



## **LIXIL Corporation**

ESG Briefing

April 13, 2021

## 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 13, 2021	
<b>[Number of Pages]</b>	45	
<b>[Time]</b>	15:30 – 16:46 (Total: 76 minutes, Presentation: 55 minutes, Q&A: 21 minutes)	
<b>[Venue]</b>	Webcast	
<b>[Venue Size]</b>		
<b>[Participants]</b>		
<b>[Number of Speakers]</b>	5	
	Kinya Seto	Director, Representative Executive Officer, President, and CEO
	Jin Montesano	Director, Executive Officer, Executive Vice President, and Chairperson of Corporate Responsibility Committee
	Masatoshi Matsuzaki	Outside Director, Chairperson of the Board
	Yuji Nishiura	Outside Director, Chairperson of Nomination Committee
	Kayo Hirano	Senior Vice President, Leader, Investor Relations Office
<b>[Analyst Names]*</b>	Hideaki Teraoka	Daiwa Securities Co., Ltd.
	Daisuke Fukushima	Nomura Securities Co., Ltd.

\*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 I would like to begin the LIXIL Corporation ESG Briefing, "Enabling Sustainable Value Creation."

I would now like to introduce today's presenters in order of appearance. On the left side of the center, Mr. Kinya Seto, Director, Representative Executive Officer, President and CEO. Next on the left is Ms. Jin Montesano, Director, Executive Officer, Executive Vice President, and Chairperson of Corporate Responsibility Committee. Next, on the right side of the center, Mr. Masatoshi Matsuzaki, Outside Director and Chairperson of the Board. Next on the right is Mr. Yuji Nishiura, Outside Director and Chairperson of the Nomination Committee.

Lastly, I am Hirano from the Investor Relations Office and will serve as moderator for today's session. I'd like to thank you for your cooperation.

Next, I would like to explain how we will proceed today. First, Mr. Seto, President and CEO, will explain the value creation process at LIXIL, and the basic concept of our efforts to enhance corporate value. After that, Ms. Montesano, Chairperson of the Corporate Responsibility Committee, will give an overview of the Corporate Responsibility Strategy and the initiatives under the three strategic pillars of the Strategy.

Next, Mr. Matsuzaki, Chairperson of the Board, will explain about corporate governance at LIXIL, and finally, Mr. Nishiura, Chairperson of the Nomination Committee, will explain about corporate governance by the Nomination Committee.

This will be followed by a question-and-answer session. Please note that the Q&A session will be divided into two parts: the first part will be for questions from investors, and the second part will be for questions from the media.

Mr. Seto will now explain the basic concept of LIXIL's value creation process and initiatives to enhance corporate value.

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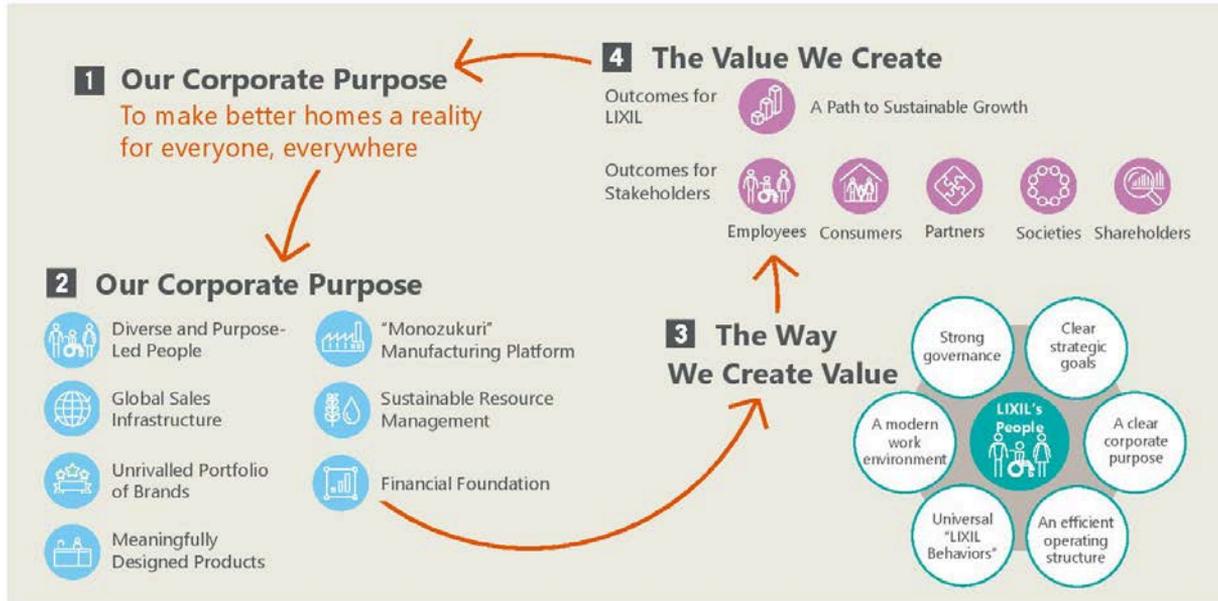
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## LIXIL'S VALUE CREATION PROCESS

Starting with our Corporate Purpose, LIXIL creates value through its business in a sustainable and meaningful way for our stakeholders and society



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5

**Seto:** Hello, everyone. A company that adds value in everything it does is destined for growth. At LIXIL, we are committed to creating meaningful and sustainable value for all our stakeholders.

To do this, at the most basic level, we must transform LIXIL into a company that can create higher profitability, achieve sustainable growth and contribute to society.

A profit-driven model enables us to reward shareholders but also weather the volatility of markets. Higher profitability also enables us to reinvest in growth and pursue market expansion, driving long-term, sustainable growth.

But sustainable growth requires success across a range of stakeholder commitments that go beyond financial metrics. Getting our ESG proposition right is a fundamental building block in this equation. It represents the growth opportunities before us and how we manage the risks of our business.

Today, I would like to introduce you to LIXIL's Value Creation Process, how our ESG proposition factors into this process, and how through our transformation initiatives to become a more entrepreneurial company, we will create meaningful and sustainable value for our stakeholders going forward.

As shown in this diagram, LIXIL depicts a circular Value Creation Process. The unique elements at LIXIL that create value are shown here.

The value creation process consists of four stages, with the starting point being "To make better homes a reality for everyone, everywhere," which is our Corporate Purpose.

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What many companies traditionally call "inputs", we call "resources we rely on". This is a LIXIL specific element to achieve the Purpose. Some people think that strategy is the source of value creation, but I believe LIXIL's value creation comes from our people. Therefore, employees are at the center of this initiative.

Therefore, we must empower and enable to execute our strategy by becoming more purpose-driven, and agile to create value for stakeholders.

In turn, our people create value for LIXIL and for each of our stakeholders, bringing us back to our corporate purpose of "To make better homes a reality for everyone, everywhere."

## CLEAR STRATEGIC GOALS

The clear strategic direction of our Medium Term Plan and Corporate Responsibility strategy will build an organization that can achieve sustainable growth and create stakeholder value



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6

The clear strategic goals in our Value Creation Process refers to having a clearly articulated strategy, such as our Medium-Term Plan and Corporate Responsibility strategies, which help build an organization that can achieve sustainable growth and create stakeholder value.

In a more limited sense, the CR strategy is part of building an organization for sustainable growth, but on the other hand, the philosophy and direction set forth in the CR strategy is also woven throughout the larger mid-term plan in terms of how to develop attractive and differentiated products and how to achieve competitive costing.

Later, Ms. Montesano will explain these points, but I want to emphasize an important point here: we consider our CR strategy to be aligned with and very much integrated within our core business strategy, not as something separate.

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## MATERIAL ISSUES IMPACTING OUR BUSINESS AND SOCIETY

LIXIL is addressing material issues that matter the most to both our stakeholders and to LIXIL – comprising both risks and opportunities– in order to achieve sustainable growth and enhance long-term value



Let's take a brief look at the three areas of priority material issues.

To ensure that the expectations of society and our stakeholders are captured, LIXIL regularly reviews and updates its Material Issues.

Material Issues are important to both LIXIL and for society, and therefore must be addressed to ensure our sustainable growth and long-term value enhancement.

Priority material issues are where LIXIL can play a significant role leveraging its unique expertise. These priority material issues are also aligned with the key pillars of our CR Strategy.

