

TOTO

TOTO CORPORATE REPORT 2014

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Preface

Overview of TOTO Group Communication Tools

Editorial Policy

The TOTO Group first released our Social and Environmental Report in fiscal 2004 and CSR Report the following year. From fiscal 2009, we started issuing the TOTO CORPORATE REPORT as a comprehensive communications tool for all stakeholders.

Amid increasing importance of corporate social responsibility (CSR), the TOTO CORPORATE REPORT transcends the framework of the annual CSR Report to convey a broader view of TOTO's business and desired stance based on the idea that CSR is an integral part of all corporate activities.

TOTO aims to ensure easily accessible communication that meets the needs of a diverse array of stakeholders. To do this, we utilize four tools: this report; TOTO Guide, which is conveniently available at TOTO showrooms and other places of business; the Corporate View, which describes TOTO's history and business activities as well as TOTO's annual financial and ESG (environment, society, and governance) data in order to provide readers a more in-depth understanding of TOTO; and the TOTO Group website, which offers more detailed information.

TOTO hopes to use communication tools to increase interest in its corporate stance committed to linking TOTO's past and present performance with initiatives designed to further enhance corporate value for the future.

- **Period of reporting:** — Fiscal 2013 (April 1, 2013 to March 31, 2014).
This report includes some information pertaining to before or after the period.
- **Scope of reporting:** — TOTO LTD. and Group companies
- **Guidelines:** — This report uses Standard Disclosure of the GRI Sustainability Reporting Guidelines as a reference.
GRI Guidelines Reference of GRI Version 4 is available on the TOTO Group website.

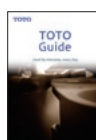
Overview and Details on TOTO Group Activities



TOTO CORPORATE REPORT 2014 (Japanese/English)

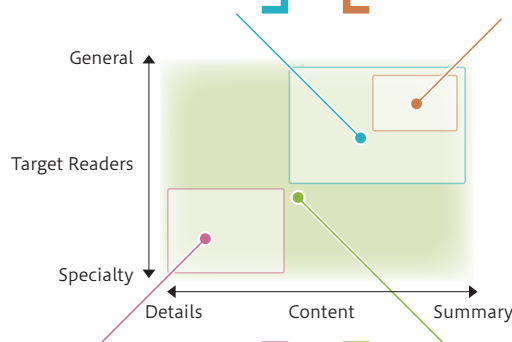
This comprehensive booklet conveys the overall image of the TOTO Group from CSR perspective extending from the corporate philosophy to individual activities.

A Brief Introduction to the Essence of TOTO



TOTO Guide (Japanese/English/Chinese/Korean)

This booklet summarizes the TOTO approach to different aspects of business, making it handy for the general public as well. It is distributed at TOTO showrooms, plant tours and events.



Single Document Containing the Activities and Technical Data of the TOTO Group



TOTO CORPORATE VIEW 2014 (Japanese / English)

A new tool (PDF file) comprising a summary of TOTO's financial and ESG (environment, society, and governance) data and TOTO's history and business activities.

Latest TOTO Group Information



TOTO Group Website http://www.toto.co.jp/company/profile_en/

This section of the TOTO Group website covers detailed information on a wide variety of topics in addition to the contents introduced in the printed version.

TOTO Manufacturing

Passing on Our Founding Spirit and Continuing to Promote Innovation

The history of TOTO production stretches back almost 100 years. In 1912, when the concept of public sewage systems was not yet widespread in Japan, Kazuchika Okura, then president of Nippon Toki Gomei Kaisha (currently Noritake Co., Ltd.), upon exposure to advanced lifestyles overseas, established a ceramic sanitary ware laboratory based on a desire to provide sanitary living spaces. Two years later in 1914, the laboratory successfully produced Japan's first ceramic sanitary ware. In 1917, Toyo Toki Company, Limited (currently TOTO LTD.) was founded to permeate the market with these products.

A letter written by the company's first president, Kazuchika Okura, to his successor, Saburo Momoki, contains words that have been treasured as the "Words of the Predecessor."

[Words of the Predecessor]

Kindness must always come first.
Bring the concept of service to your work.
Your goal should be to provide good products and satisfy the customer. Accomplish that, and profit and compensation will follow.
Many in this world chase after the shadow of profit, but to the end never capture the real thing.

Since then, we have sought to contribute to the development of society based on a spirit of service that inspires the provision of high-quality products and ensures customer satisfaction. This concept is expressed in TOTO's Company Mottos formulated in 1962. TOTO Manufacturing, which began with Japan's first ceramic sanitary ware, continued to expand into development of products for the bath, washroom, and kitchen, as the company aimed for improved quality and environmental optimization.

Even today, as our business expands worldwide, the hopes and convictions of Kazuchika Okura, our founder, are being passed down to each and every employee in the TOTO Group.

Pre-founding (~1916)



Founder: Kazuchika Okura



1912: Established ceramic sanitary ware laboratory



1914: Successfully produced Japan's first ceramic seated flush toilet

1st Generation (1917~1946)



1917: Toyo Toki Company, Limited established in Kokura, Kyushu



1946: Commenced production of faucets



1918: Tableware Division established (discontinued in 1970)

2nd Generation (1947~1976)



1976: Launched CS Series water-saving, noisereducing toilet



1958: Launched TOTOLITE Bath FRP bathtubs



1963: Developed construction method for prefabricated bathroom module



1980: Launched Washlet® (toilet seats with a warm-water washing feature)



1970: Developed enamel bathtub



1968: Launched bathroom vanity unit



1981: Launched modular kitchen

3rd Generation (1977~2006)



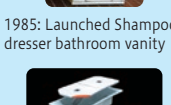
1990: Launched 6L-flush toilet in the U.S.



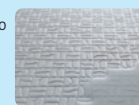
1998: Developed HYDROTECT technology



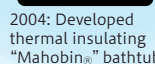
1993: Launched NEOREST toilets



1985: Launched Shampoo dresser bathroom vanity



2001: Developed "Karari" floor for thorough drainage



2004: Developed thermal insulating "Mahobin" bathtub

4th Generation (2007~)



2007: Launched NEOREST Hybrid Series



2007: Company name changed to TOTO LTD.

Message from TOTO

TOTO



The TOTO Group strives to pass down its Common Group Philosophy to each and every employee.

Founder's Conviction

“Improve the lifestyle and culture of the people. Provide a healthy and civilized way of life.”

Common Group Philosophy

Company Mottos, TOTO Group Corporate Philosophy and Charter of TOTO Group Corporate Behavior

Visions for Business Activities

Vision, Mission and Mid- or Long-Term Management Plan (TOTO V-Plan 2017)

The TOTO Group conducts corporate activities with the aim of continuing to contribute to society and to the earth's environment. Underlying this is our founder's conviction to improve the lifestyle and culture of the people, and to provide a healthy and civilized way of life. This belief has been passed down unbroken to each and every employee as the Common Group Philosophy, and is collectively regarded as the starting point for customer satisfaction.

In the lead-up to the TOTO Group's 100th anniversary in 2017, we established TOTO V-Plan 2017 in 2009, and since then, the entire TOTO Group has been committed to this initiative, with the TOTO GREEN CHALLENGE, our environmental vision, acting as the driving force. In 2014, we subsequently formulated TOTO Global Environmental Vision, together with our new mid-term management plan to be achieved by 2017.

The TOTO V-Plan 2017 lays out our goal of providing customers around the world with a new “every day,” and becoming a truly global company indispensable to society we serve. Our aim of becoming a “truly global company” extends beyond high sales levels or percentage of overseas business. It is about the acceptance and recognition by customers of the country or region as being indispensable to the area, by delivering products tailored to local culture and customs and

providing a new lifestyle.

In realizing this, it is important for us to have initiatives to deal with the global challenge of environmental problems, and in particular, those relating to water resources. Having been engaged in water-related business ever since its foundation, the TOTO Group is an enterprise whose very business activity is intertwined with environmental contribution. By delivering environmentally friendly products to customers around the world, we will contribute to the realization of a truly sustainable society.

Looking beyond the achievement of the TOTO V-Plan 2017, the TOTO Group will strive to further raise its corporate value.

As the company to create and provide lifestyle value, we offer an “every day”, looking to “tomorrow” and moving toward the future.

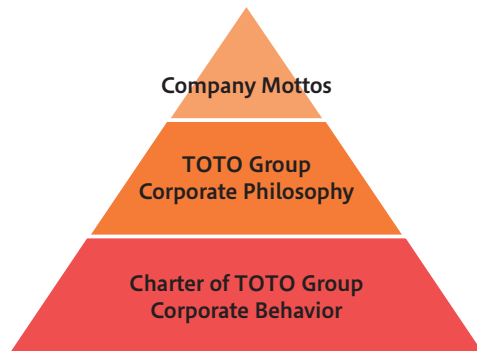
Providing the World a New Every Day. Everyone in the TOTO Group will work in unison to achieve the goals we have set forth.

Madoka Kitamura
President, Representative Director

THE TOTO WAY

Common Philosophy and Business Vision

Common Group Philosophy



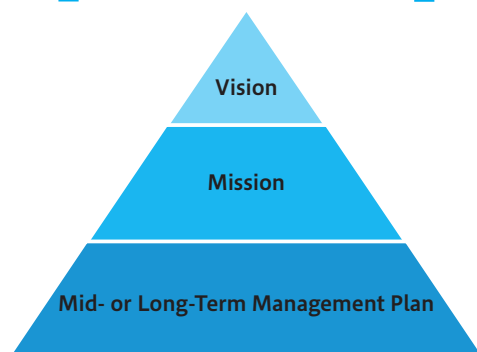
Common Group Philosophy

The common group philosophy represents the inherited values of TOTO that are shared among employees and will be carried forward into the future.



Vision for Business Activities

Our vision and mission are positioned as the course of our business activities that change in accordance with the demands of the times.



Company Mottos



Established in 1962

The Company Mottos reflect our determination to contribute to the improvement of our customers' cultured lifestyles with a strong service-oriented mindset, and to unite ourselves to support the social development.

- ① Take pride in your work, and strive to do your best
- ② Quality and Uniformity
- ③ Service and Trust
- ④ Cooperation and Prosperity

TOTO Group Corporate Philosophy

The TOTO Group strives to be a great company, trusted by people all around the world, and contributing to the betterment of society.

To achieve our philosophy, TOTO will:

- Create an enriched and more comfortable lifestyle and culture built on our plumbing products.
- Pursue customer satisfaction by exceeding expectations with our products and services.
- Provide high-quality products and services through ongoing research and development.
- Protect the global environment by conserving finite natural resources and energy.
- Create an employee friendly work environment that respects the individuality of each employee.

Charter of TOTO Group Corporate Behavior (Preamble)

The TOTO Group wants to contribute to socio-economic development and be a broadly helpful entity for society by creating added value through fair competition and encouraging job creation in the countries and regions in which its businesses are promoted. To realize that, all people working for the TOTO Group strive to play an active role with a strong sense of duty based on the concepts indicated in the corporate motto and philosophy, and to fulfill their social responsibilities.

The Charter of TOTO Group Corporate Behavior stipulates the basic stance of behavior of all people working for TOTO Group to realize all stakeholders' satisfaction.



For details regarding the Charter of Corporate Behavior, please see the Common Group Philosophy section of the website at:
http://www.toto.co.jp/company/profile_en/philosophy/group/index.htm

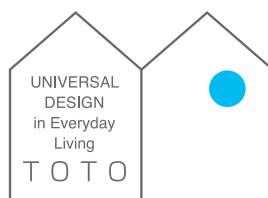
Visions for Business Activities

Vision

Toward a Dynamic, Vibrant and Excellent TOTO

Mission

“Providing the World a New Every Day” through the three missions.



TOTO's products are used daily by a diverse array of people.

That's why we've been contemplating easy-to-use design for over 30 years, delivering products and creating spaces that are safe, comfortable and fun for all ages and regardless of physical mobility.

The specialized TOTO Universal Design Research Center promotes human research and pursues new heights in user-friendliness every day.

This is what TOTO refers to as universal design.

Universal Design in Everyday Living. TOTO



TOTO's products are used daily by a diverse array of people.

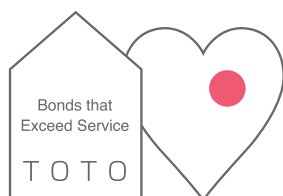
This inevitably has an impact on the environment, both positive and negative.

While ensuring a comfortable living environment, TOTO aims to protect the natural environment as well.

For that reason, development focuses on water-conserving and energy-saving products, as well as environmental technologies, such as photocatalyst technology, that support healthy, green living.

TOTO has set its own targets for reduction of environmental loads in all business activities from production to logistics and sales.

For the Earth and Living in Harmony with the Environment. TOTO



TOTO's products are used daily by a diverse array of people.

All of them are designed to be used for a long time.

That's why TOTO does more than just sell; we forge life-long bonds.

Apart from superior after-sales service, TOTO proposes new lifestyle value beyond expectations in accordance with each lifecycle.

Making full use of showrooms and a remodeling network has enabled strong relationships with customers.

Thus, it is these personal bonds that can make your future more comfortable.

Bonds that Exceed Service. TOTO

Mid- or Long-Term Management Plan

TOTO V-Plan 2017

Meaning of the Three Vs

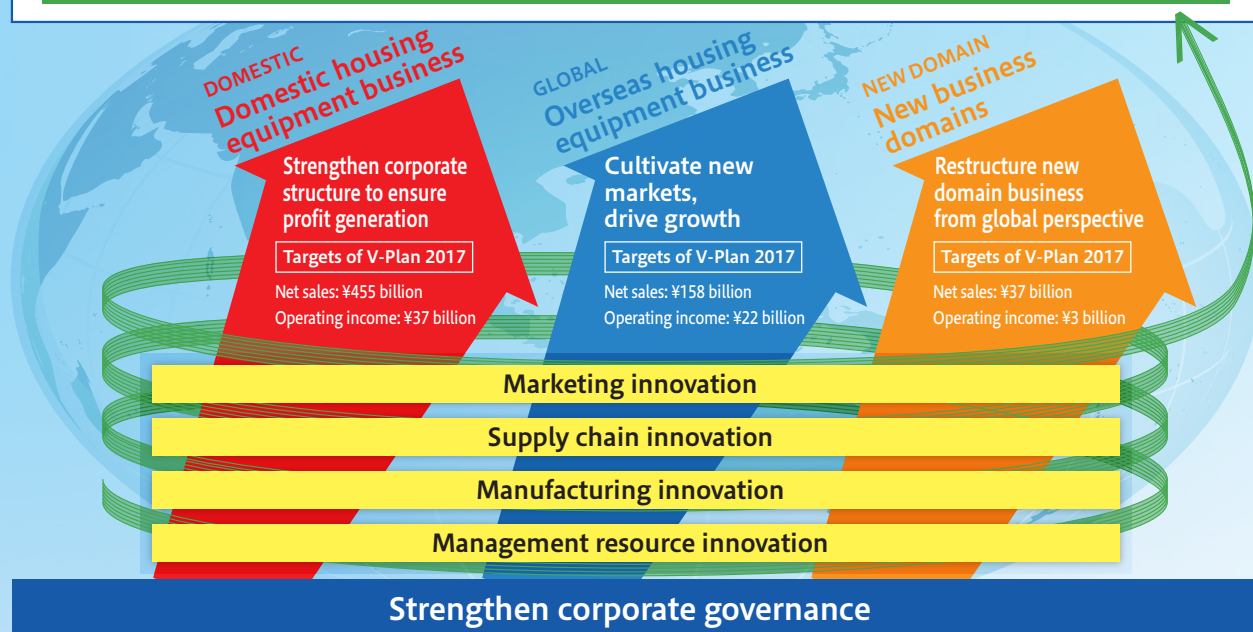
Vital
Victory
V-shaped recovery

Be a truly global company by 2017

Provide customers over the world with a new “every day” and continue to be indispensable to society.

