

The logo for LIXIL, featuring the word "LIXIL" in a bold, orange, sans-serif font. The letters are closely spaced, and the 'X' is particularly prominent.

Link to Good Living

## **LIXIL Corporation**

ESG Briefing

April 4, 2023

## 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>	April 4, 2023	
<b>[Number of Pages]</b>	35	
<b>[Time]</b>	15:30 – 16:58 (Total: 88 minutes, Presentation: 42 minutes, Q&A: 46 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, Representative Executive Officer, Executive Vice President, Human Resources, Communications, External Affairs, and Impact Strategy, and Chief People Officer
	Masatoshi Matsuzaki	Independent Outside Director, Chairperson of the Board of Directors, 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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Uchu Mukai Senior Vice President, Chief Environmental Impact Officer and Chief Standardization Officer, and Chairperson of Environmental Strategy Committee

Kayo Hirano Senior Vice President, Leader, Investor Relations Office and Leader, Finance & Treasury Corporate Accounting & Treasury/Tax

**[Analyst Names]\***

Sachiko Okada	Goldman Sachs
Hiroki Kawashima	SMBC Nikko Securities
Daisuke Fukushima	Nomura Securities
Hiroki Watanabe	Morgan Stanley MUFG Securities

\*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A.

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# Presentation

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**MC:** Now, we will begin the ESG briefing of LIXIL Corporation.

Today, under the theme of “A Positive Impact for Today and Tomorrow,” we would like to explain our various efforts to enhance corporate value and create a positive impact by solving social and environmental issues, and to achieve both, focusing on the updated Environmental Strategy announced last week on March 30.

Today's presentation will be given by Kinya Seto, Director, Representative Executive Officer, President, and CEO; Jin Montesano, Director, Representative Executive Officer, Executive Vice President, Impact Strategy; and Uchu Mukai, Senior Vice President and Chairperson of Environmental Strategy Committee. Also speaking in the latter half, Masatoshi Matsuzaki, Independent Outside Director and Chairperson of the Board of Directors, and Yuji Nishiura, Independent Outside Director and Chairperson of Nomination Committee will join the Q&A session.

Hirano, Leader of Investor Relations Office, will serve as the moderator for today's session. Thank you.

## TODAY'S AGENDA

- 1 The Way We Create Value (Seto)**
  - Achieving our purpose through value creation - Updating the LIXIL Playbook
  - Examples of how we create positive Impact through our business and services
  - LIXIL's Impact Strategy – Today's agenda
  
- 2 Overview of LIXIL's Impact Strategy (Montesano)**
  - LIXIL's Impact Strategy
  - D&I progress
  - Initiatives on Global Sanitation & Hygiene (McCusker)
  
- 3 Update of our Environmental Strategy (Mukai)**
  - Our Environmental Vision 2050
  - Key update: Defining impact in our business and beyond
  - Key update: Mid-term targets
  - Key update: Biodiversity
  
- 4 Q&A Session**
  - The role of the Board of Directors in the area of sustainability
    - Governance (Matsuzaki, Nishiura)
  - Answering to questions from participants (All)

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First, let me explain today's proceedings.

The agenda for today's meeting is shown on page four of the briefing material that is just being projected. The three speakers will now explain in turn.

After the presentation, there will be time for questions and answers. Questions can be submitted at any time during the briefing, so please submit them at the bottom of the screen in the Q&A section.

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Today's briefing is scheduled to end at 17:00 Japan time. Thank you.

Now, Mr. Seto will begin the presentation.

## ACHIEVING OUR PURPOSE THROUGH VALUE CREATION - UPDATING THE LIXIL PLAYBOOK

We are advancing the strategic initiatives set out in the LIXIL Playbook to deliver on our purpose to achieve sustainable growth and value creation. We have added “**Embed Robust Environment Strategy**” to clarify our overall commitment to both enhancing corporate value through business activities and business growth and creating a **positive impact** in addressing social and environmental issues.



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**Seto:** Hello, everyone. I am Seto of LIXIL. Thank you for participating in our ESG briefing today.

As you are well aware, this has been a very challenging and difficult year. Last year started with Russia's invasion of Ukraine, commodity prices went up, logistics were stopped during the COVID-19 pandemic and things could not be delivered, and so on.

I believe that the most important factor that will have a long-term impact on our business is your interest in and sense of urgency about the issue of climate change.

We are working to integrate our environmental strategy, including the impact of this climate change on the planet, into our business strategy, not just as a reactive issue or challenge, but rather as a means to achieve sustainable growth and value creation in line with our own purpose.

You now see the contents of the LIXIL Playbook, which are also included in our Integrated Report. As a new innovation, we emphasize the integration of environmental strategy into business strategy.

We would like to present some of our environmental strategies.

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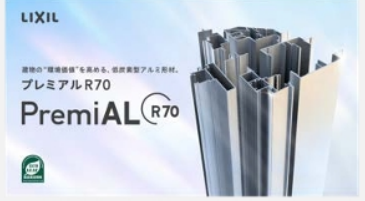

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## EXAMPLES OF HOW WE CREATE POSITIVE IMPACT THROUGH OUR BUSINESS AND SERVICES

Beyond our operations, LIXIL provides products and services that create a **positive impact in society as a whole**, particularly in the housing and construction industry.

<p><b>Developed sustainable material <i>revia</i> combining waste plastic and wood<sup>(1)</sup></b></p>  <ul style="list-style-type: none"> <li>Aims for effective use of <b>185,000 tons</b> of waste plastic per year, reduction of <b>600,000 tons</b> of CO<sub>2</sub> emissions<sup>(2)</sup></li> <li>Circular use through product to product use</li> </ul>	<p><b>Launched <i>PremiAL</i> series of low-carbon aluminum extrusion products<sup>(3)</sup></b></p>  <ul style="list-style-type: none"> <li>Aim for an aluminum recycling rate of <b>100%</b></li> <li><b>Reduction of one-third</b> of LIXIL's Scope 3 CO<sub>2</sub> emissions</li> <li>Reduction of embodied carbon in building materials</li> </ul>	<p><b>Enhanced lineup of high-performance windows subject to the "Subsidy for Advanced Window Renovation"<sup>(4)</sup></b></p>  <ul style="list-style-type: none"> <li>Contribution to a reduction of <b>approximately 70%<sup>(5)</sup> of CO<sub>2</sub> emissions</b> from housing in Japan in fiscal 2030</li> <li>Reduction of heating and cooling expenses in housing</li> </ul>
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(1) News Release <https://newsroom.lixil.com/2022101802>  
 (2) Based on mid- to long-term sales assumptions of JPY100 billion  
 (3) News Release [https://newsroom.lixil.com/ja/20221215\\_01](https://newsroom.lixil.com/ja/20221215_01) (Japanese only)  
 (4) "Subsidy for Advanced Window Renovation" official website by the Ministry of Economy, Trade and Industry and the Ministry of the Environment <https://window-renovation.env.go.jp/> (Japanese only)  
 (5) Compared to fiscal 2013



First, an example of impact creation through business and services is the sustainable material *revia*, which we introduced last year. This is a new material created by combining all kinds of plastic waste with wood waste. I have brought the product today. This is a product called *revia pave*, which can be used for sidewalks.

Conventional plastic recycling involves sorting single materials, such as polypropylene or polyethylene for example, and recycling them into pellets.

In the case of *revia*, the innovative material does not go through that sorting process, but instead is made by extruding various types of plastics, from marine plastics to PP, PE, and polyvinyl chloride, together with wood.

If this project proceeds as we plan, we will be able to effectively utilize 185,000 tons of waste plastic per year and reduce CO<sub>2</sub> emissions by 600,000 tons. Of course, if there is a movement among not only us but also the government, local governments, and consumers to use *revia* more and more, I think this will become an even bigger project.

The second is *PremiAL*, the low-carbon aluminum profiles written in the middle. In fact, when I joined LIXIL, most of LIXIL's aluminum materials were aluminum ingots made from bauxite. Some in-house scrap was used, but the usage rate was 20% to 30% of the total.

However, scrap and bauxite-derived aluminum ingots emit very different amounts of CO<sub>2</sub>. When made primarily from bauxite, there are 10 kilograms of CO<sub>2</sub> emissions to produce 1 kilogram of aluminum. However, when made from scrap, the same 1 kilogram of aluminum emits only 0.3 kilograms of CO<sub>2</sub>. The reduction is 97% on a formwork basis, and even if we were to make even aluminum sashes, the reduction would be about 75%. This is a very large reduction.

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Last year, we launched a product that guarantees the use of 70% scrap. At the end of this year, we plan to launch a product called *PremiAL R100*, which guarantees 100%.

By 2031, we aim to make all aluminum materials from scrap. Until now, our products have focused on so-called “operational carbon,” i.e., CO<sub>2</sub> reduction during actual product use. This new product is revolutionary in that it can reduce CO<sub>2</sub> emissions, so to speak, as embodied carbon, from the initial incorporation of the product, from the construction stage.

In addition to this, the government recently announced a very large subsidy of JPY100 billion for window renovations. Window renovation is also becoming an important CO<sub>2</sub> reduction project for us.

Inevitably, the world is talking a great deal about new zero energy houses. However, there are actually 60 million existing houses in Japan, most of which have single-pane glass windows. 56% of energy goes out doors and windows. We believe that insulating that area has a very large economic and thermal insulation benefit. And we believe that the effect of this insulation will probably make the biggest contribution to the 70% reduction of CO<sub>2</sub> emissions from housing in Japan in FY2030.

In this way, we are trying to realize measures against climate change through our products and through our daily business activities.

## LIXIL'S IMPACT STRATEGY – TODAY'S AGENDA

Formulating strategies that respond to the constantly changing external environment and quickly seizing business opportunities will lead to sustainable growth.

