



## **LIXIL Corporation**

ESG Briefing

May 17, 2022

## Event Summary

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<b>[Company Name]</b>	LIXIL Corporation
<b>[Company ID]</b>	5938-QCODE
<b>[Event Language]</b>	JPN
<b>[Event Type]</b>	Analyst Meeting
<b>[Event Name]</b>	ESG Briefing
<b>[Fiscal Period]</b>	
<b>[Date]</b>	May 17, 2022
<b>[Number of Pages]</b>	43
<b>[Time]</b>	15:30 – 17:02 (Total: 92 minutes, Presentation: 60 minutes, Q&A: 32 minutes)
<b>[Venue]</b>	Webcast
<b>[Venue Size]</b>	
<b>[Participants]</b>	
<b>[Number of Speakers]</b>	6
	Kinya Seto                      Director, Representative Executive Officer, President, and CEO
	Jin Montesano                 Director, Executive Officer, Executive Vice President, and Chief People Officer (Chairperson of Corporate Responsibility Committee)
	Masatoshi Matsuzaki        Independent Outside Director, Chairperson of the Board of Directors
	Yuji Nishiura                  Independent Outside Director, Chairperson of Nomination Committee
	Uchu Mukai                    Senior Vice President, CTO (Chairperson of Environmental Strategy Committee)
	Kayo Hirano                    Senior Vice President, Leader, Investor Relations Office

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## Presentation

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**Hirano:** Now that we are at the appointed time, we will begin the LIXIL Corporation ESG briefing.

Today, under the theme of “Transformation for impact,” we would like to explain our various initiatives amidst the drastic changes in the external environment.



### TODAY'S SPEAKERS

#### **Kinya Seto**

Director, Representative Executive Officer, President, and Chief Executive Officer

#### **Jin Montesano**

Director, Executive Officer, Executive Vice President, and Chief People Officer  
(Chairperson of Corporate Responsibility Committee)

#### **Masatoshi Matsuzaki**

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

#### **Yuji Nishiura**

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



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Let me now introduce today's presenters in the order of their appearance.

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

Jin Montesano, Director, Executive Officer, Executive Vice President, Chairperson of the Corporate Responsibility Committee.

Masatoshi Matsuzaki, Independent Outside Director, Chairperson of the Board of Directors.

Yuji Nishiura, Independent Outside Director, Chairperson of Nomination Committee.

Lastly, I, Hirano from the IR Office, will be the moderator for today's session.

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## TODAY'S AGENDA

### **1 The Way We Create Value** (Seto)

- The Way We Create Value
- LIXIL's Value Creation – Environmental Strategy
- LIXIL's Value Creation – Changes in Workplace / Society
- LIXIL's Value Creation – Governance

### **2 Initiatives under LIXIL's Environment Vision 2050** (Montesano)

- Three Focus Areas and Environmental Governance
- TCFD Analysis Highlights
- Measures to Reduce Environmental Impact

### **3 Our Social Impact Initiatives** (Montesano)

- Introducing Our Global People Strategy
- Embedding Inclusion into Our DNA
- Sanitation and Hygiene

### **4 Corporate Governance**

- Enhancements of the Board of Directors' Supervisory Structure and Functions (Matsuzaki)
- Evolution of Governance of the Nomination Committee (Nishiura)

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I will then explain today's proceedings.

Today's agenda is as you see on the screen, and the four speakers will explain the progress of each ESG initiative at LIXIL.

After the presentation, there will be time for questions and answers. Thank you for your cooperation to the end.

So, without further ado, Mr. Seto, I would like to ask for your cooperation.

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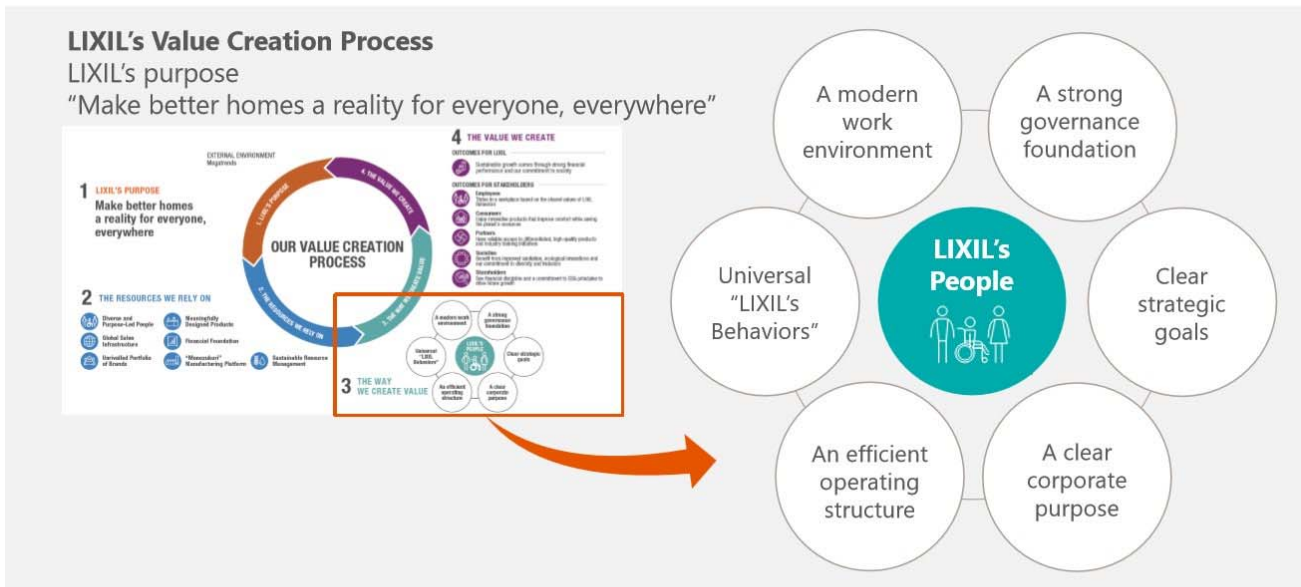
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# THE WAY WE CREATE VALUE

“Our people” are creating corporate value. Six enablers will direct our employees’ energy to the right direction.



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**Seto:** Hello, everyone. I am Seto of LIXIL.

So much has happened over the past year. As a result, the world has changed very significantly. We often use the term paradigm shift. For example, the cost of raw materials and fuel has been rising, which has led to very high commodity prices. The supply chain has been shredded by lockdowns, and at the end of February, Russia's invasion of Ukraine occurred.

Each of these issues has its own difficulties and unique problems, and while some of these problems may distract us, I believe that all of these changes have emphasized the importance of environmental issues.

Today's theme is “Transformation for impact.” LIXIL is promoting various reforms, which I believe will not only lead to our company's growth and sustainable value creation but will also make a significant contribution to solving environmental and social issues outside the company.

ESG is often viewed as a cost necessary for business survival and continuity, but we see it as an opportunity for value creation in a sense. In this case, I believe that our solutions and contributions to environmental issues will rather create business, create value, and contribute to our shareholders.

And it is the employees who stand at the center of the value creation process. As you can see in the chart, our value-creating activities are directed by the six enablers surrounding our employees. A clear strategic direction must first be set, and this is shown in LIXIL's strategy playbook and other documents.

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We will then decide what actions we will take based on the company wide LIXIL Behaviors. Then, a work environment that is in tune with the times and a strong governance base to support it are all important factors.

We consider the company as a microcosm of society. Therefore, the letter S in ESG, how employees work and how they feel, is also very important.

There is the contribution to the external environment, the employee microcosm, and finally the governance that monitors it. We consider these things in totality.

## LIXIL'S VALUE CREATION – ENVIRONMENTAL STRATEGY

We are committed to being a leading company in environmental impact, so we can live our purpose for future generations – by reaching net zero carbon emissions and preserving water and other natural resources.

**Three Focus Areas to Achieve Our Vision**

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

**ZERO CARBON AND CIRCULAR LIVING**

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Let me begin by talking about environmental strategies for value creation.

As I mentioned earlier, we do not view this environmental measure as a cost, but as a business opportunity. I'm thinking of three major elements.

One is mitigation and adaptation through climate change action. In other words, carbon neutrality. Then there is water sustainability. And the recycling of resources, so called circularity. We are working with a focus on these three issues.

First of all, as for climate change countermeasures, we are naturally aiming for carbon neutrality, as represented by the TCFD, which is now being talked about. However, this is not limited to own efforts to meet the target, but also contributes to the outside world. In Japan, in particular, the performance of the insulation of existing houses is a major bottleneck of the reduction of CO2 emissions.

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We believe we can make a significant contribution to the world by remodeling these areas to high-performance windows.

In the area of water sustainability, we will naturally reduce the amount of water we use, such as what kind of water we use in our factories. This is similar to carbon neutrality.

But more than that, for example, through water purification technology, we will deliver more and safer water to everyone. Delivering good-tasting water. Through projects like SATO, I think it is also important for water sustainability that the quality of water is not deteriorated in areas with poor sanitation.

Unlike CO2, in the case of water, rather than reducing CO2 somewhere else to solve the overall issue, direct local solutions is needed for water. That is a very difficult point.

And then there is the part about resource recycling. In this area, we are not only trying to reduce the amount of waste generated at our factories, but also to connect limited resources to the future through the recycling of plastics, for example.

In other words, it is not simply a matter of reducing the number of waste we generate within ourselves or circulating them, but also of contributing to the outside world. We are also thinking of connecting this back to my business.

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## LIXIL'S VALUE CREATION – CHANGES IN WORKPLACE / SOCIETY

LIXIL is transforming ways of working and our employee experience.  
By focusing on inclusion first, we will enhance diversity to drive innovation and consumer centricity.

### › Key Trends Impacting the Workplace



Fairness & equity



Flexible & hybrid working



Wellness a key metric



Digitalization



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Let's move to the letter S, the social part.

For example, SATO is contributing directly to those who are in need, those who do not have access to safe, clean toilets or handwashing environment. As I mentioned earlier, the company, with its approximately 60,000 employees, represents one part of society, and we believe that changes made here will ultimately contribute to society.

Therefore, we intend to foster this inclusive corporate culture and achieve sustainable diversity that leads to innovation and thorough customer orientation.

