

The following is an English translation of the Items for Disclosure via the Internet upon the Notice of Convocation of the 79th Annual Shareholders' Meeting of LIXIL Corporation (the "Company"). The Company provides this translation for your reference and convenience only and without any warranty as to its accuracy or otherwise. If there is any discrepancy between the Japanese version and the English translation, the Japanese version shall prevail.

Dear Shareholders,

**Internet Disclosure Items
for the Notice of Convocation of
the 79th Annual Shareholders' Meeting**

- 1. Notes to Consolidated Financial Statements**
- 2. Notes to Nonconsolidated Financial Statements**

for 79th Fiscal Year (from April 1, 2020 to March 31, 2021)

LIXIL Corporation

Pursuant to the provisions of laws and regulations, and the Articles of Incorporation of the Company, the above items are provided to shareholders by posting on the Company's website (<https://www.lixil.com/>).

Notes to Consolidated Financial Statements

1. Basis for Preparation of Consolidated Financial Statements

(1) Standards of preparation of consolidated financial statements

The consolidated financial statements of LIXIL Corporation (the "Company") have been prepared in accordance with International Financial Reporting Standards ("IFRS") pursuant to Article 120, Paragraph 1 of the Ordinance on Company Accounting. Pursuant to the provisions of the second sentence of the paragraph, certain disclosures required under IFRS are omitted.

(2) Basis of consolidation

Number of subsidiaries:

184 (Note)

Major subsidiaries:

LIXIL Total Service Corporation

LIXIL Total Hanbai Corporation

LIXIL Group Finance Corporation

LIXIL Europe S.à r.l.

ASD Holding Corp.

A-S CHINA PLUMBING PRODUCTS Ltd.

TOSTEM THAI Co., Ltd.

LIXIL INTERNATIONAL Pte. Ltd.

LIXIL GLOBAL MANUFACTURING VIETNAM Co., Ltd.

LIXIL Manufacturing (Dalian) Corporation

Kawashima Selkon Textiles Co., Ltd. and its subsidiaries and Japan Home Shield Corporation and its subsidiaries were excluded from the scope of consolidation as all of the shares of these companies were disposed of. Details are described in Note 10. "Notes to Subsidiaries and Associates."

Permasteelisa S.p.A. and its subsidiaries and LIXIL VIVA Corporation were excluded from the scope of consolidation as all of the shares of these companies were disposed of. Details are described in Note 11. "Notes to Discontinued Operations."

The Company has completed the merger between the Company (surviving company) and its 100% subsidiary LIXIL Corporation (absorbed company), and the Company has changed its name from LIXIL Group Corporation to LIXIL Corporation.

Note: Above number of consolidated subsidiaries includes 47 companies which were excluded from the scope of consolidation due to share transfer, absorption-type merger, etc. during the fiscal year ended March 31, 2021.

(3) Investments in associates accounted for using the equity method

Number of investments in associates accounted for using the equity method: 57 (Note)

Major investments in associates accounted for using the equity method: Sanyo Homes Corporation

Note: Above number of investments in associates accounted for using the equity method includes 9 companies, which were excluded from the scope of investments in associates accounted for using the equity method due to share transfer, absorption-type merger, etc. during the fiscal year ended March 31, 2021.

(4) Fiscal year of subsidiaries

In preparing the consolidated financial statements, subsidiaries with fiscal year ends other than the Company's March fiscal year end provisionally prepare financial statements as of March 31, which are used for consolidation.

(5) Significant accounting policies

1) Inventories

The historical cost of inventories includes costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Inventories are stated at the lower of cost and net realizable value. Historical cost is determined mainly by using the weighted-average method. Net realizable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale.

Carrying amounts of inventories recognized in the consolidated statement of financial position are reviewed regularly. When there is slow-moving inventory over a long period, or when the Company and its subsidiaries (the "Group") does not expect that all or a portion of the inventory will be recovered through sales, carrying amounts are written down to their estimated net realizable values.

2) Property, plant and equipment

The Group measures property, plant and equipment by using the cost model at historical cost less accumulated depreciation and accumulated impairment losses. The historical cost includes any costs directly attributable to the acquisition of the asset and dismantlement, removal and restoration costs, as well as borrowing costs eligible for capitalization.

Property, plant and equipment are depreciated mainly by using the straight-line method over their estimated useful lives, except for assets that are not subject to depreciation, such as land. The estimated useful lives of major property, plant and equipment are as follows:

- Buildings and structures: 8 to 50 years
- Machinery and vehicles: 7 to 12 years
- Tools, furniture and fixtures: 2 to 20 years

The depreciation method, estimated useful lives and residual values are reviewed at each fiscal year end. If there are any changes made to the depreciation method, estimated useful lives or residual values, such changes are accounted for as changes in accounting estimates and applied prospectively starting from the fiscal period of change.

The carrying amount of property, plant and equipment shall be derecognized on disposal or when no future economic benefits are expected from its continued use. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the consideration for disposal and the carrying amount and is recognized in profit or loss.

3) Goodwill

Goodwill arising from business combinations is stated at historical cost less accumulated impairment losses.

Goodwill is not amortized but allocated to cash-generating units ("CGU") (or groups of CGU) and tested for impairment at least once a year, or whenever there is any indication of impairment. Impairment losses on goodwill are recognized in profit or loss and no subsequent reversal is made.

Goodwill is derecognized at the time of disposal of the associated CGU (or group of CGU) and included in the carrying amount of the disposed operation when profit or loss on disposal is recognized.

4) Other intangible assets

After recognition, intangible assets are measured by using the cost model. Intangible assets are carried at historical cost less any accumulated amortization and accumulated impairment losses.

A. Intangible assets acquired individually

Measured at historical cost on initial recognition

B. Intangible assets acquired through business combinations

Measured at fair value on the acquisition date

C. Internally generated intangible assets

Research and development costs arising internally within the Group are expensed when incurred, with the exception of expenditures for development activities that meet all of the following capitalization criteria:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The Company's intention to complete the intangible asset and use or sell it;
- The Company's ability to use or sell the intangible asset;
- How the asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The Company's ability to measure reliably the expenditure attributable to the intangible asset during its development.

Intangible assets with finite useful lives are amortized by using the straight-line method over their estimated useful lives. The estimated useful lives of major intangible assets with finite useful lives are as follows:

- Software: 5 years
- Customer-related assets: 13 to 30 years
- Trademarks: 5 to 20 years
- Technological assets: 6 to 10 years

Trademarks with indefinite business periods are classified as intangible assets with an indefinite useful life when it is determined that there is no foreseeable limit to the period in which future economic benefits are expected, given that business periods continue, in principle, as long as the business continues.

Intangible assets with indefinite useful lives and intangible assets with finite useful lives that are not ready to use are not amortized, but they are tested for impairment at least once a year or whenever there is any indication of impairment.

Amortization methods, useful lives and residual values of assets are reviewed at each fiscal year end and any changes are accounted for as changes in accounting estimates and applied prospectively starting from the fiscal period of change.

5) Investment property

Investment property is property held to earn rentals or for capital appreciation, or both.

Investment property is measured by using the cost model, which is consistent with the accounting treatment for buildings under property, plant and equipment, and stated at cost less accumulated depreciation and accumulated impairment losses.

Investment property is depreciated by using the straight-line method over the estimated useful life, which is consistent with the accounting treatment for buildings under property, plant and equipment.

The depreciation method, estimated useful lives and residual values are reviewed at each fiscal year end. If there are any changes made to the depreciation method, estimated useful lives or residual values, such changes are accounted for as changes in accounting estimates and applied prospectively starting from the fiscal period of change.

6) Impairment of non-financial assets

Non-financial assets, such as property, plant and equipment, goodwill and other intangible assets, are assessed for any indications of impairment at the end of every fiscal year. Impairment tests are performed in

cases where there is an indication of impairment. However, for goodwill and intangible assets with indefinite useful lives, impairment tests are performed at least once a year regardless of any indication of impairment. Assets for which tests cannot be performed individually are merged into the smallest group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets (CGU), and impairment tests are performed for each CGU (or group of CGU). A CGU (or group of CGU) to which goodwill is allocated for the purpose of impairment testing represents the lowest level at which the goodwill is monitored for internal management purposes and is not larger than an operating segment. Goodwill that forms part of the carrying amount of an investment accounted for under the equity method is not separately recognized, and therefore, it is not tested for impairment separately. If there is any indication that investments in associates and joint ventures accounted for using the equity method may be impaired, the entire carrying amount of the investment is tested as a single asset.

The recoverable amount of an individual asset or a CGU is measured as the higher of its fair value less costs of disposal or its value in use. Where the carrying amount of the asset or CGU exceeds its recoverable amount, impairment losses are recognized and the asset is written down to its recoverable amount. In determining the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For assets other than goodwill, an assessment is made at the end of every fiscal year as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased, such as any changes in assumptions used for the determination of the recoverable amount. If any such indication exists, the Group estimates the asset's or CGU's recoverable amount. In cases where the recoverable amount exceeds the carrying amount of the asset or CGU, impairment losses are reversed up to the lower of the determined recoverable amount or the carrying amount that would have been determined, net of depreciation, had no impairment loss for the asset been recognized in prior years. Recognized impairment losses relating to goodwill cannot be reversed.

7) Financial instruments

A. Financial assets

(i) Initial recognition and measurement

The Group classifies, at initial recognition, financial assets as financial assets that are measured at amortized cost, financial assets measured at fair value through other comprehensive income or financial asset measured at fair value through profit or loss.

All financial assets are initially recognized on the transaction date and measured at fair value, however, the financial assets that are not recorded at fair value through profit or loss are initially recognized on the transaction date and measured at the sum of the fair value and transaction costs.

(ii) Subsequent measurement

(a) Financial assets that are measured at amortized cost

Financial assets are classified to financial assets that are measured at amortized cost if both of the following conditions are met:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, assets are measured at amortized cost using the effective interest method.

(b) Financial assets measured at fair value through other comprehensive income

Financial assets are classified to financial assets measured at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flow and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are

solely payments of principal and interest on the principal amount outstanding.

After initial recognition, assets are measured at fair value and subsequent changes in fair value are recognized in other comprehensive income. When the financial asset is derecognized, the cumulative gain or loss is reclassified to profit or loss.

(c) Equity instruments measured at fair value through other comprehensive income

Financial assets that have not been classified as either financial assets measured at amortized cost or financial assets measured at fair value through other comprehensive income are classified as financial assets measured at fair value through profit or loss. An entity is permitted, at initial recognition, to make an irrevocable election to present the changes in fair value of an investment in an equity instrument that is not held for trading in other comprehensive income. The Group makes this election on an instrument-by-instrument basis.

After initial recognition, assets are measured at fair value and subsequent changes in fair value are recognized in other comprehensive income. When the equity instrument is derecognized, the Group reclassifies the cumulative amount of other comprehensive income to retained earnings and not to profit or loss. Dividends are recognized in profit or loss.

(d) Financial assets measured at fair value through profit or loss

A financial asset other than those classified as (a), (b) and (c) above is classified as a financial asset measured at fair value through profit or loss.

The Group initially recognizes and measures a financial asset measured at fair value through profit or loss at its fair value and expenses the transaction costs that are directly attributable to the acquisition of the financial asset as incurred. The Group subsequently measures the asset at fair value and recognizes the subsequent changes in fair value in profit or loss.

