TOTO

Annual Report **2008**

What's Inside TOTO?

Profile

TOTO was established in 1917. In an era when Japan still lacked a sewage system, the Company grew its business with the goal of helping social development, in line with the founders' strong vision of supporting a healthy and cultured life and contributing to an improved lifestyle for all. Today, TOTO's business includes plumbing-related household fixtures for bathrooms, kitchens and wash products. Last year, as the Company celebrated its 90th anniversary, it continued to expand into the fields of precision and large-scale ceramics.

TOTO aims to be indispensable to customers around the world and is developing its business not only in Japan, but also overseas in North and Central America, China, ASEAN member countries, India, and the Middle East.

Contents

Forward-Looking Statements

This annual report contains forward-looking statements, including information about business plans, earnings forecasts and strategies. Such statements reflect 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.

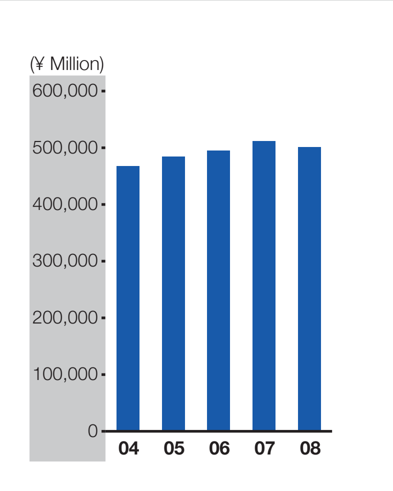
Financial Highlights

TOTO LTD. and Consolidated Subsidiaries
For the years ended March 31

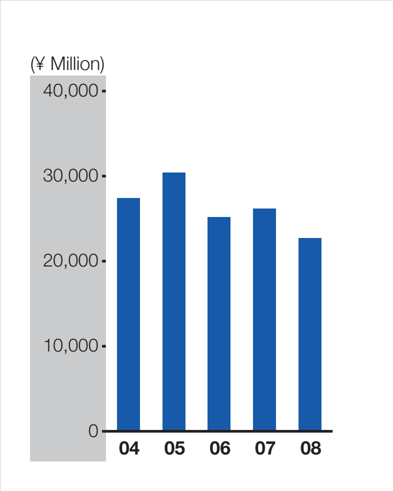
				Millions of yen		Thousands of U.S. dollars
	2004	2005	2006	2007	**2008**	**2008**
For the year:						
Net sales	¥467,925	¥484,192	¥494,785	¥512,200	**¥501,060**	**$5,001,098**
Operating income	27,434	30,419	25,164	26,188	**22,723**	**226,799**
Net income	11,732	13,059	12,997	13,544	**13,240**	**132,149**
Capital investment	20,616	20,059	22,397	22,260	**24,191**	**241,451**
R&D costs	11,366	11,786	11,722	11,752	**12,001**	**119,782**
At the year-end:						
Total assets	462,622	460,950	474,824	466,736	**451,744**	**4,508,873**
Net assets	189,857	199,372	233,552	233,242	**231,530**	**2,310,909**
					Yen	U.S. dollars
Per Share:						
Net income	¥ 33.63	¥ 37.29	¥ 37.12	¥ 39.07	**¥ 38.21**	**$0.38**
Net assets	547.25	574.43	638.38	659.68	**652.84**	**6.52**
Cash dividends	11.00	11.50	12.00	13.00	**14.00**	**0.14**
Performance indicators:						
Return on equity	6.4%	6.7%	6.2%	6.0%	**5.8%**	
Return on assets	2.5%	2.8%	2.8%	2.9%	**2.9%**	

Notes: 1. U.S. dollar amounts are stated for convenience only, using the exchange rate prevailing on March 31, 2008: ¥100.19 = US$1.00.
2. Effective the fiscal year ended March 31, 2008, 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 years ended March 31, 2004 and 2005 are equivalent to total shareholders' equity based on the previous accounting standard.

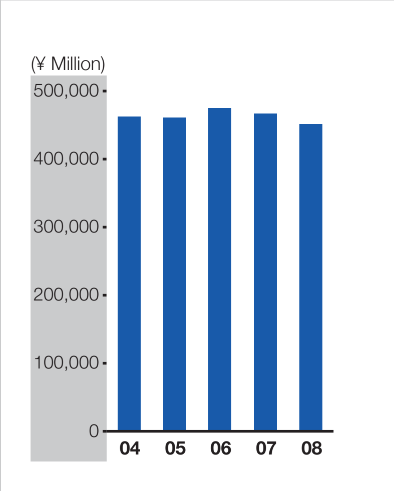
Net Sales



Operating Income



Total Assets



Message to Our Stakeholders

As we approach our 100th anniversary, TOTO will take new steps to preserve our status as a company invaluable to customers and society. Our goal is to achieve global growth by following the Remodeling Plan in Japan and establishing the TOTO brand overseas.

Message from the president

The TOTO Group constantly reviews whether our activities are of social value, and looks to maximize our corporate value by consistently acting as responsible corporate citizens in a manner unique to the TOTO Group.

Starting in April 2007 the TOTO Group began our 2007–2009 Medium-Term Management Plan, and we are working to strengthen CSR management and implement the Six-Point Plan.

Within this plan, the Group is cementing its position in the Japanese remodeling market and laying the foundations to become a truly global company as a strategy for growth.

In Japan, the declining birth rates and trends toward demographic aging suggest that demand for new housing construction may gradually decrease, while demand for remodeling may grow, thanks to the strong latent need to make existing homes more comfortable and user-friendly. We are therefore enhancing our proposal-making ability at our showrooms, where we have direct contact with customers, working to expand sales by providing new lifestyles to meet the needs of both these customer segments and to exceed our customer expectations, all the while developing eco-friendly products that conserve water and energy.

Preparing the management base for a truly global company, we aim to build a global network covering five regions—Japan, the US, China, Asia/Oceania, and Europe—as we move toward our 100th anniversary in 2017, seeking to bolster our sales capabilities in each market. In the US and China, the TOTO brand has become established mainly in the luxury market segment. In Asia/Oceania and Europe, we will work to achieve greater awareness of the TOTO brand in this same market segment.

We aim to contribute to the improvement of lifestyles and culture of each country or region and target continuous international expansion by providing environmentally friendly products and services that conserve water and energy through the application of our unique "Only One" technologies and by an even greater focus on customer needs from product development through manufacturing and sales. In order to achieve this goal, we will exceed customer expectations every day as we reach for our "tomorrow" as a company that generates lifestyle value.

I ask for the continued support of all our stakeholders in these endeavors.

Teruo Kise
President

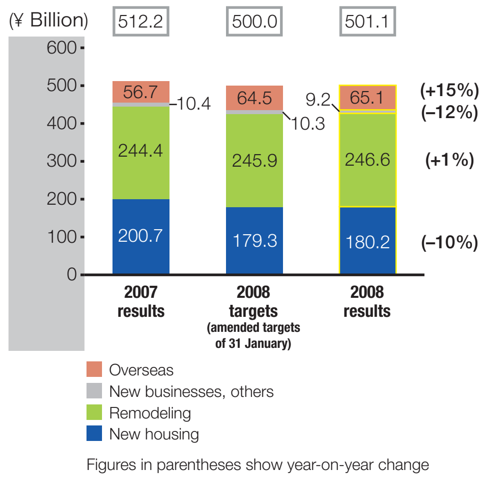
Overview of fiscal 2007

During fiscal 2007, the housing equipment industry in Japan was hit hard by the amendments to the Building Standard Law implemented in June 2007. The number of new housing starts fell significantly year-on-year, while demand for renovation and extension projects was sluggish due to falling consumption. Overseas, economic expansion and rising standards of living continue in China and across Asia, but the subprime mortgage crisis has led to falling housing demand and an economic slowdown in the US. Moreover, rising crude oil and material prices have pushed up the price of raw materials.

