

[Business and other risks]

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

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

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

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

The material issues relevant to each risk are described in [Sustainability > CR Management Structure and Material Issues Selection > Selection of Material Issues](#) on our website. In linking material issues, multiple divisions discuss and decide whether the risks or countermeasures are relevant to the description and policy of the material issues.

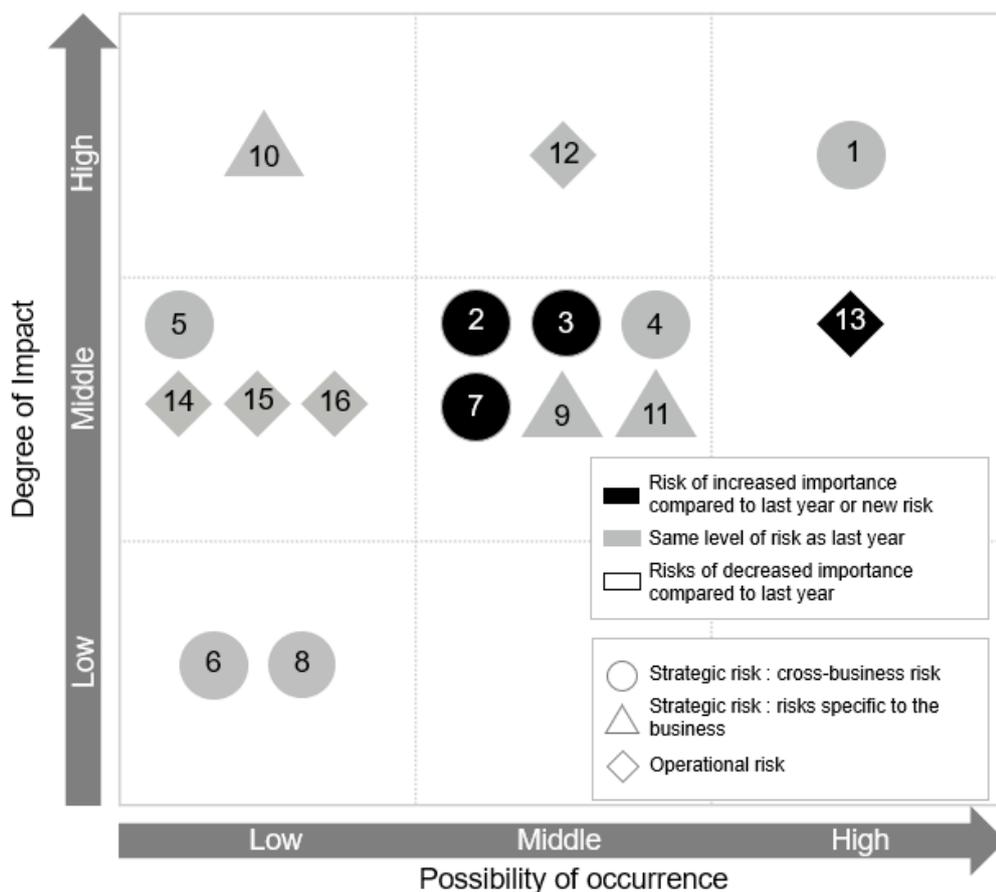
Note that the forward-looking statements and projections in this paragraph are based on decisions of the Company made by the end of the year ended March 31, 2022.

【Risks related to COVID-19】

The COVID-19 global pandemic, confirmed in November 2019, is still spreading in some regions due to the emergence of new variants, etc. However, business in most regions in Japan and overseas showed a recovery trend in the second half of the previous consolidated fiscal year. Since the impact on our group's business activities for the current consolidated fiscal year was limited, the impact on business activities of our group in the following consolidated fiscal year and beyond is expected to be limited.