Megatrends	Business opportunities	Structure of today's briefing <b>E S G</b>
<ul style="list-style-type: none"> <li>• Climate change</li> <li>• Water and resource shortages</li> <li>• Heightened geopolitical risk</li> <li>• Supply chain disruptions</li> <li>• Growing global middle class</li> <li>• Maturing Japanese market</li> <li>• Accelerating digitalization</li> <li>• The changing world of work</li> </ul>	<ul style="list-style-type: none"> <li>• Growing demand for energy-saving products (heat insulation performance, water and hot water conservation)</li> <li>• Growing demand for eco-friendly products (highly recyclable building materials and components)</li> <li>• Development of high value-added products (such as smart toilets and high-performance showers)</li> <li>• Improvement of touchpoints with customers</li> <li>• Driving agility in our organization with workstyle reform</li> </ul>	<ul style="list-style-type: none"> <li>• Overview of LIXIL's Impact Strategy</li> <li>• Goals and progress of our People Strategy</li> <li>• Initiatives on Global Sanitation &amp; Hygiene</li> </ul> <p><b>1. CPO Montesano</b></p> <ul style="list-style-type: none"> <li>• Overview of the updated Environmental Strategy</li> <li>• Roadmap for creating impact by achieving quantitative targets for each focus area</li> </ul> <p><b>2. CEO &amp; CSO Mukai</b></p> <ul style="list-style-type: none"> <li>• Two Outside Directors will participate in the Q&amp;A session</li> <li>• Discussions will cover on governance, including the role of the Board of Directors in the area of sustainability</li> </ul> <p><b>3. Directors Mr. Matsuzaki and Mr. Nishiura</b></p>



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The business environment in which we operate is changing on a daily basis. We will respond promptly to each of them. As I mentioned earlier, these changes are both a risk and an opportunity for us. How we make the most of these opportunities will determine whether or not we can become a company that makes an impact on society.

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This will be followed by a general overview of the Impact Strategy by Jin Montesano, Chairperson of Impact Strategy Committee. Then, the Environmental Strategy, one of the pillars of the Impact Strategy updated in March of this year, will be explained by the Chief Environmental Impact Officer and Chief Standardization Officer, Uchu Mukai, who oversees the Environmental Strategy Committee.

At the end of the presentation session, there will be a Q&A session to answer questions from attendees. Mr. Nishiura and Mr. Matsuzaki, our outside directors, will join us again this year, and will begin with an explanation of sustainability and our governance structure.

**MC:** Thank you.

Mr. Montesano, Chairperson of Impact Strategy Committee, will give an overview of LIXIL's Impact Strategy.

## FROM RESPONSIBILITY TO IMPACT

LIXIL's purpose is to make better homes a reality for everyone, everywhere. This is the **positive impact** we have and how we can be a force for good in a rapidly changing world for today and tomorrow, from the products we make, to the way we work.

From April 1, we are updating our CR Strategy to become LIXIL's Impact Strategy. This update reflects our **commitment** to:



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**Montesano\*:** Thank you very much, Mr. Seto.

Hello, everyone. Thank you very much for joining us today at this occasion to present LIXIL's exciting new direction.

As a company whose purpose is to “make better homes a reality for everyone, everywhere,” we understand that our role goes beyond just building houses. We believe that as a responsible, purpose-driven business, we have a duty to make an impact, a positive impact, on society and the environment.

In 2015 we developed our CR Strategy and have been working to fulfill our corporate responsibility. I am proud of what we have achieved so far. However, LIXIL has already gone beyond “responsibility” in its efforts realize its Purpose. After much consideration and research, we have decided to shift our CR Strategy to become LIXIL's Impact Strategy from April.

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This update reflects our commitment in three key areas shown here. The first is our commitment to LIXIL's purpose, which is "to make better homes a reality for everyone, everywhere." Second, a commitment to addressing key social and environmental issues that are aligned with our core business. Finally, our commitment to being accountable for these efforts.

We are responsible for making a positive impact on the world, but also for measuring and explaining that impact - the results of our activities - to our stakeholders. We have set clear goals, including our new environmental KPIs, and track our progress toward achieving them. An Impact Strategy places a stronger accountability and transparency, which will further build trust with our stakeholders.

## LIXIL'S IMPACT STRATEGY



There is no change to the three strategic pillars set forth in the CR Strategy. I am sure you all know this. LIXIL intends to leverage its capabilities in these three areas where it can have the greatest impact.

Rather than thinking from the lens of "responsibility", the Impact Strategy takes allows us to proactively take a more holistic approach to making a positive environmental and social impact, while we pursue improved financial outcomes for LIXIL.

We recognize that these three areas are interconnected and must be addressed together to achieve long-term sustainability for our business and the world. We are now moving to the Impact Strategy, but I believe our employees have already been implementing the Impact Strategy long before this change.

Our employees understand and accept LIXIL's purpose very well. They are incredibly passionate about their products and services and understand the importance of creating long-term sustainable impact to realize our Purpose.

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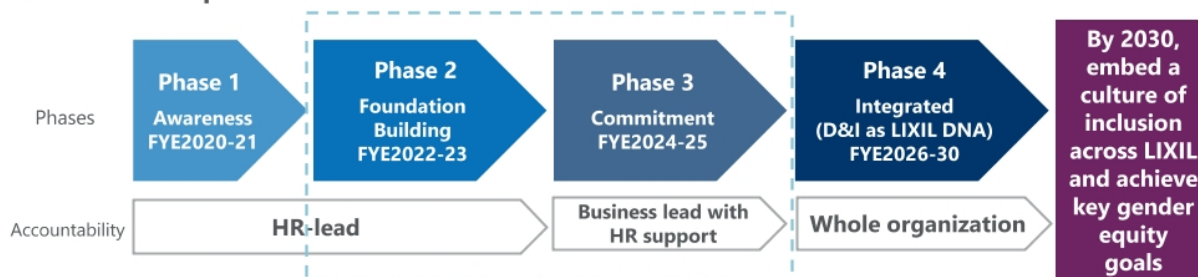
Now, it is our people who play a critical role in achieving our vision and goals as an organization. It is precisely LIXIL's employees who will implement the Impact Strategy I have just mentioned. As we dedicated today's ESG presentation to focus mainly on the environment, we would like to create future opportunity to explain our human capital-related initiatives.

Before moving on to a detailed explanation of our environmental strategy, as CPO, I would like to briefly highlight key developments from the past year in the area of D&I, one of our three priority areas of focus.

## D&I PROGRESS

**Our commitment to promoting D&I starts with building an inclusive LIXIL:**

### › D&I Roadmap to 2030



To shift accountability from HR to businesses, two key initiatives were launched in FYE2023.

Leaders' guide to advancing D&I	D&I Dashboard
<ul style="list-style-type: none"> <li>Leaders' guide to advancing D&amp;I launched to <b>support LIXIL's leaders in becoming more effective in activating D&amp;I with actionable examples</b></li> <li><b>Business leaders will conduct workshops to help leaders understand the guidebook content</b></li> </ul>	<ul style="list-style-type: none"> <li>Dashboard with key D&amp;I KPIs launched to enable leaders to <b>regularly monitor progress toward D&amp;I goals and assess current status</b></li> </ul>



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Here is our roadmap to 2030. We are on track to our 2030 goal. The why and what of D&I promotion well embedded across the organization, we have focused on activities to shift from Phase 2 to Phase 3. We have taken a very big step forward in deepening managers' and employees' understanding and engagement of D&I.

In the past, D&I promotion has principally been HR-led. Phase 3 will be marked by our D&I efforts being business-led, moving the accountability to each P&L and functions. This is easier said than done. A token transition without leadership accountability for the right actions would be meaningless. To ensure business leaders are enabled to succeed, two key initiatives were launched in FYE2023.

First, we prepared a guide for leaders that clarified, with practical examples, what leaders can and should do to activate D&I more effectively, tailoring approaches to their organizations and needs. We have developed a dynamic dashboard that tracks in real time each team's D&I progress. We will use a mechanism for leaders to regularly monitor progress against D&I goals and evaluate the current status. Let me show you how it works.

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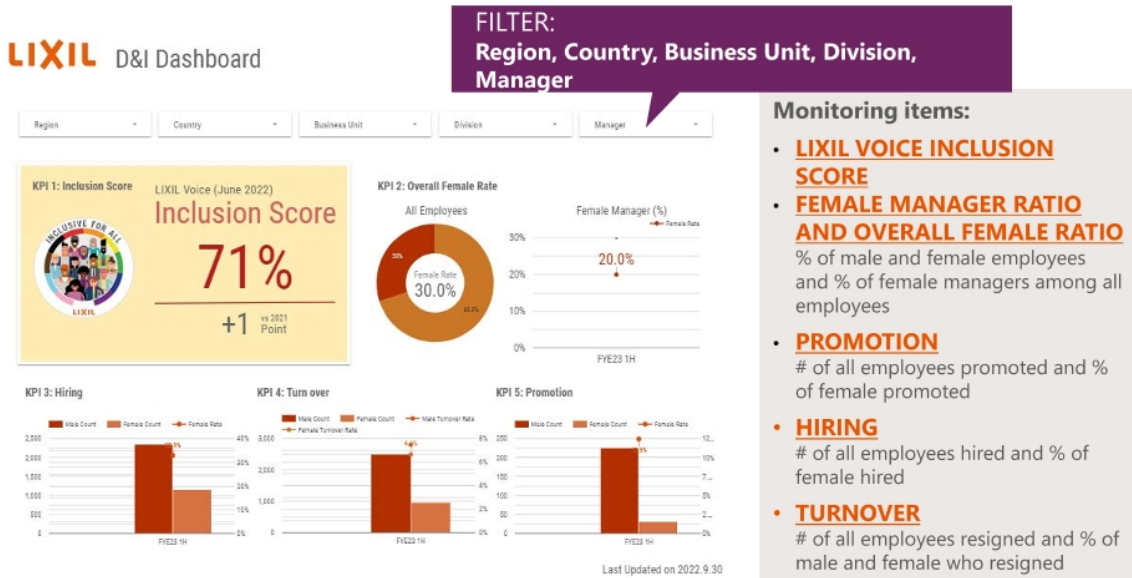
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# D&I DASHBOARD

The scores are monitored and tracked, and **the progress will be reviewed at LIXIL’s D&I Committee.** By promoting D&I through these efforts, **we can leverage the knowledge and perspectives of our diverse employee base, we can create innovations** that meet the needs of diverse consumers.



