TOTO

ANNUAL REPORT 2007

PRINTED WITH SOY INK

Printed in Japan with soyink on 100% Ecomark-certified recycled paper.

Published : August 2007 NO.1190

Profile

TOTO was established as a sanitary ware manufacturer and retailer in 1917, during an era in which Japan still lacked a sewage system infrastructure, emerging from its founders' vision to disseminate new hygienic living customs throughout the country. Today, TOTO's business reaches beyond the realm of toilets to encompass a wide range of plumbing-related fields and products for bathrooms, kitchens and lavatories. Furthermore, TOTO now operates in leading technological fields, developing advanced ceramics and super-hydrophilic photocatalyst technologies. Not unlike its founding vision, TOTO continues to offer increasingly higher quality products and services with the aim of creating plumbing fixtures for enriched and more comfortable lifestyles.

TOTO aims to add value to lifestyles both in Japan and around the world by taking on active overseas business development.

Financial Highlights

TOTO LTD. and consolidated subsidiaries
Years ended March 31, 2005, 2006 and 2007

	2005	2006	2007	2007
	Millions of yen		Millions of yen	Thousands of U.S. dollars
For the year:				
Net sales	¥484,192	¥494,785	**¥512,200**	**$4,338,840**
Operating income	30,419	25,164	**26,188**	**221,838**
Net income	13,059	12,997	**13,544**	**114,731**
At the year-end:				
Total assets	¥460,950	¥474,824	**¥466,736**	**$3,953,715**
Net assets	199,372	233,552	**233,242**	**1,975,790**
	Yen		Yen	U.S. dollars
Basic net income per share	¥37.29	¥37.12	**¥39.07**	**$0.33**
Cash dividends per share	11.50	12.00	**13.00**	**0.11**

Notes 1: U.S. dollar amounts are stated for convenience only, using the exchange rate prevailing on March 31, 2007: ¥118.05 = US$1.00.

2: Effective the fiscal year ended March 31, 2007, the Company has adopted a new accounting standard for the presentation of net assets in the balance sheet and the related implementation guidance. Consequently, total shareholders' equity for the fiscal year ended March 31, 2006 has been restated as net assets to conform to the new accounting standard. Net assets for the fiscal year ended March 31, 2005 are equivalent to total shareholders' equity based on the previous accounting standard.

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.

The luxurious NEOREST Series tankless toilet with Washlet was designed to add both function and comfort to bathroom environments and prevails as a core TOTO product.

Contents

Scope of this report:

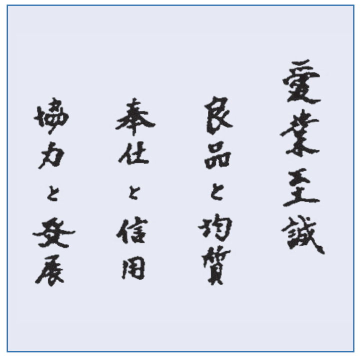
TOTO LTD. and Group Companies

Applicable period:

Fiscal 2006 (April 1, 2006 to March 31, 2007)

Note: This report also contains some information outside the applicable period.

Preserving Our Status as a Company Indispensable to Customers, Shareholders and Society



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.

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.

Overview of Fiscal 2006: Expansion in Revenues and Earnings

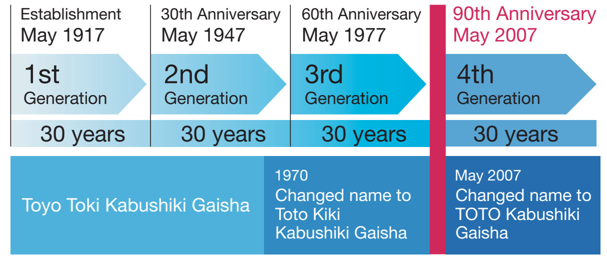
TOTO is making every effort to alleviate its reliance on new housing demand by bolstering its remodeling and overseas businesses.

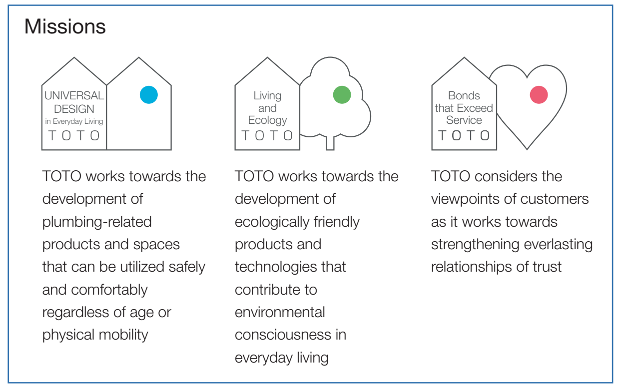
In fiscal 2006, ended March 31, 2007, TOTO's consolidated net sales climbed 3.5% compared to the previous fiscal year to ¥512.2 billion, marking the fifth consecutive year of revenue growth. Operating income also increased in fiscal 2006, rising 4.1% year on year to ¥26.2 billion. Despite the severity of a fluctuating operating environment, in which raw material prices peaked and the impact of lower-priced general products increased, earnings expanded. This growth was attributed to well-planned cost-cutting measures, a rise in remodeling and new housing business sales, and surging sales overseas, mainly in the United States and China.

Moving ahead, TOTO will work to sustain this continuous growth of revenues and earnings in order to fulfill stakeholder expectations. To this end, we are striving to achieve the targets of our new Medium-Term Management Plan, which is being carried out over the three-year period from April 2007 to March 2010. Our targets for the final year of the Plan are net sales of ¥590.0 billion, operating income of ¥45.0 billion and ROE of 10%.

90th Anniversary Brings Further Advancement for TOTO

On May 15, 2007, TOTO welcomed its 90th anniversary by changing its Japanese corporate name, retiring Toto Kiki Kabushiki Gaisha and inaugurating TOTO Kabushiki Gaisha. Symbolic of a deeper transition ahead, TOTO is implementing a shift away from its position as a household fixtures manufacturer toward becoming a creator and provider of new lifestyle value. Looking back on the 30-year generation spans in TOTO's history, each has been characterized by a major shift in the Company's business activities. In keeping with this tradition, fiscal 2007, the initial year of our fourth generation, will be duly marked as a year of transition.

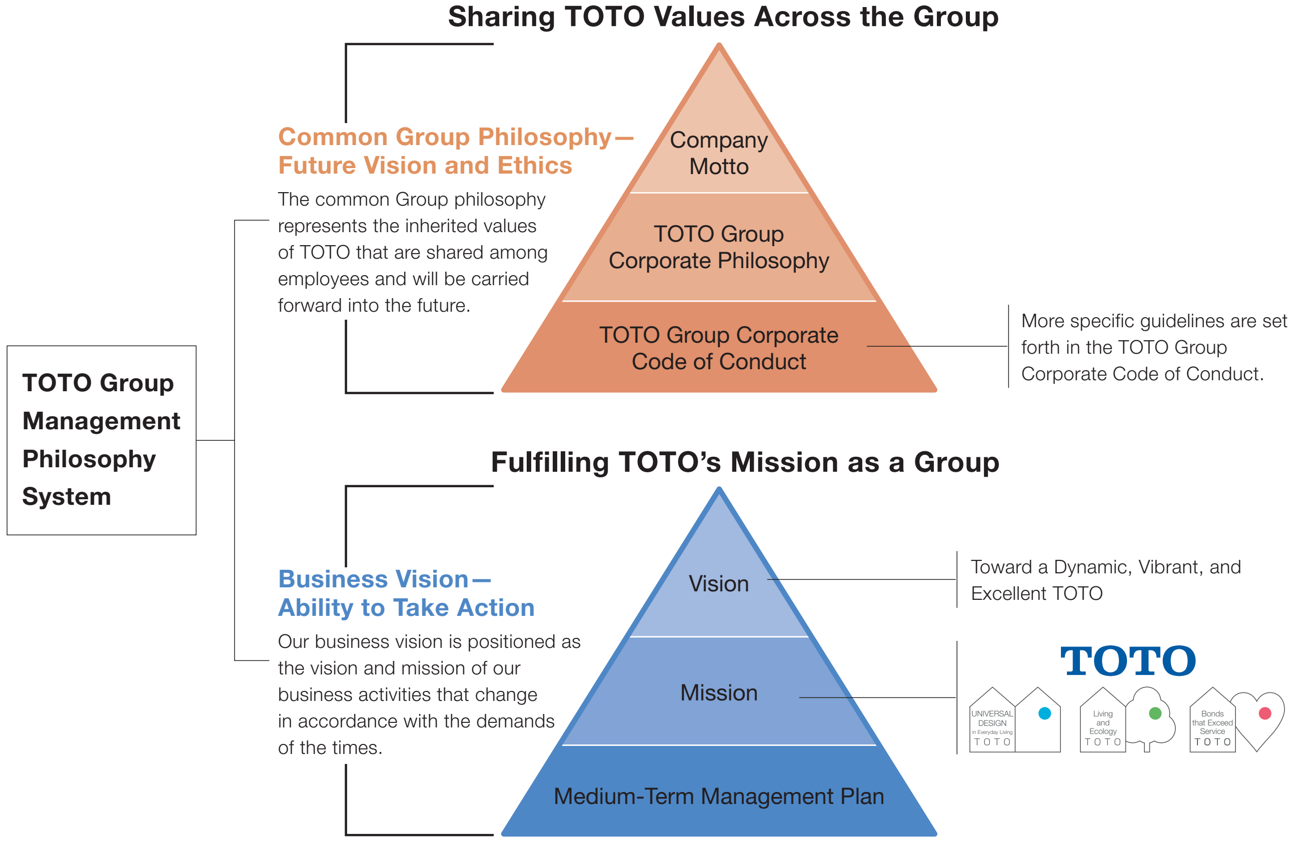




Through the creation and provision of new lifestyle value, the TOTO Group intends to exceed all previous performance results as it works to continue being a company indispensable to customers, shareholders and society.

Teruo Kise, President

Philosophy System



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

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

April 1, 2007, marked the start of TOTO's new fiscal 2007 – 2009 Medium-Term Management Plan. As the Company prepares to leap ahead and onto a broader global stage, President Teruo Kise responded to our queries about the goals and strategies of this new plan.

Q1: Before discussing TOTO's new plan, would you please give us a brief overview of the last medium-term management plan?

A: The medium-term management plan that we undertook between fiscal 2004 and fiscal 2006 was characterized by a three-point growth strategy, which included the Remodel 21 Plan, Global 21 Plan and Only One 21 Plan, as well as a two-part strategy to strengthen the corporate foundation consisting of the Challenge 21 Plan and Revolution 21 Plan. These strategies provided the basis for our efforts to create markets for our products and take another huge step forward in our evolution. As a result, net sales for fiscal 2006, the final year of the plan, had grown 9.5% compared to fiscal 2003. We are particularly proud of the remarkable progress we made in terms of overseas sales results: they soared 67% over that same time frame. Unfortunately, the impact of severe price competition and high material prices held back growth in recurring profit, which increased 2.3% compared to fiscal 2003. As we move forward with our efforts to expand sales, we also recognize the need to further reduce costs and improve productivity.

