

The 80th Annual Shareholders' Meeting Q&A session

Summary

- 6 advance questions (Q1- Q6)
- 7 questions at the venue (Q7- Q10)
- 0 question by online attendees (N/A)

Q1. Debt seems to be somewhat large compared to shareholders equity. I don't see the need to increase dividend to beyond 50% payout ratio. And of course, I do appreciate the large dividend as a shareholder.

CEO Seto answered:

It is true that our interest-bearing debt went up to 832.5 billion in March 20, 2020. Quite a significant level, but after that, we have started off to work on the structural reform, but the Company have made effort to increase cash flow, so March 2022 and we were able to reduce the debt at level down by more than 300 billion yen to 524.7 billion yen. And of course, the absolute size of debt is important, but what is more important is how it compares against the cash flow that we are generating, and free cash flow set for example, are from 2017 to 2019, in the three years we've generated 135.3 billion yen. But in the recent three years, the total free cash flow generated was 306.8 billion yen over the three years. In other words, more than doubled. As a consequence, what we consider to be most important is EBITA interest bearing debit ratio, and when we had the 832.5 billion, as mentioned before, it was 5.5 times, and we said that the target was going to be 3.5 times, but we were able to achieve this already and for March 2022 the ratio came down to 2.9 times. So, in that regard that there is really no areas of concern for you. But we will maintain a financial position to be healthy going forward and will continue to generate greater profits so that we are able to make more return to the shareholders will continue with such an effort.

Q2. There is no end to compliance violations such as exposure of Mitsubishi Electric's wrongdoing for a long term, and Hino Motors engine data issue. Please tell us about LIXIL's anti-corruption measures.

CEO Seto answered:

At LIXIL, within business divisions, we conduct inspections of the quality of the products in division and there is an audit by the quality department of the Company. More than that, the most important thing is that one of the *LIXIL behaviors* is to do the right thing. When everybody is motivated to do some

wrongdoing and such wrongdoing may be concealed. However, if from the top leaders to the rank-and-file employees have the mentality of do the right thing, we can prevent such problems from happening. And in LIXIL, compliance is the foundation in our business operations, so the Code of Conduct has been established in addition to the pledge of compliance by all officers and employees every year. We also provide training in risk areas. In addition, we have established a company-wide governance system in quality by establishing a function at the head office to oversee Quality from a management perspective in addition to quality organization at each technology and business unit, we are conducting periodic audits and other activities to prevent fraud as well as occasion on quality related laws and regulations. In the event of an emergency, a quality risk reporting line has been established to ensure that information is promptly communicated from each organization to the head office and management. In addition, an internal reporting system is in place to obtain a wide range of fraudulent information. That is our answer.

Q3. New Life was implemented before, that is, early retirement incentive system. How do you evaluate it? What about the performance, profit and loss after implementing it? (I think that this kind of incentive system is implemented regularly). Are you planning to introduce a large-scale system like New Life before? I really hope that the Company's share price will go up further.

CEO Seto answered:

In November 2019, in order to activate Japan's domestic business, we introduced a "Kawaranaito LIXIL" Comprehensive HR program. We focused upon three areas that exchange to customer orientation change in career and changing working style, and we pushed ahead with the transformation. So, from joining LIXIL to retirement, we would like to enrich every coworkers' career path. So, we are going to support a career planning development of the employees of all generation as we push ahead such transformation. For those people who think about their career and life plan and make a career change, leaving the Company without waiting for the retirement age, we introduced not only the Volunteer Retirement program which was introduced 2 years ago but also a career option plan which is early retirement incentive system. They aim for giving options for employees' life plan, and so for those workers who may want to leave the Company to seek a new environment, leverage LIXIL's experience and change their working style and or going back to their learning experiences. And so, in light of the purpose of this system is to activate Japan's business transformation. We believe that these programs are advancing as such efforts.