Amid such difficult operating conditions, we have continued to develop and launch new products suited for residential remodeling in Japan while working to expand sales by generating new remodeling demand through our showrooms. Overseas, we have worked to establish our brand image and grow demand, focusing our business development efforts on our high-performance toilets and the Washlet, both of which incorporate water-efficient technologies.

Although overseas sales expanded as a result of these activities, the growth was insufficient to cover the poor results in Japan. In fiscal 2007, ended March 31, 2008, consolidated net sales fell 2.2% from the previous fiscal year to ¥501.1 billion, the first dip in sales in six years (since fiscal 2001). Consolidated operating income declined 13.2% compared to the previous fiscal year to ¥22.7 billion, the first time in two years (since fiscal 2005) that operating income has decreased. The decline in profits was due to lowered profitability, weighed down by falling new housing construction sales, fierce price competition, and high raw materials prices, and came despite efforts to curb SG&A expenses and cut costs. By product, sales in the restroom segment rose 1% year on year, mainly due to growth in Washlet sales, but sales of bathrooms and kitchens fell by a total of 5% year on year.

Sales by segment



Major decline in new housing, steady performance overseas

Major policies

Strengthen CSR management

Strengthen CSR management from a global perspective

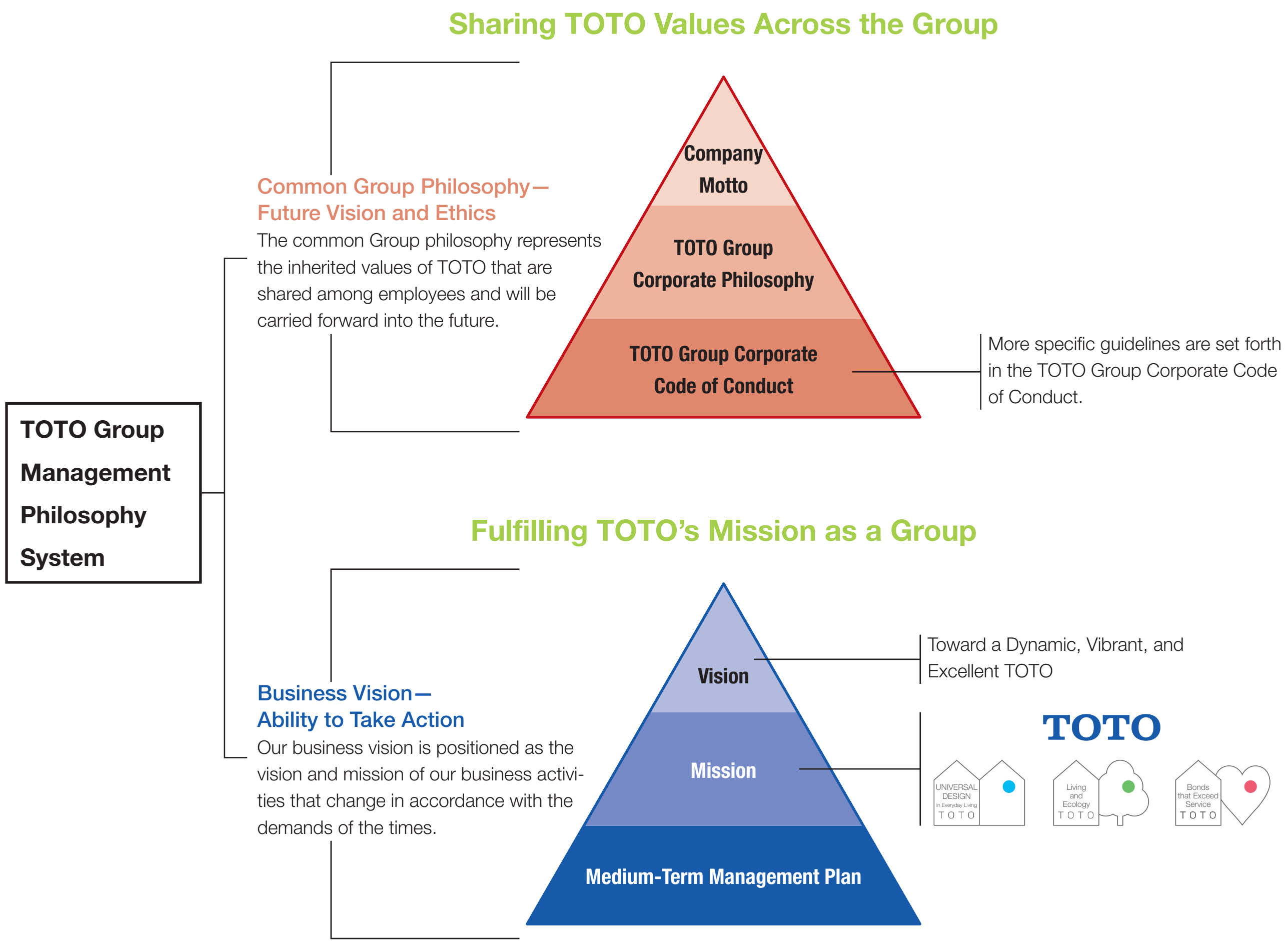
Promote Six-Point Plan

Increasing shareholder value

Returning profits to our shareholders is one of our management priorities at TOTO. Our basic strategy is to increase retained earnings and ensure stable dividend payments. We target a dividend payout ratio of 30% of consolidated net income and are working to maintain stable dividend levels. For fiscal 2007, we paid an interim dividend of ¥7 per share and a fiscal year-end payment of a further ¥7 per share, making a total dividend of ¥14 per share over the full year. We also plan a dividend of ¥14 per share for fiscal 2008.

Teruo Kise
President

Philosophy System



TOTO Group Corporate Philosophy

The TOTO Group strives to create a great company,
trusted by people all around the world,
and contributing to the betterment of society.
To achieve our philosophy, TOTO will:

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

Feature

What's Inside TOTO?

We are achieving medium- and long-term growth by prioritizing measures to support strategic growth, superb technology, and enlightened corporate culture.

Inside TOTO: Strategic Growth >>P6

Under our Remodeling Plan, we aim to cement our position in the remodeling market by generating new demand for remodeling through the provision of products and services that exceed customer expectations. Our Global Plan is aimed at establishing a strong Five-Polar structure, with a focus on the US, China, and Asia/Oceania and a move into Europe, TOTO's largest world market. We will then lead the way with our truly global, luxury brands.

Inside TOTO: Superb Technology >>P10

We are engaged in the research and development of world-class technologies and technical capabilities unique to TOTO to generate lifestyle value, while also retaining a focus on environmental conservation. This will enable us to provide safe and comfortable products and living spaces for all.

Inside TOTO: Enlightened Corporate Culture >>P11

We are strengthening our corporate structures by pursuing corporate innovation and system reforms to ensure employees are motivated to continue working at TOTO.

Inside TOTO:
Strategic Growth

Our goal is to build solid business foundations in Japan, particularly in the remodeling segment, and then gain recognition overseas to become a truly global company.

Remodeling Plan

Remodeling Market Potential

We divide demand in the area of housing equipment into two broad categories: new housing and remodeling. Our remodeling concept is more advanced than conventional extensions, structural alterations, and refurbishment, as we aim to provide customers with a new style of living that exceeds their expectations. Remodeling is different from new housing. The latter involves the entire home rather than individual living areas and the builders select the plumbing fittings. With remodeling, however, we start from the customer's lifestyle and first analyze the best use of specific spaces and facilities, then change the area so that it is more convenient and comfortable based on the previously completed needs analysis. We were the first in our industry to identify the substantial potential of the remodeling market and released our Remodel Declaration in 1993. However, we think retired baby-boomers will drive the remodeling market. We believe that the remodeling market harbors considerable potential. In fiscal 2007, the remodeling business grew such that it accounted for 58% of domestic sales.