Q2: What are the aims of TOTO's new Medium-Term Management Plan?

A: On May 15, 2007, we celebrated TOTO's 90th anniversary. We also welcomed a new era in TOTO history with a change in our Japanese corporate name, from Toto Kiki Kabushiki Gaisha to TOTO Kabushiki Gaisha.

In 2017, TOTO will reach its 100th year. Until we reach this historic milestone, we have committed ourselves to further expanding our global reach. By 2017, TOTO will have established a five-polar global structure, adding Europe to our existing markets of Japan, the United States, China, and Asia and Oceania. With this view, the aim of our new Medium-Term Management Plan over the next three years is to achieve everything necessary to facilitate our long-term corporate vision for 2017.

Q3: What performance targets does the Company aim to achieve under the new Medium-Term Management Plan?

A: For fiscal 2008, we are targeting net sales of ¥560.0 billion and a record-breaking ¥35.0 billion in recurring profit. In fiscal 2009, the final year of the plan, we aim to achieve ¥590.0 billion in net sales, a 15% increase compared to fiscal 2006, and ¥42.0 billion in recurring profit, a 66% increase. Our ROE target is 10%.

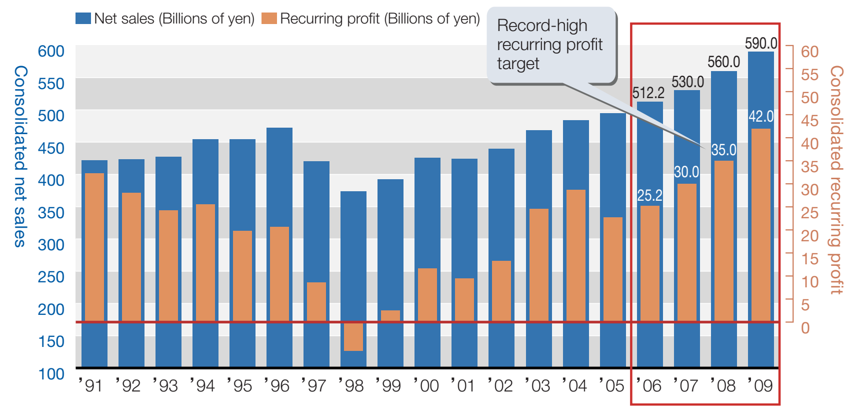
In terms of projected net sales by business field over the course of the plan to fiscal 2009, we foresee a 10% decrease in new housing sales, owing to a decrease in the number of new housing starts, a 30% increase in remodeling sales, a 35% expansion in new business sales due to ceramic business growth, and 40% growth in overseas sales.

Q4: Please tell us about TOTO's main approach toward achieving these goals.

A: The new plan's two major policies are to strengthen CSR management and promote the Six-Point Plan.

By strengthening CSR management, we hope to become more deeply aware of our social responsibilities as a corporate entity. Specifically, this entails taking a more aggressive approach to environmental conservation, compliance, corporate ethics, social contribution, employee rights and risk

Performance Plan



management issues. Because our ultimate aim is to take on greater social responsibilities globally, we will work to address these social issues not only in Japan, but also in every country and region where we operate around the world.

The six strategic plans of our Six-Point Plan are Remodeling, Global, Only One, Challenge, Revolution and Quality. As we carry out each of these strategies, we will simultaneously endeavor to deliver products and services that exceed customer expectations. Specifically, the purpose of the Global Plan is to facilitate our next big step forward as a global company, while the Remodeling Plan will serve as a means to fortify the basic foundation of the Company structure. We will work especially hard in both of these areas.


The Bangkok showroom opened in August 2006 exhibits the appeal of TOTO restrooms as living spaces in a spacious atmosphere

Q5: One of the pillars of TOTO's growth strategy is its Global Plan. Can you elaborate on this aspect?


The NEOREST Suite provides the absolute finest in bathroom luxury

A: As I mentioned before, TOTO is aiming to establish a five-polar structure by the year 2017. Part of this includes our aim to elevate TOTO's brand image in various regions as global luxury brand by raising a greater awareness of the success TOTO has had as a high-end bathroom-related products brand in the U.S. and China.

In order to achieve this goal, we will promote three specific strategies. The first are merchandise strategies for introducing our flagship and high-performance products. For example, in the case of our top-of-the-line toilet model NEOREST, we will introduce the NEOREST Suite, which will include bathtubs, faucets and other bathroom and toilet hardware, in addition to toilets. We will also place emphasis on marketing our automatic faucets and ultra-water-saving 4.8-liter toilet, based on improved TOTO water-saving technologies. With an emphasis on U.S. and Chinese markets, we plan to continuously and successively release these high-performance products.

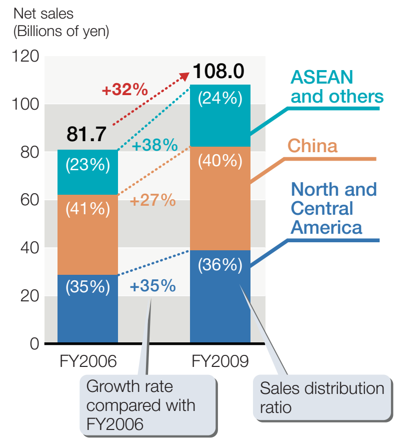
Secondly, we will implement sales and communication strategies that reinforce our structure of customer points of contact and increase market dissemination of the Washlet. As such, by setting up showrooms in major cities in target markets, with an eye to attaining market dominance as a luxury brand, we will be able to demonstrate the value appeal of our products. The key to doing this is increasing customer points of contact. As of the end of the fiscal 2006, we had showrooms in Beijing, Shanghai, Guangzhou, and Honk Kong, China; in the U.S., in New York City, Los Angeles, and Florida State; as well as in Bangkok, Dubai and Abu Dhabi. Showrooms in other major cities of our target markets are being planned.

Turning to Washlet sales, which grow steadily every year in overseas markets, we are targeting a 90% increase over the next three-year period. We are particularly striving to expand sales in the United States and China.

Finally, we will implement supply strategies that allow for the creation of a risk-resistant supply structure.

Furthermore, by jostling to secure a formidable position in the European market, which is saturated with high-end plumbing-related product brands, we intend to achieve our goal of establishing a five-polar structure and becoming a company with a true global reach.

Target Growth Rate and Distribution Ratio of Gross* Overseas Sales



*Gross = Net sales including intra-group transactions

Q6: Please tell us about the Remodeling Plan.

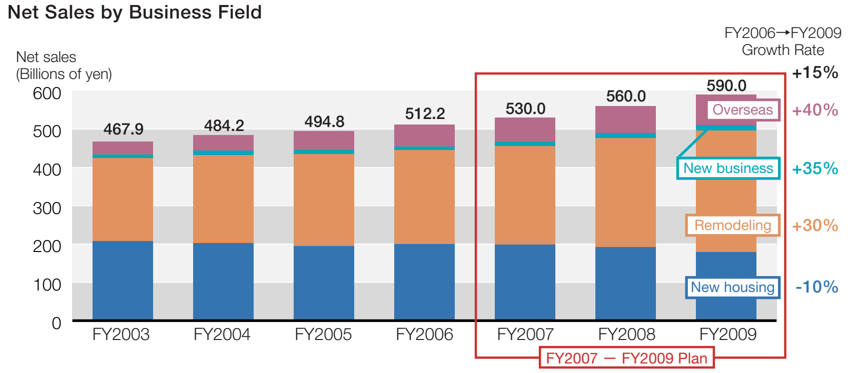
A: Over the next three years, the number of aging residential structures, condominiums and nonresidential buildings will rise. These structures will have been built 13 or more years ago, which means a surge in plumbing-related product replacement and remodeling demand.

This is the impetus for further strengthening the remodeling business in the Japanese market. With the goal of thoroughly providing new lifestyle value to customers, we have divided this plan into three specific parts. The first part is improving the quality of consulting at showrooms by adding to the number of advisers at each of our showrooms. This will increase customer contacts, and accordingly, our consultation execution ratio and consultation quality, and thereby raise the number of orders we receive.

Second is enhancing the quality of Remodel Club Stores, which is our network of local construction companies, by implementing a variety of supportive measures to help bolster management practices and proposal capabilities. Our goal here is to have Remodel Club Stores become community-based builders that can create demand through skillful construction and earn the trust of customers.

Third is facilitating optimal solution proposals to customers by offering products that meet the specific demands of each type of remodeling project, whether single-house, condominium or non-residential.

Net Sales by Business Field



Q7: In what ways is TOTO working to fulfill its Only One Plan?

A: Our Only One Plan encourages the use of proprietary technologies to create universal design and eco products that convey TOTO's unique sense of product design.

TOTO Universal Design (UD) Research Center is the largest universal design research facility in Japan. This is where we carefully study people's movements to create easy-to-use products so that as many people as possible can benefit from our UD-conscious designs.

Also, as part of our eco-product development efforts to meet anticipated high demand for water-efficient toilets, we are using simulation technologies to promptly develop a toilet that flushes like no other toilet does.


TOTO showroom advisor in Japan offers ideal remodeling solutions to customer

Q8: Please tell us how TOTO's strategy to strengthen the corporate foundation supports its growth strategy.

A: First, the goals of our Challenge Plan are to create a high-spirited work environment in which each and every TOTO employee is able to fulfill his or her potential; cultivate a workforce able to work autonomously; and improve communication between employees.

The Quality Plan aims to create a business structure that provides products and services revered around the world. In order to accomplish this, we will work to improve product quality, fortify activities that effectively prevent the emergence of complaints and claims against the Company, and raise customer satisfaction at customer points of contact.

The Revolution Plan aims to realize a corporate structure able to continually produce high-quality products at optimal cost and a safe work environment. Through innovative activities in each of our operating divisions from manufacturing, sales and back offices, we will move forward toward restructuring TOTO's profit generation and business structures.

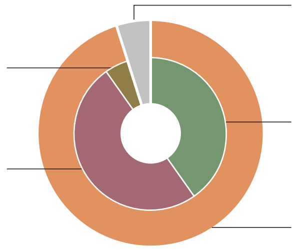
Q9: In closing, what is TOTO's policy on providing shareholder returns?

A: TOTO considers the return of profit to shareholders as priority management issue. We adopt a basic policy of paying stable dividends to shareholders and enhancing retained earnings while taking into consideration business structure reinforcement and future business development. Accordingly, we aim for a dividend payout ratio of over 30% of consolidated net income.

Commitment to Continuous Product Perfection

Composition of Net Sales by Product Category

(Year ended March 31, 2007)



Equipment for Construction

Net sales in the Equipment for Construction segment rose 3.2% year on year to ¥499.5 billion, while operating income fell 4.2% to ¥36.6 billion.

Restroom Products

Product enhancements to TOTO's popular toilets with easy-to-clean rimless basins and thoroughly cleaning Tornado flushing systems resulted in an increase in the number of units sold in the fiscal year under review. In August 2006, TOTO improved its most luxurious one-piece tankless toilet with Washlet, the NEOREST Series, with the release of the new NEOREST. This toilet features greater water efficiency with a six-liter per flush, down from eight liters, and an enhanced Washlet nozzle designed for greater cleanliness and an overall streamlined look.

