

## [Business and other risks]

At LIXIL Corporation (the Company), we identify risks that may have an impact on our business activities, assess them using our group-wide criteria (the degree of the impact, possibility of occurrence and others), and prioritize them to be addressed based on business size within the Company or changes of external environments with consideration for the correlation among risks from management perspectives. We also classify risks into strategic risk and operational risk when identifying them. The definitions of these categories are as follows:

Strategic risk	The degree to which results intended to be obtained through formulation and implementation of a business strategy cannot be obtained as planned and the possibility of such occurrence, and a risk that is taken with discretion in order to obtain business results within sound scope
Operational Risk	The amount of losses resulting from operational events that underpin the execution of a strategy and the possibility of such occurrence, and a risk that should be kept below a certain level in the execution of a business

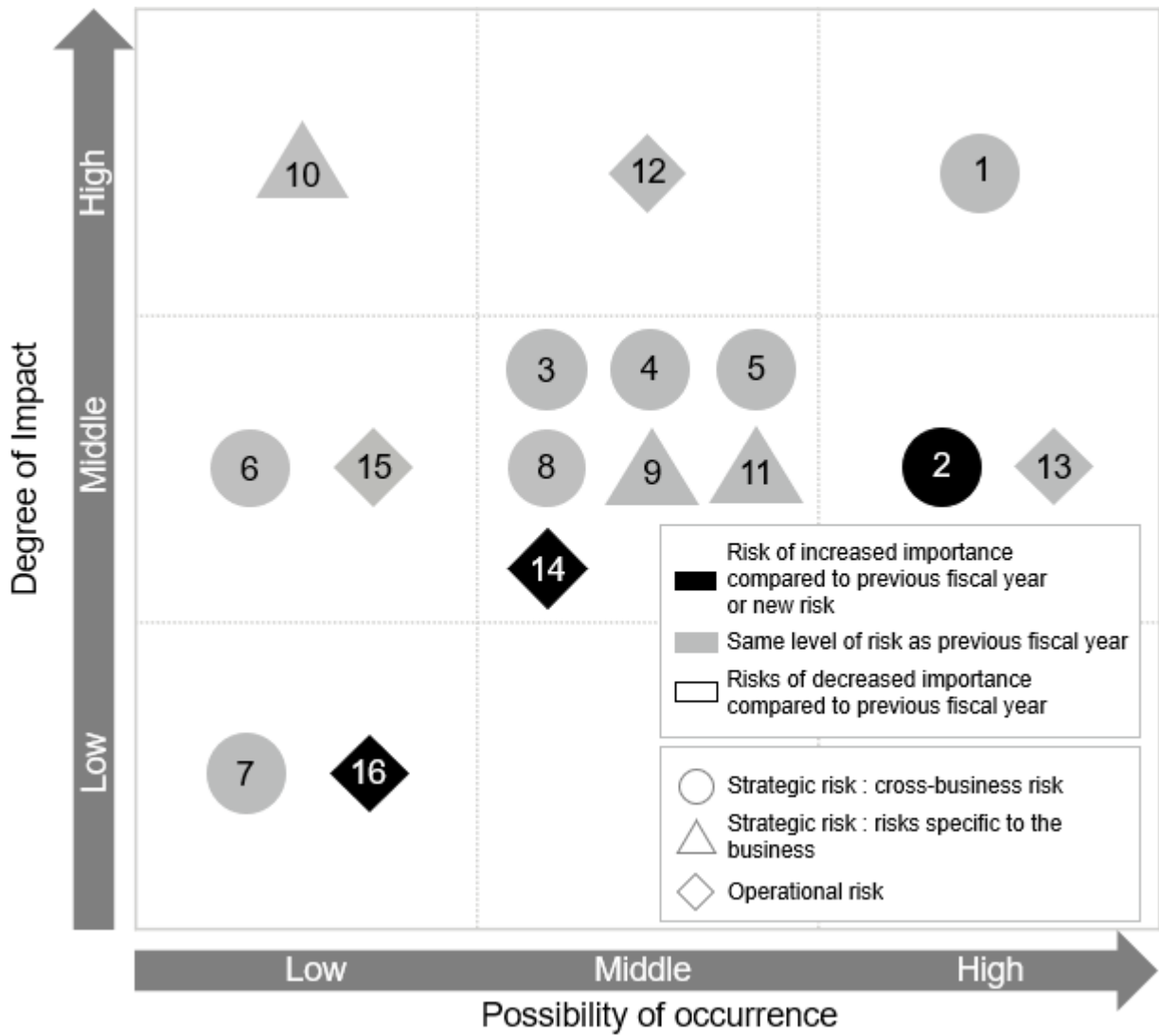
Based on these criteria, we determine the importance of risks and each business, managerial department and management of the Company come up with and implement measures appropriate to the risks, monitor their progress, and implement activities for their constant improvement. In addition, the Audit Committee monitors whether effective measures are being taken to address high-priority risks through participation in the Board of Directors, the Executive Officers Meeting, and other committees, access to important documents, communication with accounting auditors, and so on. We also conduct on-site inspections of each business and subsidiary as necessary.