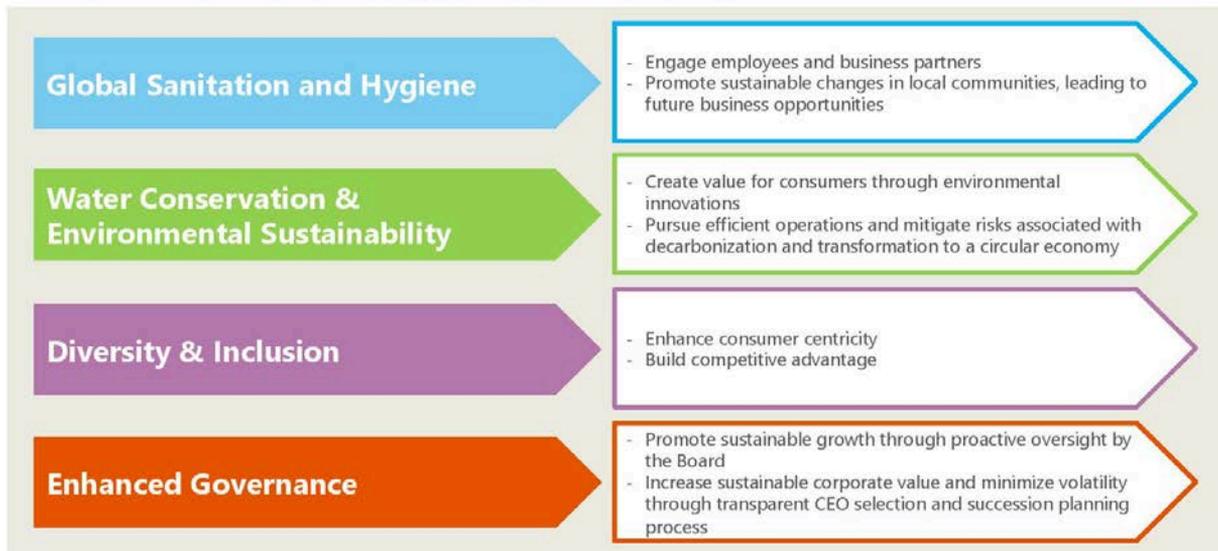
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## CREATING VALUE THROUGH PRIORITY FOCUS AREAS

- We are building an agile and innovative organization, promoting purpose-driven strategies that reduce costs, mitigate risks and enhance trust
- By doing so, we can achieve sustainable growth by delivering consistent returns and creating value for all our stakeholders, including shareholders and society



**LIXIL**

8

Among these priorities for LIXIL, there are three pillars: global sanitation and hygiene, water conservation and environmental sustainability, and diversity and inclusion. In addition, enhance governance, two outside directors will explain later.

Global sanitation and hygiene. This is easy for everyone to relate to. For example, if there are no toilets, more people will defecate outdoors. As more people defecate outdoors, water will be polluted, and children will die. 800 children are dying every day because of that.

Solving such problems is not only solves social issues, but also gives our employees a sense of pride, and by improving the engagement of our business partners and customers, we can contribute not only to society, but also to business.

Water conservation and environmental sustainability. This reduces business risks and promotes eco-efficient operations, while creating innovative technologies, differentiation, and delivering value to consumers. In that sense, this will also be part of our business strategy.

Diversity and inclusion is not simply a matter of achieving social justice. We are thinking about various stakeholders, such as women, people with disabilities, people of different ethnicities, people who believe in different religions, and so on, through the concept of diversity.

We believe that by having a variety of people participate in the production of products, we will be able to respond to the demands of various customers and consumers, and thus gain a competitive advantage.

The goal of diversity is also inclusion. Inclusion allows all employees to have a sense that they are proactively participating in projects. By doing so, the Company will become stronger.

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Finally, governance. We believe that only with a strong governance foundation can we promote sustainable growth and reduce risk.

Now, three speakers will explain the details of each of these topics. All of these activities help LIXIL achieve sustainable growth by providing stable returns and creating value for shareholders, other stakeholders and society.

**MC:** Thank you very much.

Ms. Montesano, Chairperson of the Corporate Responsibility Committee, will now give a brief overview of the Corporate Responsibility Strategy and the three key issues it addresses.



**Montesano\*:** Thank you. It is my great pleasure to be able to present to you today. We will talk about CR strategies.

As mentioned by CEO Seto, LIXIL's strategy is supported by our CR strategy. Our efforts are focused on three key pillars.

By bolstering our core expertise, scale, and business operations, we are working to solve issues that require urgent action.

Global sanitation and hygiene, water conservation and environmental sustainability, and diversity and inclusion. I would like to explain these three important areas in detail one by one.

These pillars are underpinned by a foundational commitment to ethical business practices.

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## CORPORATE RESPONSIBILITY STRATEGY

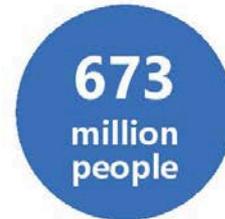
### A critical global challenge:



1 in 4 people live without a toilet



Have no handwashing facilities at home



Still practice open defecation

**TARGET: LIXIL aims to improve the livelihood of 100 million people through sanitation and hygiene solutions by 2025**

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13

The first pillar of the CR strategy is our work on Global Sanitation and Hygiene.

We are very proud of our progress in this area, not only because our work is truly unique to LIXIL, but also because it taps into our fundamental expertise and passion for bringing life-changing innovations to those who need it most.

This is a very important issue. An estimated two billion people, one in four of us on the planet, live without access to safe, sanitary toilets, particularly in rural communities, as well as in the regions of South Asia and sub-Saharan Africa.

40% of the world population have no access to basic handwashing facilities in their home. Among them, 673 million people regularly defecate in the open. The lack of basic hygiene and sanitation continues to have a devastating impact on health, education, and economic improvement for families and communities.

That why we believe we can make a direct and positive impact on this global issue, and to this end, we aim to improve the livelihood of 100 million people through safe sanitation and hygiene solutions by fiscal 2025.

Without improving sanitation and hygiene for these underserved communities, LIXIL cannot achieve our corporate purpose of making better homes a reality for everyone, everywhere.

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## A UNIQUE SOCIAL BUSINESS SOLUTION



### Business Driven

- Social business aiming to be self-sustaining
- Affordable solutions, leveraging asset-light models
- Backed by LIXIL's strong governance and risk management, including the SATO advisory board and corporate audit

### Strong Ecosystem

- Ecosystem of partners to expand and accelerate impact
- Public sector, private sector and development agency relationships
- Collaboration with local manufacturers, distributors, retailers, community organizations and trades people

### Shared Value Creation

- Main driver to achieve LIXIL's sanitation & hygiene targets
- Empowers local communities to make sustainable change
- Builds local sanitation markets
- Engages and motivates employees
- Strengthens future earnings potential



14

We are tackling the sanitation challenge in a variety of ways, including through partnerships and advocacy. However, the main driver of LIXIL's efforts to improve sanitation and hygiene for 100 million people is our SATO social business, and that is what I'd like to focus on today.

The SATO business develops and commercializes affordable, easy-to-install, safe sanitation and hygiene solutions for rural and peri-urban areas of the world that lack access to water systems.

It relies on a strong ecosystem of partners to achieve its goals. LIXIL backs SATO with robust governance to manage risks, including through the SATO advisory board, LIXIL's corporate functions such as Legal, Compliance, HR, and Finance, and corporate audit.

To accelerate and amplify its impact, SATO works with a diverse ecosystem of partners and collaborators. This includes global development agencies, NGOs, non-profits, private sector partners, as well as regional manufacturers, distributors, retailers, and community organizations.

We have signed global partnerships with UNICEF, USAID, JICA, are a founding member of the Geneva Toilet Board Coalition, and have also received funding from Bill & Melinda Gates Foundation and Grand Challenges Canada.

At the market level, SATO supports shared value creation. We aim to support lasting behavior change by helping to create local sanitation and hygiene markets where communities play a vital role in bringing sustainable change.

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SATO also plays an important role for LIXIL by instilling a sense of pride among employees and cultivating brand affinity among partners and consumers because of our contribution to global sanitation and hygiene.

We are also confident that SATO will help LIXIL to develop new local sanitation and hygiene markets where our other brands are currently not present.



## CONSUMER-CENTRIC SANITATION & HYGIENE SOLUTIONS

**A Growing Product Portfolio**  
From a single product to an entry level brand with a diverse product lineup, expanding into complementary product areas



**SATO Toilets and Components**  
Easy-to-install and save up to 80% water compared to flush toilets



**SATO Tap**  
An affordable handwashing solution suitable for anywhere in the home, or for shared use in communities. Developed in response to the COVID-19 pandemic

- TIME's Best Inventions of 2020
- Red Dot Design Award
- Good Design Award



15

SATO toilets bring the benefits of a flush toilet to areas that lack connection to a sewage system. Our SATO solutions require less than 1,000ml water to flush, helping communities save water. SATO's counterweight trap door closes after each flush, minimizing unpleasant odors and insects that can carry disease.

This is very important in encouraging people to move from outdoor defecation to defecating in this actual toilet. The product portfolio has also increased from a single toilet board to a full range of products, including connection systems such as V-trap and I-trap systems.

Prices vary by product and location, but all SATO products are priced to be affordable in the markets in which they are sold.

In 2020, the team launched the SATO Tap, a novel handwashing solution developed in response to the global pandemic for homes and facilities without access to running water. Any type of plastic bottle serves as a water tank for the SATO Tap. It is designed to release a steady but low-flow stream of water for handwashing, while also limiting touch to mitigate contamination.

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This new innovation was recently named one of TIME's Best Inventions of 2020 in the Social Good Category and was chosen as Innovation of the Year by the Ethical Corporation, among other global design awards. A core strength of the SATO team is its ability to experiment quickly and effectively to develop consumer-centric solutions, consistent with LIXIL's overall values.



## A UNIQUE BRAND WITHIN THE LIXIL PORTFOLIO

› Supports communities to move up the sanitation and hygiene pyramid

› Contributes to LIXIL's long-term growth



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16

SATO's strength is its ability to develop end-user-centric solutions through quick and efficient repetition of experiments, which is in line with the overall value of LIXIL.

SATO is part of the LIXIL brand portfolio and is an entry-level brand that meets the needs of the target region. This is the first step in the sanitation.

SATO encourages underserved communities to access basic sanitation. The first step is critical in driving long-lasting behavior change and moving to hygiene solutions at the top of the hygiene product pyramid.