(iii) Derecognition

The Group derecognizes financial assets when and only when the contractual rights to the cash flows from the financial assets expire, or when the financial assets and substantially all the risks and rewards of ownership are transferred. In cases where the Group neither transfers nor retains substantially all the risks and rewards of ownership but continues to control the assets transferred, the Group recognizes the retained interest in assets and related liabilities that might be payable.

B. Impairment of financial assets

In the recognition of impairment losses for a financial asset or a group of financial assets that is measured at amortized cost at the end of every fiscal year, the Group assess whether there have been significant increases in credit risk since the initial recognition. The Group determines whether there have been significant increases in credit risk by considering the change in the risk of default occurring since the initial recognition. The assessment of whether there is a change in the risk of default is made by considering the following:

- Significant change in the financial asset's external credit rating
- Downgrade of internal credit rating
- Deterioration of borrower's operating results
- Past due information

However, even when a late payment or request for a grace period occurs, the Group does not determine that there has been a significant increase in credit risk if it is determined that such late payment or request for grace period would be attributable to a temporary cash shortage, the risk of default is low and objective data such as external credit ratings reveal an ability to fulfill the obligation of contractual cash flows in the near future.

On the other hand, the Group determines that the credit of the financial assets are impaired when a late payment or request for a grace period does not arise from a temporary cash shortage and significant financial difficulty of the debtor is shown and the recoverability of the modified financial assets is significantly doubtful.

The Group considers financial assets, such as trade and other receivables, in default when all or parts of those financial assets are not recovered or the recoverability of those financial assets is determined to be extremely difficult.

Expected credit losses are the present value of the difference between the cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive. When credit risk related to financial assets has increased significantly since the initial recognition, the Group measures the loss allowance for those financial assets at an amount equal to the lifetime expected credit losses. Conversely, when credit risk related to financial asset has not increased significantly since the initial recognition, the Group measures the loss allowance for that financial asset at an amount equal to the 12-month expected credit losses.

Despite the above requirement, the Group always measures the loss allowance for trade receivables, receivables and contract assets that do not contain a significant financing component at an amount equal to the lifetime expected credit losses.

As trade and other receivables mainly comprise a number of customers, the Group measures expected credit loss by grouping those receivables and considering historical credit loss experience. When those receivables are affected by a material economic change, the provision rate calculated based upon the historical credit loss experience is adjusted to reflect current and future economic prospect.

The Group directly writes off the gross carrying amounts of the credit-impaired financial assets when all or part of the financial assets are evaluated as uncollectible and it is determined that it is appropriate to write them off as a result of credit check.

C. Financial liabilities

(i) Initial recognition and measurement

The Group classifies financial liabilities, at initial recognition, into financial liabilities measured at fair value through profit or loss and financial liabilities measured at amortized cost.

All financial liabilities are measured at fair value at initial recognition. However, financial liabilities measured at amortized cost are measured at cost after deducting transaction costs that are directly attributable to the financial liabilities.

(ii) Subsequent measurement

After initial recognition, financial liabilities are measured based on the classification as follows:

(a) Financial liabilities measured at fair value through profit or loss

Financial liabilities measured at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated as measured at fair value through profit or loss at initial recognition.

(b) Financial liabilities measured at amortized cost

After initial recognition, financial liabilities measured at amortized cost are measured at amortized cost using the effective interest rate method. Amortization under the effective interest rate method and gains or losses on derecognition are recognized as profit or loss.

(iii) Derecognition

Financial liabilities are derecognized when they are extinguished, i.e., when the obligations specified in the contract are discharged, cancelled or expired.

D. Compound financial instruments

The liability component of a compound financial instrument is measured at initial recognition by the fair value of a similar liability without the equity conversion option. The equity component is measured at initial recognition by deducting the fair value of the liability component from the fair value of the entire

financial instrument. Direct transaction costs are allocated in proportion to the initial carrying amount of the liability component and equity component.

After initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest rate method. The equity component of a compound financial instrument is not remeasured after initial recognition.

Interest associated with the liability component is recognized in profit or loss as finance costs. When the equity conversion option is exercised, the liability component is transferred to equity and neither gains nor losses are recognized.

E. Derivatives (including hedge accounting)

The Group uses forward currency contracts, interest rate swaps, cross-currency swaps and commodity swaps to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively. The use of derivative transactions is limited to risk hedging purposes and is not for speculation purposes. These derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value.

Derivatives that qualify for hedge accounting are designated as hedging instruments in cash flow hedges. A cash flow hedge is a hedge of the exposure to variability in cash flows which is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and which could affect profit or loss.

At the inception of the hedge, the Group formally designates and documents the relationship between a hedging instrument and a hedged item and the risk management objective and strategy for undertaking various hedge transactions. The documentation includes identification of the hedging instruments, the hedged items, the nature of the risks being hedged and how the hedging relationship's effectiveness is assessed. These hedges are assessed on an ongoing basis to determine whether the hedging relationship is effective prospectively, even though it is expected that there is an economic relationship between the hedged item and the hedging instrument, that the effect of credit risk does not dominate the value changes that result from that economic relationship, and that the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of the hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio due to changes in an economic relationship between the hedged item and the hedging instrument but the risk management objective remains the same, the Group adjusts the hedge ratio so that it meets the qualifying criteria again. The Group discontinues hedge accounting for the portion that does not meet the requirement when the hedging relationship ceases to meet the qualifying criteria even after adjusting the hedge ratio.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized as other comprehensive income. The ineffective portion of the gain or loss on the hedging instrument is immediately recognized as profit or loss in the consolidated statement of profit or loss.

The amount of hedging instruments recognized in other comprehensive income is reclassified to profit or loss when the transactions related to hedged items affect profit or loss. In cases where hedged items result in the recognition of non-financial assets or liabilities, the amounts recognized as other comprehensive income are accounted for as adjustments to the original carrying amount of non-financial assets or liabilities.

If the hedged future cash flows are no longer expected to occur, any related cumulative gain or loss that has been recognized in equity as other comprehensive income is reclassified to profit or loss. If the hedged future cash flows are still expected to occur, amounts that have been recognized in other comprehensive income are continued to be recognized in other comprehensive income until the future cash flows occur.

Derivatives which hedge accounting has not been applied are recognized at fair value and the changes in the fair value are recognized as profit or loss in the consolidated statement of income.

F. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

8) Leases (Lessee)

At the commencement date of a lease, the Group recognizes the right-of-use assets and lease liabilities for lease components except for short-term leases, which have a lease term of 12 months or less, and leases for which the underlying asset is of low value. The right-of-use assets are measured at cost comprised the amount such as initial measurement of the lease liabilities and prepaid lease payments, and the lease liabilities are measured at the present value of the lease payments that are not paid as of the commencement date.

Lease term is determined as the non-cancellable period of a lease, together with the periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

After the commencement date of a lease, the right-of-use assets are measured at cost less any accumulated depreciation and any accumulated impairment losses. The Group is applying the depreciation requirements in IAS16 "Property, Plant and Equipment" in depreciating the right-of-use assets. Also, the Group is applying IAS36 "Impairment of Assets" to determine whether the right-of-use assets are impaired and to account for any impairment loss identified.

After the commencement date of the contract, the lease liabilities are measured by:

- increasing the carrying amount to reflect interest on the lease liabilities
- reducing the carrying amount to reflect the lease payments made
- remeasuring the carrying amount to reflect the changes in lease payments or lease modifications, or to reflect revised in-substance fixed lease payments

The Group, as a lessee, recognizes the lease payments associated with short-term leases or leases for which the underlying asset is of low value as an expense on a straight-line basis.

9) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the obligation will be required to be settled and a reliable estimate can be made of the amount of the obligation.

Provisions are recognized based on the best estimates of necessary expenditures (future cash flows) in order to settle present obligations by taking into account risks and uncertainties associated with the obligation at the end of the fiscal year. Where the effect of the time value of money is material, provisions are measured using the estimated future cash flows, discounted using a pre-tax rate reflecting the time value of money and the risks specific to the liability.

For asset retirement obligations, provisions are recognized for restoration costs and expenditures incurred as a result of asset use, and the same amount is added to the asset's historical cost. Future estimated expenses and applied discount rates are reviewed every fiscal year. If revisions are deemed necessary, additions or deductions are made to the carrying amount of the relevant asset, and accounted for as changes in accounting estimates.

10) Employee benefits

A. Defined benefit pension plans

There are two types of defined benefit pension plans for employees of the Company and certain subsidiaries: cash-balance plan in which the amounts of benefit changes are based on the market yields on government bonds; and lump-sum payment retirement plan.

The projected unit credit method is used to determine the present value of defined benefit obligations, related current service costs and past service costs for each pension plan. The discount period is determined based on the period ending at the expected date of benefit payment for each pension plan, and the discount rate is determined by reference to market yields at the end of the fiscal year on high-quality corporate bonds corresponding to the discount period. Net defined benefit liabilities (assets) are determined as the present value of defined benefit obligations less the fair value of plan assets (the effect of the asset ceiling is taken into account, if necessary).

Remeasurements of net defined benefit liabilities (assets) are recognized in other comprehensive income and transferred to retained earnings immediately in the fiscal year in which they occur. Remeasurements are composed of actuarial gains and losses, return on plan assets and any changes due to the effect of the asset ceiling, excluding amounts included in net interest costs. Service costs and net interest costs are recognized in profit or loss in the period in which they occur.

B. Defined contribution plans

Certain subsidiaries have established defined contribution plans. Defined contribution plans are post-employment benefit plans under which an employer regularly pays fixed contributions into employees' individual accounts and will have no legal or constructive obligations to pay further contributions. As a result, contributions to defined contribution plans are expensed in the period in which an employee has rendered services.

C. Short-term employee benefits

Short-term employee benefits are not discounted, but expensed when related services are rendered.

For bonuses and paid absences, future benefit payments for each plan are accounted for as liabilities when the following are met:

- There is a present legal or constructive obligation to make payment as consideration for services rendered by employees in both prior years and the current year; and
- The payment amount can be estimated reliably.

D. Other long-term employee benefits

In relation to obligations for long-term employee benefits other than post-employment benefits, future benefit payments to be incurred as consideration for services rendered by employees in prior years and the current year are accounted for as liabilities.

11) Revenue

Except for the interest and dividend revenue which are recognized based on IFRS 9, "Financial Instruments," the Group recognizes revenues based on the following five-step approach:

Step 1: Identify the contract with a customer

Step 2: Identify the performance obligation in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligation in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

A. Sale of merchandise and finished goods

The Group sells its goods and products mainly to agents and dealers who are direct customers of the Water Technology business and the Housing Technology business. Regarding such sales transactions, in principle, it is determined that the customer acquires control and the performance obligation is satisfied when the products arrive at the customer's location. Therefore, revenue is recognized at the time of arrival. In addition, some products may require installation work at the time of sale. The installation work is handled as a separate performance obligation from the sale of goods and products, and the transaction price is allocated based on the independent selling price. Payment for these performance

obligations is received within a short period of time after the delivery of goods and products or the completion of installation work. When the Group receives advance payment from the customers, contract liability is recognized.

B. Construction contracts

The Group enters into long-term construction contracts, mainly for its Building Technology business. With regard to construction contracts, cost of the product is deemed to be incurred at installation or when the labor cost pertaining to the work is proportional to the appreciation of the assets controlled by the customer, and the revenue related to the construction contract is recognized based on the degree of progress as of the end of the fiscal year. The percentage of completion is determined as the ratio of construction contract costs incurred to date to the estimated total cost of the construction contract. On the other hand, when the outcome of the construction contract cannot be reliably estimated, the revenue is recognized only to the extent that the probability of collection is high among the costs of construction contracts that have occurred, and the costs are booked in the period during which the construction contract costs are generated. Losses expected to be incurred are recognized as an expense immediately. Also, if the amount of the construction contract is not fixed in a timely manner, the contract amount is estimated as a variable consideration until the contract amount is fixed, and revenue is recognized only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the contract amount is determined. In general, the Group charges according to volume on a monthly basis and we receive payments within a short period of time.