Of the matters related to the business, accounting and others stated in the financial statements, risks that may have a significant impact on decisions of investors are listed on a risk map according to the possibility of occurrence, degree of the impact and changes in materiality from the previous fiscal year with detailed information. The possibility of occurrence and the degree of impact are residual; after taking into account the countermeasures. Strategic risk and operational risk are shown on the same risk map to centralize management of the results of each risk assessed with the group-wide criteria. In addition, if the listed risks and countermeasures are strongly linked to each other, the relevant numbers are listed as reference risks, but they do not cover all links.

The material issues relevant to each risk are described in on our website. In linking material issues, multiple divisions discuss and decide whether the risks or countermeasures are relevant to the description and policy of the material issues.

Note that the forward-looking statements and projections in this paragraph are based on decisions of the Company made by the end of the year ended March 31, 2023.

[Risk Map and Legend]



Business Risk			Possibility of Occurrence *1	Degree of Impact	Changes in Materiality from the Previous Fiscal Year		
Strategic Risk	Cross-Business Risk	(1)	Risks related to changes in the economic environment and fluctuations in exchange rates and interest rates	High	High	Same level	
		(2)	Geopolitical risks	High	Middle	New	
		(3)	Risks related to the development of new products *2	Middle	Middle	Same level	
		(4)	Risks related to the procurement of raw materials	Middle	Middle	Same level	
		(5)	Risks related to environment (Climate change, water, and resources)	Middle	Middle	Same level	
		(6)	Risks related to business restructuring	Low	Middle	Same level	
		(7)	Risks related to tie-ups with other companies and corporate acquisitions	Low	Low	Same level	
		(8)	Risks related to the acquisition and development of human resources and the promotion of diversity	Middle	Middle	Same level	
	Business-Specific Risk	LWT *5	(9)	Risks related to sales channels	Middle	Middle	Same level
			(10)	Brand risks	Low	High	Same level
		LHT *5	(11)	Risks related to competition with competitors and product prices	Middle	Middle	Same level
Operational Risk		(12)	Risks related to disasters, accidents and infectious diseases *3	Middle	High	Same level	
		(13)	Risks related to information and cyber security	High	Middle	Same level	
		(14)	Risks related to intellectual property *4	Middle (Low)	Middle	Increase	
		(15)	Recoverability risk of deferred tax assets	Low	Middle	Same level	
		(16)	Risks related to regulatory environment and requirements	Low	Low	New	

\*1 For risks that the assessments have been changed from the previous consolidated fiscal year, the previous fiscal year's risk assessments are included in ().

\*2 These risks include the "risks related to product liability and claims" shown in the year ended March 31, 2022 which are mostly related to the development of new products.

\*3 These risks include the "risks related to the capacity of facilities" shown in the year ended March 31, 2022 which are mostly caused by disasters.

\*4 In light of the increasing importance of intellectual property rights, these risks have been renamed from and include the "risks related to litigation and other legal proceedings" shown in the year ended March 31, 2022.

\*5 LWT : LIXIL Water Technology , LHT : LIXIL Housing Technology

[Strategic risk Cross-business risk]

(1) Risks related to changes in the economic environment and fluctuations in exchange rates and interest rates

The Company engages in sales activities globally, and its profits are affected by global demand, the economy, price fluctuations, and trends of industries and the business. Among others, the rising costs of raw materials such as aluminum, copper, resins and semiconductors, as well as logistics costs and energy costs, could adversely affect the operating results and financial position of the Company. Significant fluctuations in housing starts and orders received by construction companies in Japan could have an adverse impact on our group's operating results and financial position.

Exchange rate fluctuations may have a material impact on the yen value of assets and liabilities, arising from the foreign currency transactions, as well as on our profits and prices of our products traded overseas. In addition, the Company raises funds mainly through interest-bearing debts, such as borrowings from financial institutions and bonds. A surge in the market interest rate may increase the interest burden on the funding and interest expenses for borrowings and bonds, and make it difficult to raise funds through borrowings and bond issuance, which may have a negative impact on the operating results and financial position of the Company. (Reference risks (2) (3) (4) (12) (16))

Possibility of occurrence	High	Degree of Impact	High	Changes in materiality from the previous fiscal year	Same level
Countermeasure	In our sales activities throughout our group, we ensure price optimization by updating prices at appropriate timing. In our sales activities in Japan, we take steps to expand our share in the new construction market and sales in the mid- to high-end markets, and strengthen our renovation strategy, taking into account the anticipated decrease in the number of new housing starts due to the declining population in Japan. In our production activities, we build a stable supply system by maintaining appropriate inventory levels, including those of products and raw materials, and by securing alternative suppliers. (Reference Risk (3)) In addition, The Corporate Treasury Department in Japan established a system to grasp working capital and capital demand for investment and funding, and to screen all transactions at the Investment Review Committee. We also established four "Regional Treasury Centers" one each in China, Singapore, Germany and the United States. These four centers monitor market trends of foreign exchange rates on a monthly basis and proceed with hedge transactions as necessary to reduce the impact of exchange rate fluctuations. In addition, we promote efficiency and stabilization of our funding by concentrating regional operations, such as fund management in the Regional Treasury Centers.				
Relevance to Material Issues	All				

[Strategic risk Cross-business risk]

(2) Geopolitical risks

The Company operates globally and can be affected extensively by geopolitics. In addition to the direct effects of rising costs of raw materials, resource, energy and transportation, as well as procurement risks and logistical supply stagnation and delays, international affairs and multilateral international relations have indirect effects, such as increasing the impact on global commodity prices and policy interest rates, and are intricately linked to a wide range of other risks, which may increase the impact and uncertainty of such risks. In addition, the business performance and financial condition of the Company may be adversely affected by unexpected changes in policies, laws and regulations, and changes in social expectations, such as the suspension of business with countries and companies subject to new sanctions and legal regulations as a result of strengthened economic security policies of various countries, and the long-term suspension of business or withdrawal from business in regions where wars and conflicts have occurred.