In November 2006, TOTO also completed development of new six-liter per flush, water efficient models for each of its PureRest compact tank-style toilet and Z Series tank-style toilet with Washlet.

Amid increasing demand for Washlet replacements, TOTO has stepped up its efforts to meet customer needs for a variety of new lineup models, releasing the NEW Apricot with an easier-to-clean design in February 2007.

In addition, in February 2006, TOTO introduced the Restpal SX Series, an easy-to-install toilet compatible with unique condominium plumbing systems. Building on product lineups for single-house remodeling projects, TOTO is now working to strengthen its lineup geared specifically for condominium remodeling.

As a result of these efforts, restroom product net sales climbed 2.1% to ¥209.9 billion. Operating income, meanwhile, slid 2.8% year on year to ¥31.2 billion, owing to the expansion of general products and lower overall selling prices, attributable to a changing demand structure in this product field.

The luxurious NEOREST one-piece tankless toilet with Washlet features a rimless basin, Tornado flushing system and greater water efficiency using a six-liter flush.

The Washlet Apricot Series with an enhanced nozzle design provides a streamlined look and added cleanliness.

The space-saving Restpal SX compact toilet system features storage cabinets, Washlet toilet and more. Compatibility with unique condominium plumbing systems allows for easy installation.

Bath, Kitchen and Wash Products

Sales in the bath product category steadily increased owing to the addition of a condominium installation lineup of TOTO's widely acclaimed thermal pot Mahobin Bath to augment its mainstay single-housing unit bath lineup. Also, in February 2007, TOTO demonstrated efforts to further enhance its product power by introducing Sukkiri Kabe, a type of shower wall that effectively resists mold and grime buildup.

In kitchen products, sales were favorable for the modular kitchen CUISIA Series, which realizes a harmonized living and dining space environment. In August 2006, TOTO released CUISIA A-shape plan modular kitchen with a workspace designed for increased efficiency in food preparation.

In washbasin/vanity products, in April 2006, TOTO released its New Component J washbasin/vanity unit that features an aesthetically pleasing streamlined design, followed by the February 2007 launch of Remodea, a washbasin/vanity ideal for condominium bathroom remodeling projects.

As a result, compared to the previous fiscal year, net sales of bath, kitchen and wash products increased 5.3% to ¥262.1 billion, while operating income dropped 16.0% to ¥5.6 billion, mainly impacted by high material prices.

The heat-retaining Flowpia Mahobin Bath KG Series and easy-to-clean Sukkiri Kabe wall material provide newly combined comfort and cleanliness.

The CUISIA A-shape plan modular kitchen realizes maximum workspace efficiency.

Other Products

TOTO's efforts to improve its customer response capabilities and enhance product lineups resulted in sales growth of Sankanou bathroom ventilation, heater and drying equipment and the Clean Dry lavatory hand dryers. On the other hand, sales of welfare equipment and counter-type dishwashers and dryers waned due to increasingly intense competition. As a result, net sales of other products fell 6.1% year on year to ¥27.4 billion. Operating loss improved to ¥0.1 billion compared to ¥0.5 billion in the previous fiscal year.

The warm-air Clean Dry lavatory hand dryer dries hands thoroughly.

Other

Net sales in the Other segment increased 8.0% to ¥23.0 billion. In addition, the segment returned to profitability, recording ¥1.5 billion in operating income compared to an operating loss of ¥0.5 billion in the previous fiscal year.

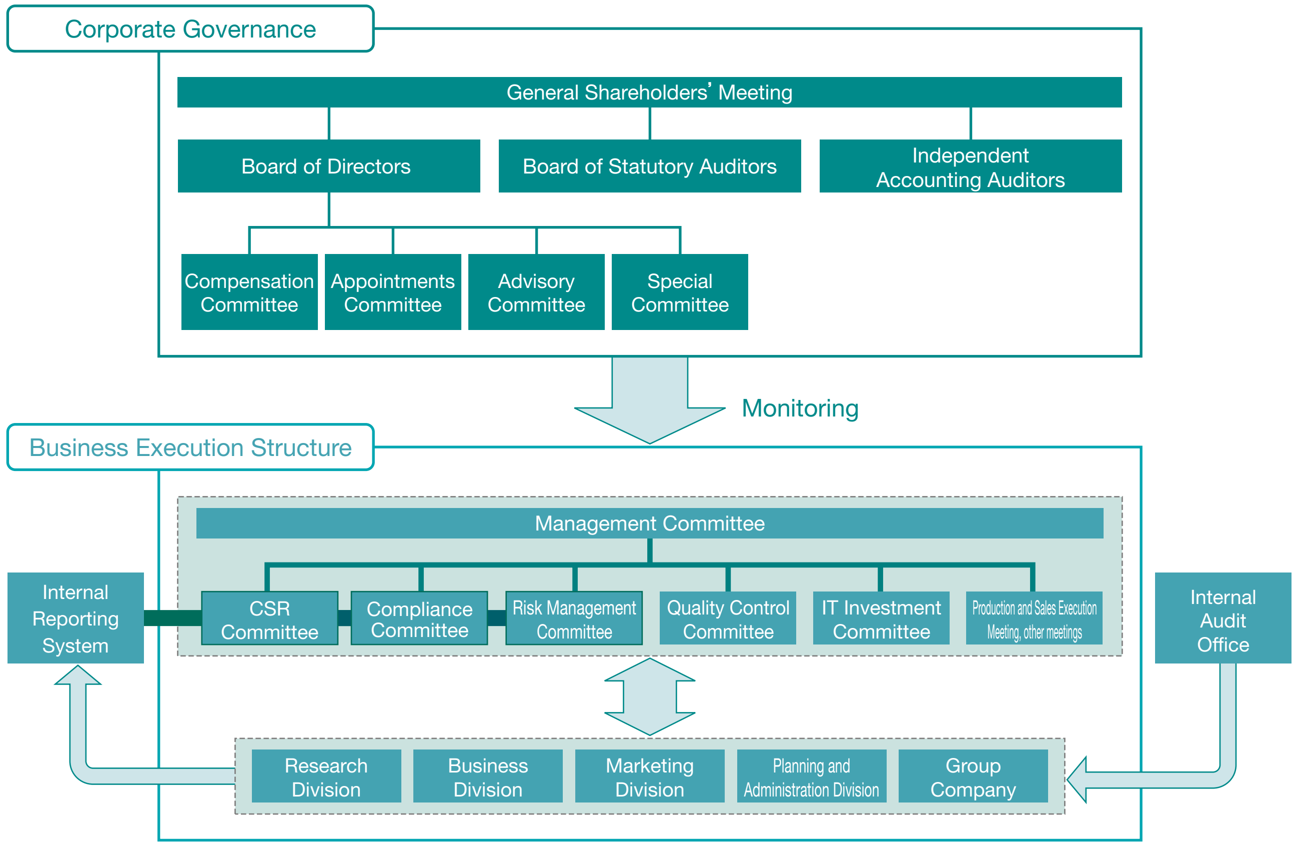
This sales and income growth is attributed to TOTO's continued enhancement of household goods with photocatalyst decomposition capabilities and hydrophilic properties, compounded by a steady recovery in demand for electrostatic chucks, optical ferules, large precision ceramic components and other advanced ceramic products.

TOTO's electrostatic chucks for semiconductor manufacturing equipment have gained high recognition in the market.

Notes 1: Net sales by segment include intra-group sales and transfers.
2: Figures are rounded down.

The TOTO Group strives to continually enhance the impartiality and transparency of its management structure

TOTO Group Management Structure (As of April 2007)



	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	Deliberates and reports 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 purchase proposal	Outside experts	3	As needed

Management Structure

● TOTO's Board of Directors, Board of Statutory Auditors and independent accounting auditors comprise the main components of the Group's management structure. Maintenance of this structure assures appropriate conduct of decision-making and the execution of operations in conformity with relevant laws and the Company's Articles of Incorporation. The adoption of an executive officer system ensures prompt decision-making and transparent management accountability.

● TOTO's Advisory Committee receives management-related advice from outside experts. The Company's Compensation Committee, which consists of outside experts and internal directors, maintains objectivity and transparency in determining directors' compensation. The Appointments Committee, comprised of representative directors, ensures objectivity and transparency regarding the appointment and dismissal of directors.

● TOTO's Compliance Committee and Risk Management Committee, both chaired by the President, were established to reinforce compliance measures and promote risk management—equally essential management issues. Enhancements implemented in fiscal 2006 to the functions of these committees resulted in Groupwide improvements to the corporate governance structure.

● To enhance objectivity in its management stance, TOTO chooses to appoint two external directors. Drawing on the judgment of these external directors, who are able to offer fresh, broad viewpoints irrespective of constricted, industry-specific perspectives, allows TOTO to conduct a more equitable corporate management with greater transparency.

● Aiming to reduce the risk of damage to corporate value, 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 stipulate the provision of sufficient and appropriate information regarding the occurrence of large-scale purchases to shareholders in order to protect shareholders' interests. TOTO will seek consultation from the Special Committee, which is set up on an as-needed basis, independent of the Board of Directors, to handle and guarantee the rational, fair, and objective determination of the necessity for countermeasure actions.

Internal Control System

● With the aim of establishing a more valuable internal control system, TOTO set up the Internal Audit Office as a supervisory entity independent of its executive divisions. The Internal Audit Office evaluates and verifies TOTO's various business activities to ensure they are conducted efficiently and effectively and in compliance with relevant laws and regulations, the TOTO corporate philosophy, and the Company's policies and rules.

Furthermore, the establishment and operation of an internal reporting system, which comprises TOTO's own internal compliance-related division and an external third-party organization, serves as a direct line of contact for employees, clients and other relevant parties to report violations of law and other compliance issues.