FY2017: Achieve net sales of ¥650 billion, operating income of ¥61 billion and ROA/ROE of 10% or more

Realizing environmental contribution through the “TOTO Global Environmental Vision”



Background of TOTO V-Plan 2017 and the FY2017 Target

As we move toward our centenary in 2017, the TOTO Group aims to be a “truly global company” that remains indispensable to customers around the world by providing a new “every day.” To achieve this, we formulated TOTO V-Plan 2017, a long-term management plan in July 2009.

With the strategic framework of TOTO V-Plan 2017, we will reinforce corporate governance, the basis of our corporate activities, and promote the three core businesses of the “domestic housing equipment business,” “overseas housing equipment business” and “new business domains” as well as the four cross-organizational innovation activities, with the optimization of the entire company in mind. The TOTO Global Environmental Vision will be the driving force behind these business activities.

In order to ensure the achievement of TOTO V-Plan 2017, we have pushed ahead with the mid-term management plan for fiscal 2012–2014 which we established in fiscal 2012. As a result, in fiscal 2013, we achieved our fiscal 2014 goals ahead of schedule. Consequently, we revised TOTO V-Plan 2017, and formulated a new mid-term management plan for fiscal 2014–2017.

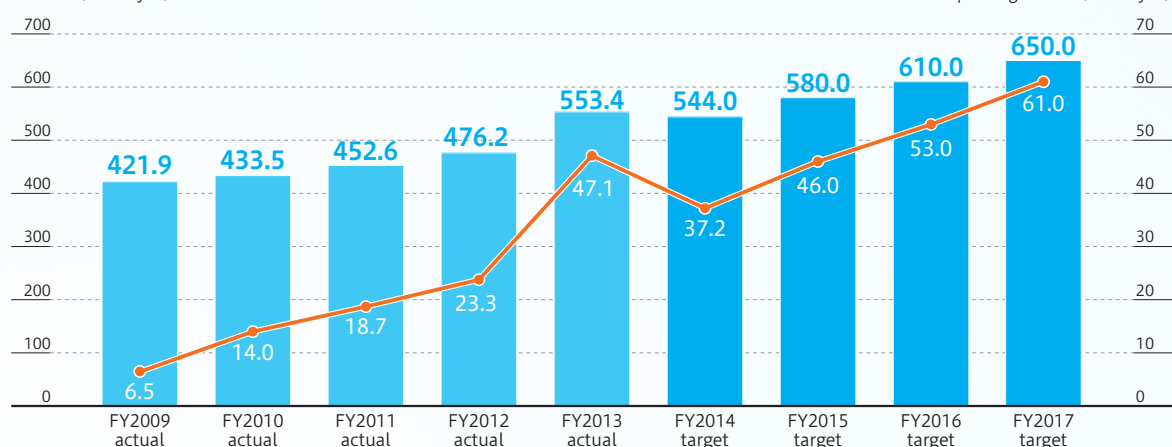
The entire TOTO Group is committed to achieving net sales of ¥650 billion, operating income of ¥61 billion, and a ROA (on a basis of operating income) and ROE of at least 10% in fiscal 2017.

● Target Figures for TOTO V-Plan 2017

■ Net sales ● Operating income

Net sales (Billion yen)

Operating income (Billion yen)



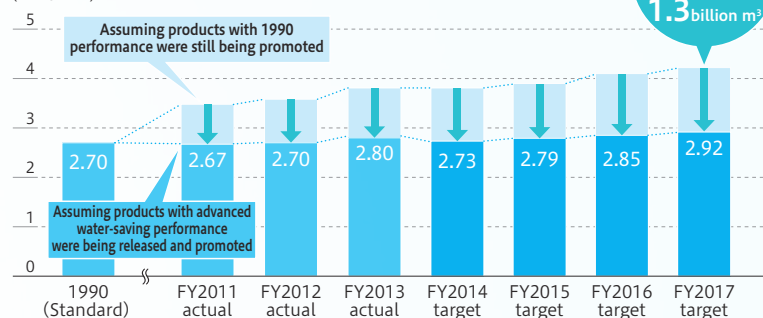
TOTO Global Environmental Vision

Under the TOTO Global Environmental Vision, which is the driving force behind the TOTO V-Plan 2017, we have established a number of Global Environment Goals.

Based on our six themes of global environmental activities: Conserving Water; Preventing Global Warming; Conserving Natural Resources; Keeping the Earth Clean; Conservation of Biodiversity; and Contribution to Local Communities, the entire TOTO Group is committed to making environmental contributions through our business activities.

● Target Figures for Conserving Water

(Billion m³)



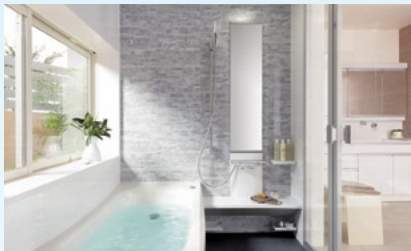
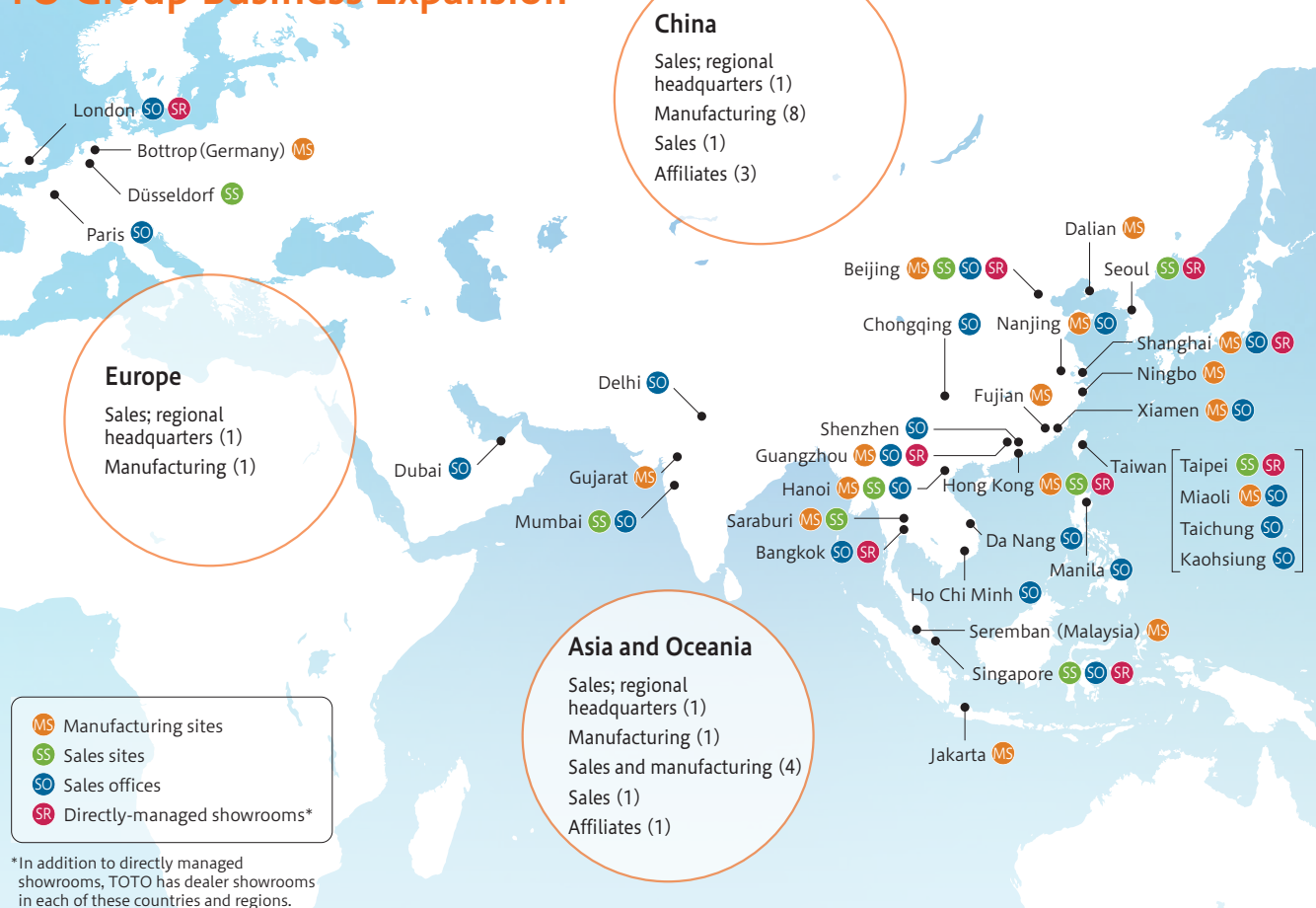
*Total volume of water consumption during product use is the total volume of water consumed during the use of all products shipped that year (excluding the water consumption for some products whose purpose of use is unclear).

For other target figures, please see Environmental Initiatives (P25–28).



For even more detailed information about the content on this page, please see "About TOTO" on the company's website. http://www.toto.co.jp/company/profile_en/

TOTO Group Business Expansion



Domestic Housing Equipment Products

TOTO offers residential products for the restroom, bathroom, kitchen, and washroom, along with faucets, to meet both new construction and remodeling(*) demand. We also offer products for restroom and washroom spaces in offices, commercial facilities, schools, hospitals, and other public

facilities.

TOTO can offer complete plumbing system solutions with products featuring unique TOTO technology to reduce environmental impact by conserving hot and cold water and saving energy.

*Remodeling: A promise to go beyond ordinary alterations and extensions, proposing and realizing a new lifestyle for customers which goes beyond their expectations.

Japan

Manufacturing (9)
Sales (13)
Service, other (7)
Showrooms (104)

Americas

Holding company (1)
Sales and manufacturing (2)
Sales (1)

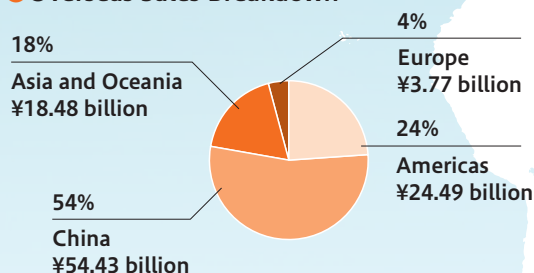
Chicago SO SR
Los Angeles SO SR
Boston SO SR
New York SO SR
Morrow MS SS
Cienega de Flores (Mexico) MS SS

Company Data (as of March 2014)

Date of establishment: May 15, 1917
Capital: ¥35,579 million
Headquarters: 1-1, Nakashima 2-chome,
Kokurakita-ku, Kitakyushu, Fukuoka, Japan
Number of employees: 25,705 (consolidated)
6,769 (non-consolidated)
Group companies: 58 companies

*56 consolidated subsidiaries and affiliates (domestic: 29, overseas: 27)

Overseas Sales Breakdown (Fiscal 2013)



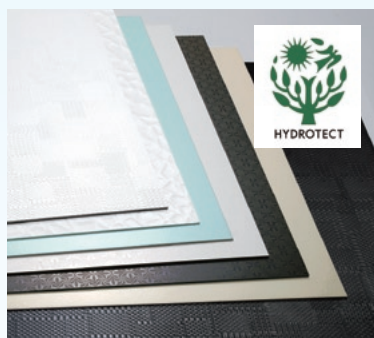
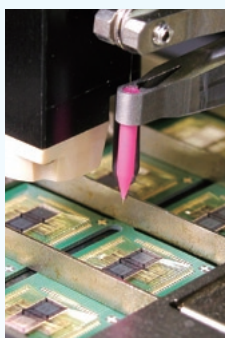
Sao Paulo SS



Overseas Housing Equipment Products

TOTO offers products for the restroom, bathroom, and washroom featuring core technologies developed in Japan, along with faucets.

TOTO can offer unified, suite-style space and complete plumbing system solutions with products featuring unique TOTO technology to reduce environmental impact by conserving hot and cold water and saving energy.



New Domain Business Products

[Advanced Ceramics Business]

TOTO manufactures and sells a range of high-quality, high-precision ceramics for the semiconductor, plasma display manufacturing, and fiber optic communications industries, including air bearings, electrostatic chucks, bonding capillaries, and receptacles.

[Green Building Materials Business]

TOTO offers paints and building materials utilizing HYDROTECT, an environmental purification technology. TOTO also enters license agreements and technology introduction contracts with companies worldwide handling exterior building materials (including tile, paint, metal panels, glass, and architectural stone).

Message from the President

Achieving the goal of TOTO V-Plan 2017 with a view to the future

On April 1, 2014, the TOTO Group established a new management and administrative system. President and Representative Director, Madoka Kitamura outlines TOTO's business results for fiscal 2013, as well as the company's new mid-term management plan and future initiatives for achieving the goal of TOTO V-Plan 2017.

Fiscal 2013 business results

During fiscal 2013, the Japanese economy recovered gradually, buoyed in part by the positive impact of the government's economic measures and monetary policy.

In the domestic housing market, new housing starts headed higher, fueled by low interest rates, improvement in the income environment and a related upswing in consumer confidence, as well as a rush of home-buying demand prior to the planned consumption tax rate hike.

Looking at our business results for fiscal 2013 amid such a business environment, we saw a considerable rise in the results, with consolidated net sales amounting to 553.4 billion yen (+16.2% year on year), consolidated operating income totaling 47.1 billion yen (+101.8% year on year), and consolidated ordinary income standing at 50.4 billion yen (+93.3% year on year). We achieved record high results across the board in net sales, operating income, ordinary income and net income. As a result, we were able to achieve the targets under the FY2012–2014 Mid-term management plan, which we started in fiscal 2012, a year ahead of schedule.

① Domestic housing equipment business

In new housing, sales grew strongly for detached homes. In remodeling, we achieved growth in the areas of renovating detached homes and condominiums, as well as remodeling public buildings and other types of facilities.

As for TOTO products, sales of the NEOREST Hybrid Series and the Washlet Apricot remained strong, while sales of the SAZANA, TOTO's system bathroom line, and our condominium remodeling bathroom line also rose strongly.

In addition, TOTO LTD., Daiken Corp. and YKK AP INC. continued working together to promote "Green Remodel" renovations, which contribute to the environment by utilizing Green Remodel Evaluations (objective evaluations of houses based on environmental assessment standards for housing) to propose design remodeling for restrooms, bathrooms, kitchens and washrooms.

② Overseas housing equipment business

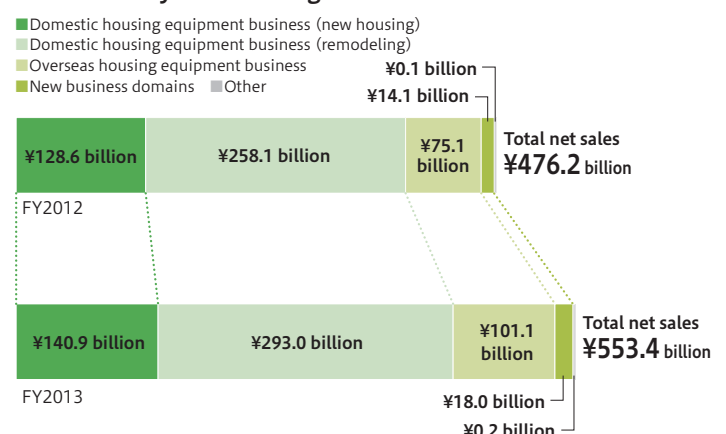
The overall global economy continued to recover gradually,

albeit with signs of weakness in some regions. Amid such an environment, in the overseas housing equipment business, we pursued steady growth strategies based on TOTO V-Plan 2017 and on our Mid-term management plan, while also focusing our attention on economic and social trends in different countries and regions.

