents) / operating cash flows

*2 (Interest-bearing debt – cash and cash equivalents) / equity attributable to owners of the parent

*3 Operating cash flows / interest paid

Sale of Subsidiaries

LIXIL Group announced the divestiture of shares in Permasteelisa in May 2020, and of shares in LIXIL VIVA CORPORATION (LIXIL VIVA) in June 2020. As the business forms of both subsidiaries are different from the Group’s core businesses, the divestiture of shares in these subsidiaries aims to improve management

efficiency by concentrating its management resources on its core businesses, promoting synergies among businesses, and investing in new businesses and businesses with high profit growth potential. The businesses of LIXIL VIVA, as well as those of Permasteelisa, will be classified as discontinued operations effective from the first quarter of FYE2021.

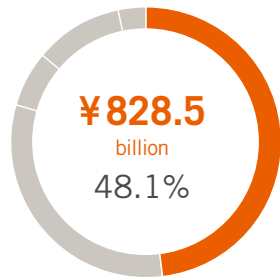
Review of Operations by Segment

(Fiscal Year Ended March 31, 2020)

LWT

LIXIL Water Technology

Revenue



Core earnings **¥61.5** billion

Employees **32,661** people

R&D **¥18.9** billion

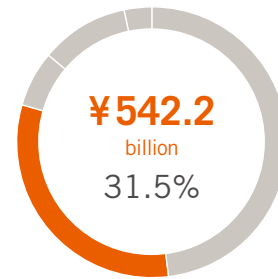
Key Highlights for FYE2020

- In addition to LWT mainstay products such as our *RICHELLE SI* system kitchens and *SPAGE* and *Arise* system bathrooms that pursue the best in both ease of use and comfort in living, we have launched an industry-first *Resilience Toilet* that can be used in the same location and in same way, whether in normal times or during a natural disaster, by people of all ages. This product has received numerous awards and we have carried out active marketing activities.
- Revenue was down 0.6% year on year due to factors such as the impact of foreign exchange translation from a weaker euro. Core earnings, on the other hand, were up 2.1% due to factors such as increased gross profit and SG&A reduction efforts.
- Domestic revenue was up due to solid results in the first half of FYE2020. Core earnings were up, despite the impact of costs related to an early retirement incentive program (Career Option Program).
- International revenue was down resulting from weaker demand in Southeast Asia and the impact of foreign exchange translation; however, revenue excluding the impact of foreign exchange translation was up 1.8%.
- In the Americas, revenue was the same level year on year, however, pricing improvement and cost reduction in production resulted in higher core earnings.
- Revenue growth in Central and Eastern Europe remained steady, for a 6% increase year on year for revenue in Europe.
- Full-year revenue growth in China was 9% year on year, however, both revenue and core earnings were down in Asia total due to reduced demand in Southeast Asia.

LHT

LIXIL Housing Technology

Revenue



Core earnings **¥28.3** billion

Employees **18,650** people

R&D **¥7.6** billion

Key Highlights for FYE2020

- LHT strengthened products with advanced design such as the *TOSTEM LW* window designed to seamlessly connect the outside and inside for a comfortable living space, and the *Fence AA* type outdoor fencing that features a refined wooden, furniture-like design. Meanwhile, interior decorative materials such as the *Lassisa* range maintained steady sales.
- Both revenue and core earnings were up, with the former up 0.3% and the latter up 36.5% year on year. Contributing factors for core earnings were the impact of price revisions, improved product mix through increased sales particularly of new products in exterior products and wooden furnishing materials, as well as due to success in increasing gross profit as a result of improved production efficiencies from progress in the platform strategy.

LBT

LIXIL Building Technology

Revenue



Core earnings **¥2.7** billion

Employees **6,758** people*

R&D **¥0.9** billion

Key Highlights for FYE2020

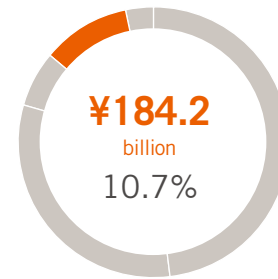
- Revenue and core earnings were down year on year, by 2.7% and 27.6%, respectively, as a result of reduced orders due to decline in demand related to the Tokyo 2020 Olympics.
- LIXIL Group decided to transfer all shares of Permasteelisa S.p.A. to a US company in May 2020, and it has been classified as a discontinued operation since March 2020. The US company to which the shares have been transferred manages a diverse range of businesses and has unique knowledge and experience in supporting businesses, such as improving safety and operations. Thus, it is an ideal company to take over Permasteelisa, as it will be able to advance recovery plans, improve profitability, and achieve independent growth. For LIXIL Group, this share transfer means we reduce risk in an area outside our core business and can progress our ongoing reforms to the next stage. We will further strengthen our water and housing technology businesses and further focus management resources on high growth areas.

