

**This notice has been translated from the original notice in Japanese.  
In the event of any discrepancy, the original in Japanese shall prevail.**

Updated: June 30, 2016

TOTO Ltd.

President, Representative Director

Madoka Kitamura

Contact: General Manager of Management Planning Dept. Masayuki Yoshioka

Securities code: 5332

<http://www.toto.co.jp/>

The corporate governance of TOTO Ltd. is described below.

## **I. Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information**

### **1. Basic Views [Updated]**

The TOTO Group strives to be a great company, trusted by people all around the world, contributing to the betterment of society. In addition to being a corporate entity engaged in the pursuit of profit through fair competition, the Group conducts its business in such a way as to continue to benefit society broadly. In order to realize this target, we believe it is important to build a system for pursuing and supervising fair and equitable management, and clearly define a philosophy that serves as the basis of such a system.

(1) The TOTO Group has developed a philosophy system for TOTO Group management. This includes a common Group philosophy, representing the inherited values of TOTO that will be carried forward into the future. This represents the “heart” of our philosophy. Also, our philosophy system includes visions for business activities representing the direction of our action to be reviewed in accordance with the demands of the times. This is positioned as the “body in action.” All of our business activities are based on this philosophy system.

#### **<Common Group Philosophy>**

##### **[Company Mottos]**

“Take pride in your work and strive to do your best.”

“Quality and Uniformity” “Service and Trust” and “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]**

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.

- The TOTO Group shall pursue customer satisfaction and provide products and services that are environmentally friendly, safe and easy to use.
- The TOTO Group shall develop sensible business activities in transparent, fair ways, and sustain sound normal relationships with political organizations and governmental administrations.
- The TOTO Group shall proactively disclose appropriate corporate information as necessary to facilitate communications with society and, at the same time, thoroughly protect and control various types of information.
- The TOTO Group shall strive to provide comfortable lifestyles by ensuring safe and pleasant working environments while respecting the diversity and individuality of all its employees.
- The TOTO Group shall build awareness of global environment issues as common issues of all humankind and aggressively tackle these issues from a global point of view as essential for the existence and activities of the company.
- As a good corporate citizen, the TOTO Group shall constructively contribute to communities and society overall.
- The TOTO Group shall resolutely oppose antisocial powers and sever relationships with them.
- The TOTO Group shall abide by the laws and regulations of individual countries and regions, respect international norms including those related to human rights, show further consideration to the cultures, customs and interests of stakeholders, and contribute to the socio-economic development of relevant countries and regions in managing the company.
- TOTO's top management shall, as their role, thoroughly enforce corporate ethics not only within the TOTO Group but also across supply chains and with business partners.
- TOTO's top management shall strive to resolve all issues that conflict with this charter as they arise.

- (2) To ensure operational decisions and business execution in compliance with relevant laws and regulations and TOTO's Articles of Incorporation, TOTO has a Board of Directors and an Audit & Supervisory Board, and retains independent accounting auditors.

The Board of Directors, emphasizing fairness, objectivity, and transparency, has appointed three Outside Directors who are independent of the TOTO Group. The Outside Directors give various advice and make proposals on our overall management.

The Audit & Supervisory Board audits the business execution of Directors and consists of four members, including two outside members. We have built a system to ensure their effective audits through their attendance of major meetings, including meetings of the Board of Directors, and the exchange of opinions with Directors on a regular basis.

- (3) To complement audits by Audit & Supervisory Board Members and independent accounting auditors and to build a stronger internal control system, we have established the Internal Audit Office in-house, which is independent of operational divisions. With the establishment of the Internal Audit Office, we have strengthened our internal audits under the direction of the President.

Audit & Supervisory Board Members, independent accounting auditors and members of the Internal Audit Office carry out audits as a three-party audit team. In addition, we strive to enhance the quality and effectiveness of audits through close collaboration among the three parties, which involves reviewing audit results by Audit & Supervisory Board Members and exchanging information at meetings, among other activities.

#### **[Reasons for Non-compliance with the Principles of the Corporate Governance Code]**

TOTO has implemented all the principles in the Corporate Governance Code which require an explanation of reasons for not implementing, and TOTO will seek further improvement with regard to this issue.

#### **[Disclosure Based on the Principles of the Corporate Governance Code] [Updated]**

<Principle 1.4: Policy with Regard to Strategic Stockholdings and Criteria for Exercising Voting Rights with Regard to Strategic Stockholdings>

Comprehensively taking into account the maintenance and strengthening of business alliances and various business transactions, as well as relationships involving business activities, TOTO strategically

holds listed stocks in which the strengthening of relationships would contribute to an increase in corporate value. TOTO annually verifies the necessity and rationality of these stockholdings at Meetings of the Board of Directors to judge whether or not to continue holding such stocks. TOTO exercises voting rights with regard to strategic stockholdings after carefully examining the details of the proposals and judging whether to contribute to an increase in the corporate value of investees for the medium to long terms on the assumption of contributing to the interests of TOTO. Additionally, TOTO converses with the investees on details of the proposals, if necessary.

<Principle 1.7: Framework for Confirmation of Transactions with Related Parties>

TOTO has established rules where competitive transactions and transactions involving a conflict-of-interest with Directors or companies that Directors substantially control shall be subject to an approval of the Board of Directors.

TOTO also investigates and specifies related parties that carry the possibility of having an impact on TOTO's financial position and operating results based on the "Accounting Standard for Related Party Disclosures" and the "Guidance on Accounting Standard for Related Party Disclosures," confirms the existence of transactions with said related parties and the importance of said transactions, and, if there are transactions to be disclosed, carries out such disclosure accordingly.

<Principle 3.1: Information Disclosure>

- (i) Company objectives (such as corporate philosophy), corporate strategies and management plans  
TOTO's Corporate Philosophy and mid-/long-term management plans are disclosed on TOTO's website and in its presentation materials and corporate reports.

-Summary of TOTO's Common Group Philosophy

TOTO's Common Group Philosophy is shown in section (1) under "1. Basic Views" of "Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information" in this report.

- Summary of Mid-/Long-Term Management Plans

The TOTO Group formulated the long-term management plan TOTO V-Plan 2017 in July 2009. The strategic framework is to reinforce corporate governance and to promote the global housing equipment business consisting of three housing equipment businesses in Japan, China and Asia, and the Americas and Europe, and the two core businesses of the new business domains consisting of ceramics and green building materials, as well as the three cross-organizational innovation activities, which are marketing innovation, demand chain innovation, and management resource innovation. The TOTO Group as a whole is striving to promote the TOTO Global Environmental Vision as the driving force behind these business activities. We have formulated the management plan to achieve consolidated net sales of 650 billion yen, consolidated operating income of 61 billion yen, ROA (on an operating income basis) and ROE (on a net income basis) of at least 10% in fiscal 2017.

(Group's Philosophy System)

[http://www.toto.co.jp/company/profile\\_en/philosophy/index.htm](http://www.toto.co.jp/company/profile_en/philosophy/index.htm)

(Mid-/Long-Term Management Plans)

[http://www.toto.co.jp/company/ir\\_en/vision/index.htm](http://www.toto.co.jp/company/ir_en/vision/index.htm)

- (ii) Basic Views and Basic Policy on Corporate Governance

The Basic Views and Basic Policy on Corporate Governance of TOTO are stated in "1. Basic Views" of "Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information" in this report.

- (iii) Policies and Procedures for Determining the Compensation of Senior Management and Directors by the Board of Directors

Basic views on TOTO's compensation framework are stated in "[Directors' Compensation]" under "1. Organizational Composition and Operation" of the "Business Management Organization and Other Corporate Governance Systems Regarding Decision Making, Execution of Business, and Oversight

in Management” in this report and in the business report of the “Convocation Notice of the Ordinary General Meeting of Shareholders.”

- (iv) Policies and Procedures for Appointing Senior Management and Nominating Candidates for Directors and Audit & Supervisory Board Members by the Board of Directors  
Basic views on the appointment of candidates for Directors and Audit & Supervisory Board Members of TOTO are stated in “[Directors]” under “1. Organizational Composition and Operation” and “2. Matters Relating to Functions of Business Execution, Auditing, Oversight, Nomination, and Compensation Decisions (Overview of Current Corporate Governance System)” of “Business Management Organization and Other Corporate Governance Systems Regarding Decision Making, Execution of Business, and Oversight in Management” in this report and in the business report of the “Convocation Notice of the Ordinary General Meeting of Shareholders.”
- (v) Explanations for Each Individual Appointment and Nomination with Respect to the Appointments of Senior Management and the Nominations of Candidates for Directors and Audit & Supervisory Board Members by the Board of Directors  
Reasons for the nomination of candidates for Outside Directors and Outside Members of the Audit & Supervisory Board are stated in “[Directors]” and “[Audit & Supervisory Board Members]” under “1. Organizational Composition and Operation” of “Business Management Organization and Other Corporate Governance Systems Regarding Decision Making, Execution of Business, and Oversight in Management” in this report.  
Also, reasons for the nomination of candidates for Inside Directors and Standing Members of the Audit & Supervisory Board are as described below:

[Directors]

Kunio Harimoto:

Mr. Kunio Harimoto has served as Representative Director, President, and Chairman of the Board of TOTO and has abundant experience and achievements as a manager.

TOTO believes that he is highly capable of enhancing the entire group's corporate governance and supervising the execution of Company business, and therefore proposed his reappointment as Director.

Madoka Kitamura:

Having served as the person responsible for management planning and the Company's entire system product business, Mr. Madoka Kitamura has served as Representative Director and President since 2014. He has abundant experience and achievements as a manager.

TOTO believes that he is highly capable of promoting the Mid-/Long-Term Management Plan, and therefore proposed his reappointment as Director.

Kiyoshi Furube:

Having served as the person responsible for the Sales Promotion Group and the Marketing Group, Mr. Kiyoshi Furube has served as Representative Director and Executive Vice President since 2014. He has abundant experience and achievements as a manager.

TOTO believes that he is highly capable of promoting the Mid-/Long-Term Management Plan and of supervising the Sales Groups, and therefore proposed his reappointment as Director.

Noriaki Kiyota:

Having served as the person responsible for the Restroom Business Group and the System Product Group, Mr. Noriaki Kiyota has served as Representative Director and Executive Vice President since 2016. He has abundant experience and achievements as a manager.

TOTO believes that he is highly capable of promoting marketing innovation for the Mid-/Long-Term Management Plan, realizing management strategies, and supervising the Business Division, and therefore proposed his reappointment as Director.

Nozomu Morimura:

Having served as the person responsible for sales offices in Japan and the Sales Promotion Group, Mr. Nozomu Morimura has served as Representative Director and Senior Managing Executive Officer since 2016. He has abundant experience and achievements as a manager.

