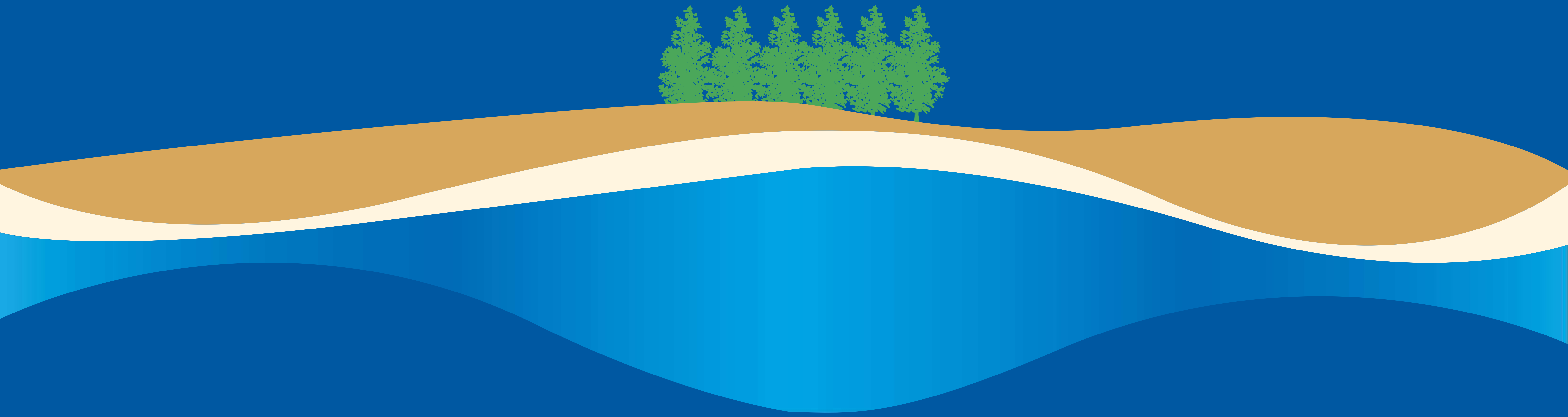
Water is an essential resource in our lives. Water is important to everyone, regardless of their ethnic background, country of origin, history, or culture. Most of the fresh water on planet earth is stored in ice around the North and South Poles, and the fresh water in rivers and lakes is only 0.01% of the total amount available for our use. Through water-conservation technology, TOTO is committed to making our lives more comfortable and abundant through the effective use of our precious water resources.

TOTO

ANNUAL REPORT 2006



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Published : September 2006

Aiming to Be a Lifestyle Environment Company

Profile

TOTO LTD., established in 1917, has built a reputation for reliability as Japan's largest manufacturer of plumbing-related equipment. The Company's product lineup ranges from sanitary ware, faucets and washbasins to unit bathrooms and modular kitchens. Over the past 30 years, TOTO has shipped approximately 150 million plumbing-related products, reaching 70% of households in Japan. We have extended our reach overseas, focusing primarily on high-quality, high-performance toilets, and enjoy a strong share of the high-end sanitary ware markets in China and the United States.

Financial Highlights

TOTO LTD. and consolidated subsidiaries
Years ended March 31, 2004, 2005 and 2006

	2004	2005	**2006**	**2006**
	Millions of yen		Millions of yen	Thousands of U.S. dollars
For the year:				
Net sales	¥ 467,925	¥ 484,192	**¥ 494,785**	**$ 4,212,011**
Operating income	27,434	30,419	**25,164**	**214,216**
Net income	11,732	13,059	**12,997**	**110,641**
At the year-end:				
Total assets	¥ 462,622	¥ 460,950	**¥ 474,824**	**$ 4,042,087**
Net shareholders' equity	189,857	199,372	**221,466**	**1,885,298**
	Yen		Yen	U.S. dollars
Basic net income per share	¥ 33.63	¥ 37.29	**¥ 37.12**	**$0.32**
Cash dividends per share	11.00	11.50	**12.00**	**0.10**

Note: U.S. dollar amounts are stated for convenience only, using the exchange rate prevailing on March 31, 2006: ¥117.47=US$1.

Forward-Looking Statements

This annual report contains forward-looking statements, including information about business plans, earnings forecasts and strategies. Such statements reflect TOTO management's estimates and assumptions based on information available at the time of writing. The accuracy of such statements is inherently uncertain because it is affected by future macroeconomic trends and business environment developments, including consumption trends and competitive challenges.

CUISIA, high-end modular kitchen launched in September 2005, realizes sophisticated home interior design

Contents

Scope of this report:
TOTO LTD. and Group Companies
Applicable period:
Fiscal 2005 (April 1, 2005 to March 31, 2006)
Note: This report also contains some information outside the applicable period.

A Message from the President

TOTO—A Company Indispensable to Customers, Shareholders and Society

Teruo Kise, President

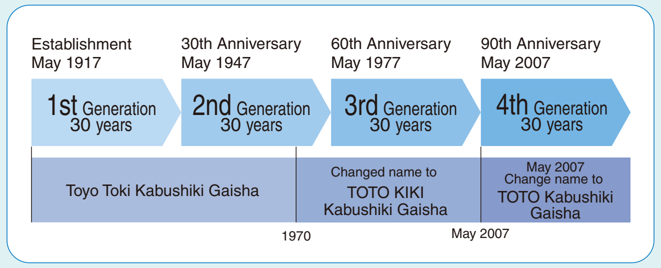
Keeping TOTO's Founding Spirit Alive

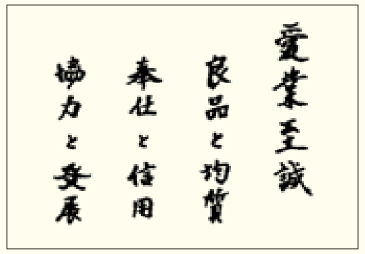
Driven by the simple desire to improve the lifestyles of Japanese people and to provide healthy and cultured lifestyles, TOTO began its business in 1917 with the production of flushing toilets in an era when Japan still had no sewage systems.

Eighty-nine years have since passed, and considering every 30-year period since then to be one generation, TOTO's first and founding generation was an era of sanitary ware.

TOTO's second generation was marked by new operations in bathrooms and lavatories. Approaching the end of this generation, the corporate name was changed in 1970 to its current form, TOTO LTD. (in Japanese, TOTO KIKI Kabushiki Gaisha), from Toyo Toki Co., Ltd. (in Japanese, Toyo Toki Kabushiki Gaisha), representing the Company's determination for full-scale entry into these new business fields.

The third generation, from 1977 to 2006, was the era when TOTO expanded its business to include household fixtures. Through this expansion, TOTO has continuously introduced a variety of products aimed at customer lifestyle enhancement, including: the Washlet, a heated toilet seat unit with warm-water bidet functions; the Shampoo Dresser, an extra-wide

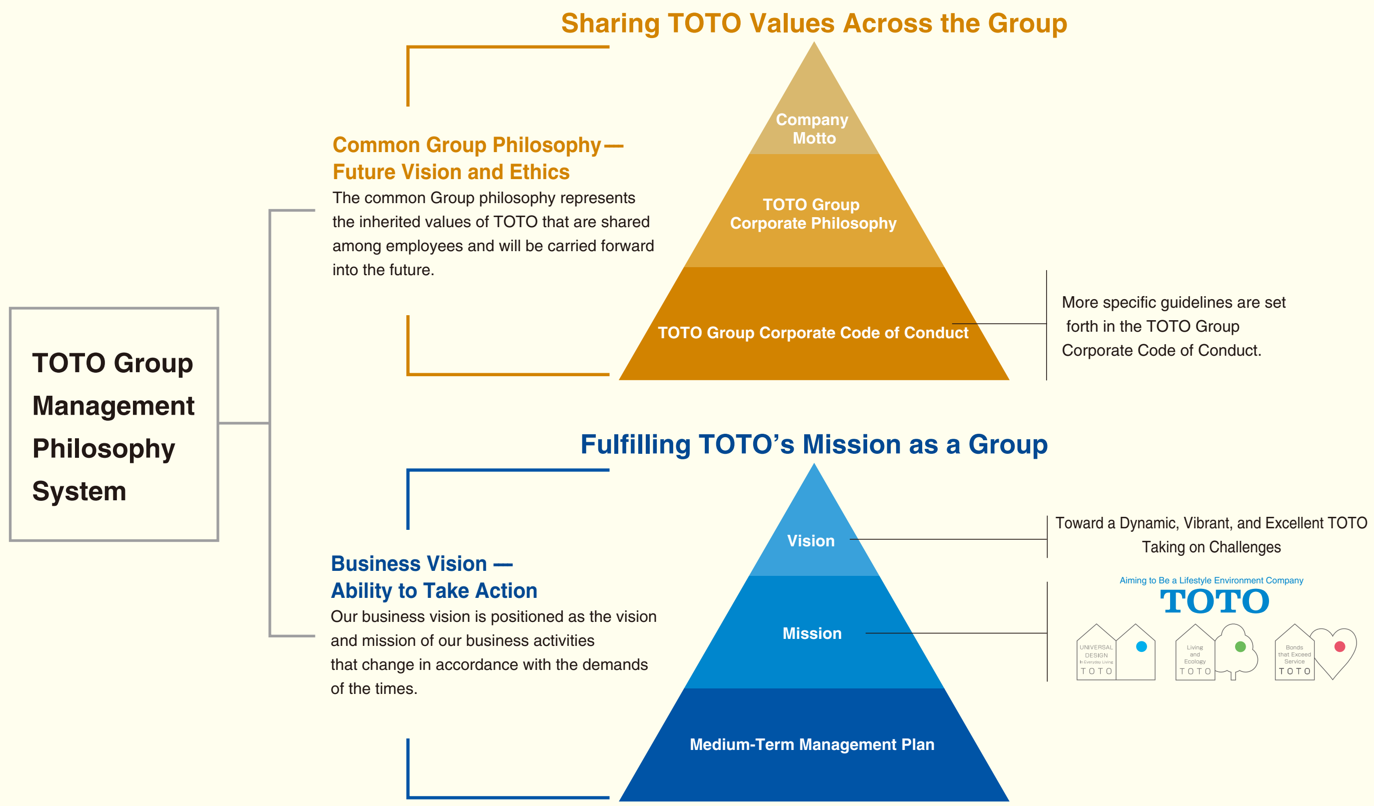




Take pride in your work,
and strive to do your best
High-quality and homogeneous products
Service and trust
Cooperation and progress

Company Motto—Steadfast Throughout Time

In 1962, TOTO created its company motto to distinguish the tone of its future business activities while continuing to respect its origins and traditions. "Take pride in your work, and strive to do your best" embodies our determination to contribute to the advancement of society and improve the lifestyles of customers with a strong service mentality.



washbasin suited for shampooing hair; and the Itawari Bathtub, specially designed with consideration for use by the elderly. In addition, TOTO successfully commercialized the world's first direct-vent tankless toilet bowl in 1993 with its first NEOREST model, and has continued to upgrade this lineup and the functions of its products ever since. Meanwhile, TOTO's unit bathrooms and modular kitchens continue to increase in popularity.

Over the years, while revising its business stance in response to the changing times, TOTO has consistently adhered to its founding corporate philosophy: "to create a great company, trusted by customers, shareholders and society, and to contribute to the betterment of society."

Overview of Fiscal 2005: Fourth Consecutive Year of Growth, with Sales Reaching a Record High for the Second Consecutive Year

TOTO makes every effort to alleviate its management's reliance on new housing demand by strengthening the remodeling and overseas businesses.

In fiscal 2005, ended March 31, 2006, net sales rose 2.2% year on year to a record high of ¥494.8 billion, achieving our fourth consecutive year of growth. On the other hand, operating income decreased 17.3% to ¥25.2 billion. This was the result of a 4% dip in new housing sales, which were impacted by changes in the demand structure that has shifted to lower-priced general products, and to TOTO's mainstay remodeling business that hovered at a growth rate of 4%.

In fiscal 2006, ending March 31, 2007, TOTO will work to establish a platform for new business growth to welcome the arrival of a new era—TOTO's fourth generation. Along with these efforts, TOTO will bolster every major policy under promotion, including strengthening the remodeling and overseas businesses toward major achievements, aiming for net sales of ¥510.0 billion and operating income of ¥33.5 billion.

Celebrating Our 90th Anniversary in 2007 The Evolution of TOTO Continues

On May 15, 2007, TOTO will celebrate its 90th anniversary and begin a fourth generation of business development. On this occasion, TOTO will change its Japanese corporate name from TOTO KIKI Kabushiki Gaisha to TOTO Kabushiki Gaisha. (The English name will be unaffected by this change.)

In its fourth generation, TOTO will aim to become a company that creates and offers enriched lifestyles of greater comfort under the corporate mission of "UNIVERSAL DESIGN in Everyday Living," "Living and Ecology," and "Bonds that Exceed Service."