③ New business domains

New business domains include the Advanced Ceramics Business, utilizing TOTO's "Only One" technologies, and the Green Building Materials Business, which provides building materials and coatings using TOTO's HYDROTECT environmental cleaning technology. We promoted business activities in these domains with an aim achieving the goals of TOTO V-Plan 2017 and of the Mid-term Management Plan.

● Net Sales by Business Segment*



*Net sales to outside customers (not including internal sales and transfers between segments).

➡ P.17- Business Highlights



Q.1 In light of the business results for fiscal 2013, could you tell us again about TOTO V-Plan 2017?

A.1 TOTO V-Plan 2017 outlines our vision for the Group in its centenary, as well as a strategic framework for achieving that vision.

In order to continue being an enterprise indispensable to our customers and to society, and to enhance our corporate value in the medium to long term, in 2009, the TOTO Group formulated TOTO V-Plan 2017, outlining both a vision for the Group in our centenary in fiscal 2017 as well as a strategic framework for achieving that vision.

The TOTO V-Plan 2017 lays out our goal of providing customers around the world with a new “every day,” and becoming a truly global company that remains indispensable to society. In addition to promoting our three business areas (the domestic housing equipment business, the overseas housing equipment business, and new business domains) and our four cross-organizational innovation activities extending across these areas (marketing innovation, supply chain innovation, manufacturing innovation, and management resource innovation), the entire TOTO Group has been committed to our goal, with the TOTO GREEN CHALLENGE, our environmental vision, acting as our driving force. For two years from fiscal 2010 to fiscal 2011, we endeavored

to enhance our business platform from the perspective of optimizing the entire company. Then, at the beginning of fiscal 2012, in order to ensure the achievement of TOTO V-Plan 2017, we formulated the FY2012–2014 Mid-term management plan. We successfully achieved the targets for fiscal 2014, the final year of the plan, ahead of schedule in fiscal 2013.

Now, the TOTO Group has set its sights on the future beyond achieving the goal of TOTO V-Plan 2017. In May 2014, we formulated a new mid-term management plan covering the period from 2014 to fiscal 2017, and as a consequence, we revised the target figures for the final fiscal year of TOTO V-Plan 2017, our long-term management plan. Having set fiscal 2017 targets for consolidated net sales of 650 billion yen, consolidated operating income of 61 billion yen, and a ROA and ROE of at least 10%, we have embarked on a journey with our sights set on the future beyond our 100th anniversary.

Q.2

Could you tell us about your initiatives from fiscal 2014 for achieving the targets of TOTO V-Plan 2017?

A.2

Based on our new mid-term management plan, we will quicken our pace in working toward achievement the new numerical targets.

2017 marks the 100th anniversary since the founding of the TOTO Group and it is the final fiscal year of TOTO V-Plan 2017. Even in our new mid-term management plan, our basic policy for achieving TOTO V-Plan 2017 and our ideal vision remain unchanged. In order to make dramatic progress toward the future beyond our 100th anniversary in 2017, we will continue to steadily push ahead with this Mid-term management plan, aiming to evolve into a truly

global company and raising our corporate value even further.

In order to gather the necessary speed, we have reformed our management and administrative system, and the new numerical targets will serve to maintain our existing momentum and to further accelerate it. As the new skipper on this voyage, I will maintain this fast pace in order to fulfill this important role.

Outlook for each business segment

① Domestic housing equipment business

In the domestic market, in addition to further evolving our Green Remodel Evaluations, which have been very well received as a new remodeling strategy, as the nature of remodeling becomes increasingly diverse, we will continue to strengthen our remodeling businesses specific for each customer group, such as remodeling existing homes for elderly customers, remodeling previously owned homes for the purpose of putting them on the market, and remodeling public facilities. At the same time, we will also increase our sales of modular kitchens and system bathrooms, which are two of our key commodities in the remodeling business.

We will also continue to strengthen link with our cross-organizational innovation activities, namely “supply chain innovation” and “manufacturing innovation” activities, and we will strive to strengthen our business structure with an aim of achieving sustainable growth and higher profits.

② Overseas housing equipment business

Our overseas housing equipment business is an important pillar in the TOTO Group developing as a truly global company. Based on a five-polar global structure built around

markets in Japan, the Americas, China, Asia/Oceania, and Europe, we will build a structure to locally develop, produce and sell products tailored to each country or region respecting the local culture and lifestyles, and we will strengthen our overall business foundation.

In the Americas, we will enhance our production systems, while continuing to introduce new products and to expand and strengthen our sales network. In China, we will seek to step up sales in the Chinese interior, while maintaining our top-of-the-range brand. In Asia/Oceania, we will continue efforts to strengthen our brand in the high-end market. And finally, in Europe, we will continue to establish a business base, enhancing our presence as a luxury brand.

③ New business domains

We are pushing ahead with growth for the next generation, implementing various measures aimed at the creation and early commercialization of new business utilizing TOTO's “Only One” technologies. Including the commercialization of fuel cells, we aim to bring the three new businesses of Advanced Ceramics Business, Green Building Materials Business, and Fuel Cell Business into the black.

● Actual Results since the Formulation of TOTO V-Plan 2017, Projected Results for Fiscal 2014, and Targets for Fiscal 2017*

(Unit: Billion yen, rounded down)

	FY2009 actual	FY2010 actual	FY2011 actual	FY2012 actual	FY2013 actual	FY2014 planned	FY2017 target
Consolidated net sales	421.9	433.5	452.6	476.2	553.4	544.0	650.0
Consolidated operating income	6.5	14.0	18.7	23.3	47.1	37.2	61.0
Operating margin	1.6%	3.2%	4.1%	4.9%	8.5%	6.8%	9.4%
ROA (on a basis of operating income)	1.7%	3.7%	5.0%	6.0%	10.7%	At least 10%	
ROE	0.5%	2.8%	5.1%	8.8%	19.4%	At least 10%	

*The TOTO Group focuses on the operating income margin, ROA and ROE as management indicators to monitor improvements in the growth and profitability of our business and to ensure the efficient management of our assets.

*ROA = Operating income / Total assets, ROE = Net income / Equity



Q.3 Now with new environment goals added, what is the Global Environmental Vision like?

A.3 We formulated the Global Environmental Vision as an evolution of the TOTO GREEN CHALLENGE with a view to greater global expansion.

Ever since its foundation, TOTO has found solutions to a variety of social issues through its business activities. The development and wider use of flush toilets played an important role, changing lifestyles and solving a social issue at that time, sanitation. Now, in the 21st century, the TOTO Group has placed the common global challenge of environmental problems distinctly as an issue to be resolved through business.

TOTO products are an integral part of everyday life, being used by customers throughout the world in their daily lives. This is why the cumulative conservation of water and energy during the use of these products has such an enormous impact on the global environment. By having customers worldwide use environmentally-friendly products, their everyday lives can generate contributions to the global environment such as water conservation, energy conservation and reduced CO₂ emissions. This means that the TOTO Group's actual business activities are linked to environmental contributions.

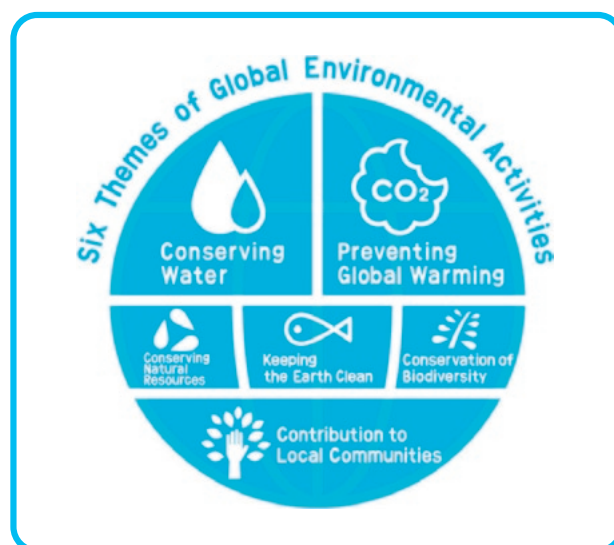
The TOTO GREEN CHALLENGE was formulated in 2010 with an aim of supporting a comfortable living environment for customers through TOTO products while also continuing to realize lifestyles enabling a lower burden on the environment. TOTO has conducted activities based on environmental contribution targets to be accomplished through to fiscal 2017, which will mark the 100th anniversary of our company's founding. The TOTO Global Environmental Vision has been formulated with a view to greater global expansion.

It takes the TOTO GREEN CHALLENGE activities an evolutionary step further, and faces up to the environmental problems and social challenges of each country and region. The TOTO Group's global environmental activities encompass six themes: Conserving Water; Preventing Global Warming; Conserving Natural Resources; Keeping the

Earth Clean; Conservation of Biodiversity; and Contribution to Local Communities. In particular, we view Conserving Water and Preventing Global Warming as the two themes for which we can make the biggest contribution through our business activities. In working to realize the TOTO Global Environmental Vision, we have established Global Environment Goals adding "protection of water resources" to our previous list of environment goals.

The TOTO Group will work as one in achieving these goals.

● Six Themes of Global Environmental Activities



➡ P.28 TOTO Global Environmental Vision



Q.4 What do stakeholders mean to TOTO?

A.4 TOTO is what it is because of its stakeholders.

I sincerely believe that the TOTO Group's business results for fiscal 2013 were achieved because of all our stakeholders, including our customers, employees, shareholders, business partners and society. In acknowledging this we will deepen relationships and stress the importance of two-way communication with all stakeholders.

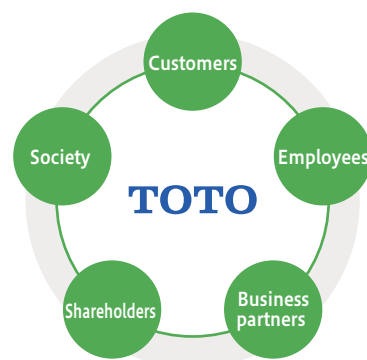
Of primary concern though is improving customer satisfaction with respect to our business. TOTO products are purchased by customers and used for 20 or 30 years. With a view to the long-term future, it is important for us to continue to provide products of social value at a fair price. To achieve this, there needs to be an environment in which employees serving the business can always make the best possible use of their strengths. The TOTO Group respects the individuality of its human resources, which differ in such respects as age, gender and nationality, and we seek to develop self-motivated human resources who can think and act on their own. Through business activities drawing on a spirit of commitment to excellence and innovation, and the fresh new ideas borne of the spirit, the TOTO Group will create enriched and comfortable lifestyles.

TOTO also views the return of profit to shareholders as an important part of its management policy. Our basic policy is to retain enough earnings to secure funds for building a firm corporate structure and for future business expansion while ensuring a stable dividend to shareholders. Retained earnings will be spent to improve product strengths, streamline and strengthen production and sales systems, and develop new businesses and overseas businesses in order to establish a long-lasting, solid management basis. With a target dividend

payout ratio of 30% of consolidated net income, and with a view to tying returns of profit to business results, we strive to maintain a stable dividend level. Dividends will continue to be issued twice a year, at mid-term and at year end. In addition, buyback of treasury stock will be determined based on a comprehensive consideration of factors, including the need to execute dynamic capital management policies, and the impact on the Group's financial standing.

The dividend in fiscal 2013 was ¥23 per share (¥10 yen at mid-term, ¥13 yen at year end).

● Stakeholders surrounding TOTO



➡ P.37 Stakeholder Engagement



Finally, please tell us about how TOTO views CSR* management and your resolutions for the future.

Endowed with TOTO's CSR philosophy at the root of our business, each and every employee will maintain the commitment to excellence and innovation.

At TOTO, our view on CSR management is that all corporate activities should be promoted from a perspective of ESG (environment, society, and governance). By doing so, we are working toward a strategic integration of our business and CSR activities.

Guided by this viewpoint, the TOTO Group has declared its participation in the UN Global Compact advocated by the United Nations, and registered as a business participant in fiscal 2011. We support the ten principles of the Global Compact concerning human rights, labor, the environment and anti-corruption, and we have made these principles a part of our corporate strategy, culture and day-to-day work. In addition, we have made a pledge to the people of the world that we will take part in initiatives aimed at achieving the Millennium Development Goals and other goals of the United Nations.

Through dialogue with our stakeholders and by other means, we have promoted activities to instill and implement these principles throughout the TOTO Group.

As an outcome of these activities, TOTO received a Gold Class CSR rating in fiscal 2013 for the first time from RobecoSAM, an international SRI (socially responsible investment) rating company.

The TOTO Group declares to the international community its commitment to continue fulfilling its social responsibilities proactively in fiscal 2014 and beyond as a globally responsible corporate citizen. Moreover, we will put this commitment into practice throughout all our Group's business activities.

In 2014, I was entrusted with a new role as President of TOTO. Although TOTO V-Plan 2017 is our goal for the company's centenary, I see it only as a transit point on our way to the future beyond. By maintaining and accelerating this momentum, we will raise our corporate value even further.

I have always been a strong believer in the proverb: Where there's a will, there's a way. From the very start, a CSR philosophy was present in the origin of TOTO's business. It is clearly recorded as "provision of high-quality products"

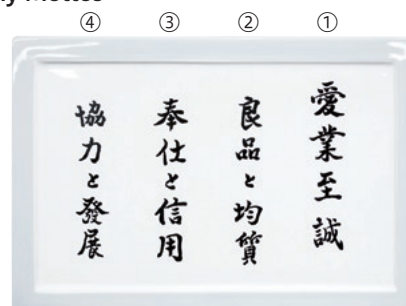
and "customer satisfaction" in a letter entitled "Words of the Predecessor" which was written by TOTO's first president to his successor. These wonderful words have since been handed down to all TOTO Group employees in the form of TOTO's Company Mottos.

Each and every employee at TOTO has taken this conviction for their own, and with a desire to help society and contribute to the global environment, they are maintaining the commitment to achieve our goals.

Words of the Predecessor

Kindness must always come first.
Bring the concept of service to your work.
Your goal should be to provide good products and satisfy the customer. Accomplish that, and profit and compensation will follow.
Many in this world chase after the shadow of profit, but to the end never capture the real thing.

Company Mottos



- ① Take pride in your work, and strive to do your best
- ② Quality and Uniformity
- ③ Service and Trust
- ④ Cooperation and Prosperity

Heading to the future beyond TOTO V-Plan 2017



*CSR: Corporate Social Responsibility

Business Highlights

Progress of the TOTO V-Plan 2017 and Vision for the Future

The Three Core Businesses 1

Domestic Housing Equipment Business

FY2013 actual

Sales: ¥433.9 billion / Operating income: ¥36.1 billion

FY2017 target

Sales: ¥455.0 billion / Operating income: ¥37.0 billion

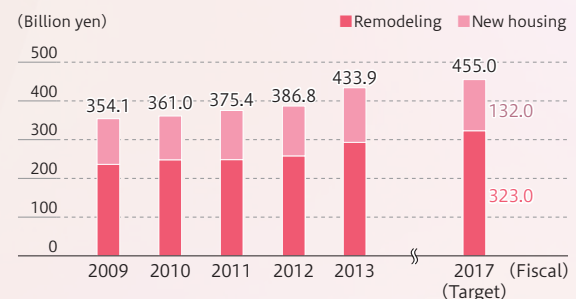
Domestic Housing Equipment Business

➔ P.23 The Four Innovation Activities

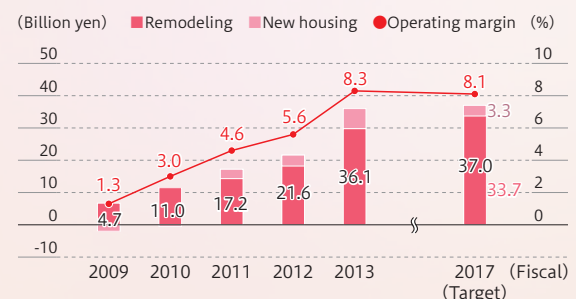
The domestic housing equipment business underpins TOTO, accounting for about 80% of all sales. As the number of new housing starts declines and Japan continues to transition to a stock-based society, TOTO's remodeling strategy in particular is playing a major role. Following the global financial and economic crisis, the number of new housing starts in Japan plummeted and a severe business environment ensued. Under TOTO V-Plan 2017, our long-term management plan that we launched amid these circumstances in fiscal 2009, the domestic housing equipment business performed the role of V-shaped recovery at the time of coming economic recovery.