Six-Year Summary of Selected Financial Data

TOTO LTD. and Consolidated Subsidiaries
Years ended March 31

	2002	2003	2004	2005	2006	2007	2007
	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	¥424,097	¥439,683	¥467,925	¥484,192	¥494,785	**¥512,200**	**$4,338,840**
Cost of sales	277,910	285,154	300,355	308,067	321,214	**337,735**	**2,860,949**
Cost of sales ratio	65.5%	64.9%	64.2%	63.6%	64.9%	**65.9%**	**—**
Gross profit	146,187	154,529	167,570	176,125	173,571	**174,465**	**1,477,891**
Selling, general and administrative (SG&A) expenses	134,565	136,909	140,136	145,706	148,407	**148,277**	**1,256,053**
SG&A ratio	31.7%	31.1%	29.9%	30.1%	30.0%	**28.9%**	**—**
Operating income	11,622	17,620	27,434	30,419	25,164	**26,188**	**221,838**
Operating margin	2.7%	4.0%	5.9%	6.3%	5.1%	**5.1%**	**—**
Income before income taxes and minority interests	3,691	10,807	24,463	23,455	21,972	**21,829**	**184,913**
Net income	1,139	4,073	11,732	13,059	12,997	**13,544**	**114,731**
Capital investment	19,700	14,500	20,600	20,100	22,400	**22,300**	**188,903**
R&D expenses	12,259	11,298	11,366	11,786	11,722	**11,752**	**99,551**
R&D expenses ratio	2.9%	2.6%	2.4%	2.4%	2.4%	**2.3%**	**—**
Cash flow	(14,597)	9,164	18,613	(15,448)	4,292	**(7,250)**	**(61,415)**
Basic net income per share (yen and U.S. dollars)	¥ 3.08	¥ 11.05	¥ 33.63	¥ 37.29	¥ 37.12	**¥ 39.07**	**$ 0.33**
Cash dividends per share applicable to the year (yen and U.S. dollars)	10.00	10.00	11.00	11.50	12.00	**13.00**	**0.11**
Total assets	¥488,207	¥471,482	¥462,622	¥460,950	¥474,824	**¥466,736**	**$3,953,715**
ROA	0.2%	0.8%	2.5%	2.8%	2.8%	**2.9%**	**—**
Total current assets	215,729	219,919	224,075	218,598	214,130	**217,780**	**1,844,812**
Fixed assets	272,478	251,563	238,547	242,352	260,694	**248,956**	**2,108,903**
Net property, plant and equipment	183,199	172,994	164,492	163,126	166,757	**161,045**	**1,364,210**
Total investments and other assets	89,279	78,569	74,055	79,226	93,937	**87,911**	**744,693**
Total liabilities	¥287,158	¥283,980	¥263,098	¥250,684	¥241,272	**¥233,494**	**$1,977,925**
Total current liabilities	155,347	172,331	168,367	158,870	154,249	**181,951**	**1,541,305**
Total long-term liabilities	131,811	111,649	94,731	91,814	87,023	**51,543**	**436,620**
Net assets	191,946	178,312	189,857	199,372	233,552	**233,242**	**1,975,790**
ROE	0.6%	2.2%	6.4%	6.7%	6.2%	**6.0%**	**—**

Notes 1: Cash flow = Net increase (decrease) in cash and cash equivalents.
2: Effective the fiscal year ended March 31, 2007, the Company has adopted a new accounting standard for the presentation of net assets in the balance sheet and the related implementation guidance. Consequently, total shareholders' equity for the fiscal year ended March 31, 2006 has been restated as net assets to conform to the new accounting standard. Net assets from the fiscal years ended March 31, 2002 to 2005 are equivalent to total shareholders' equity based on the previous accounting standard.

Management's Discussion and Analysis of Operations

Scope of Consolidation

The TOTO Group's consolidated financial statements reflect the performance of TOTO LTD., 56 consolidated subsidiaries (37 domestic, 19 overseas) and seven affiliated companies (two domestic, five overseas) accounted for under the equity method. A sanitary ware manufacturing subsidiary established in Mexico last year was newly added to the scope of consolidation. Furthermore, two domestic subsidiaries were excluded due to a merger.

Market Environment

In the fiscal year ended March 31, 2007, the domestic economy exhibited a modest recovery spurred on by improvements in employment conditions and personal income on the back of healthy corporate earnings. In the housing equipment industry, the number of new housing starts of both single-unit housing and condominiums expanded to 1,280,000 units, an increase of 34,000 units compared to the previous fiscal year. Likewise, demand for remodeling was strong. Despite this growth, the operating environment remained harsh on the earnings front due to intensified price competition and sharp rises in raw material prices.

Revenues and Earnings

In the fiscal year under review, TOTO LTD. and its consolidated subsidiaries saw a modest 3.5% increase in net sales, year on year, to ¥512.2 billion. Sales by business field were strong all around with healthy new housing and remodeling sales and a substantial increase in overseas sales.

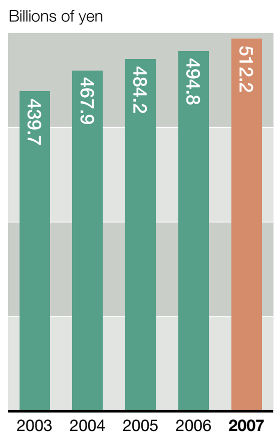
Cost of sales climbed 5.1% year on year to ¥337.7 billion. The cost of sales ratio rose 1.0 percentage point, from 64.9% in the previous fiscal year to 65.9%. Gross profit rose slightly to ¥174.5 billion, while the gross profit ratio slipped 1.0 percentage point, from 35.1% to 34.1%, owing mainly to high raw material prices and the increased quantity of lower-priced general products in the market.

Selling, general and administrative (SG&A) expenses remained on par with the previous fiscal year, amounting to ¥148.3 billion. The ratio of SG&A expense to net sales dropped 1.1 percentage points, from 30.0% to 28.9%.

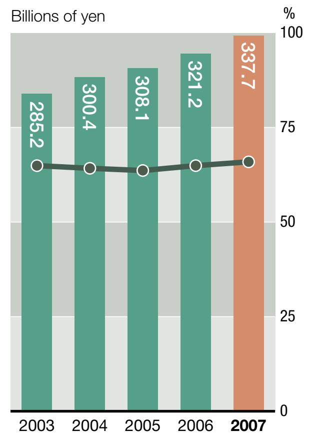
Accounting for the above factors, operating income in the fiscal year ended March 31, 2007 increased 4.1%, year on year, to ¥26.2 billion. The operating margin remained unchanged at 5.1%.

In other income and expenses, an expenditure excess of ¥3.2 billion in the previous fiscal year increased to ¥4.4 billion. Primary expense components were a ¥3.1 billion loss on inspection and repair of products, mainly related to toilets with warm bidet Washlet seats, and a ¥1.7 billion loss on impairment of fixed assets. Major income items were gain on sale and disposal of property, plant and equipment totaling ¥2.1 billion.

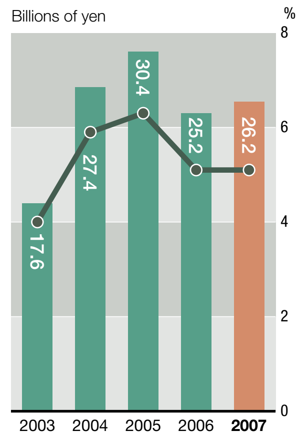
Net Sales



Cost of Sales and Cost of Sales Ratio



Operating Income and Operating Margin



As a result of the above, income before income taxes and minority interests in the fiscal year under review dipped 0.7% compared to the previous fiscal year to ¥21.8 billion. Net income rose 4.2% to ¥13.5 billion, while return on sales remained unchanged at 2.6%. Basic net income per share improved from ¥37.12 to ¥39.07, while diluted net income per share also increased, from ¥36.13 to ¥37.96.

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, with a view to establishing a sound long-term business foundation, the Company applies retained earnings to raising product competitiveness, enhancing and strengthening production and sales structures, and developing new and overseas businesses. Furthermore, 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 ¥1.0 per share to ¥13.00 per share (including a ¥6.50 per share interim dividend). This resulted in a dividend payout ratio of 33.3%.

Financial Position

As of March 31, 2007, consolidated total assets amounted to ¥466.7 billion, a decrease of ¥8.1 billion from the previous fiscal year end.

Total current assets increased by ¥3.7 billion to ¥217.8 billion. Trade notes and accounts receivable rose ¥2.0 billion and inventories increased by ¥6.0 billion. Cash and cash equivalents, however, declined ¥7.3 billion.

Net property, plant and equipment decreased ¥5.7 billion to ¥161.0 billion. Total investments and other assets declined ¥6.0 billion to ¥87.9 billion, primarily owing to a decrease in investment securities of ¥4.4 billion.

Total current liabilities grew ¥27.7 billion from the end of the previous fiscal year to ¥182.0 billion. Major factors underlying this increase were the transfer of long-term liabilities to convertible bonds due within one year, increasing the current portion of long-term debt to ¥30.4 billion, as well as ¥3.1 billion in accrual for loss on inspection and repair of products. Short-term bank loans decreased ¥4.1 billion from the end of the previous fiscal year.

Total long-term liabilities decreased ¥35.5 billion from the previous fiscal year-end to ¥51.5 billion, mainly due to the aforementioned transfer of convertible bonds due in 2008 to current liabilities. In addition, accrued retirement benefits for employees declined ¥5.0 billion.

Interest-bearing debt (the total of short-term bank loans, current portion of long-term debt, commercial paper and long-term debt) declined ¥5.1 billion to ¥70.7 billion.

Working capital at the fiscal year-end totaled ¥35.8 billion, a ¥24.1 billion decline from the prior fiscal year-end. The current ratio declined from 1.39 times to 1.20 times.

From the fiscal year ended March 31, 2007, the Company adopted a new accounting standard regarding the presentation of net assets in the balance sheet whereby minority interests are included in net assets, which replaces shareholders' equity. Total net assets at the fiscal year-end stood at ¥233.2 billion. The equity ratio (net assets minus minority interests divided by total assets) improved 2.4 percentage points, from 46.6% to 49.0%. Return on equity dipped 0.2 of a percentage point, from 6.2 % to 6.0%. Net assets per share, based on the weighted-average number of shares outstanding during the fiscal year under review, increased from ¥638.38 to ¥659.68.

R&D Expenses

The TOTO Group undertakes R&D activities in line with its mission to create lifestyle value, while at the same time pursuing only-one technologies and the realization of products imbued with TOTO's unique qualities.

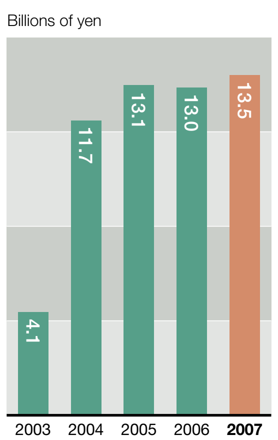
While aiming to create products that provide customers with daily ease and comfort, TOTO also strives to develop water- and energy-efficient environmentally sound products. These efforts are typified by enhancements to product lineups that help to reduce plumbing-related CO_2 emissions, such as our energy-saving, six-/five-liter per flush (big and small flushing options, respectively) toilets and the highly acclaimed, revolutionary thermal pot Mahobin bath that maintains bathwater temperatures.

TOTO also promotes the development of universal design (UD) products that provide ease-of-use for everyone as well as offer safety and comfort in everyday living. At the core of this effort is the Company's UD Research Center.

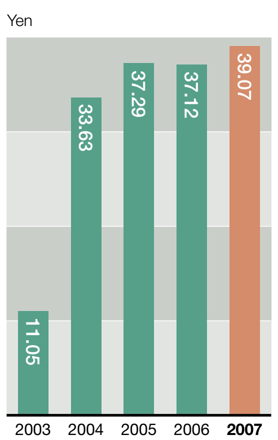
In addition, the Company aggressively pursues new technological developments in photocatalyst technology and solid oxide fuel cells.

Research and development expenses (included in SG&A expenses) remained relatively even with the previous fiscal year, amounting to ¥11.8 billion. The ratio of R&D expenses to net sales was 2.3%. By segment, R&D expenses totaled ¥8.5 billion in Equipment for Construction and ¥0.9 billion in the Other segment. A further ¥2.4 billion in R&D expenses were unallocated to specific business.