Carrying forward with our philosophy of "contributing to the improvement of people's lifestyles, while remaining a company indispensable to customers, shareholders and society," the new TOTO will achieve unprecedented advancements, surpassing those of our second-generation when the corporate name was changed from Toyo Toki Kabushiki Gaisha to TOTO KIKI Kabushiki Gaisha with the subsequent entrance into new business fields. Endeavoring to realize these achievements, TOTO promises to listen attentively as it promotes the exchange of dialogue with all of its stakeholders.

TOTO Group Corporate Philosophy

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

To achieve our philosophy, TOTO will:

- Create an enriched and more comfortable lifestyle and culture built on 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.

TOTO Group Corporate Code of Conduct

The TOTO Group is committed to working for the benefit of global society at large while pursuing profits through fair competition. The TOTO Group Corporate Code of Conduct is the basis for the activities of all TOTO employees who endeavor to satisfy all of its stakeholders.

1. In pursuing customer satisfaction, TOTO shall provide products and services that preserve the global environment and are user friendly.
2. TOTO shall engage in all corporate activities in good faith, respecting human rights, and complying with all laws and regulations regarding transparent and open behavior.
3. TOTO shall proactively disclose the appropriate corporate information as necessary to facilitate communications with society.
4. TOTO shall strive to provide comfortable lifestyles in each society by ensuring a safe and pleasant working environment and respecting individuality and diversity among all its employees.
5. TOTO shall effectively use global resources and conserve limited resources.
6. TOTO shall contribute to local communities as a responsible corporate citizen.
7. TOTO shall discourage anti-social behavior.
8. TOTO shall contribute to the development of diverse worldwide cultures and customs by respecting the diversity of each country's business customs as TOTO respects international rules and regulations.
9. TOTO's top management aims to thoroughly instill its corporate ethics while performing their roles and responsibilities as leaders.
10. TOTO's top management shall strive to resolve, as they arise, all issues that conflict with the Code of Conduct.

Vision

Toward a Dynamic, Vibrant, and Excellent TOTO

Dynamic
TOTO aims to create a dynamic company with a globally competitive business structure and a brand name that is recognized and supported by customers around the world

Vibrant
TOTO aims to create a more vibrant company by facilitating communication with customers and motivating employees

Excellent
TOTO aims to create an excellent company that is highly transparent, has strong ethical standards and gains the trust of society

Mission

Aiming to Be a Lifestyle Environment Company

TOTO works towards the development of plumbing-related products and spaces that can be utilized safely and comfortably regardless of age or physical mobility	TOTO works towards the development of ecologically friendly products and technologies that contribute to environmental consciousness in everyday living	TOTO considers the viewpoints of customers as it works towards strengthening everlasting relationships of trust

Five-Point TOTO 21 Plan

Growth Strategies

- **Remodel 21 Plan** — Create customer delight through remodeling.
- **Global 21 Plan** — Establish a global brand.
- **Only One 21 Plan** — Research and develop proprietary technologies to become the foundation of next generation products.

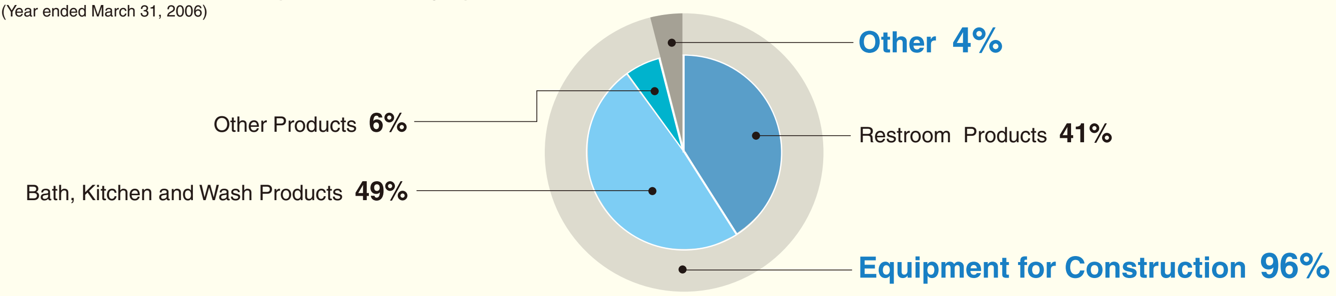
- **Challenge 21 Plan** — Create a company of creative and self-motivated employees with enduring passion.
- **Revolution 21 Plan** — Reinforce corporate structures through incessant innovation.

Strategies to Strengthen Corporate Foundation

* TOTO defines all the people who work for the TOTO Group as employees.

Net Sales Increased in TOTO's Main Businesses of Restroom Products and Bath, Kitchen and Wash Products

Composition of Net Sales by Product Category
(Year ended March 31, 2006)



Equipment for Construction

Net sales in the Equipment for Construction segment edged up 2.6% compared to the previous fiscal year to ¥483.9 billion. Meanwhile, operating income fell 14.3% year on year to ¥38.2 billion.

Restroom Products

Owing to the continued popularity of TOTO's easy-to-clean rimless basins and thoroughly cleaning Tornado flushing system, in the fiscal year under review, TOTO expanded its product application of the rimless and Tornado features. TOTO's lineup of toilets currently featuring both of these technologies include its most luxurious one-piece tankless toilet with Washlet, the NEOREST Series; the NEW Z Series tank-style toilet with Washlet; the tank-style PureRest EX; PureRest QR toilets; and the RESTPAL, TOTO's compact all-in-clusive toilet systems with Washlet, washbasin counter and storage cabinets. As a result, the majority of TOTO's mainstay toilet models are now rimless and equipped with Tornado flushing systems.

In June 2005, TOTO celebrated the 25th year of marketing the Washlet, its heated toilet seat unit with warm-water bidet functions, which has recorded a total number of shipments reaching over 20,000,000 units. Moving forward, TOTO endeavors to further expand its number of Washlet shipments.

Furthermore, owing to TOTO's sales activities related to the expansion of its rimless basin toilet lineup and the launch of new Washlet models, TOTO was able to bolster sales of its high-value-added restroom products that are at the center of remodeling demand. On the other hand, new housing demand has been uneven, with a drop-off in single housing projects compared to an increase in apartment and condominium leasing projects that is contributing to the spread of lower-priced general products. As a result of these factors, restroom product net sales inched up 0.9% to ¥205.5 billion, while operating income decreased 2.7% to ¥32.1 billion, year on year.


The NEOREST Series is TOTO's most luxurious one-piece tankless toilet with Washlet. It realizes new dimensions in water and energy efficiency and features TOTO's exclusive rimless basin and Tornado flushing system.


TOTO's Tornado flushing system thoroughly cleans the entire surface of the toilet interior with its powerful whirling jet-stream water flow.


TOTO's NEW SB/SC Washlet has been loaded with an operation panel that provides full-sensory handling with its LED "Stop" switch indicator, Braille buttons, and electronic operating sounds in addition to its standard bidet functions.

Bath, Kitchen and Wash Products

TOTO's bath product sales grew in the fiscal year under review owing to the favorable reception of its thermal pot Mahobin Bath. Furthermore, TOTO's addition of the JM and JP apartment unit bathroom series to the Mahobin Bath installation lineup, which already includes the Furopia KG Series and Bathpia KA Series for single housing units, has produced positive results.

In kitchen products, performance has been strong, particularly for the Style F Series of modular kitchens, which TOTO offers at a relatively low price and with newly enhanced functions. In addition, in September 2005, TOTO enhanced its modular kitchen models of the Legacess Series and launched its new modular kitchen CUISIA Series that is designed to harmonize living and dining spaces.

As a result of the above, net sales of bath, kitchen and wash products rose 3.9% compared to the previous fiscal year to ¥249.0 billion. Operating income fell by 48.7% to ¥6.6 billion, due to a variety of factors including high raw material prices and an increase in depreciation expenses for development.


TOTO's CUISIA Series of modular kitchens realizes sophisticated home interior design.


TOTO's double-layer insulation thermal pot Mahobin Bath realizes high thermal insulation properties.

Other Products

TOTO's other products in this segment include Sankanou bathroom ventilation, heater and drying equipment and the Clean Dry lavatory hand dryer. As a result of TOTO's improved customer response capabilities and product lineup, net sales rose 2.9% year on year to ¥29.2 billion. Operating loss improved in the fiscal year under review from ¥1.3 billion to ¥0.5 billion.


Sankanou is TOTO's bathroom ventilation, heating and drying equipment.

Other

Net sales in the Other segment fell 7.0% to ¥21.3 billion, while operating loss remained relatively unchanged, year on year, amounting to ¥0.5 billion. TOTO made improvements to its lineup of products applied with photocatalyst decomposition capabilities and hydrophilic properties, resulting in expanded sales of household goods. Owing mainly to a late market recovery, however, sales decreased for TOTO's advanced ceramic products such as optical ferules, electrostatic chucks and large precision ceramic components.


Air Slide is TOTO's ceramic component for use with semi-conductor and LCD manufacturing equipment.

Note 1: Effective from the fiscal year under review, ended March 31, 2006, the Company's business segmentation has been revised. Accordingly, segment information for the year ended March 31, 2005 has been restated to conform to the revised segmentation for comparison with information in the fiscal year under review.

Note 2: Net sales by segment include intra-group sales and transfers.

Note 3: Figures are rounded down.

TOTO is World-Renowned for Its Sophisticated Technology

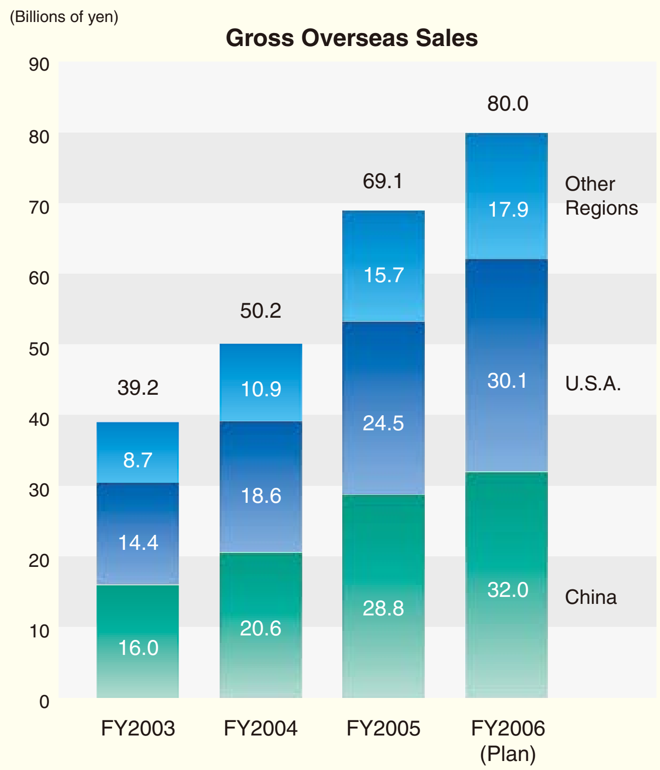
TOTO is in the process of pursuing business expansion the world over, from the Pacific Rim region to India, the Middle East and Europe. Recognized for its advanced technological strengths in water- and energy-saving functions, TOTO's reach overseas as a top brand in the field of comprehensive plumbing-related equipment is ever increasing.

TOTO's first full-scale overseas business operations commenced almost 30 years ago in 1977 with the establishment of a joint-venture company in Jakarta, Indonesia. Today, TOTO continues to expand its business while maintaining a current total of 31 overseas bases in 13 countries located in countries and regions such as the Pacific Rim, the United States, China, and within ASEAN member countries.

In the area of sanitary ware, TOTO received high accolades for its industry-leading toilet that realizes effective flushing power while using only six liters of water per flush. This product was developed and sold in adherence with the United States' Energy Act Law* that stipulates a six-liter limit of water per toilet flush. As a result of this development, TOTO's toilet dominated the first three places in a water-saving toilet flushing performance test administered by a U.S. public entity in 2002. This same toilet is also highly valued in China and other markets where TOTO products are sold. Also receiving attention and high acclamation are TOTO's Eco Power (hydropower type) automatic faucet, which is equipped with both water- and energy-saving functions, and Hydrotect Tile, which applies photocatalyst technology to accomplish anti-fouling and environmental purification functions.

In 2005, TOTO became the first Japanese plumbing-related equipment manufacturer to be exhibited at the Salone Internazionale del Mobile, the prestigious international exhibition for furniture design. In Europe and other advanced economic regions, TOTO has been praised for its ability to fuse a superior sense of design with strong technological know-how.

* Energy Act Law
The Energy Act Law, enacted in 1992 to support energy conservation in the United States, stipulates new standards for plumbing-related products and lamps. With these new standards, effective from January 1994, manufacturers are prohibited from manufacturing toilets exceeding a 1.6-gallon (six-liter) limit of water per flush, and effective from January 1997, the manufacture of 3.5-gallon commercial-use toilets is prohibited.