LIXIL has been working to change the way employees work and the employee experience since before the pandemic, and this has accelerated with pandemic.

In order to contribute to the solution of environmental and socialization issues, we are progressing in building an inclusive environment in which our employees can exercise their abilities to the fullest extent possible.

Four of these points are listed here.

Fairness and equity. I believe this is very important. Especially at LIXIL, inclusion is our first priority.

In other words, employees can make a greater contribution by being able to think of themselves as an important person and an important element included in the enterprise. We believe it is important that people who think they are going to be so-called minorities feel they are being treated fairly.

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Then a flexible hybrid way of working to do so. People can work equally well with physical disabilities and under difficult family circumstances. I'm trying to promote a way of working that will allow us to do that kind of work.

And employee wellness is incredibly important. Working remotely amidst the pandemic, we felt more and more the difficulty and importance of monitoring and supporting each person's wellbeing.

And the tool that connects them is digital for us. Until now, digitalization has been left to IT specialists, but by democratizing digitalization, I think we are able to realize this in a more practical manner.

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# LIXIL'S VALUE CREATION - GOVERNANCE

## TODAY'S SESSION STRUCTURE

Getting our ESG proposition right is a fundamental building block because it represents the growth opportunities before us and how we manage the risks and our business.

	Paradigm Shift - Business Opportunities and Risks	Structure of Today's Briefing
<b>E</b>	<ul style="list-style-type: none"> <li>Increase in disease and natural disasters</li> <li>Increased geopolitical risk</li> <li>Progress of global efforts toward carbon neutrality</li> </ul>	<ul style="list-style-type: none"> <li>Progress update from last year, system and initiatives</li> <li>Status of quantitative risk assessment and efforts toward carbon neutrality</li> </ul>
<b>S</b>	<ul style="list-style-type: none"> <li>Seeking more flexible work styles</li> <li>Competition for talented employees intensifies</li> <li>Global income inequality exacerbated by COVID-19</li> </ul>	<ul style="list-style-type: none"> <li>Update on Sanitation &amp; Hygiene initiatives</li> <li>Human resource strategy, goals, approach, promotion system, and progress</li> </ul>
<b>G</b>	<ul style="list-style-type: none"> <li>Changes in required governance functions as management strategy progresses</li> </ul>	<ul style="list-style-type: none"> <li>From the "phase of governance restructuring" to the "phase of further contribution to the growth strategy"               <ul style="list-style-type: none"> <li>Enhancements of the Board of Directors' supervisory structure and functions</li> <li>Evolution of governance of the Nomination Committee                   <ul style="list-style-type: none"> <li>→ Succession planning for directors and executive officers and promoting understanding of next-generation leaders</li> </ul> </li> </ul> </li> </ul>



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Today's briefing is about a paradigm shift in the external environment. This creates all kinds of risks. However, we are trying to respond to this in a variety of ways.

In this context, Jin Montesano will explain the environmental and then social areas. Among them, I would like to report on the environment, especially from CTO Mukai, who chairs the Environmental Strategy Committee that was established last term.

In addition, among our key strategies, we have Erin McCusker, who will update us on the SATO business, which in many ways is the center of attention and the motivation of our employees and partners.

Finally, and I think this is also important, I would like to ask Mr. Matsuzaki and Mr. Nishiura, both of whom are members of the Board of Directors, to explain again the evolution of governance at LIXIL so that we are not left to our own devices.

That is all the explanation from me. Thank you very much.

**Hirano:** Thank you very much.

Montesano of the chairperson of the Corporate Responsibility Committee will then present our initiatives in the environmental and social fields.

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# THE CLIMATE CRISIS – THE CHALLENGES OF THE BUILDING & CONSTRUCTION INDUSTRY – FOCUS RESIDENTIAL

Buildings are responsible for:



## > Climate

- **37% of global energy-related CO<sub>2</sub> emissions** \*1 (17% residential 10% non-residential (direct + indirect))
- **36% of global energy demand** \*2 (22% residential 8% non-residential)

Topics: CO<sub>2</sub> and energy efficient housing materials and products: e.g., cooling demand, reduced water and energy consumption

## > Water

- **Domestic water use grew 600% over the past 50 years** \*3

Topics: Water-efficient products, alternative water sources (e.g. greywater)

## > Circularity & Resources

- **Global material use is expected to double by 2060**, of which 1/3 from the building & construction sector \*4

Topics: Re-use, Recycle and waste treatment

Increasing government regulations around green building standards and certifications are demanding improved solutions to tackle climate change.

For example:



California, USA



European Union



Japan

Source: \*1, \*2 2021 Global Status Report for Buildings and Construction <https://globalabc.org/news/launched-2020-global-status-report-buildings-and-construction> \*3 World Resources Institute <https://www.wri.org/insights/domestic-water-use-grew-600-over-past-50-years>

\*4 Global Material Resources Outlook to 2060 <https://www.oecd.org/env/global-material-resources-outlook-to-2060-9789264307452-en.htm>



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**Montesano\***: Thank you, Mr. Seto. I am pleased to be able to attend this briefing today. The building and construction industry have a responsibility to be an active leader to solve the current climate crisis. However the good news is that the industry is getting greener. There's been a lot of progress in the past few years, and governments continue to adopt new policies to push for net zero carbon.

But today, buildings are still massive consumers of raw materials and natural resources, responsible for and estimated 37% of the global energy related carbon emissions with the residential sector alone accounting for 17% according to the World Green Building Council.

This is a statistic that we as an industry leader, together with our partners, are actively working to reduce, especially with a focus on residential. Domestic water consumption has also increased by over 600% since the 1960s, with population increase and growing water use in the home.

We are evaluating and reflecting new governmental regulations across the globe, as well as current building trends and practices that will shape our positive impact on the environment.

We are making progress across the pillars of our environmental strategy, to conserve water, energy, and other natural resources utilized in and by LIXIL products and services across the value chain from procurement through production, distribution, end use, and product disposal.

We are convinced that LIXIL can be a force for good, innovating and scaling solutions to have a positive impact for the planet. But we don't act alone. Together with our partners, we are shifting from pledges to action and our transformation for impact has just started.

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Today, we'd like to share with you our progress and continuous effort to achieve our goals, as well as sharing the next steps in the development of our strategy to further strengthen and evolve our environmental impact.

## ENVIRONMENTAL VISION 2050

LIXIL's Environmental Vision aims to achieve "Zero Carbon and Circular Living" by addressing three focus areas.



### ZERO CARBON AND CIRCULAR LIVING

By 2050, LIXIL aims to reduce CO<sub>2</sub> emissions from our business processes, products, and services to net zero and to be a leader in the field of preserving water and limited resources for future generations

#### Three Focus Areas to Achieve Our Vision



##### CLIMATE CHANGE MITIGATION AND ADAPTATION

Achieve Net-Zero GHG Emissions through Our Business Operations, Products and Services



##### WATER SUSTAINABILITY

Enhance the Environmental Value of Water Resources by Saving, Circulating and Purifying Water



##### CIRCULAR ECONOMY

Help Transition to a Circular Economy and Preserve Natural Resources for Future Generations



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As discussed at the last year's ESG Briefing, we have been developing interim targets that will serve as a roadmap to 2030 so that we can more confident about delivering our 2050 Environmental Vision.

We use the TCFD framework, Science Based Targets and other initiatives to monitor and disclose our climate change progress. We understand how important it is to set targets that reinforce the perspective of capturing business opportunities and creating an impact for society through LIXIL's products and services.

As Mr. Seto pointed out earlier in the opening, at LIXIL we are transforming our business operations. This transformation is not only to secure growth and sustainable value creation, but also to enhance the positive impact that have on society and the environment.

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## ENVIRONMENTAL GOVERNANCE STRUCTURE

Environmental Strategy Committee (ESC) sets a company-wide environmental strategy and a roadmap, closely working with the management and business units. The Board of Directors provides oversight to ESC activities.



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We must have the right governance structure in place to track progress, monitor risks, targets and metrics. Our business strategy and activities around ESG need to go hand in hand.

This year we newly established the Environmental Strategy Committee within LIXIL to create company-wide environmental strategy and ensure this is properly embedded within our business.

This committee closely works with the management and business units, reporting to the CR Committee which monitors progress across all out CR-related activities. And through our overall sustainability governance structure, we ensure ultimate oversight from the Board of Directors.

TO explain our progress on the environment in more detail, I would now like to introduce Uchu Mukai, Chairperson of the Environmental Strategy Committee.

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## TCFD ANALYSIS HIGHLIGHTS: RISKS, OPPORTUNITIES, COUNTERMEASURES

Key Risks and Opportunities			Countermeasures
Risks	Transition	Increase in energy costs due to carbon pricing	<ul style="list-style-type: none"> <li>• Improve efficiency of energy use</li> <li>• Expand the use of renewable energy</li> <li>• Create a system to promote investment in environmental initiatives</li> <li>• Conduct verification tests for decarbonization technology</li> </ul>
		Increase in procurement costs due to carbon pricing	<ul style="list-style-type: none"> <li>• Promote supplier engagement</li> <li>• Procure low carbon materials and parts</li> <li>• Promote environmentally friendly product design</li> </ul>
	Physical	Loss of sales opportunities due to damages to our plants caused by typhoons, floods, etc.	<ul style="list-style-type: none"> <li>• Promote disaster prevention action plans</li> <li>• Promote capital investments and upkeeps in each plant to ensure business continuity</li> </ul>
Opportunities		Increase in demand for energy-saving products (incl. high-insulation and energy generation products)	<ul style="list-style-type: none"> <li>• Expand development and sales of eco-friendly products (high performance windows, solar energy, high performance construction method, hot water saving faucets, shower heads, etc.)</li> </ul>
		Increase in demand for low-carbon products and circular products	<ul style="list-style-type: none"> <li>• Expand sales of eco-friendly products (resin sashes, artificial wood decks, etc.)</li> </ul>
		Increase in demand for sales opportunities for products that mitigate and prevent the impact of natural disasters	<ul style="list-style-type: none"> <li>• Expand sales of disaster prevention and mitigation products (shutters, storm doors, shades, electricity storage, resilient toilets, etc.)</li> </ul>

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**Mukai:** My name is Mukai, and I head LIXIL's Environmental Strategy Committee.