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The D&I dashboard based on Qualtrics uses LIXIL data to focus our efforts around five key KPIs: the organization’s LIXIL VOICE inclusion score, employee and manager ratios by gender, as well as the gender ratios for promotion, hiring, and departures. We believe that these five key metrics, tracked on a regular basis, by region, country, and division, will provide leaders a clearer view on progress against our goals. Progress will be presented and discussed by P&L and Function at the D&I Committee, chaired by CEO Seto.

LIXIL has set targets to achieve specific gender equity goals by 2030. However, the real goal is not gender equity, but maximizing the full impact of our diverse and capable workforce.

Our employees are the force behind creating long-term corporate value. We believe that the true impact LIXIL can make on society is only possible when every employee can fully demonstrate their individual potential and ability. Through our employees, we will respond to the diversifying needs of society with innovative products and services that are made possible by their knowledge and perspectives.

The D&I initiatives currently underway within the Company are defining critical pathways to achieve this goal. No presentation about LIXIL’s impact on the world is complete without talking about our work in Sanitation and Hygiene, so please allow me to hand over to Erin McCusker, who leads our SATO business and LIXIL Public Partners.

**McCusker:** [Video Plays]

**MC:** Thank you.

The Chairperson of the Environmental Strategy Committee, Mr. Mukai, will continue with an update on the Environmental Strategy.

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## OUR 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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**Mukai:** Hello, everyone. My name is Mukai, and I oversee the Environmental Strategy Committee.

At LIXIL, we believe that addressing environmental issues is extremely important in pursuing our responsibility and purpose as a company and as a sustainable business. To this end, we established our Environmental Vision "Zero Carbon and Circular Living" in 2050.

To specifically achieve this vision, we have set three focus areas shown here. Climate Change Mitigation and Adaptation, Water Sustainability, and Circular Economy.

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## MILESTONES

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.



In driving efforts to achieve our Environmental Vision 2050, we manage risks and capture opportunities

	Manage risk in business activities	Capture 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	Provide safe and good taste 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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In addition to providing innovative products and services, we have also continuously strived to improve our overall environmental value and mitigation of risks by reducing ecological footprint throughout our business. However, in order to further evolve and accelerate these activities throughout the company, we felt that close collaboration that extends beyond environment-related divisions, including management and business units, is necessary to strengthen activities.

Therefore, the year before last, we launched the Environmental Strategy Committee to accelerate global and cross-functional efforts.

As one of the results of this, last year, based on the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD), we identified and assessed the risks and opportunities that climate change issues pose to LIXIL, and announced ambitious interim targets for reducing CO<sub>2</sub> emission. This year, we have updated our Environmental Strategy to include not only the response to climate change, but also other environmental areas, and have established more specific goals to achieve our “Environmental Vision 2050.”

As I will explain in more detail, our Environmental Strategy is based on the idea that we can go beyond fulfilling our responsibilities by minimizing the negative, and maximize our impact for the environment and people's lives.

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## THREE KEY UPDATES

- › DEFINING IMPACT IN OUR BUSINESS AND BEYOND
- › SET MID-TERM TARGETS
- › THE ADDITION OF BIODIVERSITY FOR THE FUTURE AND PROGRESS OF THE THREE CATEGORIES



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I would like to explain three main points for the Environmental Strategy update.

First, the scope of the Environmental Strategy was clearly defined as the scope that captures the impact on the business area and beyond. We believe it is the responsibility of all manufacturers to minimize the environmental impact of their business activities and the use of their products. In addition to this, we have made it clear in our Environmental Strategy that we are committed to maximizing our impact in solving social and environmental issues.

Second, in order to accelerate our efforts to achieve this Environmental Vision, we have set mid-term targets in each of the three priority areas.

Lastly, we have added Biodiversity to our material issues. To date, LIXIL has engaged in protecting Biodiversity in the field. Moving forward, it will serve as a foundation to addressed for all three priority areas and will be added to our material issues to achieve our Environmental Vision.

We have prepared a video summarizing the concept of the Environmental Strategy and the path to achieving our Environmental Vision. Please take a look.

[Video Plays]

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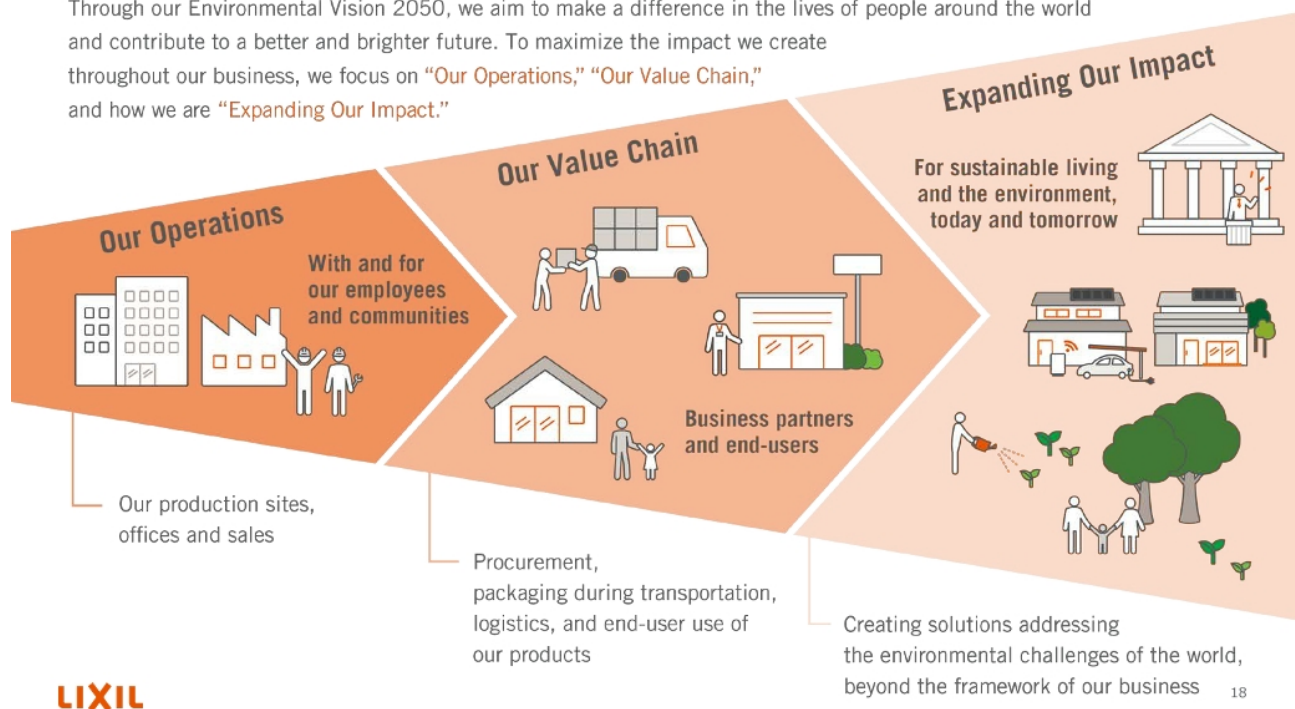




## KEY UPDATE: DEFINING IMPACT IN OUR BUSINESS AND BEYOND

### Three Phase Approach

Through our Environmental Vision 2050, we aim to make a difference in the lives of people around the world and contribute to a better and brighter future. To maximize the impact we create throughout our business, we focus on “Our Operations,” “Our Value Chain,” and how we are “Expanding Our Impact.”



**Mukai:** As just explained in the video, this updated Environmental Strategy is based on three phases to maximize the social impact we create: Our operations, Our Value Chain, and Expanding Our Impact.

Among those, Our Operations refers to our production sites, offices, and sales activities, and relevant stakeholders involving our employees and residents in the surrounding areas.

Our Value Chain refers primarily to the processes that occur upstream and downstream of the business processes, with contact with external stakeholders, such as our business partners and end-users.

Third, in Expanding Our Impact, we will go beyond the framework of our business to expand our social impact and contribute to the future of the planet.

By steadily implementing initiatives in these three phases, we will reduce environment-related risks while and seize business opportunities to achieve sustainable growth.

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# KEY UPDATE: MID-TERM TARGETS

## Mid-Term Targets



ZERO CARBON  
AND  
CIRCULAR  
LIVING

**A better home** is a sustainable home. LIXIL Environmental Vision 2050 “Zero Carbon and Circular Living” envisions a sustainable future for people and the planet.

Mid-term targets and actions for the three priority areas will drive LIXIL’s efforts in achieving its Vision.

	OUR OPERATIONS	OUR VALUE CHAIN	EXPANDING OUR IMPACT
Climate Change Mitigation and Adaptation	Scope 1+2 CO <sub>2</sub> emissions  -50.4% <sup>*1</sup>	Scope 3 CO <sub>2</sub> emissions  -30% <sup>*1</sup>	Ratio of energy- and water-saving faucets and toilets sold  100% <sup>*2</sup> Ratio of high-performance windows sold for new detached houses  100% <sup>*2</sup>
Water Sustainability	Water use efficiency  +20% <sup>*1</sup> Reduce water use at water-scarce sites	Total water savings from water-saving products <b>2 billion m<sup>3</sup> per year</b> <sup>*3</sup>	Provide safer and better tasting water
Circular Economy	Improved waste recycling rates  90% <sup>*2</sup>	Promote use of recycled and renewable materials <b>100%</b> Reduce single-use plastics in packaging Enhance resource efficient products and solutions Build take-back systems for 'product to product' use	Reduce difficult-to-recycle waste plastics

\*1 Benchmark: Fiscal year ended March 2019

\*2 By the fiscal year ending March 2026

\*3 By the fiscal year ending March 2025 (All targets are for the fiscal year ending March 2031, unless otherwise noted)



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This table summarizes what I have discussed so far. In this strategy update, we have divided each of the three focus areas into three phases. In other words, there are nine items in total. By setting mid-term goals in each of these areas, we have clarified the actions we will take.

These are KPIs and targets but not all of the environmental activities we are pursuing. We have set quantitative and qualitative targets that highlights items in each focus area.

I would like to explain in detail about climate change, water sustainability, circular economy from now on.