Note: Figures include intra-group sales and transfers.

United States

TOTO began operations in the United States in 1989, starting in Los Angeles, then moving into Atlanta in 1991 and New York in 1998. Since first introducing its high-value-added toilets into the country, TOTO has come to enjoy a paramount position within the market for mid-range and high-end products.

Since 2003, the year that TOTO gained profitability in the United States, TOTO's U.S. business has steadily become one of its overseas business pillars, with both sales and profits growing at about 20% annually. Currently, TOTO is working on the establishment of a new sanitary ware manufacturing facility in Mexico to meet growing demands in the U.S. market. The new facility will realize double TOTO's current production capacity in North America, and enhance TOTO's product supply structure for flexibly meeting market demands. The Mexico plant is scheduled to begin full-scale operations in January 2008.

TOTO Nexus Suite–integrated toilet, lavatory, bathtub (Air Bath), faucet and other bathroom accessories.

Eco Power (Hydropower type) automatic faucet

TOTO's poster and exhibition booth at the Salone Internazionale del Mobile in Milan, Italy

China

In China, TOTO products such as the Washlet are being praised for providing style and new lifestyle value, while the TOTO brand has become a status symbol for the home.

In September 2005, TOTO opened its third technical showroom in the Chinese market with the establishment of the Guangzhou Showroom, which follows those located in Beijing and Shanghai. The technical showrooms primarily cater to developers, builders and architects, and in addition to the products that TOTO sells in China, these showrooms provide the opportunity for visitors to see demonstrations and exhibits that show the daily advancement of TOTO's new technologies and the unquestionable performance capacity of its products.

Other Regions

In Taiwan, TOTO products are highly esteemed as No. 1 for use in home remodeling projects and restroom and bathroom spaces. Furthermore, TOTO's manufacturing base in Vietnam currently handles production essential not only to the Vietnamese market, but also to the United States, China and the ASEAN region.

TOTO's sales channels in India and the Middle East are in the process of expansion. In these areas where the construction rush for public facilities and housing continues, TOTO's sanitary ware and plumbing-related equipment are contributing to environmental conservation efforts and the enhancement of daily customs and lifestyles.

In April 2005, TOTO established its first Middle Eastern base with a representative office in Dubai. With the establishment of this office, TOTO has advanced its capacity to gather market information, facilitating the cultivation of marketing networks and the expansion of TOTO product sales.

Ensuring Continuous Growth of Corporate Value

	Function	Members	Number of Members	Frequency of Meetings
Board of Directors	Conducts management decision-making and supervision of directors' management operations	Directors	16	1/month
Board of Statutory Auditors	Receives reports, discusses and decides on important auditing-related matters	Statutory auditors	4	1/month
Advisory Committee	Outside experts of the committee provide advice on overall company management	Outside experts and internal directors	9	3/year
Compensation Committee	Provides guidance and advice regarding basic executive compensation policies and systems, and individual compensation	Outside experts and internal directors	5	1/year or more
Appointments Committee	Ensures objectivity and transparency regarding the appointment and dismissal of directors	Representative directors	4	1/year or more
Special Committee	Provides advice for the fair determination of the necessity for countermeasure implementation in the event of a large-scale share purchase proposal	Outside experts	3	As needed

Management Structure

TOTO's Group management structure includes the Board of Directors, the Board of Statutory Auditors and independent accounting auditors, and conducts management decision-making and the execution of operations in conformity with relevant laws and the Company's Articles of Incorporation. In June 2006, TOTO implemented the election of external directors for the purpose of reinforcing management supervision systems and enhancing transparency. In addition, TOTO introduced an executive officer system for the execution of prompt decision-making and transparent management accountability. Furthermore, TOTO established the Advisory Committee, which receives management-related advice from outside experts, the Compensation Committee, which consists of outside experts and internal directors, and the Appointments Committee, comprising representative directors.

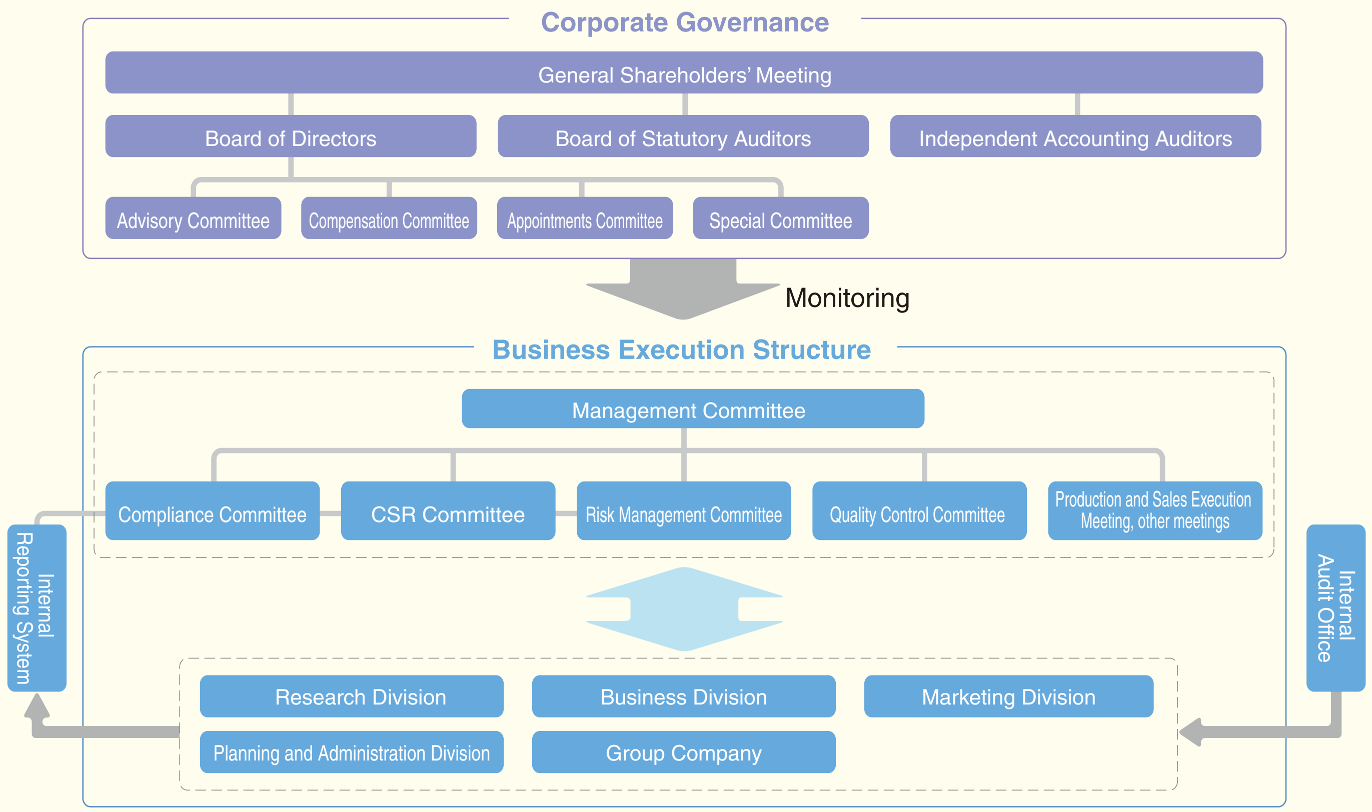
CSR Management Promotion System

TOTO promotes CSR management to ensure its business activities are conducted on an ethical basis, and in 2004, established the CSR Promotion Division to oversee the thorough implementation of these activities. Furthermore, TOTO's CSR Committee, with the President serving as chairman, continuously and systematically implements CSR activities through a total of 16 subcommittees: four corporate governance-related subcommittees, five global environmental preservation-related subcommittees, and seven society and management-related subcommittees.

Internal Control System

TOTO's Compliance Committee and Risk Management Committee, chaired by the President, promote the enhancement of compliance and risk management, which are essential management issues.

TOTO Group Management Structure (As of April 2006)



The Compliance Committee operates an internal reporting system that aims to prevent compliance issues as well as to resolve those that may occur. The system provides a direct line of contact to the Compliance Committee Office for employees who have encountered or think they may encounter the occurrence of a compliance issue at work, and yet find it difficult to resolve through organizational channels. In August 2005, TOTO established an external reporting contact to preserve the privacy of employees who report such issues and to ensure impartiality toward the treatment of such issues, which until then were only handled internally. Information received by the Compliance Committee Office is properly handled and results are reported to the information provider.

Measures to Enhance Corporate Governance

Aiming to establish a better internal control system, TOTO established the Internal Audit Office and is working to enhance internal auditing of the entire Group.

Aiming to reduce the risk of damage to shareholder value, in 2006, TOTO introduced a policy to respond to large-scale purchases of the Company's shares (anti-takeover measures). Under this policy, TOTO established certain rules that permit large-scale purchases stipulated by the provision of sufficient and appropriate information to shareholders. In the event that any large-scale purchase is conducted in non-compliance with these rules, the Company will seek consultation from the Special Committee, which was established as an organization independent of the Board of Directors to handle and guarantee the fair determination of the necessity for countermeasure actions.

In June 2006, TOTO appointed two external directors to enhance its management objectivity.

Six-Year Summary of Selected Financial Data

TOTO LTD. and Consolidated Subsidiaries
Years ended March 31

	2001	2002	2003	2004	2005	2006	2006
	Millions of yen (except per share amounts)					Millions of yen (except per share amounts)	Thousands of U.S. dollars (Note 3) (except per share amounts)
Net sales	¥425,918	¥424,097	¥439,683	¥467,925	¥484,192	**¥494,785**	**$4,212,011**
Cost of sales	275,980	277,910	285,154	300,355	308,067	**321,214**	**2,734,434**
Cost of sales ratio	64.8%	65.5%	64.9%	64.2%	63.6%	**64.9%**	—
Gross profit	149,938	146,187	154,529	167,570	176,125	**173,571**	**1,477,577**
Selling, general and administrative (SG&A) expenses	135,490	134,565	136,909	140,136	145,706	**148,407**	**1,263,361**
SG&A ratio	31.8%	31.7%	31.1%	29.9%	30.1%	**30.0%**	—
Operating income	14,448	11,622	17,620	27,434	30,419	**25,164**	**214,216**
Operating margin	3.4%	2.7%	4.0%	5.9%	6.3%	**5.1%**	—
Income before income taxes and minority interests	8,058	3,691	10,807	24,463	23,455	**21,972**	**187,044**
Net income	3,378	1,139	4,073	11,732	13,059	**12,997**	**110,641**
Capital investment	22,600	19,700	14,500	20,600	20,100	**22,400**	**190,687**
R&D expenses	12,770	12,259	11,298	11,366	11,786	**11,722**	**99,787**
R&D expenses ratio	3.0%	2.9%	2.6%	2.4%	2.4%	**2.4%**	—
Cash flow*	15,937	(14,597)	9,164	18,613	(15,448)	**4,292**	**36,537**
Basic net income per share (yen and U.S. dollars)	¥ 9.09	¥ 3.08	¥ 11.05	¥ 33.63	¥ 37.29	**¥ 37.12**	**$ 0.32**
Cash dividends per share applicable to the year (yen and U.S. dollars)	9.00	10.00	10.00	11.00	11.50	**12.00**	**0.10**
Total assets	¥504,934	¥488,207	¥471,482	¥462,622	¥460,950	**¥474,824**	**$4,042,087**
ROA	0.7%	0.2%	0.8%	2.5%	2.8%	**2.8%**	—
Total current assets	234,548	215,729	219,919	224,075	218,598	**214,130**	**1,822,848**
Fixed assets	270,386	272,478	251,563	238,547	242,352	**260,694**	**2,219,239**
Net property, plant and equipment	174,123	183,199	172,994	164,492	163,126	**166,757**	**1,419,571**
Total investments and other assets	96,263	89,279	78,569	74,055	79,226	**93,937**	**799,668**
Total liabilities and minority interests	¥305,157	¥296,261	¥293,170	¥272,765	¥261,578	**¥253,358**	**$2,156,789**
Total current liabilities	153,887	155,347	172,331	168,367	158,870	**154,249**	**1,313,093**
Total long-term liabilities	147,841	131,811	111,649	94,731	91,814	**87,023**	**740,810**
Net shareholders' equity	199,777	191,946	178,312	189,857	199,372	**221,466**	**1,885,298**
ROE	1.7%	0.6%	2.2%	6.4%	6.7%	**6.2%**	—

*Cash flow = Net increase (decrease) in cash and cash equivalents.