In fiscal 2010–2011, the Great East Japan Earthquake of March 2011 had a considerable impact on the TOTO Group's business performance, causing damage to some of our plants, sales sites and distribution centers. We successfully promoted cost structure reforms through each of the innovation activities undertaken in TOTO V-Plan 2017, and we increased our market share on the back of the strength of our products and by means of the marketing strategies that we had initiated for our new housing and remodeling segments. For instance, sales of our restroom and bathroom products released in 2012 have remained strong. We are expecting steady growth in the lead up to fiscal 2017.

● Graph of Net Sales



● Graph of Operating Income and Operating Margin



Current Key Strategies

TDY Alliance

The TDY Alliance came about when, in 2002, TOTO LTD., Daiken Corp. and YKK AP Inc. entered into a business alliance for product planning and development and for building a marketing support framework in the area of remodeling.

Since 2008, the three companies have promoted "Green Remodel," which adds environmental value to remodeling by making proposals from three perspectives: health considerations, durability of the house, and CO₂ reductions. In order for customers to appreciate the specific value of this Green Remodeling, we developed the "Green Remodel Evaluations" in 2009, and have since been working on popularizing their use. As of March 31, 2014, our Green Remodel Evaluations were being utilized by approximately 3,000 renovation contractors. So far they have been used to provide 30,000 evaluations, and we aim to increase this by another 11,000 evaluations in fiscal 2014.

Collaboration showrooms have been deployed in Hiroshima, Takamatsu, Sapporo, Osaka, Fukuoka and Tokyo. Here, collaborative exhibition spaces are on display, conveying the appeal of "Green Remodel" to prospective customers. Plans are in place to develop these collaboration showrooms into centers for the communication of information in eight locations nationwide by the end of fiscal 2017.



TDY Tokyo Collaboration Showroom

Review of TOTO's Domestic Products

Restrooms

TOTO first made water efficiency of 4.8L per flush a reality in August 2009 with its NEOREST Hybrid Series of toilets featuring Washlet. Since then, we have expanded our lineup of 4.8L flush toilets. We are currently working to promote the even wider use of water-saving toilets through our GREEN MAX product line.

In February 2012, we made 3.8L per flush a reality with some of our NEOREST products. We were also praised for the function of spraying inside toilet bowls with a mist of “antibacterial electrolyzed water” which keeps the toilet bowl clean for longer. Our latest models in the Washlet series (cumulative shipments of which reached 30 million units since their first release in 1980) are also equipped with the “antibacterial electrolyzed water” feature.

Kitchens

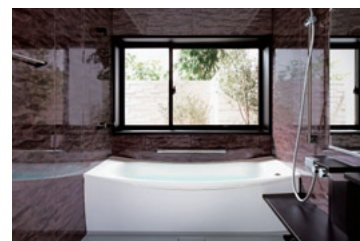
In August 2010, we consolidated our three series of modular kitchens into a single series, launching CRASSO stress-free kitchens designed to improve usability and reduce unnecessary movement. In February 2014, we equipped our CRASSO kitchens with low-flow, touch-switch “Water Broom” faucets (Air-In technology) which allow the user to control the shower simply by gently touching the tip of the faucet.



CRASSO

Bathrooms

TOTO has added the new Cradle Bathtub to its SAZANA line of system bathrooms, which were first released in August 2012. The new bathtubs are designed to provide users with cradle-like comfort. Air-in Shower showerheads, which aerate the water to achieve both water efficiency and comfort, and Mahobin bathtubs, which boast high thermal insulation properties, are also now offered as standard. Since then, sales have remained strong.



SAZANA

Washrooms

Ever since their launch as a new series in February 2009, Octave bathroom vanity units have enjoyed a reputation of having excellent design qualities and storage capacity. In August 2013, the Octave Series was fitted with Eco Single faucets (highly acclaimed in our previous models for their design which enables the proper use of hot and cold water) as well as two new features, Sloped Sinks and Wide LED Lighting. Since then, sales have remained strong.



Octave

Business Topics 2013 Bedside Flushable Toilets

In September 2013, TOTO launched its Bedside Flushable Toilets, supporting persons requiring nursing care to go to the toilet independently, and alleviating the burden on caregivers. Previously, installing such a toilet was difficult in detached houses and elderly care facilities. The Bedside Flushable Toilet, however, can be retrofitted in bedrooms for people living in such homes, and can also be moved according to the user's circumstances. With one actual user commenting, “I no longer feel anxious about going to the toilet, and I'm feeling more positive now,” the toilet has been very well received by both users and caregivers alike.

TOTO will continue to provide customers with proposals for plumbing products so that they can continue to live with confidence.



Future Outlook and Strategies

As Japan's population ages and its birthrate declines, and as the number of new housing starts falls, we will work to promote even wider use of Green Remodeling, continuing to evolve our “Green Remodel” Evaluations, which have been very well received as a new approach for remodeling proposals, and serving as a tool to differentiate TOTO from its competitors.

We will also further strengthen our business model to accommodate the expanding market for used home remodeling, while enhancing our partnerships and construction systems.

Recently, as the necessary functions and spaces of a home shift with changes in the physical condition of residents, TOTO

provides customers with displays and proposals for plumbing products taking account future changes in physical condition.

Going forward, we will promote establishment of a sustained-growth and high-profit business structure, such as by continuing to strengthen efforts for remodeling proposals targeted at active senior citizens with a view to a super-aging society, and by stepping up efforts for remodeling targeted at commercial facilities and public facilities such as schools and hospitals.

The Three Core Businesses 2

Overseas Housing Equipment Business

FY2013 actual

Sales: ¥101.1 billion / Operating income: ¥15.7 billion

FY2017 target

Sales: ¥158.0 billion / Operating income: ¥22.0 billion

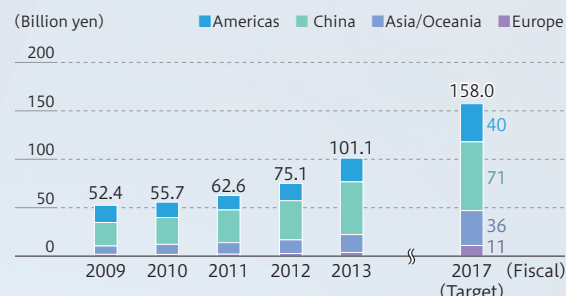
Overseas Housing Equipment Business

The overseas housing equipment business is TOTO's driver of growth for becoming a "truly global company" recognized as a local company by our customers living in each country and region. We promote steady growth strategies, while also focusing our attention on economic and social trends in each country and region. During fiscal 2009 under TOTO V-Plan 2017, which was launched after our business expansion into Europe in fiscal 2008, the overseas housing equipment business performed the role of "cultivating new markets, particularly in Europe."

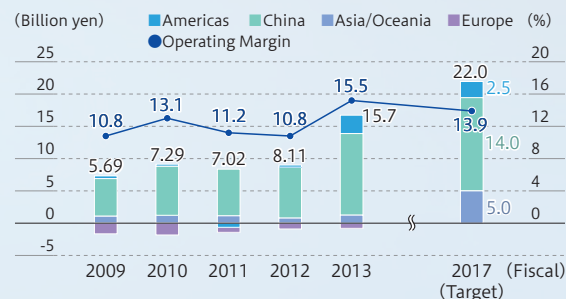
The TOTO Group currently operates 27 consolidated companies in 16 countries and regions, in the four regions of the Americas, China, Asia/Oceania and Europe, including emerging countries.

The global financial and economic crisis of fiscal 2008 caused a temporary fall in business results. Despite a delay in the recovery of the Americas market, we steadily expanded our business, driven by the strong Chinese and Asia/Oceania markets. Since then, we have witnessed the European debt crisis and a slowdown in the growth of the Chinese economy, but we have also seen a gradual economic recovery in the Americas market, and so we have achieved good business results.

Graph of Net Sales



Graph of Operating Income and Operating Margin



Current Key Strategies

Product Development

In developing products to be sold overseas, commercialization involves core Japanese technology suited to each country and region, and designs preferred in the target market.

In the area of toilets, we have integrated "antibacterial electrolyzed water," which keeps the toilet bowl clean for longer, into our NEOREST toilets featuring Washlets as "eWater + Technology" in the Americas, China, Asia/Oceania and European markets. In terms of the flagship product to drive the TOTO brand, we have also equipped our overseas NEOREST toilets with the new photocatalytic technology, Actilight.

In overseas markets, TOTO Group products have also received high recognition for their design excellence. We have received the globally influential design award, iF product design award, for NEOREST (GH/XHII/750H),

CI CONTEMPORARY Faucets (one of TOTO's faucets designed for overseas markets) and our C Series Lavatory/Bath (TOTO's series of washroom and bathroom equipment).



NEOREST (GH/XHII/750H)

Overseas Business Review

Americas

With many cities facing water shortage, the United States enacted the Energy Policy Act in the 1990s, limiting the volume of water used per flush in toilets to no more than six liters. In response, TOTO launched water-saving toilets in the US market, developed with technological prowess fostered in Japan. TOTO's toilets were well received for their cleansing performance, and awareness for the TOTO brand grew. For instance, in a toilet bowl washing test conducted by a public research organization in 2002, TOTO products held the top three positions.

In 2011, we established a sales company in Brazil. In March 2014, we exhibited for the third time at EXPO REVESTIR, Brazil's largest plumbing equipment exhibition held in Sao Paulo, showcasing TOTO's distinct quality and function as well as our water-saving and other technology.

Currently, we are working to develop a sales network also including Latin America, a growth market for our Americas business.

Asia/Oceania

TOTO began extending its operations overseas with the establishment of a manufacturing site in Indonesia in 1977. Since then, we have continued to set up sales sites in various parts of Asia, and in April 2008, we established TOTO ASIA OCEANIA PTE. LTD. in Singapore to oversee our business in the Asia/Oceania region. In Indonesia, Taiwan and Vietnam, we are in the process of establishing our position as a luxury brand. In the rapidly growing market of India, we established TOTO India Industries Private Limited in 2011. We have also exhibited at aceTECH, India's largest exhibition in the building industry. In 2014, we expect to commence operations at our sanitary ware plant in Gujarat as we work to develop and expand our business foundations.

China

Ever since supplying sanitary ware for the renovation of the Diaoyutai State Guesthouse in Beijing in 1979, TOTO has established itself in China as a luxury brand. We have been regarded with high esteem for the water-saving performance of our toilets and our other technological excellence, as well as for our product quality and after-sales service, with our products being installed in numerous landmark buildings in China, including in the main stadium of the Beijing Olympics.

In May 2013, at the Kitchen & Bath China 2013 exhibition in Shanghai, China, we unveiled the NEOREST GH equipped with the new photocatalytic technology, Actilight. In 2014, we expect to begin operations at our sanitary ware plant in Zhangzhou City, Fujian Province, and in order to meet the growing needs resulting from long-term market growth in China, we will continue to push ahead with the building of efficient production and optimal supply systems for this market.

Europe

In 2009, TOTO exhibited for the first time at the International Sanitary and Heating (ISH) trade fair held in Frankfurt, Germany, one of the three largest housing equipment exhibitions in the world. We have offered functional products with sophisticated designs and with washing and water-saving technologies not previously found in the European market.

In May 2010, TOTO opened a directly managed showroom in London. We also continued to exhibit at the ISH trade fair in 2011 and 2013, and while continuing to build our brand and expand our business, we will strive to develop marketing channels mainly in Germany, France and the United Kingdom.

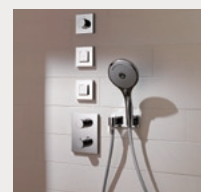


Exhibition at the ISH trade fair

Business Topics 2013 Shower Products

In overseas countries, especially in Europe and the United States, bathing cultures are focused on showering. Reflecting this difference in lifestyle, TOTO has fused Japan's technical capacity and environmental performance with the overseas shower culture, to develop product lines with designs and functions not sold in Japan.

Furthermore, TOTO's product design has also been highly acclaimed overseas, and in 2014, we received a globally influential design award, Red Dot Design Award for our faucets designed for overseas markets, namely, the Overhead Shower, Hand Shower, CI CONTEMPORARY Faucet and CII CLASSIC Faucet.



Hand Showers

Future Outlook and Strategies

As a driver of growth, the overseas housing equipment business will cultivate new markets and lead growth for the TOTO Group in the four regions of the Americas, China, Asia/Oceania and Europe, including in emerging countries. In laying the foundations for future growth, TOTO will focus on global marketing and a global supply chain.

In global marketing, we will develop the most suitable products and build sales promotion systems for each region, with the aim of establishing TOTO as the region's leading brand. In terms of a global supply chain, we will work on

building an optimal global production structure, including starting up new plants in China and India in fiscal 2014, and in the future, we will also put effort into building an efficient supply chain.

Aiming at the sustainable development of TOTO's global business, we will strengthen our business foundations to withstand changing markets and environments.

The Three Core Businesses 3

New Business Domains

FY2013 actual

Sales: **¥18.0** billion

Operating income: **-¥1.5** billion

FY2017 target

Sales: **¥37.0** billion

Operating income: **¥3.0** billion

New Business Domains

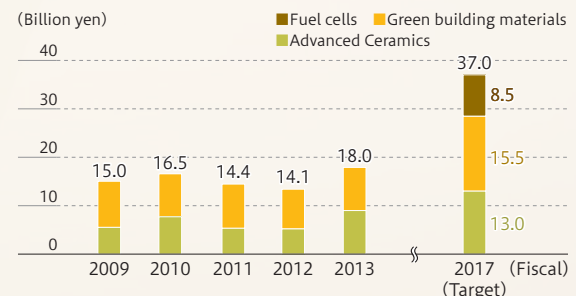
New business domains are businesses created by leveraging TOTO's "Only One" technologies. These comprise: ceramic products, which utilize TOTO's technologies cultivated in the manufacture of sanitary ware; HYDROTECT, a technology that uses photocatalysts harnessing the power of light to create a clean environment; and the Fuel Cell Business which we aim to rapidly commercialize. TOTO is also engaged in a variety of activities aimed at creating other new business domains.

Under TOTO V-Plan 2017, these new business domains played an important role in restructuring the HYDROTECT business from a global perspective.

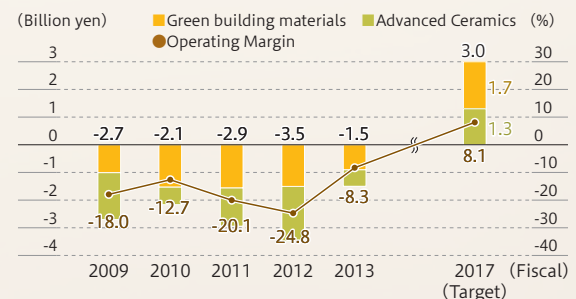
In fiscal 2010, TOTO's Advanced Ceramics Business expanded, affected by the strong demand worldwide for semiconductors. In an about-face, from fiscal 2011, the market entered an adjustment phase, and the Advanced Ceramics Business found itself in a tough situation. In fiscal 2013, however, the semiconductor market recovered and there was increased activity in the optical communications market, resulting in a significant increase in sales.

Sales of HYDROTECT and other products in TOTO's Green Building Materials Business fell momentarily due to the impact of the Great East Japan Earthquake of March 2011. However, stronger sales on the back of a rally in new housing starts and improvements in productivity have reduced the deficit.