Although we have long been aware of the geopolitical risks associated with multiple risks, these risks are described separately due to the increasing tension in international affairs in recent years. (Reference risks (1) (4) (12) (13) (16))

Possibility of occurrence	High	Degree of Impact	Middle	Changes in materiality from the previous fiscal year	New
Countermeasure	<p>We are strengthening various measures related to business continuity. In order to respond to disruptions in the supply network resulting from geopolitical risk, we extend our consideration on country risk to secondary suppliers so that suppliers are not overly concentrated toward specific countries and regions. In logistics, we are shifting partly the “global” supply chain to “within the region” considering energy costs and supply network disruptions. In addition, we are reorganizing distribution centers in Europe and strengthening the regional supply structure in North America by increasing production capacity in Mexico, and in Japan, we are working to establish a multi-site production structure and a support production structure between plants and maintain appropriate inventory levels.</p> <p>We are also monitoring political situations and policy changes through external third-party organizations, as well as enhancing internal escalation and communication. For example, we are working to identify early signs of geopolitical risks such as political instability by operating the internal SNS so that business and corporate leaders in Japan and abroad can share and discuss political, geopolitical and social trend risks. In addition, when a prompt response is required in a region, we have established a structure that enables us to consider and implement countermeasures by coordinating with task forces that are set up promptly in the region and with the head office.</p>				
Relevance to Material Issues	All				

[Strategic risk Cross-business risk]

(3) Risks related to the development of new products

The Company strives to develop attractive water and housing products by constantly monitoring technology and customer needs. However, if we could not meet the market and industry needs or launch a product due to inability to continue investing in development or the value of a new product does not sufficiently appeal to customer needs, we could face a slowdown in our future growth and profits. In addition, our products and services may have defects and can be recalled. Considerable liability claims or recalls may lead to large amounts of payments and adversely affect confidence or reputation of our products. As a result, costs including the cost of sales and selling, general and administrative expenses may increase, and the operating results and financial position of us may be adversely affected. (Reference risks (1) (4) (16))

Possibility of occurrence	Middle	Degree of Impact	Middle	Changes in materiality from the previous fiscal year	Same level
Countermeasure	<p>Through partnership with innovative start-up companies and the utilization of the global information network, we established a system to promptly respond to changes in consumer needs. We have established an ecosystem that connects end users and business partners and provides new value by combining our company's unique digital technologies, such as LIXIL Online Showroom and GROHE X in Europe, where visitors can receive the same services at home as when visiting the showroom. Emphasizing the comprehensive power of design, we are accelerating the development of products that create new value by combining design and technology. We have also adopted "LIXIL Universal Design Concept" to foster a culture of inclusion that strengthens customer orientation, and we are working to develop and provide products that are easy for everyone to use, such as <i>KINUAMI U</i> foam shower and <i>DOAC</i> front door electric opening system. In addition, considering the need for companies and individuals to use resources responsibly to achieve broader impact including decarbonization and creating a resource-recycling society, we proactively use recycled materials as raw materials for our products .For example, we launched <i>PremiAL R70</i>, a low-carbon aluminum extrusion product made from 70% recycled aluminum. We have set a target to increase the ratio of recycled aluminum used in its business to 100% by the fiscal year ending 2031. Additionally, we have launched a new product line to promote and realize a diverse society by incorporating art brut artworks, drawn by neurodivergent artists contracted to Herabony Co., Ltd., into our Ecocarart tile. After each product is launched, we continue to review the appropriateness of market trends and development strategies. In the development process, we set out and run "Stage Gates" for quality at each stage of development and design, and If products or services do not resolve concerns pointed out by the Gate, they are not allowed to proceed with next Gate. With this rule, we mitigate the risk of considerable liability claims or recalls of our products and services.</p> <p>Moreover, we conduct employee quality awareness surveys, uphold and promote a quality theme every year, and publish quality awareness information media to foster corporate culture prioritizing quality over costs or delivery lead time.</p>				
Relevance to Material Issues	<p>Global Sanitation &amp; Hygiene, Climate Change Mitigation and Adaptation, Water Sustainability, Circular Economy, Environmental Impact of Product Lifecycle, Diversity &amp; Inclusion, Product Safety, Customer Satisfaction, Ethics &amp; Integrity, Risk Management, Stakeholder Engagement, Information Security</p>				

[Strategic risk Cross-business risk]

(4) Risks related to procurement of raw materials

In our production activities, we purchase supplies including materials and parts. For this reason, if raw material prices increase, exchange rates fluctuate, commodity prices or supply of key resources including aluminum, copper and stainless steel fluctuate due to an increase in the demand in the industry or inflation or other factors in countries and regions where we operate, cost of sales increases and the operating results and financial position of the Company may be adversely affected. In addition, if supplies such as materials and parts are defective or unavailable, the confidence or reputation of the Company's products may be affected. In terms of logistics, which is closely related to production and sales activities, delays in procurement due to an increase in the amount of materials to be transported, fluctuations in oil prices, and a surge in labor cost may also cause a negative impact on the operating results and financial position of the Company. Possibility of occurrence has been changed from "Low" to "Middle" in consideration of the recent surges in raw material prices and fluctuations in procurement possibilities. (Reference Risk (1) (2) (3) (5) (12) (16))