Next, I would like to discuss an overview of our climate change risk and opportunity assessment in line with the TCFD recommendations.

We have considered a wide variety of risks and identified priority items to be addressed to mitigate financial impact. Today, I would like to talk about some of the key risks and opportunities.

We plan to disclose the overview and details of the TCFD disclosure on our website next month.

First, transition risks include increased energy costs due to carbon taxes and other carbon pricing, as well as increased procurement costs for raw materials and components.

To mitigate the impact of this risk, we need to improve energy use efficiency and expand the use of renewable energy sources. We will also implement measures such as procuring raw materials and components with lower CO2 emissions.

Physical risks include the potential lost revenue opportunities if the plant is damaged by typhoons or floods. As a countermeasure, we are promoting the Disaster Prevention Action Plan and making necessary investments at each plant.

To ensure business continuity, we have established a global backup system for our production bases and are working to establish a stable production system, allowing us to produce the same core products at multiple plants.

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Opportunities, on the other hand, include increased demand for energy-saving products, products using materials and resources with low environmental impact, as well as increased demand for disaster mitigation and disaster prevention products to prepare for typhoons and other disasters. To take advantage of these opportunities, we plan to expand sales of eco-friendly and low-carbon products, as well as disaster mitigation and disaster prevention products.

As described above, we have set targets for the major risks and opportunities we have analyzed and are working to minimize their financial impact. This allows us to maximize opportunities and minimize risks.

## TARGETS AND PROGRESS

LIXIL is committed to contributing to a sustainable society through innovative products and services and environmental action across all operations.

KPIs		FYE2021 target <sup>*1</sup>	FYE2021 results	
<b>Climate Change Mitigation and Adaption</b>				
CO <sub>2</sub> reduction contributions from products and services		1.36x (vs FYE2016 ratio)	<b>1.29x</b>	●
CO <sub>2</sub> emissions from business activities	Production Unit	8% improvement (vs FYE2016 ratio)	<b>18.7 % Improvement</b>	●
	Total Amount	8% reduction (vs FYE2016 ratio)	<b>18.2 % Reduction</b>	●
CO <sub>2</sub> emission intensity of transportation <sup>*2</sup>		5% improvement (vs FYE2016 ratio)	<b>2.6 % Improvement</b>	●
<b>Water Sustainability</b>				
Water use efficiency at high water scarcity sites		Achieved goals at all 4 sites (4 in Mexico)	<b>Achieved in 2 sites</b>	●
<b>Circular Economy</b>				
Waste recycling rate	Japan + Europe	95 %	<b>97.1 %</b>	●
	Asia	66 %	<b>91.5 %</b>	●
	North America	40 %	<b>39.3 %</b>	●

● Met the target ● Met over 90% of the target ● Didn't meet the target



<sup>\*1</sup> Under the Environmental Vision, LIXIL has been processing to develop "Environmental Milestones 2030" and "Medium term environmental plan". In FYE2022, we set the single year target for each issue and implement the action to improve the performance. <sup>\*2</sup> Japan

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Next, I would like to explain our goals and the progress of our efforts in the three priority areas of our environmental vision: Climate change mitigation and adaptation, water sustainability, and circular economy.

These goals were set in our five-year mid-term environmental plan, which ended in FYE2021, and we are striving to reduce CO<sub>2</sub> emissions at our company and throughout our supply chain.

We were able to reduce CO<sub>2</sub> emissions from our business activities by 18.2% from FYE2016. Overall, steady progress was made, especially in the waste recycling rate, which improved in all regions.

We plan to set even more ambitious targets in our new mid-term environmental plan.

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## REDUCING ENVIRONMENTAL IMPACT – PRODUCTS & SERVICES

### Climate Change Mitigation and Adaption



Super Wall construction method



TOSTEM's high performance hybrid window TW



TOSTEM's high performance aluminum window Samos A



Recipient of Japan's Ministry of the Environment's award for climate change

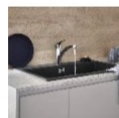
#### Major initiatives

- Launched high-performance windows for all window series in FYE2022 to increase sales ratio of high-performance windows in Japan to 100% by FYE2026
- Promote the adoption of the *Super Wall* construction method to improve airtightness, thermal insulation, and earthquake resistance of houses

### Water Sustainability



INAX's Eco Aqua Shower SPA



GROHE's Eurosmart faucet with EcoJoy technology



GROHE Bau Cosmo E touchless



American Standard's CALGreen-compliant Cadet collection toilet

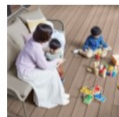
#### Major initiatives

- Water conservation: *Navish Handsfree* touchless faucet enables approx. 30% reduction in water consumption
- American Standard offers water-saving products that meet the California Green Building Standards Code (CALGreen), which mandates water conservation in the state
- Enhance water safety and environmental value of water: ex. *GROHE Blue* filtration faucet, which dispenses filtered, chilled, and sparkling water

### Circular Economy



Cradle to Cradle Certified® products



Composite decking Deck DC made from recycled materials



TOSTEM's resin window EW made from recycled materials



Environmental Product Declaration

#### Major initiatives

- Launch of Cradle to Cradle Certified® products
- Increased use of recycled materials: raised the ratio of recycled materials in EW's resin frame by approx. threefold of conventional products, eliminated the use of glue that bonds resin frame to glass to allow for easy recycling, introduced resin wrapping material for reuse with resin window profile

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Next, I would like to talk about our measures regarding products and services that reduce environmental impact.

First, with regard to mitigation and adaptation through climate change action, in addition to energy-saving products that reduce energy consumed during use, we offer products that reduce CO2 emissions throughout the value chain, such as high-performance windows that improve heating and cooling efficiency and water-saving products that reduce the energy needed to supply hot water.

This will make a significant contribution to the realization of a decarbonized society. With regard to water sustainability, we offer products with improved water-saving property while maintaining comfort, as well as products that provide safe water and enhance value of water by leveraging our strength in water purification technology.

Regarding circular economy, we have developed Cradle to Cradle Certified® faucets, and we are also promoting the use of recycled materials in the field of sashes.

Here, I would like to explain about our high-performance windows that make your home more energy efficient.

The Japanese government has declared its commitment to achieving carbon neutrality by 2050, aiming to reduce CO2 emissions from the household sector by 66% from the FY2013 level. To achieve this, home energy efficiency must be improved through better insulation of windows and other elements.

In fact, approximately 90% of existing homes in Japan do not meet current energy conservation standards. In order to improve the thermal insulation performance of houses, we announced in January of this year a

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triple-glass hybrid window TW, which uses resin on the interior side to control the flow of heat in and out. The triple glazing boasts approximately 4.8 times the thermal insulation performance of ordinary single-pane glass.

Japan lags behind other countries in insulating homes. Germany, for example, having a triple glazing shipping rate of 62%, compared to only 2.6% in Japan. High-performance windows are a product category with significant future growth potential and represent a significant business opportunity for the Company.

LIXIL has set a goal of increasing the sales composition of high-performance windows in new construction to 100% by FYE2026. We were able to increase this to nearly 80% with the renewal of all window series in the previous fiscal year. We will continue to provide innovative solutions to achieve higher performance in housing and contribute to the realization of carbon neutrality in Japan in cooperation with the government and municipalities .

## REDUCING ENVIRONMENTAL IMPACT – BUSINESS OPERATIONS

### Climate Change Mitigation and Adaption



CO<sub>2</sub> emissions reduction at Fukaya Distribution Center



Solar power installation at EMENA's fittings plants



Tostem Thai receives the top Level 5 of the Green Industry Project

#### Major initiatives

- Switched to renewable energy and reduced overall energy consumption: Tostem Thai, Oyama plant, logistics centers, sales offices, etc.
- Ratio of renewable energy usage across the company is estimated to have increased to 16% in FYE2021
- Solar power generation facilities are being installed at GROHE brand production sites (5 in total) starting in April 2022

### Water Sustainability



Wastewater treatment equipment at the Tlaxcala Plant (Mexico)



Water treatment system in Hemer factory (Germany)



Using compressed air to test thermostats instead of water

#### Major initiatives

- Reduced water used in testing thermostats of faucets by replacing water with compressed air in the plant in Albergaria, Portugal
- Implemented wastewater treatment systems at plants across the globe
- Awarded CDP's Water Security A List

### Circular Economy



Recycling Rate improvement



Reduced plastic packaging in the Porta Westfalica plant (Germany)



Klaeng plant in Thailand receives Thai government's Circular Economy certification

#### Major initiatives

- Toward a goal to fully eliminate waste, approx. 70% of brass used in manufacturing faucets in the Albergaria plant in Portugal is recycled material derived from chips and leftovers generated in the melting process
- Reduced plastic packaging by promoting an initiative to cut down the use of polystyrene foam at a Mexican plant for faucets



Meanwhile, in our business operations, we are working on the three focus areas mentioned earlier. Namely, the switch to renewable energy sources, working to reduce energy consumption, and promoting circular use of water .

As an example, I would like to show you this video on the reuse of factory wastewater as practiced at our Hemer plant in Germany.

[Video Plays]

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## MILESTONES: TRANSFORMATION JOURNEY FOR ENVIRONMENTAL IMPACT, COMMITTING TO MEETING THE 1.5C TARGET

LIXIL is committed to ensuring that we contribute to meeting the global 1.5 C target and achieving the goals set out in our Environmental Vision 2050, including reaching Net Zero.



	Manage risk in business activities	Acquire product and service opportunities	
<b>Climate Change Mitigation and Adaption</b>	Reduce own and supply chain CO <sub>2</sub> emissions and promote renewable energy	Provide high- performance windows and ZEH products	Provide water- and hot-water saving products
<b>Water Sustainability</b>	Improve water efficiency and manage water risk	Create environmental value of water	
<b>Circular Economy</b>	Recycle waste and other materials	Increase use of recycled materials and reduce plastic and other packaging waste	

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**Montesano\***: Thank you, Mr. Mukai for the detailed explanation of our products, services and operations that deliver environmental impact.

We know we still have much progress to make, but as Mr. Seto and Mr. Mukai just mentioned, we have an opportunity to contribute to the environment while creating value for LIXIL. With the rapid changes in the environmental space, material shortages, and energy debates, we must make sure we get it right.