Management's Discussion and Analysis of Operations

Scope of Consolidation

The TOTO Group's consolidated financial statements reflect the performance of TOTO LTD., 57 consolidated subsidiaries (39 domestic, 18 overseas) and seven affiliated companies (two domestic, five overseas) accounted for under the equity method. One company was newly added to the scope of consolidation as a consolidated subsidiary in line with an increase in TOTO's ownership from the previous fiscal year, during which it was an affiliated company accounted for under the equity method. Furthermore, one domestic and one overseas company were excluded due to a merger and sale of company shares, respectively.

Market Environment

In the fiscal year ended March 31, 2006, the domestic economy showed signs of a moderate recovery generated by an improvement in corporate earnings and an increase in capital investment in spite of restrained consumer spending. The number of new housing starts, which strongly correlates with demand for TOTO's products, showed a 53,000 increase compared to the previous fiscal year to 1,246,000. Broken down, housing starts increased for condominiums to be utilized through leasing or selling, but decreased for single housing projects, which have tended to utilize high-value-added products. In regard to remodeling projects, overall demand remained steady, but suffered from the effects of fraudulent remodeling businesses, which were recognized as a serious problem and appeared to have inhibited people's attitudes toward home renovation.

Revenues and Earnings

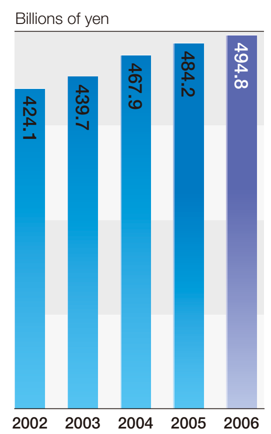
In the fiscal year under review, net sales of TOTO LTD. and its consolidated subsidiaries rose 2.2% over sales in the previous fiscal year to ¥494.8 billion, marking TOTO's second consecutive year of posting record-high sales. Performance in TOTO's business segments was mixed, with a decline in new housing-related sales due to fiercer market competition and a drop-off in sales prices, along with increases in remodeling-related and overseas sales.

Cost of sales increased 4.3% to a total of ¥321.2 billion. The cost of sales ratio rose 1.3 percentage points, from 63.6% to 64.9%. Gross profit decreased 1.5% to ¥173.6 billion, and the gross profit ratio slipped 1.3 percentage points, from 36.4% to 35.1%. This was mainly due to an increase in the sale of lower-priced general products and high raw material prices.

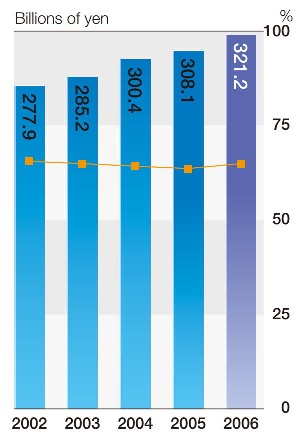
Selling, general and administrative (SG&A) expenses edged up 1.9% year on year to ¥148.4 billion. This was primarily due to an increase in shipping and distribution costs as well as an increase in advertising expenses aimed at stimulating demand for remodeling. The ratio of SG&A expenses to net sales dipped 0.1 of a percentage point, from 30.1% to 30.0%.

As a result of the foregoing factors, operating income in the fiscal

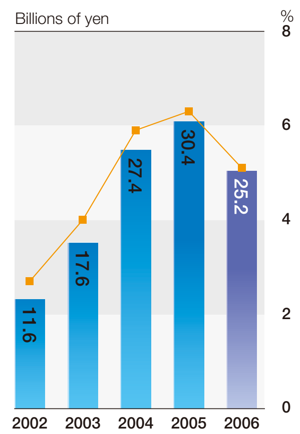
Net Sales



Cost of Sales and Cost of Sales Ratio



Operating Income and Operating Margin



year under review fell 17.3% to ¥25.2 billion. The operating margin declined 1.2 percentage points, from 6.3% to 5.1%.

Other income and expenses improved by ¥3.8 billion from the previous fiscal year, for an expenditure excess of ¥3.2 billion. The principal components of this were a ¥1.4 billion loss on disposal of inventories, ¥1.4 billion in interest expense and ¥1.1 billion in costs related to environmental measures, which included soil treatment costs for the Chigasaki Plant and inspections and prevention of asbestos particle emission at TOTO's business locations. In addition, in the previous fiscal year, the Company recorded a ¥2.2 billion loss on the impairment of fixed assets, which was absent in the fiscal year under review. The main income component was equity in earning of unconsolidated subsidiaries and affiliates of ¥1.1 billion.

As a result of the above, income before income taxes and minority interests declined 6.3% to ¥22.0 billion. Net income edged down 0.5% to ¥13.0 billion and return on sales slightly declined by 0.1 of a percentage point to 2.6%. Basic net income per share was ¥37.12, down from ¥37.29 in the previous fiscal year. Diluted net income per share was ¥36.13, down from ¥36.28, year on year.

Dividends

The Company considers the return of profits to shareholders as an essential part of its management stance, and adopts a basic policy of paying stable dividends to shareholders and enhancing retained earnings while taking into consideration business foundation reinforcement and future business development. Accordingly, the Company aims for a dividend payout ratio of 30% of consolidated net income.

In the fiscal year under review, the Company's annual cash dividends per share increased ¥0.5 per share to ¥12.00 per share (including a ¥6.00 per share interim dividend). This resulted in a dividend payout ratio of 32.3%.

Financial Position

As of March 31, 2006, consolidated total assets amounted to ¥474.8 billion, an increase of ¥13.9 billion from the end of the previous fiscal year.

Total current assets decreased by ¥4.5 billion to ¥214.1 billion. Short-term investments fell ¥15.5 billion. On the other hand, cash and cash equivalents increased ¥4.3 billion, notes and accounts receivable rose ¥3.8 billion, and inventories grew by ¥2.5 billion.

Net property, plant and equipment increased ¥3.6 billion to ¥166.8 billion. The primary cause for this increase was the construction of TOTO's second plant in Vietnam. Total investments and other assets grew ¥14.7 billion to ¥93.9 billion. Although deferred tax assets declined ¥8.1 billion, investment securities increased ¥21.1 billion owing to a stock purchase.

Total current liabilities decreased ¥4.6 billion from the end of the previous fiscal year to ¥154.2 billion. Short-term bank loans declined ¥8.9 billion.

Total long-term liabilities decreased ¥4.8 billion in comparison to the previous fiscal year-end to ¥87.0 billion. Accrued retirement benefits for employees declined ¥4.2 billion.

As a result, interest-bearing debt (the total of short-term bank loans, current portion of long-term debt, commercial paper, long-term debt and convertible bonds) declined ¥9.2 billion from the previous fiscal year-end to ¥75.7 billion.

Working capital at the fiscal year-end totaled ¥59.9 billion, up ¥0.2 billion from the previous fiscal year. The current ratio rose from 1.38 times to 1.39 times.

Total shareholders' equity grew ¥22.1 billion from the previous fiscal year to ¥221.5 billion, as a result of increases in retained earnings and net unrealized holding gains on securities. The equity ratio rose 3.4 percentage points, from 43.2% to 46.6%. Return on equity dipped slightly by 0.5 of a percentage point, from 6.7% to 6.2%. Equity per share, based on the weighted-average number of shares outstanding during the fiscal year under review, increased from ¥574.43 to ¥638.38.

R&D Expenses

The TOTO Group engages in R&D in line with its mission of contributing to the development of society by proposing healthy and comfortable living environments. Aiming to create innovative products that realize both convenience and environmental preservation, TOTO established the TOTO Eco-Product Certification System. In the spring of 2005, TOTO realized further water savings through the release of urinal units fitted with microchip sensors that determine the appropriate amount of water used per flush according to the amount of urine it detects with each use.

The Group also promotes the development of universal design (UD) products that are easy for anyone to use, with the aim of creating products and environments that offer convenience, safety and comfort in all aspects of people's lives. Adding to the Company's UD Research Center built in Kitakyushu City in 2002, TOTO established a second UD Research Institute that is housed within its Chigasaki R&D Center in February 2006.

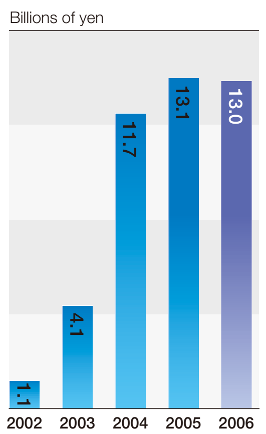
TOTO is also actively engaged in the development of new technologies such as photocatalysts, fine ceramics and solid oxide fuel cells.

Research and development expenses (included in SG&A expenses) remained relatively even with the previous fiscal year, amounting to ¥11.7 billion. The ratio of R&D expenses to net sales was 2.4%, unchanged from the previous fiscal year. By segment, R&D expenses totaled ¥8.9 billion in Equipment for Construction and ¥1.0 billion in the Other segment. A further ¥1.9 billion in R&D expenses were unallocated to specific business.

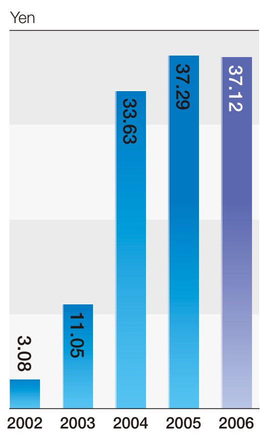
Capital Investment and Depreciation

The TOTO Group's capital investment totaled ¥22.4 billion, up ¥2.3 billion from the previous fiscal year. Of this total, investment was mainly for the construction of the Vietnam Plant No. 2, production facilities

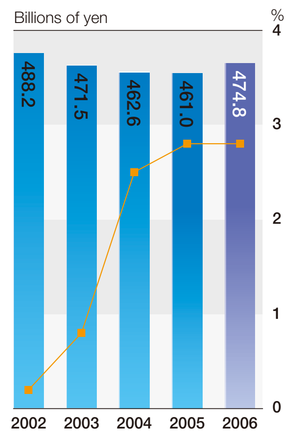
Net Income



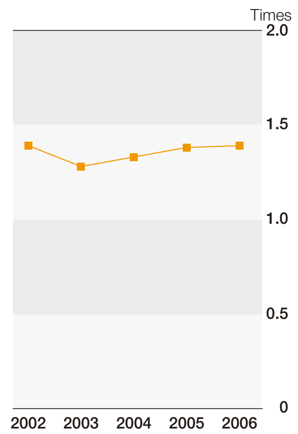
Basic Net Income per Share



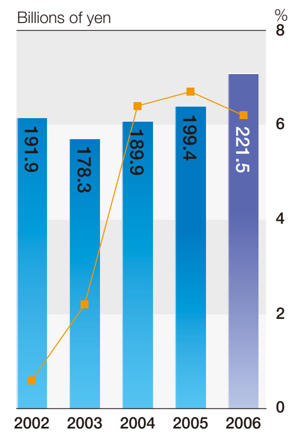
Total Assets and ROA



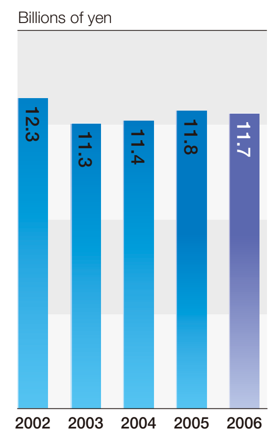
Current Ratio



Shareholders Equity and ROE



R&D Expenses



and molds at domestic Group companies, expansion of domestic showrooms and establishment of the R&D center in Chigasaki.

Depreciation and amortization amounted to ¥21.0 billion, an increase of ¥2.2 billion from the previous fiscal year. For the fiscal year ending March 31, 2007, the Company anticipates capital investment of ¥24.0 billion, and depreciation and amortization of ¥22.0 billion.

Cash Flows

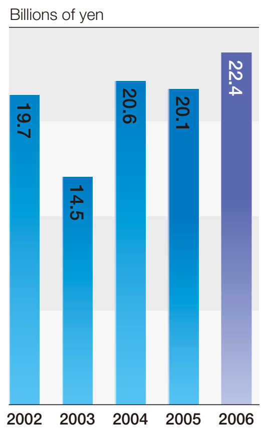
Net cash provided by operating activities decreased ¥13.6 billion from the previous fiscal year to ¥26.9 billion. In the fiscal year under review, the main sources of cash included ¥22.0 billion from income before income taxes and minority interests, and ¥21.0 billion from depreciation and amortization. Items that reduced cash were ¥4.3 billion in employees' retirement benefits paid, net of provision, and ¥2.3 billion in notes and accounts receivable.

Net cash used in investing activities totaled ¥7.3 billion, down ¥35.1 billion from the previous fiscal year. The primary components were ¥17.9 billion for purchases of property, plant and equipment, and ¥14.8 billion from a decrease in time deposits with maturities over three months.