Possibility of occurrence	Middle	Degree of Impact	Middle	Changes in materiality from the previous fiscal year	Same level
Countermeasure	We strive to build a stable supply system from a BCP perspective by taking measures such as; passing extra costs caused by a steep rise in raw materials on to selling prices, utilizing derivatives for the purpose of hedging price fluctuations, purchasing from multiple suppliers, selecting suppliers with strong emergency response capabilities, conducting supplier credit information check and responsible procurement survey, conducting regular communication with suppliers, promoting country risk countermeasures taking secondary suppliers into consideration, conducting regular quality tests, and securing safety inventory levels. We strive to mitigate the impact of commodity price increases by using alternative materials wherever possible, such as replacing copper with lower-cost zinc and plastic parts. We also maximize the use of recycled materials as raw materials for our products, and take longer life and recyclability into consideration in designing products. In addition, we promote the circular economy as one of the focus areas of the Group's "Environmental Vision 2050." We are working toward the transition to a circular economy model by promoting the acquisition of the international "Cradle to Cradle®" environmental certification for our products that meet the five criteria; raw material safety raw material reuse, renewable energy use and CO <sub>2</sub> emissions management, responsible water management, and social fairness. Moreover, we stabilize distribution costs by improving distribution efficiency.				
Relevance to Material Issues	Circular Economy, Environmental Impact of Product Lifecycle, Conservation of Biodiversity, Product Safety, Human Rights, Supply Chain Management, Risk Management				

[Strategic risk Cross-business risk]

(5) Risks related to environment (climate change, water, and resources)

We engage in a variety of activities to protect the global environment in our business activities from product development to procurement, production and sales. Particularly, in recent years, there are high possibilities that transition risks in the Company's value chain due to policies, regulations and market changes that climate change will cause become apparent, and that physical risks will materialize such as extreme weather events. Furthermore, the Company's operating results and financial position could be adversely affected if it does not respond flexibly to changes in the market, such as responses to global water issues, soaring prices of raw materials and parts, tighter regulations on petroleum-based plastics and wood, and changes in consumer preferences due to the rise of the circular economy. (Reference risks (4) (16))

Possibility of occurrence	Middle	Degree of Impact	Middle	Changes in materiality from the previous fiscal year	Same level
Countermeasure	<p>We have established the Environmental Strategy Committee, which is chaired by the Chief Environmental Impact Officer appointed by the Board of Executive Officers, and is responsible for formulating and implementing environmental strategies, such as establishing regulations and policies related to environmental governance, deliberating and deciding on measures for important environmental issues, including risks and opportunities arising from climate change, and managing and monitoring our group's overall environmental targets. Based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), we are working to identify and assess the risks and opportunities that climate change poses to our group, and after reporting to and approval by the Board of Executive Officers and Board of Directors, reflect these in its environmental strategy. Regarding transition risks, in addition to improving energy efficiency and actively utilizing renewable energy in production activities, we will strengthen our efforts to reduce environmental impact throughout the entire supply chain. In addition, we are conducting verification for the more effective operation of internal carbon pricing and research on manufacturing technologies and product materials to promote the development and introduction of long-term decarbonization technologies toward 2050. Regarding physical risks, we are working to minimize risks through BCP plans, establish production backup systems, have insurance coverage for fixed assets, and secure water to prevent drought. Regarding our response to climate-related transition risks and opportunities, we incorporate them into our environmental targets and action plans, promote and develop measures for improving environmental performance and risk management, and build a management process that monitors and reviews the progress. In addition, we identify environment-related laws and regulations through ISO 14001 or our environmental management system, set out rules to check whether they are complied with, conduct regular internal audits of the operation status, and follow up findings of internal audits and confirm that they are improved to ensure the effective operation of the management system. LIXIL's Zero Carbon and Circular Living policy aims to achieve net-zero carbon emissions by 2050 and preserve water and natural resources in operations, housing and lifestyle solutions for future generations. It is planned that Science Based Targets, an interim target for CO2 reduction by 2030, will be revised upward from the previous 2 °C target level to the 1.5 °C target level and the certification will be renewed. We are also increasing the composition ratio of the sales of environmentally friendly products as a management index of opportunities to contribute to the reduction of energy and water used in houses and buildings.</p>				
Relevance to Material Issues	<p>Climate Change Mitigation and Adaptation, Water Sustainability, Circular Economy, Environmental Impact of Product Lifecycle, Environmental Management, Conservation of Biodiversity, Supply Chain Management, Corporate Governance, Risk Management</p>				

As set forth in the Paris Agreement and Goal 13 of the SDGs, it is necessary more than ever for companies to review our manufacturing and sales activities to reduce CO<sub>2</sub> emissions and to take steps to reduce the impact of climate change. Also, as set forth in Goals 12 and 6 of the SDGs, demand for sustainable use of resources, water-saving and water-purification technologies is also growing along with increased global population and economic growth. In recent years, biodiversity loss has been increasingly recognized as a global risk, along with the impacts of climate change, as outlined in Goals 14 and 15 of the SDGs, and a movement has begun to call for the identification of natural capital-related risks and the evaluation of responses.