Therefore, we plan to outline our environmental impact strategy in full later this fiscal year, highlighting our medium-term strategy and setting a clear direction.

Science Based Target, or SBT, validation is one of the guiding principles for us. We obtained SBT certification in November 2017. As SBT announced new, sharpened requirements around CO<sub>2</sub> emissions recently to accredited companies, to be applied by the end of 2025, we have agreed to meet these new SBT criteria.

We are now updating our medium-term targets, and committed to ensuring that we contribute to meeting the global 1.5°C target and achieving the goals set out in our *Environmental Vision 2050*, including reaching net zero emissions. More details will follow in our new environmental strategy later this fiscal year.

The TCFD framework, SBT target and other initiatives provide a guiding framework for delivering our 2050 Environmental Vision. We are on the journey of transforming to ensure a positive impact. We understand how important it is to set targets that allow us to not only manage risk and meet our obligations, but also capture business opportunities and provide value for society and the environment through LIXIL's innovative products and services.

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## INTRODUCING OUR GLOBAL PEOPLE STRATEGY HOUSE



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Moving on from the environmental initiatives, I would now like to introduce our activities for social impact, including our global people strategy as well as an update on our activities on sanitation and hygiene.

Last year, we shared our D&I strategy and key targets and actions we developed to activate our D&I agenda. Much work has been done with our commercial leaders to implement the new D&I strategy in order to drive the overall transformation of the business.

As Mr. Seto indicated, we would like to spend a few minutes today updating you on LIXIL’s own global people strategy.

We believe this is a very important step on our ESG journey. By ensuring that we are embedding a purpose driven and inclusive culture across the company, we can empower our employees to truly deliver on our purpose and have a positive impact for society today and in the future.

The world of work and the relationship between companies and employees continues to rapidly evolve. If people are our most important asset, investing behind the growth and development of our people is critical to our success as a company.

This Strategy House summarizes a complex and holistic set of activities and initiatives under way we support our employees by enhancing their experience and careers with LIXIL.

In line with the KPOs that serve as the pillars of this strategy, I would like to share a little bit more with you about three key areas: how are embedding inclusion into our DNA, elevating talent, and enhancing the employee experience at LIXIL.

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# EMBED INCLUSION INTO OUR DNA

HR Policy	Talent Management	Inclusive Environment
<p><b>Talent Acquisition Guidelines</b></p>  <p>Ensure inclusive hiring practices and become an employer of choice for diverse talents</p>	<p><b>D&amp;I Learning Pathways</b></p>  <p>100 workshops globally with approx. 2,700 participants</p>	<p><b>Expand Flexible Working</b></p>  <p>Embrace flexible ways of working to support the needs of diverse employees</p>
<p><b>ENTERPRISE-LEVEL GOALS BY 2030</b></p> <p><b>GENDER EQUITY AS A PROXY FOR BROADER TRANSFORMATION.</b></p> <ul style="list-style-type: none"> <li> A 50:50 gender ratio for Directors and Executive Officers</li> <li> 30% females in managerial positions</li> <li> Maintain 50:50 for Japan new graduates</li> </ul>		



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Since the launch of our D&I strategy last year, we have made great strides on building the foundation for a more inclusive culture. At LIXIL, gender diversity is the metric we use to track our progress, but our goal is inclusion.

In become a truly inclusive organization and achieve our enterprise targets for 2030, we focus our efforts on three areas – embedding D&I into our HR policies, talent management practices and enabling managers to build a more inclusive workplace.

In terms of HR policies, we enhanced our talent acquisition guidelines by reviewing and unbiasing policies and processes that would enable us to attract and recruit more diverse talent worldwide. Hiring managers to build a more inclusive workplace.

For talent management, we launched a mentoring program for high potential diverse talents in Japan. This program included 60% of those participating in our talent acceleration program and empowers mentees to choose their mentors based on their own career aspirations. I myself am mentoring two talented female managers working in the LWTJ and LHT businesses.

We launched D&I training for all managers, starting with senior management. To date, we have conducted approximately 100 workshops globally with nearly 2,700 participants. We will continue to expand these workshops this year.

On building an inclusive environment, we have embraced flexible ways of working, such as abolishing hours in Japan, making remote work permanent and introducing concepts such as super-flex, to support the needs of our employees. Many employees with caregiving responsibilities say that this new way of working

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enables them to have better work life balance and we have seen a growing number of external talent interested in LIXIL because of our progressive flexible working policies.

We launched five Global Employee Resource Group, or ERGs, with Executive Officers as sponsors.

These ERG enable employees to connect and support one another within communities dedicated to promoting gender equity, celebrating diverse cultures, supporting working parents and caregivers, creating a safe and supportive LIXIL for LGBTQ+ employees, and empowering colleagues with disabilities. About 2,000 employees joined these groups just two months after launch.

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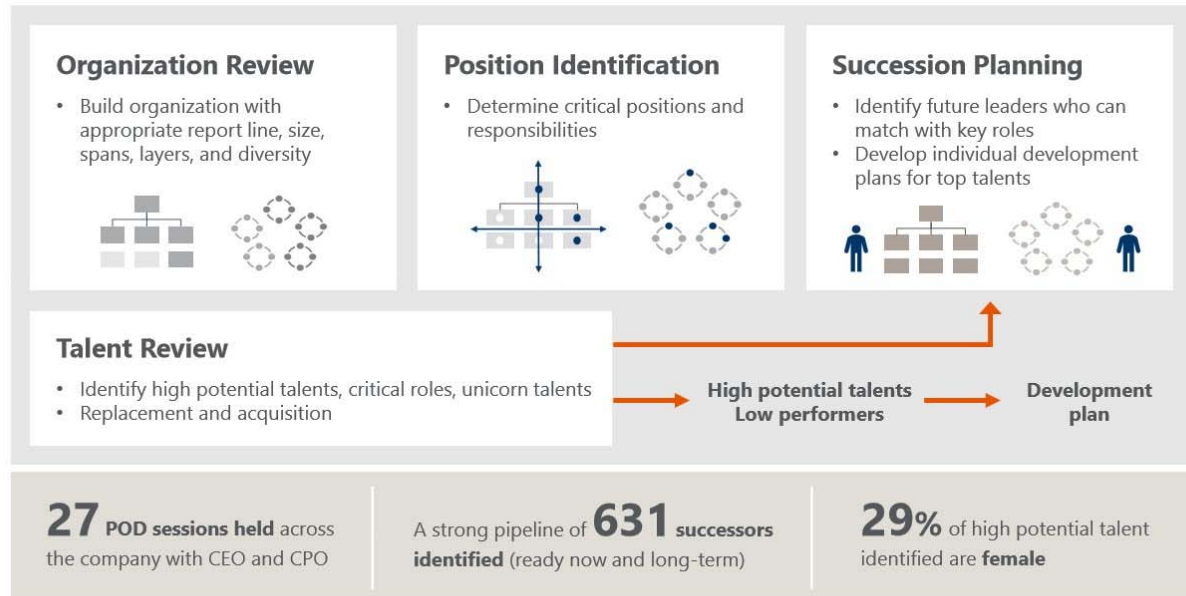
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## INTEGRATED APPROACH TO LEADERSHIP & SUCCESSION PLANNING

People & Organizational Development (POD) at LIXIL is a globally integrated review process, identifying critical roles, discussing talent and succession planning, and setting plans and follow up actions.



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Nothing is more vital to ensuring delivery of our transformation agenda than getting our best people in the right roles and ensuring we have the structure in place to enable their success. To this end, each year, executives and leaders take part in a talent and succession planning review process called the People & Organizational Development, or POD, to review the status of our teams, individual talents, the pipeline for key roles, and make sure our organizational structure are aligned with our business strategy.

POD not only provides us with invaluable insights into our people, it allows us to identify critical roles, and ensure we put the right talent pipeline in place.

Mr. Seto and I attended every POD session. This year, 27 POD sessions were held across the organization globally to review the people and organization of each business unit and corporate functions. Through this process, we continue to strengthen our pipeline of successors for critical roles, and track high potential talent.

In addition, we are now systematically tracking female talents, raising visibility of those identified as high potential talents and potential successors. This year, women represented 29% of those identified as high potentials.

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## INVESTING IN TALENT DEVELOPMENT

LIXIL is on an ambitious journey of transformation and unification. To ensure sustainable growth, we invest in the learning and development of our employees with distinct programs tailored to the diverse needs of our workforce.

TUCK Innovation Program	NEXT and NEXT 2 <sup>nd</sup> Program	LIXIL x LinkedIn Learning
 <p><b>Common language</b> around strategy and transformation</p>  <p>for 300 of our senior and high-potential leaders</p>	 <p>Develop the <b>next generation of LIXIL leaders</b></p>  <p>for 200 of our high-potential talent</p>	 <p>A <b>curated digital learning platform</b> to empower our People managers</p>  <p>for 5,500 People managers at LIXIL</p>



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The comprehensive insights gained from the annual POD review is then embedded into how we invest in talent development to support LIXIL's sustainable growth.

Managers play a critical important role in this process and beyond functional expertise, managers at LIXIL must be empowered and equipped to lead, direct, and nurture employees and build culture within their teams.

To build a strong foundation of manager skills and capability amongst our 5,500 People managers at LIXIL, we curated a comprehensive digital learning platform which emphasizes learning on the go with content that is timely, market-relevant and self-directed.

For the 300 senior executives and high-potential leaders, we have collaborated with TUCK Business School of Dartmouth College to build a program tailored to LIXIL's specific needs. The TUCK Innovation Program has built a shared common language around innovation for leaders.

This is important for more efficient decision making and can go a long way in encouraging cooperation. The establishment of this common language has led to new ways of thinking within the business, and some of the ideas generated by the TUCK program have become incubation projects. We are very excited about this.

To break away from the seniority-based, high-context culture in Japan and build the foundations for sustainable growth, we have developed a talent acceleration program. These programs, called NEXT and NEXT2, are currently training 200 high-potential top talents.