Either contract assets or contract liabilities are recorded according to the relationship between the amount of revenue recognized and amount of payments from the customers. In the case of ongoing construction contracts as of the end of the fiscal year, when the customer pays or the Group recognizes revenue (after deducting the recognized losses) before the payment due date, contract assets are recorded at the amount of consideration right to be received excluding the amount of other receivables. On the other hand, contract liability is accounted for at the excess amount if the amount received from the customer before the performance obligation is satisfied or the amount as of due date exceeds the amount of recognized revenue (after deducting the recognized losses). The amounts of contract assets and contract liabilities are calculated for each contract.

C. Other

The Group provides various services such as development of homebuilding franchise chains, ground inspections and real estate trading in the Housing and Services businesses, which consists of the housing solutions businesses and real estate related businesses, etc. Regarding the development of homebuilding franchise chains, the Group has an obligation mainly to purchase housing materials in bulk and deliver them directly to franchised stores. When a franchisee inspects the material, they are considered to have acquired the control, and the performance obligation is satisfied. Therefore, revenue is recognized at the time of inspection. Payment concerning this performance obligation is received shortly after the franchisee inspects the materials. As for ground inspections, the Group is obliged to investigate and inspect ground for customers such as house makers. As the performance obligation is satisfied when the analysis is completed and reported to the customer, the revenue is recognized at the time of analysis completion. Payment concerning this performance obligation is received shortly after the analysis is completed. Furthermore, regarding real estate transactions, we deem that the buyer acquires control and satisfies the performance obligation when the property delivered to the buyer, and the revenue is recognized at the time of property delivery. Payment for this performance obligation is immediately received.

12) Income Taxes

Income tax expense represents the sum of current income taxes and deferred income taxes. Income taxes are recognized in profit or loss, except for taxes arising from items that are recognized in other comprehensive income or recognized directly in equity and taxes arising from business combinations.

Current income taxes are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or

substantively enacted at the end of the fiscal year. Deferred taxes are measured based on temporary differences between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes at the fiscal year end.

Deferred tax assets are recognized for deductible temporary differences and tax loss carryforwards, to the extent that it is probable that future taxable profit will be available, against which they can be utilized. Deferred tax liabilities are recognized, in principle, for taxable temporary differences. Deferred tax assets and liabilities are recognized for all taxable temporary differences, except:

- Deferred tax assets or liabilities arising from the initial recognition of goodwill
- When the deferred tax asset or liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- Deductible temporary differences arising from investments in subsidiaries and associates to the extent that it is probable that the temporary differences will not reverse in the foreseeable future, and it is not probable that future taxable profits will be available against which they can be utilized
- In respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets and liabilities are measured using the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the fiscal year.

Deferred tax assets and liabilities are offset if the Group has a legally enforceable right to set-off current tax assets against current tax liabilities and income taxes are levied by the same taxation authority on the same taxable entity or if different taxable entities intend to settle current tax liabilities and assets on a net basis or are planning to realize the assets and liabilities simultaneously.

13) Foreign currency translation

A. Translation of foreign currency transactions

Foreign currency transactions are translated into the respective functional currencies of the group companies using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the exchange rate as of the fiscal year end. Non-monetary items measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Exchange differences arising on translations and settlements are recognized in profit or loss. Exchange differences arising from financial assets measured at fair value through other comprehensive income and cash flow hedges are recognized in other comprehensive income.

B. Translation of foreign operations

Assets and liabilities of foreign operations (including goodwill arising from acquisitions and the adjustments of fair value) are translated into Japanese yen using the exchange rate as of the fiscal year end. Revenue and expenses are translated into Japanese yen using the average exchange rate for the fiscal year, unless there is no significant fluctuation in the exchange rate. Translation differences are recognized in other comprehensive income. Upon the disposal of a foreign operation, involving a loss of control, the cumulative amount of foreign currency translation differences relating to the applicable foreign operation are transferred to profit or loss in the period of disposal.

14) Assets held for sale

An asset or asset group that is expected to be recovered through a sale transaction rather than through continuing use is classified as an asset or disposal group held-for-sale if the management commit to a plan to sell, it is highly probable that the asset or asset group will be sold within one year and the asset or asset group is available for immediate sale in its present condition. Assets classified as held for sale or included within a disposal group that is classified as held for sale are measured at the lower of its carrying amount or its fair value less costs to sell. Property, plant and equipment and intangible assets classified as held for

sale and property, plant and equipment and intangible assets included within a disposal group that is classified as held for sale are not depreciated or amortized.

15) Discontinued operations

Discontinued operations include components of an entity already disposed of or classified as held for sale. The Company recognizes them if they represent a separate major line of business or geographical area of operations and there is a plan to dispose of one of the businesses or geographical areas.

16) Accounting for consumption tax

Transactions subject to consumption tax are recorded at amounts excluding consumption tax.

17) Consolidated taxation system

The Group applies the consolidated taxation system.

2. Notes to Additional Information

Accounting estimate related to the expansion of COVID-19

The COVID-19 global pandemic caused a sharp stagnation in economic and social activities, which had a considerable impact on the Group's business performance in the fiscal year ended March 31, 2021. Although there are differences depending on the region, both Japan and international businesses are generally on a recovery trend.

The Group will continue to carefully monitor the social and economic impact of COVID-19 in Japan and international markets, and how this will affect the Group's business performance.

Due to the unprecedented nature of the COVID-19 pandemic, there are currently no widely accepted views on how it will continue to develop in the future, or precedent regarding accounting estimates related to this situation. Therefore, it is difficult to predict the trend. However, based on certain assumptions, the Group has developed estimates such as for the recoverability of deferred tax assets or goodwill and fixed asset impairment tests, and reflected the impact of these assumptions into the Group's estimates in the same manner as for the fiscal year ended March 31, 2020.

Most of Japan and international business performance showed a recovery trend during the second half of the fiscal year ended March 2021, although COVID-19 is still surging in some international regions. It is assumed that the impact on the Group's business performance from the fiscal year ending March 31, 2022 onward will be minor and limited.

There are many uncertainties regarding the impact of COVID-19 on economic activities. If the above assumptions should change, the financial condition and operating results of the Group may be affected.

3. Notes on Accounting Estimates

Items whose amounts were recognized in the consolidated financial statements for the fiscal year ended March 31, 2021 and that are based on accounting estimates that may have a material impact on the consolidated financial statements for the following fiscal year are as follows:

(1) Valuation of goodwill and intangible assets with indefinite for useful lives for LIXIL Europe S.à r.l.

1) Amounts recognized in the consolidated statement of financial position for the year ended March 31, 2021

Goodwill	155,406 million yen
Trademarks	175,092 million yen

2) Other information

Impairment tests are performed for goodwill and intangible assets with indefinite useful lives of LIXIL Europe S.à r.l. as follows.

Recoverable amounts are determined using value in use. The value in use reflects past experiences and external sources of information and is calculated at the discounted present value of estimated future cash flows based on the five-year business plans approved by management. In addition, for the period following the five-year business plans, growth rates for estimated future cash flows are estimated to diminish to a terminal growth rate in 5 years, which refers to the inflation rate by referencing expected long-term growth rates in plumbing fixtures markets to which the CGUs belong.

The discount rate is determined based on the weighted-average cost of capital before tax.

The growth rate, which is used for impairment test, is 1.8% and the discount rate is 7.6% for the year ended March 31, 2021.

Estimates of future cash flows, growth rates and discount rates may be affected by changes in uncertain future economic conditions, and if the actual amounts and actual rates differ from the estimates, it may lead to material impacts on the amounts of goodwill and trademarks recognized in the consolidated financial statements for the following fiscal year.

(2) Valuation of goodwill and intangible assets with indefinite for useful lives for ASD Holding Corp.

1) Amounts recognized in the consolidated statement of financial position for the year ended March 31, 2021

Goodwill	25,222 million yen
Trademarks	13,695 million yen

2) Other information

Impairment tests are performed for goodwill and intangible assets with indefinite useful lives of ASD Holding Corp. as follows.

Recoverable amounts are determined using value in use. The value in use reflects past experiences and external sources of information and is calculated at the discounted present value of estimated future cash flows based on the five-year business plans approved by management. In addition, for the period following the five-year business plans, growth rates for estimated future cash flows are estimated to be the terminal growth rate, which refers to the inflation rate by referencing expected long-term growth rates in plumbing fixtures markets to which the CGUs belong.

The discount rate is determined based on the weighted-average cost of capital before tax and reflected risks specific to ASD Holding Corp.

The growth rate, which is used for impairment test, is 2.5% and the discount rate is 11.0% for the year ended March 31, 2021.

Estimates of future cash flows, growth rates and discount rates may be affected by changes in uncertain future economic conditions, and if the actual amounts and actual rates differ from the estimates, it may lead

to material impacts on the amounts of goodwill and trademarks recognized in the consolidated financial statements for the following fiscal year.

(3) Recoverability of deferred tax assets

1) Amount recognized in the consolidated statement of financial position for the year ended March 31, 2021

Deferred tax assets 77,939 million yen

(Deferred tax assets recognized for tax loss carryforwards are 54,817 million yen)

2) Other information

Deferred tax assets are recognized for deductible temporary differences and tax loss carryforwards to the extent that it is probable that future taxable profit will be available against which they can be utilized. The estimated taxable income is based on a business plan approved by management.

Most of the deferred tax assets are recognized by the Company. The recoverability of deferred tax assets is determined based on projections including estimates of future taxable income based on the three-year business plans approved by management.

Estimates of taxable income may be affected by changes in uncertain future economic conditions, and if the actual timing and amount of taxable income differ from the estimates, it may lead to material impacts on the amount of deferred tax assets recognized in the consolidated financial statements for the following fiscal year.

4. Notes to Consolidated Statement of Financial Position

(1) Pledged assets

Land	147 million yen
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The above assets are pledged as collateral for long-term borrowings to be repaid within one year in the amount of 9 million yen and long-term borrowings in the amount of 167 million yen.

(2) Allowance for doubtful accounts directly deducted from assets

Trade and other receivables	2,075 million yen
Other financial assets (Current assets)	2 million yen
<u>Other financial assets (Non-current assets)</u>	<u>2,604 million yen</u>
Total	4,681 million yen

(3) Accumulated depreciation and impairment loss on property, plant and equipment

714,080 million yen

(4) Other liabilities

The components of other current liabilities of 84,343 million yen and other non-current liabilities of 15,133 million yen totaling 99,476 million yen are as follows:

Accrued bonuses	27,442 million yen
Consumption taxes payables	6,844 million yen
Unused paid absences	13,479 million yen
<u>Other</u>	<u>51,711 million yen</u>
Total	99,476 million yen

(5) Contingent liabilities

Indemnity based on the share transfer agreement (disputes)	4,035 million yen (Note 1)
Indemnity based on the share transfer agreement (execution of revitalization plan)	1,298 million yen (Note 2)

Notes: 1. On September 30, 2020, 100% of the shares of Permasteelisa S.p.A ("Permasteelisa"), which was a subsidiary of the Company, was sold. For certain disputes involving Permasteelisa occurring prior to the date of the share transfer, the Company is obligated to indemnify losses incurred by Permasteelisa on or after the date of the share transfer. For the amount expected to be fulfilled, liabilities have been recorded in the consolidated statement of financial position and are not included in the above amount.

