

# “Kindness Must Always Come First.”

Employees Will Unite in Their Efforts to Open the Way for a Bright Future for Our Customers and Society

**TOTO Group’s Purpose Is to Put Our Corporate Philosophy into Practice**

Two years have passed since I became president. At the time of my appointment, I experienced the unprecedented circumstances of the COVID-19 pandemic. I began during a period where we could not even predict results for the next month, let alone create a plan for the fiscal year. My thoughts at the time were that, even though sales and profit are falling in the short term, if TOTO employees and their families are safe and healthy then performance can definitely make a recovery. The key to growth in the medium to long term is TOTO’s human resources. Accordingly, I prioritized the safety of all Group employees.

Furthermore, there have been drastic changes to social values due to the spread of COVID-19. It was a significant year where, amid these changes, I was able to review what kind of lifestyle is necessary for our customers and society going forward and deeply consider the TOTO Group’s purpose.

As a result, I discovered that the answer was simple. The TOTO Group’s purpose is to put our Corporate Philosophy into practice. Despite the difficulty of my first year as president, all Group employees thought about our customers and their colleagues and aided one another in various ways. I realized that when issues arose, all employees worked in unison without instructions from the top. In other words, the TOTO Group is an organization that steadfastly shares our Corporate Philosophy and employees can act on their own initiative. The frontline capability of working with colleagues and taking the optimal action regarding various real-life issues on the front line has been further reinforced during the pandemic. We are currently in an era where the unimaginable can feasibly occur. I am confident that the Group is able to respond to any issue, no matter when it occurs, with all employees working together as one.



**Noriaki Kiyota**  
President, Representative Director



## The Words of Our Founder, Passed Down to Each President

TOTO's first president, Kazuchika Okura, wrote a letter to his successor, Saburo Momoki. The words contained in that letter have been treasured by the TOTO Group ever since as the Words of Our Founder. These words express the idea that "kindness must always come first" and state that our goal should be to provide good products and satisfy the customer and, by accomplishing that, profit and compensation will follow. The Words of Our Founder have been cherished by each president before me and passed down to the next generation. Every Group employee knows these words. I reflect on my actions as president with the awareness that Group employees are always watching to see whether they are based on this letter.

Based on the Words of Our Founder, we formulated the Company Mottos in 1962 as a foundation for our corporate activities in the future. To ensure that these words can be shared more easily throughout the TOTO Group and are appropriate for the times, we formulated the TOTO Group Corporate Philosophy and Charter of TOTO Group Corporate Behavior. Additionally, we established the Philosophy System for TOTO Group Management in 2004.

While I believe there are various methods for educating employees about the Corporate Philosophy, I learned by watching senior coworkers, whose actions were always based on the Philosophy. Obviously, education regarding the Philosophy, such as employee training, is important, but it also spreads among each employee through their experience during daily business activities and the actions of superiors, senior coworkers, and colleagues. This is not merely a concept of knowing the Philosophy, but rather a corporate culture where taking such actions has become the norm.

## Record-High Results in Fiscal 2021

Fiscal 2021, the second year of my term as president, was not smooth sailing. Many of our costs increased following rising raw materials costs due to the continued impact of COVID-19. Additionally, we were forced to restrict orders of our products since the supply chain was partially interrupted and were unable to procure components due to the unexpected situation caused by a combination of restrictions to supply activities during the pandemic and many natural disasters.

However, this was not limited to negative factors. The pandemic also caused a significant shift in customer awareness. This shift has enabled us to place even more importance on the hygiene and cleanliness that the TOTO Group has continued to refine. One example of a tailwind for the Group was the development of Touchless Faucets, as they save water and have produced the new value of "contactless." Another boost for the Company was the increasing number of people wishing to renovate their properties to make lifestyles more comfortable as the time they spend at home increases. This increase is due to such factors as the increased acceptance of remote working.

Amid this business environment, we achieved record-high results in fiscal 2021 due to the hard work of all Group employees. Naturally, there is a sense of fulfillment. However, more than this sense of fulfillment I feel that, as a manufacturer, we have caused inconvenience to our customers in terms of delivery times due to a shortage in supply. I believe that fiscal 2022 will also bring various changes. To achieve further growth, we must respond to these changes and solve each medium- to long-term issue one by one.