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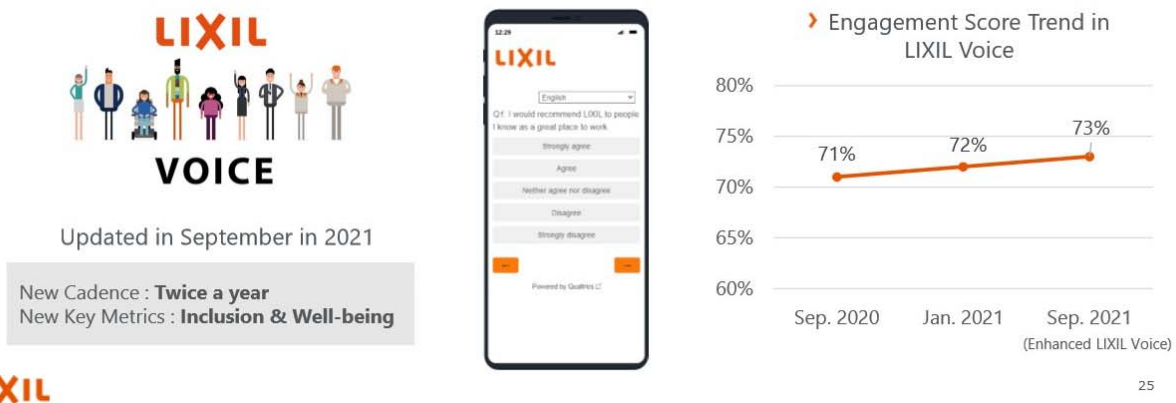
The program was designed to nurture Japanese personnel with the potential to lead the next generation of management and seeks to implement company-wide initiatives that bring diversity and new perspectives to the ranks from middle management to top management.

Though we have successful talent development programs outside of Japan, this is our first Japan-wide talent acceleration program.

## ENHANCE EMPLOYEE EXPERIENCE WITH qualtrics<sup>XM</sup>



### LIXIL Voice Key Metrics



Listening to your people is the first step in becoming an employee-centric company that provides the best possible experience for your employees. Thus, we have to listen better.

We leverage a data analysis platform called Qualtrics to power LIXIL Voice, our company-wide employee engagement survey. While the focus has been solely on engagement, the enhanced LIXIL Voice survey additionally captures Inclusion and Wellbeing.

These KPIs are backed by 25 drivers and which provides us with deeper insight into what makes LIXIL a great place to work. The enhanced survey is coupled with an updated dashboard that equips all managers with a robust database to better understand their teams.

Specific data enables managers to act upon their results with impact and inform the way they lead, direct, and nurture employees. Employee listening also plays a critical part in our ability to adapt to the increasingly diverse needs of our employees as well as the rapidly evolving world around us.

To ensure that we can fully support our employees, regardless of their working style or individual needs, we conduct ad-hoc pulse surveys to better understand our employees' needs and leverage those insights to inform our strategic planning.

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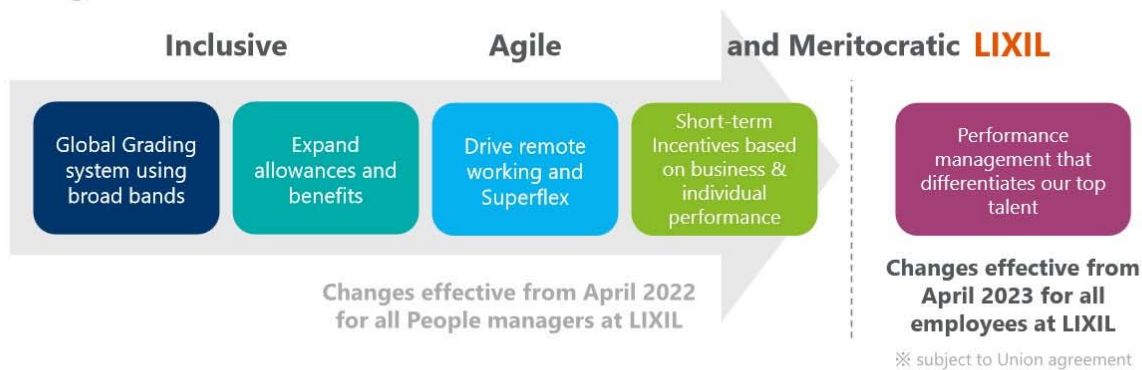
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## TRANSFORMING JAPAN TO DRIVE LIXIL'S TRANSFORMATION



### › Changes for a more ...



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Finally, I would like to talk about our efforts in Japan. Japan is our largest market and must be mentioned. Japan is really leading the way in terms of the extent of transformation of our HR policies and people strategy. I would like to talk briefly about what progress we have made.

Our focus was to transform the traditional operating model to enable more agile, meritocratic, and entrepreneurial ways of working. We aim to foster a growth mindset for innovation and nurture a mindset based on meritocracy and D&I.

To that end, we are reforming our HR policies and programs so that our people can fully utilize their capacity and grow, regardless of age, gender, nationality, and disability.

Historically, talent management practices have been differentiated between Japan and across the rest of the world. In Japan, our Talent Management practices were based on seniority and were highly homogeneous compared to the rest of the world. While this was aligned to the local market, we accelerated our transformation journey in Japan to focus on meritocracy and build a more diverse and inclusive workforce at LIXIL.

This is a foundational work and is critical for LIXIL as a company that was built through the merger of various companies with different philosophies and strategic policies.

Since April 2020, we globalized our Corporate Functions across the enterprise to make the shift towards a more harmonized foundation in talent management.

Starting in April 2022, we introduced comprehensive changes to HR policy and practice for Japan managers and above and this will become the basis for future harmonization across all levels of employees.

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For example, the grading is now broad banded and will be implemented consistently across the globe. We drive enterprise and meritocratic thinking by linking short term incentives more closely to company and individual performance.

We continue to evolve the way we work, with a focus on flexible working and streamlining office space to promote face-to-face connections. We will shift from a bonus-focused view to truly performance-focused feedback and development.

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

## SATO UPDATE – VIDEO



Sanitation and hygiene are very important aspect of social impact. I would like to update that point.

This is the pillar of our Corporate Responsibility Strategy, and these are initiatives to fulfill our purpose, which is to make better homes a reality for everyone, everywhere.

Thus, we would like to show you a video. It describes the progress of the SATO business.

[Video Plays]

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## INTEGRATED SOLUTIONS TO MAXIMIZE IMPACT

Beyond SATO, LIXIL is engaged on a variety of initiatives to improve access to safe sanitation and hygiene. Examples include:

Advocacy & Mentorship	Capacity Building	Partnership & Innovation
<p><b>Private sector engagement on SDG6</b></p>  <ul style="list-style-type: none"> <li>LIXIL a founding member</li> <li>Focus on :               <ul style="list-style-type: none"> <li>– “Sanitation Economy” market development</li> <li>– Accelerating start-up growth</li> </ul> </li> <li>53 “sanipreneurs” in portfolio               <ul style="list-style-type: none"> <li>– 2.2m people impacted daily</li> </ul> </li> </ul>	<p><b>Education and vocational training</b></p>  <p>GROHE GIVE training program in EMENA</p> <ul style="list-style-type: none"> <li>45 schools, 15 new in FYE23</li> <li>6,500 students/year by FYE23</li> <li>Certification and examination established</li> <li>Long-term opportunities</li> </ul> <hr/>  <ul style="list-style-type: none"> <li>LIXIL Products Donated to over 35 Schools in 5 US States</li> <li>Vocational Training Wall Launch Plan in 3 Schools in FYE23</li> <li>Create Awareness About LIXIL Products and Certify Next Gen of Plumbers Through Training Wall Program</li> </ul>	<p><b>Tackling sanitation challenges in US</b></p> <ul style="list-style-type: none"> <li>Over 2m without basic access</li> <li>Piloting first innovative solution in rural Alabama (100+ homes)</li> <li>Multi-stakeholder collaboration</li> <li>Replicating and scaling through new partnerships</li> </ul> 

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**Montesano\***: Thank you, Erin. I think this video was very powerful. We are very proud of the progress made by the SATO business and how this is improving lives around the world.

But this is not all we are doing in this space. LIXIL is also engaged on a variety of other initiatives to improve access to safe sanitation and hygiene. This includes three key areas. I will touch on them briefly.

The first is advocacy and mentorship. LIXIL is a founding partner of the Toilet Board Coalition, which works with businesses, investors and governments to scale market-based solutions.

The Coalition runs a business accelerator program to promote and scale innovative business solutions that address the global sanitation issues, and develop the overall sanitation economy.

Toilet Board Coalition now has 53 sanitation entrepreneurs called sanipreneurs who have come through the accelerator program, impacting 2.2 million people daily around the world.

The second is capacity building. LIXIL is scaling educational and vocational training programs. through initiatives such as GROHE GIVE in EMENA and Trade Up in the in the Americas, we are working to counteract the shortage of skilled installers in the sanitary industry while also giving back to society and offering young people a prosperous future.

These programs build awareness and loyalty with our brands. This supports job creation, but also maintains the health and safety of our communities as trained graduates are able to provide access and clean drinking water, and contribute to improved healthcare.

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The third is partnership and innovation. In the Americas, more than two million live without basic access to safe drinking water and sanitation. In Lowndes County, Alabama, for example, an estimated 80% of the homes have no access to a municipal sewage system and estimated 35% of homes dump raw sewage on their property.

LIXIL Americas is working with multiple partners on a pilot program to find viable solutions for at least 100 homes in this county and is exploring partnership opportunities with other state governments to scale these solutions.

Through these initiatives and other programs, we are expanding the positive impact that we are having through our business activities, and contributing to our corporate purpose of making better homes a reality for everyone, everywhere.

**Hirano:** Thank you very much.

Mr. Matsuzaki, Chairperson of the Board of Directors, will continue with an explanation of Enhancements of the Board of Directors' Supervisory Structure and Functions.

## ENHANCEMENTS OF THE BOARD OF DIRECTORS' SUPERVISORY STRUCTURE AND FUNCTIONS



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**Matsuzaki:** I am Matsuzaki, Chairperson of the Board of Directors. I would like to talk about our corporate governance update.

First, let me discuss the results of our most recent effectiveness evaluation.

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We have been working on this since we joined our Board of Directors in 2019, three years ago. How far we have come in this restructuring of governance? We want to understand objectively what level of effectiveness has been achieved as a result.