There are many uncertainties of the impact of COVID-19 on economic activities. If the situation changes, the financial position and operating results of the Company may be considerably affected. At present, since measures are taken in the course of daily risk management, it is stated not as individual risk but included in related risks. (Reference risks (3) and (12))

[Risk Map and Legend]



Business Risk			Possibility of occurrence *1	Degree of impact	Changes in materiality from the previous year	
Strategic Risk	Cross-business Risk	(1)	Risks related to changes in the economic environment and fluctuations in exchange rates and interest rates	High	High	same level
		(2)	Risks related to the development of new products	Middle (Low)	Middle	Increase
		(3)	Risks related to the supply of raw materials	Middle (Low)	Middle	Increase
		(4)	Risks related to Environment (Climate change, water, and resources)	Middle	Middle	Same level
		(5)	Risks related to business restructuring	Low	Middle	Same level
		(6)	Risks related to tie-ups with other companies and corporate acquisitions	Low	Low	same level
		(7)	Risks related to the acquisition and development of human resources and the promotion of diversity	Middle (Low)	Middle	Increase
		(8)	Risks related to the capacity of facilities	Low	Low	same level
Business-specific Risk	LWT*2	(9)	Risks related to sales channels	Middle	Middle	same level
		(10)	Brand risk	Low	High	same level
	LHT*2	(11)	Risks related to competition with competitors and product prices	Middle	Middle	same level
Operational Risk		(12)	Risks related to disasters, accidents and infectious diseases	Middle	High	same level
		(13)	Risks related to information security	High (Middle)	Middle	Increase
		(14)	Risks related to litigation and other legal proceedings	Low	Middle	same level
		(15)	Risks related to product liability and claims	Low	Middle	same level
		(16)	Recoverability risk of deferred tax assets	Low	Middle	same level

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

*2 LWT : LIXIL Water Technology , LHT : LIXIL Housing Technology

[Strategic risk Cross-business risk]

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

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

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

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

[Strategic risk Cross-business risk]

(2) Risks related to the development of new products

Our group makes pioneering water and housing products that make better homes a reality for everyone, everywhere. However, if we could not meet the market and industry needs or launch a product due to inability to continue investing in development or the value of a new product does not sufficiently appeal to customer needs, we would face a slowdown in our future growth and profits and operating results and financial position may be adversely affected. While developing products with a greater awareness of customer needs, possibility of occurrence has been changed from "Low" to "Middle" in consideration of the diverse and varied values of end users.

Possibility of occurrence	Middle	Degree of Impact	Middle	Changes in materiality from the previous year	Increase
Countermeasure	<p>Through partnership with innovative start-up companies and the utilization of the global information network, we established a system to promptly respond to changes in consumer needs. We have established an ecosystem that connects end users and business partners and provides new value by combining our company's unique digital technologies, such as LIXIL Online Showroom and GROHE X in Europe, where visitors can receive the same services at home as when visiting the showroom. Emphasizing the comprehensive power of design, we are accelerating the development of products that create new value by combining design and technology. In Japan, we have adopted "LIXIL Universal Design Concept" to foster a culture of inclusion that strengthens customer orientation, and we are working to develop and provide products that are easy for everyone to use. In addition, as the global population increases, companies and individuals are required to use water and resources responsibly. Based on this, we are promoting the responsible use of water and resources in the design of products and services and appealing to consumer needs by using recycled materials as much as possible as raw materials for products to increase efficiency of water and resources in use of products and taking longer life and recyclability into consideration in designing products. We set out and run "Stage Gates" when developing a product and check whether the development strategy meets market trends by managing new product sales after launching a product.</p> <p>In other initiatives, we gather information on consumer needs and trends of their preferences by leveraging crowdfunding and providing products with new value to the market on a trial basis.</p> <p>We also forge corporate culture prioritizing quality over costs or delivery lead time. Specifically, we uphold a quality theme, "Let's fulfill LIXIL Quality that will be chosen by the customers," and pursue the outcome keeping the same direction, "for customers' satisfaction," in mind in all the organizations.</p>				
Relevance to Material Issues	<ul style="list-style-type: none"> < Priority > · Global Sanitation & Hygiene · Climate Change Mitigation and Adaptation · Water Sustainability · Circular Economy · Environmental Impact of Product Lifecycle · Diversity & Inclusion < High > · Product Safety · Customer Satisfaction · Stakeholder Engagement < Medium > · Information Security 				

[Strategic risk Cross-business risk]

(3) Risks related to the supply of raw materials

In our production activities, we source supplies including materials, parts and services in a timely manner. For this reason, if raw materials prices soar, commodity prices or supply of vital resources, including aluminum, copper and stainless steel fluctuate due to an increase in the demand in the industry or inflation or other factors in countries and regions where we operate, cost of sales increases and the operating results and financial position of the Company may be adversely affected. In addition, if supplies such as materials, parts and services were defective or unavailable, the confidence or reputation of products of the Company may be affected. In terms of logistics closely related to production and sales activities, supply delays due to the spread of novel coronavirus, fluctuations in oil prices, and a surge in labor cost may also cause a negative impact on the operating results and financial position of the Company. In addition, possibility of occurrence has been changed from "Low" to "Middle" in consideration of the recent surges in raw material prices and fluctuations in procurement possibilities. (Reference Risk (4))