## Foresight and Preparation Necessary for Increasing Sense of Speed

What is most important in my third year as president is speed. Upon entering fiscal 2022, there have already been various changes to the social environment, including the COVID-19 pandemic, worsening global division, and global warming due to climate change. In 2030, we are aiming to thoroughly embody the Corporate Philosophy. Namely, provide products that can achieve clean, comfortable, and healthy lifestyles and contribute to society and the global environment. While we hope to close in on this goal, the reality is that the social environment is changing. In the past two years, I have experienced an increase in response capability to these changes. However, going forward, I believe that we must expand the area that we engage in and increase the speed of response to these changes to embody our Philosophy.

Accordingly, it is vital to make predictions and preparations for what will come in the future, even if only a little. The sense of speed will change completely even if we only make predictions on what kind of issue will occur, decide what kind of response we need to take if it does occur, and make preparations. My job is to steer the Company as a whole. I also believe it is important for each individual employee to put this into practice in their own regions, divisions, and workplaces. Since the capacity of the entire Company consists of each individual capability, it is vital to refine these individual capabilities. If each individual employee just thinks a little further ahead, taking a step toward society and our customers, everything will change completely.

## A Philosophy That Must Not Change—Kindness Must Always Come First

The Words of Our Founder, those written in the letter sent from TOTO's first president to his successor, begin with the phrase "kindness must always come first." Kindness and honesty are universal values. While we are happy that people think of our good quality products and superior technology when they hear the name TOTO, we are even happier when they think of TOTO as a kind and honest company that thinks of their customers. Furthermore, the Words of Our Founder asserts that "Many in this world chase after the shadow of profit. But, in the end, they never capture the real thing." In the spirit of this

letter, I decided when the pandemic began that our profit would somehow recover if TOTO employees and their families were safe and healthy. Carrying out business under the precedent of TOTO's uniqueness, kindness, honesty, and customer-oriented nature should enable us to resolve various issues. If we continue to face social issues with honesty and carefully engage in environmental issues, profit will definitely follow. This is something that must not change.

When encountering hard times or hitting a wall, colleagues are always there to help. They do so because everything is customer oriented and all employees engage in their work with kindness and honesty. Even if they are in different divisions, TOTO Group colleagues are connected through this focus on being customer oriented. It is therefore only natural that they help one another. The Words of Our Founder—provide good products and satisfy the customer—have naturally become ingrained in every employee.

## Looking to the Long Term—New Shared Value Creation Strategy TOTO WILL2030

The Common Group Philosophy is something that, as the “heart” of TOTO, we must continue carrying forward into the future, forever. Meanwhile, we must change the way our “body” (business activities) moves regarding various changes. These are strategies, such as the mid-term management plan, that have been created to cover a three- to five-year period in an extremely in-depth manner. However, these strategies are undermined by a series of events. When this occurs, the in-depth plans lose their meaning. We are changing our approach to one of showing long-term targets instead of short-term ones and backcasting from there to resolve any issues that appear. Accordingly, we formulated the New Shared Value Creation Strategy TOTO WILL2030 (hereinafter, WILL2030) in April 2021.

The TOTO Group will achieve economic growth while helping resolve social and environmental issues by realizing a carbon-neutral and sustainable society in 2050 and aiming to provide comfortable and healthy lifestyles to all. For this reason, the key material issues we must thoroughly address to embody our Corporate Philosophy are Cleanliness and Comfort, Environment, and Relationships. We will also contribute to the United Nations (UN) Sustainable Development Goals (SDGs) through these activities.

## Shifting from “Issues We Must Address” to “Issues We Want to Address”

The material issues of Cleanliness and Comfort, Environment, and Relationships are ones that all TOTO Group employees must address. I believe it is my mission to shift these from “issues we must address” to “issues we want to address.” If all employees feel that these are issues that they want to address, the amount of motivation and energy each individual has will no doubt increase. If that occurs, the energy of approximately 37,000 Group employees will be extremely high and the speed at which we can resolve social issues will further increase.



Acknowledgment is vital for human needs (motivation for actions). People feel a sense of fulfillment when receiving praise, such as being complimented or being thanked. Being thanked by customers, being complimented by colleagues, or receiving praise from society—this is what drives people. Since we are manufacturers with a close connection to people's everyday lives, we are in the position of having many opportunities for such situations. When something you have worked hard on is acknowledged, it generates the feeling of wanting to address another issue.

I hope to shift the Group's overall mindset from “must address” to “want to address.”