Three Key Elements in Remodeling

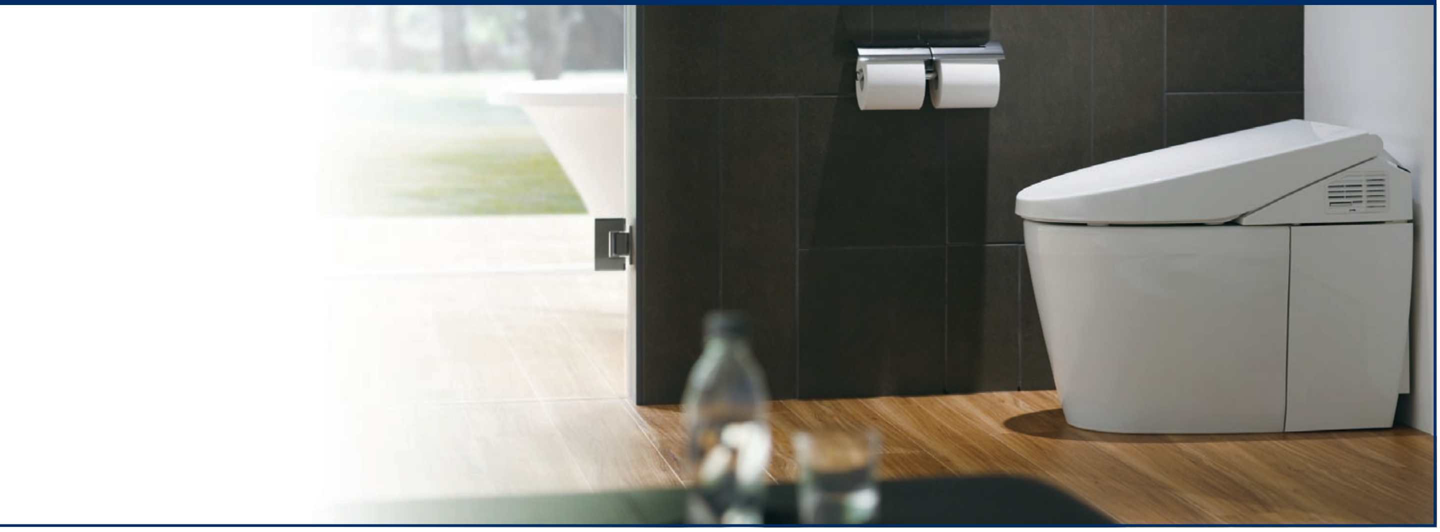
Under the Remodeling Plan, we have developed a business model that effectively combines three key elements: products, showrooms, and Remodel Club Stores.

Providing Appealing Products That Inspire Customers to Remodel

We develop appealing products that take into account customer needs.

Examples of the restroom products include the NEOREST HYBRID Series of one-piece tankless toilets with integrated Washlet, featuring a completely new flushing system. The NEOREST HYBRID Series, launched in August 2007, features a water storage tank and pressure pump built into the toilet body and provides powerful flushing performance using less water. To date, tankless toilets could not be installed in high-rise condominiums or second-storey bathrooms in standalone houses because of low water pressure, but the new NEOREST HYBRID Series solves this problem. The

NEOREST HYBRID Series toilet



NEOREST HYBRID Series has also been well received because it uses the least amount of water per flush of any toilet currently available (about 65% reduction per year compared to previous models).

In addition, the SPRINO brand of bathrooms are the first to use our Soft Karari Floor product. Our Soft Karari Floor is made of a unique three-layer structure that is soft underfoot and is quick drying.

Showrooms That Are Tied Into the Community and Act as a Site for Information Exchange

We are developing a nationwide network of showrooms to display living spaces and allow customers to actually see and experience our new and popular products. Our showroom advisors discuss customer needs, including lifestyle, family composition and age or housing equipment usage, and propose new living styles with a focus on customer convenience and satisfaction. At the end of the period under review, we had 106 showrooms across Japan.

Our future plans are aimed at improved customer satisfaction and efficient investment. From these perspectives, we will refurbish and extend existing showrooms, improve the ability of our showrooms to generate demand and make proposals, and increase the opportunities for communication with regional customers through our showrooms.

Building a Nationwide Network of 5,000 Local Contractors for Extensions, Alterations, and Construction

Our Remodel Club Stores form a nationwide network of around 5,000 affiliated businesses that provide local contractors for extensions, alterations, or construction, such as plumbers, engineers, or remodeling outlets, that are in touch with the TOTO concept of remodeling. When customers want to remodel, they can rely on Remodel Club Stores to provide support for everything from contractor selection to consultations over work costs.

The TOTO Remodeling Plan makes effective use of the three key elements of products, showrooms, and Remodel Club Stores. In this way, we provide customers with a high standard of service in terms of products, consulting, and installation. We are working to increase trust in the TOTO brand and deepen customer ties by improving the quality of consulting through our showrooms and raising the standard of Remodel Club Store contractors.

Interacting with showroom customers

Global Plan

Aiming to Increase the Proportion of Overseas Sales

Alongside our Remodeling Plan, we have also defined our Global Plan for business areas of particular focus. We are working to achieve recognition of our luxury brands and strengthen our overseas business base by establishing a Five-Polar global structure: Japan, China, the US, Asia/Oceania, and Europe. We have expanded our overseas operations since then, especially in China and the US, and now have 11 sales bases in 10 countries and 17 manufacturing bases in 9 countries. We are drawing on the overall expertise in products, sales, and supply built up in Japan to create a new lifestyle culture for overseas customers through product capabilities using TOTO "only-one technologies." We aim to develop a receptive and respected presence as a good corporate citizen in the various countries and regions where we operate.

Geographical Segments

US

We began marketing sanitary ware and other products in 1988, developing our business by targeting the high-value brand product segment, and have already achieved recognition as a manufacturer of high-performance lavatories. We will continue to develop our brand awareness as a bathroom manufacturer. We have run various campaigns

TOTO MEXICO, S.A. DE C.V.

Showroom in the U.S.

NEOREST SUITE

on our Washlets and installed demonstration toilets. In addition to these activities, we have expanded our lineup of toilet products and developed business in our high-tech, high-design products, such as the high-performance NEOREST Series of toilets with integrated Washlets. Through these successful activities, we have achieved steady growth in sales.

In February 2008, we started full-scale operations at TOTO MEXICO, S.A. DE C.V. in Mexico, in order to bolster the supply of products into the US. The Mexican operations have allowed us to approximately double our manufacturing capacity for sanitary ware (toilets and wash basins) for the North American market, thereby creating a production system that can respond flexibly to market needs.

China

Our business activities in China have targeted the top 10% of the foreign-made, luxury segment, where volumes run at 5 million units per year. We have captured a high market share, having established a position as a luxury brand by promoting excellent functionality and brand awareness. We have been actively developing our network of showrooms and opened our TOTO Hong Kong Showroom in April 2007.

The showrooms showcase all of the latest TOTO technologies and display numerous new products with a particular focus on the flagship NEOREST SUITE, our newly developed, luxury series. These efforts have allowed us to further improve our luxury brand image. TOTO products have been installed in a number of landmark buildings in China, including the Main Stadium for the Beijing Olympics. In fiscal 2008 we will work to expand our range of products such as the Washlet. We have already launched in China the ultra-water saving toilet the Eco-max, which uses only 4.8 L per flush. Customer feedback has been very positive.

An exhibition in China

Europe

We made a full-scale entry into this market with the establishment in April 2008 of our European headquarters in Germany. If we can successfully compete in this highly competitive market where there are countless luxury brand manufacturers from around the world through our luxury brand strategy, we should be able to drive the TOTO brand worldwide.