[Strategic risk Cross-business risk]

(6) Risks related to business restructuring

The Company may, in order to enhance management efficiency and competitiveness, withdraw from unprofitable businesses, reorganize its subsidiaries, associates, manufacturing sites and sales and logistics networks, and/or rebuild its businesses such as by optimizing its personnel assignment . As a result of these measures, the operating results and financial position of the Company may be adversely affected due to corporate-wide strategic priorities being subordinated leading management resources not to be allocated based on optimal strategies in the organizations of such businesses.

The operating results and financial position of the Company may also be adversely affected in the event risks inherent, in business strategies and portfolio and countries and regions where we operate, are not properly identified when making decisions on investment and financing, resulting in profits or synergies initially envisioned are not achieved

Possibility of occurrence	Low	Degree of Impact	Middle	Changes in materiality from the previous fiscal year	Same level
Countermeasure	<p>We ingrain business strategies of the Company by enhancing communication among the management and employees.</p> <p>By clarifying the priority of management resource allocation through strengthening businesses and regional portfolio management of the Company, we maximize synergies and improve strategic effectiveness early in restructured organizations. In order to build organizations smoothly after business restructuring, we bolster PMI of companies acquired by M&amp;A. As part of initiatives, we strengthen the governance of our subsidiaries by clarifying the PMI promotion structure and progress reporting process using guidelines and by developing and implementing effective and appropriate the PMI process.</p> <p>In addition, our Investment Review Committee and M&amp;A Committee assess, and resolve matters relevant to investment and financing including those for business restructuring according to details of matters and monetary materiality.</p>				
Relevance to Material Issues	Ethics & Integrity, Corporate Governance, Risk Management				

[Strategic risk Cross-business risk]

(7) Risks related to tie-ups with other companies and corporate acquisitions

Although the Company may plan to expand its business through investment, including acquisitions and capital participation, we may not be able to achieve profits or synergies initially envisioned or detect liabilities, including contingent and unrecognized ones, if risks and opportunities pertained to the Company as a result of acquisition or investment are not identified in a timely and accurate manner. In Addition, separation of talented personnel or lack of integration of personnel carry the same risks. Moreover, if strategies of the Company and those of businesses acquired or invested in are not aligned best and management resources are not allocated properly due to corporate-wide strategic priorities to be subordinated, the operating results and financial position of the Company may be adversely affected.

Possibility of occurrence	Low	Degree of Impact	Low	Changes in materiality from the previous fiscal year	Same level
Countermeasure	<p>As an integration measures, we formulate a common global policy for integration and reinforce our organizations to streamline and conduct post-integration review and monitoring processes. Also, sustainability items such as the environment and human rights are included in the policy. After integration, we facilitate organizational reforms with the aim of building an efficient, flat and simple organizational structure with agile decision makers to generate synergies and work to foster an inclusive culture and improve the environment so that employees of the target businesses can immediately take an active role as members of our group.</p> <p>We set up a Review Committee and an M&amp;A Committee to assess and resolve investment and financing matters according to details of matters and monetary materiality. As part of initiatives for strengthening PMI of companies acquired by M&amp;A, we strengthen the governance of our subsidiaries by clarifying the PMI promotion structure and progress reporting process using guidelines and by developing and conducting effective and appropriate PMI process.</p> <p>These measures are based on preventive measures against improper accounting by Joyou AG, then overseas subsidiary of the Company, which came to light in 2015.</p>				
Relevance to Material Issues	Environmental Management, Diversity & Inclusion, Talent & Development, Ethics & Integrity, Human Rights, Corporate Governance, Risk Management				

[Strategic risk Cross-business risk]

(8) Risks related to the acquisition and development of human resources and the promotion of diversity

In order for the Company to continuously develop its business, it is necessary to continue to promote securing and nurturing human resources who are well versed in expertise or have excellent management capabilities, such as those of business strategies and organizational management. However, particularly in Japan, where the declining birthrate and aging population have led to a decline in working population, competition for continuous acquisition and retention of necessary human resources is fierce in and outside Japan. If the acquisition or training of human resources does not progress as planned, the efficiency of business operations may be undermined from a long-term perspective and the operating results and financial position of the Company may be adversely affected.

Possibility of occurrence	Middle	Degree of Impact	Middle	Changes in materiality from the previous fiscal year	Same level
Countermeasure	<p>We step up efforts for women's further active roles, employees with disabilities, racial equality, and sexual minorities, etc., and revise and enhance our human resources management system by region and have launched five Employee Resource Groups (ERGs) on a global scale focusing on Better Together (gender equity), Multicultural, Ability, Working Parents &amp; Caregivers, and LGBTQ+ to foster our corporate culture.</p> <p>In Japan, we actively hire new graduates and experienced people throughout the year, enhance personnel and educational systems in the aim to nurture and retain employees. To foster people who can fully demonstrate their capabilities at a global stage, we implement programs, including dispatching employees overseas, training for selected employees and e-learning.</p> <p>We have initiatives that promote inclusive environment to forge corporate culture embracing diversity of people, improve working environment such as working from home, and established new personnel systems, such as those for experts.</p> <p>We also set up "Shared Service Centers" not only in Asia but also in the West and Japan to enhance governance in each region and centralize and streamline indirect operations for the purpose of building flexible organizations which do not depend on working environment in and outside Japan as well as forming a "Compensation and Benefits Committee" for fair and transparent global treatment.</p>				
Relevance to Material Issues	Diversity & Inclusion, Talent & Development, Employee Safety & Wellbeing, Ethics & Integrity, Human Rights				

There is a growing need for products to respond to increases in elderly households due to the aging society and in the number of people with disabilities. As stated in Goal 5 of the SDGs, companies are required not only to employ the elderly and the disabled, but also to address gender disparities.