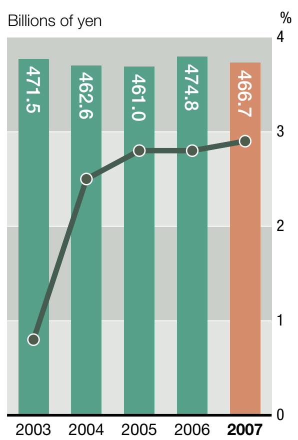
Net Income



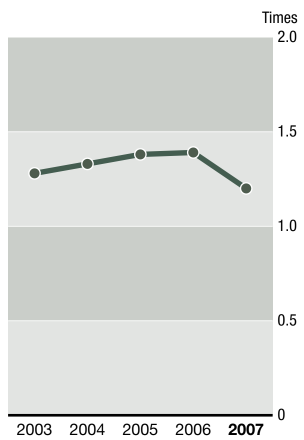
Basic Net Income per Share



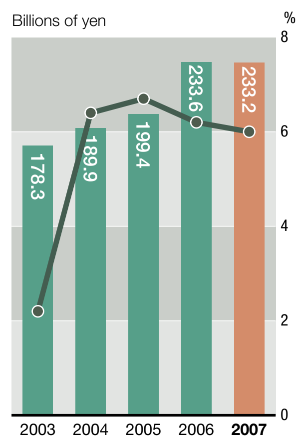
Total Assets and ROA



Current Ratio



Net Assets and ROE



R&D Expenses

Capital Investment and Depreciation

In the fiscal year under review, the Group's capital investment totaled ¥22.3 billion, down slightly by ¥0.1 billion from the previous fiscal year. Accounting for a major portion of this total were the construction of a sanitary ware manufacturing factory in Mexico, installation of manufacturing equipment at a plant in Vietnam, the purchase of molds and manufacturing equipment for domestic Group companies, and enhancements to showrooms in Japan.

Depreciation and amortization increased ¥1.1 billion, year on year, to ¥22.0 billion. For the fiscal year ending March 31, 2008, the Company anticipates capital investment of ¥25.0 billion and depreciation and amortization of ¥22.0 billion.

Cash Flows

Net cash provided by operating activities increased ¥1.7 billion from the previous fiscal year to ¥28.6 billion. In the fiscal year under review, the main sources of cash included ¥21.8 billion from income before income taxes and minority interests, and ¥22.0 billion from depreciation and amortization. Items that reduced cash were ¥5.6 billion in inventories, and ¥5.0 billion in employees' retirement benefits paid, net of provision.

Net cash used in investing activities totaled ¥25.3 billion, up ¥18.1 billion from the previous fiscal year. The primary components were ¥17.7 billion for purchases of property, plant and equipment, ¥7.9 billion for the acquisition of investments in subsidiaries, and ¥4.6 billion from proceeds from sales of property, plant and equipment.

Net cash used in financing activities decreased ¥5.7 billion from the previous fiscal year to ¥10.8 billion. Although TOTO procured capital through proceeds from issuance of commercial paper, this was offset by the redemption of commercial paper, cash dividends paid, and repayment of bank loans.

As a result, cash and cash equivalents at end of year declined ¥7.3 billion, from ¥47.8 billion at the end of the previous fiscal year to ¥40.6 billion.

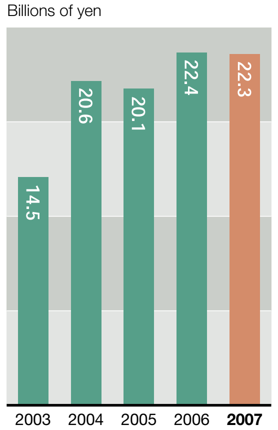
Business Risk

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.

Capital Investment

Billions of yen



Cash Flow

Billions of yen

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 appointing 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
March 31, 2006 and 2007

ASSETS	2006	2007	2007
	Millions of yen	Millions of yen	Thousands of U.S. dollars (Note 3)
Current assets:			
Cash and cash equivalents	¥ 47,829	**¥ 40,579**	**$ 343,744**
Short-term investments (Note 14)	75	**527**	**4,464**
Notes and accounts receivable:			
Trade	89,528	**91,543**	**775,460**
Allowance for doubtful receivables	(1,019)	**(799)**	**(6,768)**
	88,509	**90,744**	**768,692**
Inventories (Note 4)	61,251	**67,205**	**569,293**
Deferred tax assets (Note 8)	4,500	**5,778**	**48,945**
Other current assets	11,966	**12,947**	**109,674**
Total current assets	214,130	**217,780**	**1,844,812**
Property, plant and equipment (Note 6)**:**			
Land	47,995	**47,182**	**399,678**
Buildings and structures	166,461	**166,568**	**1,410,995**
Machinery and equipment	142,275	**145,093**	**1,229,081**
Construction in progress	5,982	**3,479**	**29,471**
Other	58,384	**61,535**	**521,262**
	421,097	**423,857**	**3,590,487**
Accumulated depreciation	(254,340)	**(262,812)**	**(2,226,277)**
Property, plant and equipment, net	166,757	**161,045**	**1,364,210**
Investments and other assets:			
Investment securities (Notes 6 and 14)	50,571	**46,206**	**391,410**
Investments in and loans to unconsolidated subsidiaries and affiliates	5,712	**6,299**	**53,359**
Long-term loans receivable	571	**487**	**4,125**
Guaranty money deposited	5,951	**5,979**	**50,648**
Deferred tax assets (Note 8)	12,690	**11,915**	**100,932**
Goodwill	192	**26**	**220**
Other	18,250	**16,999**	**143,999**
Total investments and other assets	93,937	**87,911**	**744,693**
Total assets	¥ 474,824	**¥ 466,736**	**$ 3,953,715**

See notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	2006	2007	2007
	Millions of yen	Millions of yen	Thousands of U.S. dollars (Note 3)
Current liabilities:			
Notes and accounts payable:			
Trade	¥ 59,588	**¥ 61,919**	**$ 524,515**
Property and equipment	5,547	**3,516**	**29,784**
	65,135	**65,435**	**554,299**
Short-term bank loans (Note 5)	32,711	**28,606**	**242,321**
Current portion of long-term debt (Notes 5 and 6)	871	**30,372**	**257,281**
Commercial paper (Note 5)	10,000	**10,000**	**84,710**
Other accounts payable	7,250	**6,855**	**58,069**
Accrued income taxes (Note 8)	4,416	**3,960**	**33,545**
Accrued expenses	19,011	**19,948**	**168,979**
Accrued directors' bonuses	—	**86**	**729**
Accrual for loss on inspection and repair of products	—	**3,079**	**26,082**
Other current liabilities (Note 8)	14,855	**13,610**	**115,290**
Total current liabilities	154,249	**181,951**	**1,541,305**
Long-term liabilities:			
Long-term debt (Notes 5 and 6)	32,159	**1,693**	**14,341**
Accrued retirement benefits for employees (Note 9)	53,432	**48,383**	**409,852**
Accrued retirement benefits for directors	595	**490**	**4,151**
Other (Note 8)	837	**977**	**8,276**
Total long-term liabilities	87,023	**51,543**	**436,620**
Contingent liabilities (Note 13)			
Net assets:			
Shareholders' equity (Notes 7 and 16)**:**			
Common stock without par value Authorized—700,000,000 shares in 2006 and 1,400,000,000 shares in 2007 Issued—371,662,595 shares in 2006, and 371,662,595 shares in 2007	35,579	**35,579**	**301,389**
Capital surplus	29,370	**29,380**	**248,878**
Retained earnings	157,222	**166,309**	**1,408,801**
Less treasury stock, at cost; 24,935,482 shares in 2006 and 25,114,108 shares in 2007	(13,996)	**(14,217)**	**(120,432)**
Total shareholders' equity	208,175	**217,051**	**1,838,636**
Valuation and translation adjustments:			
Net unrealized holding gains on securities	15,347	**12,417**	**105,185**
Translation adjustments	(2,056)	**(859)**	**(7,277)**
Total valuation and translation adjustments	13,291	**11,558**	**97,908**
Minority interests	12,086	**4,633**	**39,246**
Total net assets	233,552	**233,242**	**1,975,790**
Total liabilities and net assets	¥474,824	**¥466,736**	**$3,953,715**

Consolidated Statements of Income

TOTO LTD. and Consolidated Subsidiaries
Years ended March 31, 2006 and 2007

	2006	2007	2007
	Millions of yen	Millions of yen	Thousands of U.S. dollars (Note 3)
Net sales	¥494,785	**¥512,200**	**$4,338,840**
Cost of sales	321,214	**337,735**	**2,860,949**
Gross profit	173,571	**174,465**	**1,477,891**
Selling, general and administrative expenses (Note 10)	148,407	**148,277**	**1,256,053**
Operating income	25,164	**26,188**	**221,838**
Other income (expenses):			
Interest and dividend income	826	**1,090**	**9,233**
Interest expense	(1,395)	**(1,675)**	**(14,189)**
(Loss) gain on sales and disposal of property, plant and equipment, net	(1,072)	**2,073**	**17,560**
Gain on sales of investment securities, net	573	**13**	**110**
Loss on sales of investment in affiliates	(47)	**—**	**—**
Loss on devaluation of securities	(21)	**(99)**	**(839)**
Loss on disposal of inventories	(1,416)	**(596)**	**(5,048)**
Foreign exchange gain, net	463	**49**	**415**
Sales discounts	(1,013)	**(1,100)**	**(9,318)**
Loss on impairment of fixed assets	—	**(1,709)**	**(14,477)**
Loss on devaluation of investments in unconsolidated subsidiaries	—	**(590)**	**(4,998)**
Loss on devaluation of memberships	(18)	**(7)**	**(59)**
Equity in earning of unconsolidated subsidiaries and affiliates	1,067	**1,155**	**9,784**
Costs related to disposal and demolition of plant facilities	(627)	**—**	**—**
Costs related to environmental measures	(1,149)	**(284)**	**(2,406)**
Loss on overseas operations	—	**(750)**	**(6,353)**
Loss on inspection and repair of products	—	**(3,096)**	**(26,226)**
Other, net	637	**1,167**	**9,886**
Income before income taxes and minority interests	21,972	**21,829**	**184,913**
Income taxes (Note 8)**:**			
Current	6,821	**5,571**	**47,192**
Deferred	671	**1,557**	**13,189**
	7,492	**7,128**	**60,381**
Minority interests	(1,483)	**(1,157)**	**(9,801)**
Net income (Note 11)	¥ 12,997	**¥ 13,544**	**$ 114,731**