TOTO believes that he is highly capable of promoting the Company's Japan Housing Equipment Business for the Mid-/Long-Term Management Plan, realizing management strategies, and supervising the Sales Division, and therefore proposed his reappointment as Director.

Soichi Abe:

Having been assigned to China and serving as the person responsible for the China Division and the International Business Group, Mr. Soichi Abe has served as Director and Managing Executive Officer since 2014. He has abundant experience and achievements as a manager.

TOTO believes that he is highly capable of promoting the Company's China & Asia housing equipment business for the Mid-/Long-Term Management Plan, realizing management strategies, and supervising the China & Asia Business Division, and therefore proposed his reappointment as Director.

Yuichi Narukiyo:

Having served as the person responsible for the Human Resource Development Division, the Corporate Administrative Group, and the Legal Affairs Division, Mr. Yuichi Narukiyo has served as Director and Managing Executive Officer since 2014. He has abundant experience and achievements as a manager.

TOTO believes that he is highly capable of promoting management resource renovation for the Mid-/Long-Term Management Plan, realizing management strategies, and supervising the Administrative Division, and therefore proposed his reappointment as Director.

Ryosuke Hayashi:

Having served as the person responsible for restroom product development and the Company's Washlet business, Mr. Ryosuke Hayashi has served as Director and Managing Executive Officer since 2015. He has abundant experience and achievements as a manager.

TOTO believes that he is highly capable of promoting new-domain business and demand chain innovation for the Mid-/Long-Term Management Plan, realizing management strategies, and supervising the New-Domain Business Group, the Bathroom Division, and the Kitchen & Lavatory Vanity Division, and therefore proposed his reappointment as Director.

Kazuo Sako:

Having been assigned to the U.S.A. and serving as the person responsible for Company's business in the U.S.A. and the Green Building Materials Division, Mr. Kazuo Sako has served as Executive Officer since 2011, promoting the establishment and development of strategies for the Company's Americas & Europe housing equipment business and the global development of the environment cleaning technology "Hydrotect."

Based on the above, TOTO believes that he is highly capable of promoting the Company's Americas & Europe housing equipment business for the Mid-/Long-Term Management Plan, and therefore proposed his appointment as Director.

Taiichi Aso:

Having served as the person responsible for the Sanitary Ware Division, Mr. Taiichi Aso has served as Executive Officer since 2009, working for the improvement of sanitary ware production technology and promoting the establishment of global production and supply systems.

Based on the above, TOTO believes that he is highly capable of promoting the Company's restroom business and overall production technology, and therefore proposed his appointment as Director.

[Audit & Supervisory Board Members, Standing]

Satoshi Miyazaki:

Mr. Satoshi Miyazaki was the company's General Manager of planning in the Business Division, the General Manager of International Business Supervising Division, General Manager of the Restroom

Product Coordinating Division, and the General Manager of the Management Planning Division. He has vast experience and achievements in business activities and internal control and actively provides opinions at the meetings of the Audit & Supervisory Board and the Board of Directors to display his role in supervising functions.

He has experience and knowledge of general management and internal control, and therefore TOTO deemed him suitable to perform an audit of the execution of operations at the business division and proposed his appointment as Audit & Supervisory Board Member at the 148th Ordinary general meeting of shareholders.

Motohiro Oniki:

Mr. Motohiro Oniki was the group company's Deputy General Manager of Business Management Division in the company's Americas business, the Deputy General Manager for of the Accounting & Finance Division, and the General Manager of Internal Audit Office. He has vast experience and achievements in internal control, accounting, and finance, and he actively provides opinions at the meetings of the Audit & Supervisory Board and the Board of Directors to display his role in supervising functions.

He has experience and knowledge of internal control from working in the accounting operations of the group company for many years. In addition to his experience and knowledge in internal control, as well as an appreciable extent of knowledge in finance and accounting, and therefore TOTO deemed him suitable to perform an audit of the execution of operations in the business division and proposed his reappointment as Audit & Supervisory Board Member at the 148th Ordinary general meeting of shareholders.

<Supplementary Principle 4.1.1: Summary of Scope of Matters Delegated by the Board of Directors to the Management>

TOTO has stipulated matters to be determined by resolution of the Board of Directors in the Rules for Board of Directors. The matters mainly include those concerning the general meeting of shareholders, personnel and organizations, account settlement, stocks, corporate bonds and new share subscription rights, and corporate assets and management of the TOTO Group, as well as matters stipulated in laws and regulations, including the Companies Act and the Articles of Incorporation, among other significant matters.

Among business operations not subject to a decision by the Board of Directors, certain significant matters are determined upon establishing the Rules for System for Formal Approval and discussions by the Management Committee (held twice a month in principle), consisting of Directors and Executive Officers. The Executive Officer system was introduced in 2000 to effectively execute the matters determined by the Board of Directors.

<Principle 4.8: Appointment of Independent Directors>

TOTO has appointed three Outside Directors with a high level of independence. This makes it possible for the Board of Directors to engage in an open and objective discussion, sharing viewpoints from an independent and neutral perspective.

TOTO has appointed Outside Directors with expert knowledge in management-related issues and a truly global perspective, specializing in corporate governance, CSR, and risk management. The Outside Directors provide our management with valuable insight and advice from an objective viewpoint. This process is facilitated by the receipt of reports on activities of the Internal Audit Office, independent accounting auditors and the internal control division, mainly by the Board of Directors, in its efforts to improve the oversight function for assessing management activities and to establish a more transparent management monitoring system.

<Principle 4.9: Independence Standards Aimed at Securing Effective Independence of Persons Who Will Become Independent Directors>

TOTO's Independent Directors are appointed in accordance with the requirements for Outside Directors, as set forth in the Companies Act, and the independence standards set forth by the financial instruments exchanges, in addition to "Requirements for Independent Directors/Audit &

Supervisory Board Members,” as set forth by TOTO, which periodically assesses their status upon appointment.

The “Requirements for Independent Directors/Audit & Supervisory Board Members” are stated in “[Independent Directors/Audit & Supervisory Board Members]” under “1. Organizational Composition and Operation” of “Business Management Organization and Other Corporate Governance Systems Regarding Decision Making, Execution of Business, and Oversight in Management” in this report.

<Supplementary Principle 4.11.1: View on the Appropriate Balance between Knowledge, Experience and Skills of the Board of Directors as a Whole, and in Terms of Diversity and Size>

TOTO believes that in order to supervise business operations and to make important decisions, TOTO’s Board of Directors must be composed of members with diverse perspectives, professional experience and relevant skills. Meanwhile, for the purpose of performing the double-check function of supervision by the Board of Directors and of audits by Audit & Supervisory Board Members, Outside Directors need to include not only auditors required by law but also Directors with voting rights at Meetings of the Board of Directors; and both Audit & Supervisory Board Members and Directors must have considerable independence.

The details are also stated in “2. Matters Relating to Functions of Business Execution, Auditing, Oversight, Nomination and Compensation Decisions (Overview of Current Corporate Governance System)” of “Business Management Organization and Other Corporate Governance Systems Regarding Decision Making, Execution of Business, and Oversight in Management” in this report.

<Supplementary Principle 4.11.2: Concurrent Posts Assumed by Directors and Audit & Supervisory Board Members>

Concurrent posts assumed by Outside Directors and Outside Members of the Audit & Supervisory Board are stated in “[Directors]” and “[Audit & Supervisory Board Members]” under “1. Organizational Composition and Operation” of “Business Management Organization and Other Corporate Governance Systems Regarding Decision Making, Execution of Business, and Oversight in Management” in this report.

In addition, concurrent posts assumed by Directors and Audit & Supervisory Board Members, excluding Outside Directors and Outside Members of the Audit & Supervisory Board, are disclosed in the Reference Documents for the “Convocation Notice of the Ordinary General Meeting of Shareholders.”

<Supplementary Principle 4.11.3: Summary of Analysis and Evaluation Concerning the Effectiveness of the Board of Directors>

At Meetings of the Board of Directors, the Board of Directors confirms the status of corporate governance and engages in self-analysis and self-evaluation concerning its effectiveness and appropriateness.

In March 2016, the outside directors, outside members of Audit & Supervisory Board and the entire members attended the Board of Directors to evaluate the effectiveness of its activities from the perspective of related items of the Board of Directors in the context of its roles within the company based on the corporate governance code, including the operational status of internal control system, corporate strategy and other agendas of the Board of Directors to define general direction.

- (1) The roles of the TOTO’s Board of Directors include decision-making in favor of stakeholders, mutual supervision of the execution of duties for directors, the formulation of execution and supervision system for more equal and fair management, as well as the determination of basic management policy, such as the common philosophy of the TOTO Group, mid-/long-term management plan, and annual policy that becomes a foothold.
- (2) In accordance with the Basic Policy for Development of Internal Control System, the system ensures that the execution of directors’ duties complies with the laws and regulations and the articles of incorporation, and all other items are operated positively.
- (3) At Meetings of the Board of Directors at the end of the fiscal year, management policies and plans are discussed and approved for the next fiscal year according to the approved Mid-/Long-Term Management Plans. Subsequently, policies on execution and significant matters in the Mid-/Long-

Term Management Plans are shared among all Directors, and the general direction of such issues is appropriately linked to recent activities.

(4) The members engage in detailed inspections of all items of the corporate governance codes, especially the related items of the Board of Directors, to correspond properly.

The members of the Board of Directors participate in active discussions beyond the limits of the company. The internal directors make efforts to reflect the results in execution to ensure supervision based on objective feedback from Independent Directors/Audit & Supervisory Board Members.

(5) The President, Representative Director, and other representative directors actively implement IR activities, and the results are also shared at the Board of Directors. In addition, they implement constructive communication by asking and answering questions among the shareholders and directors at the General Meeting of Shareholders and by visiting investors.

We will continue to implement the following ordinary discussions and activities to further increase effectiveness.

- In principle, the Board of Directors holds a meeting once a month to discuss and approve significant deals in a timely manner.
- Significant deals and related issues are discussed and prioritized at Management Committee meetings, prior to discussion at Meetings of the Board of Directors. Materials are distributed in advance and explanations concerning such matters are provided. This allows enough time for the Board of Directors to engage in active discussions at Meetings of the Board of Directors. The Board of Directors also strives to improve its function through proposals from the Directors themselves.
- The status of achievement of Mid-/Long-Term Management Plans and annual plans are confirmed at the Board of Directors every month.
- Under the strategic framework of the Mid-/Long-Term Management Plans, Directors in charge of each core business and cross-organizational innovation activities, which are aimed to optimize the operations of the entire company, are appointed based on the expertise and skills to increase the effectiveness of the management plans.
- The Board of Directors appropriately discusses issues to be approved for more strategic discussions.
- The Board of Directors maintains reports on the status and results of proposals, and oversees the execution of duties.