Possibility of occurrence	Middle	Degree of Impact	Middle	Changes in materiality from the previous year	Increase
Countermeasure	We build a stable supply system from the perspective of BCP by taking measures such as passing extra costs to be caused by a steep rise in raw materials on to selling prices, utilizing derivatives for the purpose of hedging price fluctuations, purchasing from multiple suppliers, consolidating to suppliers with strong response capabilities in emergency situations, conducting credit surveys and responsible procurement questionnaires including human rights of business partners, communicating with business partners on a regular basis, promoting country risk countermeasures taking secondary suppliers into consideration, conducting regular quality tests, and securing safety inventory levels. In addition, we aim to shift to a recycling-oriented society by using recycled materials as much as possible as raw materials for products, taking longer life and recyclability into consideration in designing products, and promoting the acquisition of Cradle to Cradle® certification for our products. Moreover, we stabilize distribution costs by improving distribution efficiency.				
Relevance to Material Issues	< Priority > ·Circular Economy ·Environmental Impact of Product Lifecycle < High > ·Product Safety ·Human Rights ·Supply Chain Management ·Risk Management				

[Strategic risk Cross-business risk]

(4) Risks related to Environment (Climate change, water, and resources)

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

Possibility of occurrence	Middle	Degree of Impact	Middle	Changes in materiality from the previous year	Same level
Countermeasure	<p>Our group has established the Environmental Strategy Committee, which is chaired by the chief technology officer appointed by the Board of Executive Officers, and is responsible for formulating and implementing environmental strategies, such as establishing regulations and policies related to environmental governance, deliberating and deciding on measures for important environmental issues, including risks and opportunities arising from climate change, and managing and monitoring our group's overall environmental targets. Based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), we are working to identify and assess the risks and opportunities that climate change poses to our group, and after reporting to and approval by the Board of Executive Officers and Board of Directors, reflect these in its environmental strategy. Regarding transition risks, in addition to improving energy efficiency and actively utilizing renewable energy in production activities, we will strengthen our efforts to reduce environmental impact throughout the entire supply chain. In addition, we are conducting verification for the more effective operation of internal carbon pricing and research on manufacturing technologies and product materials to promote the development and introduction of long-term decarbonization technologies toward 2050. Regarding physical risks, we are working to minimize risks through BCP plans, establish production backup systems, have insurance coverage for fixed assets, and secure water to prevent drought. Regarding our response to climate-related transition risks and opportunities, we incorporate them into our environmental targets and action plans, promote and develop measures for improving environmental performance and risk management, and build a management process that monitors and reviews the progress. In addition, we identify environment-related laws and regulations through ISO 14001 or our environmental management system, set out rules to check whether they are complied with, conduct regular internal audits of the operation status, and follow up findings of internal audits and confirm that they are improved to ensure the effective operation of the management system. LIXIL's Zero Carbon and Circular Living policy aims to achieve net-zero carbon emissions by 2050 and preserve water and natural resources in operations, housing and lifestyle solutions for future generations. It is planned that Science Based Targets, an interim target for CO2 reduction by 2030, will be revised upward from the previous 2 °C target level to the 1.5 °C target level and the certification will be renewed. We are also increasing the composition ratio of the sales of environmentally friendly products as a management index of opportunities to contribute to the reduction of energy and water used in houses and buildings.</p>				
Relevance to Material Issues	<p>< Priority ></p> <ul style="list-style-type: none"> ·Climate Change Mitigation and Adaptation ·Water Sustainability ·Circular Economy ·Environmental Impact of Product Lifecycle ·Environmental Management <p>< High ></p> <ul style="list-style-type: none"> ·Supply Chain Management ·Corporate Governance ·Risk Management 				

As set forth in the Paris Agreement and Goal 13 of the SDGs, it is necessary more than ever for companies to review our manufacturing and sales activities to reduce CO2 emissions and to take steps to reduce the impact of climate change. Also, as set forth in Goals 12 and 6 of the SDGs, demand for sustainable use of resources, water-saving and water-purification technologies is also growing along with increased global population and economic growth.

