

## [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 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.

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, 2021.

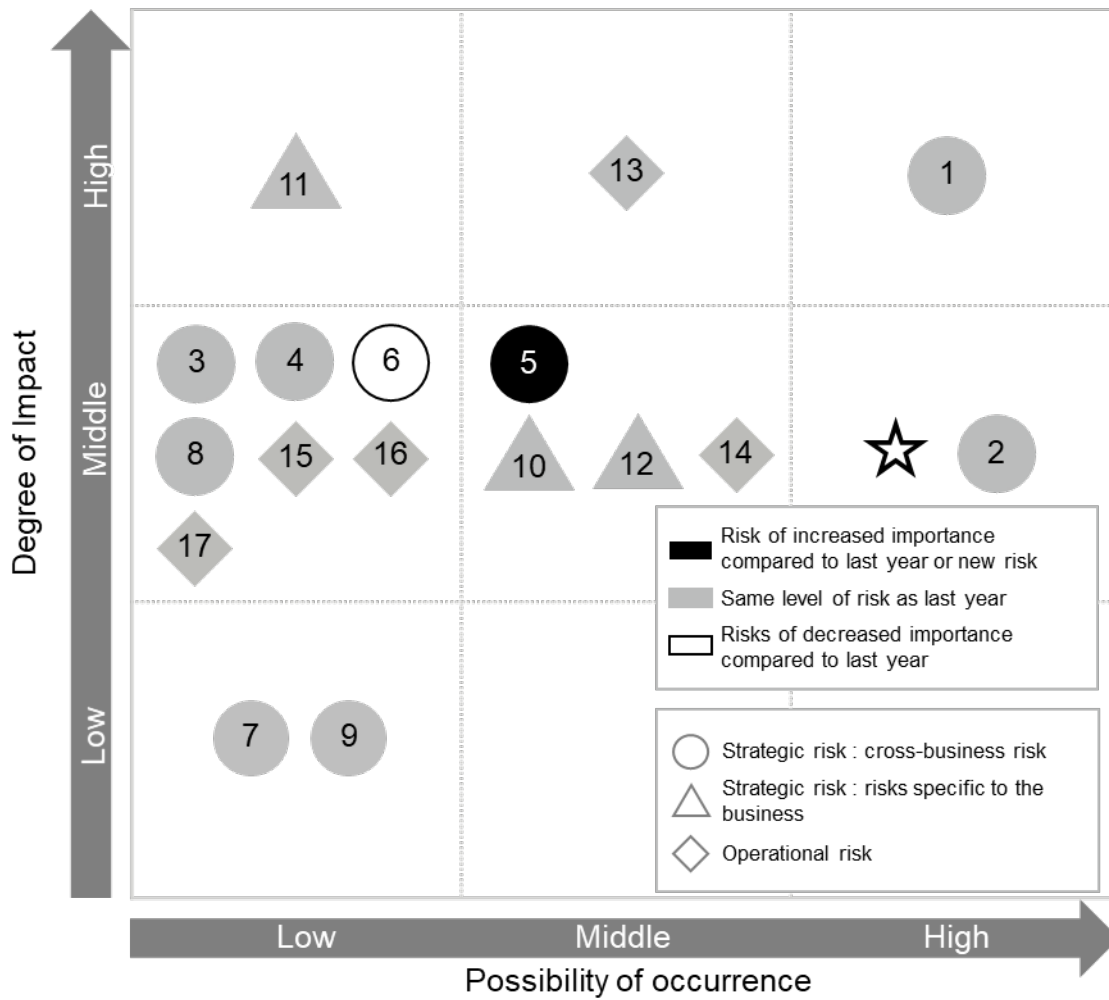
**【Risks related to COVID-19】**

The COVID-19 global pandemic, confirmed in November 2019, caused a sharp stagnation in economic and social activities, which had a considerable impact on our business performance. Although there are differences depending on the region, both Japan and international businesses are generally on a recovery trend. The biggest concerns with the spread of the coronavirus infections are that the safety and health of the employees of the Company working globally and their families could be undermined, and that casualties could occur due to difficulty in ensuring occupational safety and health at workplaces. On top of the uncertainty of the occupational safety and health, government restrictions on movement and others could make it difficult to access workplaces and to continue operations as usual.

In terms of the impact on supply chains, a resurgence in the spread of the infections and another lockdown in countries and regions may cause a reduction in the utility rate and suspension of production along with delay in raw materials supply or suspension from work. There are many uncertainties of the impact of COVID-19 on economic activities. If the situation changes, the operating results and financial position of the Company may be affected.