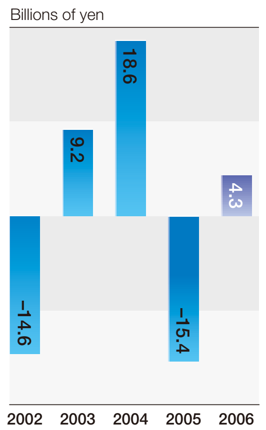
Net cash used in financing activities increased ¥3.1 billion from the previous fiscal year to ¥16.5 billion. Although TOTO procured capital through proceeds from issuance of commercial paper, this was offset by repayment of short-term debt and the redemption of commercial paper.

As a result, cash and cash equivalents at end of year increased ¥4.3 billion, from ¥43.5 billion at the end of the previous fiscal year to ¥47.8 billion.

Capital Investment



Cash Flow



Business Risk

1. Risk of Change in Operating Environment

The TOTO Group's main business activities are the production and sale of facilities and equipment for buildings. As a result, sudden changes in the operating environment from a decline in the number of housing starts and construction of large-scale buildings, intensified market competition, as well as consumer spending trends that affect demand for new housing and remodeling, may have an adverse impact on the financial position and business performance of the TOTO Group.

2. Risk Related to Product and Service Quality Guarantees

The TOTO Group recognizes the importance of ensuring the quality of its products and services, and bases its quality assurance efforts on internal standards and national standards such as Japanese Industrial Standards (JIS) for engineering, development, production, sales and services. However, in the event that a problem should occur with the quality of its products and services, such as an accident or poor service, the TOTO Group's financial position and business performance may be adversely affected.

3. Risk of Personal Information Leak

The TOTO Group discloses on its Web site its policies for acquiring and using personal information, and clearly identifies the purpose of using personal information prior to receiving permission from the individual concerned to use their personal information. The TOTO Group has taken steps to strengthen security measures such as through user access rights management with IDs and passwords on information management systems, and by preventing the output of large volumes of data. For our employees, we have formulated guidelines for the protection of personal information, and broadened awareness of related issues through e-Learning, our system for individual study on PCs. Despite these measures, in the event that personal information possessed by the TOTO Group is externally leaked as a result of criminal intent or negligence on behalf of a party associated with the TOTO Group, or obtained through unauthorized access by a third party, the brand image of the TOTO Group may deteriorate and adversely affect the TOTO Group's financial position and business performance.

4. Risk of Natural Disasters

To indemnify against damage from fire and typhoons, the TOTO Group takes out property insurance to cover products, buildings and other assets that are management resources. We are making concerted efforts to improve problem areas at all of our manufacturing facilities, and use external institutions to periodically analyze the risk of natural disasters. As a precaution against earthquakes, we have created a manual of earthquake countermeasures for each manufacturing facility, and make every effort to ensure the safety of employees, protect assets such as products and buildings, resume operations and prevent damage to surrounding areas in the event of an earthquake. However, in the event of a major natural disaster of unforeseen scale, the TOTO Group's financial position and business performance may be adversely affected.

5. Risk of War, Civil Unrest and Terrorism

The TOTO Group engages in business in many countries around the world, primarily in the United States and Asian countries. Accordingly, as a precaution against public instability in these countries, we have created the TOTO Global Crisis Management Manual, and are placing headquarters risk managers and local base risk managers in charge of crisis management, in an effort to ensure the safety of employees and protect products, buildings and other assets. However, in the event of a major war, civil unrest or terrorism in these regions, the TOTO Group's financial position and business performance may be adversely affected.

Consolidated Balance Sheets

TOTO LTD. and Consolidated Subsidiaries
At March 31, 2005 and 2006

ASSETS	2005	2006	2006
	Millions of yen	Millions of yen	Thousands of U.S. dollars (Note 3)
Current assets:			
Cash and cash equivalents	¥ 43,537	**¥ 47,829**	**$ 407,159**
Short-term investments (Note 14)	15,592	**75**	**639**
Notes and accounts receivable:			
Trade	85,729	**89,528**	**762,135**
Allowance for doubtful receivables	(1,007)	**(1,019)**	**(8,675)**
	84,722	**88,509**	**753,460**
Inventories (Note 4)	58,754	**61,251**	**521,418**
Deferred tax assets (Note 8)	4,301	**4,500**	**38,308**
Other current assets	11,692	**11,966**	**101,864**
Total current assets	218,598	**214,130**	**1,822,848**
Property, plant and equipment (Note 6)**:**			
Land	47,776	**47,995**	**408,573**
Buildings and structures	163,485	**166,461**	**1,417,051**
Machinery and equipment	139,045	**142,275**	**1,211,160**
Construction in progress	3,033	**5,982**	**50,924**
Other	54,142	**58,384**	**497,012**
	407,481	**421,097**	**3,584,720**
Accumulated depreciation	(244,355)	**(254,340)**	**(2,165,149)**
Property, plant and equipment, net	163,126	**166,757**	**1,419,571**
Investments and other assets:			
Investment securities (Notes 6 and 14)	29,512	**50,571**	**430,501**
Investments in and loans to unconsolidated subsidiaries and affiliates	5,017	**5,712**	**48,625**
Long-term loans receivable	828	**571**	**4,861**
Guaranty money deposited	5,662	**5,951**	**50,660**
Deferred tax assets (Note 8)	20,779	**12,690**	**108,028**
Excess of cost over net assets acquired	117	**192**	**1,634**
Other	17,311	**18,250**	**155,359**
Total investments and other assets	79,226	**93,937**	**799,668**
	¥ 460,950	**¥ 474,824**	**$ 4,042,087**

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	2005	2006	2006
	Millions of yen	Millions of yen	Thousands of U.S. dollars (Note 3)
Current liabilities:			
Notes and accounts payable:			
Trade	¥ 56,014	**¥ 59,588**	**$ 507,261**
Property and equipment	3,814	**5,547**	**47,221**
	59,828	**65,135**	**554,482**
Short-term bank loans (Notes 5 and 6)	41,572	**32,711**	**278,463**
Current portion of long-term debt (Notes 5 and 6)	731	**871**	**7,415**
Commercial paper (Note 5)	10,000	**10,000**	**85,128**
Other accounts payable	6,136	**7,250**	**61,718**
Accrued income taxes (Note 8)	4,790	**4,416**	**37,593**
Accrued expenses	18,736	**19,011**	**161,837**
Other current liabilities (Note 8)	17,077	**14,855**	**126,457**
Total current liabilities	158,870	**154,249**	**1,313,093**
Long-term liabilities:			
Long-term debt (Notes 5 and 6)	32,628	**32,159**	**273,763**
Accrued retirement benefits for employees (Note 9)	57,674	**53,432**	**454,857**
Accrued retirement benefits for directors	538	**595**	**5,065**
Other (Note 8)	974	**837**	**7,125**
Total long-term liabilities	91,814	**87,023**	**740,810**
Minority interests	10,894	**12,086**	**102,886**
Shareholders' equity (Notes 7 and 16)**:**			
Common stock, without par value:			
Authorized—700,000,000 shares			
Issued—371,662,595 shares in 2005, and 371,662,595 shares in 2006	35,579	**35,579**	**302,877**
Capital surplus	29,364	**29,370**	**250,021**
Retained earnings	148,516	**157,222**	**1,338,401**
Net unrealized holding gains on securities	4,505	**15,347**	**130,646**
Translation adjustments	(4,724)	**(2,056)**	**(17,502)**
	213,240	**235,462**	**2,004,443**
Less common stock in treasury, at cost; 24,806,256 shares in 2005 and 24,935,482 shares in 2006	(13,868)	**(13,996)**	**(119,145)**
Total shareholders' equity	199,372	**221,466**	**1,885,298**
Contingent liabilities (Note 13)			
	¥460,950	**¥474,824**	**$4,042,087**

Consolidated Statements of Income

TOTO LTD. and Consolidated Subsidiaries
Years ended March 31, 2005 and 2006

	2005	2006	2006
	Millions of yen	Millions of yen	Thousands of U.S. dollars (Note 3)
Net sales	¥484,192	**¥494,785**	**$4,212,011**
Cost of sales	308,067	**321,214**	**2,734,434**
Gross profit	176,125	**173,571**	**1,477,577**
Selling, general and administrative expenses (Note 10)	145,706	**148,407**	**1,263,361**
Operating income	30,419	**25,164**	**214,216**
Other income (expenses):			
Interest and dividend income	617	**826**	**7,032**
Interest expense	(1,214)	**(1,395)**	**(11,875)**
Loss on sales and disposal of property, plant and equipment, net	(1,445)	**(1,072)**	**(9,126)**
Gain on sales of investment securities, net	52	**573**	**4,878**
Loss on sales of investment in affiliates	(1,538)	**(47)**	**(400)**
Loss on devaluation of securities	(9)	**(21)**	**(179)**
Loss on disposal of inventories	(776)	**(1,416)**	**(12,054)**
Foreign exchange (loss) gain, net	(114)	**463**	**3,941**
Sales discounts	(956)	**(1,013)**	**(8,623)**
Loss on impairment of fixed assets	(2,178)	**—**	**—**
Loss on business restructuring	(1,503)	**—**	**—**
Loss on devaluation of memberships	(26)	**(18)**	**(153)**
Equity in earning of unconsolidated subsidiaries and affiliates	830	**1,067**	**9,083**
Costs related to disposal and demolition of plant facilities	—	**(627)**	**(5,338)**
Costs related to environmental measures	—	**(1,149)**	**(9,781)**
Other, net	1,296	**637**	**5,423**
Income before income taxes and minority interests	23,455	**21,972**	**187,044**
Income taxes (Note 8):			
Current	6,764	**6,821**	**58,066**
Deferred	1,902	**671**	**5,712**
	8,666	**7,492**	**63,778**
Minority interests	(1,730)	**(1,483)**	**(12,625)**
Net income (Note 11)	¥ 13,059	**¥ 12,997**	**$ 110,641**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

TOTO LTD. and Consolidated Subsidiaries
Years ended March 31, 2005 and 2006

	2005	2006	2006
	Millions of yen	Millions of yen	Thousands of U.S. dollars (Note 3)
Common stock			
Balance at beginning of year (2005—371,663 thousand shares; 2006—371,663 thousand shares)	¥ 35,579	**¥ 35,579**	**$ 302,877**
Balance at end of year (2005—371,663 thousand shares; 2006—371,663 thousand shares)	¥ 35,579	**¥ 35,579**	**$ 302,877**
Capital surplus			
Balance at beginning of year	¥ 29,188	**¥ 29,364**	**$ 249,970**
Gain on sales of treasury stock	176	**6**	**51**
Balance at end of year	¥ 29,364	**¥ 29,370**	**$ 250,021**
Retained earnings			
Balance at beginning of year	¥139,341	**¥148,516**	**$1,264,288**
Net income	13,059	**12,997**	**110,641**
Cash dividends paid	(3,817)	**(4,164)**	**(35,447)**
Bonuses to directors and statutory auditors	(67)	**(127)**	**(1,081)**
Balance at end of year	¥148,516	**¥157,222**	**$1,338,401**
Net unrealized holding gains on securities			
Balance at beginning of year	¥ 4,221	**¥ 4,505**	**$ 38,350**
Net changes during the year	284	**10,842**	**92,296**
Balance at end of year	¥ 4,505	**¥ 15,347**	**$ 130,646**
Translation adjustments			
Balance at beginning of year	¥ (4,693)	**¥ (4,724)**	**$ (40,214)**
Adjustments arising from translation of foreign currency financial statements	(31)	**2,668**	**22,712**
Balance at end of year	¥ (4,724)	**¥ (2,056)**	**$ (17,502)**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