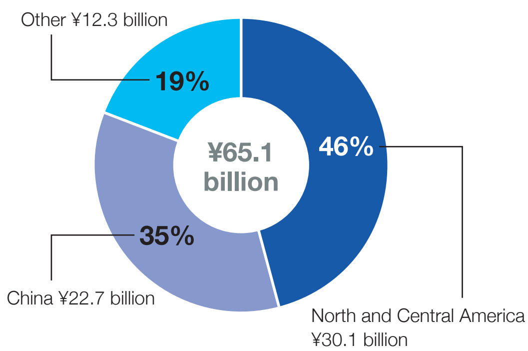
We will develop and launch functional products using the latest technologies, such as the Washlet that is not yet available in Europe; and make proposals for entire bathroom areas in line with our role as an integrated plumbing manufacturer that specializes in toilets, bathtubs and showers. These activities aim to create a new market and develop a new lifestyle culture. We will exhibit at ISH—one of the world's largest specialist international trade fairs for bathroom and air conditioning equipment—in March 2009 in Frankfurt, Germany, and plan to use this opportunity to kick off our business development across Europe. In support of this full-fledged move into Europe, we have acquired the German toilet seat manufacturer Pagette GmbH.

Asia/Oceania

Asia/Oceania is the largest supply region for TOTO Group sanitary ware and is a key market with the most growth potential of all our global businesses. We established our Asia/Oceania headquarters in Singapore in April 2008 in a bid to improve efficiency and accelerate business development by consolidating strategic proposal development and implementation that had previously been managed individually in each location. Sales to ASEAN countries are growing steadily, but the region also includes other dynamic markets such as India, which is experiencing stellar economic growth, and the Middle East, which is experiencing a boom financed by oil revenues. TOTO products are being used in airports and noted hotels and we expect sustained growth moving forward.

Our Global Plan is the first step towards achieving continued growth as a global luxury brand. Overseas sales accounted for over 10% of the total in the fiscal year ended March 2007, but we look to increase this ratio.

Distribution Ratio of Overseas Sales (FY2007)



Inside TOTO:
Superb Technology

Developing “only-one technologies” unique to TOTO in order to create lifestyle value.

Universal Design

We design products for daily use by all, to meet the need for safe, comfortable products that can be used by everyone. TOTO is engaged in the design of such lifestyle environments mainly at the TOTO Universal Design (UD) Research Center.

One example includes our work on designing toilet areas for children. We have observed child behavior at childcare centers and nursery schools and obtained input from carers to research a safe and easy-to-use toilet design. As a result, we launched KIDS’ TOILET SPACE in October 2007.

For public toilet areas, we have recognized that toilets are more than just fixtures but should be considered as an integral part of the whole space. We have launched RESTROOM ITEM 01 that has a simple design to ensure harmony with the building. The product has been extremely well received for its completely new concept.

Developing Green Products Accredited Under Our Eco-Product Certification System

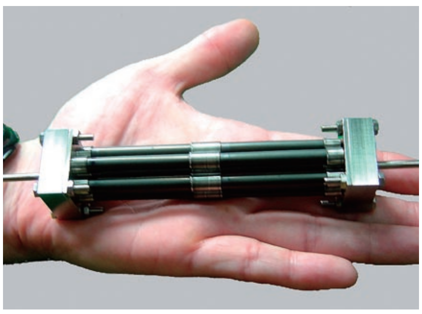
We work to preserve the environment through rigorous checks under our Eco-Product Certification System, from the planning and new product development stages prior to manufacturing, in order to develop products that can be used daily but produce a minimal burden on the environment.

Our photocatalyst Hydrotect technology uses the decomposition properties of a photocatalyst to reduce the ability of dirt to stick to the product surface. Products are therefore dirt resistant as rainwater can loosen and wash away any dirt. The hydrophilic Hydrotect color coat based on this technology is effective in eliminating nitrogen oxides and other harmful substances in vehicle exhaust emissions that cause atmospheric pollution. Lifecycle assessments (LCA) that evaluate the environmental impact of a product throughout its lifecycle, from resource extraction to manufacturing and ultimately recycling, have come into use in recent years. The product’s environmental profile is then displayed on an “Eco Leaf” environmental label. We are contributing to environmental conservation through our efforts to obtain Eco Leaf environmental labels for our products.

Turning to our work on fuel cells, we have developed a cell stack with one of the highest power generating performances in the world. We are currently trialing the fuel cells to prove their power generation capabilities.

We are also pursuing a strategic intellectual property policy to obtain patent protection on our “only-one technologies” that form the foundations of TOTO products.

The design of RESTROOM ITEM 01



Cell stack

Inside TOTO: Enlightened Corporate Culture

Strengthening systems in a strategic manner, including HR and CSR purchasing

Revising Personnel Systems and Improving Staff Training Programs

We are working to resolve the challenges faced by many of our staff, for example by cutting working hours, revitalizing personnel systems, and reforming HR structures for general staff members, in a bid to provide a motivating workplace. In fiscal 2007, we ran a campaign to promote staff taking their paid holiday allowance and set no-overtime days. We expanded our skills development program for middle-ranking and young staff members who show promise as future leaders and made efforts to improve management skills and staff training. We are also striving to create a working environment that makes the most of the talents of our female employees, in a bid to promote the generation of innovative ideas.

We implement quality assurance procedures at all stages from product design and development to shipment, under an integrated quality management system based on ISO 9001 standards. We ensure the entire Company works to rapidly deal with any complaints, establish improved processes to prevent problems reoccurring, and develop thorough evaluation methods based on customer feedback. For example, we are increasingly taking into account valuable customer feedback, from questionnaires gathered through our showrooms or through our call centers, and reflecting this in product development or quality control.

Kirameki Activities

CSR Purchasing and Business Reforms

We are developing corporate systems to enable us to continuously create a safe working environment, high-quality products, and optimal cost structures. We conduct activities with the goal of ensuring CSR purchasing penetrates across our entire Group supply chain, in order to produce high-quality products. We are running CSR training programs across the Group aimed at divisions responsible for purchasing and are using questionnaires to survey and evaluate our suppliers' approach to CSR. What's more, our focus on CSR purchasing extends overseas.

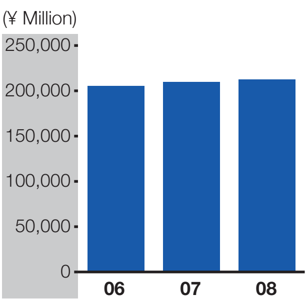
With the goal of improving corporate structures through ongoing business reforms, we are running a TSR (TOTO Structure-Revolution) program for all Group divisions. The program includes themes relevant to manufacturing, sales, and back-office divisions and covers productivity improvements and cost-cutting measures that we may roll out worldwide in the future.

Equipment for Construction

Product Overview

Restroom Products

Net Sales



Main Products

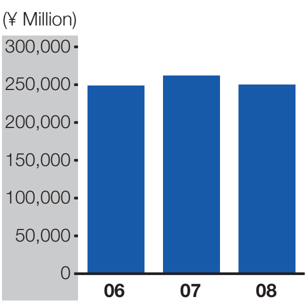
- Sanitary ware (toilet basins, urinals, sinks, washbasins, etc.)
- System toilets
- Toilet seats (e.g., the Washlet)
- Plumbing accessories, etc.

NEOREST HYBRID Series

The integration of an internal water tank and pressure pump in our new toilet range has produced the HYBRID ECOLOGY SYSTEM, world-first cleaning technology that features greater water efficiency compared with conventional products. The NEOREST HYBRID Series can be installed in homes where tankless toilets could not previously be installed because of low water pressure.