The SATO brand also contributes to LIXIL's long-term growth by helping establish LIXIL as a leader in the base-of-the-pyramid market, whose consumers will eventually move on to higher value products.

Now I would like to share a video clip of SATO's leader, Erin McCusker, who explains how SATO is building itself as a base-of-the-pyramid brand working to achieve LIXIL's global sanitation and hygiene goals.

[Video plays in English]

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## IMPROVING ACCESS TO SANITATION AROUND THE WORLD

Hit new milestone of over 1 million units shipped in FYE2020



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17

**Montesano\***: As you can see in the video, SATO has grown its reach significantly and, we are proud to say SATO has now shipped over 4.3 million units across 38 countries and as of last September 21 million people have benefited from access to improved sanitation.

In fiscal year 2020, we hit the milestone of shipping 1 million units in a year and are continuing to grow.

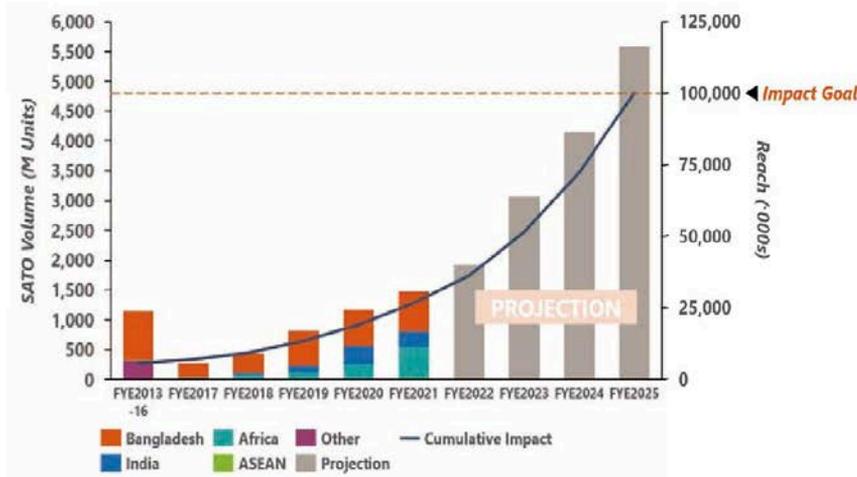
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## ROADMAP TO IMPACTING 100 MILLION LIVES BY 2025



### Path to meaningful growth and sustainability

- **Partnerships:** Leverage partnerships in existing and new markets
- **Global Branding:** Promotion and awareness for SATO through diverse channels, including digital
- **Efficient operations:** Pursue sustainability



18

Our roadmap to achieving our impact goal of 100 million lives by 2025 is on track. It's an ambitious but realistic goal.

We believe that three points are important on the road to achieving this goal and ensuring the sustainability of SATO rests on three key areas:

First, SATO will further leverage its partnerships with NGOs, governments, and manufacturers to reinforce marketing synergies and manufacturing capacity. We will also leverage our current manufacturing partners to serve a greater footprint in each region, particularly in Africa and to export to new markets.

Second, SATO will enhance brand awareness to become a global standard for improved sanitation. We will deploy new channels including digital marketing to reach influencers and key stakeholders, and offer an expanded range of products in our core markets.

Third, SATO is working to increase operational efficiency by optimizing supply chain management and improving internal operational processes.

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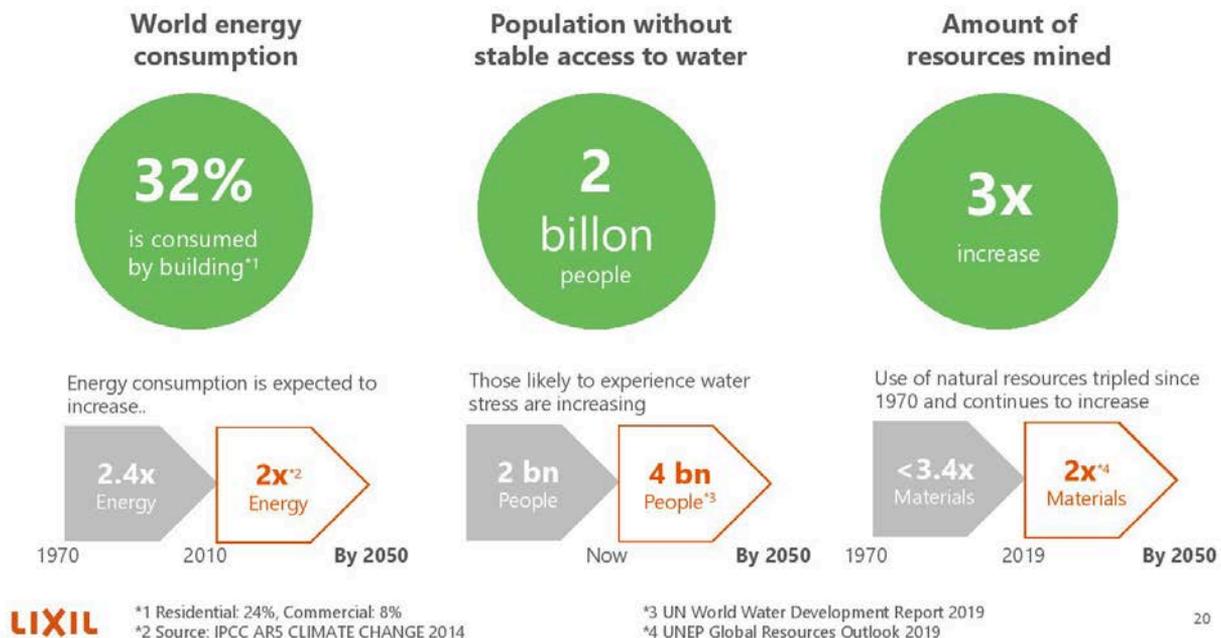
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## WHY LIXIL IS TACKLING ENVIRONMENTAL ISSUES

The world's consumption of energy, water, and resources continues to increase. LIXIL will fulfill its responsibilities in its business domain - "housing and living."



I'd now like to report on our efforts in "water conservation and environmental sustainability," the second pillar of our CR strategy

As you can see, the world's consumption of energy, water, and natural resources has dramatically increasing every year. Energy consumption in homes and offices accounts for 32% of total energy consumption, and has more than doubled over the past 40 years. By 2050, the number is expected to double further. Also by 2050, 4 billion people on the planet will be living without sufficient access to clean water. LIXIL has to respond to these environmental issues. At the same time, natural resources mined have more than tripled since 1970 and are expected to double by 2050.

If LIXIL's Purpose is to improve people's lives through better homes, it is essential that we recognize and fulfill our responsibility to solve these environmental issues.

There is a lot to do, for all of you as well. It's not just for LIXIL. We need to focus on what is really important and where we can contribute.

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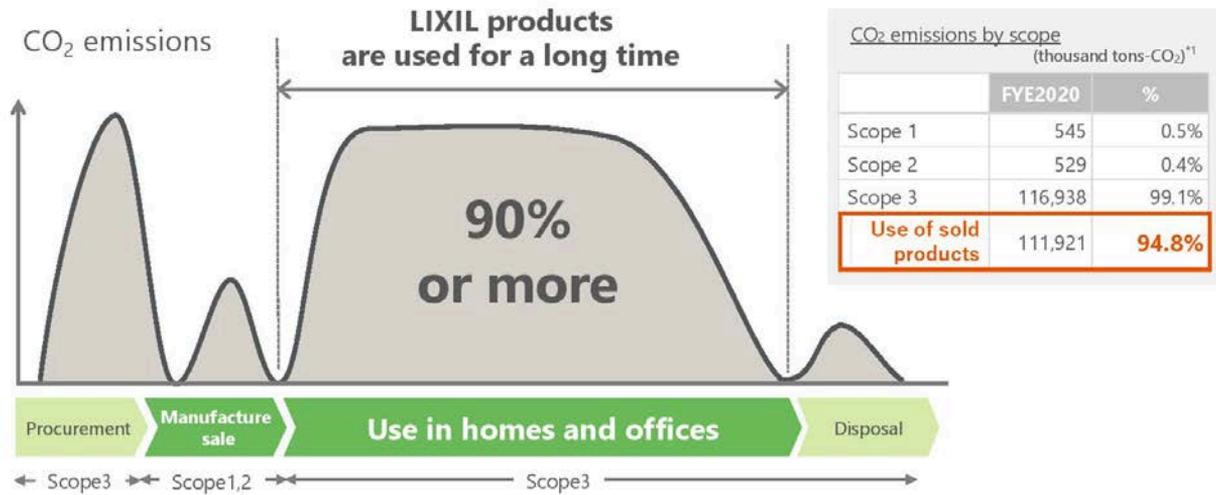
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## BREAKDOWN OF CO<sub>2</sub> EMISSIONS ACROSS LIXIL'S VALUE CHAIN

Since our products are used for a long time, LIXIL is focused on product-related initiatives in addition to the company's own manufacturing and sales processes to reduce emissions



**LIXIL** <sup>\*1</sup> Calculations based on the Greenhouse Gas Protocol "Corporate Value Chain (Scope 3) Accounting and Reporting Standard", and the Ministry of the Environment and the Ministry of Economy, Trade and Industry's "General Guidelines on Supply Chain GHG Emissions Accounting." 21

We also had to figure out where our strategy would fit in. So, we analyzed the CO<sub>2</sub> emissions of our entire value chain. As a maker of durable consumer goods with very long-life cycles, we understand that 90% of our environmental impact comes from our products in use.