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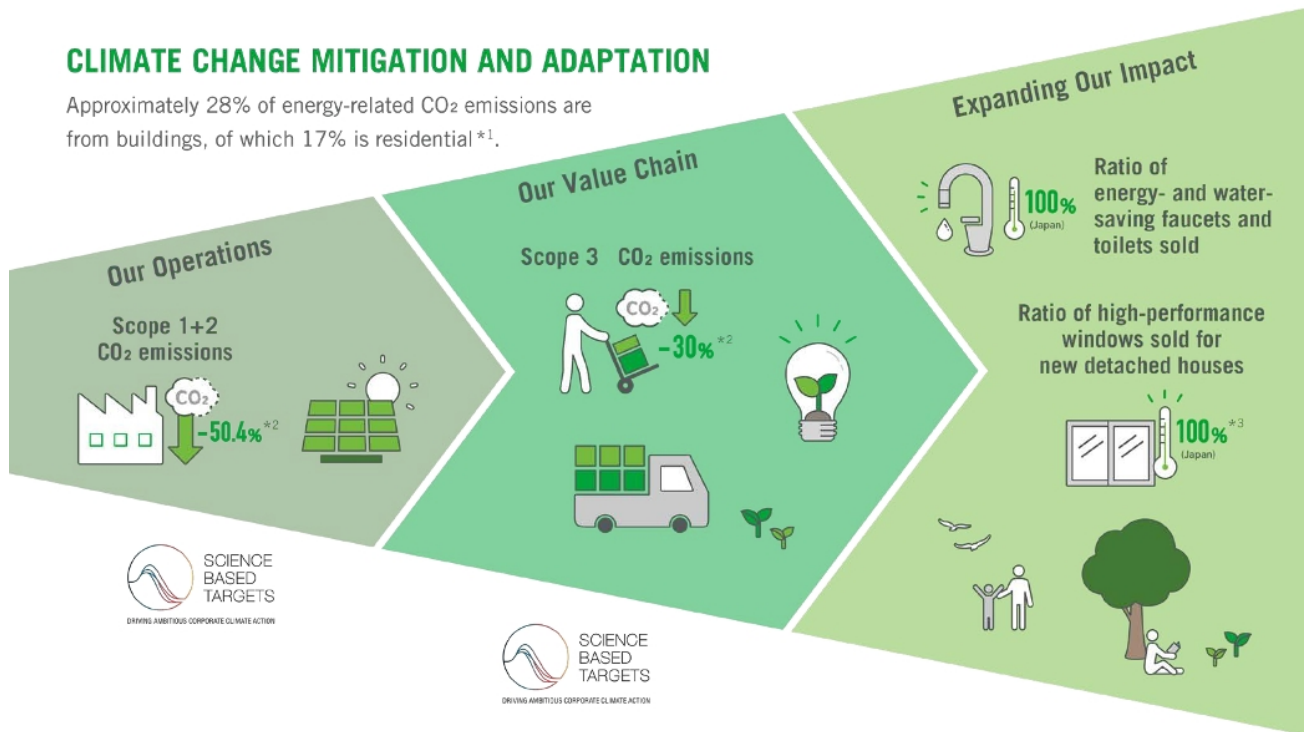
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## CLIMATE CHANGE MITIGATION AND ADAPTATION

Approximately 28% of energy-related CO<sub>2</sub> emissions are from buildings, of which 17% is residential\*<sup>1</sup>.



\*<sup>1</sup> United Nations Environment Programme (<https://globalabc.org/our-work/tracking-progress-global-status-report>)  
 \*<sup>2</sup> Benchmark: Fiscal year ended March 2019  
 \*<sup>3</sup> By the fiscal year ending March 2026 (All targets are for the fiscal year ending March 2031, unless otherwise noted)

First is climate change.

Climate change is an urgent issue that we must address, and climate mitigation and adaptation is one of LIXIL's focus areas. We are committed to reducing our environmental impact, and at the same time, we help with Mitigation and Adaptation through our environmentally friendly products and services, as well as activities that contribute to adaptation.

In addition, our CO<sub>2</sub> reduction target is in line with Science Based Targets initiative (SBTi) target to cap global temperature increase at 1.5-degree-Celsius level, and we have renewed our certification last month.

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# CLIMATE CHANGE MITIGATION AND ADAPTATION

Initiatives that contribute to achieving our mid-term targets and Environmental Vision 2050

OUR OPERATIONS	OUR VALUE CHAIN	EXPANDING OUR IMPACT
<p><b>Scope1.2 Reductions</b></p>  <ul style="list-style-type: none"> <li>-Fuel Conversion (mid-to long-term: hydrogen)</li> <li>-Electrification</li> </ul>  <ul style="list-style-type: none"> <li>-Shift to renewable energy</li> <li>-Promoting reduced energy use</li> </ul>	<p><b>Scope3 Reductions</b></p>  <p>Reducing CO<sub>2</sub> emissions with suppliers</p>  <p>Reductions in energy using products</p>	<p><b>Direct emissions reduction</b></p>   <p>Enhance high performance housing, hot water and water saving products</p> <p><b>Climate Change Mitigation</b></p> <p>Products that prevent heat from rising indoors and alleviates disaster related effects</p> 



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Let me explain what exactly we are doing. First, in our business processes, we are working to minimize environmental impact by thorough energy-saving activities at plants and offices, using renewable energy, and shifting to energy sources with lower CO<sub>2</sub> emissions.

In addition to these efforts, we have initiated a number of studies aimed at achieving our 2050 Vision. Last December, we advanced in our efforts with fuel conversion to hydrogen. The mass production facilities at the production plant were actually used to test the use of hydrogen. As a result, we have confirmed that hydrogen can be applied without any problem as is the case with the natural gas currently utilized.

This is followed by initiatives in our own value chain. Product use and procurement account for a large portion of LIXIL's value chain emissions (Scope 3).

For procurement, it is essential for us to work together with our suppliers. In addition to the suppliers' understanding and cooperation with our procurement activities to date, now we are reaching out to promote reduction for CO<sub>2</sub> emissions of the products and services that we purchase. We will continue to engage with our suppliers to understand the current status of the entire value chain and promote effective emission reduction activities.

In order to increase our impact, we are working to reduce not only the direct CO<sub>2</sub> emissions from our operations and products, but also the emissions of society as a whole.

We have set quantitative targets for the dissemination of products and services that contribute to the reduction of CO<sub>2</sub> emissions, such as high insulation performance housing products, hot water and water-saving functions, and energy generating functions, thereby indirectly contributing to emission reductions.

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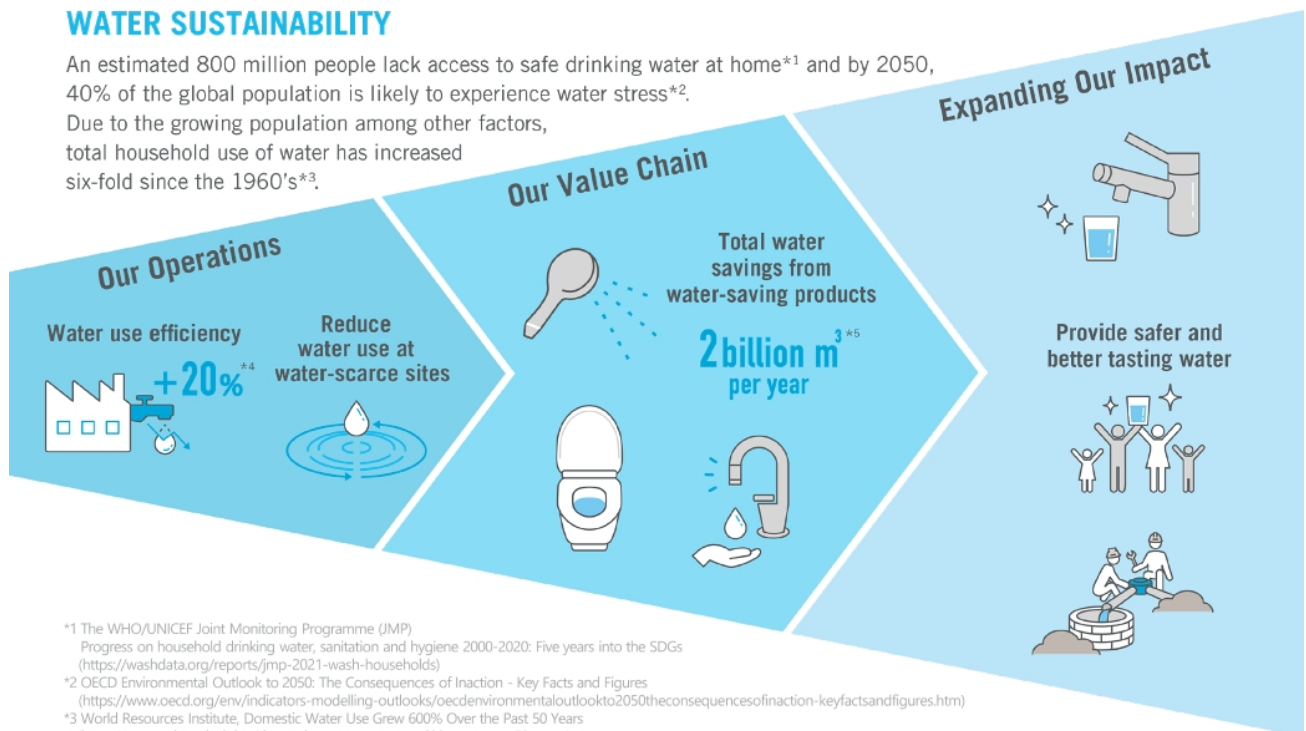
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## WATER SUSTAINABILITY

An estimated 800 million people lack access to safe drinking water at home\*<sup>1</sup> and by 2050, 40% of the global population is likely to experience water stress\*<sup>2</sup>. Due to the growing population among other factors, total household use of water has increased six-fold since the 1960's\*<sup>3</sup>.