Bathrooms, Kitchens and Wash Products

Net Sales



Main Products

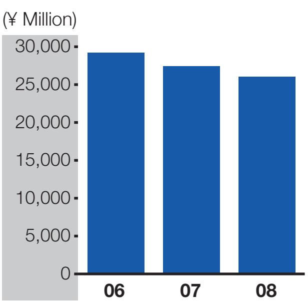
- System bathrooms
- Fittings (various faucets, drain fittings, etc.)
- Hot water systems, modular kitchens, vanity units
- Marbright artificial marble counters
- Plastic enameled bathtubs, etc.

SPRINO

SPRINO is our luxury brand of system bathroom for standalone houses. Launched in February 2008, the brand has a number of standard features including the Soft Karari Floor that is soft underfoot. It has been very well received as a product that meets a variety of needs.

Other Products

Net Sales



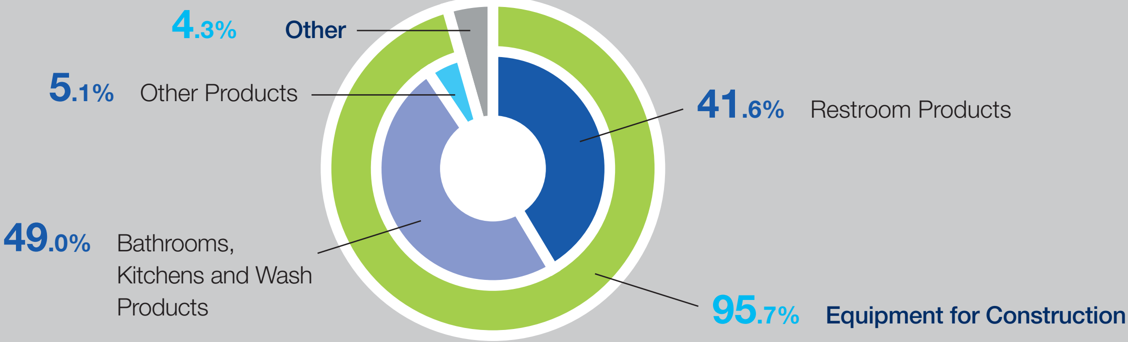
Main Products

- Tile materials, bathroom ventilation, heating and drying systems
- Welfare equipment, etc.

Clean Dry

Clean Dry is a hot air hand dryer for use after hand washing. The unit boasts a slim and sleek design to enhance any restroom. The various dryer settings range from a high-speed jet to a gentle waft of warm air.

Composition of Net Sales by Product Category
(Year ended March 31, 2008)



Apricot

Our customers want their restrooms to be clean and comfortable spaces. TOTO's Washlet continues to evolve to meet this need. While maintaining comfort and cleanliness, it has won acclaim for its smooth and simple armless design, which is widely used in even narrow toilet spaces.

KIDS' TOILET SPACE

This is a series of child-friendly plumbing fittings designed for use in nursery schools and childcare centers. The KIDS' TOILET SPACE was launched in October 2007 and can be used to create toilet areas matched to child development.

CUISIA Series Featuring a Crystal Countertop

This luxury kitchen system is designed so both the countertop and sink are made of the "Crystal Counter" epoxy resin material developed by TOTO.

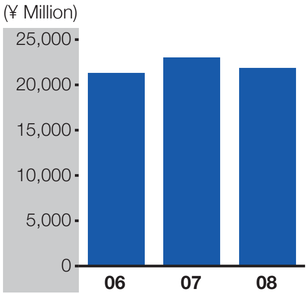
Aqua Auto Eco (hydropower type)

A no-touch faucet that runs water when you stick your hand out and stops when you pull it back. This hygienic and economical faucet effectively prevents users from forgetting to turn off the tap. Moreover, compared to two-handled faucets, water efficiency is increased by up to 84%.

Other

Net Sales

(¥ Million)

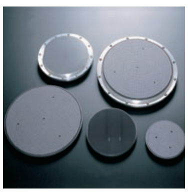


Main Products

- New ceramics
- Lifestyle products, etc.

Product Overview

Electrostatic Chucks



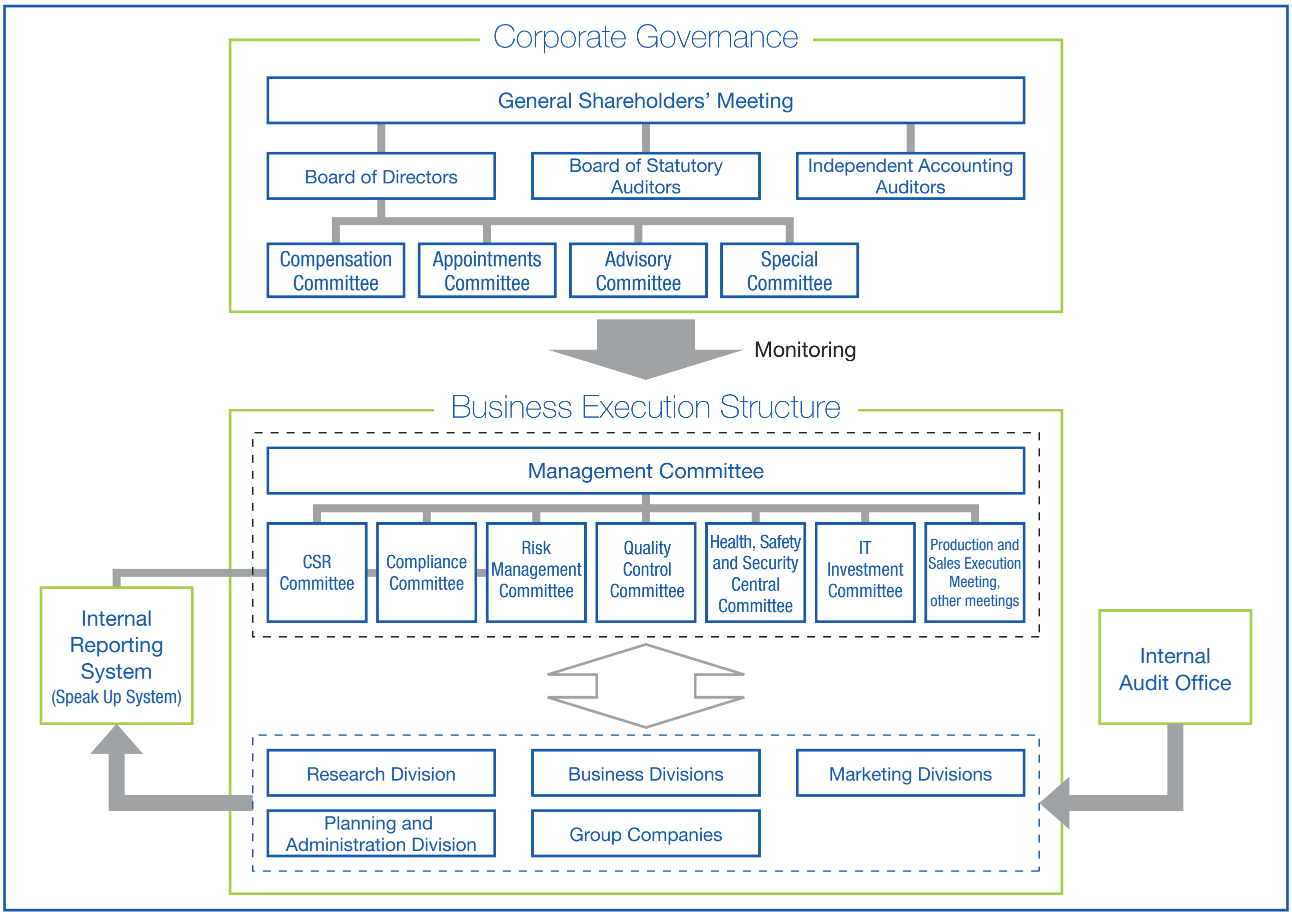
Our electrostatic chucks, developed through our long track record in materials technologies and superior precision machining technologies, are used in the latest semiconductor production equipment and enjoy an excellent reputation.