2. If the revitalization plan is executed by Permasteelisa after the date of the share transfer, the Company is liable to compensate the relevant costs incurred in implementing the revitalization plan that the Group considers necessary for the implementation of the plan. For the amount expected to be fulfilled, liabilities have been recorded in the consolidated statement of financial position and are not included in the above amount.

5. Notes to Consolidated Statement of Profit or Loss

(1) Impairment losses

The Company recognized impairment losses amounting to 8,840 million yen as other expenses in the consolidated statement of profit or loss. The main impaired assets are as follows:

(Millions of yen)

Category	Segment	Component and amount	
Manufacturing facilities for building window sashes	Building Technology business	Buildings and structures	434
		Machinery and vehicles	2,171
		Tools, furniture and fixtures	102
		Other	41
		Total	2,748
Other	Housing Technology business	Goodwill	1,882

The Company recognized impairment losses on assets related to the manufacturing facilities for building window sashes, which are located in Japan. The carrying amounts of the relevant assets were written down to their recoverable amounts, and the related impairment losses were recorded as other expenses in the consolidated statement of profit or loss, since profitability declined significantly due to continuous low performance. An asset's recoverable amount is measured by the asset's value in use, determined by discounting future cash flow at a discount rate of 4.5%.

Goodwill is related to Kawashima Selkon Textiles Co., Ltd., which was a subsidiary of the Company. The carrying amounts of the relevant assets were written down to their recoverable amounts in the second quarter, and the related impairment losses were recorded as other expenses in the consolidated statement of profit or loss, since the profitability declined significantly due to continuous low performance. An asset's recoverable amount is measured at the asset's value in use, determined by discounting future cash flows at a discount rate of 6.8%. In the fiscal year ended March 31, 2021, 100% of Kawashima Selkon Textile's shares were transferred. Summary of the share transfer is as described in Note 10. "Notes to Subsidiaries and Associates."

(2) Implementation of Voluntary Retirement Program "New Life"

The Group aims to transform its Japan business into a more entrepreneurial and sustainable enterprise in the future. Building on initiatives already taken under "Kawaranaito LIXIL" ("LIXIL, We Must Change"), a comprehensive HR program launched in Japan in the fall of 2019, and to accelerate the speed of transformation, the Board of Directors resolved to implement the "New Life Voluntary Retirement Program" ("New Life") on October 30, 2020.

1) Background

Businesses in Japan currently represent approximately 70% of the Group's total business. It is also the key driver of innovation that supports LIXIL's global portfolio of brands and businesses.

The business environment surrounding the Group in Japan, however, is changing with a rapidly shrinking market for new homes. At the same time, changing consumer trends and digitalization are disrupting traditional business models. To achieve sustainable growth in the future, the Company recognizes the need to transform its business structure, become meritocratic, and establish an agile culture that supports innovation and entrepreneurship. The Company and its subsidiaries expect these changes to strengthen the growth potential and sustainability of its operations in Japan and internationally, enhancing overall stakeholder returns.

The comprehensive HR strategy, "Kawaranaito LIXIL," consists of a series of change initiatives designed to achieve three objectives in Japan: "work consumer-centrally," "manage career paths" and "change working styles." A series of measures to enable this transformation are being implemented across the businesses in Japan. As a part of these measures, the Company resolved to implement New Life, which is designed to provide strong support to employees who choose to seek new opportunities externally, while also accelerating the transformation of the businesses in Japan.

2) Eligibility

Permanent employees of the Company aged 40 and over, who have worked as an employee of the Company for ten consecutive years or more as of the effective date of retirement. (This excludes employees working at factories (other than working in HR, Administration and Accounting Departments), Distribution Centers and the Digital Division.)

3) Application period

From January 12, 2021 to January 22, 2021

4) Number of voluntary retirement applicants

965 employees applied.

5) Effective date of retirement

March 25, 2021

6) Preferential conditions

- A premium will be added on to the normal retirement allowance of eligible applicants.
- Eligible applicants will also have the option to receive outplacement services.

7) Financial impact for profit or loss

Loss on early retirement related payments of 13,563 million yen was recorded in other expenses in the consolidated statement of profit or loss.

(3) Costs for one-time allowance for the employees

To support all employees, except for employees of the certain subsidiaries, with unplanned expenses related to COVID-19, the Group decided to issue a special one-time allowance of 200 US Dollar or the equivalent amount of any other exchange rate applied in each company per person. Related expenses of 1,391 million yen are recorded in other expenses in the consolidated statement of profit or loss.

6. Consolidated Statement of Changes in Equity

(1) Class and total number of shares outstanding and class and number of treasury shares

	Class of shares	Number of shares at beginning of the fiscal year (thousand)	Increase during the fiscal year (thousand)	Decrease during the fiscal year (thousand)	Number of shares at the end of the fiscal year (thousand)
Shares outstanding	Ordinary shares	313,319	—	—	313,319
Treasury shares	Ordinary shares	23,216	8	132	23,092

Notes: 1. Number of treasury shares is the total of treasury shares owned by the Company and those owned by associates accounted for using the equity method, which are determined in proportion to the Company's interest in the associates.

2. The increase of treasury shares is mainly due to the purchase of stocks of less than one unit of 8 thousand shares.

3. The decrease of treasury shares is mainly due to an exercise of stock options of 132 thousand shares.

(2) Dividends

1) Dividends paid

Resolution	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Board of Directors Meeting held on June 5, 2020	Ordinary shares	10,154	35	March 31, 2020	June 30, 2020
Board of Directors Meeting held on October 30, 2020	Ordinary shares	10,154	35	September 30, 2020	November 27, 2020
Total	—	20,307	—	—	—

Note: Total dividends are the resolution amount of dividends less dividends attributed to the Company's shares owned by associates accounted for using the equity method.

2) Dividends with a record date in the current year but an effective date subsequent to the current year

Resolution	Class of shares	Total dividends (Millions of yen)	Dividends resource	Dividends per share (Yen)	Record date	Effective date
Board of Directors Meeting held on May 21, 2021	Ordinary shares	11,609	Retained earnings	40	March 31, 2021	June 7, 2021

Note: Total dividends are the resolution amount of dividends less dividends attributed to the Company's shares owned by associates accounted for using the equity method.

(3) The number of shares subject to the exercises of stock options whose exercise period has already arrived as of March 31, 2021

7th stock options	1,973,100 shares
8th stock options	40,500 shares
9th stock options	300,000 shares
<u>Yen-based Convertible bond-type Euro bonds with subscription rights to shares due 2022</u>	<u>16,014,519 shares</u>
Total	18,328,119 shares

7. Financial Instruments

(1) Financial instruments

Risks of financial instruments and risk management system for the risks are as follows:

1) Market risk management

The Group's businesses are exposed mainly to risks of changing economic and financial market environments. Risks of changing financial market environments include A. currency risk, B. interest rate risk, C. price risk of equity instruments and D. price risk of merchandise.

A. Currency risk

Currency risk arises from transactions undertaken by the Group companies in currencies other than the functional currency. It may affect selling prices and revenue of finished goods denominated in foreign currencies.

The Group manages such currency risk arising from foreign currency transactions by utilizing foreign exchange forward contracts and cross-currency interest rate swaps.

B. Interest rate risk

Since the Group companies borrow funds at both fixed and floating interest rates, those at floating interest rates are exposed to interest rate risk. To mitigate this risk, the Group maintains an appropriate mix of fixed and floating interest rate borrowings, and also utilizes interest rate swaps and cross-currency interest rate swaps.

C. Price risk of equity instruments

Price risk of equity instruments arises from equity instruments (shares) that the Group holds mostly to strengthen relationships with counterparties.

To manage the price risk, the Group regularly analyzes market values and financial conditions of issuers and reconsiders its portfolio if necessary.

D. Commodity price risk

The Group enters into commodity swap contracts to manage and mitigate risks arising from price changes of raw materials (mainly aluminum ingots and copper).

2) Credit risk management

Trade and other receivables arising from the Group's business transactions are exposed to credit risk of its counterparties.

To manage credit risk, the Group sets credit limits and regularly monitors credit status and operations of its counterparties. As it is necessary to minimize potential risks, such as concentrations of credit risk and the counterparty's failure to make payments, the Group adjusts credit limits based on the results of such monitoring. The Group also takes security measures, such as collateral and guarantees depending on the credit status of the counterparties. Since the Group's customer base is broad and not interrelated, the Group is not exposed to excessive risk of customer concentrations.

Derivative transactions are restricted to high credit rating financial institutions to minimize credit risk.

The carrying amount of financial instruments exposed to credit risk and the amount of guarantee obligations disclosed in Note 4 "Notes to Consolidated Statement of Financial Position (5) Contingent liabilities" represent the maximum exposure to credit risk at the fiscal year end without considering the value of collateral held by the Group.

3) Liquidity risk management

The Group raises funds by issuing bonds, borrowings and other means. These liabilities are exposed to liquidity risk, such as failure to repay by the due date because of deteriorating funding environments. To mitigate this risk, the Group develops and revises funding plans on a timely basis, and maintains ample cash

balances and credit lines from financial institutions.

(2) Fair value of financial instruments

Carrying amount and fair value of financial instruments as well as their differences as of March 31, 2020 are as follows:

(Millions of yen)

	Carrying amount	Fair value	Difference
Assets			
Financial assets measured at amortized cost			
Other financial assets	28,493	28,659	166
Liabilities			
Financial liabilities measured at amortized cost			
Bonds and borrowings	531,127	531,941	814

Notes: 1. Assets and liabilities with carrying amounts which approximate fair value or those measured at fair value on a recurring basis are not included in the table.

2. The fair value measurement approach is as follows:

Loans and receivables, bonds and borrowings, and other financial liabilities measured at amortized cost	Measured at present value using a discount rate, adjusted for credit risks of the Group or its counterparties.
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8. Investment Property

The company and certain subsidiaries own investment property in Tokyo and other areas in Japan. The carrying amount and fair value of the investment property as of March 31, 2020 are as follows:

(Millions of yen)

Carrying amount	4,931
Fair value	6,423

Notes: 1. Carrying amount of investment property represents historical cost less accumulated depreciation and impairment losses.

2. Fair value of investment property is mainly determined by external real estate appraisers using the discounted cash flow method or referring to market prices of similar assets.

9. Per Share Information

(1) Equity attributable to owners of the parent per share 1,902.89 yen

(2) Basic profit per share

Continuing Operations 56.41 yen

Discontinued Operations 57.51 yen

Total 113.92 yen

10. Notes to Subsidiaries and Associates

(1) Transfer of Shares of Kawashima Selkon Textiles Co., Ltd.

The Company resolved at the Board of Directors Meeting held on November 24, 2020, to sell 100% of its shares in Kawashima Selkon Textiles Co., Ltd. ("Kawashima"), a subsidiary of the Company, to Kawashima via a buy-back transaction, and signed off on the share transfer agreement on the same date. The share transfer was executed on January 6, 2021.

1) Reason for the transfer

The Company acquired a 34% ownership stake in Kawashima by underwriting a capital increase through third-party allotment in December 2010 and acquired the remaining 66% ownership stake in August 2011 through a share exchange, which led it to become a wholly owned subsidiary. The aim was to stabilize Kawashima's business profits and financial base, pursue synergies in terms of sales and reduce costs by establishing an efficient system for collaboration in logistics and indirect operations.