TOTO LTD. and Consolidated Subsidiaries
Years ended March 31, 2005 and 2006

	2005	**2006**	**2006**
	Millions of yen	Millions of yen	Thousands of U.S. dollars (Note 3)
Operating activities:			
Income before income taxes and minority interests	¥ 23,455	**¥ 21,972**	**$ 187,044**
Depreciation and amortization	18,726	**20,971**	**178,522**
Loss on impairment of fixed assets	2,178	**—**	**—**
Interest and dividend income	(617)	**(826)**	**(7,032)**
Interest expense	1,214	**1,395**	**11,875**
Employees' retirement benefits paid, net of provision	(2,445)	**(4,262)**	**(36,282)**
Directors' retirement benefits paid, net of provision	26	**57**	**485**
Loss on sales and disposal of property, plant and equipment, net	1,445	**1,072**	**9,126**
Gain on sales of investment securities, net	(52)	**(573)**	**(4,878)**
Loss on sales of investment in affiliates	1,538	**47**	**400**
Loss on devaluation of securities	9	**21**	**179**
Loss on business restructuring	1,503	**—**	**—**
Loss on devaluation of memberships	26	**18**	**153**
Notes and accounts receivable	(1,237)	**(2,254)**	**(19,188)**
Inventories	2,901	**(1,332)**	**(11,339)**
Notes and accounts payable	1,134	**2,609**	**22,210**
Bonuses to directors and statutory auditors	(67)	**(127)**	**(1,081)**
Other	(4,757)	**(4,614)**	**(39,278)**
Subtotal	44,980	**34,174**	**290,916**
Interest and dividend income received	867	**1,135**	**9,662**
Interest expense paid	(1,184)	**(1,389)**	**(11,824)**
Income taxes paid	(4,222)	**(7,048)**	**(59,998)**
Net cash provided by operating activities	40,441	**26,872**	**228,756**
Investing activities:			
Purchases of property, plant and equipment	(18,237)	**(17,855)**	**(151,996)**
Proceeds from sales of property, plant and equipment	663	**978**	**8,325**
Increase in marketable and investment securities	(5,149)	**(1,293)**	**(11,007)**
(Increase) decrease in time deposits	(14,751)	**14,757**	**125,624**
Acquisition of subsidiaries' stock resulting in changes in the scope of consolidation	(100)	**153**	**1,302**
Other	(4,763)	**(4,000)**	**(34,051)**
Net cash used in investing activities	(42,337)	**(7,260)**	**(61,803)**
Financing activities:			
Decrease in bank loans	(9,163)	**(11,334)**	**(96,484)**
Proceeds from issuance of commercial paper	20,000	**30,000**	**255,384**
Redemption of commercial paper	(20,000)	**(30,000)**	**(255,384)**
Cash dividends paid	(3,816)	**(4,161)**	**(35,422)**
Purchases of treasury stock	(201)	**(137)**	**(1,166)**
Other	(233)	**(869)**	**(7,398)**
Net cash used in financing activities	(13,413)	**(16,501)**	**(140,470)**
Effect of exchange rate changes on cash and cash equivalents	(139)	**1,181**	**10,054**
Net (decrease) increase in cash and cash equivalents	(15,448)	**4,292**	**36,537**
Cash and cash equivalents at beginning of year	58,735	**43,537**	**370,622**
Increase due to inclusion of subsidiaries in consolidation	250	**—**	**—**
Cash and cash equivalents at end of year	¥ 43,537	**¥ 47,829**	**$ 407,159**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

TOTO LTD. and Consolidated Subsidiaries
March 31, 2006

1. Basis of Preparation

TOTO LTD. (the "Company") and its domestic subsidiaries maintain their books of account in conformity with the financial accounting standards of Japan, and its foreign subsidiaries maintain their books of account in conformity with those of their countries of domicile.

The accompanying consolidated financial statements have been compiled from the consolidated financial statements prepared by the Company as required under the Securities and Exchange Law of Japan and, therefore, have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The accompanying consolidated financial statements include the accounts of the Company and its significant companies controlled directly or indirectly by the Company. Companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis. All significant intercompany balances and transactions have been eliminated in consolidation.

Investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method are carried at cost.

Certain foreign subsidiaries are consolidated on the basis of fiscal periods ending December 31, which differ from that of the Company; however, the significant effect of the difference in fiscal periods has been properly adjusted in consolidation.

The difference between the cost and the underlying equity in the net assets at fair value at the date of acquisition is being amortized principally over a period of five years.

(b) Cash equivalents

All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

(c) Securities

In general, securities other than those of subsidiaries and affiliates are classified into three categories: trading, held-to-maturity or other securities. Securities held by the Company and its consolidated subsidiaries are all classified as other securities. Marketable securities classified as other securities are carried at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in shareholders' equity. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

(d) Inventories

Finished products, semifinished products and work in process are stated at cost, determined by the first-in, first-out method.

Raw materials are principally stated at the lower of cost (by the gross average cost method) or market.

Contracts in progress and supplies are stated at cost determined by the specific identification method and the gross average cost method, respectively.

(e) Allowance for doubtful receivables

The allowance for doubtful receivables is provided for possible bad debt at the amount estimated based on the past bad debt experience for normal receivables plus uncollectible amounts determined by reference to the collectibility of individual accounts for doubtful receivables.

(f) Depreciation and amortization

Depreciation of property, plant and equipment of the Company and its domestic consolidated subsidiaries is mainly calculated by the declining-balance method at rates based on the estimated useful lives of the respective assets. Depreciation of foreign consolidated subsidiaries is mainly calculated by the straight-line method over the estimated useful lives of the respective assets. The useful lives of property, plant and equipment are summarized as follows:

Buildings and structures	3 to 50 years
Machinery and equipment	4 to 15 years

Significant renewals and additions are capitalized at cost. Maintenance and repairs are charged to income.

Computer software capitalized is being amortized over a period of five years.

(g) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the exchange rates prevailing at the balance sheet date. All revenues and expenses associated with foreign currencies are translated at the rates of exchange prevailing when such transactions were made. The resulting exchange gains and losses are credited or charged to income.

The revenue and expense accounts of the foreign subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date. Except for the components of shareholders' equity, the balance sheet accounts are also translated into yen at the rates of exchange in effect at the balance sheet date. The components of shareholders' equity are translated at their historical exchange rates.

(h) Research and development costs

Research and development costs are charged to income as incurred.

(i) Income taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(j) Retirement benefits

Accrued retirement benefits for employees are provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets at the balance sheet dates, as adjusted for unrecognized actuarial gain or loss and unrecognized prior service cost. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of service of the eligible employees. Actuarial gain and loss are amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method principally over 16 years. Prior service cost is being amortized by the straight-line method principally over 16 years.

In addition, directors and statutory auditors of the Company are customarily entitled to lump-sum payments under an unfunded retirement plan. Provisions for the retirement benefits for these officers are made at estimated amounts.

(k) Leases

Noncancelable lease transactions are primarily accounted for as operating leases (whether such leases are classified as operating or finance leases) except that lease agreements which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases

(l) Appropriation of retained earnings

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting to be held subsequent to the close of such financial period. The accounts for that period do not, therefore, reflect such appropriations. (See Notes 7 and 16.)

(m) Adoption of new accounting standard

Effective the year ended March 31, 2005, the Company has early adopted a new accounting standard for the impairment of fixed assets which requires that tangible and intangible fixed assets be carried at cost less depreciation, and be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Companies are required to recognize an impairment loss in their income statement if certain indicators of asset impairment exist and the book value of an asset exceeds the undiscounted sum of future cash flows of the asset.

As a result of the adoption of this new accounting standard, a loss on impairment of property, plant and equipment in the amount of ¥2,178 million was recognized and income before income taxes and minority interests decreased by the same amount for the year ended March 31, 2005 from the corresponding amount which would have been recorded under the previous method.

3. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at the rate of ¥117.47 = US$1.00, the exchange rate prevailing on March 31, 2006. The translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

4. Inventories

Inventories at March 31, 2005 and 2006 consisted of the following:

	2005	2006	2006
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Finished products	¥32,797	**¥33,091**	**$281,697**
Semifinished products, work in process and contracts in progress	14,941	**14,831**	**126,254**
Raw materials	7,537	**9,461**	**80,540**
Supplies	3,479	**3,868**	**32,927**
	¥58,754	**¥61,251**	**$521,418**

5. Short-Term Bank Loans, Commercial Paper and Long-Term Debt

Short-term bank loans generally represent overdrafts and notes. The weighted average annual interest rates applicable to such short-term loans outstanding at March 31, 2005 and 2006 were 0.7% and 1.2%, respectively. Commercial paper is due within one year with annual interests of 0.019% and 0.151% as of March 31, 2005 and 2006, respectively.

Long-term debt at March 31, 2005 and 2006 consisted of the following:

	2005	2006	2006
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Unsecured convertible bonds:			
2.7% due 2007	¥29,883	**¥29,883**	**$254,388**
Bank loans maturing through 2015 at interest rates ranging from 1.50% to 5.18%:			
Secured	—	**468**	**3,984**
Unsecured	3,476	**2,679**	**22,806**
	33,359	**33,030**	**281,178**
Less current portion	731	**871**	**7,415**
	¥32,628	**¥32,159**	**$273,763**

At March 31, 2006, unsecured convertible bonds, unless previously redeemed, were convertible at the option of the holders into shares of common stock of the Company at the current conversion prices as follows:

	Conversion price per share (Yen)	Conversion period
2.7% due 2007	¥1,295.50	June 1, 1995—September 27, 2007

Under the indentures and trust deeds of the convertible bonds, the conversion price is subject to adjustment in certain cases which include stock splits. A sufficient number of shares of common stock is reserved for the conversion of all outstanding convertible bonds.

At March 31, 2006, if all the outstanding convertible bonds had been converted at the then current conversion prices, 23,067 thousand new shares of common stock would have been issuable.

The aggregate annual maturities of long-term debt subsequent to March 31, 2006 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2007	¥ 871	$ 7,415
2008	30,409	258,866
2009	446	3,797
2010	343	2,920
2011	328	2,792
2012 and thereafter	633	5,388
	¥33,030	$281,178

6. Pledged Assets

The assets pledged as collateral for short-term bank loans and long-term debt at March 31, 2005 and 2006 were as follows:

	2005	2006	2006
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment, at net book value	¥1,147	**¥1,195**	**$10,173**

In addition to the above, investment securities in the amounts of ¥9 million and ¥11 million ($94 thousand) were utilized as security deposits at March 31, 2005 and 2006, respectively.

7. Capital Surplus and Retained Earnings

In accordance with the Commercial Code of Japan (the "Code"), the Company has provided a legal reserve, which was included in retained earnings. The Code provides that an amount equal to at least 10% of the amount to be disbursed as a distribution of earnings be appropriated to the legal reserve until the total of such reserve and the capital surplus account equals 25% of the common stock account. The legal reserve amounted to ¥8,291 million ($70,580 thousand) as of both March 31, 2005 and 2006.

The Code provides that neither capital surplus nor the legal reserve is available for dividends, but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors. The Code also provides that if the total amount of capital surplus and the legal reserve exceeds 25% of the amount of common stock, the excess may be distributed to the shareholders either as a return of capital or as dividends subject to the approval of the shareholders.

The new Corporation Law of Japan (the "Law"), which superseded most of the provisions of the Code, went into effect on May 1, 2006. The Law stipulates similar requirements on distribution of earnings to those of the Code. Under the Law, however, such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

8. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprised corporation tax, enterprise tax and inhabitants' taxes which, in the aggregate, resulted in a statutory tax rate of 40.4% for 2005 and 2006. Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

The effective tax rates reflected in the consolidated statement of income for the years ended March 31, 2005 and 2006 differ from the statutory tax rate for the following reasons:

	2005	2006
Statutory tax rate	40.4%	**40.4%**
Effect of:		
Expenses not deductible for income tax purposes	1.2	**1.3**
Dividend income deductible for income tax purposes	(0.2)	**(0.3)**
Per capita taxes	0.8	**0.9**
Tax credit for research and development expenses	(4.9)	**(4.6)**
Other, net	(0.3)	**(3.6)**
Effective tax rate	37.0%	**34.1%**

The significant components of deferred tax assets and liabilities as of March 31, 2005 and 2006 were as follows:

	2005	2006	2006
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Deferred tax assets:			
Accrued bonus	¥ 3,098	**¥ 2,957**	**$ 25,172**
Retirement allowances	22,034	**21,374**	**181,953**
Net operating loss carry forwards	3,665	**4,392**	**37,388**
Other	7,496	**7,481**	**63,684**
Total gross deferred tax assets	36,293	**36,204**	**308,197**
Valuation allowance	(6,784)	**(7,095)**	**(60,398)**
Total deferred tax assets	29,509	**29,109**	**247,799**
Deferred tax liabilities:			
Net unrealized holding gains on securities	(2,989)	**(10,282)**	**(87,529)**
Reserve under Special Taxation Measures Law	(1,104)	**(1,256)**	**(10,692)**
Other	(488)	**(590)**	**(5,022)**
Total deferred tax liabilities	(4,581)	**(12,128)**	**(103,243)**
Net deferred tax assets	¥24,928	**¥ 16,981**	**$ 144,556**

9. Retirement Benefit Plans

The Company and its domestic consolidated subsidiaries have defined benefit plans, such as company pension fund plans, tax-qualified pension plans, lump-sum payment plans, and other types of defined benefit plans covering substantially all employees who are entitled to lump-sum or annuity payments, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs.

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets as of March 31, 2005 and 2006 for the Company's and the consolidated subsidiaries' defined benefit plans:

	2005	2006	2006
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Retirement benefit obligation	¥(145,887)	**¥(146,992)**	**$(1,251,315)**
Plan assets at fair value	70,250	**86,532**	**736,631**
Unfunded retirement benefit obligation	(75,637)	**(60,460)**	**(514,684)**
Unrecognized actuarial gain or loss	21,798	**10,271**	**87,435**
Unrecognized prior service cost	(3,449)	**(3,180)**	**(27,071)**
Net retirement benefit obligation	(57,288)	**(53,369)**	**(454,320)**
Prepaid pension cost	386	**63**	**537**
Accrued retirement benefits	¥ (57,674)	**¥ (53,432)**	**$ (454,857)**

The components of retirement benefit expenses for the years ended March 31, 2005 and 2006 are outlined as follows:

	2005	2006	2006
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Service cost	¥4,742	**¥ 5,515**	**$ 46,948**
Interest cost	3,367	**3,561**	**30,314**
Expected return on plan assets	(337)	**(2,402)**	**(20,448)**
Amortization of actuarial gain or loss	1,024	**1,535**	**13,067**
Amortization of prior service cost	(270)	**(268)**	**(2,281)**
Total	¥8,526	**¥ 7,941**	**$ 67,600**

The assumptions used in the accounting for the above plans are as follows:

	2005	2006
Discount rate	2.5%	**2.5%**
Expected return on plan assets	0.5–2.7%	**3.5%**

10. Research and Development Costs

Research and development costs included in selling, general and administrative expenses for the years ended March 31, 2005 and 2006 amounted to ¥11,786 million and ¥11,722 million ($99,787 thousand), respectively.