Corporate Governance

At TOTO, we are continuously working to improve our corporate governance with the objective of ensuring fair and transparent management practices. We consider improved compliance and risk management to be top priorities and have introduced CSR management methods to ensure our business operations are grounded in a strong sense of ethics.

Systems

TOTO has a Board of Directors and a Board of Statutory Auditors, and retains independent accounting auditors. These systems ensure that operational decisions and business execution are in compliance with relevant laws and the Company's Articles of Incorporation.



In June 2006, we appointed external directors to improve operational oversight and transparency. We have also introduced an executive officer system to clarify management responsibilities and accelerate decision-making. A number of committees also improve management objectivity and transparency. We have an Advisory Committee of external experts to provide overall business advice. We also have a Compensation Committee, which consists of external experts and internal directors. This committee ensures objectivity and transparency are maintained in determining directors' remuneration. Likewise, the Appointments Committee, comprising representative directors, ensures objectivity and transparency regarding the appointment and dismissal of directors.

Meanwhile, the CSR Promotion Department oversees and promotes our CSR activities. The CSR Committee, meanwhile, manages 12 subcommittees—4 on governance, 4 on environmental conservation, and 4 on society/management—and is chaired by the Company's President. The CSR Committee checks on planning and progress by each subcommittee in a systematic and ongoing fashion.

We view improved compliance and risk management as top management priorities and have therefore established a Compliance Committee headed by the Company's President. For risk management, we collate information and run risk simulations mainly through the Risk Management Committee.

The TOTO Group's corporate governance and business execution systems are shown on the previous page.

Audit Systems

In order to improve the effectiveness and quality of the audits conducted by the statutory auditors, independent accounting auditors and internal auditors, audit results and information are regularly exchanged between the three auditing groups as part of measures to strengthen auditing collaboration.

Our Internal Audit Office performs the internal audits and is staffed by nine employees. The Internal Audit Office reports directly to the President and is independent from the executive directors. The Office evaluates and verifies whether TOTO and Group company operations are being performed efficiently and in compliance with relevant laws and ordinances, the TOTO corporate philosophy, and internal regulations. Audit results are reported on a timely basis to the President and statutory auditors.

The Board of Statutory Auditors is made up of four members, of which two are external statutory auditors. Each statutory auditor conducts auditing activities in accordance with the auditing standards defined by the Board of Statutory Auditors, follows the auditing policies and plans for the term in question, and attends meetings of the Board of Directors as well as other important meetings. The statutory auditors conduct rigorous audits, through surveys of Group companies and briefings on progress with business execution by the directors and the internal audit department.

Regarding accounting audits by the independent accounting auditors, 12 certified public accountants, 6 assistant accountants, and 6 other staff conduct these audits.

Board of Directors

As of June 28, 2008

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

Kunio Harimoto

Hiromichi Tabata

Masami Abe

Akio Hasunuma

Hitoshi Nakamura

Norio Kondo

Shunji Yamada

Nobuyasu Kariu

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

Kunio Harimoto

Hiromichi Tabata

Masami Abe

Akio Hasunuma

Hitoshi Nakamura

Norio Kondo

Yoshiharu Edamatsu

Fumiaki Amano

Masayuki Kato

Shunji Yamada

Nobuyasu Kariu

Yoshimitsu Saeki

Yusuke Kitafuku

Kenji Morita

Yozo Hirota

Hirotoshi Naka

Madoka Kitamura

Shinichiro Nakazato

Ujisada Hirano

Shiro Fukumoto

Toru Sato

Kazuhide Honda

Toshifumi Shigematsu

Kiyoshi Furube

CSR

Valued by Customers and Society for Our CSR-focused Management

We consider CSR a priority issue if we are to continue being valued by customers and society. Our entire Group operations, both in Japan and overseas, emphasize rigorous compliance, environmental management, and other CSR measures. We pursue CSR from a global perspective.

CSR Systems

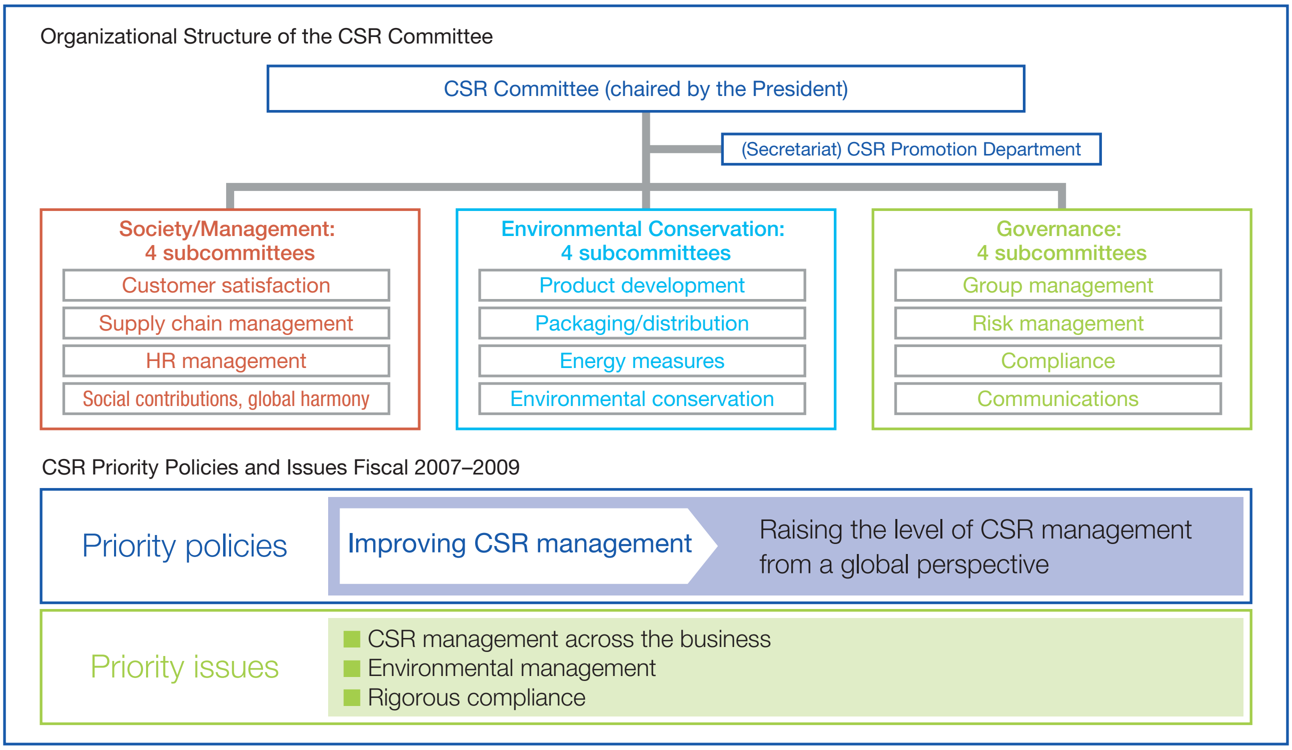
The CSR Committee, formed in fiscal 2004 and chaired by the TOTO President, manages several expert subcommittees, which deliberate activities by Group companies and divisions. During fiscal 2007, we overhauled our business organizations and systems, resulting in a more streamlined structure and the reorganization of the CSR Committee from 16 subcommittees to 12 subcommittees. (See Corporate Governance section for details.)

Our CSR activities are focused on the application of CSR management across businesses, environmental management, and rigorous compliance. Each Group company sets targets and manages its activities according to a CSR plan. Moving forward, we plan to strengthen our CSR foundations and increase the level of our CSR activities.