Recently, the Company received from Kawashima an offer of a management buyout (MBO) by the current management, who have deep understanding of the cultural, commercial, and technical value of Kawashima, in order for Kawashima to accelerate the speed of its business growth and to enhance its productivity and efficiency. Kawashima also plans to challenge new designs and develop manufacturing techniques for the next generations of products based on their manufacturing traditions. Since the proposal, the Company and Kawashima have been discussing and considering the offer.

As a result, since the offer from Kawashima is in line with the management direction of the Company to transform its operations (i.e., to strengthen governance, focus on core businesses to improve productivity and efficiency, promote synergies among businesses, and optimize business portfolio to strengthen future growth and financial position), the Company decided to transfer all of its shares to Kawashima to dissolve the capital tie-up.

2) Name of transferee company and date of share transfer

Name of the transferee company	Kawashima Selkon Textiles Co., Ltd.
Date of share transfer	January 6, 2021

3) Name of transferred company and major business

Name	Kawashima Selkon Textiles Co., Ltd.
Major business	[Interior Decoration/Fabrics] Production and distribution of curtain, carpet, wall-covering, interior accessories and stuff, interior finish work [Traditional and Artistic Textiles] Production and distribution of obi, stage curtain, festival float curtain, traditional accessories and stuff

4) Overview of transfer

Numbers of shares held before the transfer	141,877,506 shares (Shareholding ratio: 100%)
Number of shares transferred	141,877,506 shares
Ratio of shares held after the transfer	No share (- %)
Received amount	Transfer price shall be undisclosed pursuant to duty of confidentiality in the share transfer agreement.
Gain or loss on share transfer	5,405 million yen loss was recognized on the measurement to fair value less costs to sell of the disposal group held for sale in other expenses in the consolidated statement of profit or loss for the year ended March 31, 2021.

(2) Transfer of Shares of Japan Home Shield Corporation

On December 4, 2020, the Company reached an agreement with MCP5 Investment Business Limited Liability Partnership, a fund whose management is entrusted to Mizuho Capital Partners Co., Ltd. ("Mizuho Capital Partners"), to transfer 100% of the shares of Japan Home Shield Corporation ("Japan Home Shield") held by LIXIL Living Solution Corporation ("LIXIL Living Solution"), a wholly owned subsidiary of the Company, subject to customary closing conditions and regulatory approvals, and signed off on the share transfer agreement. The transfer of shares was executed on March 9, 2021.

1) Reason for the transfer

The Group aims to become an entrepreneurial company that can achieve sustainable growth and contribute to society by making better homes a reality for everyone, everywhere. To achieve this aim, the Group is taking steps to transform its operations, including strengthening governance, focusing on actively managing its core businesses to enhance productivity and efficiency, driving synergies across its core business areas, as well as optimizing its business portfolio to accelerate growth and strengthen financial conditions.

As a leading company in geotechnical investigation for homes and home inspection, Japan Home Shield has covered a cumulative total of more than 1.8 million units in geotechnical investigation and has inspected 200,000 houses since its establishment. Given the housing law changes and frequent natural disasters in recent years, the environment for housing is changing. Japan Home Shield has continued to listen to the voice of the customers and achieved sustainable growth by improving its technology and services and offering new services such as foundation design.

For Japan Home Shield to aim for dramatic growth along with the expansion of the industry overall, and to further grow beyond its current business, the Company and Japan Home Shield have determined that it is necessary to separate Japan Home Shield from the Group so that it can receive support from a new owner in order to further strengthen its business. As a result of the mutual discussion, it was determined that the best path forward for Japan Home Shield was to partner with Mizuho Capital Partners for its know-how, network, and resources, and to establish an even stronger business foundation by receiving business and financial support.

The Group is proceeding with various initiatives to reform its business operations and believes that the Share Transfer is in line with the Group's direction of aiming to create further synergies and improve efficiency by simplifying its business structure and integrating the organizations.

For the reasons described above, the Company decided to transfer all common shares of Japan Home Shield.

2) Name of transferee company and date of share transfer

Name of the transferee company	MCP5 Investment Business Limited Liability Partnership, a fund whose management is entrusted to Mizuho Capital Partners Co., Ltd.
Date of share transfer	March 9, 2021

3) Name of transferred company and major business

Name	Japan Home Shield Corporation
Major business	Geotechnical investigation and related business, geotechnical reinforcement, geological survey, home inspection

4) Overview of transfer

Numbers of shares held before the transfer	2,000 shares (Shareholding ratio: 100%)
Number of shares transferred	2,000 shares
Ratio of shares held after the transfer	No share (- %)
Received amount	Transfer price shall be undisclosed pursuant to duty of confidentiality in the share transfer agreement.
Gain on share transfer	9,269 million yen was recognized as gain on sale of subsidiaries in other income in the consolidated statement of profit or loss for the year ended March 31, 2021.

11. Notes to Discontinued Operations

(1) Transfer of shares of Permasteelisa S.p.A.

The Company resolved at the Board of Directors Meeting held on May 1, 2020 to sell 100% of the shares of Permasteelisa S.p.A. ("Permasteelisa") to Atlas Holdings LLC ("Atlas"), and signed off on a share transfer agreement on the same date. The share transfer was executed on September 30, 2020.

1) Reason for the transfer

The Group aims to be an entrepreneurial company that can achieve sustainable competitiveness and growth in order to fulfill its corporate purpose to contribute to society by making better homes a reality for everyone, everywhere. To achieve this aim, the Group is taking steps to transform its operations, including strengthening governance, focusing on actively managing its core businesses areas, as well as optimizing its business portfolio to accelerate growth and strengthen financial conditions.

The transaction is in line with the Group's efforts to focus on its core businesses and simplify its business structure, enabling further synergies and efficiencies through enhanced integration.

Permasteelisa is a global leader in engineering, project management, manufacturing and installation of curtain walls and interior systems, with high-end curtain walls positioned at the core of its business. Over its history, Permasteelisa has established a solid position in markets around the world, including Europe, Asia and North America.

However, despite being a world-class brand, Permasteelisa encountered significant operational and financial challenges in recent years, requiring the Group and Permasteelisa to implement a comprehensive plan to revitalize the business and return it to growth and stability.

Permasteelisa's operations are also significantly different to those of the Group's core business operations in terms of business cycles and other factors. Therefore, the sale of Permasteelisa will allow the Group to further concentrate investing resources in driving synergies across its core businesses, consider investments in new and profitable growth areas to further enhance our core operations, as well as simplify and eliminate its ongoing exposure to different types of risks.

For these reasons, the Company concluded the contract to transfer 100% of its shares of Permasteelisa to Atlas, an industrial holding company based in the US, which together with its affiliates operates a diversified group of manufacturing, distribution and construction businesses.

2) Name of the transferee company and date of share transfer

Name of the transferee company	Atlas Holdings LLC
Date of share transfer	September 30, 2020

3) Name of transferred company and major business

Name of the transferred company	Permasteelisa S.p.A.
Major business	Designing, production and installation for curtain walls and interiors

4) Overview of the transfer

Numbers of shares held before the transfer	25,613,544 shares (Shareholding ratio: 100%)
Number of shares transferred	25,613,544 shares
Ratio of shares held after the transfer	No share (- %)
Received amount	This is not disclosed due to the strong intention of the transferee company, but the share transfer price was determined through negotiations with the other party after a fair process.
Relationship with the Group after the share transfer	<p>1) For certain disputes involving Permasteelisa occurring prior to the date of the share transfer, the Company is obligated to indemnify the loss incurred by Permasteelisa on or after the date of the share transfer.</p> <p>And if the revitalization plan is executed at Permasteelisa after the date of the share transfer, the Company is liable to compensate the relevant costs incurred that the Company considers necessary for the implementation of the plan. The contingent liability in this regard as of March 31, 2021 is described in Note 4 "Notes to Consolidated Statement of Financial Position (5) Contingent liabilities."</p> <p>2) Before the share transfer date, the Company contributed a certain amount of capital, of which up to 100 million euros (12,980 million yen) will be recovered depending on the cash flow status of Permasteelisa between the date of the share transfer and the end of the following fiscal year. The amount is recognized as other financial assets (non-current assets) in the consolidated statement of financial position at fair value, based on the valuation determined by Monte Carlo simulation based on the risk-neutral valuation method proposed by an independent expert.</p>

5) Profit or loss related to discontinued operations

Profit or loss related to discontinued operations are as follows:

(Millions of yen)

	Amount
Revenue	49,674
Other profit and loss	(55,296)
Loss before tax from discontinued operations	(5,622)
Income tax expenses	754
Loss for the year from discontinued operations	(4,868)

(2) Transfer of shares of LIXIL VIVA Corporation

Based on the resolution at the Board of Directors Meeting held on June 9, 2020, the Company signed a memorandum ("Memorandum") with Arcland Sakamoto Co., Ltd. ("Arcland Sakamoto") and LIXIL VIVA Corporation ("LIXIL VIVA"), which was a subsidiary of the Company, as well as an agreement ("Agreement") with Arcland Sakamoto regarding a series of transactions including: a cash tender offer scheduled to be conducted by Arcland Sakamoto for the ordinary shares of LIXIL VIVA ("Tender Offer"); a reverse share split of the ordinary shares of LIXIL VIVA; a transfer of the shares held by the Company via buy-back by LIXIL VIVA ("Share Transfer"), through which LIXIL VIVA becomes a wholly owned subsidiary of Arcland Sakamoto; and other transactions incidental or related to those transactions (collectively, "Transaction"). After the conclusion of the agreement, through the necessary procedures for the transfer of shares, the Share Transfer was executed on November 9, 2020.

1) Reason for the transfer

The Group's aim is to be an entrepreneurial company that can achieve sustainable competitiveness and growth in order to fulfill its corporate purpose to contribute to society by making better homes a reality for everyone, everywhere. To achieve this aim, the Company is taking steps to transform its operations, including strengthening governance, focusing on actively managing its core businesses areas, enabling further synergies, as well as optimizing its business portfolio to accelerate growth and strengthen financial conditions.

The transaction is in line with the Company's efforts to focus on its core businesses and simplify its business structure, enabling further synergies and efficiencies through enhanced integration.

LIXIL VIVA operates home improvement centers that provide a wide range of housing related merchandise, materials and renovation services. LIXIL VIVA has established a solid position in the industry attributable to its strengths, particularly its offering of a wide variety of merchandise necessary for renovations via its vast store space, which can provide business customers with one-stop service. LIXIL VIVA, however, has been facing a challenging business environment with intensifying competition in the retail home improvement center industry caused by a decrease in the number of customers due to population decline in Japan, changes in consumer behavior, and shifts in the channel landscape with the expansion of drugstores, e-commerce, and so forth.

The business of LIXIL VIVA is distribution and retail business which differs from the Company's core business. Therefore, the Share Transfer will enable the Company to invest its resources not only in its core businesses to drive synergies across those businesses, but also in new and profitable growth businesses, which will lead to further business efficiency. In addition, although LIXIL VIVA has been operationally independent from the Company, its independence in terms of the capital ties following the Share Transfer will support the Company in strengthening business relations with other home improvement center operators, which are important customers to the Company, as a more independent supplier.