\*1 The WHO/UNICEF Joint Monitoring Programme (JMP)  
Progress on household drinking water, sanitation and hygiene 2000-2020: Five years into the SDGs  
(<https://washdata.org/reports/jmp-2021-wash-households>)

\*2 OECD Environmental Outlook to 2050: The Consequences of Inaction - Key Facts and Figures  
(<https://www.oecd.org/env/indicators-modelling-outlooks/oecdenvironmentaloutlookto2050theconsequencesofinaction-keyfactsandfigures.htm>)

\*3 World Resources Institute, Domestic Water Use Grew 600% Over the Past 50 Years  
(<https://www.wri.org/insights/domestic-water-use-grew-600-over-past-50-years>)

\*4 Benchmark : Fiscal year ended March 2019

\*5 By the fiscal year ending March 2025 (All targets are for the fiscal year ending March 2031, unless otherwise noted)

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Next, initiatives on water sustainability.

An estimated 800 million people in the world have to walk more than 30 minutes to access safe drinking water. Water is also becoming increasingly important as a resource, with household use of water increasing six-fold compared to the 1960s.

Water is the source of all life. It is not a commodity but a precious resource that should be protected. As a provider of products that help us use water in our daily lives, such as faucets, toilets, and showers, we are committed to the sustainability of water – improving access to safer water, and at the same time, promoting initiatives to pursue water sustainability by adding value through water purification technologies and other means.

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# WATER SUSTAINABILITY

Initiatives that contribute to achieving our mid-term targets and Environmental Vision 2050

OUR OPERATIONS	OUR VALUE CHAIN	EXPANDING OUR IMPACT
<p><b>Water Use Efficiency</b></p>  <p>Installation of Water Circulation Systems</p> <p><b>Promoting risk assessment and mitigation at water risk areas</b></p> <p>As a member of the SBTN (Science Based Target Network) Corporate Engagement Program</p>	<p><b>Responsible water through products</b></p>  <p>Water- and hot-water saving faucets and toilets to reduce water use</p>  <p>GROHE Brand's water recycling system concept <i>Everstream</i> scheduled to launch in Mar 2024</p>	<p><b>Enabling safer water</b></p>  <p>Promoting access to safer water and services (WASH) and water sustainability</p>  <p>Filtration technology for safer and better tasting water</p>



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In Our Operations, we promote the responsible use of water in our business processes on a global scale. Our mid-term target is to improve water use efficiency at our business sites by 20% by the fiscal year ending March 2031. We are working on solutions to increase the efficiency of the water use, especially in water-scarce locations.

The second point, Our Value Chain, aims to contribute to the reduction of 2 billion cubic meters of water consumption globally by March 2025 through water-saving products and services.

Last month, the GROHE brand unveiled *Everstream*, a shower system concept that makes it possible to recycle water. It is currently under development with the aim of commercialization in the spring of 2024.

Third, to expand our impact, as Erin mentioned earlier, LIXIL is advocating for WASH (Water and Sanitation) as a business. The need for safe and hygienic water and improved access to water services is not limited to developing countries. We are developing and delivering community-based solutions, and at the same time, we are creating business opportunities to scale. We believe that this will not only change people's lives in the future, but will also create an impact in water safety.

Specifically, we will work to improve safety and accessibility through innovations such as sanitation management systems that do not use traditional sewage systems and SATO that are inexpensive and easy to install. For homes in areas with access to tap water, we go one step further and pursue sustainability of water by providing better-tasting water with enhanced safety through filtration faucets and water purification cartridges.

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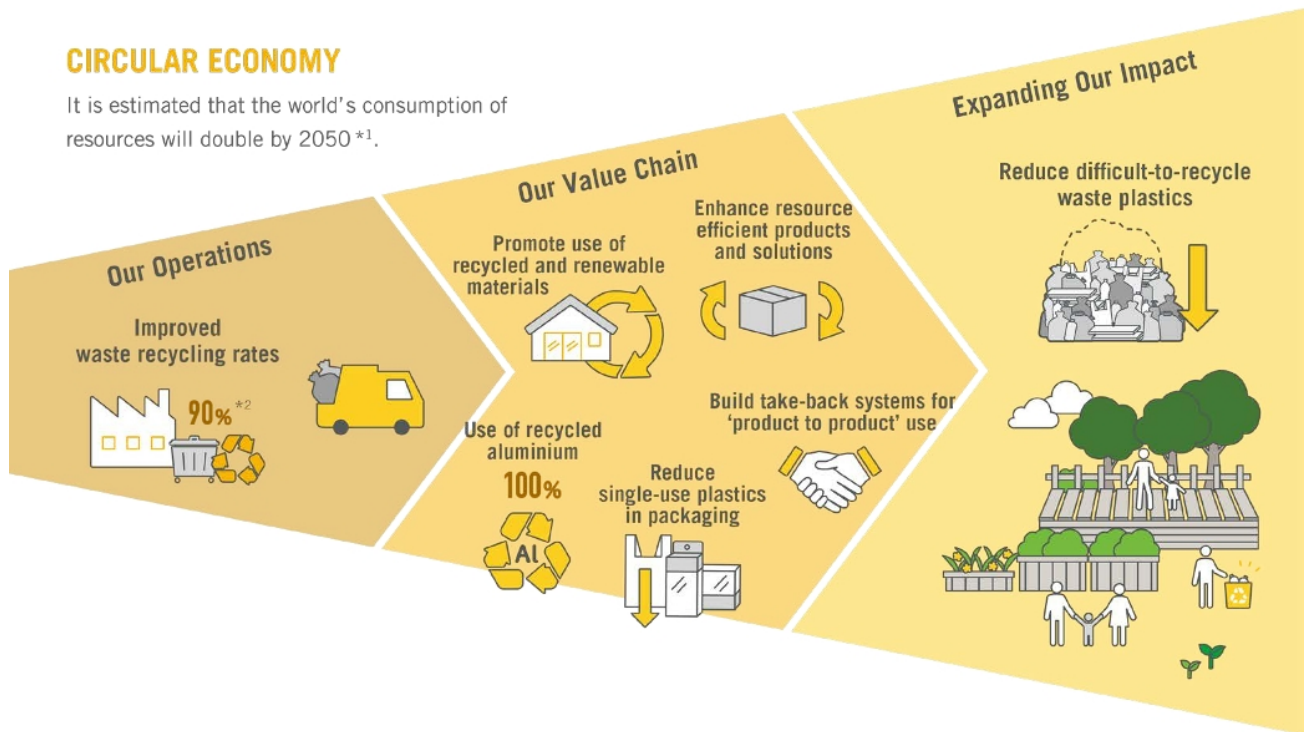
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## CIRCULAR ECONOMY

It is estimated that the world's consumption of resources will double by 2050 \*1.



\*1 UN Environment Programme, With resource use expected to double by 2050, better natural resource use essential for a pollution-free planet (<https://www.unep.org/news-and-stories/press-release/resource-use-expected-double-2050-better-natural-resource-use>)  
 \*2 By the fiscal year ending March 2026 (All targets are for the fiscal year ending March 2031, unless otherwise noted)



Next is our approach to circular economy.

Resources such as fossil fuels and metals, which support our businesses and lifestyles and are the foundation of today's affluent society, are depletable resources of which there are only a limited amount on earth. Promoting resource recycling is essential for the sustainable growth of society as a whole.

Therefore, with an eye on the sustainable use of limited resources, we are promoting efforts to realize a circular economy throughout the entire product life cycle, from raw material procurement to manufacturing, use, disposal, and reuse.

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# CIRCULAR ECONOMY

Initiatives that contribute to achieving our mid-term targets and Environmental Vision 2050

OUR OPERATIONS	OUR VALUE CHAIN	EXPANDING OUR IMPACT
<p><b>Improve waste recycling rates</b></p>  <ul style="list-style-type: none"> <li>- Reuse of waste at production sites within the company</li> <li>- improved systems for recycling, including plastic waste</li> </ul>	<p><b>Circularity of materials in R&amp;D and systems</b></p>  <p>Enhance product line-up with higher recycling rates</p>  <p>Initiatives to maximizing efficiency of material use and building take-back systems for "product to product"</p>  <p>Reduce single-use plastics in packaging</p>	<p><b>Reduction of plastic waste deemed difficult to recycle</b></p>   <p><b>Circular material revia</b></p> <p>Developed and launched new material that efficiently reuses plastics from households and businesses and wood waste from demolition of buildings as a resource</p>



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As a specific example, in Our Operations, it is important to reduce waste in our production processes. Specifically, our goal is to improve the recycling rate to 90% globally by March 2026.

In Our Value Chain, we are promoting product development and system design with circular economy in mind. As a first step, we are promoting the use of recycled materials in aluminum, resin, and wood to minimize the use of new resources in our products.

As Mr. Seto explained earlier, for example, for aluminum extrusion profiles used in the housing business, we have set a goal of increasing the ratio of recycled aluminum used in its business to 100% by March 2031. In December last year, we announced the *PremiAL* series as the first step toward achieving this goal. We are also working on designing products with longer product life and reusability in mind to improve resource efficiency, as well as building of take back systems for product to product use .

Finally, I would like to discuss Expanding Our Impact. As Mr. Seto explained earlier, we have developed a new material called *revia*, that combines waste plastic, which has been said to be extremely difficult to recycle, and waste wood from the demolition of buildings.

Going forward, we intend to build an eco-system from procurement, production, sales, collection after use, and reuse through collaboration with local governments that are engaged in resource recycling.

In this way, we are not only recycling waste generated by our own business processes and reclaiming our own products, but also going one step further to contribute to the realization of a resource-recycling society in cooperation with our stakeholders, such as governments, municipalities, industry associations, and business partners.