*Includes employees of discontinued operation Permasteelisa and of its subsidiaries.

D&R

Distribution & Retail Business

Revenue



Core earnings **¥6.3** billion

Employees **1,447** people

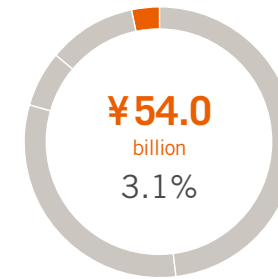
Key Highlights for FYE2020

- Since LIXIL VIVA CORPORATION initial public offering in April 2017, it has accelerated opening new stores. D&R newly opened seven stores, achieving its FYE2020 target. D&R now operates 102 stores in Japan as of March 31, 2020.
- D&R started operating a new logistics center in Higashimatsuyama City in September 2019.
- While revenue was up 4.4% year on year, core earnings were down 18.1% year on year due to the impact of increased personnel costs, and upfront investment such as construction of the new logistics center and strengthening IT systems.
- In June 2020, an agreement was reached to make LIXIL VIVA CORPORATION a wholly owned subsidiary of Arcland Sakamoto Co. Ltd. LIXIL VIVA CORPORATION has been operating independently as a listed company, however, as a result of this agreement, it will also become independent from LIXIL Group in terms of capital.

H&S

Housing & Services Business

Revenue



Core earnings **¥3.0** billion

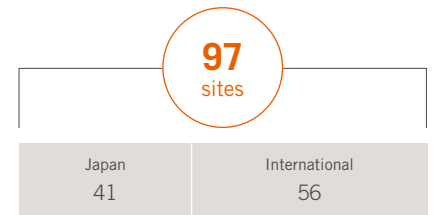
Employees **1,087** people

Key Highlights for FYE2020

- H&S strengthened sales activities for housing products such as: *Cecibo*, designed to foster family dreams and ties; *arietta-VERDEA*, a warm, comfortable, energy-efficient home achieved through passive design; and the beautiful quality and design of *WoodsHill* that features earthquake resistance and heat insulation.
- H&S drove initiatives to expand its existing businesses and housing stock businesses (secondhand and renovation market) in response to the decreasing number of new housing starts over the medium and long term in Japan. However, both revenue and core earnings were down as a result of a decrease in sale of real estate. Revenue composition for businesses other than for new houses reached 36.9% in FYE2020, which was a decrease of 1.8 percentage points from the previous year.

Global Manufacturing and Sales Sites (As of the end of FYE2020)

Number of factories



	Japan	Americas	Europe	Africa	Asia Pacific
LWT	20	11	4	3	22
LHT	21*	—	—	—	7
LBT	—	2	5	—	2

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

Number of showrooms



Japan	Americas	Europe	Africa	Asia Pacific
103	1	9	1	17

Domestic home reform shops and reform network members **12,343** stores

Domestic homebuilding franchise members (H&S) **218** stores

Note: The total number of factories include those of Permasteelisa S.p.A., which was classified as a discontinued operation in FYE2020.