11. Amounts Per Share

Basic net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during the year, and diluted net income per share is computed based on the net income available for distribution to the shareholders and the weighted average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the conversion of convertible bonds.

Amounts per share of net assets is computed based on net assets available for distribution to shareholders and the number of shares of common stock outstanding at the year end.

Cash dividends per share represent the cash dividends declared as applicable to the respective years, together with the interim cash dividends paid.

	2005	2006	2006
	Yen	Yen	U.S. dollars
Net income:			
Basic	¥ 37.29	**¥ 37.12**	**$0.32**
Diluted	36.28	**36.13**	**0.31**
Net assets	574.43	**638.38**	**5.43**
Cash dividends applicable to the year	11.50	**12.00**	**0.10**

12. Leases

(a) Finance leases

The following pro forma amounts represent the acquisition costs (including the interest portion), accumulated depreciation and net book value of the leased property as of March 31, 2005 and 2006 which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	2005	2006	2006
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Acquisition costs:			
Machinery and equipment	¥ 411	**¥ 314**	**$ 2,673**
Other assets	5,869	**6,063**	**51,613**
	¥6,280	**¥6,377**	**$54,286**
Accumulated depreciation:			
Machinery and equipment	¥ 317	**¥ 191**	**$ 1,626**
Other assets	3,966	**3,958**	**33,693**
	¥4,283	**¥4,149**	**$35,319**
Net book value:			
Machinery and equipment	¥ 94	**¥ 123**	**$ 1,047**
Other assets	1,903	**2,105**	**17,920**
	¥1,997	**¥2,228**	**$18,967**

Lease payments relating to finance leases accounted for as operating leases amounted to ¥1,279 million and ¥1,118 million ($9,517 thousand) for the years ended March 31, 2005 and 2006, respectively. The depreciation expense of the leased assets computed by the declining-balance method over the respective lease terms amounted to ¥1,372 million and ¥1,127 million ($9,594 thousand) for the years ended March 31, 2005 and 2006, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2006 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2007	¥ 909	$ 7,738
2008 and thereafter	2,224	18,933
Total	¥3,133	$26,671

(b) Operating leases

Future minimum operating lease payments subsequent to March 31, 2006 for non-cancelable operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2007	¥ 427	$ 3,635
2008 and thereafter	856	7,287
Total	¥1,283	$10,922

13. Contingent Liabilities

The Company and its consolidated subsidiaries had the following contingent liabilities at March 31, 2006:

	Millions of yen	Thousands of U.S. dollars
Trade notes receivable discounted with banks	¥ 134	$ 1,141
Trade notes receivable endorsed	13	111
Guarantor of indebtedness of others	3,027	25,768

14. Securities

a) Information regarding marketable securities classified as other securities as of March 31, 2005 and 2006 is as follows:

March 31, 2005

	Acquisition cost	Carrying value	Gross unrealized holding gains (losses)
		Millions of yen	
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	¥16,802	¥24,589	¥7,787
Debt securities	3,314	3,352	38
Subtotal	¥20,116	¥27,941	¥7,825
Securities whose acquisition cost exceeds their carrying value:			
Equity securities	¥ 1,845	¥ 1,482	¥ (363)
Subtotal	¥ 1,845	¥ 1,482	¥ (363)
Total	¥21,961	¥29,423	¥7,462

March 31, 2006

	Acquisition cost	Carrying value	Gross unrealized holding gains (losses)	Acquisition cost	Carrying value	Gross unrealized holding gains (losses)
		Millions of yen			Thousands of U.S. dollars	
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	**¥21,102**	**¥46,691**	**¥25,589**	**$179,637**	**$397,472**	**$217,835**
Debt securities	**2,513**	**2,531**	**18**	**21,393**	**21,546**	**153**
Subtotal	**¥23,615**	**¥49,222**	**¥25,607**	**$201,030**	**$419,018**	**$217,988**
Securities whose acquisition cost exceeds their carrying value:						
Equity securities	**¥ 173**	**¥ 152**	**¥ (21)**	**$ 1,473**	**$ 1,294**	**$ (179)**
Subtotal	**¥ 173**	**¥ 152**	**¥ (21)**	**$ 1,473**	**$ 1,294**	**$ (179)**
Total	**¥23,788**	**¥49,374**	**¥25,586**	**$202,503**	**$420,312**	**$217,809**

b) Information regarding sales of securities classified as other securities for the years ended March 31, 2005 and 2006 is as follows:

	2005	**2006**	**2006**
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Proceeds from sales	¥117	**¥841**	**$7,159**
Gains on sales	52	**577**	**4,912**
Losses on sales	0	**4**	**34**

c) The redemption schedule for securities with maturity dates classified as other securities as of March 31, 2006 is summarized as follows:

March 31, 2006

	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due in one year or less	Due after one year through five years	Due after five years through ten years
		Millions of yen			Thousands of U.S. dollars	
Bonds	¥10	¥518	¥2,002	$85	$4,410	$17,043
Total	¥10	¥518	¥2,002	$85	$4,410	$17,043

15. Segment Information

The Company and its consolidated subsidiaries are primarily engaged in Japan in the manufacture and sales of residential and commercial plumbing fixtures. Until the year ended March 31, 2005, the operations of the Company and its consolidated subsidiaries were classified into three business segments: restroom products, bath kitchen and wash products, and other.

Effective the year ended March 31, 2006, the Company has revised its business segmentation to the following segments based on the market similarity of the products instead of the Company's internal management classifications. This change was implemented to facilitate the development of a comprehensive marketing system as well as to coordinate product and technology integration into a total design concept by combining various plumbing fixtures as this approach has become more important in line with recent changes in the business environment and market requirements.

Revised segmentation:

—"Equipment for construction" which includes: "Restroom products" such as sanitary ware, toilets and washlets(toilet seats), and "Bath, kitchen and wash products" such as unit bathrooms, faucets, water heaters, modular kitchens, modular vanity cabinets, artificial marble countertops and enameled cast-iron bathtubs, and "Other products" such as tiles and building materials, bathroom ventilators roomheaters and dishwashers.

—"Other" which includes: new ceramics, household goods and real-estate leasing.

The segment information for the year ended March 31, 2005 has been restated to conform to the revised segmentation for the year ended March 31, 2006.

The business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2005 and 2006 is as follows:

Year ended March 31, 2005

	Equipment for construction	Other	Total	Eliminations or corporate	Consolidated
			Millions of yen		
I. Sales and operating income:					
Sales to third parties	¥471,755	¥12,437	¥484,192	¥ —	¥484,192
Intra-group sales and transfers	8	10,489	10,497	(10,497)	—
Total sales	471,763	22,926	494,689	(10,497)	484,192
Operating expenses	427,094	23,427	450,521	3,252	453,773
Operating income (loss)	¥ 44,669	¥ (501)	¥ 44,168	¥ (13,749)	¥ 30,419
II. Assets, depreciation, loss on impairment of fixed assets and capital expenditures:					
Assets	¥340,569	¥27,616	¥368,185	¥ 92,765	¥460,950
Depreciation	15,690	1,711	17,401	1,325	18,726
Loss on impairment of fixed assets	910	717	1,627	551	2,178
Capital expenditures	21,630	1,360	22,990	1,079	24,069

Year ended March 31, 2006

	Equipment for construction	Other	Total	Eliminations or corporate	Consolidated
			Millions of yen		
I. Sales and operating income:					
Sales to third parties	**¥483,883**	**¥10,902**	**¥494,785**	**¥ —**	**¥494,785**
Intra-group sales and transfers	**31**	**10,421**	**10,452**	**(10,452)**	**—**
Total sales	**483,914**	**21,323**	**505,237**	**(10,452)**	**494,785**
Operating expenses	**445,636**	**21,827**	**467,463**	**2,158**	**469,621**
Operating income (loss)	**¥ 38,278**	**¥ (504)**	**¥ 37,774**	**¥ (12,610)**	**¥ 25,164**
II. Assets, depreciation, loss on impairment of fixed assets and capital expenditures:					
Assets	**¥346,364**	**¥27,637**	**¥374,001**	**¥100,823**	**¥474,824**
Depreciation	**18,078**	**1,568**	**19,646**	**1,325**	**20,971**
Loss on impairment of fixed assets	**—**	**—**	**—**	**—**	**—**
Capital expenditures	**20,993**	**700**	**21,693**	**2,794**	**24,487**

Year ended March 31, 2006

	Equipment for construction	Other	Total	Eliminations or corporate	Consolidated
			Thousands of U.S. dollars		
I. Sales and operating income:					
Sales to third parties	$4,119,205	$ 92,806	$4,212,011	$ —	$4,212,011
Intra-group sales and transfers	264	88,712	88,976	(88,976)	—
Total sales	4,119,469	181,518	4,300,987	(88,976)	4,212,011
Operating expenses	3,793,615	185,809	3,979,424	18,371	3,997,795
Operating income (loss)	$ 325,854	$ (4,291)	$ 321,563	$(107,347)	$ 214,216
II. Assets, depreciation, loss on impairment of fixed assets and capital expenditures:					
Assets	$2,948,531	$235,269	$3,183,800	$ 858,287	$4,042,087
Depreciation	153,895	13,348	167,243	11,279	178,522
Loss on impairment of fixed assets	—	—	—	—	—
Capital expenditures	178,709	5,959	184,668	23,785	208,453

The geographical segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2005 and 2006 is as follows:

Year ended March 31, 2005

	Japan	USA	China	Other	Total	Eliminations or corporate	Consolidated
				Millions of yen			
I. Sales and operating income:							
Sales to third parties	¥448,888	¥18,594	¥12,151	¥ 4,559	¥484,192	¥ —	¥484,192
Intra-group sales and transfers	8,022	16	8,524	6,360	22,922	(22,922)	—
Total sales	456,910	18,610	20,675	10,919	507,114	(22,922)	484,192
Operating expenses	416,973	17,774	17,782	10,588	463,117	(9,344)	453,773
Operating income	¥ 39,937	¥ 836	¥ 2,893	¥ 331	¥ 43,997	¥(13,578)	¥ 30,419
II. Assets	¥333,080	¥10,546	¥24,345	¥12,796	¥380,767	¥ 80,183	¥460,950

Year ended March 31, 2006

	Japan	USA	China	Other	Total	Eliminations or corporate	Consolidated
				Millions of yen			
I. Sales and operating income:							
Sales to third parties	¥449,371	¥24,325	¥15,411	¥ 5,678	¥494,785	¥ —	¥494,785
Intra-group sales and transfers	10,911	190	13,428	10,086	34,615	(34,615)	—
Total sales	460,282	24,515	28,839	15,764	529,400	(34,615)	494,785
Operating expenses	427,690	22,955	25,725	15,070	491,440	(21,819)	469,621
Operating income	¥ 32,592	¥ 1,560	¥ 3,114	¥ 694	¥ 37,960	¥(12,796)	¥ 25,164
II. Assets	¥323,040	¥13,922	¥27,586	¥17,544	¥382,092	¥ 92,732	¥474,824

Year ended March 31, 2006

	Japan	USA	China	Other	Total	Eliminations or corporate	Consolidated
				Thousands of U.S. dollars			
I. Sales and operating income:							
Sales to third parties	$3,825,411	$207,074	$131,191	$ 48,335	$4,212,011	$ —	$4,212,011
Intra-group sales and transfers	92,883	1,618	114,310	85,860	294,671	(294,671)	—
Total sales	3,918,294	208,692	245,501	134,195	4,506,682	(294,671)	4,212,011
Operating expenses	3,640,844	195,412	218,992	128,288	4,183,536	(185,741)	3,997,795
Operating income	$ 277,450	$ 13,280	$ 26,509	$ 5,907	$ 323,146	$(108,930)	$ 214,216
II. Assets	$2,749,979	$118,515	$234,834	$149,349	$3,252,677	$ 789,410	$4,042,087

Notes: Geographical segments are divided into categories based on their geographical proximity.
"Other" includes Taiwan, Malaysia, Philippine, Korea, Vietnam and Singapore, etc.