Therefore, although we recognize that the environmental impact of our operations is significant and we are working to lower our emissions and material use impacts, it is critical for us to work on enhancing and improving our approach to designing and delivering more environmentally sustainable products.

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## ESTABLISHMENT OF 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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22

We have established our Environmental Vision for 2050. Through business processes, products, and services, LIXIL aims to reduce CO<sub>2</sub> emissions to net-zero, and to become a leading company that passes on the benefits of water and other limited resources to future generations.

In order to achieve this, we will focus climate change mitigation and adaptation, water sustainability, and circular economy.

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## REDUCING ENVIRONMENTAL IMPACT – KPIS

	<b>Climate Change Mitigation and Adaption</b>	<b>Water Sustainability</b>	<b>Circular Economy</b>
<b>Product / Service</b>	Contribute to decarbonization of homes and lifestyles (CO <sub>2</sub> net zero)	Create environmental value related to water and capture business opportunities	Contributing to achieving a circular economy by transforming
	<b>KPI</b> CO <sub>2</sub> reduction contributions from products and services though saving energy and water	<b>KPI</b> Reduction of single-use plastic packaging	
<b>Business Operation</b>	Aiming to decarbonize the entire supply chain	Maintain an environment that enables sustainable use of water	Promote resource recycling with stakeholders
	<b>KPI</b> CO <sub>2</sub> emissions from business activities CO <sub>2</sub> emission intensity of transportation	<b>KPI</b> Water-use efficiency at high water scarcity sites	<b>KPI</b> Waste recycling rate



23

LIXIL is promoting activities in these three priority areas from two perspectives. One is to reduce risks by reducing the environmental impact of the entire value chain, and the other is to capture opportunities by improving the environmental value of our products and services. We have set KPIs for each activity and manage the progress toward achieving the goals.

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## TARGETS AND PROGRESS

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

KPIs		FYE2021 target <sup>*1</sup>	FYE2020 progress	
<b>Climate Change Mitigation and Adaption</b>				
CO <sub>2</sub> reduction contributions from products and services		1.36x (vs FYE2016 ratio)	<b>1.29x</b>	●
CO <sub>2</sub> emissions from business activities	Production Unit	8% improvement (vs FYE2016 ratio)	<b>14.3% improvement</b>	●
	Total Amount	8% reduction (vs FYE2016 ratio)	<b>6.3% reduction</b>	●
CO <sub>2</sub> emission intensity of transportation		5% improvement (vs FYE2016 ratio)	<b>2.8% improvement</b>	●
<b>Water Sustainability</b>				
Water use efficiency at high water scarcity sites		Achieve goals at all 5 sites (1 in China, 4 in Mexico)	<b>Expected to achieve in 3 sites</b>	●
<b>Circular Economy</b>				
Waste recycling rate	Japan + Europe	95 %	<b>96.2 %</b>	●
	Asia	66 %	<b>90.4 %</b>	●
	North America	40 %	<b>26.6 %</b>	●
Reduction of single-use plastic packaging		Establishment of plastic action statement in FYE2021		

● On track to meet the target ● Facing challenges but likely to meet the target ● Less likely to meet the target



\*1 Under the Environmental Vision, LIXIL has been progressing its initiatives with the target at the end of FYE2021. To meet the update on the environmental vision now targeting 2050, "Environmental Milestones 2030" and "Medium term environmental plan" are under development.

24

LIXIL had set up five-year medium-term environmental plans through the FYE2021. As you can see, there are areas where we still need to accelerate our efforts, but we have made progress. In particular, we achieved our plan to cut CO<sub>2</sub> by 14.3% as of the end of last FYE, compared to where we started in FYE2016.

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## REDUCING ENVIRONMENTAL IMPACT – PRODUCTS & SERVICES

### Climate Change Mitigation and Adaption



High performance windows



High performance wall panels



Service offering solar power and energy storage system



Style shade



ECO AQUA SHOWER

#### Major initiatives

- By FYE2026, raise the sales ratio of high-performance window<sup>\*1</sup> to 100%
- (Sales ratio of high-performance window is currently 71%)
- Promote ZEH (Net Zero Energy House) and ZEB (Net Zero Energy Building)

### Water Sustainability



AQUA CERAMIC



Water filtration



Ultra-high efficiency toilet



Product identifies water leakage and shuts off the water supply

#### Major initiatives

- AQUA CERAMIC repels waste during each flush maintaining cleanliness for a long period
- GROHE Blue filtered water system, saves family of 4 up to 800 bottles of water per year.
- Sense Guard prevents water leakage
- Studio 5 Low Profile Toilet (American Standard) saves nearly 20% more water than standard government criteria

### Circular Economy



Cradle to cradle® products<sup>2</sup>



Wooden decks made from recycled materials



Renting and leasing bathroom



Upgradable design

#### Major initiatives

- Launched first cradle to cradle gold certified products in 2021
- Launched an artificial wooden deck made of 100% recycled wood powder and resin, which does not contain organic solvents or formaldehyde
- Promote product design that takes into consideration the product life cycle such as leasing and upgrades

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<sup>\*1</sup> Product with heat transmission coefficient of 2.33W/(m<sup>2</sup> · K) or less

<sup>\*2</sup> The Cradle to Cradle concept is an approach for designing intelligent products, processes, and systems by taking the entire life cycle into account.

25

Now, let's talk about our product and service initiatives.

In the area of climate change mitigation and adaptation, LIXIL is providing products and services that contribute to energy conservation in homes and the importance of Net Zero Energy House, and Net Zero Energy Building.

Windows obviously play a key role in the insulation of the home. By 2026, 100% of LIXIL's window sales will be high-performance insulation windows.

In the area of water sustainability, we are looking at not only water savings, but also water purification and early detection of leakage, all actions that improve water sustainability.

In the circular economy, we are promoting the expansion of products that take into consideration the use of resources throughout the lifecycle of products and services. In March, we launched our first Cradle to Cradle gold certified product in Europe.

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## REDUCING ENVIRONMENTAL IMPACT – BUSINESS OPERATIONS

### Climate Change Mitigation and Adaption



#### Major initiatives

- By 2050, achieve the goal of 100% electricity (RE100) from renewable energy sources at our business sites<sup>\*1</sup>
- All eight fittings plants across LIXIL International achieved net zero emissions by October 2020

### Water Sustainability



Klaeng Factory



Water circulation system in Suzhou factory

#### Major initiatives

- Analyze water-related risks at all factories and improve water efficiency in high priority areas
- Klaeng Factory treats purified wastewater to be used for irrigation and flushing
- Suzhou Factory uses reverse osmosis filtration system to feed water back into production process
- Similar initiatives in place in water scarce areas in North America and Asia

### Circular Economy



Plastic Action Statement



Replacement of plastic components in product packaging



#### Major initiatives

- In accordance with LIXIL's Plastic Action Statement<sup>\*\*2</sup>, replace all plastic components in product packaging with environment-friendly alternatives (in EMENA, plan to complete it in 2021)



<sup>\*1</sup> Achieved by April 2020 in EMENA region. Plans to introduce the maximum size (5 MW) for the site area of solar energy system in October 2021 in a factory in Thailand  
<sup>\*\*2</sup> In October 2020, LIXIL announced the LIXIL Plastics Action Statement, a commitment that serves as the basis for all business processes, products and services to reduce plastics across the world.

As for our business operations, we are analyzing water risks at our factories globally, targeting sites with high medium- to long-term water supply risks. We are also improving water use efficiency and introducing water recycling facilities.

In the area of circular economy, we published the Plastics Action Statement last year. This is an initiative to replace all plastics used in product packaging with environmentally friendly materials. In EMENA, we plan to achieve this target within 2021.

I'd like now to introduce Thomas Fuhr, the leader of LIXIL International's Fittings business, from Germany to explain more about the measures we are taking.

[Video plays in English]

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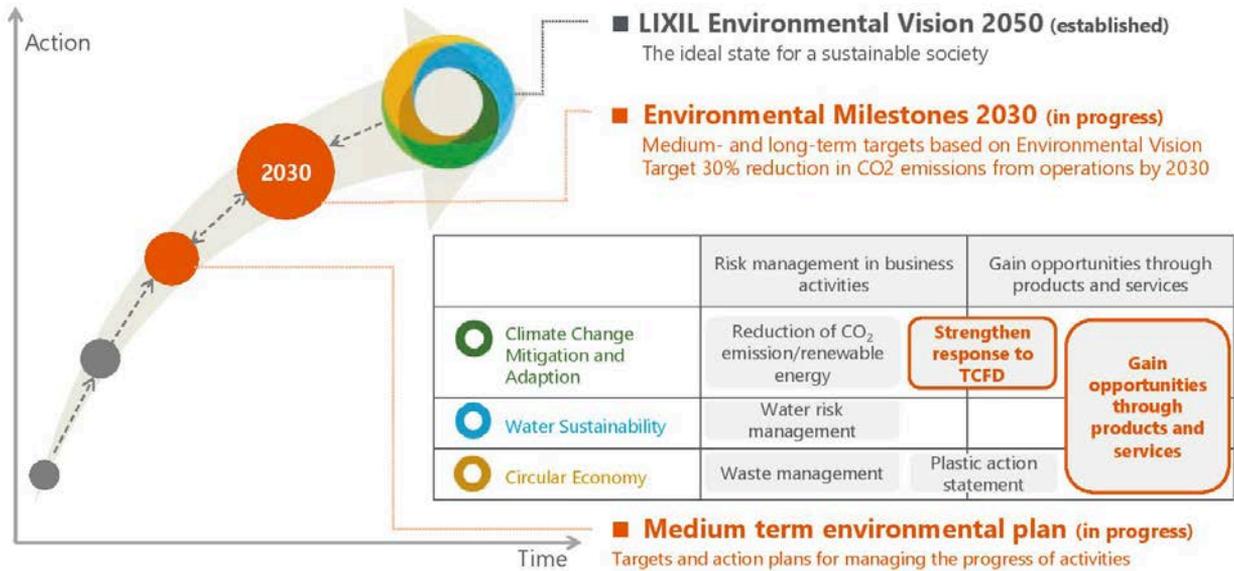
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## FUTURE STEPS: ESTABLISHING MILESTONES FOR 2030