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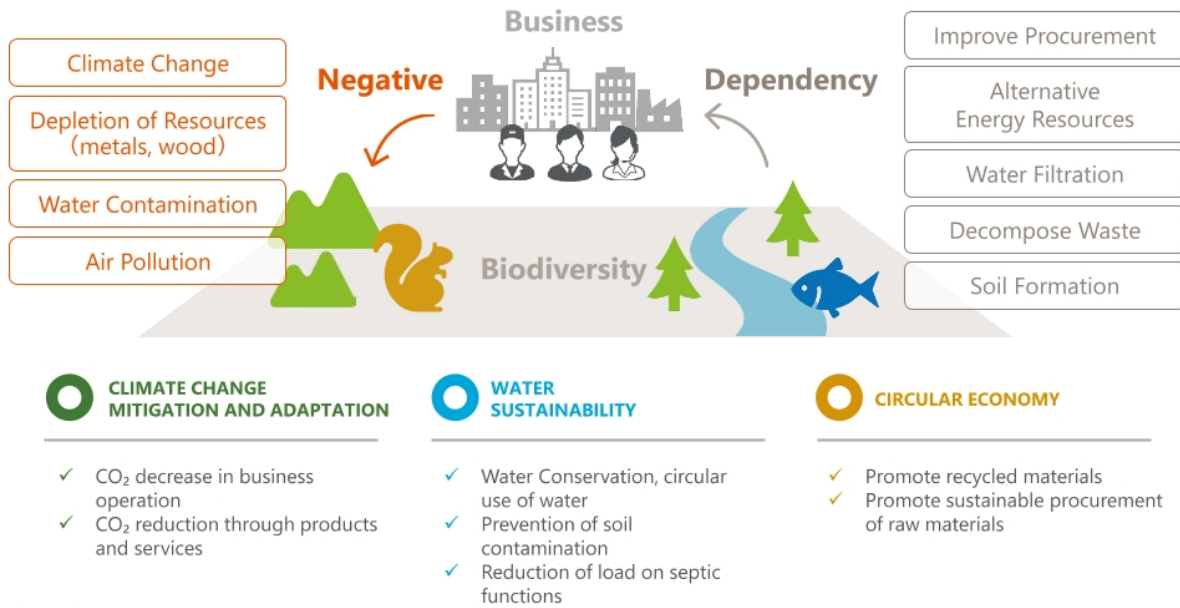






## KEY UPDATE: BIODIVERSITY

To achieve sustainable growth, we must consider the effects of our operations and product lifecycles. We must help protect biodiversity and drive efforts to replenish what we use.



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As mentioned above, LIXIL has identified Climate Change Mitigation and Adaptation, Water Sustainability, and Circularity as its three focus areas that we will continue to drive efforts to achieve our Environmental Vision. On the other hand, we believe that the issue that we should focus on for all of our focuses is the “conservation of biodiversity.”

Companies, including LIXIL, rely on ecosystems to secure water or minerals needed for its products. Climate change, water pollution, and air pollution are affecting nature. For the sustainability of our business, we must continue efforts in our three focus areas, but at the same time, we must also work on conserving biodiversity.

By making this a material issue for our company, we hope to further advance our activities in each area.

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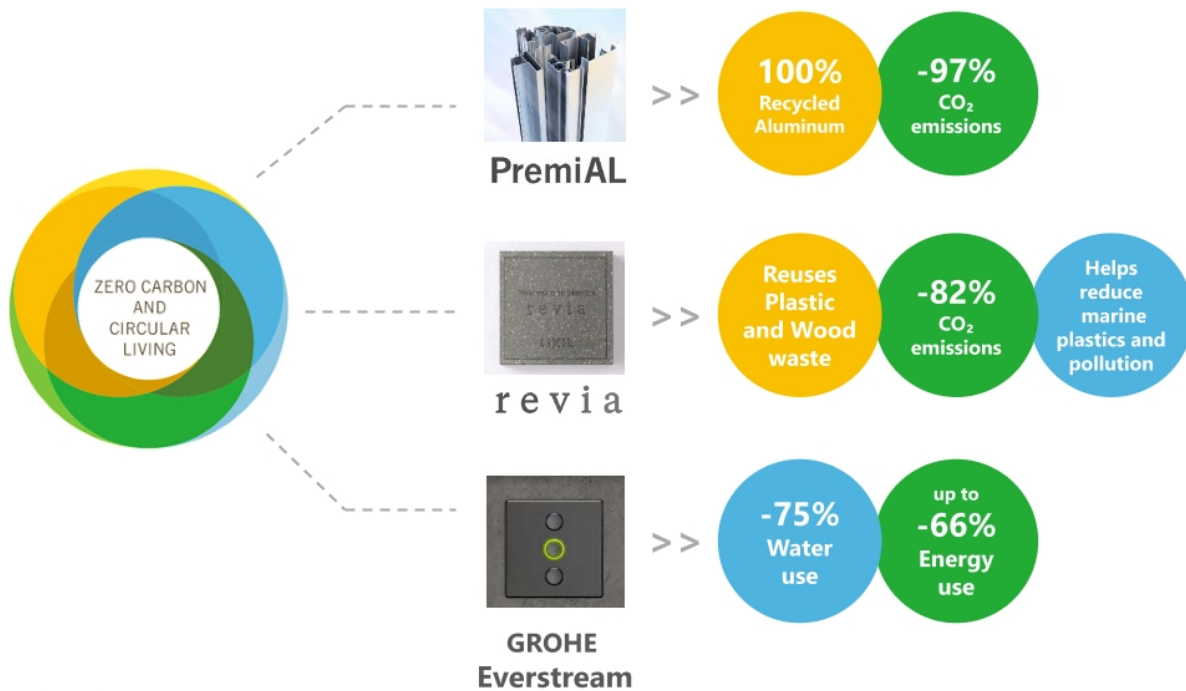
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## INNOVATIONS THAT HELP ACHIEVE OUR COMPREHENSIVE VISION



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We have explained initiatives in each of our focus areas, but these three areas are interrelated. We believe that a comprehensive approach is necessary to maximize our impact.

For example, using recycled aluminum, which I mentioned earlier, contributes to circular economy, but as Mr. Seto also mentioned, it can also greatly reduce CO<sub>2</sub> emissions. *Revia* also contributes to the reduction of CO<sub>2</sub> emissions and resource recycling in society as a whole by using waste plastic, which used to be disposed of by incineration, as a raw material.

In this way, we will steadily promote our Environmental Strategy through comprehensive efforts, rather than one environmental aspect at a time. And through this, we will pursue our purpose by creating an impact and will contribute to the realization of a sustainable society.

Thank you.

**MC:** Thank you.

This concludes our scheduled presentation for today.

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## Question & Answer

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**MC [Q]:** We will now have a question-and-answer session.

I will explain the flow of the Q&A session.

We will first take questions from investors, followed by questions from the press. Due to time constraints, we may omit some questions if they appear to be duplicative. Please note that questions will be limited to the information explained today.

You can enter your question in the Q&A section at the bottom of the screen you are currently viewing. Please enter your company name and your name, and then enter your question.

We will now begin the question-and-answer session. The five speakers will answer your questions.

Before I introduce your questions, I have two questions. In particular, we would like to hear from two of our outside directors about the oversight by the Board of Directors over efforts to address sustainability issues, a question we are often asked in our IR interviews, especially since the revision of the Corporate Governance Code in June 2021.

First, I would like to ask Mr. Matsuzaki, Chairperson of the Board of Directors.

Regarding today's topic, sustainability issues, the Corporate Governance Code revised in June 2021 stipulates that listed companies must first proactively and positively address these issues.

In addition, the Board of Directors is now explicitly required to supervise whether the implementation of various strategies is planned and executed in a manner that contributes to the sustainable growth of the Company from the perspective of improving corporate value over the mid to long term.

As you may recall, we have been very active in addressing sustainability issues for some time. Has there been any change in the Board's involvement or discussion of sustainability-related strategies in recent years, especially since June 2021? If there have been any changes, could you tell us what kind of changes have occurred?

**Matsuzaki [A]:** Even before the revision of the Corporate Governance Code, we as a Board have taken an interest in sustainability issues. We were interested in two aspects: risk and opportunity for growth.

For example, if we do not respond to the demands of the international community in our efforts to address climate change and human rights, we risk receiving a negative evaluation no matter how hard we work in other areas. I have been checking with interest to see if this is the case.

Environment or social issues, in other words, can be a business opportunity and an opportunity for our company to grow. I have been interested to see if they are working from that perspective.

The revised Corporate Governance Code now requires the Board of Directors to develop a sustainability-related policy. Since we are a company with nomination committee, etc., we followed the process of approving policies formulated by the executive team after deliberation by the Board of Directors.

Based on the three pillars that we have been working on for some time, how will the executive team ensure that the progress of the project is governed? After reviewing the structure, the Board has approved the policy.

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I will provide two examples of how the Board of Directors has been specifically involved since the revision. One has to do with the Impact Strategy. What I mentioned when I listened to Ms. Montesano's report on her executive officer report on the SDGs initiatives was the significance of corporate participation in the SDGs efforts.

Companies have the technology, the human resources, and the ability to solve social issues. In addition to that, they can demonstrate an entrepreneurial spirit and turn it into a business. I mentioned that this is where the significance lies.

I thought today's Impact Strategy was a good reflection of those opinions. The other day, there was a proposal to the Board to change the CR Strategy to the Impact Strategy, and I actively supported it, based on the ideas I have just mentioned.

Regarding the Environmental Strategy, as CEO Seto introduced today, LIXIL updated its Strategy Playbook, and in doing so, we have made a major policy move to incorporate environmental initiatives into our growth strategy.

The Leader in charge of the project then gave us a report on how exactly he is achieving this, including *reivia*. However, one of the outside directors commented that although he could understand individual initiatives well, LIXIL as a whole could be better understood by people outside the Company if it were summarized in a more comprehensive and holistic manner.

The Environmental Strategy explained by Mr. Mukai today was well organized into nine quadrants, as I am sure you may have felt. I think it was much easier to understand our company's comprehensive approach. I also feel that our sustainability efforts are progressing well in the direction they should be, in reference to what we have said to the Board of Directors.

**MC [Q]:** Thank you very much, Mr. Matsuzaki.

I will now turn to Mr. Nishiura, Chairperson of the Nomination Committee.

Since the revision of the Corporate Governance Code, much attention has been paid to oversight by the Board of Directors. In this sense, the importance of sustainability-related knowledge and skills of individual Board members is probably greater than ever before. To ensure the effectiveness of the oversight function of the Board of Directors, how does the Nomination Committee consider sustainability-related knowledge or skills when nominating candidates for the Board of Directors?

**Nishiura [A]:** Lately, there are many management terminologies as borrowed words, but I think there is a bit of a perception gap as to the meaning of the words.