Thus, we utilized this third-party organization to conduct the evaluation. As a result, the restructuring of our corporate governance system is making solid progress. Then, the effectiveness of the Board of Directors was rated as being ensured at a high level.

In light of this, the Board of Directors has placed the highest priority on the restructuring of the governance structure, but we are now shifting the focus of the Board's operations to its original purpose, which is to focus on effectiveness and sustainable growth of the Company.

## ENHANCEMENTS OF THE BOARD OF DIRECTORS' SUPERVISORY STRUCTURE AND FUNCTIONS

- › Factors that led to the evaluation of **“Restructuring is progressing steadily. A high level of effectiveness is secured”** :
  - ✓ Development of relationship with executive team, keeping in mind that the role of outside directors is to actively oversee the company
  - ✓ Directors, who are in the supervision position, have requested and set the agenda of meetings
  - ✓ Outside directors have dedicated themselves to creating the governance structure most suitable for LIXIL through the Board of Directors and its committees
  - ✓ Executive officers, who are in the executive position, have the competence to operate with separate governance for executive and supervisory functions

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I see four factors that led to the evaluation this time that the restructuring is making steady progress and that a high level of effectiveness has been ensured.

First, the role of our Board of Directors is to actively oversee the execution of management by the Executive Officers. In other words, rather than going into the details of each and every action, we should grasp the whole picture. After understanding what is happening to our company, we will proceed to make statements. By doing so, we have played a supervisory role that has maintained a good distance from the executive side.

Second, setting the agenda for Board meetings. In addition to the agenda items that come from the executive side, we have proposed agenda items that the supervisory side would like to confirm or discuss and have set those items on the agenda.

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Third, our outside directors have devoted a great deal of time or energy in creating the governance structure most suitable for LIXIL. The typical example is the Nomination Committee. Since we are starting over from scratch, we have been working to create an ideal type of committee.

Chairperson Mr. Nishiura will explain the update later.

Fourth, in order for this separate governance for executive and supervisory functions like ours to work, the executive side must have the ability to do so. I think this is very important. What I mean is that when you have seven outside directors like we do and they say a lot of things, it will be highly inefficient if they are not competent. However, that is never the case with our company.

They have a clear idea of what kind of management they would like to do, and they have been proactively managing the company by incorporating new insights and advice from us.

## ENHANCEMENTS OF THE BOARD OF DIRECTORS' SUPERVISORY STRUCTURE AND FUNCTIONS

- › What should be done toward the next phase :

### Board management consistent with LIXIL's growth strategy

- 1 Check progress of strategic initiatives outlined in the LIXIL Playbook and supporting measures that form the basis for these initiatives
- 2 Confirm status of efforts to address sustainability-related matter
- 3 Set up agendas regarding strategic themes and discuss



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I mentioned that we will manage the Board of Directors in a way that contributes to the sustainable growth of the company, and specifically, we would like to focus on these three areas.

First of all, this LIXIL Playbook, which describes our mid-term strategy, includes four strategic initiatives and the corporate support measures that support them. We make sure that we have a clear picture of the status of these executions.

Second, sustainability-related issues. These are sustainability-related issues that are of interest to the world today and are expected to be addressed of the Board of Directors. Since this is not necessarily all that is currently described in this Playbook, we are planning to take this up as a separate topic to check the status of our efforts.

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Third, there are other agenda items that are important for the sustainable growth of our company. The Governance Committee will consider what agenda items should be set and what discussions should be held, and the results will be reflected in the Board of Directors' meetings.

## ENHANCEMENTS OF THE BOARD OF DIRECTORS' SUPERVISORY STRUCTURE AND FUNCTIONS

› Status of activities for the next phase :

<b>1</b>	<p><b>Check progress of strategic initiatives outlined in the LIXIL Playbook and supporting measures that form the basis for these initiatives</b></p> <ul style="list-style-type: none"> <li>- Confirm progress of strategic measures and supporting measures through reports from executive officers and management in charge</li> <li>- Ensure that decisions made by the executive team are tied to strategic measures and supporting measures</li> <li>- Confirm content of strategic measures and supporting measures that will be updated in accordance with the paradigm shift going forward</li> </ul>
<b>2</b>	<p><b>Confirm status of efforts to address sustainability-related matter</b></p> <ul style="list-style-type: none"> <li>- Approve a policy for addressing sustainability-related issues in compliance with the revised Corporate Governance Code</li> <li>- Confirm status of efforts in accordance with the response policy going forward</li> </ul>
<b>3</b>	<p><b>Set up agendas regarding strategic themes and discuss</b></p> <ul style="list-style-type: none"> <li>- Determine strategic themes and points to be discussed through the Governance Committee going forward</li> </ul>



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To give you a little more detail, we confirm the status of implementation of the first item through reports from the executive officers or from the management in charge. Also, at each Board meeting, decisions made by the executive board are reported. We have been confirming whether these decisions are tied to strategic measures, support measures, or the Strategy Playbook.

And as Mr. Seto mentioned today, this paradigm shift is currently taking place. The business environment surrounding our company is changing, and I have heard that the Playbook will be updated accordingly. Thus, I will check the contents of the Playbook and confirm the status of its implementation.

Regarding the second point, the corporate governance code revised last year requires the Board of Directors to formulate a basic policy on sustainability. In our case, the Board of Directors approved this policy, which was developed by the executive side. We will confirm the status of efforts in accordance with this policy.

Finally, regarding the third item, as I mentioned earlier, we will consider it through the Governance Committee and reflect it to the Board of Directors.

That is all I have to say today. Thank you very much.

**Hirano:** Thank you very much, Mr. Matsuzaki.

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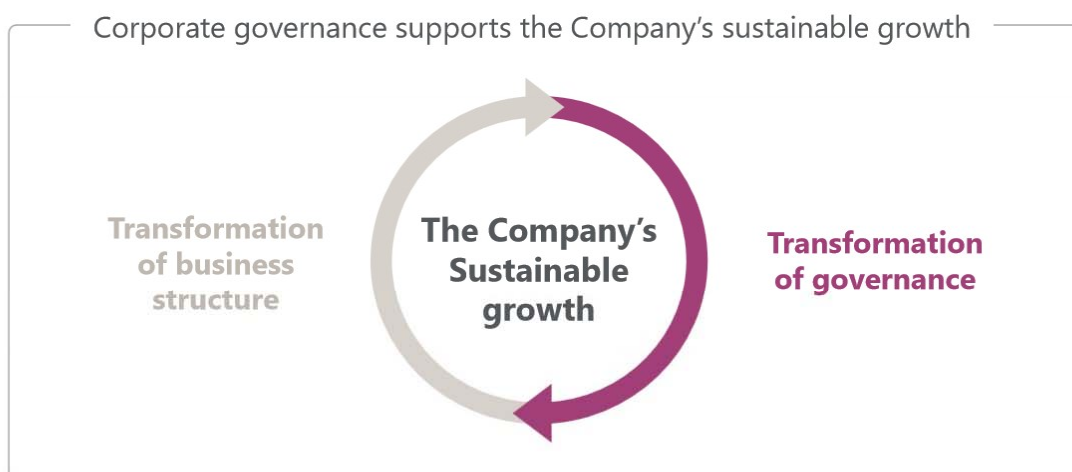


Mr. Nishiura, Chairperson of the Nomination Committee, will continue with an explanation of the Evolution of Governance of the Nomination Committee. Thank you.



## EVOLUTION OF GOVERNANCE OF THE NOMINATION COMMITTEE

SUCCESSION PLANNING FOR DIRECTORS AND EXECUTIVE OFFICERS AND PROMOTING UNDERSTANDING OF NEXT-GENERATION LEADERS



**The Nomination Committee is responsible for transformation of "human capital (management team)"**

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**Nishiura:** I am Nishiura of the Nomination Committee. Thank you.

The key word in today's briefing, as you have already heard, is transformation. I would like to talk about how the Nomination Committee is involved in this transformation.

Please see the first slide. Here's a simple picture of what I'm thinking right now.

In the first part of today's briefing, Mr. Seto reported on the transformation of our business structure. In this picture, you can see the round arrow on the left. And just now, Chairperson Matsuzaki informed us that we are working on the next phase of corporate governance. The right side of the picture shows the transformation of governance. In other words, corporate governance itself must evolve to support business growth. And it is only when these two are properly interlocked and go hand in hand that sustainable growth of a company becomes possible.

Furthermore, since it is actually people who are responsible for this rotation, so as a Nomination Committee, we are involved in the transformation of people, and especially the transformation of the management team.

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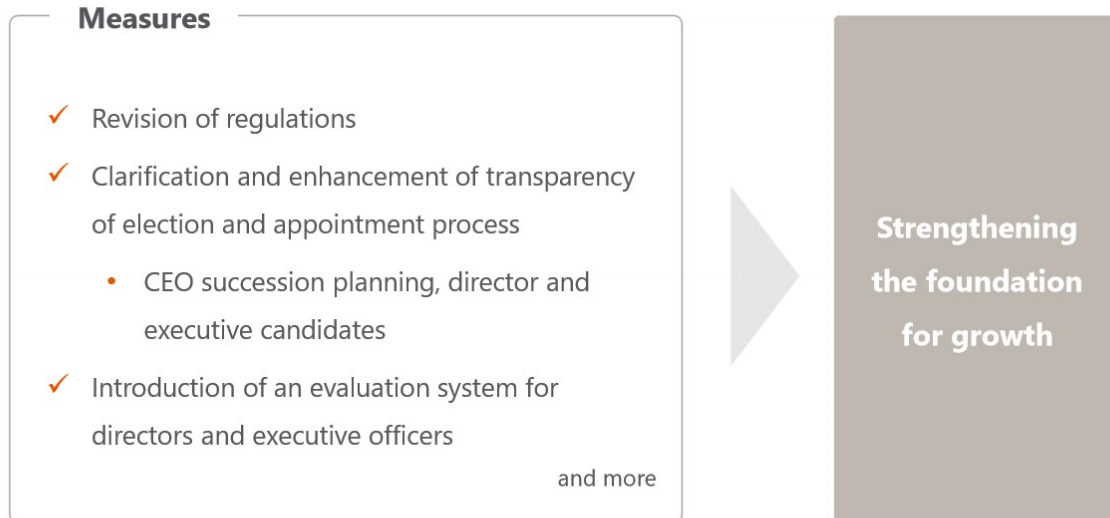




## EVOLUTION OF GOVERNANCE OF THE NOMINATION COMMITTEE

SUCCESSION PLANNING FOR DIRECTORS AND EXECUTIVE OFFICERS AND PROMOTING UNDERSTANDING OF NEXT-GENERATION LEADERS

› To date, "restructuring governance" has been the primary focus



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The second slide shows what exactly we have done.