#### <Supplementary Principle 4.14.2: Training Policy for Directors and Audit & Supervisory Board Members>

TOTO provides opportunities for training necessary for Directors and Audit & Supervisory Board Members to fulfill their respective roles and duties. We bear the expenses of the training at the request of Directors and Audit & Supervisory Board Members.

To satisfy the expectations of shareholders and investors, Directors and Audit & Supervisory Board Members strive to collect information by accepting reports on IR activities and various SRI (social responsible investment) research results at Meetings of the Board of Directors in order to further understanding of the company.

In addition to the aforementioned, Directors and Audit & Supervisory Board Members hold internal training sessions for new Directors and Audit & Supervisory Board Members (education on various laws and regulations, including the Companies Act) to further understand their required roles and duties, and participate in external seminars at the time of new appointments. Upon appointment, Directors and Audit & Supervisory Board Members strive to obtain the necessary skills and knowledge, mainly through attending seminars, as necessary.

To further understand the conditions facing the TOTO Group, Outside Directors accept invitations to visit domestic and overseas business sites to learn about such business conditions. Outside Members of the Audit & Supervisory Board attend important meetings concerning the operations of the TOTO Group and visit and audit domestic and overseas business sites.

#### <Principle 5.1: Policies Concerning the Measures and Organizational Structures Aimed at Promoting Constructive Dialogue with Shareholders>

TOTO designates the President as an Executive Officer in charge of engaging in dialogue with shareholders, based on the view that the Company should hold constructive discussions with shareholders and investors. The President, Executive Vice President, and Executive Officer in charge



of IR mainly deal with this matter. Evaluations and requests from shareholders and investors are shared across the Company and are used as a source of information to ensure improvements in management.

TOTO discloses the purpose of its communications and policy on responses to investors in the TOTO Group Communication Policy. For domestic and overseas shareholders and investors, IR Policy is also established to ensure transparency and fairness. Additionally, please see “2. IR Activities” of “Implementation of Measures for Shareholders and Other Stakeholders” in this report.

## 2. Capital Structure

Percentage of Foreign Shareholders	20% to less than 30%
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### [Status of Major Shareholders] [Updated]

Name / Company Name	Number of Shares Owned	Percentage (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	14,612,600	8.26
Japan Trustee Services Bank, Ltd. (Trust Account)	10,600,500	5.99
Meiji Yasuda Life Insurance Company	10,358,416	5.85
Nippon Life Insurance Company	5,393,691	3.05
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	3,087,699	1.74
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	2,974,700	1.68
Sekisui House, Ltd.	2,671,500	1.51
NGK Spark Plug Co., Ltd.	2,547,500	1.44
TOTO Shareholding association	2,467,824	1.39
Dai-ichi Life Insurance Company, Ltd.	2,370,914	1.34

Controlling Shareholder (Except for Parent Company)	—
Parent Company	None

### Supplementary Explanation

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## 3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo Stock Exchange and Nagoya Stock Exchange, First Section, and Fukuoka Stock Exchange
Fiscal Year-End	March
Type of Business	Glass and ceramic products
Number of Employees (Consolidated) as of the End of the Previous Fiscal Year	More than 1,000

Sales (Consolidated) as of the End of the Previous Fiscal Year	100 billion yen to less than 1 trillion yen
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	50 to less than 100

**4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder**

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**5. Other Special Circumstances Which May Have a Material Impact on Corporate Governance**

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## II. Business Management Organization and Other Corporate Governance Systems Regarding Decision Making, Execution of Business, and Oversight in Management

### 1. Organizational Composition and Operation

Structure of Organization	Company with Audit & Supervisory Board
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#### [Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	14
Term of Office Stipulated in Articles of Incorporation	One year
Chairperson of the Board	Chairman (unless the Chairman holds the concurrent post of President)
Number of Directors [Updated]	13
Appointment of Outside Directors	Appointed
Number of Outside Directors [Updated]	3
Number of Independent Directors [Updated]	3

#### Outside Director's Relationship with TOTO (1) [Updated]

Name	Attribute	Relationship with TOTO*										
		a	b	c	d	e	f	g	h	i	j	k
Hiroki Ogawa	From other company								△			
Kazuhiko Masuda	From other company								△			
Masatsugu Shimono	From other company								△			

\* Categories for "Relationship with TOTO":

“○” When the Director currently falls or has recently fallen under the category

“△” When the Director fell under the category in the past

“●” When a close relative of the Director currently falls or has recently fallen under the category

“▲” When a close relative of the Director fell under the category in the past

a. Executive of the Company or its subsidiaries

b. Non-executive Director or executive of a parent company of the Company

c. Executive of a fellow subsidiary company of the Company

d. A party whose major client or supplier is the Company or an executive thereof

e. Major client or supplier of the Company or an executive thereof

- f. Consultant, accountant, or legal professional who receives a large amount of monetary consideration or other property from the Company other than compensation as a Director/an Audit & Supervisory Board Member
- g. Major shareholder of the Company (or an executive of said major shareholder if the shareholder is a legal entity)
- h. Executive of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the Director himself/herself only)
- i. Executive of a company, between which and the Company Outside Directors/Audit & Supervisory Board Members are mutually appointed (the Director himself/herself only)
- j. Executive of a company or organization that receives a donation from the Company (the Director himself/herself only)
- k. Others

#### Outside Director's Relationship with TOTO (2) [Updated]

Name	Designation as Independent Director	Supplementary Explanation of the Relationship	Reasons for Appointment
Hiroki Ogawa	x	<p>Advisor of Saibugas Co., Ltd.</p> <p>Outside Director at Krosaki Harima Corporation</p>	<p>Mr. Hiroki Ogawa has been involved in the management of Saibu Gas Co., Ltd. for many years and has expertise in the housing industry. He provides valuable opinions at Meetings of the Board of Directors based on the expertise he has developed in his career as a professional corporate manager and displays outstanding supervision skills by reflecting his views unfettered by the conventional way of doing things in the Company's management. He has experience and knowledge of general management and corporate governance as well as of management closely tied to local communities, and therefore the Company proposed his reappointment as Outside Director.</p> <p>Regarding the appointment of Mr. Ogawa as an independent director, we have confirmed that there was no conflict of interest according to independence standards set forth by securities exchanges, and that the requirements for the eligibility of independent directors set by TOTO were met. Therefore, Mr. Ogawa was appointed to the position of independent director based on a resolution by the Board of Directors.</p>

Name	Designation as Independent Director	Supplementary Explanation of the Relationship	Reasons for Appointment
Kazuhiko Masuda	x	<p>Honorary Advisor of UACJ Corporation</p> <p>Outside Director at Sekisui Jushi Corporation</p> <p>Outside Director at CK San-Etsu Co., Ltd.</p>	<p>Mr. Kazuhiko Masuda has been involved in the management of Sumitomo Light Metal Industries, Ltd. (currently, UACJ Corporation) for many years. He provides valuable opinions at Meetings of the Board of Directors based on the expertise he has developed in his career as a professional corporate manager and displays outstanding supervision skills by reflecting his views unfettered by the conventional way of doing things in the Company's management.</p> <p>He has experience and knowledge of general management and corporate governance as well as of the production technology of manufacturers, and therefore the Company proposed his reappointment as Outside Director.</p> <p>Regarding the appointment of Mr. Masuda as an independent director, we have confirmed that there was no conflict of interest according to independence standards set forth by securities exchanges, and that the requirements for the eligibility of independent directors set by TOTO were met. Therefore, Mr. Masuda was appointed to the position of independent director based on a resolution by the Board of Directors.</p>

Name	Designation as Independent Director	Supplementary Explanation of the Relationship	Reasons for Appointment
Masatsugu Shimono	x	Senior Executive Advisor of IBM Japan, Ltd.	<p>Mr. Masatsugu Shimono has been involved in the management of IBM Japan, Ltd. for many years and has experience and knowledge of general management and corporate governance of a global company, which he has developed in his career, as well as experience and knowledge of general ICT and the promotion of diversity.</p> <p>TOTO believes that he is highly capable of providing valuable opinions at Meetings of the Board of Directors based on his expertise as a professional and global corporate manager and will display outstanding supervision skills by reflecting his views unfettered by the conventional way of doing things in the Company's management, and therefore TOTO proposed his appointment as Outside Director. Regarding the appointment of Mr. Shimono as an independent director, we have confirmed that there was no conflict of interest according to independence standards set forth by securities exchanges, and that the requirements for the eligibility of independent directors set by TOTO were met. Therefore, Mr. Shimono was appointed to the position of independent director based on a resolution by the Board of Directors.</p>

Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Compensation Committee	Established
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#### Committee's Name, Composition, and Attributes of Chairperson

	Committee Corresponding to Nomination Committee	Committee Corresponding to Compensation Committee
Committee's Name	Nominating Advisory Committee	Compensation Advisory Committee
All Committee Members	9	7
Full-time Members	0	0
Inside Directors	4	1
Outside Directors	3	3

	Committee Corresponding to Nomination Committee	Committee Corresponding to Compensation Committee
Outside Experts	0	1
Other	2	2
Chairperson	Inside Director	Outside Expert

#### Supplementary Explanation [Updated]

#### [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 deliberating on and confirming the appointment of TOTO's Directors and Audit & Supervisory Board Members. The Committee shall report to the Board of Directors on proposals submitted to the General Meeting of Shareholders related to the appointment and dismissal of the candidates of Directors and Audit & Supervisory Board Members, including Outside Directors and Outside Members of the Audit & Supervisory Board.

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 Independent Directors/Audit & Supervisory Board Members as outside members and Representative Directors as internal members, and the chairperson shall be the President and Representative Director of TOTO.

#### [Compensation Advisory Committee]

The Compensation Advisory Committee has been set up to ensure 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 for Directors' Compensation, in order to contribute to the ensuring of the appropriateness and objectivity of compensation for Directors through the Committee's 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 six outside members including five Independent Directors/Audit & Supervisory Board Members and one Director as an internal member without the right of representation, and the chairperson shall be elected from among the outside members.

#### [Audit & Supervisory Board Members]

Establishment of Audit & Supervisory Board	Established
Maximum Number of Audit & Supervisory Board Members Stipulated in Articles of Incorporation	5
Number of Audit & Supervisory Board Members	4

#### Cooperation among Audit & Supervisory Board Members, Independent Accounting Auditors, and Internal Audit Division

Independent accounting auditors submit an annual accounting audit plan and report quarterly review results on the implementation of the audit plan and the results of the accounting audit at the end of the fiscal year to the Audit & Supervisory Board.

In addition, Audit & Supervisory Board Members collaborate closely with independent accounting auditors through the exchange of opinions at periodic meetings and by attending accounting audits conducted by independent accounting auditors as required.

The Audit & Supervisory Board and the Internal Audit Office collaborate closely by holding information meetings on a monthly basis to gain a clear mutual understanding of the auditing situation, and to exchange opinions.