In the area of sustainability, I said today that we will be more deeply and actively involved than ever in improving the sustainability not only of our own business, but also of the environment and society around us. In other words, from the perspective of the Board of Directors and the management team, improving sustainability is a direction to aim for, or a state to create.

On the other hand, the skills matrix lists the abilities that individual directors possess in order to achieve such goals. In this context, everyone must now have sustainability skills. Rather than skills, it is rather knowledge, perspective, and attitude, which we dare not include in the skill matrix because it is something that everyone must have. Within the conventional skills matrix, we are all trying to reach this major goal in common.

That's all.

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**MC [Q]:** Thank you very much.

Now, I would like to introduce questions from the participants.

I would like to introduce a question received from Mr. Takegawa of Sumitomo Mitsui Trust Asset Management.

“It has been quite some time since you first offered SATO products. What new markets are you developing through this? Are you looking for revenue opportunities by expanding into the region and building infrastructure? When will this initiative actually realize monetization, or P&L impact?”

Ms. Montesano, please answer.

**Montesano [A]\*:** Thank you for your question.

Certainly, a lot of time has passed. It has been 10 years since SATO products were shipped around the world. We are pleased that SATO is becoming a welcome addition to the global marketplace.

Through our efforts, various markets have been developed. A grant of USD10 million has been received from USAID. Through partnerships, we have also entered Senegal and Ghana. In addition to Ethiopia, Kenya, and Tanzania, we have entered those countries. Additional partnerships with USAID have allowed us to reduce risk on entry in Ghana and Senegal.

We are now able to enter new markets at a more accelerated pace. In the past it was difficult to enter a market. We had few funds and resources. There were no logistics channels.

However, we believe that through this USD10 million granted period, we can reach new markets and new consumers.

Regarding new revenue opportunities, we would rather invest in opportunities than build local infrastructure. For example, we have invested in families and households. In addition, we would like to approach places such as local hospitals, schools, and clinics. We would like to focus on areas where sanitation is lacking.

Regarding monetization, we have made a commitment to monetize SATO by 2025. Bangladesh is a strategic region and we have already achieved break even in pre COVID-19. However, COVID-19 made it difficult to reach our customers. Overcoming that issue has been one of our challenges, and we are focusing and exploring what we can do to achieve our goals.

For this project, there are 35 million customers in 45 countries. The ambitious target is 100 million by 2025, but I don't think it would have been 35 million without that level of ambition.

**Seto [A]:** In terms of impact, even if we sold 10 million of these, it would only amount to about USD50 million. That would approximately be JPY6 billion or JPY7 billion sales. 10 million is a very large number. For example, we sell millions of toilets every year.

Our company is JPY1.5 trillion to JPY1.6 trillion in size, and no matter how hard we try, our sales are in the billions of yen range, and SATO sales would be break-even at the most.

However, the social impact from this project will have a huge impact on our business.

For example, if a customer is fine with either LIXIL or TOTO toilets, the fact that we are working on these things is a reason for them to select LIXIL. In some countries, customers buy SATO toilets at first, but eventually they buy toilets that cost hundreds of thousands of yen. There is a kind of silent effect like this.

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Furthermore, everyone embodies LIXIL's purpose, which is to make better homes a reality for everyone, everywhere, and this is a motivating factor for employees.

We do not expect a very large direct revenue impact. However, I think we should take more pride in the fact that we can install toilets for millions of people at a very low cost, rather than improving the toilets of 1 million or 2 million people every year.

**MC [Q]:** Thank you very much.

Mr. Takegawa has one more question.

“It goes without saying that the amount of water used in toilets is important, but in order to achieve KPIs, it is also important to improve water purification and sewage systems in emerging countries in the first place. Do you have any strategies to expand the sales channels for LIXIL sanitary ware, such as cooperation with the government, ODA utilization, and others?”

**Montesano [A]\*:** Very good question. You are right, it is also important to develop water supply and sewage systems in emerging countries. The top 10 most urbanizing countries in the world today are still the least developed in the world in terms of sewage systems. So, in developing countries, municipalities and public utilities have not been able to keep up with rapid urban development. So, this is a major challenge.

As Mr. Mukai mentioned in his presentation, we have such ambitious water sustainability goals, but it is important not only to supply water, but also not to waste water. The SATO program, of course, also saves water. This is because one cup of water is enough to flush a SATO toilet.

However, Erin is now doing LIXIL Public Partners, which is a new business. The ambitious plan is to take a broader view of public health as a whole. The idea is to use the overall value chain to improve the situation in emerging countries, and to address water, water conservation, and sewage.

LIXIL Public Partners, for example, does many things in the US market. Here, 500,000 people, including Alabamians and natives, have no access to sanitation. So, we are doing a lot of things with the local community. New solutions, new products, I can't talk about them today, but these are the things we are working on right now.

I am sure we will be able to announce details going forward. We are working with the Bill & Melinda Gates Foundation and other partners to bring new innovations to these areas. In fact, we are trying to answer the challenges in developing countries.

LIXIL Public Partners will address these points by providing an innovative new initiative. This is done in cooperation with organizations such as governments and regulators.

**Seto [A]:** SATO is a project that originally started with the Bill & Melinda Gates Foundation. Of course, SATO is a very good product for improving sanitation, but in urban areas, no matter how much SATO is built, it will not improve if the sewage system is not well maintained. Mr. Bill Gates feels very threatened by this and has chosen us as his partner, and we are working together to create something good.

I believe that in the near future, we will have the opportunity to contribute to society by creating solutions that will surely please everyone. Since this is a larger market than toilets in nature, this one will have a greater impact on earnings in the long run.

**MC [Q]:** Thank you very much.

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Ms. Okada of Goldman Sachs has a question.

“I believe that most housing facility companies manufacture and sell products with added environmental and water-saving features. Please tell us what differentiates your company's environmentally friendly products. Also, are there any cases where the development of products with added environmental performance will lead to higher costs?”

**Seto [A]:** I will answer regarding environmental performance and water-saving features. There are two parts to the environmental function. One is the issue of CO<sub>2</sub> reduction in the function of heating water. The other is the impact of the faucet on drinking water, a health rather than environmental aspect. The most commonly used faucets today are brass products, but brass is very often used with lead, and the inclusion of lead makes the water composition worse.

As our countermeasure, we are working on using not only brass but also zinc and plastic to improve water quality. We are also considering equipment that can maintain temperatures as well as possible during hot water supply.

In terms of water-saving features, we are particularly strong in showers. LIXIL sells the most showers in the world. We plan to launch a variety of new products in the future, such as products that allow users to feel stronger water pressure with the same amount of water, and methods to recycle water.

**MC [Q]:** Thank you very much.

The next question is from Mr. Kawashima of SMBC Nikko Securities.

“What challenges do you see for the expansion of *PremiAL* and *revia*?”

**Seto [A]:** I don't think *PremiAL* has much of a challenge on the selling side. In reality, many general contractors now face the challenge of having to significantly reduce CO<sub>2</sub> emissions in building. The major materials are steel, aluminum, and concrete, of which we believe aluminum has the greatest potential for CO<sub>2</sub> reduction. Reduction with concrete is very difficult, and since electric furnace conversion with respect to steel has reached a certain limit, we will inevitably rely heavily on aluminum.

As I mentioned earlier, if we can reduce CO<sub>2</sub> by more than 70% on a sash basis, for example, there is an opportunity to reduce CO<sub>2</sub> by almost 20%, depending on the volume of aluminum used. For general contractors, who are now being told they must reduce emissions by 40%, this is huge. So, I do not see any major challenges in terms of sales.

However, in the future, if we use recycled aluminum materials, there could be problems regarding how to acquire scrap. In countries with advanced industries like Japan, the distribution of scrap has been well established, and we have accumulated know-how on how to sort and produce it. This is one of our strengths.

However, we believe that in the future there will be a situation where scrap aluminum material will become more expensive than the product made from bauxite, which is usually obtained cheaper than the product made from bauxite now.

But basically, I don't think there are any major challenges, except for the technical ones, and since we have already achieved 100% technically, I think we have a very high probability of doing well in this.

On the other hand, there is still much we do not know regarding *revia*. This is a new material, the world's acceptance of which is unknown, and in particular, an ecosystem must be created. Plastic waste is costly to

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collect itself, so the cost of the product will vary greatly depending on how the municipality or the government responds to it. Therefore, I think that whether society will support the *revia* or not will be a very big key.

In addition, we will be using a variety of technologies, so naturally the range of physical properties will be quite broad. For example, there is no major problem with *revia pave* for sidewalk, but it could be that we should create something more different.

For example, when it comes to building chairs, furniture, decks, and fences, some adjustment of the components will be necessary. I think the preparation of ingredients, extrusion, and processing conditions will become issues in the future.

However, both *PremiAL* and *revia* are basically able to be done. However, in the case of *revia*, I think it is quite a big challenge to see how the social environment will change and how we can work with that social environment.

**MC [Q]:** Thank you very much.

I would like to introduce a question from Mr. Fukushima of Nomura Securities.

“What is the size of the market for *revia*, *PremiAL*, and *Everstream*, and what are your immediate sales targets?”

**Seto [A]:** It is very difficult to answer about the size of the *revia* market. In the medium term, we would like to aim for sales of around JPY100 billion. However, the reality is that many times that amount of plastic waste is generated, and if it were used for, say, all Japanese sidewalks and grounds, the market size would expand as much as possible.

The size of the market is huge, considering the world, but as I mentioned earlier, it is difficult to say how big it is because of the ecosystem issues involved. We are in the process of creating this product, having it accepted by everyone, and expanding it.

As for *PremiAL*, all of our existing products could be converted to *PremiAL*, and we would probably have no problem selling them. Our current sales of aluminum products in Japan are in the JPY300 billion to JPY400 billion range. If we consider changing all of this to *PremiAL*, there is such a huge market.

Not only that, but our products are also attracting a great deal of interest in Asia, so I think we can expand our business there as well. In that sense, I think it is more a matter of speed, how quickly we can make everything *PremiAL* rather than a sales target.

As far as Asia is concerned, scrap doesn't have to be *PremiAL*, but *PremiAL* sells for more. I think it comes down to how we think about profit.