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

TOTO LTD. and Consolidated Subsidiaries
Years ended March 31, 2006 and 2007

	Number of shares in issue	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gains on securities	Translation adjustments	Minority interests	Total net assets
		Millions of yen							
Balance at March 31, 2005	371,662,595	¥35,579	¥29,364	¥148,516	¥ (13,868)	¥ 4,505	¥(4,724)	¥10,894	¥210,266
Net income	—	—	—	12,997	—	—	—	—	12,997
Cash dividends paid	—	—	—	(4,164)	—	—	—	—	(4,164)
Bonuses to directors and statutory auditors	—	—	—	(127)	—	—	—	—	(127)
Purchases of treasury stock	—	—	—	—	(137)	—	—	—	(137)
Disposition of treasury stock	—	—	6	—	9	—	—	—	15
Net changes in items other than shareholders' equity	—	—	—	—	—	10,842	2,668	1,192	14,702
Balance at March 31, 2006	371,662,595	35,579	29,370	157,222	(13,996)	15,347	(2,056)	12,086	233,552
Net income	**—**	**—**	**—**	**13,544**	**—**	**—**	**—**	**—**	**13,544**
Cash dividends paid	**—**	**—**	**—**	**(4,335)**	**—**	**—**	**—**	**—**	**(4,335)**
Bonuses to directors and statutory auditors	**—**	**—**	**—**	**(122)**	**—**	**—**	**—**	**—**	**(122)**
Purchases of treasury stock	**—**	**—**	**—**	**—**	**(230)**	**—**	**—**	**—**	**(230)**
Disposition of treasury stock	**—**	**—**	**10**	**—**	**9**	**—**	**—**	**—**	**19**
Net changes in items other than shareholders' equity	**—**	**—**	**—**	**—**	**—**	**(2,930)**	**1,197**	**(7,453)**	**(9,186)**
Balance at March 31, 2007	**371,662,595**	**¥35,579**	**¥29,380**	**¥166,309**	**¥ (14,217)**	**¥12,417**	**¥ (859)**	**¥ 4,633**	**¥233,242**

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gains on securities	Translation adjustments	Minority interests	Total net assets
	Thousands of U.S. dollars (Note 3)							
Balance at March 31, 2006	$301,389	$248,793	$1,331,825	$ (118,560)	$130,005	$(17,416)	$102,380	$1,978,416
Net income	**—**	**—**	**114,731**	**—**	**—**	**—**	**—**	**114,731**
Cash dividends paid	**—**	**—**	**(36,722)**	**—**	**—**	**—**	**—**	**(36,722)**
Bonuses to directors and statutory auditors	**—**	**—**	**(1,033)**	**—**	**—**	**—**	**—**	**(1,033)**
Purchases of treasury stock	**—**	**—**	**—**	**(1,948)**	**—**	**—**	**—**	**(1,948)**
Disposition of treasury stock	**—**	**85**	**—**	**76**	**—**	**—**	**—**	**161**
Net changes in items other than shareholders' equity	**—**	**—**	**—**	**—**	**(24,820)**	**10,139**	**(63,134)**	**(77,815)**
Balance at March 31, 2007	**$301,389**	**$248,878**	**$1,408,801**	**$ (120,432)**	**$105,185**	**$ (7,277)**	**$ 39,246**	**$1,975,790**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

TOTO LTD. and Consolidated Subsidiaries
Years ended March 31, 2006 and 2007

	2006	2007	2007
	Millions of yen	Millions of yen	Thousands of U.S. dollars (Note 3)
Operating activities:			
Income before income taxes and minority interests	¥ 21,972	**¥ 21,829**	**$ 184,913**
Depreciation and amortization	20,971	**22,040**	**186,701**
Loss on impairment of fixed assets	—	**1,709**	**14,477**
Interest and dividend income	(826)	**(1,090)**	**(9,233)**
Interest expense	1,395	**1,675**	**14,189**
Provision for directors' bonuses	—	**86**	**729**
Provision for loss on inspection and repair of products	—	**3,079**	**26,082**
Employees' retirement benefits paid, net of provision	(4,262)	**(5,049)**	**(42,770)**
Directors' retirement benefits paid, net of provision	57	**(105)**	**(889)**
Loss (gain) on sales and disposal of property, plant and equipment, net	1,072	**(2,073)**	**(17,560)**
Gain on sales of investment securities, net	(573)	**(13)**	**(110)**
Loss on sales of investment in affiliates	47	**—**	**—**
Loss on devaluation of securities	21	**99**	**839**
Loss on devaluation of investments in unconsolidated subsidiaries	—	**590**	**4,998**
Loss on devaluation of memberships	18	**7**	**59**
Notes and accounts receivable	(2,254)	**(1,177)**	**(9,971)**
Inventories	(1,332)	**(5,615)**	**(47,565)**
Notes and accounts payable	2,609	**1,989**	**16,848**
Bonuses to directors and statutory auditors	(127)	**(122)**	**(1,033)**
Other	(4,614)	**(2,977)**	**(25,219)**
Subtotal	34,174	**34,882**	**295,485**
Interest and dividend income received	1,135	**1,434**	**12,147**
Interest expense paid	(1,389)	**(1,666)**	**(14,113)**
Income taxes paid	(7,048)	**(6,075)**	**(51,461)**
Net cash provided by operating activities	26,872	**28,575**	**242,058**
Investing activities:			
Purchases of property, plant and equipment	(17,855)	**(17,745)**	**(150,318)**
Proceeds from sales of property, plant and equipment	978	**4,569**	**38,704**
Increase in marketable and investment securities	(1,293)	**(1,026)**	**(8,691)**
Decrease in time deposits	14,757	**43**	**364**
Acquisition of subsidiaries' stock resulting in changes in the scope of consolidation	153	**—**	**—**
Acquisition of investments in subsidiaries	(13)	**(7,910)**	**(67,006)**
Other	(3,987)	**(3,241)**	**(27,454)**
Net cash used in investing activities	(7,260)	**(25,310)**	**(214,401)**
Financing activities:			
Decrease in bank loans	(11,334)	**(5,459)**	**(46,243)**
Proceeds from issuance of commercial paper	30,000	**50,000**	**423,549**
Redemption of commercial paper	(30,000)	**(50,000)**	**(423,549)**
Cash dividends paid	(4,161)	**(4,335)**	**(36,722)**
Purchases of treasury stock	(137)	**(230)**	**(1,948)**
Other	(869)	**(811)**	**(6,870)**
Net cash used in financing activities	(16,501)	**(10,835)**	**(91,783)**
Effect of exchange rate changes on cash and cash equivalents	1,181	**320**	**2,711**
Net increase (decrease) in cash and cash equivalents	4,292	**(7,250)**	**(61,415)**
Cash and cash equivalents at beginning of year	43,537	**47,829**	**405,159**
Cash and cash equivalents at end of year	¥ 47,829	**¥ 40,579**	**$ 343,744**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

TOTO LTD. and Consolidated Subsidiaries
March 31, 2007

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 significant companies controlled directly or indirectly by the Company. Significant 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.

Goodwill, which represents 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 net assets. 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) Accrued directors' bonuses

Accrued directors' bonuses are provided at an estimated amount of bonuses to be paid to directors and corporate auditors for the current year's services subsequent to the balance sheet date.

Effective the year ended March 31, 2007, the Company has adopted a new accounting standard for directors' bonuses. This standard requires that directors' bonuses be accounted for as an expense on an accrual basis. The effect of the adoption of this standard was to decrease operating income, and income before income taxes and minority interests by ¥86 million ($729 thousand) from the corresponding amounts which would have been recorded under the previous method. The effect of this change on segment information was immaterial.

(g) Accrual for loss on inspection and repair of products

Accrual for loss on inspection and repair of products is provided at an amount based on the cost estimated to be incurred for activities related to the inspection and repair of products subsequent to the balance sheet date.

(h) 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.

(i) 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 net assets excluding minority interests, the balance sheet accounts are also translated into yen at the rates of exchange in effect at the balance sheet date. The components of net assets excluding minority interests are translated at their historical exchange rates.

(j) Research and development costs

Research and development costs are charged to income as incurred.

(k) 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.

(l) 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.

(m) 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.

(n) Accounting standard for the presentation of net assets in the balance sheet

Effective the year ended March 31, 2007, the Company has adopted a new accounting standard for the presentation of net assets in the balance sheet and the related implementation guidance. In addition, effective the year ended March 31, 2007, the Company is required to prepare consolidated statements of changes in net assets instead of consolidated statements of shareholders' equity. In this connection, the previously reported consolidated balance sheet as of March 31, 2006 and consolidated statement of shareholders' equity for the year then ended have been restated to conform to the presentation and disclosure of the consolidated financial statements for the year ended March 31, 2007.

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 ¥118.05=US$1.00, the exchange rate prevailing on March 31, 2007. 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, 2006 and 2007 consisted of the following:

	2006	2007	2007
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Finished products	¥33,091	**¥38,594**	**$326,929**
Semifinished products, work in process and contracts in progress	14,831	**15,616**	**132,283**
Raw materials	9,461	**9,255**	**78,399**
Supplies	3,868	**3,740**	**31,682**
	¥61,251	**¥67,205**	**$569,293**

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, 2006 and 2007 were 1.2% and 2.1%, respectively. Commercial paper is due within one year with annual interests of 0.151% and 0.7% as of March 31, 2006 and 2007, respectively.

Long-term debt at March 31, 2006 and 2007 consisted of the following:

	2006	2007	2007
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Unsecured convertible bonds:			
2.7% due 2007	¥29,883	**¥29,875**	**$253,071**
Bank loans maturing through 2015 at interest rates ranging from 0.72% to 5.64%:			
Secured	468	**60**	**508**
Unsecured	2,679	**2,130**	**18,043**
	33,030	**32,065**	**271,622**
Less current portion	871	**30,372**	**257,281**
	¥32,159	**¥ 1,693**	**$ 14,341**

At March 31, 2007, 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, 2007, if all the outstanding convertible bonds had been converted at the then current conversion prices, 23,061 thousand new shares of common stock would have been issuable.

The aggregate annual maturities of long-term debt subsequent to March 31, 2007 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2008	¥30,372	$257,281
2009	445	3,770
2010	331	2,804
2011	323	2,736
2012	296	2,507
2013 and thereafter	298	2,524
	¥32,065	$271,622

6. Pledged Assets

The assets pledged as collateral for long-term debt at March 31, 2006 and 2007 were as follows:

	2006	2007	2007
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment, at net book value	¥1,195	**¥495**	**$4,193**

In addition to the above, investment securities in the amounts of ¥11 million and ¥11 million ($93 thousand) were utilized as security deposits at March 31, 2006 and 2007, respectively.

7. Capital Surplus and Retained Earnings

The Corporation Law of Japan (the "Law") provides that an amount equal to at least 10% of the amount to be disbursed as a distribution of earnings be appropriated to a 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 ($70,233 thousand) as of both March 31, 2006 and 2007.

The Law 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 Law 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.