LIXIL is establishing medium- to long-term goals that will provide value to society through our products and services, while analyzing climate risks and opportunities, understanding the financial impact, and promoting information disclosure under the coordination of the Environmental Committee



LIXIL

27

**Montesano\***: We know we still have much progress to make. We are now working on the formulation of interim targets that will serve as a roadmap to 2030 so we can be more confident about delivering our 2050 Environmental Vision.

We will use the TCFD framework to monitor and disclose our climate change progress. We will analyze risks and opportunities, formulate strategies, and reflect them in our business plans as well as into our disclosure.

We understand how important it is to set targets that reinforce the perspective of capturing business opportunities and providing value to society through LIXIL's products and services.

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## A FOUNDATION BUILT ON D&I

› D&I is at the heart of for LIXIL’s cultural transformation. It is critical to develop the culture that will enable us to deliver on our purpose



**LIXIL**

29

The third pillar of our CR strategy is diversity and inclusion.

Actually, we have been working very hard recently to update our vision and strategy, and I am pleased to share details with you for the first time today.

D&I forms the foundation of our transformation at LIXIL. For a long time, our D&I activities were aspirational and not as well-aligned with the business reality.

To become a company that can achieve sustainable growth and deliver on our purpose, we must become a truly consumer-centric organization. D&I is fundamental to achieving this goal.

As maker of pioneering water and housing products, LIXIL serves a consumer base as diverse as society itself. That means we must be able to recognize and understand our consumers and users to anticipate and empathize with their context and needs.

New ideas and technologies, however, can only come to life in a working environment that encourages diverse perspectives to be shared and heard; in short, we must build a working environment that is truly inclusive. Individuals must be able to openly and freely share their opinions with each other without hesitation or an obligation to conform.

So, our D&I strategy will enable us to attract and retain the right talent, while developing and enhancing our existing talent. It is on a foundation of D&I that we believe we can develop the innovative and purpose-led culture we need at LIXIL, which will in turn create meaningful value for our consumers and society itself.

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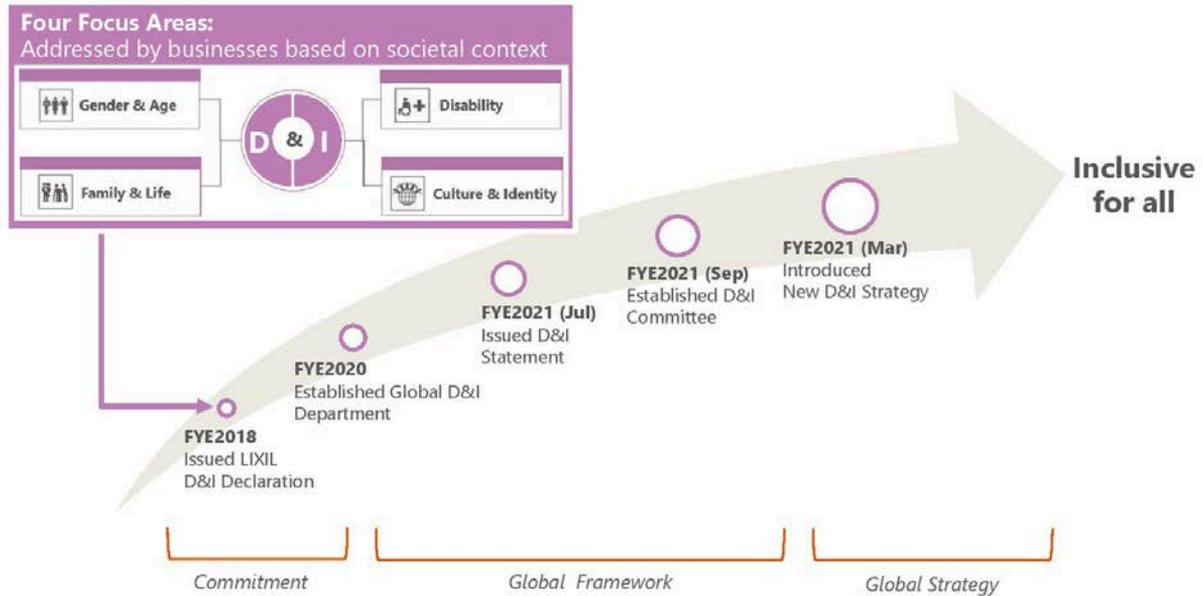
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## INTEGRATING D&I INTO OUR DNA

› LIXIL has integrated D&I within our business strategy, from enterprise-level goals to regional focus areas based on relevant societal contexts



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30

Over the past few years, we have been on a journey to connect and integrate D&I into our global strategy. In FYE2018, we announced our D&I declaration, a commitment to create an inclusive environment where we can bring the strengths of our diversity to life, and where we can integrate D&I into our products and services.

Since then, we have worked to establish a global framework to integrate D&I into our cultural transformation.

With the leadership of the D&I committee, which I speak more about later, we have now established our 2030 D&I vision and goals.

Simply put, inclusion is the real goal for us at LIXIL. If we can achieve inclusion, diversity will be the result.

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## GENDER DIVERSITY AS A PROXY FOR INCLUSION

- › **Inclusion is our goal and fundamental issue we are trying to solve. Gender equity across reporting lines serves as a proxy for progress for overall D&I initiatives. At the same time we are addressing other key areas through actions**

### Our Focus on Gender Diversity

Our consumer base is as diverse as society itself, where women have a major say in purchasing decisions.

- Women control 40% of wealth globally
- Directly make or influence up to 80% of all purchases
- Estimated to be as high as 89.8% in Japan

Female talent brings views and ideas that are critical to the type of innovation we need.

Addressing gender imbalance serves as a proxy for achieving broader D&I transformation aspects across the organization.



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31

As an enterprise-wide target, we have chosen to focus on gender equality. This is by no means the only area we are addressing, but we believe gender can serve as a proxy for tracking, monitoring and measuring our progress toward a more inclusive organization.

This approach makes business sense, as women have a major say in the purchasing decisions of our products. Women control 40% of wealth globally, and either directly make or influence up to 80% of all purchases.

From this perspective, female talent across reporting lines will bring views and ideas that are critical to the type of innovation we need at LIXIL.

If we can create an inclusive environment for women, we believe we create an inclusive environment for all, including other under-represented communities. This will strengthen LIXIL in many ways.

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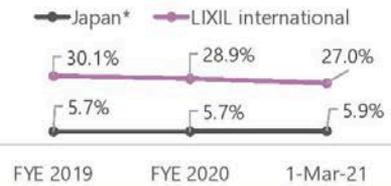
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## OUR TARGETS AND KEY ACTIONS FOR D&I

### Aim for enhanced gender equity across leadership roles by 2030:

1. 50:50 for Board & Executive Officers
2. 30% female managers/leaders across LIXIL
3. Maintain gender parity in new graduate recruitment (Japan)

#### Ratio of female managers



### Key Actions to Enhance D&I and Achieve Targets From FYE 2022 Onward:

<b>Talent Development</b>	<ul style="list-style-type: none"> <li>Accelerate creation of a deep bench for senior roles and managers</li> </ul>
<b>Talent Acquisition</b>	<ul style="list-style-type: none"> <li>Set targets and implement unbiased processes for talent acquisition</li> <li>Conduct market sweep for qualified talent</li> <li>Build and promote Employer Value Proposition</li> </ul>
<b>Inclusive Environment</b>	<ul style="list-style-type: none"> <li>Create more inclusive work environment with policies</li> <li>Create transparency and momentum on the importance of D&amp;I</li> <li>Build Employee Listening Strategy</li> <li>Update HR policies and processes to reflect business strategy based on D&amp;I</li> </ul>

**LIXIL** \*Scope: LIXIL Corporation

32

On this basis, our aim is to enhance gender equity across the organization by 2030. This includes having women in 30% of leadership roles by 2030 across the company, and aiming for 50:50 in Board of Directors and Executive Officer roles, also by 2030.

In addition, we have set region-specific targets such as reflecting the ethnic mix of the United States by 2025 in the US business and maintaining 50:50 for our new graduates in Japan, which we achieved for the first time this year.

When setting these targets, we were mindful of the past lessons learned in the area of D&I. These are not arbitrary targets. They are ambitious but realistic, based on detailed bottom-up modelling and simulations.