## Dialogue with Our Important Employees

From December 2020, we began to hold online dialogues with employees with the purpose of refining individual capabilities. Following this, we held dialogues 45 times with 273 employees on various topics (as of June 2022). During these dialogues, I frequently tell employees that it is pointless to just think about an action in their head, they must take action. There does not need to be a single solution to taking a step toward society and our customers. The diversification of customers means that there are various good solutions. There are successes and failures as a result, but both of these become experience and lead to future growth. Therefore, I tell them to take action without being afraid. It is my responsibility to create opportunities for employees to get off the ground.

As a result of holding these dialogues, I feel there were many cases where employees took action before I requested it of them. The actions taken in fiscal 2021 were definitely faster than those taken in fiscal 2020, my first year as president. I hope to create a group where it is a matter of course that each employee considers society and our customers and takes concrete action.



### The Various Hidden Possibilities of Digitalization

The TOTO Group has become a closer part of customers' lives and created an enriched and more comfortable lifestyle and culture mainly built on our hardware-centered technologies. When this is connected to the digitalized world, it is now possible to control the bathtub from outside the house, automatically clean the bath, close the drain stopper, and have warm water in the bath by the time you arrive home. By combining digitalization with our products that have been refined for hygiene and cleanliness, new values are expanding and it will become possible to do many things unrestricted by time or place. I am proud of the comfortable lifestyle and culture we have created up to now that provide customers with new value. I hope we can increasingly expand value by utilizing digitalization.

We will do the same to business processes and promote the shift to smart factories. We can greatly reduce the number of prototypes in the area of development by using various simulation technologies to carry out fluid analysis of water and reflecting this in the design. This will overwhelmingly increase development speed and effectiveness. Additionally, by transferring this 3D data to production sites, it will be difficult for mistakes to occur. A large amount of data is also accumulated within sites. If we utilize artificial intelligence (AI) to effectively use and analyze this data, we can establish conditions for good quality products. Furthermore, by utilizing robots, operations carried out by humans will become easier. In these ways, I believe we can increase our efficiency.

What is most important when promoting digitalization are the people responsible. First, we will raise the IT and digital transformation (DX) literacy levels of all employees. Just by raising literacy levels and utilizing diverse tools, operational speed will increase significantly. We will also increase the number of specialized human resources that can handle this data. We will further reinforce initiatives to collect and analyze data from various workplaces, such as manufacturing, sales, and development, even more quickly and accurately by using the shortest methods possible and reflecting this data in manufacturing, sales, and development.

### Reinforce Governance with an Awareness of “Defensive” and “Offensive” Aspects

For the purpose of change, TOTO became a Company with an Audit & Supervisory Committee as part of current efforts to reinforce governance, with the goal of strengthening the supervisory and audit functions of the Board of Directors and improving the speed and efficiency of business execution. The ultimate role of governance is to maximize corporate value. While it is necessary to fortify defensive aspects, we must also further reinforce the offensive aspects. In this sense, I hope that TOTO's Outside Directors will support the executive branch with risk taking in addition to the obvious defensive aspects.

I have listened to the opinions of all TOTO's Outside Directors, who have a wealth of experience, and will reflect them in our management.



### Showing Gratitude to All of TOTO's Stakeholders and Working Together to Enhance Value

The TOTO Group's business activities are made possible thanks to the support and cooperation of all our stakeholders. First, our starting point is that we ourselves must be sincere in our approach. To further improve our relationships, we must enhance the value of each of TOTO's stakeholders. Without that, we cannot develop our relationships with all them.

We aim to further increase customer satisfaction by continuing to provide them with an enriched and more comfortable lifestyle and culture. Further increasing opportunities for dialogues while ensuring returns, such as dividends, for all our shareholders and further deepening dialogues while providing not only financial information but also non-financial information will increase understanding and enhance our relationships of trust. For our business partners, I hope to create a more stable partnership, promote new collaborations, and coexist and prosper together, not to mention conducting appropriate business with them. Additionally, the understanding of people in local communities enables us to perform business activities in a stable manner and we will carry out various initiatives in each region to build even better relationships.

Above all else, employees are the most important. Our human resources are an asset in achieving sustainable growth of the TOTO Group. While creating an organization where employees can freely make mistakes, we will ensure the creation of a work environment where people of all generations can be active. We aim to be a company where all employees can safely take on challenges and work in a lively manner. I hope to develop a framework and increase the depth of our activities while being aware of how we can enhance the TOTO Group's corporate value.

My mission is to show gratitude to all our stakeholders, work together to enhance value, and develop a better relationship.

Our employees will unite in their efforts to open the way for a bright future for our customers and society.

*Noriaki Kiyota*

President,  
Representative Director