Graph of Net Sales



Graph of Operating Income and Operating Margin



Current Key Strategies

HYDROTECT Network

HYDROTECT, TOTO's photocatalytic environmental purification technology, can be applied to a wide variety of exterior building materials, including tiles, paint, iron-based and aluminum-based metal panels, ceramic siding board, glass and architectural stone. By entering licensing agreements with companies in these building materials industries, TOTO is working to extend the HYDROTECT network so as to promote the use of HYDROTECT technology globally.

In fiscal 2011, TOTO entered into a licensing agreement for HYDROTECT with the United States company, Alcoa, one of the world's leading producers of aluminum materials.

In fiscal 2012, TOTO concluded a master agreement with a leading Italian tile manufacturer, Casalgrande Padana S.p.A. The agreement included licensing and technology introduction for HYDROTECT.

We are steadily pushing ahead with initiatives to expand HYDROTECT and to increase its use overseas. TOTO has concluded licensing agreements for HYDROTECT with over 100 companies, including over 20 overseas companies.



Example of the HYDROTECT network: Tent membrane material used at Estádio Nacional de Brasília, one of the venues at the FIFA World Cup Brazil
Photo supplied by Taiyo Kogyo Corporation

Review of New Business Domains

Advanced Ceramics Business

TOTO's Advanced Ceramics Business stems from its Fine Ceramics Business launched in 1984, combining its firing technology cultivated in the manufacture of sanitary ware, with its precision machining technology used when manufacturing showers and other fittings.

We are working to develop an optimal production system by specializing in structural elements incorporating "Only One" technologies and in high-precision ceramic parts such as electrostatic chucks, as well as by pursuing manufacturing innovation as part of our cross-organizational innovation activities.

Following the Great East Japan Earthquake of March 2011, operations were suspended at one of TOTO Fine Ceramics' plants located within 20 km of the Fukushima Daiichi Nuclear

P.23 Manufacturing innovation

Power Station. Its production lines, however, have been transferred to TOTO Fine Ceramics' Nakatsu Plant and TOTO WASHLET TECHNO's Ibaraki Plant to ensure ongoing product supply capability.

In fiscal 2013, sales grew strongly across the product range, supported by a recovery in the semiconductor market and increased activity in the optical communications market. In order to expand marketing channels and accelerate global development, TOTO actively participates in trade exhibitions in Japan, the United States, Taiwan and other foreign countries. At the exhibitions, in addition to promoting awareness for new materials and products as well as for advances in TOTO's ceramic technologies, we also collect information on market trends and technological issues.

Green Building Materials Business

TOTO's HYDROTECT business began in 1998, when we were first in the world to achieve the practical application of a super hydrophilic photocatalyst technology called HYDROTECT. It started with business strategies focused on Japan, for instance applying the technology to our own products such as paint, tiles and building materials. More recently though, with an aim of further increasing the use of HYDROTECT through a variety of building materials in cooperation with our partner businesses, we have expanded the HYDROTECT network, and we have expanded our operations extensively both in Japan and overseas.

HYDROTECT is TOTO's environmental cleaning technology that uses photocatalysts harnessing the power of light and water to create a clean environment for the Earth and for our lives. The technology has been adopted by many customers in numerous applications, from exterior walls to interior walls and floors.

In March 2013, we released HydroCera Floor and HydroCera Wall, two products suited to remodeling restrooms at hospitals, elderly-care facilities, commercial facilities and other large establishments. The products

feature antibacterial, antifouling and deodorizing functions, and form part of our HydroCera series of large ceramic slabs for interior applications.



A tax accountant office painted with HYDROTECT Color Coat (Sea Wave Tax Accountants (Oita Prefecture))

HydroCera Wall
Light-Diffusing Premium White Series



Future Outlook and Strategies

In the Advanced Ceramics Business, TOTO will focus on promoting development of products using its unique "Only One" technologies, proposing solutions, and expanding globally. Through these activities, by continuing to provide products that meet the new needs of customers with expectations for greater quality and performance, TOTO will further enhance its worth as a supplier of key components to these customers.

In the Green Building Materials Business, after a transitional period involving the HYDROTECT licensing business, the start-up of the exterior construction materials business, and the consolidation of plants, we will shift to a phase of business growth for the HydroCera, overseas B-to-B and exterior construction materials businesses. In the HydroCera business, we will focus on enhancing technology development capabilities and the supply chain, while in the B-to-B business, we will work on quickly securing new licensing agreements and transitioning to the business of selling photocatalytic coatings.

In the Fuel Cell Business, the solid oxide fuel cell (SOFC) has been gaining attention as a next-generation energy technology. TOTO continues to pursue the development of a serial manufacturing process of our power generating module, which contains our power generating ceramic cell with TOTO's "ONLY ONE" technologies. Power generating module is the heart of fuel cell power generator.

Although our module proved high performance, such as high electrical power efficiency etc, TOTO will continue the joint work and experiments with partners, such as fuel cell system manufacturers, gas companies and research institutes, and the durability verification activity as a primary focus for aiming the rapid commercialization.

Going forward, we aim to bring the three new business domains into the black, and to achieve business growth in new growing markets by making the most of TOTO's "ONLY ONE" technologies.

The Four Innovation Activities

TOTO promotes four cross-organizational innovation activities with optimization of the entire company in mind: marketing innovation, supply chain innovation, manufacturing innovation and management resource innovation. By having these innovation activities span TOTO's domestic housing equipment business, overseas housing equipment business and new business domains, promoting each of them will lead to enhancement of TOTO's business makeup.

Marketing innovation

This innovation activity calls for product planning from an optimal company-wide perspective, while also promoting selection and focus on research topics that address changes in market conditions, including the aging population and the shift toward a low-carbon society.

In fiscal 2009, in a move towards a global standard, we unified the white color of TOTO's sanitary ware, and we adopted a range of simple colors to make it easier for customers to match the surrounding space.

Using core technology developed in Japan as a common base, we develop and produce products tailored to regional characteristics, with the goal of creating a global product strategy that will surpass our competitors as only TOTO can. Antibacterial electrolyzed water* is a new feature for toilets developed in Japan in February 2012. Under the name "eWater + Technology," we have developed this feature in the American, Chinese and European markets to suit the preferred designs and standards of each country.

Going forward, we will further strengthen our earning capacity by way of a number of endeavors, such as using a process of selection and concentration to accelerate how quickly our research seeds materialize into something concrete, using our unique technologies to further improve added value, promoting a shift to global platforms, and strengthening our development platform and systems.



eWater+



Antibacterial electrolyzed water

*Testing organization: Kitasato Research Center for Environmental Science (KRCES)
 Test method: Test of the debacterialization efficacy of electrolyzed water
 Debacterialization method: Mix electrolyzed tap water and bacterial culture, and confirm the debacterialization effect
 Test result: At least 99% (not empirical results from actual use)
 Effects and efficacy: "Antibacterial electrolyzed water" inhibits filth. It does not remove the need for flushing. Effectiveness will vary depending on the usage and environmental conditions (water quality, shape of toilet bowl, etc.).

Manufacturing innovation

With the optimal company-wide production technology development structure in place, including development of next-generation production equipment, materials innovations, promotion of platforming (standardization/unification), and restructuring of production sites, the aim of this innovation activity is to bring new concepts to manufacturing that defeat existing stereotypes.

In fiscal 2009, we overhauled the internal design of our Washlet products. In fiscal 2010, we implemented a variety of production reforms, such as promoting the partial automated assembly of our Washlets and single-lever faucets. At its domestic production lines which began operating in January 2012, TOTO WASHLET TECHNO LTD. is simultaneously producing multiple models on a single line, and has shortened its production lead time by about 30%.

In SAZANA, TOTO's system bathroom line released in August 2012, we fully remodeled the bathroom floor structure. By reviewing the materials in use, and by adopting a "functionally divided layered structure" in which components with distinct functions are stacked on top of each other, we achieved a higher degree of design freedom and increased

our business efficiency.

By continuing to create high-value-added products and implement production innovations, we will continue to evolve TOTO's manufacturing.



TOTO WASHLET TECHNO LTD.'s domestic production lines

Supply chain innovation

With a focus on production systems innovation, logistics innovation and purchasing innovation, the aim of this innovation activity is to increase cost competitiveness and achieve a more robust management structure.

In supply chain innovation, by treating the process from procurement of raw materials, to production and logistics, through to final delivery of a product to the customer, as a single flow, TOTO established a high-speed supply chain. With logistics innovation in particular, we are seeking to improve logistics costs, substantially shorten logistics lead times, and reduce CO₂ emissions through optimization of transportation routes. Having promoted the reform of logistics centers since fiscal 2009, in fiscal 2011, we succeeded in halving our logistics lead times. In recognition of these efforts, TOTO was awarded the Logistics Grand Prize in fiscal 2012.

A more recent initiative has been the joint delivery of modular kitchens since fiscal 2012 in collaboration with Cleanup Logistics Co., Ltd. Yet another initiative has been our innovation activity for joint purchasing based on the TDY (TOTO, DAIKEN, YKK AP) alliance.

TOTO will continue establishing the best high-speed supply chain in Japan, aiming to build a management structure immune to market conditions.



Lead times significantly shortened by visualizing work hours

Management resource innovation

The aim of this innovation activity is to achieve a robust management structure immune to sales fluctuations, to streamline administrative operations, while deploying more human resources in strategic functions, transforming the company into a strong organization that can achieve its growth strategies.

Particularly in terms of human resources, we are continuing to promote diversity and strengthen human resources development, aiming to develop a diverse and capable workforce and a corporate culture that embraces commitment, with the goal of improving our comprehensive strengths as a company.

The TOTO Group has actively promoted the employment of persons with disabilities, setting a target of raising the percentage of persons with disabilities employed in the Group workforce to 2.5% by fiscal 2017. With a goal of increasing the employment of persons with mental or intellectual disabilities, in fiscal 2013, we set a target of raising the ratio of persons with mental or intellectual disabilities as a percentage of all persons with disabilities employed in the Group to 20% by fiscal 2017, and we are working to increase

their job opportunities.

We are also promoting initiatives to provide more career opportunities for women employees. Having set a target of increasing the percentage of female managers at TOTO to 10% by fiscal 2017, we are promoting a number of initiatives, including enhancement of training, enhancement of the shorter hours work system, the child care leave system and other such systems, and dissemination of information via our intranet.

In June 2013, in an attempt to utilize our assets more efficiently, thereby improving and streamlining our financial structure, we consolidated our offices in the Tokyo metropolitan area by relocating them to the Shiodome Building in Minato-ku, Tokyo. Consolidating our offices under the one roof helped considerably to strengthen our communication within the TOTO Group, improve our business efficiency, and build a robust corporate infrastructure (strengthening our capacity to respond to disasters and enhancing our security measures).

We will continue striving to develop a stronger corporate structure resistant to environmental changes.

Environmental Initiatives

TOTO GREEN CHALLENGE and the TOTO Global Environmental Vision

In 2010, the TOTO Group started the TOTO GREEN CHALLENGE for the purpose of accelerating its environmental initiatives. Based on the three key perspectives of Products and Services, Manufacturing, and Social Contribution, we highlighted an action plan and numerical targets to achieve by fiscal 2017, and we have undertaken initiatives as the driving force behind the TOTO V-Plan 2017.

TOTO GREEN CHALLENGE FY2017 targets

Products and Services

Reduce CO₂ emissions during product use by at least 50%
(compared to fiscal 1990)

Manufacturing

Reduce CO₂ emissions from domestic business activity by 45%
(compared to fiscal 1990)

Social Contribution

Promote environmental contribution activities involving local communities

Results of TOTO GREEN CHALLENGE Activities

Products and Services

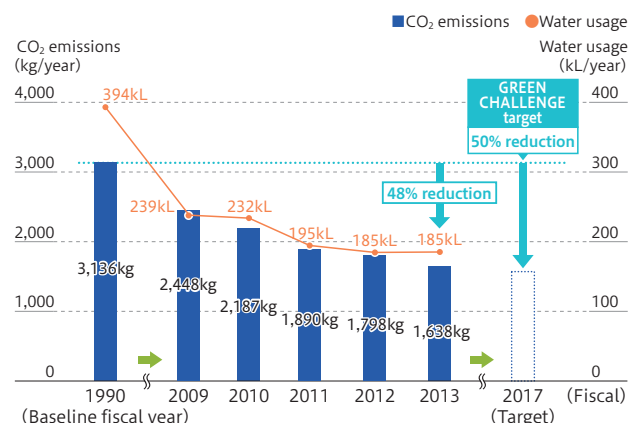
Throughout the life cycle of a product, its environmental load is overwhelmingly large during the time it is actually being used. Therefore, with an aim of conserving water and reducing CO₂ emissions during product use, we have continued to develop and expand the use of environmentally friendly TOTO green products, especially the products with less cold water or hot water consumption. As a consequence, we have steadily reduced CO₂ emissions in Japan during the usage of TOTO's core products in the four plumbed areas in the home. In fiscal 2013, against a target reduction of 44% (compared to fiscal 1990), we achieved an actual reduction of 48%. Per household, this translates into an annual CO₂ emissions reduction of approximately 1,498 kg (compared to fiscal 1990) and an annual water usage reduction of approximately 209 kL (compared to fiscal 1990). By developing and expanding the use of these TOTO green products, to promote water and energy conservation in the home, TOTO is facilitating environmental contributions through its business activities.

Manufacturing

We have made concerted efforts in Japan and overseas to reduce CO₂ emissions in all of our production, logistics and sales activities. In addition to our activities for improving production facilities and promoting energy savings at plants, showrooms, offices and other workplaces, in Japan, we have implemented a variety of environmentally conscious measures, including replacing older equipment with high-efficiency equipment (air conditioners, light fixtures and transformers) and expanding the introduction of systems for visualizing power use.

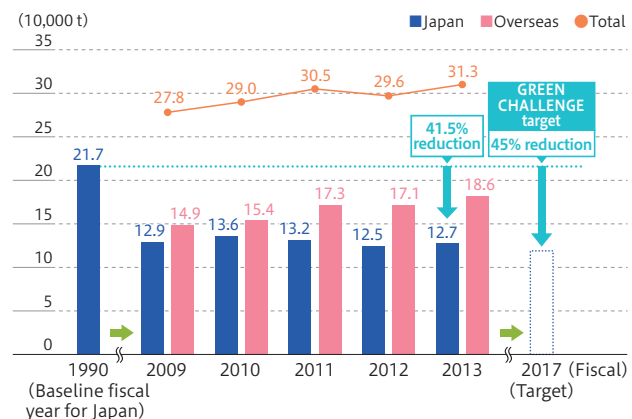
As a consequence, in fiscal 2013, against a target reduction in CO₂ emissions in Japan of 41% (compared to fiscal 1990), we achieved an actual reduction of 41.5%. Overseas, total CO₂ emissions have trended upwards due to the effects of increased production. But in terms of a basic unit of output (CO₂ emissions in relation to the volume of goods produced), against a target improvement of 2% (compared to fiscal 2012), we have achieved a 7.6% improvement. By continuing measures for the reduction of CO₂ emissions across the TOTO Group, we remain committed to combating global warming.

●CO₂ emissions and water consumption during product use (Japan)



*During usage of TOTO's core products in the four plumbed areas in the home (per 4-person household)

●CO₂ emissions from business activities



*The CO₂ emissions equivalent for Japan is the coefficient in the Act on Promotion of Global Warming Countermeasures (however, electricity is 0.378 kg-CO₂/kWh), and for overseas, it is the coefficient in the GHG Protocol 2005. Some of the past data is based on estimated figures.