Q4. Previously, you spoke of reorganizing and consolidating company sites around the Company over the next few years as a part of company effort to improve operating efficiencies by enhancing remote working. I understand that the head office will be relocated from Ojima to Osaki, however, is there other reorganization or consolidation, or sites that you are currently scheduling to conduct.

CEO Seto answered:

Under the COVID environment, we have engaged in remote working using digital in a large way or we were able to test the operation. And as a consequence, we have been able to balance the work style reform quite significantly, leading to improvement in productivity, and so, for example, people who have the disabilities or are those people who must be doing some job far from home. So, we feel that we have been able to create our workplace that makes it easy for these people to work, and so we are taking those into consideration as we work on reorganization and consolidation of sites and the Company going forward work on improving productivity as much as possible and to create work by that is easier for people to work on and so we feel that we need to always think about the potential reorganization or sites in that regard. And with regard to the future site consolidation plan, the relationship with the local community and so forth need to be taken into consideration, so I would like to refrain from making a specific response to that question.

Q5. Why are there no Directors with the Company from the start on the Board of the Company, those originally from INAX, TOSTEM, Shin Nikkei, Sun Wave, and Toyo Exterior?

CEO Seto answered:

First of all, since the Company is a company with the Nominating Committee, etc. and business execution and supervision are separated, the Company's Directors are responsible for management supervision. The Nominating Committee selects candidates for Directors through a determined process. Taking into consideration the Company's skill matrix and the ratio of inside and outside Directors and they may be candidates regardless of whether they are with the Company from the start or not. (The balance of the former companies is not considered from the perspective of ONE LIXIL.) Executive Officers responsible for the business execution in the Company with the Nomination Committee include those from former individual companies. We intend to have the appropriate person at the appropriate location. We don't think about whether they are from the Company from the start or not.

Q6. (*As the original text of the question contains the matters which identify the individual, it is partially summarized.) I would like to ask a question as the former employee who agreed to voluntary retirement in March 2021. There are many managements from the other companies. LIXIL behaviors and very wonderful guidelines are existing with LIXIL, but that is not well spread, and in the sales field, power harassment or misconduct were detected. I blew a whistle several times, but I suffered disadvantage and there was a time I felt that whether the report was smothered up. I talked to the responsible person of general affairs at that time, but that was a waste. I think that this whistle blowing system should be improved. No one will use the whistle blowing system. Management should talk to the rank-and-file employees and should know the reality. I want LIXIL to change itself to a great place to work.

CEO Seto answered:

This person used to be an employee, so, first of all, I'd like to express my appreciation to this person or long years of working at LIXIL. And it is really regrettable that this kind of thing happened, and so this is regret upon the part of management as well. I would like to refrain from any specific comments, but in order to avoid misconduct and we try to observe the compliance and so we put together the Code of Conduct that is corresponding the 17 different languages, so we have a whistle blowing system. According to this system, all the members of the group can notify in writing or anonymously the concerns about compliance. This will not be conveyed to any other people. In addition to this system, in Japan, we have a point of contact among the external law firms. So, if the employee cannot trust the Company management, and then they can use this external point of contact as well. Whichever route they may use, we are trying to take it properly so that they will not be a disadvantage. We would like to promote a corporate culture of openness and trust that people can express their concerns and questions. To repeat, I'm really sorry for this particular person to feel very bad about over his or her experience, but as a CEO and President, we'd like to avoid this kind of incident going forward, so we will make further efforts.

Q7-1. With regard to “(iv) Establishment of long-term growth structure through technology” for the issues to be addressed in the Report for the 80th Fiscal Year, what do you think about open innovation

Q7-2. Last November, a certain professor at *Kogakuin* University has made a press releasing as to the toilet seat within the Society of the coexistence. Have you ever heard of that?

CEO Seto answered:

7-1.

I do not think that innovation is something that we need to create all by ourselves. In many instances, even without originality, among such innovation as already available in the world, depending on how we use it or by converting to the social environment in the future, some of the existing innovation could potentially change to a significant innovation. And so, we are keeping eyes wide open at in that regard.

7-2.