Appointment of Outside Members of Audit & Supervisory Board	Appointed
Number of Outside Members of Audit & Supervisory Board	2
Number of Independent Members of Audit & Supervisory Board	2

#### Outside Audit & Supervisory Board Member's Relationship with TOTO (1)

Name	Attribute	Relationship with TOTO (*)												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Masamichi Takemoto	From other company										△			
Akira Katayanagi	From other company										△			

\* Categories for "Relationship with TOTO":

“○” When the Director currently falls or has recently fallen under the category

“△” When the Director fell under the category in the past

“●” When a close relative of the Director currently falls or has recently fallen under the category

“▲” When a close relative of the Director fell under the category in the past

- Executive of the Company or its subsidiary
- Non-executive Director or accounting advisor of the Company or its subsidiaries
- Non-executive Director or executive of a parent company of the Company
- Audit & Supervisory Board Member of a parent company of the Company
- Executive of a fellow subsidiary company of the Company
- A party whose major client or supplier is the Company or an executive thereof
- Major client or supplier of the Company or an executive thereof
- Consultant, accountant, or legal professional who receives a large amount of monetary consideration or other property from the Company other than compensation as an Audit & Supervisory Board Member
- Major shareholder of the Company (or an executive of said major shareholder if the shareholder is a legal entity)
- Executive of a client or supplier company of the Company (which does not correspond to any of f, g, or h) (the Audit & Supervisory Board Member himself/herself only)
- Executive of a company, between which and the Company Outside Directors/Audit & Supervisory Board Members are mutually appointed (the Audit & Supervisory Board Member himself/herself only)
- Executive of a company or organization that receives a donation from the Company (the Audit & Supervisory Board Member himself/herself only)
- Others



Outside Audit & Supervisory Board Member's Relationship with TOTO (2) [Updated]

Name	Designation as Independent Audit & Supervisory Board Member	Supplementary Explanation of the Relationship	Reasons for Appointment
Masamichi Takemoto	x	Advisor of Nitto Denko Corporation	<p>Mr. Masamichi Takemoto has been involved in the management of Nitto Denko Corporation for many years. He properly performs his duties as an outside member of Audit &amp; Supervisory Board and provides valuable opinions at Meetings of the Audit &amp; Supervisory Board and Board of Directors based on the expertise he has developed in his career as a professional corporate manager. He displays outstanding supervision skills unfettered by the conventional way of doing things in the Company's management.</p> <p>He has experience and knowledge of general management and corporate governance as well as operation of overseas projects, and therefore TOTO proposed his reappointment as Outside Member of Audit &amp; Supervisory Board at the 149th Ordinary general meeting of shareholders. Regarding the appointment of Mr. Takemoto as an Independent Audit &amp; Supervisory Board Member, we have confirmed that there was no conflict of interest according to independence standards set forth by securities exchanges, and that the requirements for the eligibility of Independent Audit &amp; Supervisory Board Members set by TOTO were met. Therefore, Mr. Takemoto was appointed to the position of Independent Audit &amp; Supervisory Board Member based on a resolution by the Board of Directors.</p>

Name	Designation as Independent Audit & Supervisory Board Member	Supplementary Explanation of the Relationship	Reasons for Appointment
Akira Katayanagi	x	Outside Audit & Supervisory Board member of Wacoal Holdings Corp.	<p>Mr. Akira Katayanagi has been involved in the management of financial institutions for many years. He properly performs his duties as an outside member of Audit &amp; Supervisory Board and provides valuable opinions at Meetings of the Audit &amp; Supervisory Board and Board of Directors based on the expertise he has developed in his career as a professional financial and management manager. He displays outstanding supervision skills unfettered by the conventional way of doing things in the Company's management.</p> <p>He has experience and knowledge of general management and corporate governance as well as in finances, and therefore TOTO proposed his appointment as Outside Member of Audit &amp; Supervisory Board at the 147th Ordinary general meeting of shareholders.</p> <p>Regarding the appointment of Mr. Katayanagi as an Independent Audit &amp; Supervisory Board Member, we have confirmed that there was no conflict of interest according to independence standards set forth by securities exchanges, and that the requirements for the eligibility of Independent Audit &amp; Supervisory Board Members set by TOTO were met. Therefore, Mr. Katayanagi was appointed to the position of Independent Audit &amp; Supervisory Board Member based on a resolution by the Board of Directors.</p>

#### [Independent Directors/Audit & Supervisory Board Members]

Number of Independent Directors/Audit & Supervisory Board Members [Updated]	5
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#### Matters Relating to Independent Directors/Audit & Supervisory Board Members

<Our corporate stance on Independent Directors/Audit & Supervisory Board Members of TOTO>  
Since all Outside Directors and Outside Members of the Audit & Supervisory Board are invited to join their respective boards as members who can make decisions materially independent of the management of TOTO and all other specific stakeholders, we designate all Outside Directors and Outside Members of the Audit & Supervisory Board as Independent Directors/Audit & Supervisory Board Members.  
We nominate candidates for Outside Directors and Outside Members of the Audit & Supervisory Board who fully satisfy the Nominating Advisory Committee's Requirements for Independent Directors/Audit & Supervisory Board Members [see (Note) below], the satisfaction of which is set forth by TOTO as a mandatory requirement.  
(Note) Requirements for Independent Directors/Audit & Supervisory Board Members

- a person who has experience in business management above a certain level, or a professional or an external expert in business management (a company owner with significant past achievements, a specialist in the investment banking business, a lawyer, a certified public accountant, a researcher who mainly studies the Companies Act or other acts, or any similar person);
- a person who is not or has not been a Director (except for an Outside Director; the same is applied hereinafter), an Audit & Supervisory Board Member (except for an Audit & Supervisory Board Member, Outside; the same is applied hereinafter), an accounting advisor, an Executive Officer, a manager or any other employee (collectively, the “Director”) of the Company, its Subsidiary or Affiliate Companies (collectively, the “Company Group”);
- a person who is not the spouse or a relative within the third degree of relationship of a current or former Director of the Company Group (except for a person who is not a principal of the Company);
- a person who, during the most recent five years, has not served as a Director in a financial institution that is a major loan provider for the Company Group;
- a person who, during the most recent five years, has not served as a Director in a business associate that has business with the Company Group of 2% or more of the consolidated sales of either such business associate or the Company Group in any fiscal year during the recent five fiscal years;
- a person who is not a lawyer, a certified public accountant, or a consulting or other professional service provider (if such service provider is a corporation, association or other entity, a person who belongs to such entity and a person who belonged to such entity during the most recent five years) who received from the Company Group a compensation totaling 10 million yen or more in any fiscal year during the most recent five fiscal years; or
- a person who is not a Director of a company which is the Company's major shareholder or whose major shareholder is the Company, or who is not a Director of a parent company, subsidiary or affiliate of such company.

#### [Incentives]

Incentive Policies for Directors	Performance-linked Compensation and Stock Options
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#### Supplementary Explanation [Updated]

TOTO pays annual bonuses tied to performance of up to 0.8% of consolidated operating income of the previous fiscal year and grants new share subscription rights as stock compensation-type stock options of up to 200 million yen or 200 units (500 shares per unit) per annum to Directors (excluding Outside Directors). (These initiatives are based on a resolution adopted at the 145th Ordinary General Meeting of Shareholders held on June 29, 2011. The number of shares per new share subscription right is a value adjusted as a result of share consolidation.)

Recipients of Stock Options	Inside Directors
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#### Supplementary Explanation

We have introduced a stock compensation-type stock option to the inside Directors, linked to share prices (a key corporate value indicator) as a medium- to long-term incentive to increase morale and their willingness to contribute to improvements in the share price and the enhancement of corporate value by

sharing with shareholders not only the benefits of rising share prices but also the risks of falling share prices.

## [Directors' Compensation]

Disclosure of Individual Directors' Compensation	Selected Directors
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### Supplementary Explanation

We disclose the total amount of base compensation, annual bonuses, and stock compensation-type stock options for all Directors and Audit & Supervisory Board Members, as well as the sum thereof. Compensation, etc., for Directors and Audit & Supervisory Board Members whose total amount exceeds 100 million yen is individually disclosed in our business reports and securities reports.

Policy on Determining Compensation Amounts and Calculation Methods [Updated]	Established
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### Disclosure of Policy on Determining Compensation Amounts and Calculation Methods

- Policy for determining compensation, etc., for Directors and Audit & Supervisory Board Members  
The maximum amount of compensation for Directors and Audit & Supervisory Board Members is determined respectively for Directors, Outside Directors, and Audit & Supervisory Board Members by resolutions of General Meetings of Shareholders.

A. Compensation for Directors of TOTO comprises the base compensation, an annual bonus, and stock compensation-type stock options. The Compensation Advisory Committee and the Board of Directors confirm that payment is to be made in accordance with the contents and to the extent approved by the General Meeting of Shareholders, and that its decision process and allocation balance of Directors' compensation are reasonable and objective.

Moreover, TOTO has established the Basic Policy for Directors' Compensation as follows:

#### <The Basic Policy for Directors' Compensation>

- (1) The compensation system shall motivate Directors to manage the Company in such a way as to share the common interests with the shareholders, answer to their expectations from a medium- to long-term perspective, realize the corporate philosophy of the TOTO Group, and continuously increase corporate value.
- (2) The compensation system shall be appealing, and attract excellent and diverse human resources to lead the TOTO Group in the future.
- (3) The Compensation Advisory Committee and the Board of Directors shall confirm that its decision process and allocation balance of Directors' compensation are reasonable.

Based on this Basic Policy on Directors' Compensation and the proposals of the Compensation Advisory Committee, the 145th Ordinary General Meeting of Shareholders held on June 29, 2011 approved the limit of base compensation, annual bonuses and stock compensation-type stock options for Directors as follows:

- The total amount of base compensation for Directors: Up to 500 million yen per annum (including an amount of up to 30 million yen in total for Outside Directors)
- The total amount of annual bonuses for Directors (excluding Outside Directors): Up to 0.8% of the previous fiscal year's consolidated operating income

- New share subscription rights issued as stock compensation-type stock options for Directors (excluding Outside Directors): Up to 200 million yen or 200 units (one unit: 500 shares\*) per annum.
- \* The number of shares per new share subscription right is a value adjusted as a result of share consolidation on October 1, 2015.

The annual bonus for Directors shall be divided into a Bonus Based on Single-Year Performance and a Bonus Based on Multi-Year Performance as follows:

- Bonus Based on Single-Year Performance: The amount of payment shall be up to 0.6% of the consolidated operating income for the previous fiscal year.
- Bonus Based on Multi-Year Performance: It shall be paid only if consolidated operating income increase over three consecutive years, and the amount thereof shall be:
  - Up to 0.2% of the consolidated operating income of the previous fiscal year if 100% or more of the consolidated operating income target (published value) for the beginning of the fiscal year has been achieved; or
  - Up to 0.1% of the consolidated operating income of the previous fiscal year if 80% or more, but less than 100%, of the consolidated operating income target (published value) for the beginning of the fiscal year has been achieved.