Possibility of occurrence	High	Degree of impact	Middle	Changes in materiality from the previous year	Decrease
Countermeasure	<p>One of the top priorities of the Company is to protect the lives of its employees and their families. Specifically, in order to prevent the spread of the infections, we restrict business trips, movement, and commute, inform precautionary measures and set out procedures and reporting flow in preparation for being infected. At the Company, we improve our working environment for our employees to work with peace of mind, adopting remote working which has been promoted before the pandemic and work on the business continuation.</p> <p>As part of efforts to continue business activities, we strive to ensure stable supply of our products in the global markets by accurately understanding and responding to situations of raw materials supply and production, transferring supply and production functions to other sites of the group of the Company, considering alternative products, and purchasing vital parts from multiple suppliers.</p>				
Relevance to management policies	-				

[Risk Map and Legend]



Business Risk			
		☆ Risks related to Novel coronavirus	
Strategic risk	Cross-business Risk	(1) Risks related to changes in the economic Environment	
		(2) Risks related to fluctuations in exchange rates and interest rates	
		(3) Risks related to the development of new products	
		(4) Risks related to the supply of raw materials	
		(5) Environmental risk	
		(6) Risks related to business restructuring	
		(7) Risks related to tie-ups with other companies and corporate acquisitions	
		(8) Risks related to the acquisition and development of human resources and the promotion of diversity	
		(9) Risks related to the capacity of facilities	
		Business-specific Risk	LWT*
		LHT*	(11) Brand risk
			(12) Risks related to competition with competitors and product prices
Operational Risk			(13) Risks related to disasters, accidents and infectious diseases
			(14) Risks related to information security
			(15) Risks related to litigation and other legal proceedings
			(16) Risks related to product liability and claims
			(17) Recoverability risk of deferred tax assets

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

[Strategic risk]

[Cross-business risk]

(1) Risks related to changes in the economic environment

The Company engages in sales activities in Japan, and its profits are affected by domestic demand, the economy, price fluctuations, and trends of industries and the business. Among others, significant fluctuations in new housing starts and in orders received by construction companies and a surge in wood prices due to lumber shortage could adversely affect the operating results and financial position of the Company. The Company also engages in production and sales activities in Asian countries, including China and Thailand, and in other countries and regions, including Europe and North America. If any war, civil war, conflict, riot or terrorism occurs in these areas, it could pose a threat not only to its sales activities in these and the surrounding areas but also to the stability of raw materials supply in prices and quantity, and the operating results and financial position of the Company may be adversely affected.

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.				
Relevance to management policies	① [Establish a purpose-driven entrepreneurial company for sustainable growth] Consistently redefine the business portfolio				

(2) Risks related to fluctuations in exchange rates and interest rates

As we operate overseas, 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. 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	Middle	Changes in materiality from the previous year	Same level
Countermeasure	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 management policies	① [Establish a purpose-driven entrepreneurial company for sustainable growth] Consistently redefine the business portfolio				

(3) Risks related to the development of new products

The Company always understand technology and customer needs with accuracy and develop attractive products to create high quality, healthy, comfortable and safe living space. However, if we could not meet the market or industry needs, or launch a product due to inability to continue investing in development, we would face a slowdown in our future growth and profits and operating results and financial position may be adversely affected.

Possibility of occurrence	Low	Degree of Impact	Middle	Changes in materiality from the previous year	Same level
Countermeasure	<p>Through partnership with innovative start-up companies and the utilization of the global information network, we established a system to promptly respond to changes in consumer needs. In order to develop attractive products that meet the needs, we work on product development with a sense of speed by developing advanced technologies represented by "Aqua ceramic" which is a new material for sanitary ware, strengthening competence for design and unifying product platforms. In addition, 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 management policies	<p>② [Develop attractive and differentiated products] Innovation</p> <p>② [Develop attractive and differentiated products] Brand</p> <p>② [Develop attractive and differentiated products] Design</p> <p>④ [Marketing to end users and influencers] End users</p> <p>④ [Marketing to end users and influencers] Strategy as an comprehensive manufacturer</p>				

(4) 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 oil, aluminum, wood 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, changes in distribution costs behind fluctuations in oil prices and a surge in labor cost may also cause a negative impact on the operating results and financial position of the Company.

Possibility of occurrence	Low	Degree of Impact	Middle	Changes in materiality from the previous year	Same level
Countermeasure	<p>We build a stable supply system by taking measures such as passing extra costs to be caused by a steep rise in raw materials on to selling prices, purchasing from multiple suppliers, consolidating to more profitable suppliers, conducting credit surveys of business partners, communicating with business partners on a regular basis, conducting regular quality tests, and securing safety inventory levels. In addition, we stabilize distribution costs by improving distribution efficiency.</p>				
Relevance to management policies	<p>③[Achieve competitive costing] Qualitative improvement in supply chains</p>				

(5) Environmental risks

We engage in a variety of activities to protect the global environment based on a "LIXIL Group Environmental Policy." Particularly, in recent years, the impact of climate change has led to put new laws and regulations in place, such as those for strengthening energy-saving and introducing a carbon tax, and this causes the growing number of possible cases of violation of laws in production and sales activities which were not regarded as a problem in the past. Acceleration of the global trend of decarbonization may cause an overhaul of our manufacturing process using fossil fuel. If an incident, including serious environmental pollution, stemming from business activities of the Company happen or abnormal weather damages its manufacturing facilities, the operating results and financial position of the Company may be adversely affected. In light of raising awareness on the recent environmental issues and the move of decarbonization, the degree of "Changes in materiality from the previous year" has been changed from "Same level" to "Increase."