I'm not too familiar with this press releasing. But to respond to universal society, regardless of gender and for people with disabilities, we are trying to create our facilities for homes that are easy for everyone to use as it has been objective for many years. So, the point that you have raised is certainly the area of our interest, and I will get the person responsible to have a chat in that regard. Thank you.

Q8. In the four priority areas, one is “improved profitability of domestic business in Japan” and you have achieved a certain result, but looking at by division, the revenue improvement is observed for the water technology. However, housing technology revenue has not improved, rather revenue has dropped. I think that it's a business structure or reform. So, excessive services are to be abolished, so that you will change the business in a way that will contribute to revenue and profitability. And looking at people, the number of headcounts for the housing technology is on the rise, while that of water technology is declined by 203. I think it is because the decline in housing technology has been shifted to the other department or division. As to the profitability improvement in Japan, how much achievement do you think you have been able to make and how much more are you willing to improve furthermore? What is your goal in terms of profitability improvement?

CEO Seto answered:

First of all, in comparison to water, housing looks as if it's not improving. But without the rise of commodity prices, actually housing's improvement is more significant. As a matter of fact, the business profitability is in total 65 billion that is in March 2022. The so-called commodity price increase, the fuel, the freight cost increase. Or sometimes we have to bring a product by air and there are some costs with respect to lockdown, that is about 50 billion yen, meaning that without such adverse conditions, I would not say 115 billion, but about 100 billion profit could have been generated. A majority of the said profit is generated based on the improvement of domestic business, as for housing, the number of plants has been streamlined and that we introduced platform of manufacturing. And the non-profitable businesses have experienced sharp price increases, which has contributed greatly to our profitability. But the aluminum that is material in spring 2022 that was USD 1,400 but at one point it went up to USD 4,000. So,

as a result of such significant price increase of aluminum toward the latter part of the year, the profitability deteriorated. That's a fact, but without this, naturally, in terms of profitability improvement, housing was the best. And as for the increase of the headcount for the housing technology, the reason is that we were not able to manufacture in Vietnam from last year, for exterior business, as Vietnam plant faced lock-down. As a result, we had to hire people in Japan. In addition, *Maebashi* plant was closed and temporarily we had to increase the headcount. But the housing business is not particularly bad.

As for domestic profitability improvement, there are still more that we can improve, but the biggest challenge at this moment is that aluminum price and the freight cost increase. And passing on to our product selling price has some timing difference. So, without such spiral as subsequent cost up immediately after our announcement of the price increase, we could have been generated very good results. As mentioned earlier, out of the 65 billion, 50 billion or at least 40 billion increased costs had been added, then over 7% profit margin could have been enjoyed. So, 7.5% is the mid-term plan. 10% is a final goal and then in two to three years we should be able to achieve our goal. Thank you for your question.

Q9-1. With regard to the relocation of the head office to Osaki, I don't think it has been so long since the office is consolidated to the single site, *Koto-ku*, from *Kasumigaseki*. Why is it that another relocation will be taking place? Could you explain it again including the reason for moving to *Koto-ku*?

Q9-2. Is the media report that the head office facility will be disposed for sale true? If that is the case, what is the book value of buildings and land? I wonder whether the purchaser has already been found? I think a new head office will be on a rental basis. What will be the total cost including the moving expenses as the head office is relocated to the new place?

Q9-3. I am from Tokoname City of Aichi Prefecture. Over the last ten years or so, city hospitals and city hall buildings have been renovated or rebuilt. Water and sash areas are from LIXIL made materials and products. In that process, one concern that I felt was the people from housing technology business and water technology business did not come to the owners to conduct sales activities. In the recently published book "*Kessen! Kabunushi-sokai*", Mr. Seto considered the inefficiency; therefore, those two business units were divided into two. And then you gave an instruction for the improvement of profitability rather than sales. By asking the current profitability ratio of water technology, housing technology and building technology, I would like to ask whether you still stick to that particular policy. As for the properties such as large sized buildings, once you can obtain a certain level profit ratio then I think sales or revenues will be significantly high. So, I think that sash, curtain

walls, and water technologies should be sold altogether in order to increase their total profit. Whether aggregating all these businesses is another matter, but I have been wondering there should be more joint sales work among these businesses. So, I think that is the main reason why that there is integration of the housing and building in water. Could you shed more light on these aspects?