In the event that the consolidated net profit for the previous fiscal year turns into a deficit, no annual bonus for Directors shall be paid.

As for Outside Directors, who are independent in position from the execution of business, only base compensation shall be paid.

- B. Compensation for Audit & Supervisory Board Members consists of base compensation. The 145th Ordinary General Meeting of Shareholders held on June 29, 2011 approved that the total amount of base compensation for Audit & Supervisory Board Members shall not exceed 150 million yen per annum. The base compensation for individual Audit & Supervisory Board Members is determined depending on his/her duties and responsibilities upon consultation with Audit & Supervisory Board Members.

### **[Supporting System for Outside Directors and/or Audit & Supervisory Board Members]**

(Outside Directors)

- The Secretary's Office and the Management Planning Department provide support for Outside Directors.
- The Management Planning Department, the secretariat of the Board of Directors, distributes the notification of upcoming Meetings of the Board of Directors and materials in advance and explains matters to be discussed at the meetings to Outside Directors so that they can participate in the discussions on the basis of the actual status.

(Outside Members of the Audit & Supervisory Board)

- The Audit & Supervisory Board Office provides support for Outside Members of the Audit & Supervisory Board.
- For proposals by the Board of Directors, the Audit & Supervisory Board Office distributes the notification of upcoming Meetings of the Board of Directors and materials in advance and explains matters to be discussed at the meetings to Outside Members of the Audit & Supervisory Board so that they can participate in the discussions on the basis of the actual status. The Office also arranges meetings of the Audit & Supervisory Board and coordinates attendance at major meetings of the Audit & Supervisory Board as well as meetings with Directors and independent accounting auditors.

## **2. Matters Relating to Functions of Business Execution, Auditing, Oversight, Nomination, and Compensation Decisions (Overview of Current Corporate Governance System) [Updated]**

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.

TOTO has adopted the Audit & Supervisory Board system and is building a structure of decision-making, supervision, and more efficient and effective business execution, with the aim of continuously increasing corporate value.

(1) The corporate governance system at TOTO is as follows:

#### **[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.

Directors other than the Chairman of the Board or Outside Directors concurrently hold positions as Executive Officers in order to perform their own business duties as well (Directors and Executive Officers).

TOTO invites Outside Directors, well versed in the management of leading companies respected for their management practices to which the TOTO Group aspires, to receive advice and suggestions on general management issues based on their in-depth knowledge as experienced managers.

The term of office of Directors is one year, which is designed to clearly define their responsibilities.

#### **[Audit & Supervisory Board Members and the Audit & Supervisory Board]**

The Audit & Supervisory Board, which consists of all Audit & Supervisory Board Members, oversees the Directors' execution of duties from the perspectives of legality and appropriateness.

The Audit & Supervisory Board Members attend Meetings of the Board of Directors 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 Directors and streamline the system to ensure the effectiveness of audits. TOTO calls upon Outside Members of the Audit & Supervisory Board specializing in such matters as corporate finance and legal issues, or having deep insight and extensive experience in 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 for Directors' Compensation, in order to contribute to the ensuring of the appropriateness and objectivity of Directors' compensation 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 six outside members including five Independent Directors/Audit & Supervisory Board Members and one Director without the right of representation as an inside member, 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 General Meeting of Shareholders related to the appointment and dismissal of Directors and Audit & Supervisory Board Members, including Outside Directors and Outside Members of the Audit & Supervisory Board.

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 five Independent Directors/Audit & Supervisory Board Members as outside members and Representative Directors as inside members, and the chairperson shall be the President and Representative Director of TOTO.

### [Special Committee]

The Special Committee has been established with the introduction of the Policy for Dealing with Large-Scale Acquisitions of TOTO Ltd. Shares (Takeover Defense Measures; the “Plan”). The purpose of the Special Committee is to make recommendations for the implementation or non-implementation of countermeasures under the Plan in response to the Board of Directors’ inquiries. In order to ensure the fairness and neutrality of the Board of Directors’ decisions, the Committee consists of the Outside Directors of TOTO and the Outside Members of the Audit & Supervisory Board 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 regulations, the Articles of Incorporation, the corporate philosophy and internal regulations.

### [Executive Officer]

To implement decisions made by the Board of Directors effectively and efficiently, TOTO has introduced an Executive Officer system.

### [Management Committee]

TOTO makes important decisions regarding its operations through deliberations at meetings of the Management Committee, which comprises Directors who are also Executive Officers. The meetings of the Committee are, in principle, held twice a month.

## (2) Composition of the Board of Directors and the Audit & Supervisory Board in Fiscal 2016

We believe that in order to supervise business operations and to make important decisions, TOTO’s Board of Directors must be composed of members with diverse perspectives, experience and highly professional skills. Meanwhile, for the purpose of performing the double-check function of supervision by the Board of Directors and of audits by Audit & Supervisory Board Members, Outside Directors need to include not only auditors required by law, but also Directors with voting rights at Meetings of the Board of Directors; and both Audit & Supervisory Board Members and Directors must have considerable independence.

As of the end of June 2016, we have 13 Directors with voting rights at Meetings of the Board of Directors, of whom 10 are Inside Directors with careers in the TOTO Group and three are highly independent Outside Directors.

These members use their respective skills in discussions to make legal and business management decisions and supervise business operations.

The Audit & Supervisory Board consists of two standing members with careers in the TOTO Group and two outside members with a high level of independence, and conducts audits from the perspectives of legality and appropriateness.

### [Composition of the Board of Directors]

Title	Name	Outside	Compensation Advisory Committee	Nominating Advisory Committee	Special Committee
Representative Director	Kunio Harimoto	—	—	x	—
Representative Director	Madoka Kitamura	—	—	x	—
Representative Director	Kiyoshi Furube	—	—	x	—

Title	Name	Outside	Compensation Advisory Committee	Nominating Advisory Committee	Special Committee
Representative Director	Noriaki Kiyota	—	—	x	—
Director	Nozomu Morimura	—	x	—	—
Director	Soichi Abe	—	—	—	—
Director	Yuichi Narukiyo	—	—	—	—
Director	Ryosuke Hayashi	—	—	—	—
Director	Kazuo Sako	—	—	—	—
Director	Taiichi Aso	—	—	—	—
Director	Hiroki Ogawa	x	x	x	x
Director	Kazuhiko Masuda	x	x	x	x
Director	Masatsugu Shimono	x	x	x	x

[Composition of the Audit & Supervisory Board]

Title	Name	Outside	Compensation Advisory Committee	Nominating Advisory Committee	Special Committee
Audit & Supervisory Board Member, Standing	Satoshi Miyazaki	—	—	—	—
Audit & Supervisory Board Member, Standing	Motohiro Oniki	—	—	—	—
Audit & Supervisory Board Member	Masamichi Takemoto	x	x	x	x
Audit & Supervisory Board Member	Akira Katayanagi	x	x	x	—

Note: Compensation Advisory Committee members include an external expert who is appointed as an outside member.

### 3. Reasons for Adoption of Current Corporate Governance System

The TOTO Group considers that an essential aspect of corporate management is ensuring the satisfaction of stakeholders and constantly expanding corporate value by improving objectivity and transparency in management and by clarifying management responsibilities. To achieve this, for matters requiring management decisions, TOTO recognizes the importance of systematizing “who makes decisions about what and where” as well as “what checks are implemented” in a fair and honest manner.

TOTO has adopted the Audit & Supervisory Board system and is building a structure of decision-making, supervision, and more efficient and effective business execution, with the aim of continuously increasing corporate value.

- Clarifying the allocation of management responsibility (introduction of the Executive Officer system and the like)
- Enhancing management transparency and soundness (establishment of the Compensation Advisory Committee and the Nominating Advisory Committee)
- Reinforcing supervisory and auditing functions (nomination of highly independent Outside Directors and Outside Members of the Audit & Supervisory Board)
- Strengthening decision-making functions (establishment of the Management Committee and the like)

In order to strengthen these functions, TOTO has adopted the framework of a company with an Audit & Supervisory Board system as its base while integrating the superior functions of a company with Nomination Committee, etc.



### III. Implementation of Measures for Shareholders and Other Stakeholders

#### 1. Measures to Revitalize the General Meeting of Shareholders and to Ensure the Smooth Exercise of Voting Rights [Updated]

	Supplementary Explanations
Early Notification of General Meeting of Shareholders	2016 performance: Convocation notices were distributed 22 days ahead of the General Meeting of Shareholders. In addition, the notices were published on the web 29 days ahead of the General Meeting of Shareholders.
Scheduling Annual General Meeting of Shareholders to Avoid the Peak Period	TOTO determines the date of the General Meeting of Shareholders so that a large number of shareholders can participate, as well as in consideration of the accounts settlement schedule reflecting the duration needed for compiling financial results information and for performing audits by independent accounting auditors and Audit & Supervisory Board Members.
Allowing the Electronic Exercise of Voting Rights	Electronic voting is possible.
Participation in Electronic Voting Platform	The electronic voting platform operated by ICJ, Inc. for institutional investors is used.
Providing Convocation Notice in English	As a reference material for foreign stockholders, we prepare an English-language version of the convocation notice of the General Meeting of Shareholders and post it on TOTO's English-language website, trust bank websites for institutional investors listing General Meeting of Shareholders' agenda, and other sites.
Other	<ul style="list-style-type: none"> <li>- Business reports are presented in visual materials using visual equipment at the General Meeting of Shareholders.</li> <li>- Documents relating to the General Meeting of Shareholders, including notices thereof, and business report videos are posted on the IR page of TOTO's website.</li> </ul>

#### 2. IR Activities [Updated]

	Supplementary Explanations	Explanation of Representative
Preparation and Publication of Disclosure Policy	<p>TOTO discloses its communication purpose and the policy for responses to investors in the "TOTO Group Communication Policy." The "TOTO Group communication Policy" is as described below:</p> <p>&lt;Purpose&gt; In order to remain a company needed by society, the TOTO Group strives to increase the satisfaction of its stakeholders through communication; to promote prompt and appropriate collection, disclosure, and use of information; and to work in cooperation with the stakeholders.</p> <p>&lt;Text&gt;  <ul style="list-style-type: none"> <li>- The TOTO Group establishes a system of prompt and appropriate collection of all information concerning the Group to actively gather such information.</li> </ul> </p>	