Possibility of occurrence	Middle	Degree of Impact	Middle	Changes in materiality from the previous year	Increase
Countermeasure	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, and conduct regular inspections of the operation status. We reinforce our group-wide target management and monitoring systems by developing and utilizing "Environmental Performance Data Reporting Guidelines" and promote a reduction in environmental impact in the Company as a whole. We also conduct internal audits based on our own environmental management system and gradually expand the scope to our subsidiaries. In addition, we follow up findings of internal audits and confirm that they are improved to ensure the effective operation of the management system. In order to develop and introduce decarbonization technology in long-term towards 2050, we conduct research on manufacturing technology and materials for products.				
Relevance to management policies	①[Establish a purpose-driven entrepreneurial company for sustainable growth] Become a company we can be proud of and respected				

As stated in Goal 6 of the SDGs, there are many people in the world who are forced to defecate in the open due to lack of sewage or sanitation facilities. In areas with no access to sufficient water resource due to water pollution or scarcity, ways to treat excrement and water-saving technology based on the premise of efficient use of water resources are required.

To respond to such needs, the Company aims to improve sanitary conditions of 100 million people by 2025, which brings their improved quality of life. Specifically, we expand a simplified toilet system, "SATO" in rural areas of developing countries where toilets are not widely installed, making the business profitable, develop a micro flush toilet system for use in urban areas where toilets are installed but water supply is limited, and develop a portable toilet system for use in slums where outdoor toilets are difficult to be installed.

In addition, 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. 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 mitigation and adaptation through measures against climate change (achieving net zero emissions of greenhouse gases from its business processes, products and services), pursuit of water sustainability (creating environmental value of water through water conservation, recycling, and purification technology) and promotion 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,

By stepping up these initiatives for social issues, we aim for sustainable growth of the Company in countries and regions where we operate now and going forward, an increase in the meaning of our purpose and improvement of our brand image.

(6) 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 by optimizing its personnel 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 inconsistency between strategies of the Company and the possible reorganized businesses, 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 systematically identified when making decisions on investment and financing, and profits or synergies initially envisioned are not achieved. As a result of sales of some non-core businesses to simplify the business structure and centralize business resources in core businesses, the risks were reduced and the degree of "Changes in materiality from the previous year" has been changed from "Same level" to "Decrease."

Possibility of occurrence	Low	Degree of Impact	Middle	Changes in materiality from the previous year	Decrease
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Countermeasure	<p>We ingrain business strategies of the Company by enhancing communication between the management, including directors and executive officers and employees.</p> <p>By strengthening businesses and regional portfolio management of the Company, we maximize synergies and improve strategic effectiveness in restructured organizations. In order to build organizations that do not cause large-scale business restructuring, we bolster PMI of companies acquired by M&amp;A. As part of initiatives, we strengthen the governance of our subsidiaries by clarifying the PMI promotion structure and progress reporting process using guidelines and by developing and implementing effective and appropriate the PMI process.</p> <p>In addition, our Investment Review Committee and M&amp;A Committee assess, and resolve matters relevant to investment and financing including those for business restructuring according to details of matters and monetary materiality.</p>
Relevance to management policies	<p>①[Establish a purpose-driven entrepreneurial company for sustainable growth] Consistently redefine the business portfolio</p> <p>③[Achieve competitive costing] Reduce indirect department costs</p>

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

Although the Company may plan to expand its business through investment, including acquisitions and capital participation, we may not be able to achieve profits or synergies initially envisioned or detect liabilities, including contingent and unrecognized ones, before an acquisition if risks and opportunities pertained to the Company after an acquisition or investment are not identified in a timely and accurate manner. In addition, if strategies of the Company and business acquired or invested in are inconsistent, 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. 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.</p> <p>We set up a Review Committee and an M&amp;A Committee to assess and resolve investment and financing matters according to details of matters and monetary materiality. As part of initiatives for strengthening PMI of companies acquired by M&amp;A, we 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 management policies	<p>①[Establish a purpose-driven entrepreneurial company for sustainable growth]</p> <p>Consistently redefine the business portfolio</p>				



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

In order for the Company to continuously develop its business, it is necessary to continue to promote securing and nurturing human resources who are well versed in expertise or have excellent management capabilities, such as those of business strategies and organizational management. However, particularly in Japan, where the declining birthrate and aging population have led to a decline in working population, competition for continuous acquisition 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.