As I mentioned earlier, we have been working on restructuring our corporate governance. Here are three specific measures, but especially the middle one is important. We have been working hard to clarify the election and appointment process for board members, as well as to improve transparency. This is true not only for CEO successors, but also for candidates for directors and executive officers.

To this end, we have been reviewing and revising the rules and regulations that are first and foremost.

Furthermore, in order not only to increase transparency but also to improve objectivity, we have also put in place an evaluation system for directors and executive officers, which is mentioned in the third item. For the first time last year, individual evaluations were also conducted for outside directors, and feedback has already been provided. Through these efforts, we feel that we have finally established a solid foundation for growth.

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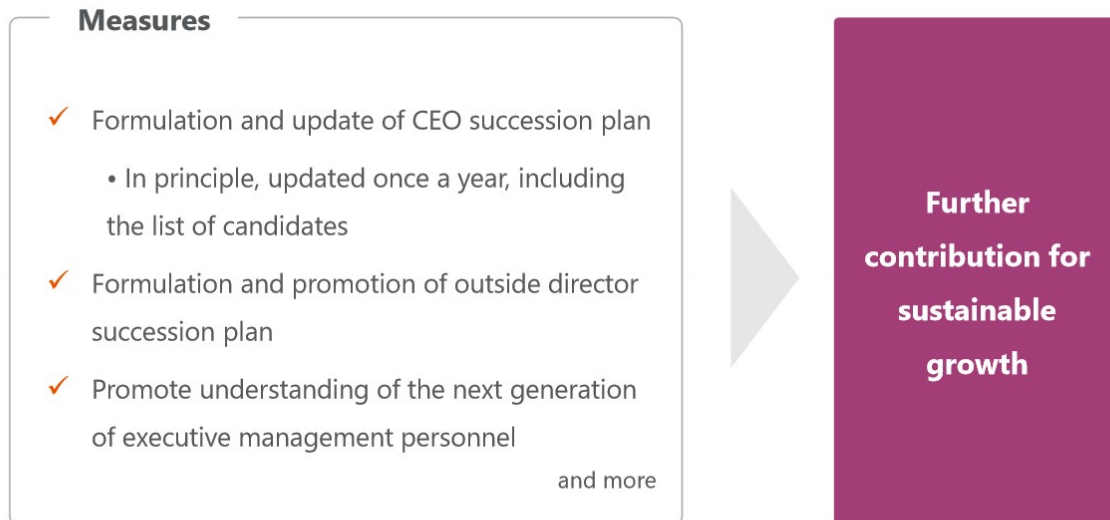




## EVOLUTION OF GOVERNANCE OF THE NOMINATION COMMITTEE

SUCCESSION PLANNING FOR DIRECTORS AND EXECUTIVE OFFICERS AND PROMOTING UNDERSTANDING OF NEXT-GENERATION LEADERS

› The focus has shifted to the "evolution of governance"



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So, what are we going to do in the future? Next slide.

Recently, we have been focusing on the evolution of governance. Specific measures are examples as noted in parentheses.

One is CEO succession planning. This is not only formulated but also reviewed annually. The list of candidates is also updated annually.

The second is the formulation and promotion of a plan for the succession of outside directors. Although we have a somewhat unique situation here, we currently have seven outside directors, five of whom have been appointed at the same time in 2019. Therefore, how to exchange these directors in the future is a very significant topic for the Nomination Committee.

The third is to further deepen the understanding of the next generation of executive management personnel. We are now spending more time and energy on these efforts.

Basically, we are concerned about the next generation of the management team. How can we arrange handovers? And by being able to do this properly, we hope to make a further contribution to sustainable growth.

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## EVOLUTION OF GOVERNANCE OF THE NOMINATION COMMITTEE

SUCCESSION PLANNING FOR DIRECTORS AND EXECUTIVE OFFICERS AND PROMOTING UNDERSTANDING OF NEXT-GENERATION LEADERS

### Continue to think about transforming to the "next generation"

- 1** CEO successor appointment, which will occur in the future, is key to sustainable growth in corporate value
- 2** Smooth transition of outside directors is one of the key issues to improve the stability and quality of governance
- 3** Election of directors and executive candidates for the next term will also be considered from the perspective of the "next structure" for two terms later

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I would like to reiterate what I have just said and summarize three things in the form of messages. This is the last slide.

First, we believe that the selection of a CEO successor, which will occur sometime in the future, is key to the sustainable growth of corporate value. To this end, I believe that we need to be prepared before, rather than after, the actual changeover surfaces, and as I mentioned earlier, we need to revise the plan itself. Also, the list of candidates will be updated annually. We are working on such a move.

The second point. As I mentioned earlier, smooth transition of outside directors. We believe that this is one of the most important issues for our company in order to stabilize and further improve the quality of governance.

Keeping an eye on these first and second point, I believe this is a very important point for the Nomination Committee to move on.

The term of office of our directors is one year. Therefore, the term of office for committee members is also one year. The basic role of the Nomination Committee is to select candidates for directors and executive officers for the next term. Also, our role is to think about what kind of management team do we want to be in the next term and in the years to come? With this in mind, we are now selecting directors or executive officers for the next fiscal year with an eye toward the upcoming structure.

As mentioned above, it is the transformation to the next generation. I believe this is the major challenge that has been placed on the Nomination Committee, and we will continue to think about it from the perspectives that we have discussed today.

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That is all. Thank you very much.

**Hirano:** Thank you, Mr. Nishiura.

This concludes today's presentation from the Company.

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## Question & Answer

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**Hirano [Q]:** I would like to continue with the question & answer session.

First, we would like to take this opportunity to answer any questions investors may have. Next, we would like to continue with questions from the press.

Questions may be omitted if they are duplicative. We appreciate your understanding in advance. Please note that questions are limited to the information explained today. Thank you very much for your cooperation.

I will now move on to the question & answer session. The four speakers will answer the questions we have received today.

First, we would like to take questions from investors. There are two questions that were commonly asked by several of you in advance, so let us start with these questions.

The first question is: How does LIXIL measure its impact on society or its various stakeholders? Please.

**Seto [A]:** I would like to say that the criteria for each of the various things we do differ greatly from one another. However, in order to make it as easy as possible for everyone to understand, I will try to use what we all share as a common yardstick.

For example, with regard to carbon neutrality, of course, quantitative analysis of risk based on the TCFD is one of the measures. On the other hand, if we look at carbon neutrality now, as a company we are responsible for a very large portion of Japan's society in the area of residential insulation. How much do we plan to increase the sales ratio of high-performance windows, and how much CO2 will be reduced by installing these high-performance windows? We naturally measure such things as well.

In the area of D&I, there is the ratio of women in management positions, the ratio of women in new hires, and the ratio of executives such as directors and executive officers. We have targets for such things, and measurements are easy to calculate because they are percentages, so we monitor progress with them.

In the area of human resource development, we not only develop human resources, but we also look at whether we are responding to the voices of our employees when conducting surveys on their engagement ratios at least once every year.

In terms of solving global sanitation issues that we showed you in the video, for example, we have already set a goal of improving sanitation for 100 million people by 2025, and we are monitoring our progress. In addition, we are also working with external organizations such as Oxford Economics, to develop figures to track how much social and economic loss is caused by poor sanitary conditions.

Therefore, we have to make our own products to some extent for those that we do alone, and for those that everyone else uses, we will use what everyone else uses as much as possible. Also, we are making various proposals for things that will positively contribute to society in the future.

**Hirano [Q]:** Thank you very much. Now, I would like to introduce one more question, which was asked by several people in advance.

When do you expect the SATO business to become profitable? Also, what kind of effects can we expect from the SATO project?

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**Montesano [A]\*:** We have always said that we will achieve that sustainable break even by 2025 for the SATO social business. We are still working toward that goal. We are proceeding on-plan.

In this market, there are some areas where we expect to achieve this earlier than expected. Although break-even is the target here, it is also about the impact we are making. We believe that improving that life of 100 million people by 2025 is as important as the break-even target.

Regarding SATO's impact in creating corporate value, there are several ways to think about this.

Fundamentally, SATO is about creating a sustainable sanitation market. We are trying to do this especially in countries and markets where this doesn't seem to exist. Many SATO business markets are not even the markets that LIXIL is entering, to be more specific.

Therefore, it is very important for us to visit these places and create a market for safe hygiene practices, creating corporate value for the future of LIXIL.

We are solving one of the world's most difficult sanitation issues. And we are improving the lives of the residents there, and through our efforts, we are developing the local economy. This is how we will achieve our purpose.

Thus, if doing SATO business will lead to the realization of this purpose, then this will also lead to the strengthening of our corporate value.

Lastly comes power. SATO's team has developed a really strong and close relationship cooperation with each division within LIXIL. We have also established many loyal connections and business partnerships.

An example would be a CRM campaign. We did this in Japan, and we did it in Europe. The GROHE brand introduced the Energy for Life Campaign and it was a big success, donating EUR1.2 million over the past year.

We did this in cooperation with SATO as well with our business customers, and this led to the creation of safe sanitation in the world. Through such form of cooperation, SATO is helping to enhance LIXIL's corporate value.

Thank you very much. We had a lot to say, and it took a long time.

**Hirano [M]:** We have touched on all the questions we received in advance. There is still time for you to ask any further questions you may have.

While we are waiting for your questions, let us discuss a question that we often receive in our daily interactions with investors.

**Speaker [M]:** Sure. Thank you very much.

**Hirano [Q]:** Mr. Nishiura, this question is about the discussions at the Nomination Committee. Regarding the evaluation system for directors and executive officers, which is mentioned on page 37 of today's presentation, there was a discussion a couple of years ago, I believe, about mutual voting. We have received a few surprises.