2) Description of the tender offer and methods of share transfer

The Company conducted an auction process in which the Company invited a wide range of potential candidates to acquire the ordinary shares of LIXIL VIVA, in order to select the most appropriate candidate for the Company, LIXIL VIVA and the minority shareholders of LIXIL VIVA. After thorough consideration, Arcland Sakamoto was selected as the transferee based on its superiority in terms of maximizing economic value for the Company and the certainty of completing the sale, including financing ability among others. LIXIL VIVA also concluded that the proposal received from Arcland Sakamoto was superior for LIXIL VIVA and its shareholders after comprehensive and careful consideration of the evaluated equity value, the direction of the business strategy after the Transaction, and other factors in the proposal. Subsequently, Arcland Sakamoto, LIXIL VIVA and the Company began negotiations, and on June 9, 2020, the Board of Director's Meeting resolved to transfer all ordinary shares of LIXIL VIVA held by the Company to LIXIL VIVA through the Share Transfer and signed off on the Memorandum and the Agreement on the same date.

The Transactions are comprised of three conditions;

- a) ensuring that the only shareholders of LIXIL VIVA are the Company and the tender offeror (Arcland Sakamoto) via the Tender Offer, or through a stock consolidation conducted by LIXIL VIVA ("Stock

Consolidation") in the event the tender offeror is unable to acquire all of the LIXIL VIVA shares (excluding, however, the LIXIL VIVA shares owned by the tender offeror, the untendered shares owned by the Company, as well as the treasury stock owned by LIXIL VIVA) via the Tender Offer;

- b) for the purpose of securing the funding and distributable amount needed for the acquisition of LIXIL VIVA treasury stock defined in c); (i) having the tender offeror provide LIXIL VIVA with funding that can be directed toward the consideration for the acquisition of LIXIL VIVA treasury stock; and (ii) conducting reductions in capital, capital reserves and profit reserves of LIXIL VIVA in accordance with Paragraph 1 of Article 447 and Paragraph 1 of Article 448 of the Companies Act; and
- c) the acquisition of treasury stock among the untendered shares owned by the Company as implemented by LIXIL VIVA, conditioned on both the realization of the Tender Offer as well as the effect of the Stock Consolidation.

3) Name of the transferee company and date of share transfer

Name of the transferee company	LIXIL VIVA Corporation
Date of share transfer	November 9, 2020

4) Name of transferred company and major business

Name of the transferred company	LIXIL VIVA Corporation
Major business	Home Improvement Center Operation, Renovation, VCs, Real-Estate Development

5) Overview of the transfer

Numbers of shares held before the transfer	6 shares (Note)
Number of shares transferred	6 shares
Ratio of shares held after the transfer	No share (- %)
Received amount	56,619 million yen
Gain on share transfer	16,494 million yen was recognized as gain on sale of subsidiaries in the profit for the year from discontinued operations in the consolidated statement of profit or loss.

Note: LIXIL VIVA conducted a stock consolidation, combining 3,894,550 shares to one share, effective October 22, 2020.

6) Profit or loss related to discontinued operations

Profit or loss related to discontinued operations are as follows:

(Millions of yen)	
	Amount
Revenue	113,391
Gain on sale of subsidiaries	16,494
Other profit and loss	(98,772)
Profit before tax from discontinued operations	31,113
Income tax expenses (Note)	(5,026)
Profit for the year from discontinued operations	26,087

Note: Income tax expenses include expenses of 546 million yen for gains on the sale of subsidiaries.

12. Other Notes

Figures less than one million yen are rounded down to the nearest million yen.

Notes to Nonconsolidated Financial Statements

1. Significant Accounting Policies

(1) Standards and methods for valuation of assets

1) Valuation standards and methods for securities

A. Investments in subsidiaries and associates

Stated at cost determined by the moving-average method. Shares that do not have market prices are written down when the substantial values declined as a result of deterioration of the issuing company's financial position.

B. Available-for-sale securities

(i) Marketable securities

Stated at fair value at the end of the fiscal year. Unrealized gains or losses, net of applicable income taxes, are directly included in net assets. Costs of securities sold are determined by the moving-average method. The valuation differences are recognized as losses when the market values declined and are not expected to recover.

(ii) Non-marketable securities

Stated at cost determined by the moving-average method. Shares are written down when the substantial values declined as a result of deterioration of the issuing company's financial position.

2) Valuation standards for derivative

Stated at fair value.

3) Standards and methods for valuation of inventories

Stated at cost determined by the weighted-average method. The figures shown in the balance sheet have been calculated in accordance with the write-down approach based on decline in profitability.

(2) Depreciation method of non-current assets

1) Property, plant and equipment other than leased assets

Depreciated under the declining-balance method. Certain buildings and structures are depreciated using the straight-line method.

2) Intangible assets other than leased assets

Depreciated under the straight-line method.

3) Leased assets

A. Transferable leases

Calculated by the same depreciation method as applied to the self-owned non-current assets.

B. Leased assets regarding finance leases which do not transfer ownership

Depreciated over the lease term using the straight-line method with no residual value.

(3) Provisions

1) Allowance for doubtful accounts

An allowance is provided for an estimated uncollectible amount based on loan loss ratios in the case of general receivables and based on case-by-case examination of collectability in the case of specific receivables including doubtful receivables.

2) Provision for bonuses

An accrual is provided for the payment of employees' bonuses based on the expected amount to be paid.

3) Provision for bonuses for directors (and other officers)

An accrual for the current fiscal year is included in the estimated payment amount based on the stock price-linked compensation.

4) Provision for loss on factory restructuring

An accrual is provided for an estimated amount of probable losses in connection with factories restructuring.

5) Provision for retirement benefits

An accrual is provided for an employees' pension and retirement benefits at the balance sheet date based on the estimated amount of projected retirement benefit obligations and plan assets at the end of the fiscal year. In calculating retirement benefit obligation, the benefit formula basis is used for attributing expected retirement benefits for the period up to the end of the current fiscal year.

Actuarial gains and losses and past service liabilities are included in profit or loss when they are occurred.

6) Provision for loss on businesses of subsidiaries and associates

An accrual is provided for an estimated amount of probable losses based on consideration of the financial conditions of the subsidiaries and associates.

(4) Recognition of revenue and cost

Standards for recognition of construction revenue and cost

The percentage-of-completion method is applied for contracts whose outcome at the end of this fiscal year was deemed certain. The completed contract method is applied for contracts other than the above. The construction-cost-percentage method is used for estimating the degree of completion of construction to apply the percentage-of-completion method.

(5) Other significant matters serving as the basis for the preparation of financial statements

1) Hedge accounting

A. Method of hedge accounting

Deferred hedging is applied. Foreign currencies are translated at the contracted rates if the forward currency contracts qualify for hedge accounting. The interest rate swaps, which qualify for hedge accounting and meet specific matching criteria, are not remeasured at market value but the differential paid or received under the swap agreements are recognized and included in interest expense or income. Integrated accounting is applied to cross-currency interest rate swaps that meet the requirements for hedge accounting.

B. Hedging instruments and Hedged items

(i) Hedging instruments

Derivative transactions (Forward currency contracts, commodity swaps, interest rate swaps and cross-currency interest rate swaps)

(ii) Hedged item

Foreign currency transactions, material procurement transactions, receivables and payables dominated in foreign currencies to fund procurement

C. Hedging policy

To manage risk arising from currency exchange, price changes of raw materials and interest rate.

D. Method of assessing effectiveness of hedging

The effectiveness of each derivative transaction is evaluated by assessing amount of debt/credit, hedge transaction conditions and other factors on an individual basis.

2) Accounting for convertible bonds with subscription rights to shares

Proceeds from the issuance of convertible bonds with subscription rights to shares are not allocated between the bond portion and the subscription right portion, but are accounted for as straight bonds.

3) Accounting for deferred assets

Bond issuance costs are expensed when incurred.

4) Accounting for consumption tax

Transactions subject to consumption tax are recorded at amounts excluding consumption tax.

5) Consolidated taxation system

LIXIL Corporation (the "Company") applies the consolidated taxation system.

6) Treatment of tax effect accounting for the transition from the consolidated taxation system to the group tax sharing system

Based on item 3 of "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (PITF No.39, March 31, 2020), the provisions of item 44 of "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018) are not applied to the transition to the group tax sharing system and items for which the single tax payment system has been reviewed in line with the transition to the group tax sharing system, and the amounts of deferred tax assets and deferred tax liabilities are based on the provisions of the tax law before the revision.

2. Changes in Presentations

(1) Implementation of "Accounting Standard for Disclosure of Accounting Estimate"

The Company has applied "Accounting Standard for Disclosure of Accounting Estimate" (ASBJ Guidance No. 31, issued March 31, 2020), effective April 1, 2020, and stated notes on significant accounting estimates in the financial statements.

(2) Presentation of Balance Sheet

"Long-term prepaid expenses", which has been presented separately on the balance sheet, is included in "Other investments" as the amount has become insignificant. "Long-term prepaid expense" for the year ended March 31, 2021 amounted to 331 million yen.

"Accounts payable - other", which has been included in "Other current liabilities" in the balance sheet, is presented separately as materiality of the amount has increased. "Accounts payable - other" for the year ended March 31, 2020 amounted to 1,379 million yen.

3. Notes to Additional Information

Accounting estimate related to the expansion of COVID-19

The COVID-19 global pandemic caused a sharp stagnation in economic and social activities, which had a considerable impact on business performance of the Company and its subsidiaries (the "Group") in the fiscal year ended March 31, 2021. Although there are differences depending on the region, both Japan and international businesses are generally on a recovery trend.

The Group will continue to carefully monitor the social and economic impact of COVID-19 in Japan and international markets, and how this will affect the Group's business performance.

Due to the unprecedented nature of the COVID-19 pandemic, there are currently no widely accepted views on how it will continue to develop in the future, or precedent regarding accounting estimates related this situation. Therefore, it is difficult to predict the trend. However, based on certain assumptions, the Group has developed estimates such as for the recoverability of deferred tax assets or fixed asset impairment tests, and reflected the impact of these assumptions into the Group's estimates in the same manner as for the fiscal year ended March 31, 2020.

Most of Japan and international business performance showed a recovery trend during the second half of the fiscal year ended March 2021, although COVID-19 is still surging in some international regions. It is assumed that the impact on our business performance from the fiscal year ending March 31, 2022 onward will be minor and limited.

There are many uncertainties regarding the impact of COVID-19 on economic activities. If the above assumptions should change, the financial condition and operating results of the Company may be affected.

4. Notes on Accounting Estimates

Items whose amounts were recognized in the financial statements for the fiscal year ended March 31, 2021 and that are based on accounting estimates that may have a material impact on the financial statements for the following fiscal year are as follows:

(1) Valuation of investments in subsidiaries and associates

1) Amount recognized in the balance sheet for the year ended March 31, 2021

Out of 367,792 million yen of investments in subsidiaries and associates:

related to LIXIL Europe S.à r.l. 158,994 million yen

related to ASD Holding Corp. 54,688 million yen

2) Other information

Among the shares of subsidiaries and associates, the Company compared the carrying amounts and the substantial values reflecting the excess earning power for the valuation of investments in LIXIL Europe S.à r.l. and ASD Holding Corp.

The substantial values reflecting the excess earning power are described in Note 3 "Notes on Accounting Estimates" in Notes to Consolidated Financial Statements.

The substantial values reflecting the excess earning power may be affected by changes in uncertain future economic conditions, and if the substantial values declined it may lead to material impacts on the amounts of valuation of investments in subsidiaries and associates recognized in the financial statements for the following fiscal year.