Principal Group Companies

As of March 31, 2020

Consolidated Subsidiaries

Name	Location	Paid-in capital (¥ million)	Equity owned by the holding company (%)	Business segment
LIXIL Corporation*1 *2	Koto-ku, Tokyo	34,600	100	LWT, LHT, LBT
LIXIL Total Service Corporation	Koto-ku, Tokyo	100	100	LWT, LHT
Dinaone Corporation	Tokoname, Aichi	90	100	LWT
TM.S Corporation	Chiyoda-ku, Tokyo	60	100	LWT
GROHE Group S.à r.l.*3	Luxembourg	€ thousand 57,143	100	LWT
Grohe AG	Düsseldorf, Germany	€ thousand 60,885	100	LWT
Other 45 affiliate companies of GROHE Group S.à r.l.	—	—	—	LWT
ASD Holding Corp.	New Jersey, USA	US\$ thousand 412,949	100	LWT
10 affiliate companies of ASD Holding Corp.	—	—	—	LWT
A-S CHINA PLUMBING PRODUCTS Ltd.	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 298,975	100	LWT
LIXIL Building Materials Manufacturing (Suzhou) Corporation	Suzhou, Jiangsu, China	6,200	100	LWT
LIXIL Sanitary Fitting Manufacturing (Suzhou) Corporation	Suzhou, Jiangsu, China	1,730	100	LWT
Taiwan Inax Corporation	Taipei, Taiwan	NT\$ thousand 282,677	72	LWT
LIXIL India Sanitaryware Private Limited	Andhra Pradesh, India	INR thousand 62,905	98	LWT
LIXIL AFRICA HOLDINGS (Pty) Ltd.	Krugersdorp, South Africa	ZAR million 2,025	100	LWT
LIXIL Total Hanbai Corporation	Koto-ku, Tokyo	75	100	LHT
Kawashima Selkon Textiles Co., Ltd.	Sakyo-ku, Kyoto, Kyoto	9,382	100	LHT
G TERIOR Corporation	Setagaya-ku, Tokyo	316	100	LHT
Asahi Tostem Exterior Building Materials Co., Ltd.	Koto-ku, Tokyo	2,000	80	LHT
LIXIL Toyo Sash Shoji Co., Ltd.	Chiyoda-ku, Tokyo	100	100	LHT
Sonitech Corporation	Shinjuku-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.	Pathum Thani, 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	US\$ thousand 40,700	100	LHT
PT. LIXIL ALUMINIUM INDONESIA	Cileungsi, Indonesia	IDR million 173,617	75	LHT
LIXIL WINDOW SYSTEMS PRIVATE LIMITED	Haryana, India	INR thousand 727,818	100	LHT

Name	Location	Paid-in capital (¥ million)	Equity owned by the holding company (%)	Business segment
LIXIL Renewal Corporation	Koto-ku, Tokyo	100	100	LBT
LIXIL VIVA CORPORATION*4 *5	Urawa-ku, Saitama, Saitama	24,596	53	D&R
LIXIL Living Solution Corporation	Koto-ku, Tokyo	450	100	H&S
LIXIL Housing Research Institute, Ltd.	Koto-ku, Tokyo	1,250	100	H&S
JAPAN HOME SHIELD CORPORATION	Sumida-ku, Tokyo	205	100	H&S
LIXIL REALTY, Corp.	Chuo-ku, Tokyo	160	100	H&S
GHS Corporation	Koto-ku, Tokyo	100	100	H&S
JHS Engineering Corporation	Sumida-ku, Tokyo	20	100	H&S
LIXIL Home Finance Corporation	Chiyoda-ku, Tokyo	500	100	H&S
LIXIL Group Finance Corporation	Koto-ku, Tokyo	3,475	100	(Financing services for Group companies)
Permasteelisa S.p.A.*6	Veneto, Italy	€ thousand 6,900	100	—
34 affiliate companies of Permasteelisa S.p.A.	—	—	—	—
54 other companies*7	—	—	—	—

Equity-Method Affiliates

Name	Location	Paid-in capital (¥ million)	Equity owned by the holding company (%)	Business segment
Sanyo Homes Corporation*4	Nishi-ku, Osaka, Osaka	5,945	28	H&S
59 other companies	—	—	—	—

*1 The Board of Directors resolved as of March 23, 2020 to conduct an absorption type merger of LIXIL Corporation and concluded a merger contract on the same date. Please refer to page 61 for an overview.

*2 As of September 2, 2019, LIXIL Corporation succeeded the operation of assisted living retirement home business and the housing for the elderly, which was under the Housing & Services Business, to the Senior Life Company Ltd. by absorption type company split and all issued shares were transferred to Trust Garden Co., Ltd.

*3 GROHE Group S.à r.l. changed its name to LIXIL Europe S.à r.l. in April 2020.

*4 The Company submits securities reports.

*5 The Company plans to transfer all shares of LIXIL VIVA CORPORATION held by the Company to LIXIL VIVA. For details, please refer to the timely disclosure on June 9, 2020 posted on our website. www.lixil.com/en/investor/ir_news/

*6 At the Board of Directors' meeting held on May 1, 2020, the Company decided to transfer 100% of the issued shares of Permasteelisa S.p.A. and concluded the share transfer agreement on the same date.

*7 In other companies, the holding of shares of LG-TOSTEM BM Co., Ltd. is 50%, but it is treated as a subsidiary because it is effectively controlled by the Group. LIXIL SUZUKI SHUTTER CORPORATION ceased to be an consolidated subsidiary due to transfer of all of shares held to Sanwa Holdings Corporation on September 30, 2019.

Basic Policy for Investor Relations

LIXIL Group Corporation's investor relations (IR) activities facilitate communication with capital markets in Japan and international markets and thereby help enhance corporate value. Accordingly, the Company's 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.