Overseas sales of the Company and its consolidated subsidiaries constituted less than 10% of the consolidated net sales for both the years ended March 31, 2005 and 2006.

16. Subsequent Event

The following appropriations of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2006, were approved at a shareholders' meeting held on June 29, 2006:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥6.00–$0.051 per share)	¥2,081	$17,715
Bonuses to directors and statutory auditors	122	1,039

Report of Independent Auditors

ERNST & YOUNG SHINNIHON

The Board of Directors
TOTO LTD.

We have audited the accompanying consolidated balance sheets of TOTO LTD. and consolidated subsidiaries as of March 31, 2005 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of TOTO LTD. and consolidated subsidiaries at March 31, 2005 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Supplemental Information

1. As described in Note 2 (m), effective the year ended March 31, 2005, the Company has adopted a new accounting standard for the impairment of fixed assets.
2. As described in Note 15, the Company has changed its business segmentation effective the year ended March 31, 2006.

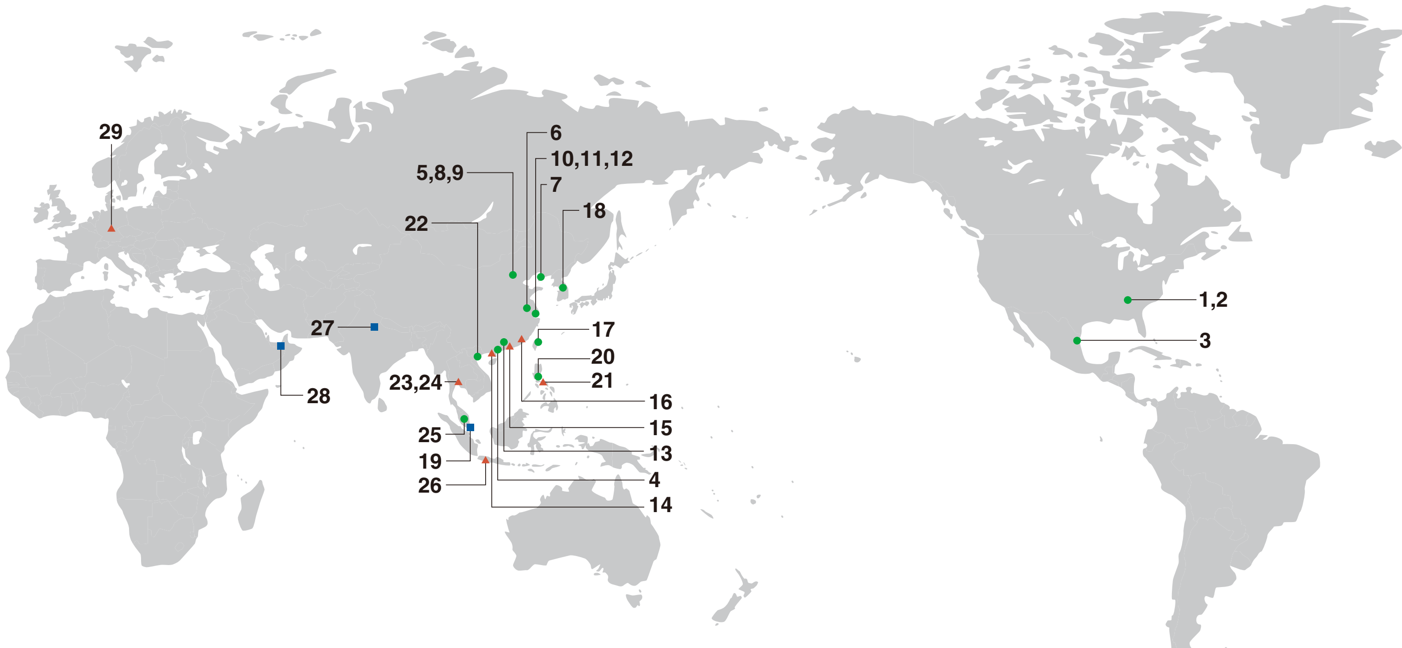
The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

Ernst & Young ShinNihon

Fukuoka, Japan
June 29, 2006

International Network

As of June 2006



●…Subsidiary Company ■…Representative Office ▲…Affiliated Company

U.S.A.

●1. TOTO U.S.A., INC.
Manufacture and sale of TOTO products

●2. TOTO U.S.A., HOLDINGS.
Holding company

MEXICO

●3. TOTO SANITARIOS DE MEXICO S.A. DE C.V.
Manufacture of sanitary ware

CHINA

●4. TOTO KIKI (H.K.) LTD.
Sale of TOTO products

●5. TOTO (CHINA) CO., LTD.
Holding company and sale of TOTO products

●6. NANJING TOTO CO., LTD.
Manufacture of enameled cast-iron and acrylic bathtubs

●7. TOTO DALIAN CO., LTD.
Manufacture of faucets

●8. BEIJING TOTO CO., LTD.
Manufacture of sanitary ware

●9. TOTO (BEIJING) CO., LTD.
Manufacture of sanitary ware

●10. TOTO (SHANGHAI) CO., LTD.
Manufacture of sanitary equipment-related products

●11. TOTO EASTCHINA CO., LTD.
Manufacture of sanitary ware

●12. TOTO WASHLET SHANGHAI CO., LTD.
Manufacture of Washlets

●13. TOTO (GUANGZHOU) CO., LTD.
Manufacture of sanitary equipment-related products

▲14. ICOT H.K. LIMITED.
Manufacture of tiles

▲15. ICOT GUANGDONG CO., LTD.
Manufacture of tiles

▲16. VORETO (XIAMEN) PLUMBING TECHNOLOGY CO., LTD.
Manufacture of sanitary equipment-related products

TAIWAN

●17. TAIWAN TOTO CO., LTD.
Manufacture and sale of TOTO products

KOREA

●18. TOTO KIKI KOREA LTD.
Sale of TOTO products

SINGAPORE

■19. TOTO Singapore Branch
Sale of TOTO products

PHILIPPINES

●20. SIAM MARIWASA TOTO, INC.
Manufacture and sale of TOTO products

▲21. SMT HOLDINGS, INC.
Holding company

VIETNAM

●22. TOTO VIETNAM CO., LTD.
Manufacture and sale of TOTO products

THAILAND

▲23. SIAM SANITARY WARE CO., LTD.
Manufacture and sale of TOTO products

▲24. THE SIAM SANITARY FITTINGS CO., LTD.
Manufacture of faucets

MALAYSIA

●25. TOTOKIKI (MALAYSIA) SDN. BHD.
Manufacture of Washlets

INDONESIA

▲26. P.T. SURYA TOTO INDONESIA
Manufacture and sale of TOTO products

INDIA

■27. TOTO LTD., New Delhi Liaison Office
Sale of TOTO products

UAE

■28. TOTO LTD., Dubai Rep. Office
Sale of TOTO products

GERMANY

▲29. BULTHAUP GMBH & CO.
Manufacture of modular kitchens

Board of Directors

As of June 29, 2006

From left: Akimichi Nishimura, Teruo Kise, Masatoshi Shigefuchi and Toshio Uzuka

Board of Directors

Chairman
Masatoshi Shigefuchi*

President
Teruo Kise*

Executive Vice Presidents
Akimichi Nishimura*
Toshio Uzuka*

Directors
Kenji Ito
Tatsuhiko Saruwatari
Tamiji Mori
Kunio Harimoto
Tsutomu Ijichi
Hisao Ono
Kazutoyo Shinohara
Hiromichi Tabata
Masami Abe
Akio Hasunuma
Kazumoto Yamamoto
Yutaka Asou

* Representative Director

Statutory Auditors

Kazutoshi Fujihara
Kiyoyuki Kagami
Kenjiro Shimizu
Junichi Minegishi

Executive Officers

Teruo Kise
Akimichi Nishimura
Toshio Uzuka
Kenji Ito
Tatsuhiko Saruwatari
Tamiji Mori
Kunio Harimoto
Tsutomu Ijichi
Hisao Ono
Kazutoyo Shinohara
Shiro Nakayama
Kazuo Narui
Norio Kondo
Yoshiharu Edamatsu
Hiromichi Tabata
Masami Abe
Akio Hasunuma
Shinichi Kajigaya
Hideo Baba
Fumiaki Amano
Masayuki Kato
Hitoshi Nakamura
Shunji Yamada
Hiroshi Kobayashi
Yoshimitsu Saeki
Yusuke Kitafuku
Kenji Morita
Yozo Hirota
Hirotoshi Naka
Madoka Kitamura

Corporate Data

As of March 31, 2006

Company Name
TOTO LTD.

Date of Establishment
May 15, 1917

Headquarters
1-1, Nakashima 2-chome, Kokurakita-ku, Kitakyushu, Fukuoka 802-8601, Japan
Phone: (093) 951-2707
Fax: (093) 922-6789
URL: http://www.toto.co.jp/en

Number of Employees*
19,246 (Consolidated)
6,538 (Nonconsolidated)

Domestic District Sales Branch Offices*...13
(Tokyo, Osaka, Nagoya, Kyushu, Sapporo, Chugoku, Shikoku, Tohoku, Hokuriku, Yokohama, Higashi-Kanto, Kita-Kanto, Shinetsu)

*As of June 2006

Branch Offices and Sales Offices*.......96

Showrooms*.......99

Plants (Nonconsolidated*).......8

Total Assets
¥474,824 million (US$4,042 million)

Net Sales
¥494,785 million (US$4,212 million)

Stock Listings
Tokyo, Osaka, Nagoya and Fukuoka

Number of Shares
Authorized: 700,000,000
Issued: 371,662,595

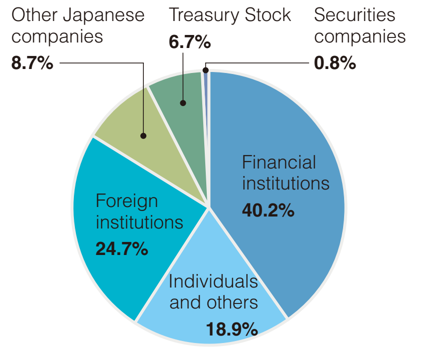
Capital Stock
¥35,579 million (US$303 million)

Number of Shareholders
32,356

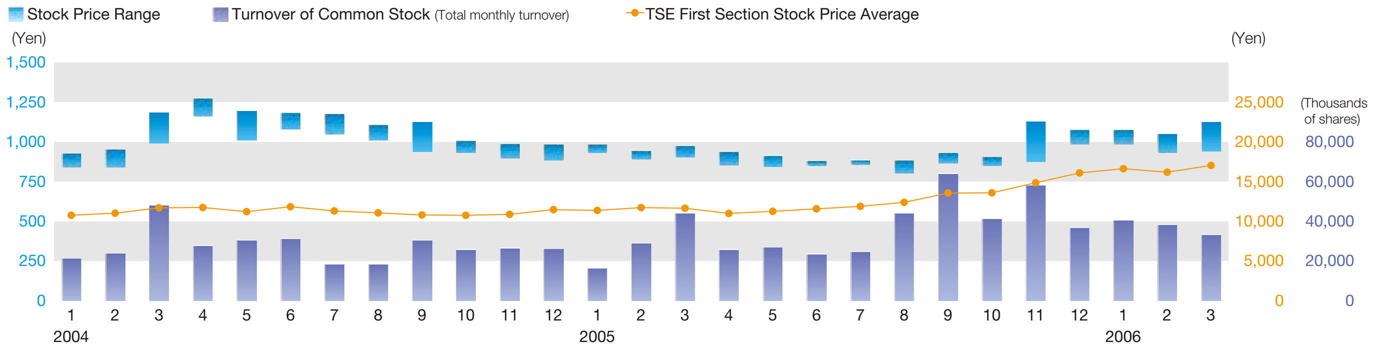
Major Shareholders
State Street Bank & Trust Company: 7.8%
TOTO LTD.: 6.7%
Meiji Yasuda Life Insurance Company: 5.7%
The Dai-ichi Mutual Life Insurance Company: 5.5%
Nippon Life Insurance Company: 4.0%
Depositary Nominees Inc.: 2.9%
The Master Trust Bank of Japan, Ltd. (Trust Account): 2.8%
Japan Trustee Services Bank, Ltd. (Trust Account): 2.7%
Tokio Marine & Nichido Fire Insurance Co., Ltd.: 2.6%
The Bank of Tokyo-Mitsubishi UFJ, Ltd.: 2.5%

Transfer Agent
Mitsubishi UFJ Trust and Banking Corporation

Composition of Shareholders



Stock Price Range / Turnover of Common Stock



The TOTO Today newsletter is available at the following address:
http://www.toto.co.jp/en/abstract/today/index.htm

For further information, please contact us at the following address:
TOTO LTD., Investor Relations, 1-1-28, Toranomon, Minato-ku, Tokyo 105-0001, Japan
URL: https://adm.toto.co.jp/Contact/en/form_mb/forme.htm