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 2006 and 2007. 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, 2006 and 2007 differ from the statutory tax rate for the following reasons:

	2006	2007
Statutory tax rate	40.4%	**40.4%**
Effect of:		
Expenses not deductible for income tax purposes	1.3	**1.2**
Dividend income deductible for income tax purposes	(0.3)	**(0.3)**
Per capita taxes	0.9	**1.0**
Tax credit for research and development expenses	(4.6)	**(2.2)**
Different tax rates applied to foreign subsidiaries	(6.8)	**(8.3)**
Other, net	3.2	**0.9**
Effective tax rate	34.1%	**32.7%**

The significant components of deferred tax assets and liabilities as of March 31, 2006 and 2007 were as follows:

	2006	2007	2007
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Deferred tax assets:			
Accrued bonus	¥ 2,957	**¥ 3,185**	**$ 26,980**
Retirement allowances	21,374	**19,333**	**163,770**
Net operating loss carry forwards	4,392	**3,779**	**32,012**
Other	7,481	**9,043**	**76,603**
Total gross deferred tax assets	36,204	**35,340**	**299,365**
Valuation allowance	(7,095)	**(7,021)**	**(59,475)**
Total deferred tax assets	29,109	**28,319**	**239,890**
Deferred tax liabilities:			
Net unrealized holding gains on securities	(10,282)	**(8,320)**	**(70,478)**
Reserve under Special Taxation Measures Law	(1,256)	**(1,210)**	**(10,250)**
Other	(590)	**(1,322)**	**(11,199)**
Total deferred tax liabilities	(12,128)	**(10,852)**	**(91,927)**
Net deferred tax assets	¥ 16,981	**¥ 17,467**	**$147,963**

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, 2006 and 2007 for the Company's and the consolidated subsidiaries' defined benefit plans:

	2006	2007	2007
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Retirement benefit obligation	¥(146,992)	**¥(144,200)**	**$(1,221,516)**
Plan assets at fair value	86,532	**92,684**	**785,125**
Unfunded retirement benefit obligation	(60,460)	**(51,516)**	**(436,391)**
Unrecognized actuarial loss	10,271	**6,231**	**52,783**
Unrecognized prior service cost	(3,180)	**(2,889)**	**(24,473)**
Net retirement benefit obligation	(53,369)	**(48,174)**	**(408,081)**
Prepaid pension cost	63	**209**	**1,771**
Accrued retirement benefits	¥ (53,432)	**¥ (48,383)**	**$ (409,852)**

The components of retirement benefit expenses for the years ended March 31, 2006 and 2007 are outlined as follows:

	2006	2007	2007
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Service cost	¥ 5,515	**¥ 4,753**	**$ 40,263**
Interest cost	3,561	**3,584**	**30,360**
Expected return on plan assets	(2,402)	**(2,963)**	**(25,100)**
Amortization of actuarial loss	1,535	**913**	**7,734**
Amortization of prior service cost	(268)	**(268)**	**(2,270)**
Total	¥ 7,941	**¥ 6,019**	**$ 50,987**

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

	2006	2007
Discount rate	2.5%	**2.5%**
Expected return on plan assets	3.5%	**3.5%**

10. Research and Development Costs

Research and development costs included in selling, general and administrative expenses for the years ended March 31, 2006 and 2007 amounted to ¥11,722 million and ¥11,752 million ($99,551 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 excluding minority interests 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.

	2006	2007	2007
	Yen	Yen	U.S. dollars
Net income:			
Basic	¥ 37.12	**¥ 39.07**	**$0.33**
Diluted	36.13	**37.96**	**0.32**
Net assets	638.38	**659.68**	**5.59**
Cash dividends applicable to the year	12.00	**13.00**	**0.11**

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, 2006 and 2007 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:

	2006	2007	2007
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Acquisition costs:			
Machinery and equipment	¥ 314	**¥ 385**	**$ 3,261**
Other assets	6,063	**4,084**	**34,595**
	¥6,377	**¥4,469**	**$37,856**
Accumulated depreciation:			
Machinery and equipment	¥ 191	**¥ 271**	**$ 2,295**
Other assets	3,958	**2,799**	**23,710**
	¥4,149	**¥3,070**	**$26,005**
Net book value:			
Machinery and equipment	¥ 123	**¥ 114**	**$ 966**
Other assets	2,105	**1,285**	**10,885**
	¥2,228	**¥1,399**	**$11,851**

Lease payments relating to finance leases accounted for as operating leases amounted to ¥1,118 million and ¥974 million ($8,251 thousand) for the years ended March 31, 2006 and 2007, respectively. The depreciation expense of the leased assets computed by the declining-balance method over the respective lease terms amounted to ¥1,127 million and ¥894 million ($7,573 thousand) for the years ended March 31, 2006 and 2007, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2007 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2008	¥ 680	$ 5,760
2009 and thereafter	1,679	14,223
Total	¥2,359	$19,983

(b) Operating leases

Future minimum operating lease payments subsequent to March 31, 2007 for non-cancelable operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2008	¥ 465	$3,939
2009 and thereafter	569	4,820
Total	¥1,034	$8,759

13. Contingent Liabilities

The Company and its consolidated subsidiaries had the following contingent liabilities at March 31, 2007:

	Millions of yen	Thousands of U.S. dollars
Trade notes receivable discounted with banks	¥ 929	$ 7,870
Trade notes receivable endorsed	6	51
Guarantor of indebtedness of others	1,887	15,985

14. Securities

a) Information regarding marketable securities classified as other securities as of March 31, 2006 and 2007 is as follows:

March 31, 2006

	Acquisition cost	Carrying value	Gross unrealized holding gains (losses)
		Millions of yen	
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	¥21,102	¥46,691	¥25,589
Debt securities	2,513	2,531	18
Subtotal	¥23,615	¥49,222	¥25,607
Securities whose acquisition cost exceeds their carrying value:			
Equity securities	¥ 173	¥ 152	¥ (21)
Subtotal	¥ 173	¥ 152	¥ (21)
Total	¥23,788	¥49,374	¥25,586

March 31, 2007

	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	**¥20,907**	**¥41,815**	**¥20,908**	**$177,103**	**$354,214**	**$177,111**
Debt securities	**501**	**505**	**4**	**4,244**	**4,278**	**34**
Subtotal	**¥21,408**	**¥42,320**	**¥20,912**	**$181,347**	**$358,492**	**$177,145**
Securities whose acquisition cost exceeds their carrying value:						
Equity securities	**¥ 3,512**	**¥ 3,281**	**¥ (231)**	**$ 29,750**	**$ 27,793**	**$ (1,957)**
Subtotal	**¥ 3,512**	**¥ 3,281**	**¥ (231)**	**$ 29,750**	**$ 27,793**	**$ (1,957)**
Total	**¥24,920**	**¥45,601**	**¥20,681**	**$211,097**	**$386,285**	**$175,188**

b) Information regarding sales of securities classified as other securities for the years ended March 31, 2006 and 2007 is as follows:

	2006	**2007**	**2007**
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Proceeds from sales	¥841	**¥42**	**$356**
Gains on sales	577	**13**	**110**
Losses on sales	4	**0**	**0**

c) The redemption schedule for securities with maturity dates classified as other securities as of March 31, 2007 is summarized as follows:

March 31, 2007

	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	¥505	¥—	¥—	$4,278	$—	$—
Total	¥505	¥—	¥—	$4,278	$—	$—

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 in the following two business segments:

—Equipment for construction: "restroom products" such as sanitary ware, toilets and Washlets (proprietary toilet seats); "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 business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2006 and 2007 is as follows:

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, 2007

	Equipment for construction	Other	Total	Eliminations or corporate	Consolidated
			Millions of yen		
I. Sales and operating income:					
Sales to third parties	**¥499,527**	**¥12,673**	**¥512,200**	**¥ —**	**¥512,200**
Intra-group sales and transfers	**54**	**10,346**	**10,400**	**(10,400)**	**—**
Total sales	**499,581**	**23,019**	**522,600**	**(10,400)**	**512,200**
Operating expenses	**462,924**	**21,425**	**484,349**	**1,663**	**486,012**
Operating income	**¥ 36,657**	**¥ 1,594**	**¥ 38,251**	**¥(12,063)**	**¥ 26,188**
II. Assets, depreciation, loss on impairment of fixed assets and capital expenditures:					
Assets	**¥349,277**	**¥24,511**	**¥373,788**	**¥ 92,948**	**¥466,736**
Depreciation	**19,447**	**1,314**	**20,761**	**1,279**	**22,040**
Loss on impairment of fixed assets	**271**	**1,438**	**1,709**	**—**	**1,709**
Capital expenditures	**17,499**	**846**	**18,345**	**879**	**19,224**

Year ended March 31, 2007

	Equipment for construction	Other	Total	Eliminations or corporate	Consolidated
			Thousands of U.S. dollars		
I. Sales and operating income:					
Sales to third parties	**$4,231,487**	**$107,353**	**$4,338,840**	**$ —**	**$4,338,840**
Intra-group sales and transfers	**457**	**87,641**	**88,098**	**(88,098)**	**—**
Total sales	**4,231,944**	**194,994**	**4,426,938**	**(88,098)**	**4,338,840**
Operating expenses	**3,921,423**	**181,491**	**4,102,914**	**14,088**	**4,117,002**
Operating income	**$ 310,521**	**$ 13,503**	**$ 324,024**	**$(102,186)**	**$ 221,838**
II. Assets, depreciation, loss on impairment of fixed assets and capital expenditures:					
Assets	**$2,958,721**	**$207,632**	**$3,166,353**	**$ 787,362**	**$3,953,715**
Depreciation	**164,735**	**11,131**	**175,866**	**10,835**	**186,701**
Loss on impairment of fixed assets	**2,296**	**12,181**	**14,477**	**—**	**14,477**
Capital expenditures	**148,234**	**7,166**	**155,400**	**7,446**	**162,846**

The geographical segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2006 and 2007 is as follows:

Year ended March 31, 2006

	Japan	North and Central America	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, 2007

	Japan	North and Central America	China	Other	Total	Eliminations or corporate	Consolidated
				Millions of yen			
I. Sales and operating income:							
Sales to third parties	**¥459,510**	**¥28,642**	**¥17,760**	**¥ 6,288**	**¥512,200**	**¥ —**	**¥512,200**
Intra-group sales and transfers	**12,654**	**326**	**16,228**	**12,572**	**41,780**	**(41,780)**	**—**
Total sales	**472,164**	**28,968**	**33,988**	**18,860**	**553,980**	**(41,780)**	**512,200**
Operating expenses	**440,063**	**26,814**	**29,989**	**18,112**	**514,978**	**(28,966)**	**486,012**
Operating income	**¥ 32,101**	**¥ 2,154**	**¥ 3,999**	**¥ 748**	**¥ 39,002**	**¥(12,814)**	**¥ 26,188**
II. Assets	**¥317,763**	**¥18,202**	**¥29,644**	**¥18,498**	**¥384,107**	**¥ 82,629**	**¥466,736**

Year ended March 31, 2007

	Japan	North and Central America	China	Other	Total	Eliminations or corporate	Consolidated
				Thousands of U.S. dollars			
I. Sales and operating income:							
Sales to third parties	**$3,892,503**	**$242,626**	**$150,445**	**$ 53,266**	**$4,338,840**	**$ —**	**$4,338,840**
Intra-group sales and transfers	**107,192**	**2,762**	**137,467**	**106,497**	**353,918**	**(353,918)**	**—**
Total sales	**3,999,695**	**245,388**	**287,912**	**159,763**	**4,692,758**	**(353,918)**	**4,338,840**
Operating expenses	**3,727,768**	**227,141**	**254,036**	**153,427**	**4,362,372**	**(245,370)**	**4,117,002**
Operating income	**$ 271,927**	**$ 18,247**	**$ 33,876**	**$ 6,336**	**$ 330,386**	**$(108,548)**	**$ 221,838**
II. Assets	**$2,691,766**	**$154,189**	**$251,114**	**$156,696**	**$3,253,765**	**$ 699,950**	**$3,953,715**

Notes: 1. Geographical segments are divided into categories based on their geographical proximity.
2. Major nations or regions included in each geographical area are as follows:
North and Central America: U.S.A., Mexico, others
Other: Taiwan, Malaysia, the Philippines, Korea, Vietnam, Singapore, others

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries and sales (other than exports to Japan) of its foreign consolidated subsidiaries, for the year ended March 31, 2007 are summarized as follows:

Year ended March 31, 2007

	North and Central America	China	Other	Total
		Millions of yen		
Overseas sales	**¥28,590**	**¥17,716**	**¥10,364**	**¥ 56,670**
Consolidated net sales	**—**	**—**	**—**	**512,200**
		Thousands of U.S. dollars		
Overseas sales	**$242,186**	**$150,072**	**$87,793**	**$ 480,051**
Consolidated net sales	**—**	**—**	**—**	**4,338,840**
Overseas sales as a percentage of consolidated net sales	**5.6%**	**3.5%**	**2.0%**	**11.1%**

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

16. Subsequent Events

a) The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2007, was approved at a meeting of the Board of Directors held on May 24, 2007 and became effective June 7, 2007:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥6.50 - $0.055 per share)	¥2,253	$19,085

b) At the Shareholders' Meeting held on June 28, 2007, a resolution for the termination of the Company's retirement benefits plan for directors and corporate auditors and issuance of share subscription rights up to 130 units (130,000 shares) to directors and corporate auditors under a newly introduced share-based stock option plan was approved.