	Supplementary Explanations	Explanation of Representative
	<ul style="list-style-type: none"> <li>- The TOTO Group strives to disclose information that affects both its stakeholders and the Group's corporate value in a fair, timely, and clear manner, irrespective of whether the information pertains to the Group's benefit or disadvantage.</li> <li>- The TOTO Group establishes a system of incorporating information obtained through its communication efforts into its corporate activities, and strives to make effective use of such information.</li> <li>- The TOTO Group complies with applicable laws and regulations when collecting, disclosing, and using information and pays particular attention to the protection of personal and customer information.</li> <li>- The TOTO Group maintains communication based on its IR policy for ensuring transparency and fairness of information disclosed to its investors.</li> <li>- The TOTO Group strives to abide by its policy by inspecting and readjusting such activities when necessary.</li> </ul> <p>TOTO also establishes the "IR Policy" for domestic and overseas shareholders and investors to ensure transparency and fairness. The "IR Policy" is as described below:</p> <p>&lt;Fundamental policy&gt; The TOTO Group discloses information related to the settlement of accounts according to the rules determined by the Tokyo Stock Exchange (TSE), the Financial Instruments and Exchange Act, and other laws and ordinances. Even when not obligated to do so, we proactively disclose information for which disclosure is regarded as useful to all investors and shareholders.</p> <p>&lt;Disclosure methods&gt; Brief Notes on the Settlement of Accounts and information disclosed according to the timely disclosure rules are made publicly available on the TSE Timely Disclosure Network (TDnet). Afterwards, they shall be published on the TOTO website. Information for which the timely disclosure rules do not apply shall be promptly disclosed via the TOTO website. In order to prevent the leakage of information related to the settlement of accounts and ensure fairness, the period from the day after the end of the fiscal period for each quarter until the announcement of the settlement of accounts is regarded as a quiet period in which no comments shall be made on the settlement of accounts and no questions shall be answered. However, the disclosure of information shall be carried out during this quiet period in the case that major changes are expected to occur regarding</p>	

	Supplementary Explanations	Explanation of Representative
	<p>projections of business results.</p> <p>&lt;Cautionary statement concerning forward-looking statements&gt;  Forward-looking statements released by TOTO on future business results are based on available data at the time of announcement. Actual business results may differ from projections due to various factors.</p>	
Regular Investor Briefings for Individual Investors	For individual investors, videos of results briefings for the fiscal year and the second quarter of the fiscal year are available on TOTO's website.	—
Regular Investor Briefings for Analysts and Institutional Investors	TOTO holds briefings at the time of publishing financial results for the fiscal year and the second quarter of the fiscal year. At the results briefing, the management, specifically the President, delivers a report on business results and directly answers questions from the briefing's participants. Additionally, visits to factories and strategy briefings, which are primarily held by the person responsible for business execution, are conducted for the benefit of analysts and institutional investors to give them a better understanding of the Company's businesses.	X
Regular Investor Briefings for Overseas Investors	The management of TOTO, specifically the President, holds meetings for each overseas investor in Asia, Europe and the United States. TOTO also attends conferences for overseas institutional investors sponsored by securities companies to hold briefings and meetings, undertaken by the management.	X
Posting of IR Materials on Website	URL (in Japanese): ( <a href="http://www.toto.co.jp/company/ir/">http://www.toto.co.jp/company/ir/</a> ) URL (in English): ( <a href="http://www.toto.co.jp/en/company/ir/index.htm">http://www.toto.co.jp/en/company/ir/index.htm</a> ) In addition to settlement information, timely disclosure materials other than settlement information (securities reports, results briefing materials, and notices of the General Meeting of Shareholders) and other reports, we distribute videos of briefings to investors who are unable to attend the briefings, and also post the question and answer session held on the same day. In order to disclose such content as brief notes on the settlement of accounts and results briefing materials in a timely and fair manner, we post the English version at the same time as the Japanese version is disclosed.	
Establishment of Department and/or Appointment of Manager in Charge of IR	The President has been appointed the supervisory officer in charge of IR according to a decision by the Board of Directors. The Management Planning Department has been established under the Management Planning Division, which reports directly to the President. The person in this department is in charge of IR.	
Other	Mainly aimed at individual investors, we post articles entitled "TOTO Topics" on our website and also provide detailed information on our business operations in notifications of the General Meeting of Shareholders for	

	Supplementary Explanations	Explanation of Representative
	further understanding of our business. URL: ( <a href="http://www.toto.co.jp/company/ir/reference/report/index.htm">http://www.toto.co.jp/company/ir/reference/report/index.htm</a> )	

### 3. Measures to Ensure Due Respect for Stakeholders [Updated]

	Supplementary Explanations
Stipulation of Internal Rules for Respecting the Position of Stakeholders	<p>The Charter of TOTO Group Corporate Behavior* prescribes a definition of stakeholders and sets forth measures to ensure due respect for stakeholders.</p> <p>* The Charter of TOTO Group Corporate Behavior was revised on June 27, 2013.</p> <p>URL: (<a href="http://www.toto.co.jp/en/company/profile/philosophy/group/index.htm">http://www.toto.co.jp/en/company/profile/philosophy/group/index.htm</a>)</p>
Implementation of Environmental Activities, CSR Activities, etc.	<p>In 1991, the Environmental Conservation Committee was established, and a global environmental conservation action plan was developed. TOTO has continued its environmental conservation activities since then.</p> <p>In 2010, we launched the “TOTO GREEN CHALLENGE” initiative to accelerate our long-standing environmental activities.</p> <p>In 2014, to further develop our activities on a global scale, we developed the new TOTO Global Environmental Vision and are working to resolve environmental issues.</p> <p>URL: (<a href="http://www.toto.co.jp/en/company/environment/index.htm">http://www.toto.co.jp/en/company/environment/index.htm</a>)</p> <p>TOTO commenced its corporate social responsibility (CSR) activities in 2004, with the establishment of the CSR Committee and a division dedicated to the promotion of CSR (the CSR Activity Division). In 2011, the CSR Activity Department was placed under the control of the Management Planning Division and renamed the ESG (Environment, Society, and Governance) Promotion Department in order to strategically integrate business and CSR activities.</p> <p>URL: (<a href="http://www.toto.co.jp/en/company/csr/management/structure/index.htm">http://www.toto.co.jp/en/company/csr/management/structure/index.htm</a>)</p>
Development of Policies on Information Provision to Stakeholders	<p>The TOTO Group Communication Policy stipulates a policy on providing information.</p> <p>URL: (<a href="http://www.toto.co.jp/en/company/profile/philosophy/policy/index.htm">http://www.toto.co.jp/en/company/profile/philosophy/policy/index.htm</a>)</p>
Other	<p>&lt;Policy and initiatives to empower female personnel&gt;</p> <p>Women in management positions accounted for 6.9% of all employees as of fiscal 2015. TOTO aims to raise this figure to 10% by fiscal 2017, the 100th anniversary of its founding. Efforts for achieving this goal include the continuous hiring of women as well as introducing systems that enable female employees to experience important life events while continuing their employment (e.g., leave of absence for spouse’s overseas job transfer), as well as a new leave system aimed at promoting male employees’ participation in housework and childcare.</p>

	Supplementary Explanations
	<p>We are also promoting various stratified programs for each position with the aim of supporting the active participation of women and improving skills. In Japan, we offer an array of career paths mainly for female contract employees with a certain amount of experience to become permanent employees and much more.</p> <p>In addition, in 2015, we held a kickoff party for supporting the success of women in the workplace to share the company president's message to make efforts in raising awareness within the group and creating climate from the top down.</p>

#### **IV. Matters Related to Internal Control System**

##### **1. Basic Views on Internal Control System and the Progress of System Development [Updated]**

The following provides the content of the system for ensuring appropriate work practices (Internal Control System) and the outline of the operational status for fiscal 2015 under the system:

- (1) System for ensuring that the execution of duties by Directors complies with laws and regulations and with the Articles of Incorporation
- TOTO has established, and complies with, the TOTO Group Corporate Philosophy, Charter of TOTO Group Corporate Behavior, and TOTO Group Rules for Compliance Promotion Management.
  - TOTO has established Rules for the Directors and Board of Directors and Rules for System for Formal Approval, and makes decisions and executes operations that conform to laws and regulations of the countries in which TOTO Group companies are located and the Articles of Incorporation.
  - TOTO has appointed Outside Directors to strengthen operational oversight by its Board of Directors and to ensure transparency of its decision-making.
  - TOTO has prepared and is updating the Directors' Compliance Guidelines to inform all of its Directors of laws and regulations requiring their particular attention as Directors.
  - TOTO has established the TOTO Group Rules for Public Communications, in order to disclose not only information required by laws and regulations of the countries in which its businesses are located, but also information affecting stakeholders, in a fair, timely and comprehensible manner.

[Outline of the operational status]

The Philosophy system for TOTO Group management has been formulated as a foothold for all business activities. Directors comply with the laws and regulations and articles of incorporation in accordance with the TOTO Group Rules for Compliance Promotion Management.

At Meetings of the Board of Directors, TOTO has appointed two Outside Directors who are independent of the company to ensure fairness, objectivity and transparency to receive various advices and suggestions for the company's general management.

In order to remain as a corporation needed by society, we strive to improve the satisfaction of stakeholders through communication and to ensure proper and fast information collection, display, and utilization by working with stakeholders.

- (2) System for storing and managing information relating to the Directors' execution of duties
- TOTO appropriately and reliably stores and manages the minutes of Meetings of the Board of Directors and the Management Committee, as well as Request for Formal Approval, as information associated with the Directors' execution of duties under Rules for the Board of Directors, Management Committee and Rules for the System for Formal Approval in writing or as electromagnetic records so that they can be easily retrieved. The information is available for inspection for up to a period of 10 years.

[Outline of the operational status]

TOTO stores and manages the minutes of Meetings of the Board of Directors and Management Committee, and Requests for Formal Approval in the state available for inspection for up to a period of 10 years in writing or as electromagnetic records under the rules and regulations.

- (3) Rules for the management of the risk of loss and other systems
- TOTO has established the TOTO Group Rules for Risk Management to prevent crises from occurring, to quickly resolve crises that have occurred and to minimize damage thereof, as well as to prevent them from recurring.
  - TOTO has set up the Risk Management Committee, headed by its Representative Director, to identify and manage risks relating to the execution of the businesses and operations of the TOTO Group. TOTO has also established a division to manage and control specific risks and has been running risk simulations to develop and maintain its risk management system.

[Outline of the operational status]

At the Risk Management Committee held four times annually, critical risks that may impact greatly on stakeholders are extracted. The General Manager of Risk Management was appointed to each risk to promote the prevention of risks beforehand. The critical risks extracted were evaluated by a matrix method for their impact level and occurrence frequency from the perspectives of defamation, personal influence, and monetary impact according to the envisaged scenarios. The Risk Management Committee conducted monitoring with top risk items as the most important risks to promote risk reduction activities as a whole.