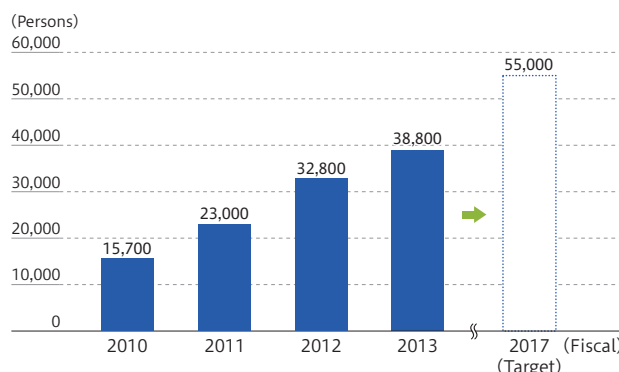
Social Contribution

"Green Volunteer" is the name given to the TOTO Group's social contribution activities relating to the environment, and participation by TOTO Group employees is encouraged.

While promoting contribution activities involving local communities, such as the Acorn Reforestation Project and local cleanup activities, the TOTO Group has also continued to raise environmental awareness among employees and has encouraged participation by external stakeholders. In fiscal 2013, having further extended the reach of our environmental contribution activities in each region, the number of Green Volunteer participants amounted to a total of 38,800 (18% increase over fiscal 2012), easily surpassing our annual target of 35,000 participants.

Our initiatives launched in the four years since fiscal 2010 have grown to exceed a total of 110,000 participants, and they are evolving into community-based collaborative activities with our stakeholders.

Number of Green Volunteer participants



Review of TOTO GREEN CHALLENGE Activities

Products and Services

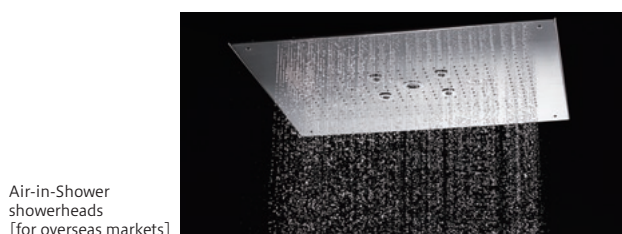
The TOTO Group has strived to reduce its environmental footprint through a combination of both "performance evolution" and "wider use" of TOTO green products, with an aim of conserving water and reducing CO₂ emissions during product use when the environmental impact of our products is largest.

As a result of our many years of developing flushing technology, we have made enormous progress in advancing the water efficiency of toilets. In addition, we are further contributing to the global conservation of water, by making our 4.8L flush toilets, released for sale overseas in 2006 and in Japan in 2009, the global standard, and by working to further promote the wider use of water-saving toilets that use less than 4.8 liters per flush.

By evolving the environmental performance of hot water-saving faucets, such as TOTO's touch-switch "Water Broom" faucets used in kitchens, and by also broadening our product line-up, we helped to practically reduce the use of hot water, which accounts for a large proportion of residential energy consumption. In addition, in regard to the revised Energy Conservation Act and other energy conservation policies for housing and construction, we have also promoted activities aimed at boosting the widespread use of hot water-saving faucets, such as making proposals within the housing equipment industry for the effectual reduction of energy and CO₂ emissions through the introduction of equipment that uses less hot water.

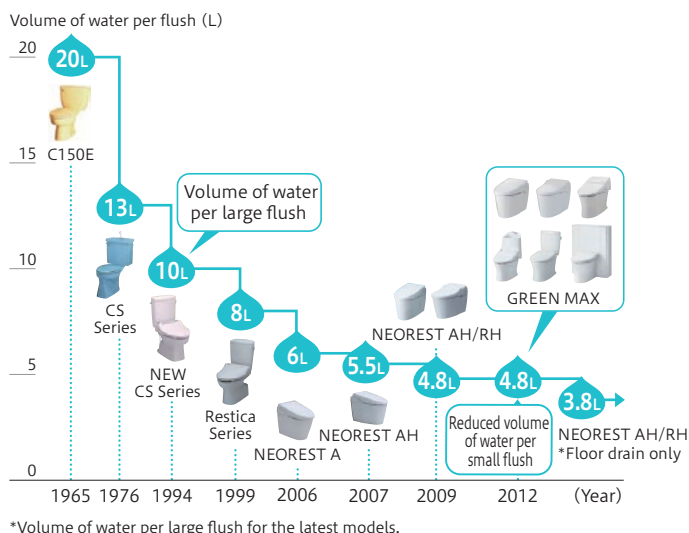


Touch-switch "Water Broom" faucets (handheld showers with Air-In technology) [for Japanese market]

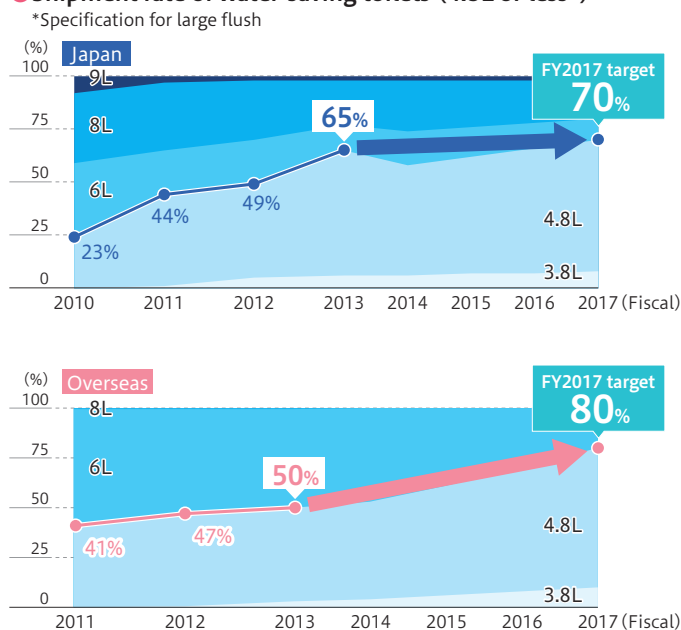


Air-in-Shower showerheads [for overseas markets]

The evolving water-saving performance of toilets in Japan



Shipment rate of water-saving toilets (4.8L or less*)



Manufacturing

Equipped with state-of-the-art energy-saving technologies, the new west building at TOTO's Shiga Plant began operating in 2012 as the TOTO Group's model energy-efficient plant. The new building has been highly regarded as an example of a model manufacturing plant in the ceramics industry, and was awarded top honors, the Minister of Economy, Trade and Industry Prize, in the energy-saving activities category of the FY2013 Energy Conservation Grand Prize (organized by the Energy Conservation Center, Japan, with support by the Ministry of Economy, Trade and Industry). Overseas, TOTO has also earned merit as a global company. For instance, TOTO VIETNAM CO., LTD. was awarded Quan ly nang luong trong cong nghiep va toa nha nam 2013 by the Vietnamese Ministry of Industry and Trade in recognition for its management of energy usage in plants and for its everyday energy-saving activities.

TOTO also puts effort into reflecting upon the impact of its business activity on biodiversity. For instance, we conduct impact assessments on the wastewater resulting from production at the Kokura No. 2 Plant, which has the largest volume of water discharge, and we conduct wildlife and plants survey* at the Kokura No. 1 Plant (site area: 148,716m², excluding recreational facilities). By promoting and developing a variety of initiatives, we are broadening the environmental activities at our manufacturing sites.

*Survey to understand the biodiversity of local plants and animals in the site.



Shiga Plant's new west building receives the Minister of Economy, Trade and Industry Prize at the Energy Conservation Grand Prize

Social Contribution

TOTO has continued efforts for expanding collaboration with stakeholders through the TOTO Water Environment Fund, which was established in 2005 to support water-related environmental activities.

In July 2013, the system was reformed so that grants from the fund are now calculated on a basis of examining volunteer activities undertaken by employees and the water-saving effect of water-efficient products purchased by customers, and converting these into monetary amounts. By employing a system whereby grants from the fund increase as stakeholders' involvement in environmental contribution increases, we aim to make environmental contributions through collaboration with the whole of society.

At the same time, TOTO is also helping to resolve various regional issues around the world. For instance, in addition to promoting Green Volunteer activities aided by the participation of employees, in places like the Philippines, Nepal and China, the Water Environment Fund also facilitates activities for raising awareness about water conservation as well as environmental improvements for ensuring the supply of safe drinking water.

We also develop networks by holding information sharing sessions and feedback sessions on such themes as social

contribution and the water environment. For instance, we hold stakeholder dialogues for soliciting the candid opinions of people outside the company, and we hold exchange events with the recipients of grants from the Water Environment Fund, and we reflect the outcomes of these sessions in our future activities.



Philippines: Support for the development of a sanitary environment for the provision of safe drinking water

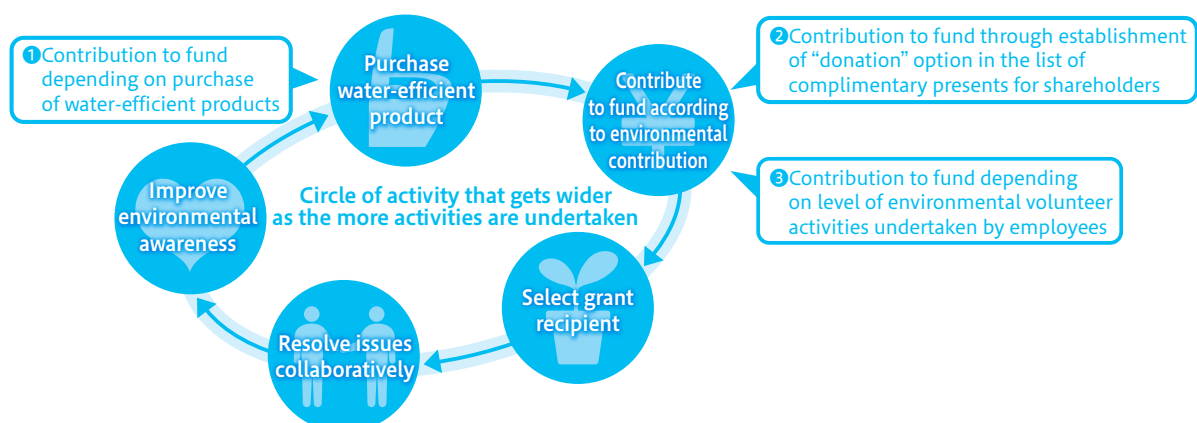


Shanxi Province, China: Support for the construction of facilities for drawing water for domestic use in rural areas



China: Educational activities on water conservation, directed at primary and junior secondary schools

● Structure of the TOTO Water Environment Fund



Future Outlook and Strategies

TOTO Global Environmental Vision

The TOTO Group established the TOTO Global Environmental Vision in June 2014 for the purpose of taking its activities an evolutionary step further while facing up to the environmental problems and social challenges of each

country and region.

Based on six themes of global environmental activities, the entire TOTO Group is committed to making contributions to the global environment through our business activities.



Global Environment Goals

With a view to realizing our Global Environmental Vision, the TOTO Group established new Global Environment Goals to be pursued on a common global basis until the end of fiscal 2017.

Our new goals are an evolution of our previous TOTO GREEN CHALLENGE targets, reviewed from a global perspective, and they will allow us to make a greater contribution in resolving social issues through the business

activities of the TOTO Group.

As an enterprise predominantly engaged in water-related business, in order to help resolve the worsening global problem of water resource limitations, we have made it clear in our six themes, adding our new environmental goal of "protection of water resources (conserving water)," that the TOTO Group will do much for resolving this problem by fiscal 2017.

● FY2017 TOTO Group Global Environment Goals



Conserving Water

- Reduce the amount of water consumed during product use by **1.3 billion m³** (due to improved performance compared to 1990)
- Shipment rate of water-saving toilets (4.8L or less per flush)
Japan: **70%**, Overseas: **80%**



Preventing Global Warming

- Reduce CO₂ emissions during product use by **5.63 million t** (due to improved performance compared to 1990)
- Total CO₂ emissions from business sites: **352,000 t**
Using policies, reduce CO₂ emissions by **29,000 t** (compared to FY2013)



Conserving Natural Resources

- Promote zero emissions
Recycling rate in manufacturing plants
Japan 99%, Overseas 90%



Keeping the Earth Clean

- Control the release of hazardous chemical substances
(Japan) Violation of environmental laws 0



Conservation of Biodiversity

- Using raw materials with consideration to biodiversity
(Japan) Using 100% legal and renewable materials in products



Contribution to Local Communities

- Resolve social and regional issues that originate in the environment, in collaboration with stakeholders in each country/region
Number of Green Volunteer participants globally 55,000

Strengths Supporting Business

Highly Objective and Transparent Management

The TOTO Group considers that an essential aspect of corporate management is ensuring the satisfaction of stakeholders and ongoing expansion of corporate value by improving objectivity and transparency in management and clarifying management responsibility.

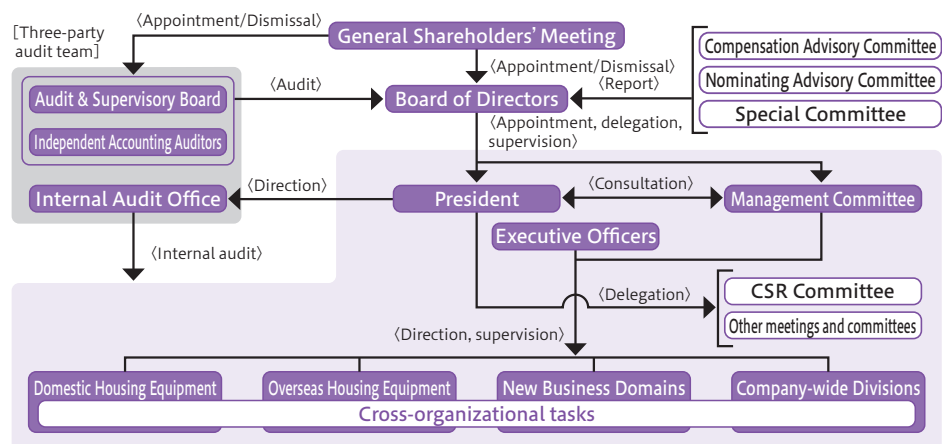


More information on our initiatives for corporate governance and for a copy of the Corporate Governance Report can be found on our website at http://www.toto.co.jp/company/ir_en/reference/governance/index.htm

Corporate Governance

For matters requiring management decisions, TOTO recognizes the importance of systematizing “who makes the decision, on what and where” as well as “what checks are implemented” in a fair and honest manner. TOTO has adopted the Audit & Supervising Board system and been promoting more efficient and effective decision-making, supervision, and business execution, with the aim of continuously increasing corporate value.

● Systems Diagram for Corporate Governance and Business Operations



Directors and the Board of Directors

The Board of Directors, which consists of all directors, makes decisions from the most appropriate company-wide, group-wide and stakeholder perspectives and conducts mutual supervision of the duties of directors.

TOTO invites outside directors, well versed in management of leading companies respected for their management practices to which the TOTO Group aspires, in order to receive advice and suggestions on general management issues based on their in-depth knowledge.

The term of office of directors is one year, which is designed to make their responsibility clear.

Audit & Supervisory Board Members and the Audit & Supervisory Board

The Audit & Supervisory Board, which consists of all Audit & Supervisory Board Members, oversees the duties of directors from the perspectives of legality and appropriateness. The Audit & Supervisory Board Members attend the Board of Directors' meetings and other major meetings to state their opinions as required and visit each business site to conduct operating audits in line with the relevant auditing policies.

In addition, The Audit & Supervisory Board members regularly exchange opinions with representative directors to ensure the effectiveness of audits. TOTO calls upon outside members of Audit & Supervisory Board specializing in such matters as corporate finance and legal issues, or having deep insight and extensive experience in relation to corporate management to evaluate decisions made by the Board of Directors and monitor directors' execution of their duties from an objective and fair perspective.

Compensation Advisory Committee

The Compensation Advisory Committee has been set up to confirm that the process to determine base compensation, annual bonuses, and the stock-compensation type stock options for directors, and their allocation balance are in line with the Articles of Incorporation, the resolutions of the General Meeting of Shareholders, and the Basic Policy on Compensation for Directors, in order to contribute to the ensuring of the appropriateness and objectivity of compensation for directors through its activities.