To address these needs, the Company established its "Environmental Vision 2050", focusing on ①mitigation and adaptation through measures against climate change (achieving net zero emissions of greenhouse gases from its business processes, products and services), ②pursuit of water sustainability (creating environmental value of water through water conservation, recycling, and purification technology) and ③promotion of recycling of resources (contributing to recycling-based society and preserving finite resources for the future). In our business processes, we promote thorough energy conservation activities at our factories and offices, the use of renewable energy, and the development of technologies to improve the energy efficiency of our manufacturing process. We also strive to maintain environment that enables the continued use of water in regions where we do business by identifying water-related risks to our businesses and implementing appropriate measures such as improving water use efficiency, recycling, and managing waste water. We also form a scheme to accelerate resource recycling with society by minimizing resource input and promoting reuse and recycling in collaboration with suppliers as well as thorough reduction in waste and appropriate management.

[Strategic risk Cross-business risk]

(5) Risks related to business restructuring

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

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

Possibility of occurrence	Low	Degree of Impact	Middle	Changes in materiality from the previous year	Same level
Countermeasure	<p>We ingrain business strategies of the Company by enhancing communication between the management and employees.</p> <p>By clarifying the priority of management resource allocation through strengthening businesses and regional portfolio management of the Company, we maximize synergies and improve strategic effectiveness early in restructured organizations. In order to build organizations smoothly after business restructuring, we bolster PMI of companies acquired by M&A. As part of initiatives, we strengthen the governance of our subsidiaries by clarifying the PMI promotion structure and progress reporting process using guidelines and by developing and implementing effective and appropriate the PMI process.</p> <p>In addition, our Investment Review Committee and M&A Committee assess, and resolve matters relevant to investment and financing including those for business restructuring according to details of matters and monetary materiality.</p>				
Relevance to Material Issues	<p>< High ></p> <ul style="list-style-type: none"> · Ethics & Integrity · Corporate Governance · Risk Management 				

[Strategic risk Cross-business risk]

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

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

Possibility of occurrence	Low	Degree of Impact	Low	Changes in materiality from the previous year	Same level
Countermeasure	<p>As measures to be taken during integration, we formulate a common global policy for integration and reinforce our organizations to streamline and conduct post-integration review and monitoring processes. Also, sustainability items such as the environment and human rights are included in the policy. After integration, we facilitate organizational reforms with the aim of building an efficient, flat and simple organizational structure with agile decision makers to generate synergies and work to foster an inclusive culture and improve the environment so that employees of the target businesses can immediately take an active role as members of our group.</p> <p>We set up a Review Committee and an M&A Committee to assess and resolve investment and financing matters according to details of matters and monetary materiality. As part of initiatives for strengthening PMI of companies acquired by M&A, we shore up the governance of our subsidiaries by clarifying the PMI promotion structure and progress reporting process using guidelines and by developing and conducting effective and appropriate PMI process.</p> <p>These measures are based on preventive measures against improper accounting by Joyou AG, then overseas subsidiary of the Company, which came to light in 2015.</p>				
Relevance to Material Issues	<p>< Priority ></p> <ul style="list-style-type: none"> · Environmental Management · Diversity & Inclusion <p>< High ></p> <ul style="list-style-type: none"> · Talent & Development · Ethics and Integrity · Human Rights · Corporate Governance · Risk Management 				

[Strategic risk Cross-business risk]

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

In order for the Company to continuously develop its business, it is necessary to continue to promote securing and nurturing human resources who are well versed in expertise or have excellent management capabilities, such as those of business strategies and organizational management. However, particularly in Japan, where the declining birthrate and aging population have led to a decline in working population, competition for continuous acquisition of necessary human resources is fierce. If the acquisition or training of human resources does not progress as planned, the efficiency of business operations may be undermined from a long-term perspective and the operating results and financial position of the Company may be adversely affected. In addition, possibility of occurrence has been changed from "Low" to "Middle" in consideration of the increasing importance of in-house human resource development in promoting diversity, and the diverse and varied values of employees.