We obviously have a long way to go, what matters most however is the direction we are headed and the leadership commitment we have in place to achieve this plan. We have set an action plan for this fiscal year onward which will commence a full HR review of all policies and practices to embed D&I into our Talent Acquisition, Promotions, and Development processes. We would like to further strengthen this strategy.

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## FRAMEWORK TO PROMOTE AND GOVERN D&I

› A strong D&I governance system to embed D&I into the core of our culture, business processes and day to day management



33

To ensure that D&I initiatives are at the core of LIXIL's transformation, we have established a framework to promote and govern D&I, starting with the D&I Committee.

The D&I committee chaired by CEO Kinya Seto consists of the top business leaders and executives of the company.

This group needs to understand and be accountable for the strategies for building a stronger D&I culture. At LIXIL, D&I is not an HR initiative, it's a business priority.

There is no single solution to such a complex topic, so working with and enabling our businesses to define their initiatives will ensure we make meaningful changes, while our global strategy enables us to achieve enterprise-level goals.

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## ENHANCING THE EMPLOYEE EXPERIENCE

- › LIXIL has promoted various initiatives to empower employees to work **Where, When and How** best suits their needs
- › Scores for “work-life balance” rose in the latest round of the company’s employee survey



### Changing the Employee Experience

#### 1. Redefining the workplace

- The office as a communication space
- Consolidating locations in Japan

#### 2. Employees choosing their own working hours

- Introduction of “Super Flextime” system
- Leveraging digital tools to standardize remote work (The guideline for the ratio of working in an office is 40% or less)

#### 3. Employees designing their own career path

- Promotion of my career journey program to support individual career development
- Trial of second job arrangements

**LIXIL**

34

One of the best ways to create a more inclusive culture is to create more flexible working styles that empower employees.

In Japan in particular, we have made significant strides in this area, introducing super-flex to cater to individual lifestyles better. This has been especially helpful to working parents juggling children studying from home.

We have also liberalized our policies to go to full remote working. Thanks to the tremendous groundwork of our Digital team, many digital tools are available to employees to make remote working easier. As a result, we are redefining the role of the office.

We are also empowering employees to design their own career paths. Employees are encouraged to consider actively their professional interests and pursuits, with managers and HR supporting career development.

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## D&I BRINGS US CLOSER TO ACHIEVING OUR PURPOSE

### > Diversity is a critical source of insights and creativity behind consumer-centric innovations and solutions

#### Examples of how D&I drives consumer-centric product development

- LHT-J Business Incubation Center, an example of a new approach to product innovation, identifies the needs of consumers by quickly launching high-value-added products and services
- "DOAC" helps people with disabilities, the elderly and people carrying heavy or large items such as strollers to easily open doors
- D&I not only brings us closer to achieving our Corporate Purpose but, through its outcomes, contributes to sustainable growth

Nyanpeki (LIXIL)



Online Showroom



DOAC (LIXIL)



Walk-In Tubs (American Standard)



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35

D&I isn't just about how we work; it is also a critical source of insights and creativity behind product concepts that are consumer centric.

One example is the LHT-J Business Incubation Center, established in April 2019 to quickly bring unique products and solutions that may not currently exist in the market.

DOAC is an automation system that allows people using wheelchairs and strollers to open and close their home doors with the push of a button. Working with SSAP to gather first-hand inputs from people with disabilities, we asked 1,000 wheelchair users for their opinions about home door usage conditions. DOAC, launched in summer 2020, can be added to the entrance in one day without large-scale refurbishment work and has potential use cases far beyond only wheelchair users.

We have seen a growing number of examples of consumer-centric innovation at LIXIL, such as our Online Showroom services in Japan, or Walk in Tubs in the US.

In the case of "Nyanpeki", a young talent championed the development of a wall product designed for cats. The concept achieved its crowd-funding goal within 24 hours, bringing product to market in around 10 months since inception.

D&I brings us closer to achieving our corporate purpose.

If we want to develop the innovations our consumers need and attract the talent to deliver on our purpose, D&I must be at the heart of our cultural transformation, and we are taking steps to turn it into reality.

Thank you very much.

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**MC:** Next, Mr. Matsuzaki, Chairman of the Board, will explain about corporate governance at LIXIL.



## TODAY'S POINTS

- › Key principles of meetings of Board of Directors
- › Actual operations of the Board of Directors

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38

**Matsuzaki:** I would now like to explain LIXIL's corporate governance.

Today, I would like to talk about these two points: How LIXIL's Board is run, and how it actually operates.

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## KEY PRINCIPLES OF MEETINGS OF BOARD OF DIRECTORS

- › Corporate governance supports **sustainable growth**
  - Oversight by directors who possess broad expertise helps to:
    - ✓ sound alert if the company is about to go off track
    - ✓ encourage changes as needed
  - As a result, LIXIL can course-correct and respond to change
  
- › The role of the board of directors is to actively **oversee the company**
  - It is not about executing the business plan with the executive team
  - It is not about monitoring business execution
  - But it also should not be a passively overseeing the company

LIXIL

39

In the case of LIXIL, the members of the Board were reset and a large number of outside Directors came together, so we decided that it would be important to have an idea of how to manage the Board.

First of all, we have been working on corporate governance based on the idea that it supports sustainable growth. In other words, oversight by directors who possess broad expertise helps to sound alert if the company is about to go off track, encourage changes as needed, and point out risks that the executive management team is not aware of. We have been working with the idea that this will support sustainable growth.

Secondly, LIXIL is a Company with a Nomination Committee, etc. so the role of the Board of Directors is to supervise the execution of management, but what does supervision mean? We thought that this is active oversight.

In other words, we do not want to monitor every move of the management as if we were using a surveillance camera.

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## HOW WE ACTIVELY FULFILL OUR OVERSIGHT ROLE

- › Understand what is happening
  - › Understand what works and what doesn't work well
  - › Understand where the risks and opportunities are
  - › Ask for explanation constructively and give our opinion. However, we do not interfere with business execution
- 
- › Appoint executive officers including the CEO and determine the compensation system<sup>\*1</sup>
  - › Approve the basic management policy
  - › Approve the internal control systems
  - › Based on the above actions, monitor execution



\*1 Determined by the Compensation Committee selected by the Board of Directors

40

Specifically, we would like to maintain a moderate distance from the executive management team to find out what is happening, what is working and what is not. Then where are the risks and where are the possibilities? We should try to understand these things, and then actively express our constructive opinions. We would never interfere with the execution of management. We would not overstep our authority. This is what we have been doing.

The important thing is to know what to supervise, and there are three things.

The first is to appoint executive officers including the CEO and determine the compensation system. The second is to approve the basic management policies, i.e., management objectives, medium-term direction and goals. The third is to approve the internal control system, or the management system to ensure that the executive management team produces results.

With these three things in mind, we will oversee the execution of management. We have been doing under the recognition that this is the role of the Board of LIXIL.

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## ACTUAL OPERATIONS OF THE BOARD OF DIRECTORS

- › **Set the agenda of the Board of Directors meeting by considering needs of the executive side and concerns of the supervisory side**
  - Confirm growth strategies, and confirm priority initiatives and tasks of business leaders
  - Confirm SDGs initiatives including environmental initiatives
  - Confirm capital allocation policy and cost of capital
  
- › **Cooperate in making decisive actions, ensuring careful consideration for major decisions**
  - For example, the divestment of Permasteelisa, business integration<sup>\*1</sup>, voluntary retirement program "New Life", etc.
  - Executives provide information on the status of consideration in advance and explain the key points to discuss
  - Outside directors ask questions and give opinions on points to be confirmed from their respective perspectives
  
- › **Now working on developing new governance structure most appropriate for LIXIL**
  - Formulation of CEO succession plan, revision of board /committee regulations
  - Implementation of Board of Directors' Effectiveness Evaluation by the Governance Committee based on the delegation of authority by the Board of Directors



<sup>\*1</sup> Merger between LIXIL Group Corporation and former LIXIL Corporation effective December 1, 2020

41

So what kind of management have we actually done? Today, due to time constraints, I would like to talk about three things.

The first step is to set the agenda for the Board meeting. This was not only set based on the needs of the executive side, but also on the concerns of the supervisory side and the matters we wanted to confirm.

For example, we wanted to confirm the status of management strategy initiatives. Or, in relation to today's theme, initiatives on SDGs, including the environment. The Board has been interested in the same things that Ms. Montesano mentioned today.

It was also important to consider the concept of capital allocation with an awareness of the cost of capital. When discussing dividend policy, we also confirmed the concept of capital allocation at the top of the list.

We have made these requests and set them on the agenda.

Secondly, since Mr. Seto's return as the CEO, he has made several major decisions. I would like to talk about how the Board of Directors has been involved in such major decisions.

In this regard, when making these major decisions, the executive side provide information on the status of the study in advance and explain the issue.

In response, the outside Directors ask various questions from their own perspectives and ask for explanations. While repeatedly deliberating in such a way, we ultimately make decisions, taking care not to make major errors in judgment on important matters.

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For example, the divestment of the Permasteelisa. Of course, there was a lot of debate about whether or not it was a good idea to sell at a large loss. The decision was made based on the judgment that it would be in the best interest of the Company to eliminate the fluctuation and uncertainties in the future performance of the Company.

Then there was the business integration of former LIXIL Corporation and LIXIL Group Corporation. Although the merger required changes to the articles of incorporation and placed a burden on the administrative staff, we decided that it was better to have a simple basic organizational structure, which would allow for more efficient management and less risk. This was the basic idea behind the approval.