The Company discloses important information that affects investment judgments, such as decisions, events, or information regarding accounts settlement, based on the timely disclosure rules enacted by the Tokyo Stock Exchange. 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/

Activities for the Fiscal Year Ended March 31, 2020

- Annual General Meeting of Shareholders (AGM) (held on June 30, 2020)
Shareholder attendance: 24 people
Shareholders who watched the live broadcast: 332 people
In consideration of the ongoing COVID-19 pandemic and in order to prioritize the safety of our shareholders, we requested that shareholders refrain from attending in person on the day of the AGM and broadcasted this year's AGM live on the internet. We sincerely appreciate shareholders' understanding and cooperation.
- Communicated management message to the market (for institutional investors and analysts)
Earnings briefing sessions—four times (every quarter)
Individual meetings—357 times
Management strategy and governance-related briefing sessions—three times
Small meeting—once
Participated in investor conferences—two times in Japan and once outside of Japan
- Provided feedback from the market to the Company
Reported IR activities at meetings of the Board of Directors—done regularly, in addition to four times per year after the earnings briefing sessions
Exchanged opinions on the business condition and market outlook with business divisions—done regularly
Shared information with the management via e-mail—done regularly

External Recognition (from April 1, 2019 to July 31, 2020)



Gomez IR Site Ranking 2019

Awarded silver prize in the overall IR site ranking and second place in the "Metal Products" industry category from Morningstar Japan K.K. (December 2019)



In collaboration with RobecoSAM

DJSI Asia Pacific Index

Selected for three consecutive years as a component of the Dow Jones Sustainability Indices (DJSI Asia Pacific Index), created by S&P Dow Jones Indices and RobecoSAM (September 2019)



In collaboration with RobecoSAM

DJSI World

Selected for Dow Jones World Index (DJSI World) for the first time, created by S&P Dow Jones Indices and RobecoSAM (September 2019)



S&P/JPX Carbon Efficient Index

Selected as a component of the S&P/JPX Carbon Efficient Index, created by S&P Dow Jones Indices (March 2019)

DISCLAIMER

The inclusion of LIXIL Group 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 Group 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.

MSCI JAPAN EMPOWERING WOMEN INDEX (WIN)

MSCI Japan Empowering Women Index

Selected for four consecutive years as a constituent of the MSCI Japan Empowering Women Index (WIN), created by MSCI Inc. (June 2020)



FTSE4Good Index Series, FTSE Blossom Japan Index

Selected for four consecutive years as a constituent of the FTSE4Good Index Series and FTSE Blossom Japan Index, created by FTSE Russell (June 2020)

S&P Japan 500 ESG Index

Selected as a component of the S&P Japan 500 ESG Index, created by S&P Dow Jones Indices (May 2020)



Nadeshiko Brand

Selected for three consecutive years as a component of the Nadeshiko Brand initiative, jointly conducted by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange (March 2020)



Water Security A List 2019

Selected for two consecutive years as a member of the CDP's prestigious Water Security A List (February 2020)

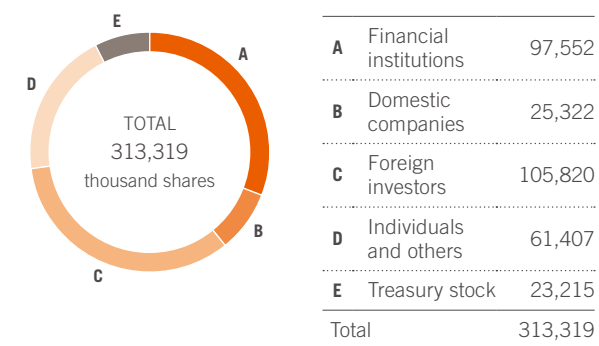
Shareholder Information

As of March 31, 2020

Number of shares and shareholders

Number of shares authorized	1,300,000,000
Number of shares outstanding (excluding treasury stock of 23,215,701 shares)	290,103,458
Number of shareholders	57,734

Distribution of ownership among shareholders (thousand shares)

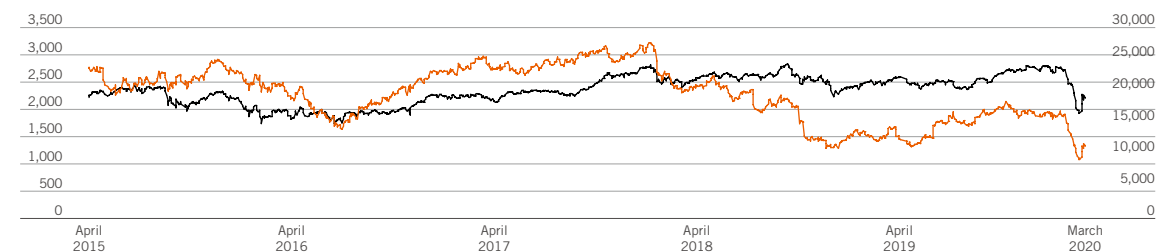


Monthly stock price range (Tokyo Stock Exchange)