(4) System for ensuring the efficient execution of duties by Directors

- By holding regular monthly Meetings of the Board of Directors and extraordinary Meetings of the Board of Directors as necessary, TOTO has engaged in full deliberation with regard to making decisions on important business execution.
- Issues of a certain level of importance in business execution that do not need to be approved by the Board of Directors have been approved through deliberation by the Management Committee (held twice a month, in principle), consisting of executive Directors.
- TOTO has introduced the Executive Officer system to achieve faster decision-making in operations and to clarify management responsibility.
- TOTO has established Rules for Policy Management and ensures that business policies are adopted in all divisions in order to achieve its business goals.
- TOTO has set forth Office Organization Rules, Rules for Description of Duties and Rules for Meetings and Committees to define authority and responsibilities in office organization, operational structure, meetings and committees, and to streamline operations and improve efficiency.

[Outline of the operational status]

The Board of Directors held a meeting once a month to discuss and approve significant deals in a timely manner. Significant deals and related issues are discussed and prioritized at Management Committee meetings prior to discussion at Meetings of the Board of Directors. Materials are distributed in advance and explanations concerning such matters are provided. This allows enough time for the Board of Directors to engage in active discussion at Meetings of the Board of Directors. The decisions made at the Board of Directors are developed based on the Rules for Policy Management to confirm that the decisions are executed rationally and efficiently through the Executive Officer system. The achievement status is also confirmed at the meetings of the Board of Directors on a monthly basis.

(5) System for ensuring that employees' execution of duties complies with laws and regulations and the Articles of Incorporation

- TOTO has established the TOTO Group Corporate Philosophy, Charter of TOTO Group Corporate Behavior, and TOTO Group Rules for Compliance Promotion Management and ensures that all people working for the TOTO Group perform their duties based on laws and regulations of the countries in which its businesses are located and the Articles of Incorporation.
- TOTO has established the Compliance Committee, headed by its Representative Director and Internal Audit Office, which is independent of operational divisions, and endeavors to develop and maintain the compliance system for the entire TOTO Group under the direction of the President.
- TOTO has been taking steps to raise the compliance awareness of all people working for the TOTO Group through the distribution of compliance manuals, training at each office and e-learning, among other means.
- TOTO has established and operates the Whistle-Blowing System through its internal compliance division and an external third-party organization, which allows all employees of the TOTO Group and people associated with its business relationships to report violations of laws and regulations or acts of violations of other compliance guidelines of the countries in which they are located, without receiving disadvantageous treatment.

[Outline of the operational status]

The Compliance Committee, which is held four times annually, incorporates the confirmation and approval process of annual plans and implementation results for compliance education and monitoring on a global basis. This allows more effective and highly transparent activities of promoting compliance.

TOTO created the TOTO Group Business Conduct Guidelines (translated into 13 languages), which summarizes the Corporate Philosophy, Top Commitment and Behavior Policy to facilitate the promotion of behaviors required for TOTO's Group employees working in each country and region and distributed to overseas group companies. In addition, in order to penetrate compliance to each employee, we offered training and e-learning to newly-appointed general managers and managers, group company presidents, and new employees. In addition, TOTO Group has a whistle-blowing contact center for compliance issues operated by the third party. The names of reporters and other personal information are strictly protected. The similar whistle-blowing system is in operation overseas.

- (6) System for ensuring appropriate work practices in the TOTO Group, consisting of TOTO and its subsidiary companies
- The above “(3) Rules for the management of the risk of loss and other systems” and “(5) System for ensuring that employees’ execution of duties complies with laws and regulations and the Articles of Incorporation” also apply to TOTO Group companies.
  - To ensure the reliability of financial reports, TOTO has developed and operates and evaluates its internal control of financial reporting, thereby improving business operations.
  - To ensure appropriate work practices in the TOTO Group, TOTO has established “Rules for the Operation of Group companies, affiliates, etc.,” which require Group companies to request TOTO's Formal Approval for decisions or the prior approval of TOTO, or to submit prior reports to TOTO when making decisions about important management issues for Group companies.
  - To ensure effective business execution within the TOTO Group, TOTO has appointed the division with the closest relationship to the business of a Group company as its controlling division, and instructs the general manager of the division to monitor the status of business activities of such company and to provide necessary guidance and assistance.
  - TOTO dispatches Directors or Audit & Supervisory Board Members to Group companies, aiming to bolster the governance of Group companies and to monitor their management.

[Outline of the operational status]

Based on the TOTO Group Rules for the Operation of Group companies, Affiliates, etc., TOTO is developing the internal rules for each group company and requires Group companies to request TOTO's Formal Approval for decisions or the prior approval of TOTO when making decisions about important management issues for Group companies. Also, to ensure proper and effective business execution within the TOTO Group, TOTO has appointed the division as its controlling division to dispatch directors and audit & supervisory board members and to provide necessary guidance and assistance.

Internal Audit Office conducts internal audit of the group companies and receives audit reports from the audit & supervisory board members of each group company to confirm the effectiveness of internal control.

- (7) Matters relating to employees to assist the work of Audit & Supervisory Board Members and relating to independence of such employees from Directors, and relating to ensuring the effectiveness of instructions by Audit & Supervisory Board Members to such employees
- TOTO has established the Audit & Supervisory Board Office, to assist the work of the Audit & Supervisory Board Members, independent of its executive organization, which reports directly to the Audit & Supervisory Board Members. Full-time assistants to the Audit & Supervisory Board Members, including management-level members, are assigned to the Audit & Supervisory Board Office.
  - Transfer, evaluation and other matters concerning the audit assistants are determined with the consent of the Audit & Supervisory Board Members.

[Outline of the operational status]

TOTO has appointed four full-time assistants to the Audit & Supervisory Board Members at the Audit & Supervisory Board Office, to assist the work of the Audit & Supervisory Board Members, which reports directly to the Audit & Supervisory Board Members. In addition, transfer, evaluation and other matters



concerning the audit assistants were determined with the consent of the Audit & Supervisory Board Members.

- (8) System for Directors and employees to report to Audit & Supervisory Board Members and other systems associated with reporting to Audit & Supervisory Board Members
- Directors and divisions in charge regularly report the following matters to the Audit & Supervisory Board Members:
    - a. Business conditions, results and forecasts of the TOTO Group
    - b. Occurrence of significant crises
    - c. Operational status of the Whistle-Blowing System and matters reported.
  - The following systems have been established so that the Audit & Supervisory Board Members are able to obtain information necessary for audits in a timely manner:
    - a. Inspection of important documents relating to business execution, including any request for Formal Approval of TOTO and Group companies
    - b. Participation in important meetings, including Management Committee and the Sales and Production Steering Meetings
    - c. Feedback from Directors and Audit & Supervisory Board Members, among others, with regard to the business status of Group companies
    - d. Collecting information necessary for performing duties appropriately.

[Outline of the operational status]

The Audit & Supervisory Board Members were requested to participate in important meetings and committees, such as Meetings of the Board of Directors, to inspect important documents relating to business execution, including any request for Formal Approval. Directors and divisions in charge regularly report the following matters to the Audit & Supervisory Board Members as needed. Through this, business conditions, results, and forecasts of the TOTO Group, as well as the occurrence of significant crises were reported to Audit & Supervisory Board Members.

- (9) Matters relating to policies for procedures for prepayment or reimbursement of expenses incurred when Audit & Supervisory Board Members execute their duties and for other procedures involving expenses or obligations incurred upon execution of such duties
- TOTO pays or reimburses expenses, as necessary, for the execution of duties by the Audit & Supervisory Board Members upon request.

[Outline of the operational status]

Procedures for prepayment or reimbursement of necessary expenses or obligations incurred upon execution of duties by Audit & Supervisory Board Members were properly executed by the Audit & Supervisory Board Members upon request.

- (10) Other systems for ensuring effective auditing by Audit & Supervisory Board Members
- The following opportunities facilitate communication between the Audit & Supervisory Board Members and Directors, each division and each Group company for the appropriate execution of their duties.
- a. Providing an audit policy, an audit plan and audit results to the Board of Directors of TOTO
  - b. Exchanging opinions with Directors of TOTO
  - c. Exchanging information with divisions that the Audit & Supervisory Board Members consider necessary for carrying out appropriate audits, inter alia, the Internal Audit Office, the Management Planning Department and the Accounting & Finance Division

[Outline of the operational status]

The Board of Directors received reports of audit policies, audit plans, and audit results from Audit & Supervisory Board Members at Meetings of the Board of Directors. The Board of Directors and Audit & Supervisory Board Members regularly exchange opinions.

The Internal Audit Office, the Accounting & Finance Division, etc., regularly hold liaison meetings with the Audit & Supervisory Board Members to exchange information.

## **2. Basic Views on Eliminating Antisocial Forces**

The Charter of TOTO Group Corporate Behavior stipulates that the TOTO Group will deal decisively with antisocial forces.

In addition, in dealing with antisocial forces, the TOTO Group stipulates the following items in TOTO Group Rules for Risk Management:

- Supervising department: General Affairs Division
- Collaboration with relevant police stations and prompt consultation with corporate lawyers
- Gathering information from consultation centers regarding criminal interference in civil affairs
- Keeping employees informed on how to deal with antisocial forces in accordance with a corporate defense manual

## V. Other

### 1. Adoption of Anti-takeover Measures

Adoption of Anti-takeover Measures	Adopted
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#### Supplementary Explanation [Updated]

In order to enable shareholders to make an appropriate judgment on selling TOTO's shares in response to a large-scale acquisition (i.e., whether or not to accept the acquisition), we believe it is necessary to provide sufficient information, including information from the takeover bidder, information concerning the effects of the acquisition on TOTO, necessary and sufficient information on management policies and business plans implemented following the takeover bidder's joining the management of TOTO, as well as the evaluation and opinions of TOTO's Board of Directors regarding the large-scale acquisition.

Therefore, with an aim toward contributing to the improvement of TOTO's corporate value and to protecting shareholders' common interests, we have introduced the Policy for Dealing with Large-Scale Acquisitions of TOTO Ltd. Shares (Takeover Defense Measures) (hereinafter referred to as the "Plan").

The Plan requires takeover bidders to follow the proper procedures when conducting a large-scale acquisition. At the same time, if a large-scale acquisition is carried out without following the proper procedures, or if a large-scale acquisition is carried out according to the proper procedures and is nonetheless deemed to be damaging significantly to TOTO's corporate value and shareholders' common interests, the Plan proposes, as a countermeasure against such acquisition, to allot new share subscription rights to shareholders without requiring them to make additional contributions as of a date specified by TOTO's Board of Directors, by means of allotting new share subscription rights without contribution (defined in Article 277 et seq. of the Companies Act).

New share subscription rights allotted according to the Plan (the "Acquisition Rights") shall be attached (1) on the condition that the takeover bidder or parties related to the bidder are prohibited to exercise the options and (2) on the condition that TOTO's shares shall be allotted to shareholders other than the takeover bidder and parties related to the bidder in exchange for Acquisition Rights.