The third is New Life, which is a HR program. There were some objections as to whether it was appropriate to ask for voluntary retirement amid the COVID-19 crisis. However, the idea of the executive team is to create a company where the younger generation can play an active role and to create value through innovation based on the entrepreneurial spirit. The Board of Directors has decided to support this idea, and has given the approval.

Third, we are currently working to create a new type of governance in the LIXIL style. The outside Directors take the lead in creating the model and submit proposals, which are then reported to the Board of Directors.

After all, the center of this pattern-making process is the Nomination Committee, so the Chairperson, Mr. Nishiura, will talk about the status of this pattern-making process, focusing on the CEO succession plan.

Another unique aspect of our patternmaking is that we have established a delegated governance committee.

The main purpose of this is to ensure that we do not concentrate too much power in the hands of certain people or certain committees. For this reason, the evaluation of the effectiveness of the Board of Directors is conducted through the Governance Committee.

Today, due to time constraints, I have explained these three points. Thank you very much for your attention.

**MC:** Thank you very much.

Mr. Nishiura, Chairperson of the Nomination Committee, will continue with an explanation of corporate governance by the Nomination Committee.

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## CEO APPOINTMENT AND SUCCESSION PLANNING IS KEY TO THE SUCCESS OF SUSTAINABLE GROWTH FOR COMPANIES

- › Corporate governance supports the sustainable growth of a company. In other words, Corporate governance is the foundation for "sustainable improvement of corporate value."
- › The Nomination Committee is focused on enhancing stability and improving the sustainable growth of the corporation by establishing robust, comprehensive and objective processes for the following activities:
  - Selection of director candidates (Legal role)
  - Selection of executive candidates (Formulation of draft reports to the Board of Directors)
  - Selection of CEO candidates
- › CEO appointment and succession planning is key to sustainable growth. If not properly managed, corporate value will be significantly damaged

**LIXIL**

43

**Nishiura:** My name is Nishiura, Chairperson of the Nomination Committee. Thank you.

In the previous presentation by Chairperson of the Board, Mr. Matsuzaki, he explained that corporate governance supports the sustainable growth of companies. This is a very important message that I would like to share with you.

In other words, in order to sustainably enhance corporate value, we must build a solid foundation for corporate governance. To use an analogy, the idea is that only when the foundation of a building is solid can a tall building be built on top of it.

The Nomination Committee has been working to stabilize and improve the quality of corporate governance from a human perspective.

There are three main roles. Selection of candidates for the Directors, selection of candidates for the Executive Officers, and selection of candidates for the CEO.

Today, I would like to talk about the third point, the selection and dismissal of the CEO, in some detail.

We believe that this is the key to success in achieving sustained growth in corporate value. In fact, as we have seen in the past, if a major problem arises in the appointment or replacement of such a person, it can lead to a significant loss of corporate value.

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## CEO APPOINTMENT AND SUCCESSION PLANNING RULES WERE ESTABLISHED AND PLAN WAS FORMULATED

### > Revised regulations

- Clarified regulations or criteria regarding CEO dismissal, reappointment, and new appointment. The Nomination Committee deliberated and submitted a report to the Board of Directors
- Reappointment was deliberated from the three perspectives: "performance and stock price trends," "progress of strategy launched," and "opinions of other directors and executive officers."

### > Formulation of CEO Succession Plan

- Formulated in September 2020 to complement the operation of regulations (Ver.1)
  - ① Clarified "necessary preparations" and "prerequisites" until a CEO change can occur
  - ② Clarified "selection process" and "role of each department"
- The content and "pipeline for CEO succession candidates" is updated once a year

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44

I will show you what we have been working on specifically on the next slide.

There are two main perspectives.

One is to revise and improve the regulations, including those of the Nomination Committee. This includes not only the selection, but also the pros and cons of dismissal and reappointment. The results of the deliberations of the Nomination Committee shall be submitted to the Board of Directors.

I would also like to add just one more thing: pros and cons of the reappointment. We are deliberating this every year from three perspectives: business performance and stock price trends, the progress of measures taken, and the opinions of surrounding directors and executive officers.

On the other hand, in order to complement these regulations, we developed a succession plan for the CEO last October. This is the first version.

We have clarified our approach, rules, and process for future CEO changes at the Company. In addition, we have developed the first version of the candidate pipeline and candidate list. Anyway, we have been trying to create a thorough and transparent system.

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## KEY POINTS OF CEO SUCCESSION PLAN

1. "Preparation" is more important than "selection" (Development and renewal of candidate pipeline, provision of training opportunities for candidates, etc.)
2. Clarify the "ideal profile of CEO" for LIXIL⇒ (refer to p48)
3. In principle, the CEO's successor should be selected from internal candidates
4. All executives should be thought of from the perspective of "cultivation" and "successor planning"
5. CEO selection process is divided into "emergency" and "normal" ⇒ (refer to p49)

**LIXIL**

45

Let me add a few words about this CEO succession plan.

There are five points.

One is, of course, to have a clear process for choosing when the time comes, but also to be prepared for it. We believe that this is extremely important. This includes the maintenance and updating of the candidate pipeline that I mentioned earlier and providing training opportunities for candidates.

We also thoroughly discussed the ideal CEO image for LIXIL.

In addition, I would like to mention that in principle, the CEO's successor should be selected from the internal succession candidate pipeline.

In addition to the CEO, we are also considering the development of the entire management team, including senior vice president and general managers, as well as succession planning.

In addition, as I will explain later, the CEO selection process is divided into emergency and normal situations.

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## CLARIFY THE "IDEAL PROFILE OF CEO" AND UTILIZE THAT PERSPECTIVE WHEN ASSESSING EXECUTIVE OFFICERS

### > Preconditions

A person who has the motivation and energy to create change by themselves, instead of doing it safely based on existing practices

### > Examples of requirements

1. Communication skills: Ability to articulate thoughts to domestic and international stakeholders
2. Leadership: Ability to lead a global organization
3. Ethics: Management philosophy based on the "corporate responsibility" and who has a selfless attitude
4. Honesty: Always speaks honestly and is trusted not only as a CEO but as a person
5. Experience: Possesses international business experiences

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46

Please allow me to add a few words only on two points.

I won't go into the details of the ideal CEO image here, but it is not the type of CEO who can handle a given situation without a hitch, but the type who creates new situations on his own. We will continue to seek this out.

Five specific qualities and requirements are listed here. Communication skills, among other things. In a global company like LIXIL, which was formed by the integration of several companies, we believe that the ability to communicate one's own ideas in one's own words is extremely important.

The only other point I would like to make is what is written in numbers three and four. Ethics and honesty. We will continue to discuss these as extremely important requirements in the selection process.

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## CEO SELECTION PROCESS IS DIVIDED INTO "EMERGENCY" AND "NORMAL" SCENARIOS

- › Selection in an emergency (when an unexpected change is required)
  - Led by the Nomination Committee. Another representative executive officer will be appointed as the "provisional CEO", and while reviewing the executive system, we will work to select a "permanent CEO" at the same time (In principle, we will select two representative executive officers each term.)
- › Selection at normal times
  - The selection process begins with a proposal from the incumbent CEO or a proposal by the Nomination Committee
  - In principle, selection will be from internal candidates, but we do not deny the possibility of searching for external candidates
  - The progress will be reported to the Board of Directors at an appropriate time, and if the Nomination Committee decides on a proposal, it will be promptly submitted to the Board of Directors

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47

In fact, when it becomes necessary to select and replace the CEO. This can be divided into various cases, but basically, we divide it into two categories: emergencies and normal times.

Emergencies, this is when an unexpected change is needed. In this case, the Nomination Committee will take the lead in making the decision.

Our company is characterized by the fact that we have two representative executive officers. Currently, one of them is CFO, Mr. Matsumoto. We currently have a process of selecting a permanent CEO after appointing the representative executive officer as the interim CEO.

Normal time. The selection process begins with the current CEO's suggestion that it is time for him to step down, or with the Nomination Committee's discussion.

In this regard, as I mentioned earlier, our approach is to give priority to internal candidates.

This is roughly the process of selecting a CEO, and the thinking and process during emergencies and normal times.

If you have any questions, I will try to provide additional information in response to your questions. Thank you very much for your attention.

**MC:** Thank you very much.

This concludes today's presentation from our company.

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## Question & Answer

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**MC:** Next, we will have a question-and-answer session.

The question-and-answer session will be divided into two parts: the first part will be for questions from investors, and the second part will be for questions from the media.

Please note that your questions are limited to what we have explained to you today. We would appreciate your understanding in advance.

The questions will be answered by Mr. Matsuzaki, Mr. Nishiura, Mr. Seto, and Ms. Montesano, who gave the presentation today.

We will now take the first question from the investors.

Today we have questions that several people emailed us in advance, so we will start with those.

This is the first question. "LIXIL aims to empower women but the ratio of female managers has not risen over the past two to three years. Why?"

Mr. Seto, please.

**Seto:** LIXIL was established in 2011, and at that time, the ratio of women in the Company was very low. In the first place, we didn't recruit many women. Not only were we not hiring many female career-track employees, but since we were a traditional Japanese company, there were also many people who quit after marriage or childbirth.

On the other hand, in 2015 or so, we forced ourselves to set a goal of increasing the percentage of female managers promoted to 30%. However, this was not a realistic goal, and almost all of the candidates were exhausted in about two years. At that point, everyone who could be made a manager was made a manager within two years, so there was no pool of people to choose from.