[Strategic risk Risks specific to businesses]

<Water Technology Business>

(9) Risks related to sales channels

ASD Holding Corp., a consolidated subsidiary of the Company, offers a wide range of products and sees changes in distribution structure especially in the North America in recent years. Specifically, direct sales to end users have gained currency. ASD Holding Corp. strives to shift its sales channels to others, such as EC to offer its products, aimed at sales growth and a reform of its cost structure. However, if the sales growth is sluggish or the reform of the cost structure does not make progress as planned for reasons, including less customer traffic than expected in the shift of sales channels, the goodwill recorded by the Company may be impaired.

Possibility of occurrence	Middle	Degree of Impact	Middle	Changes in materiality from the previous fiscal year	Same level
Countermeasure	<p>To widen sales channels, we engage our new employee sales team to go directly to influencers on projects (e.g., owners, developers, designers, architects, contractors) in cooperation with wholesale distributor. By in-sourcing our sales team, as opposed to relying on outside sales agencies as in prior years, we will develop a more professional, focused, and knowledgeable sales team. By in-sourcing our sales team, as opposed to relying on outside sales agencies as in prior years, we will develop a more professional, focused, and knowledgeable sales team.</p> <p>We are leveraging our own e-commerce website, aiming to efficiently capture direct demand of end users who are looking to buy direct and adding tools to partner sites to increase availability and sale of our products.</p> <p>In order to underpin stable marketing activities and ensure operational safety, we put systems in place to prevent information leakage and troubles in the website operations by introducing appropriate management systems according to each purpose. In addition, we move forward with reforming cost structure, such as selection of manufacturing and distribution sites with a focus on bringing logistic efficiencies to not only ASD Holding Corp but also to the group of the Company as a whole.</p>				
Relevance to Material Issues	Customer Satisfaction, Supply Chain Management, Information Security, Responsible Marketing & Advertising				

[Strategic risk Risks specific to businesses]

<Water Technology Business>

(10) Brand risks

GROHE is recognized as a premium brand, targeting affluent consumers among other brands the Company has. In order to defend its position in the intense competition, GROHE needs a strong go-to-market strategy, tailored to the individual markets in which the brand is represented. This does not only include the core markets in EMENA but also markets in other regions. The recognition of the premium brand is the crucial factor that needs to be sensibly steered and closely monitored as the economies change. The GROHE brand value in LIXIL Corporation's books which is maintained by LIXIL Europe Sàrl, a consolidated subsidiary of the Group, may be eroded. If this happens, the sales may decrease and/or the profit margin may shrink. In addition, if the GROHE brand is not managed based on consistent strategies within the technology, the brand or design is not differentiated and the sales growth slows down or the profit margin worsens, the goodwill recorded by the Company may be impaired.

Possibility of occurrence	Low	Degree of Impact	High	Changes in materiality from the previous fiscal year	Same level
Countermeasure	<p>We maintain brand value and develop products through continuous brand investment. In addition, we continue to monitor and analyze sales prices of GROHE brand and peers' brands globally, set and share appropriate price levels, reflecting brand strategies based on the information gathered to draw up and implement unified plans of the group of the Company as a whole. As a result, we adapt price levels reflecting the brand value in such intensively competitive markets. In terms of the positioning of the GROHE brand in the water technology business, we set out rules regarding the use of the brand design and retain and control the brand value to differentiate the brand from others within the business. A holistic brand strategy aims at strengthening the recognition of the GROHE brand as well as maintaining a top position in the markets.</p>				
Relevance to Material Issues	Diversity & Inclusion, Customer Satisfaction, Responsible Marketing & Advertising				

[Strategic risk Risks specific to businesses]

<Housing technology business>

(11) Risks related to competition with competitors and product prices

The Company faces intense competition in many markets where we serve. In particular, the domestic market for building and construction materials is oligopolistic, and the pricing of competitors affect our profits. The Company has ability to launch high-quality and attractive products into the markets, but there is no guarantee that the Company will be able to develop a competitive advantage in terms of prices. If its products or services are exposed to severe price competition, the operating results and financial position of the Company may be adversely affected.

Possibility of occurrence	Middle	Degree of Impact	Middle	Changes in materiality from the previous fiscal year	Same level
Countermeasure	In response to a decline in market price resulting from intense competition with our peers, we promote differentiation through launching value-added products that meet diverse needs to heighten sales price rise. Also, to increase the efficiency of invested capital, we reduce production space by using versatile equipment to manufacture common parts of various products. This platform makes it possible to launch new products in fast cycle and continue to provide new value suitable for the times. In addition, we have improved our product sales mix by developing and selling attractive high price products and increasing the proportion of such products. We use cloud funding to offer products on a trial basis, providing new value to the markets in another approach to be selected by customers not for prices but for “value.”				
Relevance to Material Issues	Diversity & Inclusion, Customer Satisfaction, Responsible Marketing & Advertising				

[Operational Risk]