Addressing Environmental Issues

We have defined addressing environmental issues as part of our strategy to improve CSR management, which is a priority policy in itself. Our goal is to create products, run the business and form social systems that effectively use and recycle the Earth's resources, as symbolized by water.

We are continuing to develop technologies in all areas in order to generate quality products and services that also



conserve the environment as a natural part of our business. This includes making water-conserving and energy-saving products that our customers can use conveniently every day.

From acquisition of materials to manufacturing and disposal, TOTO uses life cycle assessment (LCA) to indicate the environmental burden each product produces on an Eco-Leaf Environment Label. TOTO is actively promoting the Eco-Leaf Environment Label as an environmental conservation initiative.

As well as providing environmentally friendly products and services, the entire TOTO Group is working to reduce CO_2 emissions through such activities as switching to natural gas as a fuel source at our manufacturing divisions and implementing energy-saving programs in our distribution and sales divisions. At our Group companies in Japan, we have set a target of a 20% reduction (compared with fiscal 1990) in CO_2 emissions by fiscal 2010 in order to achieve low-carbon operations. At our overseas Group companies, we have established numerical targets and all divisions are actively engaged in energy-saving campaigns. We are also testing out cuts in packaging materials, reuse of waste materials, and recycling of used products.

A 20kW solar power system installed on the roof of the Kokura Plant No. 1, as part of our environmental efforts.

Acting as a Corporate Citizen

Society is one of the stakeholders in our CSR activities and we are engaged in environmental conservation in order to exist in harmony with society. As part of our social contribution activities, we established the "TOTO Water Environment Fund" in fiscal 2004 to support citizen groups and NPOs engaged in innovative work to protect water environments. In 2007, the 90th anniversary of TOTO's founding, we stepped up the scale of this program, increasing grants, expanding the program overseas (including Shanghai and Vietnam, etc.), and providing grants to fund work over a number of years. In fiscal 2007, we provided a total of ¥80.51 million in funding to 29 organizations in Japan and overseas.

A volunteer cleanup drive in Shanghai

Please refer to the CSR Report for more details of our CSR activities

http://www.toto.co.jp/company/pdf/csr-digest2008_en.pdf
(Scheduled to be published in September 2008)

Financial Section

Six-Year Summary of Selected Financial Data

TOTO LTD. and Consolidated Subsidiaries
Years ended March 31

						Millions of yen	Thousands of U.S. dollars (Note 3)
	2003	2004	2005	2006	2007	**2008**	**2008**
Net sales	¥439,683	¥467,925	¥484,192	¥494,785	¥512,200	**¥501,060**	**$5,001,098**
Cost of sales	285,154	300,355	308,067	321,214	337,735	**330,782**	**3,301,547**
Cost of sales ratio	64.9%	64.2%	63.6%	64.9%	65.9%	**66.0%**	**–**
Gross profit	154,529	167,570	176,125	173,571	174,465	**170,278**	**1,699,551**
Selling, general and administrative (SG&A) expenses	136,909	140,136	145,706	148,407	148,277	**147,555**	**1,472,752**
SG&A ratio	31.1%	29.9%	30.1%	30.0%	28.9%	**29.5%**	**–**
Operating income	17,620	27,434	30,419	25,164	26,188	**22,723**	**226,799**
Operating margin	4.0%	5.9%	6.3%	5.1%	5.1%	**4.5%**	**–**
Income before income taxes and minority interests	10,807	24,463	23,455	21,972	21,829	**15,853**	**158,229**
Net income	4,073	11,732	13,059	12,997	13,544	**13,240**	**132,149**
Capital investment	14,555	20,616	20,059	22,397	22,260	**24,191**	**241,451**
R&D costs	11,298	11,366	11,786	11,722	11,752	**12,001**	**119,782**
R&D costs ratio	2.6%	2.4%	2.4%	2.4%	2.3%	**2.4%**	**–**
Cash flow (Note 1)	9,164	18,613	(15,448)	4,292	(7,250)	**2,490**	**24,853**
Basic net income per share (Yen and U.S. dollars)	¥ 11.05	¥ 33.63	¥ 37.29	¥ 37.12	¥ 39.07	**¥ 38.21**	**$ 0.38**
Cash dividends per share applicable to the year (Yen and U.S. dollars)	10.00	11.00	11.50	12.00	13.00	**14.00**	**0.14**
Total assets	¥471,482	¥462,622	¥460,950	¥474,824	¥466,736	**¥451,744**	**$4,508,873**
ROA	0.8%	2.5%	2.8%	2.8%	2.9%	**2.9%**	**–**
Total current assets	219,919	224,075	218,598	214,130	217,780	**210,126**	**2,097,275**
Total noncurrent assets	251,563	238,547	242,352	260,694	248,956	**241,618**	**2,411,598**
Net property, plant and equipment	172,994	164,492	163,126	166,757	161,045	**157,925**	**1,576,255**
Total investments and other assets	78,569	74,055	79,226	93,937	87,911	**83,693**	**835,343**
Total liabilities	¥283,980	¥263,098	¥250,684	¥241,272	¥233,494	**¥220,214**	**$2,197,964**
Total current liabilities	172,331	168,367	158,870	154,249	181,951	**160,297**	**1,599,930**
Total long-term liabilities	111,649	94,731	91,814	87,023	51,543	**59,917**	**598,034**
Net assets (Note 2)	178,312	189,857	199,372	233,552	233,242	**231,530**	**2,310,909**
ROE	2.2%	6.4%	6.7%	6.2%	6.0%	**5.8%**	**–**

Notes: 1. Cash flow = Net increase (decrease) in cash and cash equivalents.
2. Effective the fiscal year ended March 31, 2008, 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.
3. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥100.19 = U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2008.

Management's Discussion and Analysis of Operations

Market Environment

In the fiscal year ended March 31, 2008, the domestic economy continued on a modest recovery track spurred on by improvement in corporate earnings and increased capital investment. However, the business climate exhibited a strengthening trend toward deterioration due mainly to sharp increases in prices for crude oil and materials and economic deceleration in the United States. The domestic housing equipment industry, meanwhile, continued to face a harsh business climate as the number of new housing starts in Japan declined significantly from the previous fiscal year, reflecting the impact of the revised Building Standard Law, which went into effect in June 2007. Overseas, economies in China and other Asian nations continued to expand, but fears of a business slowdown loomed due to the impact of the subprime mortgage problem in the United States.

Sales Growth by Product Category

Product			Results (YoY)
		Sanitary ware	±0%
		Washlet	+3%
	Restroom Products Total		+1%
		System bathrooms	–8%
		Fittings	+6%
		Modular kitchens	–6%
		Vanity units	–9%
	Bath and Kitchen Total		–5%
Ceramics			–3%
Total			–2%

Amid this environment, the Company stepped up its proposal activities at showrooms and worked to cultivate and capture new demand by introducing products suited for remodeling. Overseas, the Company worked to capture demand by focusing business expansion efforts on the Washlet and high-performance toilets, underpinned by water conservation technology.

Net Sales and Earnings

Net Sales

The overseas business saw solid sales growth, but this was insufficient to overcome weakness in the Company's domestic business. By product, sales of bath and kitchen products were both lower. As a result, bath and kitchen product sales combined declined 5% year on year.

By area of demand, sales related to new housing were down 10% from the previous fiscal year to ¥180.2 billion due to the impact of the revised Building Standard Law. Remodeling sales increased 1% year on year to ¥246.6 billion, as growth was weak amid a tepid demand environment. However, even within this trend, benefits from demand creation were evident, with sales related to condominium remodeling up 5% and to building remodeling up 4% from the previous fiscal year.

As a result, remodeling sales as a proportion of domestic sales reached 58%. New business sales declined 12% year on year to ¥9.2 billion, while overseas sales climbed 15% to ¥65.1 billion.