The majority of Committee members shall be outside members and the chairperson and members have been appointed by the Board of Directors. The Committee members consist of

five outside members including four independent directors and one internal director without the right of representation, and the chairperson shall be elected from among the outside members.

Nominating Advisory Committee

The Nominating Advisory Committee has been established to help ensure the objectivity and transparency of TOTO's management through activities such as deliberation on and confirmation of the appointment of TOTO's Board of Directors and Audit & Supervisory Board Members. The Committee shall make reports to the Board of Directors on proposals to the Shareholders' Meeting related to the appointment and dismissal of directors and Audit & Supervisory Board Members, including outside directors and outside member of Audit & Supervisory Board.

The half or more of Committee members shall be outside members, and the chairperson and members have been appointed by the Board of Directors. The committee members consist of four independent directors as outside members and representative director as an internal members, and the chairperson shall be the President and Representative Director of TOTO.

Internal Audits

The Internal Audit Office, which is independent of the operational divisions, examines under the direction of the President whether TOTO and the Group companies are performing their operations appropriately and efficiently in compliance with laws and ordinances, the Articles of Incorporation, the Corporate Philosophy, and internal regulations.

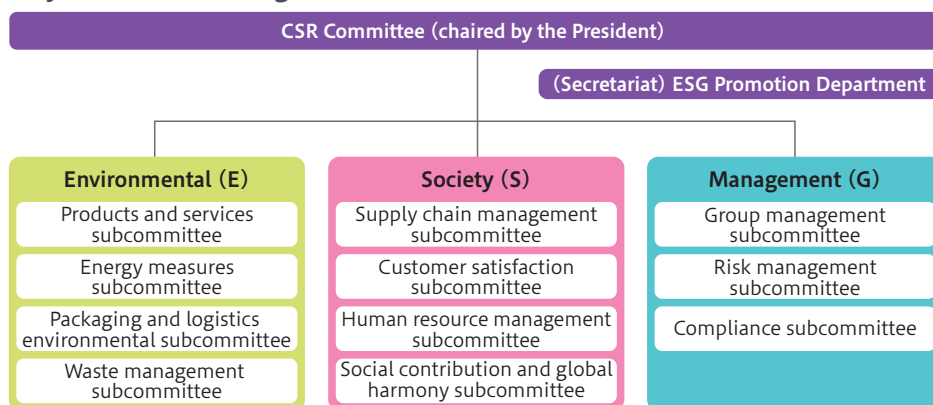
CSR Management

CSR management is promoted with an aim of realizing the TOTO Group Corporate Philosophy. Key issues are discussed at the annual meeting of the CSR Committee, based on a Materiality Map which takes into account "significance for society" and "significance for the TOTO Group." In fiscal 2013, the Group has taken a strategic approach to the priority issues of: promoting global compliance, strengthening global supply chain management, and mitigating global warming.



More information on our initiatives for CSR management can be found on our website at http://www.toto.co.jp/company/csr_en/management/index.htm

System for Promoting CSR

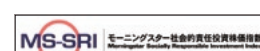


International Recognition of the TOTO Group's CSR Management

In fiscal 2013, the TOTO Group's CSR management received the following international recognition.

- Included in the Dow Jones Sustainability World Indexes for the third consecutive year
- Received a Gold Class CSR rating for the first time from RobecoSAM
- Selected as a PIONEER company for the first time in the Ethibel Investment Register
- Selected to be listed in the Climate Disclosure Leadership Index (CDLI) in the CDP Japan 500 Climate Change Report 2013 for the second consecutive year
- Selected for inclusion in the Morningstar Socially Responsible Investment Index (MS-SRI) every year since 2006

MEMBER OF
Dow Jones Sustainability Indices
In Collaboration with RobecoSAM



Risk Management

The TOTO Group has worked hard to create a strong corporate structure through risk management activities. We carry out our daily activities in the belief that an essential aspect of corporate management is nipping any risks in the bud and ensuring the ongoing expansion of corporate value.



More information on our initiatives for risk management can be found on our website at http://www.toto.co.jp/company/csr_en/management/riskmanagement/index.htm



Practical risk simulation

Promotion of Risk Management

Risk Management

Every year, major risks that could have a significant impact on stakeholders are identified and a general manager of the risk management supervision division is appointed for each risk in order to take preventive measures.

Each major risk is mapped out on a matrix evaluating the degree of impact and frequency of occurrence from the viewpoints of damage to the brand, impact on personnel and financial consequences based on assumed scenarios. Risks scoring high in risk points are flagged as priority risks and monitored by the Risk Management Committee, and risk mitigation activities are promoted throughout the entire Group.

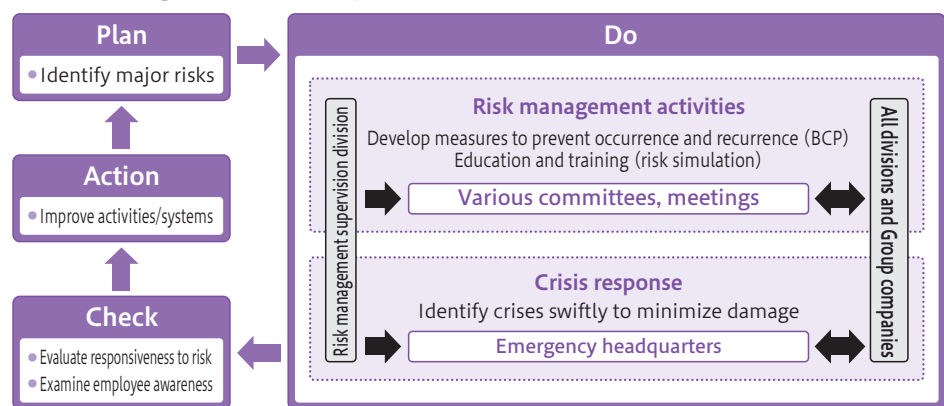
Enhancement of Risk Response Capabilities

To strengthen our capacity to prevent and respond to major risks, we have been carrying out practical risk simulations since 2005. The Great East Japan Earthquake in particular required us to take unanticipated actions, and so using this as motivation, and in order to help us develop more flexible decision-making and executive abilities, we introduced real-time risk simulations (mock disasters) and have been conducting training at each business site. "Real-time" training has been conducted 54 times in the past three years, and we are planning to offer this training to all manufacturing and sales business sites by fiscal 2014.

● Risk Management Promotion System



● Risk Management Action Cycle



Activities to Eliminate Work-related Accidents

TOTO has been working to increase awareness of safety and stop unsafe work practices and conditions in order to eliminate work-related accidents. In recent years, we have been concentrating on raising the level of safety management activities through mandatory activities at workplaces where improvements were needed, putting in place accident prevention activities appropriate for each workplace. This has contributed to improving the overall level of workplace safety management as well as individual workers' safety awareness, resulting in a reduction in the number of work-related accidents in designated workplaces for four consecutive years since fiscal 2010 (number of accidents in fiscal 2013 decreased by 40% compared to fiscal 2010) and raising the standard of workplace safety.

management throughout the Group. We will continue these activities to build up our safety and occupational health system to further reduce work-related accidents.

Creating a Vibrant Workplace Free of Noncompliance

Preventing breaches of compliance is important for promoting the creation of a “dynamic, vibrant and excellent” workplace free of noncompliance. To promote creation of an organization that respects compliance we conduct two training courses: Interactive Compliance Training, and Compliance Management Training.

At individual workplaces, through Interactive Compliance Training designed to strengthen workplace communication, we have endeavored to foster an organizational culture where workers will not turn a blind eye to breaches. Based on a particular compliance-related theme, participants converse with employees from other divisions, and they increase their awareness of diverse values and views and share their feelings with each other. By doing so, participants steadily step up from an awareness level of “I myself will not commit breaches of compliance” to one of “I will not turn a blind eye to breaches of compliance.”

TOTO employees in managerial positions are offered Compliance Management Training, designed to enhance their ability to make judgments and take action when faced with breaches of compliance. Based on case studies of possible workplace breaches, participants converse with other managers while considering basic approaches and about how they should act if faced with some unexpected trouble. By doing so, participants acquire basic skills and practical skills, and TOTO has been able to foster an organizational culture where workers do the right thing in conformity with the rules.

These training courses will continue to be offered, so that behavior respecting compliance becomes established in all workplaces and becomes ingrained as “the TOTO Way.”

Meanwhile, as the TOTO Group’s business operations have expanded globally, initiatives for global compliance have become imperative. We have reviewed our compliance program with reference to the United Nations Global Compact and the United States Federal Sentencing Guidelines, and we are strengthening our training and education programs as well as our audit and monitoring functions.

WEB

More information on our compliance initiatives can be found on our website at http://www.toto.co.jp/company/csr_en/management/compliance/index.htm

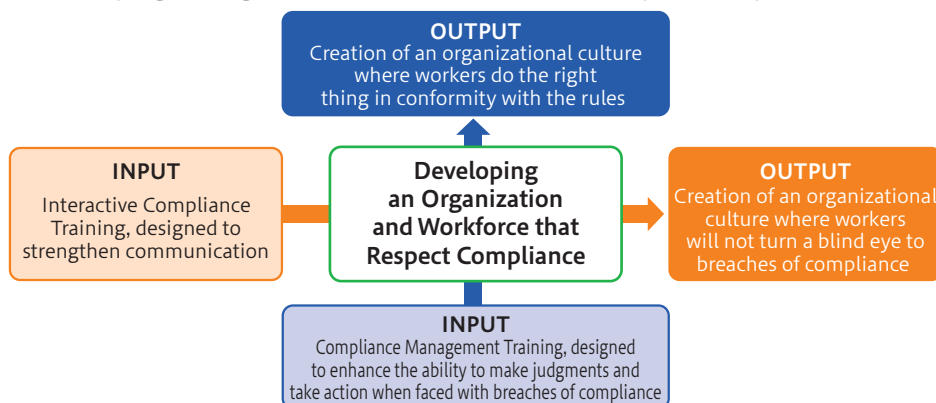


TOTO Group Business Conduct Guidelines



Interactive Compliance Training

●Developing an Organization and Workforce that Respect Compliance



Information Security

The basic provisions of the information management security system are based on the TOTO Group Security Policy. Since fiscal 2012, we have changed standard designations and definitions for security categories and labeling methods standard throughout the TOTO Group, reviewed confidential information rules and set down new guidelines. In conjunction with this revision, we implemented information security education through e-learning for all TOTO Group employees, including those of cooperating companies. We have implemented a self-check system for assessing handling and management of confidential information held throughout the company.

Ensuring Customer Satisfaction

To continue bringing our customers confidence and contentment in their daily lives, with a sense of unity, everyone at the TOTO Group listens sincerely to customer feedback, and we are committed to providing quality products and services of exceeding their expectations.



More information on our customer satisfaction initiatives can be found on our website at http://www.toto.co.jp/company/csr_en/cs/index.htm



Product risk assessment by the manufacturing, quality assurance and design departments is conducted jointly with suppliers at the development stage



A call center



Product maintenance

Using Our Products with Confidence

TOTO Group products are used daily by a diverse array of people. Therefore, our mission is to provide products capable of safe use with confidence.

The TOTO Group implements an integrated quality management system based on ISO9001 standards and is working on ongoing improvement of the quality assurance system. To ensure product safety and compliance with laws and regulations, our employees receive extensive training to increase their safety knowledge and awareness. As a basic policy for product safety, we have also drawn up voluntary action guidelines on product safety—the TOTO Group Voluntary Action Guidelines Related to Product Safety—to enhance awareness of product safety throughout the TOTO Group.

We also incorporate risk reduction measures from the design stage. This includes design focusing on fire and leak prevention and structures to minimize the spread of damage beyond the product itself in case a fire or leak does arise due to an internal abnormality. In particular, at the design stage specialized departments carry out meticulous inspections of electrical components that could cause fires.

Sharing Customer Feedback and Utilizing It in Manufacturing

We aim to attain a level of satisfaction in our products and services exceeding customer expectations. TOTO makes full use of customer feedback as the starting point in product development and quality management. The Customer Division promptly sorts opinions and requests from user questionnaires and through the Customer Consultation Center and conveys them to the division in charge while posting such information on the intranet to also share information with employees who generally do not deal directly with customers. We also collect and analyze customer feedback, utilizing much of it in manufacturing, such as in new product development and product improvement.

Through the Customer Satisfaction Convention, which involves all divisions within the TOTO Group, and through meetings within individual divisions for the presentation of CS activities, we aim to share initiatives viewed from the customer's perspective and to implement activities designed to further improve customer satisfaction.

Building Foundations for a High-Quality After-Sales Service

“TOTO quality” refers not just to the quality of the products themselves but also encompasses product installation and maintenance if a problem arises.

In light of customer expectations and changes in the business environment, we work to enhance all aspects of after-sales service: improving maintenance technology, educating staff on appropriate behavior when making a service call, and speeding up the process from booking a service call to repair completion, so that we can render after-sales service by the date and time promised.

Currently, the After-Sales Service Department and the Manufacturing Divisions are working in close coordination to improve products rapidly. In response to the wishes of customers undertaking repairs themselves, we are also continuing to post information on our website and other media on how to repair TOTO products. In this way, we are striving to improve service quality to match product quality.

Continuing Development of Creative, Self-Motivated Human Resources

To enable all members of its workforce to use their talents to the full, the TOTO Group promotes diversity, human resources development, work-life balance and mental and physical health.

Promoting Diversity

The TOTO Group respects the individuality of its workforce, which differs in such respects as age, gender and nationality. We believe we can create prosperous and comfortable lifestyles by leveraging the fresh new ideas born from these differences. Led by the Diversity Promotion Section within our Human Resource Division, we are currently promoting a wide range of activities, including the career advancement of women and the hiring of persons with disabilities.

Career Advancement of Women

Having set a target of increasing the percentage of female managers at TOTO to 10% by fiscal 2017, the centenary of our foundation, we have promoted a number of initiatives. Particularly in the hierarchy-based training sessions targeted at female employees, we concurrently run the training for their supervisors, and we are also putting a great deal of effort into enhancing the management skills of supervisors aimed at promoting the career advancement of women.

Promoting Employment of Persons with Disabilities

The TOTO Group aims to achieve normalization in its workplaces, and to this end, we continue to recruit those with disabilities. With an aim of increasing the employment rate of persons with disabilities to 2.5% by 2017, we will endeavor to broaden the range of positions for persons with disabilities throughout the TOTO Group.

Creating a More Global Workforce

TOTO has set a target at overseas Group companies of increasing the ratio of management positions (Division Managers) occupied by locally hired personnel to 50% by fiscal 2017 in order to make the companies part of the local community and of local people's lives.



More information on our personnel activities can be found on our website at http://www.toto.co.jp/company/csr_en/employees/index.htm

<Content>

- Details on training for prospective women managers

- A variety of systems to support diverse working methods



Diversity

Taking advantage of a diverse range of perspectives and ideas to create synergy and provide satisfaction exceeding customer expectations.



Step-up training for women (training by rank and occupation)

Promoting Work-Life Balance

At the TOTO Group, we believe that if all employees review their work hours to improve the balance between work and home life, they will be more productive and obtain more satisfaction from their work.

To encourage employees to use their paid leave, TOTO has introduced a system for taking paid leave by the hour, and encourages employees at all companies to take more paid leaves. Furthermore, to assist employees balance their work-life against caring for their children and other family members, we also have a system whereby employees can choose between working shorter hours, working staggered start times and finish times, and working flexible hours. We have also introduced two new systems whereby employees can choose according to their life events, namely, a system restricting the location employees will be assigned, and a system allowing an employee to take leave for three years as a consequence of his or her spouse being relocated overseas for work. TOTO also actively promotes the participation of men in household chores and the upbringing of children, such as supporting its male employees to take child care leave.