(12) Risks related to disasters, accidents and infectious diseases

Since the Company is engaged in production and sales activities at multiple sites in Japan and overseas, there is a possibility that natural disasters such as earthquakes and typhoons, as well as unprecedented accidents and infectious diseases, may cause major damage to its procurement, production, distribution, sales activities and facilities, including those for information management. In particular, suspension of production activities at domestic and overseas factories of the Company due to natural disasters, accidents and others may have a serious impact on the supply of its products to the markets and adversely affect its profits. There is also a possibility that the outbreak or spread of infectious diseases may cause a decline in the labor force due to deterioration in the health of employees of the Company, and the suspension of some production and sales activities by its business partners, which could hinder business activities of the Company. As a result, the operating results and financial position of the Company may be adversely affected. (Reference: (1), (2), (4), (16))

Possibility of occurrence	Middle	Degree of Impact	High	Changes in materiality from the previous fiscal year	Same level
Countermeasure	<p>In preparation for large-scale natural disasters and accidents associated with business activities, the Company has formulated and regularly reviews BCP plan for earlier recovery. The Company also mitigates negative impact on its business by distributed manufacturing, enhancing quake-resistant of factories, diversifying suppliers, and strengthening cooperation, and by providing appropriate insurance.</p> <p>The Company gives top priority to the safety of its employees and their families. In preparation for the emergency abroad, for example, considering the possible complexity, we discuss in advance reporting lines and specific procedures among the related departments. This allows the management to actively respond to wide range of issues globally from supporting employees and their families to, sales activities, and economic sanctions.</p> <p>With regards to countermeasures to infection, having had started adopting remote working before the pandemic, the Company has revised its working guidelines and office environment guideline based on the current governments' guidelines and the Company's state and conditions. Also, by setting out procedures and reporting line for those infected, we improve our working environment for our employees to work with peace of mind and work on the business continuation.</p> <p>Taking advantage of promotion of working from home and use of digital technology, we strive to confirm safety of the employees, share information, and communicate timely in case of emergency. The employees have also thoroughly been informed of the ways to act and take measures in preparation for the event of emergency and disaster.</p>				
Relevance to Material Issues	Climate Change Mitigation and Adaptation, Employee Safety & Wellbeing, Supply Chain Management, Risk Management				

[Operational Risk]

(13) Risks related to information and cyber security

In manufacturing, sales and other business activities, the Company uses computer systems and communications networks that connect such systems. For this reason, the business activities may be hindered if a technical glitch happens, including failure in a communications network, failure and defect in hardware or software on a network or a computer system, and shutdown of a data center. Failure in an information system stemming from improper installation or update may lead to a glitch in a system, operational inefficiencies, and a decline in productivity, which also may hinder business activities. Furthermore, the Company needs to handle, in the course of its business, a variety of personal information including customer information, and stringent information management is required. For this reason, in the event of leakage of personal information due to unforeseen incidents, there is a possibility that social trust in the Company may be damaged, and a large cost burden may be incurred. As a result, the operating results and financial position of the Company may be adversely affected by a decrease in profits or an increase in selling, general and administrative expenses. (Reference risks (2))

Possibility of occurrence	High	Degree of Impact	Middle	Changes in materiality from the previous fiscal year	Same level
Countermeasure	<p>We have established an Information Security Committee and set out internal regulations on information security. We also take preventive measures against wrongdoings, such as unauthorized access, carry out training for the employees and assess and review these initiatives on a regular basis. Through these measures, we continue to improve our information security management. In order to ensure efficient and stable business activities, we revamped our aging core systems and established a CSIRT (Computer Security Incident Response Team) to deal with cyber-attacks, making it possible to monitor unauthorized access from the outside around the clock and to take appropriate action in case of emergency. In addition, we develop a crisis management system so that when information security risks materialize, business and corporate functions can coordinate and escalate according to emergency reporting criteria and flow to ensure that initial response and business recovery can be handled promptly. We are also promoting the construction of cyber security reinforcement including IoT (Internet of Thing) and OT (Operational Technology). To comply with laws and regulations on personal information protection, we put necessary internal regulations in place and assigned persons in charge of personal information protection including data protection and conduct appropriate training required by EU's GDPR (General Data Protection Regulation).</p> <p>We have been promoting remote working before the pandemic and further enhance education for the employees to thoroughly inform rules and better understanding on information leak prevention in response to acceleration of the need of remote working prompted by the spread of the COVID-19 infections.</p>				
Relevance to Material Issues	Risk Management, Information Security				

[Operational Risk]

(14) Risks related to intellectual property

The Company strives to develop attractive and differentiated water and housing products and services. There may be disputes and negotiations over such products and services in relation to the third-party intellectual property rights. In this case, we may receive the following request: 1. Developing products and services that do not infringe the third-party intellectual property rights; 2. Payment of damages; 3. Obtaining licenses and royalties for the third-party intellectual property rights; 4. Discontinuing or provision of manufacturing and sales of some of our group's products or services through an injunction.

On the other hand, third parties may imitate our technologies, designs, etc. that are the differentiating elements of our group's products and services, causing a decline in the market competitiveness of our group's products and services. In addition, if an accident or health damage occurs to customers who use counterfeit products that infringe our group's trademarks or other intellectual property rights, the reputation, brand value and reliability of our group's products may be adversely affected.