(2) Recoverability of deferred tax assets

1) Amount recognized in the balance sheet for the year ended March 31, 2021

Deferred tax assets 63,498 million yen

(Deferred tax assets recognized for tax loss carryforwards are 53,578 million yen)

2) Other information

Current income taxes are measured at the amount expected to be recovered from or paid to the taxation authorities and estimated taxable income is based on a business plan approved by management.

The recoverability of deferred tax assets is determined by profitability based on the three-year business plans approved by management and the taxable income before adjusting temporary difference based on the tax planning.

Estimates of taxable income may be affected by changes in uncertain future economic conditions, and if the actual timing and amount of taxable income differ from the estimates, it may lead to material impacts on the amount of deferred tax assets recognized in the financial statements for the following fiscal year.

5. Notes to Nonconsolidated Balance Sheet

(1) Accumulated depreciation on property, plant and equipment 546,445 million yen

(2) Contingent liabilities

1) The guarantee obligations are as follows.

The Company guarantees loans due to financial institutes of the following subsidiaries or associates:

Grohe Holding GmbH	50,362 million yen
LIXIL India Sanitaryware Private Limited	265 million yen
Other	18 million yen

The Company guarantees loans due to the finance subsidiary of the following subsidiaries or associates:

Grohe Holding GmbH	24,319 million yen
LIXIL GLOBAL MANUFACTURING VIETNAM Co., Ltd.	19,974 million yen
LIXIL REALTY Corp.	8,486 million yen
LIXIL Home Finance Corp.	5,667 million yen
Other	17,434 million yen

The Company guarantees lease liabilities of the following subsidiaries or associates:

Hisai LIXIL Factory Corporation and other 41 companies	1,393 million yen
Other	381 million yen

2) Indemnities based on the share transfer agreement are as follows.

A. Indemnity based on the share transfer agreement (disputes) (Note 1) 4,034 million yen

B. Indemnity based on a share transfer agreement (execution of revitalization plan) (Note 2)
1,298 million yen

Notes: 1. On September 30, 2020, 100% of the shares of Permasteelisa S.p.A ("Permasteelisa") which was a wholly-owned subsidiary of the Company, was sold. For certain disputes involving Permasteelisa occurring prior to the date of the share transfer, the Company is obligated to indemnify losses incurred by Permasteelisa on or after the date of the share transfer. For the amount expected to be fulfilled, liabilities have been recorded in the balance sheet and are not included in the above amount.

2. If the revitalization plan is executed at Permasteelisa after the date of the share transfer, the Company is liable to compensate the relevant costs incurred in implementing the revitalization plan that the Company considers necessary for the implementation of the plan. For the amount expected to be fulfilled, liabilities have been recorded in the balance sheet and are not included in the above amount.

(3) Receivables from and payables to subsidiaries and associates

Short-term receivables	170,869 million yen
Short-term payables	122,727 million yen
Long-term receivables	379 million yen
Long-term payables	545 million yen

6. Notes to Nonconsolidated Statement of Income

(1) Presentation of statement of income

The Company has completed the merger between the Company (surviving company) and its 100% subsidiary LIXIL Corporation ("former LIXIL") (absorbed company) and has shifted from a traditional holding company structure to an operating company structure.

For the breakdown of the operating income in the statement of income, profit and loss as the traditional holding company between April 1, 2020 and November 30, 2020 are described as "Operating Revenue" and "Operating Expenses." Additionally, profit and loss from the operating company between December 1, 2020 and March 31, 2021 is described as "Net Sales," "Cost of sales" and "Selling, general and administrative expenses."

As a result of this merger, the Company has recorded 35,954 million yen in "Loss on extinguishment of tie-in shares." Details are described in Note 11 "Notes to Business Combinations."

(2) Transactions with subsidiaries and associates

Operating transactions

Sales	41,936 million yen
Purchases	36,001 million yen
Royalty income	6,377 million yen
Dividend income	1,313 million yen
Other operating transactions	58,235 million yen
Non-operating transactions	11,613 million yen

(3) Provision for loss on investment in subsidiaries and associates

Provision for loss on investment in subsidiaries and associates recorded in the fiscal year ended March 31, 2021 is mainly related to LIXIL Africa Holding (Pty) Ltd., a subsidiary of the Company.

Since the profitability declined significantly due to continuous low performance, losses were recorded as non-operating expenses based on consideration of the financial conditions.

(4) Gain on sale of investments in subsidiaries and associates

The Company sold all of the shares of LIXIL VIVA CORPORATION, which was a subsidiary, accordingly, a gain amounting to 43,760 million yen was recognized as "Gain on sale of investments in subsidiaries and associates" in extraordinary income.

Details are described in Note 12 "Notes to Subsidiaries and Associates."

(5) Impairment losses

The Company recognized impairment losses amounting to 2,320 million yen in extraordinary loss. The main impaired assets are as follows:

(Millions of yen)

Usage	Location	Category and Amount	
Manufacturing facilities for building window sashes	Oyabe, Toyama, etc.	Buildings	404
		Machinery and equipment	1,598
		Tools, furniture and fixtures	55
		Others	103
		Total	2,160
Assets planned for sale, etc.	Koto, Tokyo, etc.	Machinery and equipment	80
		Tools, furniture and fixtures	5
		Others	75
		Total	160

1) Method of grouping assets

The assets for business use are classified into groups based on the division on management accounting in which revenue and expenditure are continuously grasped, whereas idle assets are individually categorized.

2) Reason to recognize impairment losses

The Company recognized impairment losses on assets related to the manufacturing facilities for building window sashes, since the profitability declined significantly due to continuous low performance. The Company recognized impairment losses on assets planned for sale due to the expectation of losses from sales. The carrying amounts of the relevant assets were written down to their recoverable amounts or sales amounts and the related impairment losses were recorded as extraordinary losses.

3) Calculation of recoverable amounts

An asset's recoverable amount is measured by the asset's value in use for the assets related to manufacturing facilities for building window sashes. Since the estimated value based on future cash flow is negative, the Company measured the value in use as zero. An estimated sales price is used as the recoverable amounts for the assets planned for sale.

(6) Loss on business of subsidiaries and associates

On September 30, 2020, former LIXIL sold 100% of the shares of Permasteelisa S.p.A ("Permasteelisa").

For certain disputes involving Permasteelisa occurring prior to the date of the share transfer, the Company is obligated to indemnify losses incurred by Permasteelisa on or after the date of the share transfer.

And if the revitalization plan is executed at Permasteelisa after the date of the share transfer, the Company is liable to compensate the relevant costs incurred in implementing the revitalization plan that the Company considers necessary for the implementation of the plan.

Before the share transfer date, former LIXIL paid a certain amount of capital, of which up to 100 million euros (12,980 million yen) will be recovered depending on the cash flow status of Permasteelisa between the date of the share transfer and the end of the following fiscal year. The amount is recognized as other assets ("Long-term accounts receivable – other" and "Allowance for doubtful accounts") on the balance sheet, based on the valuation determined by the Monte Carlo simulation based on the risk-neutral valuation method proposed by an independent expert.

The above expenses, which are based on the share transfer agreement, are recognized in "Loss on business of subsidiaries and associates" in the statement of income for the year ended March 31, 2021.

(7) Implementation of Voluntary Retirement Program "New Life"

The Group aim to transform its Japan business into a more entrepreneurial and sustainable enterprise in the future. Building on initiatives already taken under Kawaranaito LIXIL ("LIXIL, We Must Change"), a comprehensive HR program launched in Japan in the fall of 2019, and to accelerate the speed of transformation, the Board of Directors resolved to implement the "New Life Voluntary Retirement Program" ("New Life") on October 30, 2020.

1) Background

Businesses in Japan currently represent approximately 70% of the Group's total business. It is also the key driver of innovation that supports LIXIL's global portfolio of brands and businesses.

The business environment surrounding the Group in Japan, however, is changing with a rapidly shrinking market for new homes. At the same time, changing consumer trends and digitalization are disrupting traditional business models.

To achieve sustainable growth in the future, the Company recognizes the need to transform its business structure, become meritocratic, and establish an agile culture that supports innovation and entrepreneurship. The Group expects these changes to strengthen the growth potential and sustainability of its operations in Japan and internationally, enhancing overall stakeholder returns.

The comprehensive HR strategy, "Kawaranaito LIXIL," consists of a series of change initiatives designed to achieve three objectives in Japan: "work consumer-centrally," "manage career paths" and "change working styles." A series of measures to enable this transformation are being implemented across the businesses in Japan. As a part of these measures, the Company resolved to implement New Life, which is designed to provide strong support to employees who choose to seek new opportunities externally, while also accelerating the transformation of the businesses in Japan.

2) Eligibility

Permanent employees of the Company aged 40 and over, who have worked as an employee of the Company for ten consecutive years or more as of the effective date of retirement. (This excludes employees working at factories (other than working in HR, Administration and Accounting Departments), Distribution Centers and the Digital Division.)

3) Application period

From January 12, 2021 to January 22, 2021

4) Number of voluntary retirement applicants

965 employees applied.

5) Effective date of retirement

March 25, 2021

6) Preferential conditions

- A premium will be added on to the normal retirement allowance of eligible applicants
- In addition, eligible applicants will also have the option to receive outplacement services

7) Financial impact for profit or loss

Loss on early retirement related payments of 13,563 million yen was recorded in the extraordinary loss in the statement of income.

7. Notes to Nonconsolidated Statement of Changes in Equity

Class and number of treasury shares as of March 31, 2021

Ordinary shares 23,091,431 shares

8. Deferred Tax Assets and Deferred Tax Liabilities

Major components of deferred tax assets and deferred tax liabilities

Deferred tax assets

Tax loss carryforwards	55,118 million yen
Allowance for doubtful accounts	10,118 million yen
Loss on valuation of investments in subsidiaries and associates	10,064 million yen
Impairment losses	6,416 million yen
Provision for bonuses	5,173 million yen
Valuation difference on fixed assets	4,789 million yen
Loss on business of subsidiaries and associates	3,400 million yen
Software	2,950 million yen
Provision for loss on business of subsidiaries and associates	2,272 million yen
Inventories	2,247 million yen
Asset retirement obligations	1,800 million yen
Retirement benefit trust assets	1,549 million yen
Provision for retirement benefits	1,523 million yen
Software in progress	1,287 million yen
Loss on valuation of investment securities	809 million yen
Other	7,452 million yen
Subtotal	116,975 million yen
Less: valuation allowance for tax loss carryforwards	(1,539) million yen
Less: valuation allowance for deductible temporary difference	(31,341) million yen
Subtotal	(32,881) million yen
Total	84,094 million yen
Deferred tax liabilities	
Unrealized gain on available-for-sale securities	(9,385) million yen
Valuation difference on fixed assets	(5,456) million yen
Prepaid pension costs	(3,819) million yen
Other	(1,933) million yen
Total	(20,595) million yen
Net deferred tax liabilities	63,498 million yen

9. Related Party Transactions

(1) Subsidiaries and associates

(Millions of yen)

Type	Name of company	Share of voting rights owned by the Company / (owned by the related party)	Relationship with the related party	Transaction	Transaction Amount	Account	Balance as of March 31, 2021
Subsidiary	LIXIL Corporation (absorbed company) (Note 1)	Directly owned 100%	Control and management by holding shares Concurrent post of directors	Acceptance of seconded employees (Note 2)	6	—	—
				Payment of consignment fee (Note 3)	6,387	—	—
				Receipt of royalty (Note 4)	6,324	—	—
Subsidiary	LIXIL Group Finance Corporation	Directly owned 100%	Control and management by holding shares	Lending of funds (Note 6)	70,195	Short-term loans receivable	70,195
				Receipt of interest income (Note 6)	174	Other receivables	18
			Concurrent post of directors	Payment of interest expense (Note 6)	168	—	—
			Consignment of fund management business	Transferring of notes receivable (Note 6)	281,230	Other receivables	76,450
				Factoring service (Note 6)	63,428	Accounts payable - trade Other payables	72,661 20,479

Subsidiary	Grohe Holding GmbH	Indirectly owned 100%	Control and management by holding shares	Guarantee of obligations of intercompany loans (Note 5)	24,319	—	—
				Guarantee obligations (Note 7)	50,362	—	—
				Receipt of guarantee fees (Note 7)	72	Other receivables	3
Subsidiary	LIXIL GLOBAL MANUFACTURING VIETNAM Co., Ltd	Indirectly owned 100%	Control and management by holding shares	Guarantee of obligations of intercompany loans (Note 5)	17,000	—	—

Terms and conditions of transactions and policies for determining the terms and conditions

Notes: 1. Since the Company has completed the merger between the Company (surviving company) and its 100% subsidiary LIXIL Corporation ("former LIXIL") (absorbed company), the amount of the period which LIXIL Corporation used to be the related party is stated.