We do not know the size of the *Everstream* market. The size of the *Everstream* market will basically depend on the positive environmental aspects of how much showers can be reused and customer's perception regarding that.

However, showers as a whole, are the easiest for us to differentiate, and we have many products that we can be proud of against other companies. I believe that not only *Everstream* but products such as *KINUAMI U*, *Eco Aqua Shower SPA*, and *Body Hug Shower* will probably become pillars of our business in the future. However, we have not set a specific sales target for *Everstream* at this time.

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## TARGETS AND PROGRESS

KPIs	Target	FYE2021 results	FYE2022 results		
<b>CLIMATE CHANGE MITIGATION AND ADAPTATION</b>					
Scope 1+2 CO <sub>2</sub> emissions	FYE2031	<b>-50.4%</b> (BM: FYE2019)	<b>-18.4%</b>		
Scope 3 CO <sub>2</sub> emissions	FYE2031	<b>-30%</b> (BM: FYE2019)	<b>-11.7%</b>		
Ratio of energy- and water- saving faucets and toilets sold <sup>(1)</sup>	FYE2031	<b>100%</b>	water-saving faucets	—	<b>90.8%</b> <sup>(2)</sup>
			water-saving toilets	—	<b>98.1%</b> <sup>(3)</sup>
Ratio of high-performance windows sold for new detached houses <sup>(1)</sup>	FYE2026	<b>100%</b>	—	<b>80%</b>	
<b>WATER SUSTAINABILITY</b>					
Water use efficiency in our operations	FYE2031	<b>+20%</b> (BM: FYE2019)	<b>+9.4%</b>	<b>+6.2%</b>	
Total water savings from energy- and water-saving faucets and toilets	FYE2025	<b>2 billion m<sup>3</sup></b>	—	<b>1.3 billion m<sup>3</sup></b>	
<b>CIRCULAR ECONOMY</b>					
Improved waste recycling rates in our operations	FYE2026	<b>90%</b> (BM: FYE2019)	<b>75.9%</b>		<b>78.3%</b>
			Japan	<b>97.4%</b>	<b>97.2%</b>
			Europe	<b>99.6%</b>	<b>99.7%</b>
			Asia	<b>91.5%</b>	<b>94.7%</b>
			North America	<b>39.3%</b>	<b>45.8%</b>
Use of recycled aluminum	FYE2031	<b>100%</b>	—	<b>70%</b> <sup>(4)</sup>	

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(1) Japan (2)Excluding products not intended to save hot water (3)Excluding some products (4)A6063

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**MC [Q]:** Thank you very much.

We have another question from Mr. Fukushima of Nomura Securities. This is a question related to page 32 of the material.

“The improved waste recycling rates in your operations already exceeds 90%, with the exception of North America. Why is North America so low? What challenges do you face? Outside of North America, what is your future focus?”

**Seto [M]:** Mr. Mukai, please.

**Mukai [A]:** The low percentage in North America is due to the fact that the infrastructure of the society has not yet been developed. Our business is located in Mexico and other countries, but there is still no infrastructure in the surrounding areas that can accept and utilize the waste, so some of it has to be landfilled.

Still, the recycling rate here has improved significantly over the past few years. Therefore, we believe that the recycling rate in North America, like in other regions, will reach close to 100% in the future.

Regarding the remaining challenges, the recycling rate is above 95%, except in North America. Where they remain now, each has its own specific factory or office with its own challenges. We are currently exploring how we can add them to the ecosystem, while engaging in activities for the surrounding stakeholders.

**MC [Q]:** Thank you very much.

The next question is from Mr. Watanabe, Morgan Stanley MUFG Securities.

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“I would like to ask you about general consumer awareness. Consumers can see tangible benefits, such as reduced water bills with water-saving products and reduced electricity bills with highly insulated windows. Are consumers becoming more aware of areas that promote the use of recycled materials? Of course, there is nothing better than being able to use waste plastic, but I would like to know if consumers will follow your progressive approach or not.”

**Seto [A]:** This is a very difficult question. In Europe, for example, clearly the use of waste plastics is becoming of great interest to consumers.

They have been very positive about receiving different types of plastic bottles and have been quite cooperative about ways to avoid the use of plastic bottles. Consumers are becoming more mature, and I still believe that this is partly due to government regulations.

Taking the marine pollution by plastics as an example, if we Japanese eat the average weekly consumption of fish, we are already in the same situation as eating one credit card a week. If everyone is aware of such a situation and feels that if the situation is left unchecked, it will become a serious problem, they will naturally become aware of the need to change this situation.

However, I think there are still many people who think it is other people's problem and not their own. I believe that we must also rely on the power of the government and the media to help us in this regard.

**MC [Q]:** Thank you very much.

We have already presented all of the questions we have received from investors so far.

We will continue with questions from the press.

This is a question we have received from Mr. Masuda, Sangyo Shimbun.

“Please tell us about your strategy for procurement of raw aluminum scrap to achieve 100% aluminum recycling.”

**Seto [A]:** Sorry, this is confidential. This procurement strategy has already been formulated, and we have already set a goal to eventually use all of our raw materials as scrap aluminum by 2031.

**MC [Q]:** Thank you very much.

This is a question we have received from Mr. Yamaguchi of Nikkei Inc.

“You mentioned that all window sashes for new houses will be highly insulated by 2025. What percentage is it now? What appeal points will you utilize to achieve 100%? What will be the impact of the CO<sub>2</sub> emission reductions associated with this?”

**Seto [A]:** It is already about 90%. The impact of reducing CO<sub>2</sub> emissions is not that great if we see the fact that it has already achieved a certain level, but with regard to actual sales, renovation, not new construction, has actually the biggest impact.

There are 800,000 new housing starts per year. On the other hand, there are now 62 million existing homes in total, and about 80% of them have single-pane windows. How much we can change this will be a major key.

Now we are receiving orders rapidly, partly due to government subsidies. In fact, we are surprised that we have received seven times as many orders for window renovation today. If we could convert about 10 million

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houses from single-pane to three-pane windows, roughly speaking, we would reduce CO<sub>2</sub> emissions by about 4 million tons. This is a fairly large number.

In that sense, there is still much to be done. At this stage, if we convert to three-pane windows, for example, our contribution would probably be 100,000 tons to 200,000 tons, but we need to do more.

**MC [Q]:** Thank you very much.

We have already presented all of the questions we have received from the press so far. We have received two new questions from investors during this time, so we would like to take questions from investors again.

This is a question from Mr. Takegawa of Sumitomo Mitsui Trust Asset Management.

“What areas of the value chain, midstream and downstream, are you monitoring? What issues have been highlighted, what improvement measures have you implemented, and what are the results of these measures?”

**Seto [A]:** That is a very difficult question.

First, our largest products are aluminum products. As for aluminum products, the arteries and veins are complete. As to the earlier question about scrap procurement, we are able to recover most of what we sell in the end, and we are also able to recover scrap that is not being used in the plant. As for commodities like aluminum or brass, for which scrap has already been used for a long period of time, I think we have a complete ecosystem.

On the other hand, the biggest problem is plastic. The unit cost of scrap is so low for resins, especially PVC, that very little of it is actually recycled and used. Moreover, they are very difficult to recycle, and the problem of smell, in particular, remains. So, I think society as a whole will have to think about whether to use something like PVC in the first place.

In addition to PVC, SMC products are almost impossible to recycle among the resin products we use. Also, as Mr. Mukai mentioned earlier about North America, sanitary ware is also basically a product that is very difficult to recycle. We are considering how to change these products as a challenge, and I believe that we are now finding a direction.

**Mukai [A]:** As Mr. Seto just mentioned, first of all, as far as resins are concerned, our current products are not in the recycling cycle, to be honest. We do not develop products on the assumption that they will be placed on such a circular economy.

For example, if we can make it easier for customers to disassemble the product after they are done using it, and separate polyethylene from polystyrene, for example, we think this will be in circulation. Therefore, we are just now beginning to develop such a system.

Also, products that are reinforced with some fiber, such as baths, are even more challenging. At this time, this too is largely unused for reclamation. However, we are now in the process of developing ways to change the materials or in what ways we can reuse bath products that are already available, although it may take a long time.

**Seto [A]:** There are about three things to consider in the long run. One is that I think our social has to think about whether we will continue to make large quantities of things like sanitary ware in the future, for example. Sanitary ware and ceramics can last for up to 100 years, so we are taking on the challenge of how to recycle them.

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The second is how to change materials that were previously non-recyclable, such as SMC. We actually have a lot of thoughts on this as well.

Finally, I have a deep feeling that we need to rethink things like PVC, which we have been using too easily.

In Europe, you can't get Cradle to Cradle certification just by using PVC. We have a great deal to learn from GROHE. GROHE has so many Cradle to Cradle products. I think we need to design and develop such products with recycling in mind from the beginning.

**MC [Q]:** We have received many questions, but since the time is almost up, we would like to conclude with the next question. This question is also from Mr. Takegawa.

“Please tell us what you analyze as being superior and more effective than what your peers are doing in terms of achieving community-based water.”

**Seto [A]:** Regarding the realization of community-based water, we believe that it is quite necessary to clean the water. Water is something that is very abundant in some countries and regions, while in others it is poor. In this context, our water filtration technology to make the water in each country clean, hygienic, and drinkable is probably very advanced compared to other companies. These things will deliver safer, better-tasting water. We believe that we are making considerable progress in producing good-tasting water that can replace the use of plastic bottles in some cases.

We believe that the technology to reduce the use of plastic bottles by producing such usable and especially drinkable water in each location and producing good-tasting water is probably far ahead of other companies.

Also, as I mentioned earlier, we are confident that we are doing things that other companies are probably not doing, such as water-saving showers and showers that reuse water.

**MC [M]:** Thank you.

Thank you very much for your many questions. Unfortunately, however, the end time is approaching. Therefore, we would like to conclude the question-and-answer session. If you have any additional questions, please do not hesitate to contact the IR Office or Public Relations. We would like to answer them.

This concludes the ESG briefing of LIXIL Corporation.

Thank you very much 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.*
2. *This document has been translated by SCRIPTS Asia.*

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