Possibility of occurrence	Middle	Degree of Impact	Middle	Changes in materiality from the previous year	Increase
Countermeasure	<p>We step up efforts for women's further active roles, employees with disabilities, racial equality, and sexual minorities, etc., and revise and enhance our human resources management system by region and carry out internal events to foster our corporate culture for the purpose of continued development of our business.</p> <p>In Japan, we actively hire new graduates and experienced people throughout the year, enhance personnel and educational systems in the aim to nurture and retain employees. To foster people who can fully demonstrate their capabilities at a global stage, we implement programs, including dispatching employees overseas, training for selected employees and e-learning. We promote diversity management to forge corporate culture embracing diversity of people, improve working environment, including working from home, and established new personnel systems, such as those for experts.</p> <p>We also set up "Shared Service Centers" not only in Asia but also in the West and Japan to enhance governance in each region and centralize and streamline indirect operations for the purpose of building flexible organizations which do not depend on working environment in and outside Japan as well as forming a "Compensation and Benefits Committee" for fair and transparent global treatment.</p>				
Relevance to Material Issues	<p>< Priority ></p> <ul style="list-style-type: none"> · Diversity & Inclusion <p>< High ></p> <ul style="list-style-type: none"> · Employee Safety & Wellbeing · Talent & Development · Ethics & Integrity · Human Rights 				

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

In order to respond to these needs, we regard the vitality generated by diversity as a source of developing entrepreneurship, and to achieve future growth and innovation, we have adopted the "LIXIL Diversity and Inclusion Declaration" and implement it within the Company. We also set up a "Diversity and Inclusion (D&I) Committee" in September 2020 to accelerate initiatives for D&I towards realization of transformation and business strategies of the organization. To retain diverse human resources, we step up measures to instill equality and inclusiveness throughout the organization, set the benchmark and monitor the progress. By implementing these initiatives, we aim for sustainable growth of the Company in countries and regions where we operate not only for now but also for the future and increase the meaning of our purpose and brand image.

[Strategic risk Cross-business risk]

(8) Risks related to the capacity of facilities

As we manufacture a variety of products in our main businesses, we own many production facilities, including factories that serve as production bases, and that operate in various regions. The utilization rates may decline, resulting from various factors such as fluctuations in supply and demand, a reduction in labor force, and disasters. If the Company is unable to achieve its initially expected revenue due to a decline in the utilization, the operating results and financial position of the Company may be adversely affected.

Possibility of occurrence	Low	Degree of Impact	Low	Changes in materiality from the previous year	Same level
Countermeasure	<p>As part of efforts to strengthen governance, an organization under the direct control of the CFO of the Company, facilitates performance management process of our subsidiaries in and outside Japan to make it possible to detect signs of impairment of fixed assets derived from idle assets or deterioration in business performance at an early stage and to take appropriate measures in a timely manner in case such signs are detected.</p> <p>In addition, we monitor situations how business assets are used and whether there are idle assets with a focus on efficiencies for the group of the Company as a whole and manage our property, confirming with relevant departments on a regular basis.</p> <p>We also purchase comprehensive damage insurance to cover financial losses. (Reference Risk (12))</p>				
Relevance to Material Issues	<p>< High > · Risk Management</p>				

[Strategic risk Risks specific to businesses]

<Water Technology Business>

(9) Risks related to sales channels

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

Possibility of occurrence	Middle	Degree of Impact	Middle	Changes in materiality from the previous year	Same level
Countermeasure	<p>To widen sales channels, we engage our new employee sales team to go directly to influencers on projects (e.g., owners, developers, designers, architects, contractors) in cooperation with wholesale distributor. By in-sourcing our sales team, as opposed to relying on outside sales agencies as in prior years, we will develop a more professional, focused, and knowledgeable sales team. By in-sourcing our sales team, as opposed to relying on outside sales agencies as in prior years, we will develop a more professional, focused, and knowledgeable sales team.</p> <p>We are leveraging our own e-commerce website, aiming to efficiently capture direct demand of end users who are looking to buy direct and adding tools to partner sites to increase availability and sale of our products. In order to underpin stable marketing activities and ensure operational safety, we put systems in place to prevent information leakage and troubles in the website operations by introducing appropriate management systems according to each purpose. In addition, we move forward with reforming cost structure, such as selection of manufacturing and distribution sites with a focus on bringing logistic efficiencies to not only ASD Holding Corp but also to the group of the Company as a whole.</p>				
Relevance to Material Issues	<p>< High ></p> <ul style="list-style-type: none"> · Customer Satisfaction · Supply Chain Management <p>< Medium ></p> <ul style="list-style-type: none"> · Information Security · Responsible Marketing & Advertising 				

[Strategic risk Risks specific to businesses]

<Water Technology Business>

(10) Brand risks

GROHE is recognized as a sophisticated brand, targeting affluent consumers among other brands the Company has. In order to further broaden its sales channels in the intense competition, GROHE has been expanding its business from its traditional focus on Europe to emerging countries and regions such as Asia and Africa. Expanding sales channels in emerging countries and regions may require more flexible pricing and development of products that meet unique regional needs. However, as a result of addressing these requirements, signature elements designed for regions with diverse cultural backgrounds may be no longer recognized and the GROHE brand value maintained by LIXIL Europe S.à r.l., a consolidated subsidiary of the Company, may be eroded. If this happened, the sales growth may be slow down or the profit margin may be reduced.