These may adversely affect our group's operating results and financial position. Considering the recent increase in the number of counterfeit water purification cartridges, we have changed the probability of occurrence from "Low" to "Middle".

Possibility of occurrence	Middle	Degree of Impact	Middle	Changes in materiality from the previous fiscal year	Increase
Countermeasure	<p>In coordination with the intellectual property department and the business departments, risk assessment for intellectual property rights is included in the product development process, such as investigation and analysis of third-party intellectual property rights. In this way, we prevent the occurrence of lawsuits and other serious business risks from the development stage and take steps such as preliminary investigations of third-party intellectual property rights and the acquisition of necessary licenses. In addition, to achieve competitive superiority and high profitability in our business over the long term, we take steps to prevent third parties from imitating our differentiating factors, which are the source of our competitiveness. To this end, we identify intellectual property that should be protected from the stage of technological development and product planning, acquire patents, design rights, trademark rights and other intellectual property rights, or take measures to conceal such intellectual property, and promote intellectual property portfolio management in Japan and other countries. In addition, we strive to prevent the distribution of counterfeit products by alerting customers, filing an injunction with customs, monitoring and eliminating such products in internet sales, and cooperating with authorities in their detection.</p> <p>Furthermore, we conduct intellectual property intelligence based on various types of data analysis to efficiently conduct the risk assessment described above, and to strategically build our intellectual property portfolio.</p>				
Relevance to Material Issues	Risk Management				



[Operational Risk]

(15) Recoverability risk of deferred tax assets

The Company applies tax effect accounting and recognizes deferred tax assets to the extent that taxable income is likely available to recover tax loss carryforwards and deductible temporary differences.

Future taxable income is based on a three-year estimate by the management. In the estimate, an increase in profitability is projected to be brought by improvement in a gross margin or a reduction in selling, general and administrative expenses despite the foreseen reduction in new housing starts due to the decline in population in Japan. These projections pertain to uncertainties. The tax system may be reformed in a way that is unfavorable to the Company, such as changes in the number of years or the upper limit rate for tax loss carryforwards. As a result, if it is determined that some or all of the deferred tax assets cannot be recovered, the deferred tax assets may be reduced, which may have a negative impact on the operating results and financial position of the Company.

Possibility of occurrence	Low	Degree of Impact	Middle	Changes in materiality from the previous fiscal year	Same level
Countermeasure	<p>The Corporate Financial Control Department, which is responsible for the performance management of our whole group, enhances monitoring and makes a quick response to any causes that hamper accomplishment of the estimates.</p> <p>As part of our efforts to strengthen governance, an organization under the direct control of CFO of the Company promotes performance management process at our subsidiaries in and outside Japan to detect signs of a decline in business results at an early stage. The Corporate Taxes Department also grasps information on tax reforms at an early stage. We established a system to enable our departments of Corporate Accounting, Finance and Taxes to make discussions and take timely actions, including decision making on the need to review the recoverability of deferred tax assets when identifying such signs or information.</p>				
Relevance to Material Issues	Tax Transparency				

[Operational Risk]

(16) Risks related to regulatory environment and requirements

The Company is subject to laws and regulations, including the Companies Act, the Anti-Monopoly Act, Act on the Protection of Personal Information, tax laws, and accounting standards, and other general regulations for business operations in Japan. The Company is also subject to laws and regulations related to competition, personal information protection, international trade and many others in each country where the Company operates its business. Focused and active discussions have been rising in relation to introducing new laws and regulations on the use of natural resources or the raw materials that contain them including aluminum, copper, stainless steel, and others which are significant for our business operation, and on sustainability including non-financial disclosure. In addition, regulatory requirements and enforcement of the personal information protection continue to be strengthened globally.

These laws and regulations may be rapidly introduced, amended, abolished or strictly enforced in the future in response to changes in global and/or local issues such as rising cost associated with labor, raw material, energy, and changes in international social and economic conditions and multilateral international relations. As a result, it could adversely affect our business operations and financial position by limitations imposed on our products and services, higher cost of sales including higher costs for the product design and R&D, and suspension of business in countries or with companies subject to new sanctions and legal regulations. In addition, delays in reinforcing the management system for new/emerging and rapidly changing regulatory requirements, including hiring personnel and system introduction, may increase the risk of violations of laws and regulations.

Although risks related to regulation have been and always exist in our business operations, we decided to disclose them as an individual risk in the list considering the trends and movements in tightening existing ones, quicker introduction of new and emerging ones and strengthened enforcement thereof. (Reference: (1) (2) (3) (4) (5) (12))

Possibility of occurrence	Low	Degree of Impact	Low	Changes in materiality from the previous fiscal year	New
Countermeasure	<p>In January 2022, the Company re-organized its legal &amp; compliance department globally in order to flexibly partner with business operations in regulatory environment that is becoming increasingly complex and rapidly changing. We also established a dedicated organization to oversee the personal information protection globally in April 2022. These new organizations further ensure compliance with local laws and the system to control legal risks in each region.</p> <p>In addition, we are also working to increase employee awareness of the laws and regulations through internal communications and regular education, and to drive further cooperation among business departments and corporate departments in responding to regulations appropriately. When new, changed or abolished regulations are implemented, we strive to avoid regulatory violations by creating and updating internal regulations and guidelines, as well as taking practical measures such as reflecting the content in compliance due diligence for business partners.</p>				
Relevance to Material Issues	All				