For details on the Plan, please refer to TOTO's press release dated May 20, 2016, "Revision of the Policy for Dealing with Large-Scale Acquisitions of the Company's Shares (Takeover Defense Measures)" ([http://www.toto.co.jp/en/company/ir/securities/pdf/2016\\_0602\\_3.pdf](http://www.toto.co.jp/en/company/ir/securities/pdf/2016_0602_3.pdf)).

In accordance with the Companies Act and the Ordinance for Enforcement of the Companies Act, the Board of Directors adopted the following resolution regarding the basic policy on the control of TOTO Group companies.

<Basic policy regarding persons who control decisions on TOTO's financial and business policies (overview)>

TOTO believes that persons who control decisions on its financial and business policies should fully understand the business characteristics of the TOTO Group and the sources of TOTO's corporate value, and be able to ensure and enhance its corporate value and the common interests of shareholders from a medium- to long-term perspective.

Since its founding in 1917, TOTO has consistently pursued the implementation of its philosophy to "contribute to the betterment of society" through its business operations. Among the efforts for creating and offering an enriched and more comfortable lifestyle and culture built on its plumbing products, TOTO has carried out comprehensive business activities to create and provide corporate value through long-term investment in necessary facilities and personnel as well as continuous R&D and market development efforts. Such comprehensive activities include the development of power and water-saving technology that promotes "care for the environment" as well as raw materials that allow realization of "cleanliness and comfort" and "universal design," and before- and after-sales service programs that provide "safety and security" in the Japanese markets.

Currently, TOTO is fulfilling its responsibilities for the supply of bathroom and kitchen fixtures as a result of establishing itself in the Japanese market for such products. We are also endeavoring to further increase our value through the development of global markets, mainly Americas and Asia, by making full

use of the business model that TOTO has established in the Japanese market. TOTO's continuous and extensive contribution to the betterment of society for nearly 100 years since its founding has secured the current corporate value and interests of shareholders.

In order to continue to meet the expectations of its stakeholders, including shareholders who hold TOTO's shares, TOTO, as a publicly held corporation, believes it necessary to realize sustained improvement of the corporate value that TOTO has built and the common interests of shareholders over the long term without impairment.

In the event that a large-scale acquisition of TOTO's shares is conducted by any specific persons or groups, TOTO should provide with information and ensure the time necessary for shareholders to make a decision on whether or not the acquisition would lead to the enhancement of TOTO's corporate value and the common interests of shareholders. If it is determined that it would not, TOTO should carry out certain countermeasures against the purchasers in order to protect all shareholders who have supported TOTO's corporate value. To enable us to undertake such responses, TOTO considers it necessary to have a policy in place that deals with large-scale acquisitions of its shares.

## **2. Other Matters Concerning Corporate Governance System [Updated]**

### **[Overview of the Timely Disclosure System]**

#### **[Basic stance on timely disclosure]**

The TOTO Group states in the "TOTO Group Communication Policy" that it strives to increase the satisfaction of its stakeholders through communication in order to remain a company needed by society, to promote prompt and appropriate collection, disclosure and use of information, and to work in cooperation with its stakeholders.

The "TOTO Group Communication Policy" and the "IR Policy" are stated in "2. IR Activities" of "Implementation of Measures for Shareholders and Other Stakeholders" in this report.

#### **[Internal system for ensuring timely disclosure]**

The TOTO Group's internal system for ensuring timely disclosure is as described below:

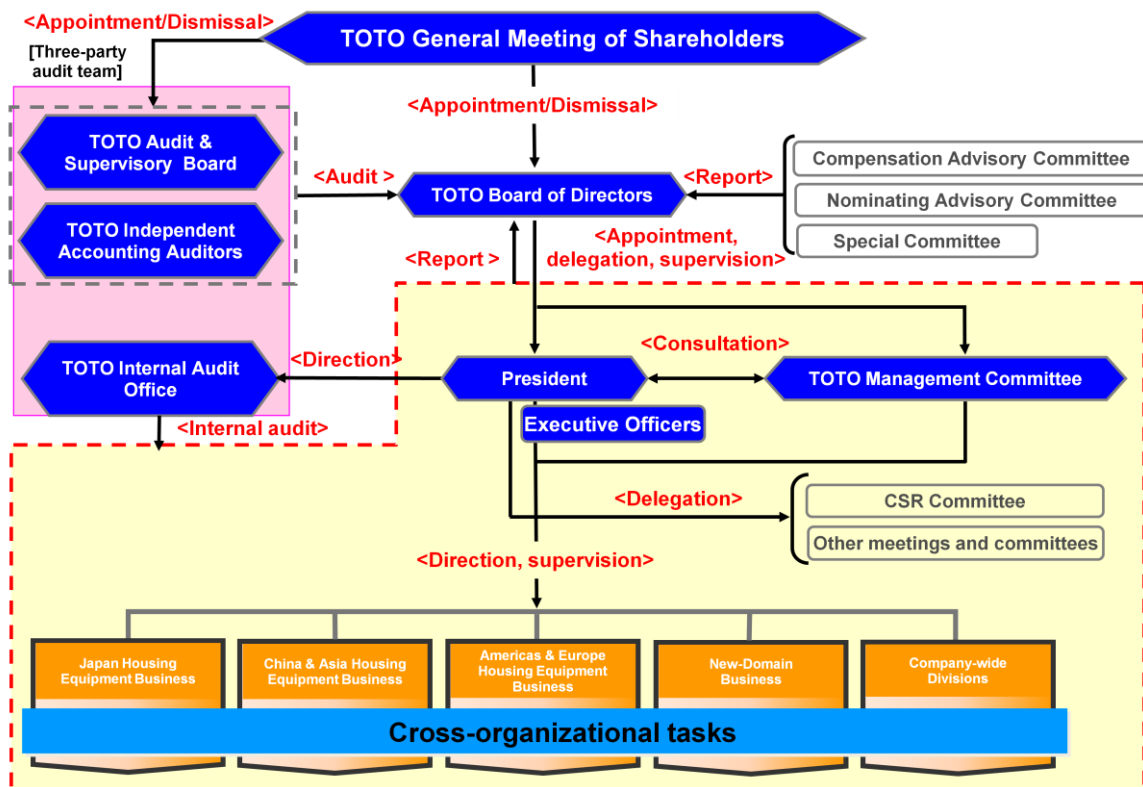
#### **(1) Disclosure of information on decisions made and settlement information**

- (i) Related divisions of the TOTO Group identify and understand important information.
- (ii) Related divisions report to the Board of Directors and the Management Planning Department, the secretariat of the Management Committee.
- (iii) Determine the necessity for disclosing information at the Information Disclosure Study Meeting, periodically held (once a month, in principle) by the Management Planning Department, and details and method of information disclosure.
- (iv) The Internal Audit Office and Audit & Supervisory Board Members (the Audit & Supervisory Board Office) monitor the Information Disclosure Study Meeting.
- (v) The Management Planning Department reports and makes a proposal on the necessity for information disclosure to the Board of Directors and the Management Committee.
- (vi) Determine the necessity for information disclosure at meetings of the Board of Directors and the Management Committee
- (vii) The division in charge of information disclosure discloses the information.

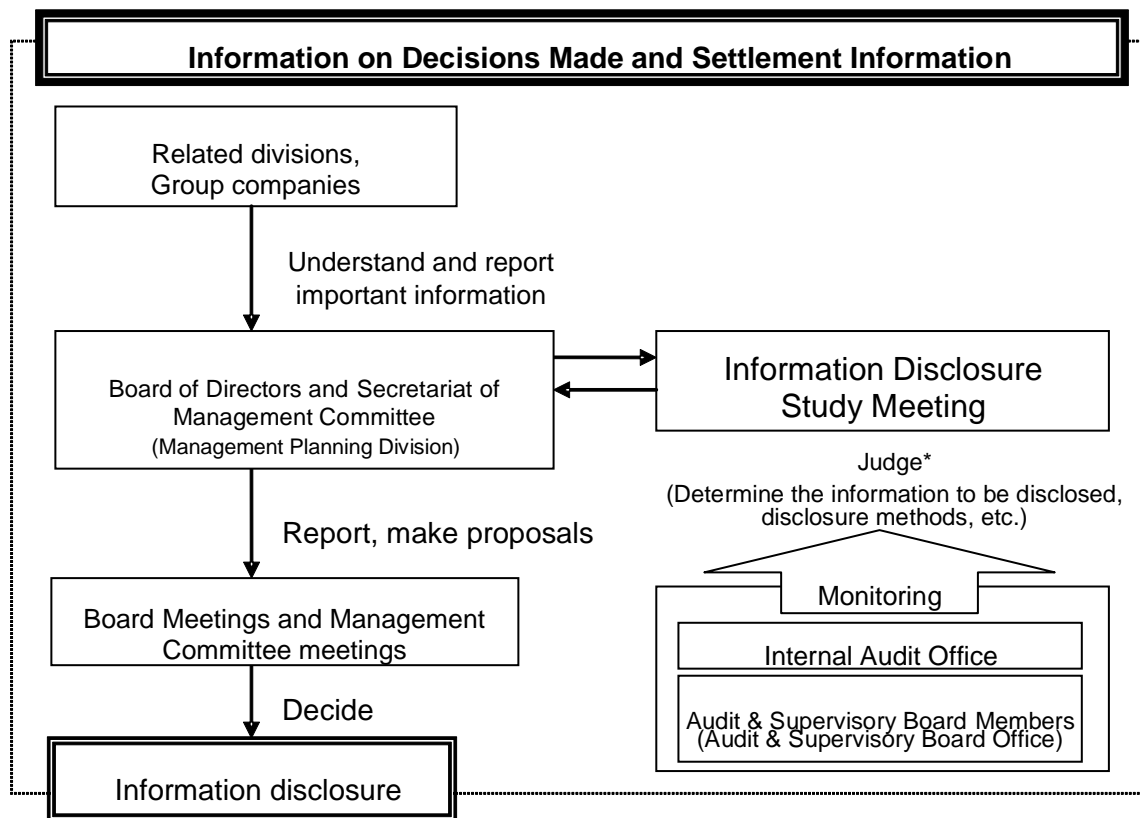
#### **(2) Disclosure of information on the events occurred**

- (i) Related divisions of the TOTO Group identify and understand the events occurred.
- (ii) The related divisions report on the events to the General Affairs Division, the secretariat of the Risk Management Committee.
- (iii) The General Affairs Division determines the response level.
- (iv) Emergency headquarters, etc., determines the necessity for information disclosure upon communication with the secretariat of the Risk Management Committee and related divisions.
- (v) The division in charge of information disclosure discloses the information.

**[Reference: System Diagram of Corporate Governance and Business Operations] (FY2016)**



## [Overview of the Timely Disclosure System]



\* The Management Planning Division, General Affairs Division, Accounting & Finance Division, and Legal Affairs Division shall confirm and review the content. They shall consult with each division in charge of the relevant important information or with external experts as needed.