This time, what exactly did you do in the area of introducing an evaluation system for directors and executive officers?

**Nishiura [A]:** Yes. This partially overlaps with what I mentioned earlier, but the election or appointment of directors and executive officers must be objective and must be made with increased transparency. To ensure such objectivity, we have tried various forms of evaluation systems.

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When making major changes to the composition of outside directors, the question remains as to who we would actually like to see continue to serve further in the future. This is more of a recommendation than a vote. We have tried to do that. And we are properly listening to various opinions regarding the reappointment of the CEO. In addition, we had an outside professional organization conduct an assessment of our executive officers.

In this context, we recently attempted to evaluate individual outside directors. Although there are very few companies that have introduced this form of personal evaluation, we are glad that we did it. We gave them feedback one by one on a single sheet with their comments, and I believe they took it very well.

We have done the above.

**Hirano [Q]:** Yes, thank you. This system is different than the previous one, and we have received comments that it is pretty advanced. This is the reason why we wanted to ask you again about it. Thank you very much.

Now, one more question. This is a question for Mr. Matsuzaki, which we often receive as well during dialogues with investors.

As you mentioned earlier in the presentation, the Corporate Governance Code has been revised to require more active involvement in sustainability issues by the board of directors.

In this context, we would like to ask how you, as chairperson, have been proactive in putting forward your agenda and how you have tried to advance this discussion, both in response to the revised Corporate Governance Code or even before that.

**Matsuzaki [A]:** Thank you very much. I have also been aware that issues related to sustainability, the E and S as well as enhancement of the employees' performance are linked to our corporate value. Therefore, I mentioned that the supervisor should also propose setting the agenda of the Board meetings, and question about what specific measures we are taking to address these issues.

Even before the Corporate Governance Code was revised last year, I believed that this was an agenda item that the Board of Directors should confirm, and advanced with discussions.

Last year, the Corporate Governance Code was revised, and we have complied with the request to formulate a new policy. We have already received reports on this, but we asked for confirmation of our company's policy, and after receiving an explanation from Ms. Montesano, we agreed to proceed with the policy and approved it.

Going forward, in response to explanations or sharing of information on more concrete issues than before from the executive side, I believe that the Board of Directors should give specific advice on sustainability-related issues, including the underlying issues. This is how we perceive these issues. That is all.

**Hirano [Q]:** Thank you very much. Now, I would like to introduce one question that was asked by a participant. This question was received from Mrs. Okada, Goldman Sachs Japan Co., Ltd.

The industry has been producing a variety of products to reduce CO2 emissions in the residential sector, but if 90% of homes are not environmentally friendly, it is necessary to introduce high-performance windows in existing homes as well. I believe that cost issues at the time of introduction and increased awareness of CO2 emissions in each household are prerequisites. What are your thoughts on cooperation with the government, as well as on your future efforts as an industry group?

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**Seto [A]:** Let me answer. First of all, it's true, you are right. Actually, there are about 800,000 of new housing starts per year right now, compared to 62 million existing homes. The government can regulate new construction relatively easily and ask for cooperation from various industries, but the existing 62 million houses depend on the people who live in them.

On the other hand, in the case of Japan, consumers in the past did not have the idea of spending much money on housing, and there was little desire to spend money on housing that had already been purchased. Instead, many were considering rebuilding their homes in 20 years anyways. That is quite a big, fundamental issue.

Then, the other thing is that changing the windows has no visible effect, at least not externally. Rather, the benefit to that individual will be a lower power bill. The payback period for the effect of lower electricity bills alone is inevitably 20 years or more, so the economic incentive for individuals to switch over is very low.

But actually, when we think about health, it is obvious that, for example, more people die from heat shock than from car accidents. Also, large, attractive windows and tall windows let in a lot of light, which is very good for mental health, according to data.

Though society as a whole should be changing many things including the acceleration of CO2 reduction, we understand the situation on an individual basis. If consumers cannot make the switch for economic reasons, then I think subsidies and regulations are still necessary.

However, in the past, government measures and industry measures tended to be economic measures rather than environmental measures. When we lean toward economic measures, we tend to focus on new construction and all other products. If we limit ourselves to environmental measures, I think windows should be a central consideration.

We have been talking with various government officials and ministries, and are gradually reaching a consensus on this issue. The Ministry of the Environment has recently announced that subsidies for window replacement, which until now could not be obtained unless all windows were replaced, can now be obtained even for individual windows. The government has become much more cooperative, so we would like to try harder.

Especially here in Japan, as no other country has this much room to reduce CO2 emissions, more than 14 million tons, just by changing from single glazed windows to triple glazed windows. Conversely, until now, windows in Japan have mainly been of poor insulation quality, and the government is realizing that simply changing this will improve things considerably, and I think the industry needs to do more to promote this.

**Hirano [Q]:** Thank you very much. We have one more question for you. This is a question we have received from Mr. Masuoka, Sangyo Press Co., Ltd.

Please tell us about the progress of the resin recycling system, which you said the industry as a whole would work on. Also, what are your future recycling goals, if any, for aluminum and resin?

**Seto [A]:** In the case of resin recycling, recycling of resin sashes and recycling of resin of the resin sashes are two different things. Since I can't confirm which question you were asking, so I will answer separately.

First of all, in terms of resin recycling, we have developed a dreamlike material that can recycle all types of plastics. By building a plant this year and expanding the use of this material, we can greatly promote plastic recycling in Japan, and possibly in the world.

As for the recycling of resin sashes, the industry as a whole is involved in this. Actually, when it comes to recycling resin sashes, quite a few resin sashes in market today have glass and plastic welded to them.

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Thus, collecting them is very difficult. So, I think the division process here needs to be improved. Our resin sashes can be easily divided, so that is not a problem. On the other hand, it is possible to take these already used resins to our own products. However, resins output for that is simply not enough.

In short, there are not enough resins that have reached the end of their life span and are ready for collection. However, we are already technically capable to recycle, and if our products are used, resin recycling will make great progress.

Aluminum recycling is much easier than resin recycling. We have been making efforts to increase the ratio of aluminum scrap for a long time. We believe that our aluminum sashes are probably the greenest aluminum sashes, not only in Japan but in the entire world.

**Hirano [Q]:** Thank you very much. We have touched on all the questions we have received so far. There is still a little time left, so if you have additional questions, please let us know.

We have one more question. Due to time constraints, I would like to close with a question from Mr. Yamaguchi of the Nihon Keizai Shimbun.

How do you intend to increase the ratio of renewable energy use in order to promote the reduction of CO2 emissions? There may be various methods in the medium to long term, such as external procurement or in-house power generation, but what is your current outlook and what methods do you consider effective?

**Seto [A]:** Basically, we want to increase the ratio, and we think that it is realistic to achieve. It is firmly included in the calculations of the TCFD after all so we believe we can proceed with it. However, the availability of renewable energy in Japan is very low to begin with.

So, for our part, we honestly believe that we can achieve it in certain areas in a solo. In particular, we have already decided on a number of years to switch almost all of our overseas energy sources to renewable energy sources. As for Japan, we are on track to switch to renewable energy sources for most of our water related businesses.

As for the metal related businesses, though it can be switched as well, Japan has the highest cost of renewable energy compared to the rest of the world. Compared to Germany, for example, it costs multiple times more. This would make me wonder how we would consider the premiums here.

However, from a slightly different perspective, even if individual companies increase the ratio of renewable energy while the ratio of renewable energy is not increasing in Japan as a whole, all others will simply continue to use non-renewable energy.

I don't think that this issue is being talked about much. So, within the current framework of Scope 1 to Scope 3, many companies are saying that all is OK as they will start switching to renewable energy for Scope 2. However, I think this is a very questionable approach.

We are discussing this issue internally at our company. We can do it as well, but if we do it, other people in Japan as a whole will eventually have to use non-renewable energy sources. This is not so much a question of energy procurement per se, but rather how to generate energy.

As for the question of in-house power generation, for example, currently, we are already doing everything we can, and we are also trying to procure as much green energy as possible from outside sources, even if it costs more. However, I feel that it will be a very long story for Japan as a whole to increase the ratio of green energy, and that is a big challenge.

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**Hirano [M]:** Thank you very much. We still have a lot of questions, but we are getting very close to the end of our time. Therefore, I am very sorry, but I would like to conclude the question & answer session here today.

We sincerely apologize for any questions that we could not introduce at this time due to time constraints, and we hope that the IR Office or Public Relations will be able to respond to these questions at a later date. We appreciate your understanding.

So, thank you very much for taking time out of your busy schedule to join us today and for the many questions you have asked.

This concludes all of today's schedule. This concludes the LIXIL Corporation, ESG Briefing Session.

Thank you again for your participation today.

[END]

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### **Document Notes**

1. *Speaker speech is classified based on whether it [Q] asks a question to the Company, [A] provides an answer from the Company, or [M] neither asks nor answers a question.*
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## Answer to question that could not be presented at the briefing

**Hirano [Q]:** I would like to introduce one question that was asked by a participant. This question was received from Mrs. Okada, Goldman Sachs Japan Co., Ltd.

I believe that no other company has achieved globalization in such a short period of time as your company has. In that sense, I imagine that the reform of the personnel system has been quite difficult. Please tell us about any bottlenecks you have encountered, any business benefits that will accrue when the current personnel system permeates the entire company, and any points you would like to strengthen in the future.

**Montesano [A]:** Yes, this process of transforming our people policies has been challenging. We are learning and adapting the speed and scope based on what we are hearing from managers and what we believe is digestible.

To unlock the power of our people globally, it is critical for us to align key policies and practices globally, so that we can accelerate change. For example, one key bottleneck in the past was that we didn't have a single global system for employee listening. Effectively listening to and understanding the needs of our employees is the first step to us improving the employee experience. We now have the LIXIL Voice survey and effective data analytics using Qualtrics.

Similarly, we are moving towards a global grading system with broad bands. We introduced and have strengthened our POD system globally, which provides far greater visibility to talent and organizational needs globally.

While we did not have integrated systems in the past due to expansion through M&A, but these integrated systems now allow us to plan talent development much more effectively. We believe these measures bring tremendous benefits to the business globally. We will continue to strengthen across all the KPOs that were discussed today.

[END]

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