2. Amount reimbursed to former LIXIL, which paid payroll costs for seconded employees on behalf of the Company.

3. The consignment fee is calculated based on the consignment agreement with former LIXIL. In addition, the net amount after deducting the amount claimed management fee is stated.

4. Royalty is calculated based on the contractual rates determined in consultation with former LIXIL.

5. The Company does not receive any guarantee fees, taking into account the degree of associated risks.

6. Financial transaction terms are determined based on consultation, taking market into account. The transaction amount of lending of funds is the balance as of March 31, 2021. The fund procurement function, which mainly had been conducted by LIXIL Group Finance Corporation, was transferred to the Company in the fiscal year ended March 31, 2021. Accordingly, the Company assumed liabilities such as loans payables which had been held by LIXIL Group Finance Corporation.

7. Guarantee fee rates are determined reasonably based on the market rate and the degree of associated risks.

(2) Directors and major individual shareholders

(Millions of yen)

Type	Name of company or individual	Shares of voting rights owned by the Company / (owned by the related party)	Relationship with the related party	Transaction	Transaction amount	Account	Balance as of March 31, 2021
Director and close relative	Sachio Matsumoto	(Directly owned 0.0%)	Director and Executive Officer of the Company	Exercise of subscription rights to shares (Note)	22	—	—

Terms and conditions of the transactions and policies for determining the terms and conditions

Note: Exercised subscription rights to shares are those exercised for 7th stock options. Transaction amounts are calculated by multiplying the shares granted in exercising subscription rights by amounts paid.

10. Per Share Information

(1) Net assets per share

1,540.01 yen

(2) Earnings per share

(21.49) yen

11. Notes to Business Combinations

Absorption merger between LIXIL Group Corporation and LIXIL Corporation

The Company resolved at the Board of Directors Meeting held on March 23, 2020 to conduct an absorption-type merger of its subsidiary LIXIL Corporation ("former LIXIL"), and a merger agreement was signed on the same date. The merger was carried out on December 1, 2020.

(1) Transaction overview

1) Overview of the companies involved in the business combination

Name of company dissolved as a result of the absorption merger LIXIL Corporation

Major business To manufacture and sell building materials and housing equipment for housing and buildings, operate housing-related businesses as well as related services.

2) Date of the merger

December 1, 2020

3) Method of the merger

Using the "merger by absorption" method, the Company became the surviving company and former LIXIL was dissolved.

4) Company name after the business combination

LIXIL Corporation

Note: Based on the approval of partial amendment of the Articles of Incorporation at Annual General Meeting of Shareholders, which was held in June 30, 2020, the company changed the company name from "LIXIL Group Corporation" to "LIXIL Corporation" after the completion of the procedures required for the Merger.

5) Transaction overview including the purpose of the transaction

The Group's aim is to be an entrepreneurial company that can achieve sustainable competitiveness and growth in order to fulfill its corporate purpose to contribute to society by making better homes a reality for everyone, everywhere. To achieve this aim, the Group is taking steps to transform its operations, including strengthening governance, enhancing productivity and efficiency, as well as becoming a more agile organization that enables better decision-making.

Since 2001, under the former Tostem Inax Holding Corporation, the Group adopted a holding company structure to optimize overall operations while cooperation and originality minds between operating companies. This structure was continued when the former LIXIL was established following the integration of five major operating companies in 2011. However, as the Group's strategy has evolved, it must now place a greater focus on actively managing its core businesses and driving synergies across these business areas to accelerate growth. This is in line with the announcement of July 22, 2019 ("Announcement Regarding Management's Future Direction"), which stated that the highest priority of the current executive officers and directors is to enhance corporate value by focusing on LIXIL's core businesses inside and outside of Japan. By dissolving the two-tier structure of the Company and former LIXIL, the Group will improve efficiency by eliminating duplication of management, operating costs and human resources. This change will enable faster decision-making, as well as improve corporate governance by simplifying the group management system and increasing the transparency of management.

Based on these considerations, the Board of Directors has resolved to conduct an absorption-type merger of the former LIXIL.

(2) Overview of accounting procedures applied

The transaction was accounted for as a transaction under common control in accordance with Accounting Standard for Business Combinations (ASBJ Statement No. 21, January 16, 2019) and the Revised Guidance on Accounting Standard for Business Divestitures (ASBJ Guidance No.10, January 16, 2019). With the absorption merger in which former LIXIL became the dissolved company, the Company has recorded 35,954 million yen in Loss on extinguishment of tie-in shares as an extraordinary loss.

12. Notes to Subsidiaries and Associates

Transfer of shares of LIXIL VIVA Corporation

Based on the resolution at the Board of Directors Meeting held on June 9, 2020, the Company signed a memorandum ("Memorandum") with Arcland Sakamoto Co., Ltd. ("Arcland Sakamoto") and LIXIL VIVA Corporation ("LIXIL VIVA"), which was a subsidiary of the Company, as well as an agreement ("Agreement") with Arcland Sakamoto regarding a series of transactions including: a cash tender offer scheduled to be conducted by Arcland Sakamoto for the ordinary shares of LIXIL VIVA ("Tender Offer"); a reverse share split of the ordinary shares of LIXIL VIVA; a transfer of the shares held by the Company via buy-back by LIXIL VIVA ("Share Transfer"), through which LIXIL VIVA becomes a wholly owned subsidiary of Arcland Sakamoto; and other transactions incidental or related to those transactions (collectively, "Transaction"). After the conclusion of the agreement, through the necessary procedures for the transfer of shares, the Share Transfer was executed on November 9, 2020.

(1) Reason for the transfer

The Group's aim is to be an entrepreneurial company that can achieve sustainable competitiveness and growth in order to fulfill its corporate purpose to contribute to society by making better homes a reality for everyone, everywhere. To achieve this aim, the Group is taking steps to transform its operations, including strengthening governance, focusing on actively managing its core businesses areas, enabling further synergies, as well as optimizing its business portfolio to accelerate growth and strengthen financial conditions.

The transaction is in line with the Group's efforts to focus on its core businesses and simplify its business structure, enabling further synergies and efficiencies through enhanced integration.

LIXIL VIVA operates home improvement centers that provide a wide range of housing related merchandise, materials and renovation services. LIXIL VIVA has established a solid position in the industry attributable to its strengths, particularly its offering of a wide variety of merchandise necessary for renovations via its vast store space, which can provide business customers with one-stop service. LIXIL VIVA, however, has been facing a challenging business environment with intensifying competition in the retail home improvement center industry caused by a decrease in the number of customers due to population decline in Japan, changes in consumer behavior, and shifts in the channel landscape with the expansion of drugstores, e-commerce, and so forth.

The business of LIXIL VIVA is distribution and retail business which differs from the Group's core business. Therefore, the Share Transfer will enable the Group to invest its resources not only in its core businesses to drive synergies across those businesses, but also in new and profitable growth businesses, which will lead to further business efficiency. In addition, although LIXIL VIVA has been operationally independent from the Group, its independence in terms of the capital ties following the Share Transfer will support the Group in strengthening business relations with other home improvement center operators, which are important customers to the Group, as a more independent supplier.

(2) Description of the tender offer and methods of share transfer

The Company conducted an auction process in which the Company invited a wide range of potential candidates to acquire the ordinary shares of LIXIL VIVA, in order to select the most appropriate candidate for the Company, LIXIL VIVA and the minority shareholders of LIXIL VIVA. After thorough consideration, Arcland Sakamoto was selected as the transferee based on its superiority in terms of maximizing economic value for the Company and the certainty of completing the sale, including financing ability among others. LIXIL VIVA also concluded that the proposal received from Arcland Sakamoto was superior for LIXIL VIVA and its shareholders after comprehensive and careful consideration of the evaluated equity value, the direction of the business strategy after the Transaction, and other factors in the proposal. Subsequently, Arcland Sakamoto, LIXIL VIVA and the Company began negotiations, and on June 9, 2020, the Board of Director's Meeting resolved to transfer all ordinary shares of LIXIL VIVA held by the Company to LIXIL VIVA through the Share Transfer and signed off on the Memorandum and the Agreement on the same date. The Transactions are comprised of three conditions;

- a) ensuring that the only shareholders of LIXIL VIVA are the Company and the tender offeror (Arcland Sakamoto) via the Tender Offer, or through a stock consolidation conducted by LIXIL VIVA ("Stock Consolidation") in the event the tender offeror is unable to acquire all of the LIXIL VIVA shares (excluding, however, the LIXIL VIVA shares owned by the tender offeror, the untendered shares owned by the Company, as well as the treasury stock owned by LIXIL VIVA) via the Tender Offer;
- b) for the purpose of securing the funding and distributable amount needed for the acquisition of LIXIL VIVA treasury stock defined in c); (i) having the tender offeror provide LIXIL VIVA with funding that can be

directed toward the consideration for the acquisition of LIXIL VIVA treasury stock; and (ii) conducting reductions in capital, capital reserves and profit reserves of LIXIL VIVA in accordance with Paragraph 1 of Article 447 and Paragraph 1 of Article 448 of the Companies Act; and
c) the acquisition of treasury stock among the untendered shares owned by the Company as implemented by LIXIL VIVA, conditioned on both the realization of the Tender Offer as well as the effect of the Stock Consolidation.

(3) Name of the transferee company and date of share transfer

Name of the transferee company	LIXIL VIVA Corporation
Date of share transfer	November 9, 2020

(4) Name of transferred company and major business

Name of the transferred company	LIXIL VIVA Corporation
Major business	Home Improvement Center Operation, Renovation, VCs, Real-Estate Development

(5) Overview of the transfer

Numbers of shares held before the transfer	6 shares (Note)
Number of shares transferred	6 shares
Number of shares held after the transfer	No share (- %)
Received amount	56,619 million yen
Gain on share transfer	43,760 million yen

Note: LIXIL VIVA conducted a stock consolidation, combining 3,894,550 shares to one share, effective October 22, 2020.

13. Consolidated Dividend Regulations

The Company is subject to consolidated dividend regulations, meaning that it calculates the distributable amount for dividends on a consolidated basis.

14. Other Notes

Figures less than one million yen are rounded down to the nearest million yen.

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