In addition, if the GROHE brand is not managed based on consistent strategies within the technology, the brand or design is not differentiated and the sales growth slows down or the profit margin worsens, the goodwill recorded by the Company may be impaired.

Possibility of occurrence	Low	Degree of Impact	High	Changes in materiality from the previous year	Same level
Countermeasure	<p>We maintain brand value and develop products through continuous brand investment. In addition, we continue to monitor and analyze sales prices of GROHE brand and peers' brands globally, set and share appropriate price levels, reflecting brand strategies based on the information gathered to draw up and implement unified plans of the group of the Company as a whole. As a result, we adapt price levels, reflecting the brand value in this intensively competitive markets. In terms of the positioning of the GROHE brand in the water technology business, we set out rules regarding the use of the brand design and retain and control the brand value to differentiate the brand from others within the business. A holistic brand strategy aims at strengthening the recognition of the GROHE brand as well as maintaining a top position in the markets.</p>				
Relevance to Material Issues	<p>< Priority ></p> <ul style="list-style-type: none"> · Diversity & Inclusion <p>< High ></p> <ul style="list-style-type: none"> · Customer Satisfaction <p>< Medium ></p> <ul style="list-style-type: none"> · Responsible Marketing & Advertising 				

[Strategic risk Risks specific to businesses]

<Housing technology business>

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

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

Possibility of occurrence	Middle	Degree of Impact	Middle	Changes in materiality from the previous year	Same level
Countermeasure	<p>In response to a decline in market price resulting from intense competition with our peers, we promote differentiation through launching value-added products that meet diverse needs and work on sales price rise. In manufacturing of common parts among interior, exterior and door products, we reduced production space by using versatile equipment and also applied this platform to the sash product manufacturing in the current consolidated fiscal year for the purpose of an increase in return on invested capital. This platform makes it possible to launch new products in fast cycle and continue to provide new value suitable for the times. We use crowdfunding to offer products on a trial basis, providing new value to the markets in another approach to be selected by customers not for prices but for “value.”</p>				
Relevance to Material Issues	<p>< Priority > · Diversity & Inclusion < High > · Customer Satisfaction < Medium > · Responsible Marketing & Advertising</p>				

[Operational Risk]

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

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

Possibility of occurrence	Middle	Degree of Impact	High	Changes in materiality from the previous year	Same level
Countermeasure	<p>We diversify risks of unexpected events, such as natural disasters, by purchasing comprehensive damage insurance to cover financial losses, distributing factories, carrying out quake-resistant construction diversifying our suppliers, and strengthening cooperation in the aim to reduce negative impacts on our businesses and finance, especially at domestic bases, and formulate and regularly review our BCP plan for earlier recovery. At overseas bases, we make efforts to establish structures under which we can take precautionary measures such as purchasing insurance and take action immediately after an unexpected event happens. The Company gives top priority to the safety of its employees and their families. With regard to the situation in Russia and Ukraine, a task force has been established at an early stage to respond to a wide range of issues, including support for the evacuation of employees and their families, sales activities, and economic sanctions, and management is actively involved in the necessary global response by sharing information. With regards to countermeasures to infection, we restrict business trips, movement, and commute, and set out procedures and reporting flow in preparation for being infected. At the Company, adopting remote working which has been promoted before the pandemic, we improve our working environment for our employees to work with peace of mind and work on the business continuation.</p> <p>Taking advantage of promotion of working from home and use of digital technology, we strive to confirm safety of the employees, share information and communicate with them timelier in case of emergency. The employees have also thoroughly informed of the ways to act and take measures in preparation for disasters.</p>				
Relevance to Material Issues	<p>< Priority > ·Climate Change Mitigation and Adaptation < High > ·Employee Safety & Wellbeing ·Supply Chain Management ·Risk Management-</p>				