After I joined, I thought that this was going to be a problem unless I made some fundamental changes, so I did a few things first.

First of all, we needed to increase the percentage of women hired for career-track positions. Even if we increased the number of employees at that time, there was nothing we could do if they ended up quitting, so we decided that we had to create a workplace where women could work comfortably, and we changed various systems.

For example, we have been working on super-flex, and also increasing the ratio of women working from home. We also had to create a meritocracy that would make it easier for women from outside to enter the Company, making it easier for them to enter and harder for them to leave, and increasing the number of candidates for management positions.

One more thing, in the end, it was around 2011 that we started to hire female career-track employees in earnest. In the spring of this year, 50% of the workforce is female, but even the most senior female career-track employee who wants to become a manager is in her early 30s.

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Therefore, although we tried to change the old seniority system of the Company, the ratio of managers in their 50s still stands at about 60%, which means that women will not be selected for management positions unless there is a change in the age group.

If we do this, we will not only have to change the way the Company itself works, but we will also have to change from a seniority-based system to a meritocracy. We have also put a lot of effort into changing the system for this purpose.

Finally, in that sense, the system and the pipeline are coming together. Perhaps even so, the number of candidates will still be low for a year or two. Now, women who are still young and would not normally be candidates for management positions are actively trained and given development opportunities. In doing so, I believe that we will be able to increase the number rapidly, probably starting in the next two to three years.

In that sense, we have set a goal of 2030, and we are trying to increase the number by then.

In a nutshell, this company has a ratio of women that is not representative of the world's demographics, so it's quite a challenge to change that. I think the reason why we haven't been able to do so in the past two or three years is that we started without having prepared for it, and now we are starting again.

**MC:** Thank you very much.

We have received one more question via email.

"You mentioned a partnership with UNICEF, but what exactly is that?"

Mr. Montesano, could you answer this question?

**Montesano\*:** The partnership with UNICEF was signed in 2018. In fact, it was the first of UNICEF's Shared Value Partnerships.

As many of you know, over several decades, UNICEF has been working on introducing the CLTS (Community-Led Total Sanitation) program. This is an effort to change the behavior from open defecation to using toilets. It is an effort to change the behavior in rural areas around the world and create a safe sanitation environment.

However, even if UNICEF was able to encourage behavioral change to get people to try using the toilet, there were not many manufacturers offering safe affordable toilets.

We provide the supply, and UNICEF creates the demand for these safe affordable toilets. We started this initiative first in Ethiopia, Tanzania, and Uganda, and have since expanded it to other markets.

At the same time, we will work together to solve this supply chain challenge and bring this product to the market. That includes the last mile communities, communities that are difficult to reach with our products.

We are also working together with UNICEF to contribute to the promotion of government-led hygiene improvement measures in the major countries we operate. This is the outline of the partnership. We've just crossed the halfway point of this partnership for the third year. The goal is to build a local hygiene market to achieve sustainable behavioral change.

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**MC:** Now, I would like to introduce some of the questions we have received on the video distribution platform. We have received this from Mr. Fukushima of Nomura Securities.

"There was talk of a CEO succession pipeline. How many people are there now? Considering the corporate culture that your company would like to have, I think that the CEO does not necessarily have to be Japanese, but could a foreigner be the CEO?"

**Nishiura:** Let me answer.

The current pipeline and candidate list include roughly 12 to 13 people right now. Naturally, foreigners are included in this group.

We are not going to think about this pipeline in a fixed way. We will keep an eye on various training opportunities for senior management, and we may consider adding new candidates from a younger generation in the future. That's all.

**MC:** Thank you very much.

We have received one more question. The following is also a question received from Mr. Fukushima of Nomura Securities.

"I looked at page 21 of today's document and the Corporate Responsibility Report data book. I think you have a CO2 emission reduction target. You mentioned that you will reduce the Scope 11 of Category 3 by 15% from the FY2015 level by FY2030, but CO2 emissions were 116.93 million tons in the fiscal year ended March 2020, which is very large, but what products in particular have large CO2 emissions? How do you plan to reduce it? What is the level of your environment-related sales?"

**Seto:** First of all, there are metal products and water-related products, and metal products include the process of melting aluminum, for example. This is the place for aluminum sashes, which have a fairly high environmental impact.

There are various ways to lower the emissions, for example, one way is to buy billets for general-purpose products instead of purchasing the ingots and making from ingots.

Also, by buying from scrap instead of from ingots, the melting time in the electric furnace is shorter than from ordinary ingots, so the reduction of CO2 emissions is a very important factor for metal products.

The other big thing is that sanitary ware has a process that uses a lot of gas. We believe that various technologies will be developed in the future to harden ceramics. We can lower the emissions on that part as well.

Also, from a longer-term perspective, there is the problem that the lifespan of products in Japan is now very short. I think it's a bad cycle that new buildings are built, and after about 20 years, they are scrapped and rebuilt again.

This is a bit of a contradiction in terms of the economy and the environment, but in the long run, I think it is more important to make good and long-lasting products.

For example, as Jin was explaining earlier, 32% of the world's energy consumption is related to construction.

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In fact, the most energy consuming part of architecture is the opening. Windows. There is a lot of energy loss through windows. In the case of Japan, there are tens of millions of houses with windows that do not even comply with the environmental standards for the year 2016. For example, by simply switching from single glazing to triple glazing, energy can be saved by almost 90%.

I believe that one of our major missions is to improve the environment on a global scale by making products that are excellent from our point of view and that have high insulation properties.

In short, we believe that it's not just important how the Company views the reduction of CO2 emissions. In terms of reducing CO2 emissions, for example, we have reduced CO2 emissions in our flushing plant to zero by using solar power generation.

More importantly, the products we make have a long-lasting impact on the world's CO2 emissions and energy consumption. In order to create better products, I believe that how we contribute to the world is actually a very important thing.

**MC:** Thank you very much.

Now, I would like to introduce another question that we received via email.

"Please tell us about the number of Directors. Is there an excess or deficiency in the current number of people?"

**Matsuzaki:** I will answer the question.

As for the overall number of Directors, we had a discussion at the Nomination Committee about the appropriate number of Directors to be appointed one year after the new members were appointed in fiscal year 2019, based on the opinions of the executive side and Mr. Seto. As a result, we decided that about nine people would be good.

We are not fixing the number of members to nine, but if there are too many, we will not be able to have a fruitful discussion as I explained today. So, I think that the number of people we have now is appropriate.

In the case of our company, the majority of the three committees are outside Directors, so we would need at least five or six outside Directors. Considering these factors, I think we have come to a good conclusion in terms of the current ratio and the overall number of people through the Nomination Committee's discussions.

**MC:** Thank you very much.

We have received one more question via the platform. The following question was received from Mr. Teraoka from Daiwa Securities.

"What are the reasons why you decided in principle to select the CEO successor from the internal pipeline?"

**Nishiura:** I will explain.

We had a lot of discussions here, too. In the past, we have often found CEO candidates from outside the Company, but from the perspective of having a thorough knowledge of the business, we first examined whether or not there were any candidates within the Company. As a result of these considerations, we

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have decided that there are enough candidates within the Company, and the list of successors is currently made up of only internal candidates.

However, as I told you earlier, we will review this list every year, and we will also add younger people to it. I believe that there are enough candidates to be selected internally when we look at the younger generation as well. That's all.

**MC:** Thank you very much.

Now, I would like to take this time to introduce some questions from the press. Currently, I don't seem to have received any write-ups, but if you have any questions, we would be happy to answer them.

**Seto:** Regarding Mr. Nishiura's comment earlier, as a practical matter, if we want to work together on various projects, it is difficult to find people from outside the Company to choose from.

I wondered if someone with a real track record outside the Company would be able to do well in the Company. I know I'm coming from outside the Company, but if I were in Mr. Nishiura's position and was asked to find someone from outside the Company, I think I would have a very difficult time.

**Nishiura:** We think it could be very risky. Above all, trying to find a candidate from outside the Company when there are enough candidates within the Company will lower the motivation of the Company. Therefore, from various perspectives, I think it is very reasonable to give priority to the candidates within the Company.

**Seto:** That's the difference between Japan and other countries, isn't it? There's not much of a pool, outside the Company.

**Matsuzaki:** You're right.

**Matsuzaki:** I would add, so succession planning will be thought in conjunction with the management human resource development. So, we will think about it for a certain period of time and develop the right people to be CEO. This is an important theme, and Mr. Seto and Ms. Montesano are now creating a program. I think it is important to think of them together.

**Seto:** In my previous company, MonotaRO, we chose it from within the company. In other countries, outside the company might have been a strong option, but when I look at it from the perspective of a manager, I think it would be irresponsible for me to leave without training my successor.

So, unless I am forced to quit, if I choose to quit, I must have a proper successor. At the very least, I think it is my job to develop some successors who can be chosen by the Nomination Committee.

**MC:** Thank you very much.

Do you have any other questions? Thank you very much for your various and many questions.

Since there are no other questions, I would like to conclude the question-and-answer session.

If you have any other questions regarding today's presentation, please contact the Corporate Communications Department or the Investor Relations Office, and we will be happy to answer your questions.

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This concludes the LIXIL Corporation ESG briefing "Enabling Sustainable Value Creation." Thank you for your continued support for LIXIL.

[END]

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