CEO Seto answered:

9-1.

With regard to the relocation to Osaki, in 2017, there were head offices in Kasumigaseki and Ojima, Koto-ku and we went back and forth between those two offices, which was quite inconvenient. Therefore, we made a relocation plan to concentrate the head office functions to Ojima from Kasumigaseki. In the end, at that point in time, we are not able to accept all the necessary personnel in Ojima, so it was not totally ideal. But some business units remain in the other places and that's based upon that we moved over here. At the beginning of 2020, when the completion of the relocation took place, that was exactly the timing of COVID-19 outbreak. So, when we consider the number of people who come to the office, we thought that maybe even after COVID-19, there will be some unused space over here, so we try to concentrate all the functions over Ojima initially. That's why we decided on there. But the working style reform has progressed very much. Those people who come to the office every day is less than 10%, that means, quite large spaces over here are not used. Therefore, we conducted a survey once again. After COVID-19 converges and it is safe, and to what extent you need to come over here to work, or whether coworkers would like to work from home. We conducted a survey in regard to that, then we found out only 10% felt the need for coming over here. Apparently, it was found that this size of the office is not going to be needed. On the other hand, HIKARI building and Kaze building which were built in 1990s require rather significant maintenance costs which can be almost equivalent to the rental cost at the new place. Therefore, we can withdraw from and sell Ojima buildings and even when we go to the new place, comparing *Osaki's* rental cost and Ojima's maintenance cost, we found that still we can make profit by relocating to the new place. Having said that, as for the new building named Hoshi building, technologies were incorporated into it, so, for example, air ventilation is very good without using any air conditioning machines and so on. So, Hoshi building might have been a sort of a waste in a sense is unfortunate, but even when we sell it off, we can still make profit. So, from the pure economics point of view, that is better. And people can work in a more comfortable place in office workplace spaces. So, not just the new building but surrounding the space, we can make satellite offices. Many people commute to Tokyo from various Kanto areas. So, it's better to have satellite offices according to certain areas, so that is more convenient for coworkers, and productivity will go up. Even when we rent a satellite office and taking into account the maintenance cost as I mentioned earlier, still it is beneficial economically.

9-2.

So, selling these premises is true, but the selling price, book price and relocation costs are not disclosed. I'm sorry to say, but we are not disclosing such information. Sorry for that.

(Additional Comment after tally: There was a question that I wasn't able to fully respond to before, and we will be selling three buildings (Kaze, Hikari and Niji) on this occasion, but one building called Niji, which is a support center building for workers with disabilities will remain. I apologize for my response, not being sufficient.)

9-3.