Possibility of occurrence	Low	Degree of Impact	Middle	Changes in materiality from the previous year	Same level
Countermeasure	<p>We step up efforts for women's further active roles, employees with disabilities and sexual minorities, 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. For example, we take action in the United States and Africa, focusing on racial equality.</p> <p>In Japan, we actively hire new graduates and experienced people throughout the year, enhance personnel and educational systems and promote transfer of skills by adopting part-time employment of retired technicians aged 65 or over 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> <p>*The overseas dispatch was not implemented in the year ending March 2021 due to the spread of COVID-19 infections and will be resumed in the year ending March 31, 2022.</p>				
Relevance to management policies	<p>①[Establish a purpose-driven entrepreneurial company for sustainable growth] Become a company we can be proud of and respected</p> <p>①[Establish a purpose-driven entrepreneurial company for sustainable growth] Draw competitiveness by the LIXIL behaviors</p>				

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.

(9) 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.</p>				
Relevance to management policies	<p>①[Establish a purpose-driven entrepreneurial company for sustainable growth]</p> <p>Consistently redefine the business portfolio</p>				

[Risks specific to businesses]

<Water Technology Business>

( 1 0 ) 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 written down.

Possibility of occurrence	Middle	Degree of Impact	Middle	Changes in materiality from the previous year	Same level
Countermeasure	To widen sales channels, we engage in sales promotion of our products by flexibly expanding sales outlets to housing equipment-related construction companies as well as by enhancing sales plans in official distributors. We leverage our own EC website, aiming to efficiently capture direct demand of end users. 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 sites with a focus on bringing efficiencies to not only ASD Holding Corp but also to the group of the Company as a whole.				
Relevance to management policies	②[Develop attractive and differentiated products] Brand				

( 1 1 ) 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, and the goodwill recorded by the Company may be written down. 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 written down.

Possibility of occurrence	Low	Degree of Impact	High	Changes in materiality from the previous year	Same level
Countermeasure	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 can keep price levels, reflecting the brand value in the intensely 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.				
Relevance to management policies	②[Develop attractive and differentiated products] Brand ②[Develop attractive and differentiated products] Design				

<Housing technology business>

( 1 2 ) 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 by the Company and peers. In such environment, it is difficult to make decisions on pricing that are always advantageous to the Company, and the pricing of its peers affect its profits. The Company is proud to be a leading company that can 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 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 will apply this platform to the sash product manufacturing by the year ending March 2022 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.</p> <p>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 management policies	<p>②[Develop attractive and differentiated products] Brand</p>				

<Building Technology Business>

Risks related to long-term contracts

The Company decided to sell 100% of the shares of Permasteelisa S.p.A., its consolidated subsidiary, in May 2020 and executed the transfer of shares in September 2020. As we made the decision that the completion of the transfer considerably reduced the “risks related to long-term construction contracts” and the degree of impact of the risks, we delisted the risks and their countermeasures from the year ended March 31, 2021.

[Operational Risk]

(13) 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 and carrying out quake-resistant construction 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. We also keep every employee informed by posting guidelines to prevent and respond to infectious diseases in carrying out day-to-day work on internal information share platforms, including the Intranet of the group of the Company and take precautionary measures through collecting necessary information about moves of the World Health Organization, countries and regions.</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 management policies	<p>①[Establish a purpose-driven entrepreneurial company for sustainable growth]</p> <p>Become a company we can be proud of and respected</p>				

( 1 4 ) 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.

Possibility of occurrence	Middle	Degree of Impact	Middle	Changes in materiality from the previous year	Same level
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. 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 management policies	<p>①[Establish a purpose-driven entrepreneurial company for sustainable growth] Draw competitiveness by the LIXIL behaviors</p> <p>④[Marketing to end users and influencers] Influencers</p>				

( 1 5 ) 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. 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.</p>				
Relevance to management policies	<p>①[Establish a purpose-driven entrepreneurial company for sustainable growth] Draw competitiveness by the LIXIL behaviors</p>				

( 1 6 ) 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.				
Relevance to management policies	①[Establish a purpose-driven entrepreneurial company for sustainable growth] Draw competitiveness by the LIXIL behaviors ②[Develop attractive and differentiated products] Quality				

( 1 7 ) 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.

Estimates of future taxable income are based on a three-year business plan approved by the management. In the business plan, 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, controlling budget of the Company, enhances monitoring and makes a quick response to any causes that hamper accomplishment of the business plan. 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 management policies	-				