SUNAKA TOTO, employing a large number of persons with severe disabilities
Recipient of a FY2013 Minister of Health, Labour and Welfare Award for Outstanding Offices for the Employment of Persons with Disabilities

Human Resources Development

The TOTO Group seeks to develop self-motivated personnel who can think and act on their own. To that end, we clearly define the image of the self-direction, knowledge and skills required for each employee qualification and provide opportunities to enable personnel to develop their capabilities autonomously. Specifically, these include: hierarchy-based training to heighten awareness for the duties of positions one rank higher; self-selected open training to support employees eager for new opportunities; cross-industrial exchange and training which allows employees to find clues for their development through discussion with personnel from other industries; and the TOTO Management Course (Keiei-Juku) for developing the next generation of leaders.

Promoting Mental and Physical Health

The TOTO Group provides mental health measures for all employees such as self-care training (mental health, stress management techniques), line-care training (for new managers and supervisors: responding to workers in poor mental health, etc.) and care provided by industrial health staff on site (providing training and consultation to personnel in the Human Resources and General Affairs divisions).

Promoting CSR Procurement Together with Suppliers

The TOTO Group endeavors to meet its corporate responsibilities in the areas of the environment, society and governance and to achieve sustainable development of the Earth. Together with our suppliers, we offer products and services of value to our customers.



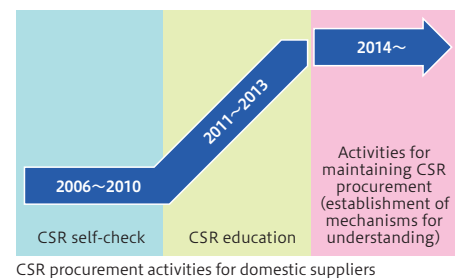
More information on our initiatives for CSR procurement can be found on our website at http://www.toto.co.jp/company/csr_en/customers/index.htm

The CSR Procurement Approach

The TOTO Group is dedicated to CSR procurement, working together with our suppliers and contractors who install our products. We also try to improve understanding of the need for CSR undertakings, gearing our activities to conditions in the respective industries. At our overseas offices in particular, we try to promote better understanding to achieve coexistence by respecting local laws and customs and carrying out CSR activities appropriate to conditions in each country.

CSR Procurement Activities

With priority placed on suppliers in Japan, TOTO promotes a three-step program of CSR self-check, CSR education, and activities for maintaining CSR procurement. Modeled on this, we are instituting a program of similar steps for our overseas suppliers and domestic contractors, and in so doing, confirming the achievement of CSR standards.



Policy briefing sessions for suppliers

Policy Briefing Sessions for Suppliers

To encourage two-way communication with suppliers, we hold a yearly policy briefing session. At the fiscal 2013 session, we briefed suppliers on TOTO procurement policies, CSR procurement and other issues.

Parts and Raw Materials Procurement

The TOTO Group continues to identify and assess the efforts and initiatives of our suppliers.

Domestic Suppliers

We set requirements and achievement standards for all our suppliers and make achieving those standards a prerequisite for doing business with us. The requirements include “human rights and labor” and “enhancing the promotion of CSR procurement to their own suppliers.”

Requests to our suppliers

- | | |
|---|--|
| <ol style="list-style-type: none"> 1. Human rights/labor <ol style="list-style-type: none"> (1) Prohibition of inhumane labor conditions and discrimination (2) Wages and working hours (3) Building constructive labor-management relations 2. Safety/health <ol style="list-style-type: none"> (1) Employee health management (2) Workplace/facility safety measures (3) Appropriate measures during emergencies and workplace accidents 3. Environment <ol style="list-style-type: none"> (1) Chemical substance management (2) Environmental preservation | <ol style="list-style-type: none"> 4. Information security <ol style="list-style-type: none"> (1) Security measures against computer network threats (2) Authentication system 5. Supplier management <ol style="list-style-type: none"> (1) Development at own company suppliers 6. Fairness/ethical conduct <ol style="list-style-type: none"> (1) Adherence to laws and regulations, prevention of misconduct, early detection system (2) Prohibition of abuse of a superior bargaining position 7. Quality <ol style="list-style-type: none"> (1) Quality control (2) Quality complaints 8. Social contributions <ol style="list-style-type: none"> (1) Contributions to local community and society |
|---|--|

Overseas Suppliers

Our overseas Group companies conduct community-based procurement activities by procuring raw materials and parts from local suppliers. Using CSR questionnaires and local monitoring surveys, we facilitate suppliers to understand the importance of CSR activities. In this way, constant efforts are made to raise the level of CSR initiatives throughout the entire TOTO Group supply chain.



Discussion with overseas suppliers

Social Contributions and Community Involvement

The TOTO Group uses its management resources effectively in conducting social contribution and community coexistence activities aimed at the resolution of local and global social issues.

Approach to Social Contribution and Community Coexistence Activities

Based on the TOTO Group Corporate Citizenship Policy, we carry out various activities in the three priority areas of preserving the water environment, creating a sanitary and comfortable living environment, and developing the next generation.



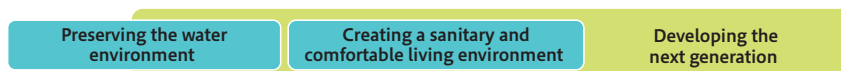
More information on our social contribution activities can be found on our website at http://www.toto.co.jp/company/csr_en/social/index.htm

TOTO Group Corporate Citizenship Policy

1. The TOTO Group fulfills its corporate mission by conducting activities that help create a rich and comfortable living culture, with a focus on plumbing.
2. The TOTO Group contributes to the development of communities as a good corporate citizen by conducting activities that help revitalize, maintain and develop local communities.



Priority areas for activities



Preserving the Water Environment

Having established the TOTO Water Environment Fund in fiscal 2005, the TOTO Group has endeavored to preserve the water environment in cooperation with civic groups, local communities and TOTO Group employees. In fiscal 2013, we provided a total of 10.07 million yen in grants to 20 organizations.

Since fiscal 2013, the TOTO Group has changed the fund structure to provide larger support to stakeholders that have increased their contributions to the preservation of the water environment.

*See P.27 for further details.

Creating a Sanitary and Comfortable Living Environment

The TOTO Group is working to create foundations for the universal design of plumbing products, with activities focused at the TOTO Universal Design Research Center. We also conduct surveys and research and make conferences presentations about plumbing equipment, such as through the School Toilet Research Group launched with an aim of developing toilets that can be used with confidence by children and local people, as well as through the Hospital Restroom Society of Healing, whose aim is to realize safe, secure and comfortable toilets in hospitals and welfare facilities.

Developing the Next Generation

TOTO GALLERY・MA is operated by TOTO in the Minami-Aoyama district of Tokyo as a gallery specializing in architecture and design. Since opening in 1985, the gallery has conveyed the ideas and philosophies of architects and designers from Japan and other countries. TOTO Publishing puts out books presenting unique viewpoints on such themes as architecture, design, lifestyle and culture, thereby also helping to educate the next generation.

In the arts, TOTO has been a special supporter of the Kitakyushu International Music Festival since 1988, supporting the development a city of culture in Kitakyushu, where the TOTO headquarters are located. Meanwhile, in sport, we are nurturing a spirit of enjoying sport, such as through track and field clinics run by members of the TOTO Athletics Club at elementary schools, and through the Kids Challenge Sports Meet, which is organized by TOTO.



TOTO GALLERY・MA
Hiroshi Naito "The Site of My Mind"
Exhibition Venue
©Nacása & Partners Inc.



Kitakyushu International Music Festival



Kids Challenge Sports Meet

Stakeholder Engagement

TOTO considers the concept of stakeholder engagement to be vital in building relationships of trust with stakeholders and to facilitate cooperation. By doing so, we aim to improve society for generations to come.

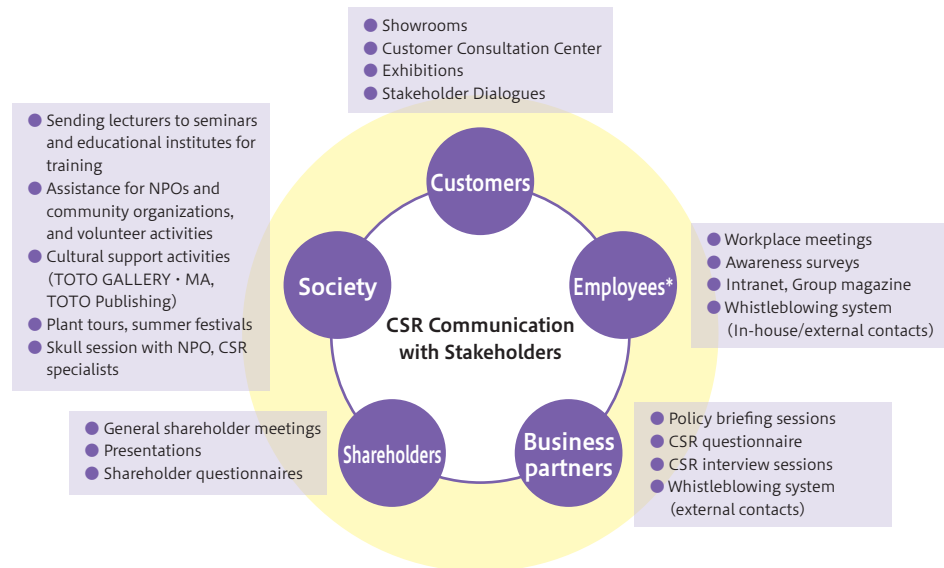
Promoting Two-Way Communication

The TOTO Group places importance on communication with all stakeholders, including customers, employees, shareholders, business partners and the society, and endeavors to develop closer relations with them.

We deepen interaction with our customers through various occasions, such as events at our showrooms, plant tours and summer festivals, and we engage in direct dialogue with our business partners through policy briefing sessions and CSR questionnaires. As for our shareholders, we disclose appropriate information in a timely manner, and we offer invitations to tour plants and showrooms so that they can appreciate the spirit of TOTO manufacturing.

We will continue trying to improve stakeholder satisfaction through communication as a way of further advancing our corporate activities.

● CSR Communication with Stakeholders



*At the TOTO Group, all persons working for the TOTO Group are referred to as "employees."



More information on our stakeholder dialogues can be found on our website at http://www.toto.co.jp/company/csr_en/stakeholder/dialog/index.htm



Dialogue with our customers

Stakeholder Dialogue

Based on the belief that two-way communication with customers is paramount, TOTO has been holding annual stakeholder dialogues with customers since 2004. Since fiscal 2012, we have also held dialogue with experts aimed at a strategic approach to the resolution of social issues.

During fiscal 2013, we organized separate dialogues on the following themes, and there was a lively exchange of views. Reflecting this feedback in our future activities, TOTO remains committed to becoming a truly global company.

Dialogue with customers

Theme: Way forward for the TOTO Water Environment Fund
Participants: NPO officials, general customers (business managers, housewives, students, etc.)

Dialogue with experts

Theme: Priority human rights issues for the TOTO Group
Participants: Hiroshi Ishida, Executive Director at Caux Round Table - Japan
Kaori Kuroda, Executive Director at CSO Network Japan



Hiroshi Ishida
Executive Director
Caux Round Table - Japan



Kaori Kuroda
Executive Director
CSO Network Japan

Third-Party Opinion



Mizue Unno

Managing Director
So-Tech Consulting Inc.

So-Tech Consulting Inc. provides comprehensive consulting services on management in the fields of the environment and CSR. The company uses its unique analytical capabilities to provide practical guidance on CSR-related management based on the fundamental idea that a company's set of values forms the foundation of CSR and raises corporate value.

In April this year, President Madoka Kitamura was inaugurated into the TOTO Group, which was the final stage in the 100 year anniversary of the company's establishment. The new structure is expected to lead to the achievement of the TOTO V-Plan 2017, which will further develop the path laid out by the previous V-Plan.

Clarifying a Sustainable Course

It is important to display the overall company vision, or the direction of the business, to society before presenting the strategy for each area of business. The main pillar in this regard is the environment, which has been reappraised in the TOTO Global Environmental Vision wherein the connection to 'water', which is the main part of TOTO's business, has been more clearly defined.

In the future, I would like to see business development that places high importance on the environment in business planning, and incorporates the following points.

- 1) Clearly defined course for sustainable initiatives for both environmental and social aspects
- 2) Display not only business information, but how the company is interacting with society

The company motto of TOTO is "improving lifestyles and sanitary culture". TOTO engages in business that is closely related to hygienic living. The company must clearly define a vision that deals with lifestyle issues, such as the lifestyles and ways of living in an aging society.

TOTO should also face the problems of the whole world, as well as those of markets into which the business has expanded. For example, there is growing interest in hygiene issues in developing countries that companies should engage in resolving, such as health problems in regions without toilets or drainage systems.

Rather than being a case of "doing what can be done as a company through the business," the ideal situation TOTO should be aiming for as a truly global company is expanding to deal with problems both proactively and in cooperation with various agencies. One way of doing that is to cooperate in programs managed at an international level in cases where direct participation in overseas activities is limited.

CSR Included in the V-Plan

Looking at the V-Plan, the four innovations to be implemented business-wide can only be achieved if they include CSR elements. In the current report, the CSR components are recorded separately, and the relationship is not clear. The following two points related to the growth of the company require particular attention.

1) Supply chain innovation

The main points here are cost competitiveness and efficiency, but if excessive demands are placed on the supplier, it will cause a conflict with CSR. Although CSR procurement is included later on, the issue of how this coexists with the pursuit of efficiency is left unanswered.

2) Management resource innovation

Strengthening human resources is the basis of the creation of a robust business structure. Human resource cultivation and diversity promotion are the foundation of TOTO's strategy, so a logical explanation of how this is being developed and what the results are is required.

Other

1) Report organization

The data publication, which has been published separately until now, has been completely reorganized and reformed in the Corporate View. TOTO has newly attempted to include the data publication together but it is a little hard to understand the relationship between the data publication and the main publication and its overall positioning. The first thing is to organize the information that should be disclosed, the information that the company wants to convey, and the information required by investors and stakeholders, and to have a policy about how to pass on that information. Rather than just using a booklet, it is important that the Internet and other tools are used effectively with technical aspects taken into consideration to ensure that the information is not conveyed in a one-sided manner by the company.

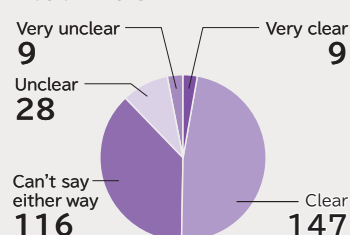
2) Establishment on social contribution index

The newly developed Social Contribution Index has been designed in an easy-to-understand way, as there is growing interest in evaluating and measuring the non-financial aspects of business activities. Quantifying the contribution amount for each stakeholder centering on the Water Environment Fund and taking steps towards unification facilitates external explanations and increases awareness within the company.

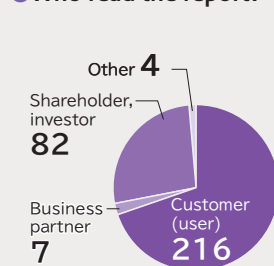
I would like to see TOTO increase such unique performance indicators using this approach with regards to other social factors in the future.

Comments and feedback from the questionnaire on the TOTO Group Corporate Report 2013 309 items received as of April 2014

Opinion of the report as a whole



Who read the report?



Content that attracted interest (multiple answers) (top 10)



2040 2041 2042 2043
 2039 2038 2037 2036
 2032 2033 2034 2035
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The cover depicts the manufacture of TOTO's ceramic sanitary ware. TOTO developed Japan's first seated flush toilet (left photo) in 1914, even before the company was founded. Marking its 100th anniversary this year, this ceramic sanitary ware is the origin of manufacturing at TOTO.

TOTO's first president established the company (named Toyo Toki at the time) based on a desire to spread a healthy and civilized way of life throughout Japan and, in indeed, the world. This sentiment has been passed down unbroken among TOTO Group employees ever since.

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