As for the question about separation of the two sales businesses and the view on the profitability over the sales, I would like to talk about that separately. Two business units' sales functions have been separated, it says. But when the Company was formed as a holding company, TOSTEM, INAX, Toyo Exterior, Shin Nikkei, and Sun Wave, there were five companies, and the holding company LIXIL was supervising there. At that time, LJC overseeing the sales offices was formed. As you mentioned, we thought we should handle all those things and that's how we started. However, there were some inconveniences. That means, those sales people who were trained to sell INAX toilet are not expert when proposing windows. For those people who were selling TOSTEM windows, they are neophytes in toilet selling. So, (binding the each technology's sales team into one), it does not work unless each sale personnel becomes an expert in everything. That means it will be one of the factors that we can be very vulnerable from all angles, so we cannot win the business competition. Another is a historical one. TOSTEM originally focused upon sash business to grow. When there is a limit to the Japanese market, they started to sell water technology products as well. Kitchen, bathroom business units were made at the time in order to sell those products. TOSTEM dealerships are professionals in sash, but the sales people took the way to sell the kitchen and bathrooms by doing such activity as spec-in (to contractors) by themselves. On the other hand, INAX has kitchen and bathrooms and they have a professional dealership for those products, so they could sell even when they don't provide such services as TOSTEM did. Nevertheless, due to the merger, if INAX kitchen need to be sold by TOSTEM dealership and then they need to get trained, there is a very much inconvenience. That means those who don't do their job by themselves can make it more easily than those who do by themselves. So ideally, even it might be possible to consolidate into one sales function that sells all the products, looking at the reality, in terms of sales functionality it became very inconvenient. And same with a function, voice was not well gotten across the production side or manufacturing side, so (the sales function) has become a sort of trading house within the manufacturer. In order to avoid that, there should be independent sales function within each business unit, so development, production, manufacturing and sales should be one at the same. In that way, we change the organization no matter how you craft the organization, there are positives and negatives. And there are two points of contact we are selling for the just the same LIXIL product and that may be inconvenient in the eyes of the consumers, but the sales force of products can

be rather weak if the expertise of products is lower, and so the cost can go up as well. Because of that, with regard to aggregation of sales functions, if we think about the certain specific customers who have such a strong demand, we may set up such functions. But we deal with the dealers and sales offices as we sell our products and services. From that point, there will be overlapping functions and therefore we thought that the having separate sales units as compared with our competitors, we are not going to have anything subordinate to those competitors rather than winning on the frontline of sales. But if we're going to win in terms of products and development, we should be making clear distinctions there.

Also, as to the point that the profitability is emphasizing over sales, I consider revenue and profits to be equally important. But at one point we saw revenue too much. There was an inequity created among the customers and inexpensive prices were given to a certain group of customers. So, we avoid it and try to sell products with a certain level of profit margin, so this particular point has nothing to do with the separation of the organizations. Sash and curtain walls you talked about, particularly curtain wall's profitability, profit ratio is not that high. So rather than joining both of them, I think that package deal negotiation is important for large scale customers. This is a rather common approach. Whether that is advantageous to the Company of course is debatable as well. So, that is my response to you.

Of course, I think there are different profit ratio and our sales team should have more united approach to customers as much as possible and that is very true. Giving priority is something the Company need to make judgment constantly on our strengths as a manufacturer. And strengths as a package setting should be the responsibility of our dealerships or agencies. So that's the distinction in our business approach.

Q10. Why do we have to apply in advance whether attending the Shareholders' Meeting in person or attending online? I didn't understand the reason for this especially for online attendance, and it sounded as if you don't want us here. As the deadline was one week before, someone who's schedule allowed to participate this week would not be able to attend. And I think there was someone who was trying to come in who didn't pre-register. I think that this type of interaction is something that B to C company like yourself should avoid at all costs. It seems as though you are using COVID as a reason for everything. So, my question is why did we need to pre-register to participate online or in person? And the deadline was Friday last week and that was quite early.

CEO Seto answered:

Thank you for your question. For those who attend offline, you may ask why we should speak about COVID all the time putting restriction on the venue, but there are still more people who are concerned

about COVID-19, and that was our judgment and the setting of the venue. There was a timing associated with lift of restriction and now. Some people may say we should be able to accommodate more people, but the Company had to make a judgment at a certain point in time, and the judgment for offline attendance was based on the situation of COVID-19 infection, etc. at that time. With regard to the lift of restriction, we needed to keep distance between attendees. And felt that there could be a rule to determine on that type of distancing which is required in the situation of COVID-19. I hope that you understand, but for online as well, if we see increases like 100 or 200 on the day, then there is an issue. In case of the Company's Shareholders' Meeting, not just down the viewing online, but there is a voting and also sending questions, and we were concerned about not being able to accommodate or that should be the number of attendees increase all of sudden, but what you say is something we can understand in regards online. We want to be more flexible going forward, so we take your opinion as being a valuable opinion for future consideration.

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