[Operational Risk]

(13) Risks related to information security

In manufacturing, sales and other business activities, the Company uses computer systems and communications networks that link to computer systems. For this reason, if a technical glitch happens, including failure in a communications network, failure and defect in hardware or software on a network or a computer system, and shutdown of a data center, the business activities may be hindered. Failure in an information system stemming from improper installation or update may lead to a glitch in a system, operational inefficiencies, and a decline in productivity, which also may hinder business activities. Furthermore, the Company needs to handle a variety of personal information, including customer information, in the course of its business, and stringent information management is required. However, in the event of leakage of personal information due to unforeseen incidents, there is a possibility that social trust in the Company may be damaged, and a large cost burden may be incurred. As a result, the operating results and financial position of the Company may be adversely affected by a decrease in profits or an increase in selling, general and administrative expenses. In addition, possibility of occurrence has been changed from "Middle" to "High" in consideration of increasing exposure due to the recent advanced and frequent cyber attacks and the promotion of DX.

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

[Operational Risk]

(14) Risks related to litigation and other legal proceedings

The Company may be subject to litigation and other legal proceedings in the course of its business development in and outside Japan. Regarding intellectual property, there is a possibility that a third party may infringe on the intellectual property of the Company or that a third party may file an intellectual property lawsuit against the Company. If the Company becomes a party to litigation or other legal proceedings, damages may be incurred such as large amounts of damages and rescindment of licenses required for its business. Especially overseas, we may unintentionally act against requirements as they differ among countries and regions. As a result, the brand image of the Company may be undermined attributable to damages of confidence and reputation of the Company, and the operating results and financial position of the Company may be adversely affected.

Possibility of occurrence	Low	Degree of Impact	Middle	Changes in materiality from the previous year	Same level
Countermeasure	<p>The Legal Department of the Company takes preventive measures against litigation and other legal proceedings through screening of contracts and requirements of countries and regions. If the Company is involved in litigation or other legal proceedings, the Legal Department addresses them in a timely manner, working with external experts if needed, and minimize a negative impact on the Company. Regarding intellectual property, the Intellectual Property Division and the business department work together to acquire intellectual property rights such as SATO brand that are useful for business development, and conduct research and analysis of intellectual property rights of third parties from the development stage, such as incorporating risk assessment of intellectual property rights into product development stage gates, in order to prevent the occurrence of lawsuits and other legal proceedings.</p>				
Relevance to Material Issues	<p>< Priority > · Global Sanitation & Hygiene < High > · Risk Management</p>				

[Operational Risk]

(15) Risks related to product liability and claims

Products and services the Company provides may have defects or be recalled. Considerable liability claims or recalls may lead to large amounts of payments and adversely affect confidence or reputation of products of the group of the Company. As a result, costs including the cost of sales and selling, general and administrative expenses may increase, and the operating results and financial position of the Company may be adversely affected.

Possibility of occurrence	Low	Degree of Impact	Middle	Changes in materiality from the previous year	Same level
Countermeasure	We set out "Gates" for quality at each stage of development and design. If products or services do not resolve concerns pointed out by the Gate, they are not allowed to proceed with next Gate. By setting this rule and implementing it, we mitigate the risk of considerable liability claims or recalls of our products and services. We also forge corporate culture prioritizing quality with customer perspectives over costs and delivery lead time. (Reference Risk (2))				
Relevance to Material Issues	< High > <ul style="list-style-type: none"> · Product Safety · Customer Satisfaction · Ethics & Integrity · Risk Management 				

[Operational Risk]

(16) Recoverability risk of deferred tax assets

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

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

Possibility of occurrence	Low	Degree of Impact	Middle	Changes in materiality from the previous year	Same level
Countermeasure	The Corporate Financial Control Department, which is responsible for the performance management of our whole group, enhances monitoring and makes a quick response to any causes that hamper accomplishment of the estimates. As part of our efforts to strengthen governance, an organization under the direct control of CFO of the Company promotes performance management process at our subsidiaries in and outside Japan to detect signs of a decline in business results at an early stage. The Corporate Taxes Department also grasps information on tax reforms at an early stage. We established a system to enable our departments of Corporate Accounting, Finance and Taxes to make discussions and take timely action, including decision making on the need to review the recoverability of deferred tax assets when identifying such signs or information.				
Relevance to Material Issues	< Medium > <ul style="list-style-type: none"> · Tax Transparency 				