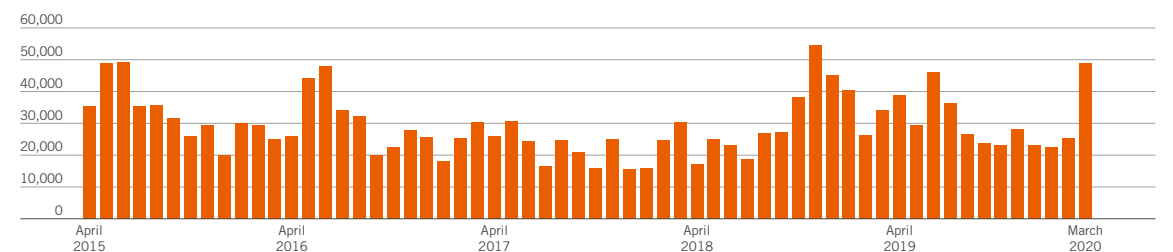
For the years ended March 31	2016	2017	2018	2019	2020
High*2 (¥)	2,959	2,999	3,255	2,639	2,156
Low*2 (¥)	2,233	1,593	2,285	1,270	1,065

*2 High and low share prices are from the First Section of the Tokyo Stock Exchange.

Stock price (¥)



Stock trading volume (thousand shares)



Major shareholders (thousand shares)

Name of shareholder	Number of shares held	Ratio of shareholdings
The Master Trust Bank of Japan, Ltd. (Trust Account)	19,352*1	6.67%
Japan Trustee Services Bank, Ltd. (Trust Account)	14,014*1	4.83%
The Nomura Trust & Banking Co., Ltd. (Trust Account)	8,896*1	3.07%
State Street Bank Client Omnibus OM04 (Standing Proxy: The Hongkong and Shanghai Banking Corporation Limited Tokyo Branch)	8,707	3.00%
LIXIL Employee Stock Ownership	7,584	2.61%
Daiichi Life Insurance Company, Limited. (Standing proxy: Trust & Custody Services Bank, Ltd.)	6,561	2.26%
JPMorgan Securities Japan Co., Ltd.	6,332	2.18%
Japan Trustee Services Bank, Ltd. (Trust Account 5)	5,943*1	2.05%
NORTHERN TRUST CO. (AVFC) SUB A/C AMERICAN CLIENTS (Standing Proxy: The Hongkong and Shanghai Banking Corporation Limited Tokyo Branch)	5,454	1.88%
Japan Trustee Services Bank, Ltd. (Trust Account 9)	4,982*1	1.72%

Notes: 1. In addition to the above, LIXIL Group Corporation holds 23,215 thousand shares of treasury stock. Shareholding calculations exclude treasury stock.
2. *1 indicates a trust service arrangement.

Corporate Data

As of March 31, 2020

Company Name

LIXIL Group Corporation
(The company name will be LIXIL Corporation on December 1, 2020)

Established

September 19, 1949

Registered Office

2-1-1 Ojima, Koto-ku,
Tokyo 136-8535, Japan

Paid-In Capital

¥68,418 million

Fiscal Year Closing

March 31

Employees

36 (Consolidated employees: 61,634)

Accounting Auditors

Deloitte Touche Tohmatsu LLC

Overview of Major Businesses

The Company controls and manages domestic and international businesses that operate housing-related businesses and urban environment-related businesses through acquisition or holding of stocks.

Securities Traded (Common stock)

Tokyo Stock Exchange
Nagoya Stock Exchange

Transfer Agent and Special Management of Accounts

Mitsubishi UFJ Trust and Banking Corporation

Annual General Meeting of Shareholders

Normally held in June in Tokyo, Japan

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 Group Corporation cautions that a number of factors could cause actual results to differ materially from those discussed in the forward-looking statements.

LIXIL Group Online Information

Corporate Website

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

 www.lixil.com

Financial Information

Our IR website offers enriched content for shareholders and other investors, including information regarding financial results, audio streaming of results briefings, and market data.

 www.lixil.com/en/investor

Non-Financial Information

Our sustainability website introduces our CR commitment to and activities for enhancing living spaces through innovative responsible engagements and initiatives around the world.

 www.lixil.com/en/sustainability