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, 2006 and 2007, and the related consolidated statements of income, changes in net assets, 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.

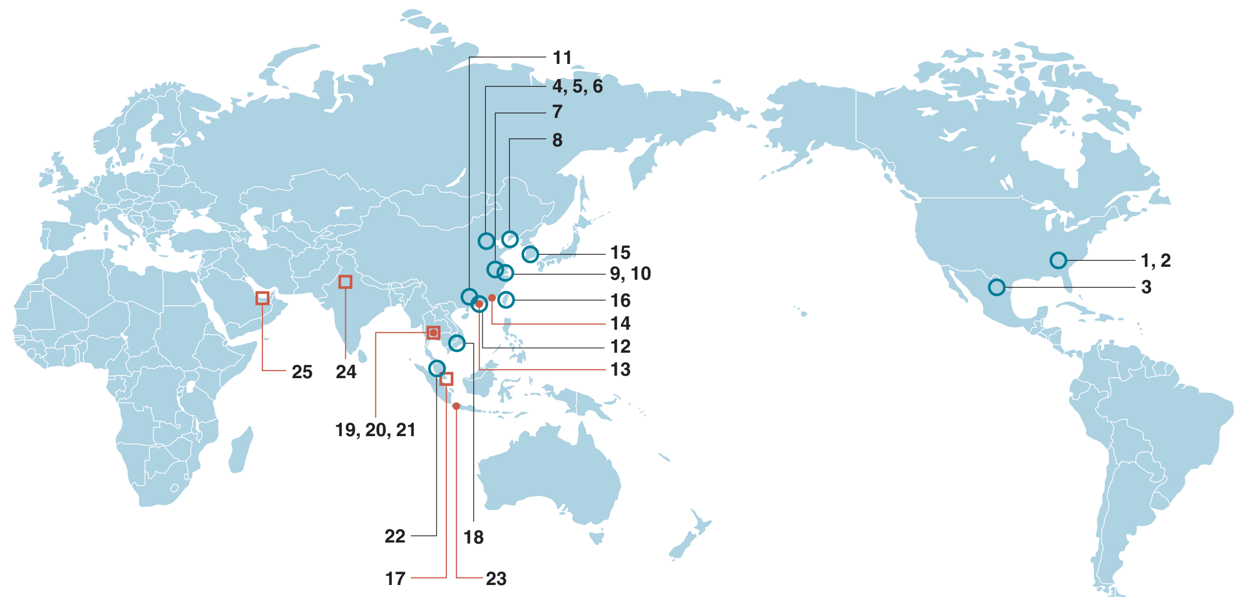
In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of TOTO LTD. and consolidated subsidiaries at March 31, 2006 and 2007, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 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 28, 2007

International Network As of June 2007



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, INC.
Holding company

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

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

5. BEIJING TOTO CO., LTD.
Manufacture of sanitary ware

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

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

8. TOTO DALIAN CO., LTD.
Manufacture of faucets

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

10. TOTO EASTCHINA CO., LTD.
Manufacture of sanitary ware

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

12. TOTO (H.K.) LTD.
Sale of TOTO products

13. ICOT H.K. LIMITED
Manufacture of tiles

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

KOREA
15. TOTO KIKI KOREA LTD.
Sale of TOTO products

TAIWAN
16. TAIWAN TOTO CO., LTD.
Manufacture and sale of TOTO products

SINGAPORE
17. TOTO LTD., SINGAPORE BRANCH
Sale of TOTO products

VIETNAM
18. TOTO VIETNAM CO., LTD.
Manufacture and sale of TOTO products

THAILAND
19. SIAM SANITARY WARE CO., LTD.
Manufacture and sale of TOTO products

20. THE SIAM SANITARY FITTINGS CO., LTD.
Manufacture of faucets

21. TOTO LTD., BANGKOK OFFICE
Sale of TOTO products

MALAYSIA
22. TOTO WASHLET (MALAYSIA) SDN. BHD.
Manufacture of Washlets

INDONESIA
23. P.T. SURYA TOTO INDONESIA
Manufacture and sale of TOTO products

INDIA
24. TOTO LTD., DELHI REP. OFFICE
Sale of TOTO products

UAE
25. TOTO LTD., DUBAI REP. OFFICE
Sale of TOTO products

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

Board of Directors

Chairman

Masatoshi Shigefuchi*

President

Teruo Kise*

Executive Vice Presidents

Akimichi Nishimura*

Toshio Uzuka*

* Representative Director

Directors

Kenji Ito

Tatsuhiko Saruwatari

Tamiji Mori

Kunio Harimoto

Hisao Ono

Kazutoyo Shinohara

Hiromichi Tabata

Masami Abe

Akio Hasunuma

Hitoshi Nakamura

Kazumoto Yamamoto

Yutaka Asou

Statutory Auditors

Kazutoshi Fujihara

Shinya Satake

Junichi Minegishi

Tatsuo Kaikawa

Executive Officers

Teruo Kise

Akimichi Nishimura

Toshio Uzuka

Kenji Ito

Tatsuhiko Saruwatari

Tamiji Mori

Kunio Harimoto

Hisao Ono

Kazutoyo Shinohara

Hiromichi Tabata

Masami Abe

Shiro Nakayama

Norio Kondo

Yoshiharu Edamatsu

Hideo Baba

Fumiaki Amano

Masayuki Kato

Akio Hasunuma

Hitoshi Nakamura

Shunji Yamada

Hiroshi Kobayashi

Yoshimitsu Saeki

Yusuke Kitafuku

Kenji Morita

Yozo Hirota

Hirotoshi Naka

Madoka Kitamura

Nobuyasu Kariu

Shinichiro Nakazato

Ujisada Hirano

Shiro Fukumoto

Company Name
TOTO LTD.

Date of Establishment
May 15, 1917

Headquarters
1-1, Nakashima 2-chome, Kokurakita-ku, Kitakyushu, Fukuoka 802-8601, Japan
URL : http://www.toto.co.jp/en

Number of Employees
20,481 (Consolidated)
7,721 (Nonconsolidated)

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

Branch Offices and Sales Offices*
.......108

Showrooms*.......106

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

*As of May 2007

Total Assets
¥466,736 million (US$3,954 million)

Net Sales
¥512,200 million (US$4,339 million)

Stock Listings
Tokyo, Nagoya and Fukuoka

Number of Shares
Authorized : 1,400,000,000
Issued : 371,662,595

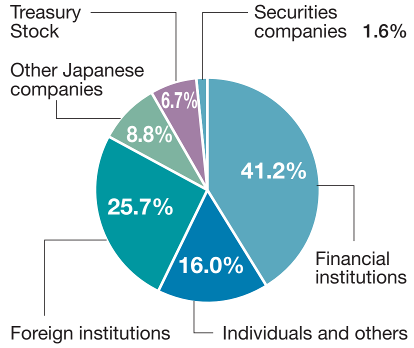
Capital Stock
¥35,579 million (US$301 million)

Number of Shareholders
28,240

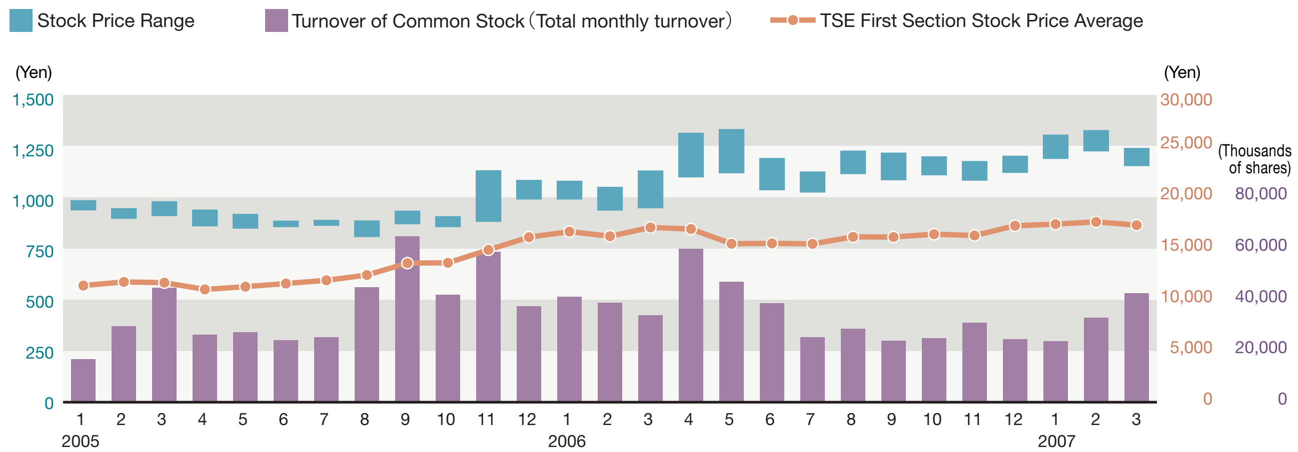
Transfer Agent
Mitsubishi UFJ Trust and Banking Corporation

Major Shareholders
State Street Bank & Trust Company: 8.3%
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%
The Master Trust Bank of Japan, Ltd. (Trust Account): 3.2%
Tokio Marine & Nichido Fire Insurance Co., Ltd.: 2.6%
The Bank of Tokyo-Mitsubishi UFJ, Ltd.: 2.5%
Japan Trustee Services Bank, Ltd. (Trust Account): 2.5%
Depositary Nominees Inc.: 2.2%

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
Phone: +81- (0) 3-3595-9422
Fax: +81- (0) 3-3595-9489
URL: https://adm.toto.co.jp/Contact/en/form_mb/forme.htm