Consolidated net sales in the fiscal year under review declined 2.2% to ¥501.1 billion.

Operating Income

Operating income declined 13.2% from the previous fiscal year to ¥22.7 billion, as contributions from cost-cutting measures, upward price revisions and higher overseas sales were insufficient to compensate for the impacts of lower new housing sales, lower selling prices, and changes in the demand environment, including expanded sales of standard products. The operating income margin was 4.5%, down 0.6 percentage points year on year.

Net Income

Income before income taxes and minority interests fell ¥6.0 billion, or 27.4%, to ¥15.9 billion. The main factors were a ¥1.2 billion loss on inspection and repair of products involving table-top dishwasher/dryers, announced in February 2008, and a ¥2.0 billion loss on impairment of fixed assets.

Consolidated net income fell 2.2% to ¥13.2 billion. The net income margin for the fiscal year under review was 2.6%, essentially unchanged from the previous fiscal year.

Financial Position

As of March 31, 2008, consolidated total assets amounted to ¥451.8 billion, an increase of ¥15.0 billion from the previous fiscal year.

Current assets fell ¥7.7 billion year on year to ¥210.1 billion. This mainly reflected a decline of ¥7.4 billion in trade notes and accounts receivable, an increase of ¥6.1 billion in marketable securities, and an increase in cash and cash equivalents of ¥3.1 billion.

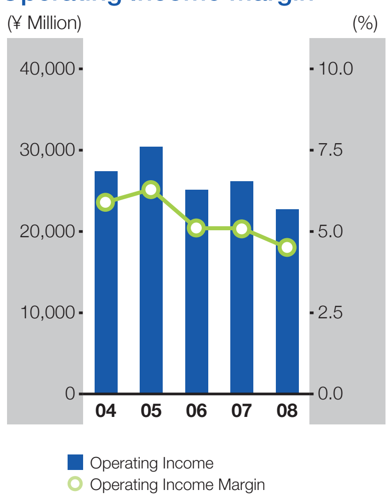
Total noncurrent assets declined ¥7.3 billion from the previous fiscal year to ¥241.6 billion. The major factors were a ¥15.0 billion decline in investment securities, an ¥11.6 billion increase in deferred tax assets, and a ¥1.8 billion decrease in buildings and structures.

Consolidated total liabilities declined ¥13.3 billion from the end of the previous fiscal year to ¥220.2 billion. This mainly reflected a ¥29.9 billion decrease in the portion of convertible bonds due within one year, a ¥14.7 billion increase in short-term bank loans, a ¥10.0 billion increase in convertible bonds due 2012, and a ¥5.3 billion decrease in accrued retirement benefits for employees.

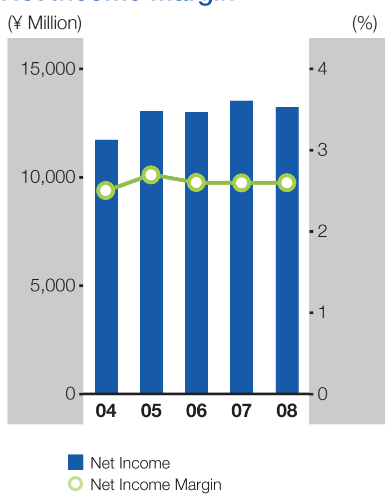
Total net assets at the end of the fiscal year totaled ¥231.5 billion, down ¥1.7 billion year on year. The main factors were an increase in retained earnings from net income of ¥13.2 billion, a reduction in retained earnings due to the payment of ¥4.7 billion in dividends, and a decline of ¥11.3 billion in net unrealized holding gains on securities.

The equity ratio (net assets minus minority interests, divided by total assets) improved 1.1 percentage points to 50.1%. Net assets per share, based on the weighted-average number of shares outstanding during the fiscal year under review, was ¥652.84. Return on equity declined 0.2 of a percentage point to 5.8%, while return on assets was 2.9%, unchanged from the previous fiscal year.

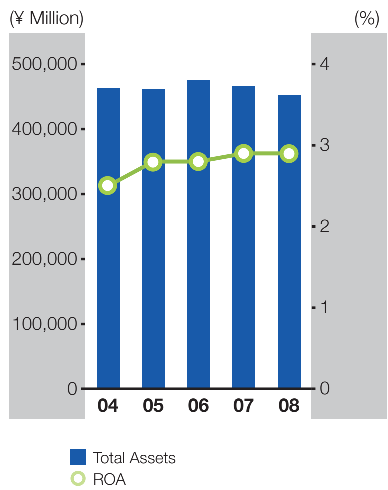
Operating Income and Operating Income Margin



Net Income and Net Income Margin



Total Assets and ROA



R&D Costs

The TOTO Group works to develop products from technological research in line with the Group's mission to create lifestyle value. The R&D Division carries out ongoing research and development on technologies that not only provide comfort but are also ecologically friendly, including technologies that 1) reduce the amount of rinse water while maintaining the same level of cleanliness, 2) slow the cooling of bathwater, and 3) release only the amount of water necessary when needed.

The Company is also working to improve the air cleansing capabilities of its proprietary photocatalyst technologies. Additionally, the Company is aggressively pursuing the development of ecologically friendly technologies, including high-efficiency solid oxide fuel cells.

To create products for people based on the keywords of comfort, gentleness, luxury, relaxation and cleanliness, the Company is developing material technologies for realizing various colors and textures and technologies that achieve unparalleled levels of stain resistance. Moreover, the Company works to continually upgrade its evaluation technologies and to accumulate further expertise in product inspection to ensure that designs are compatible with targeted functionality and to achieve complete universal design.

Consolidated research and development costs (included in SG&A expenses) totaled ¥12.0 billion. By business segment, R&D expenses totaled ¥8.8 billion in Equipment for Construction and ¥0.8 billion in the Other segment.

A further ¥2.4 billion in R&D expenses was unallocated to a specific business.

Capital Investment and Depreciation

In the fiscal year under review, the Group's capital investment totaled ¥24.2 billion. Capital investment by business segment was as follows.

In Equipment for Construction, capital expenditures totaled ¥22.1 billion, including outlays for the installation of production facilities at TOTO MEXICO, S.A. DE C.V. in Mexico, the purchase of production equipment for affiliated companies, and the reshuffling of showroom exhibits.

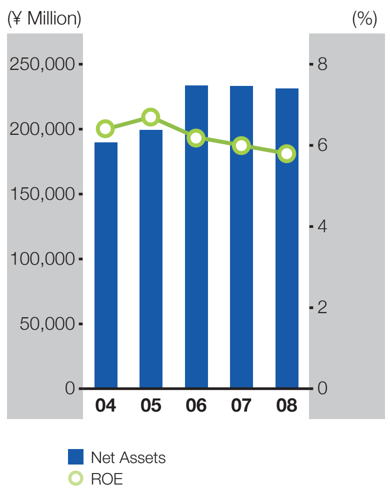
Other segment capital expenditures totaled ¥0.7 billion, including for the installation of ceramic production equipment.

Company-wide capital investment (excluding business segments) amounted to ¥1.5 billion, including outlays for the purchase of R&D equipment.

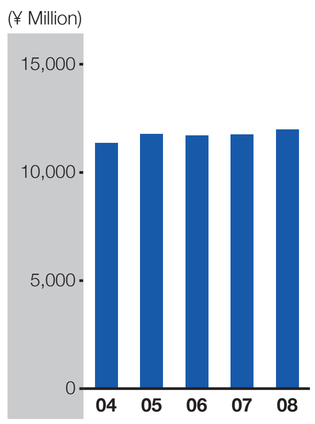
The major facilities completed in the fiscal year ended March 31, 2008 included newly constructed and remodeled showrooms in nine locations across Japan. All necessary funds were provided internally.

Depreciation and amortization increased ¥0.4 billion to ¥22.4 billion.

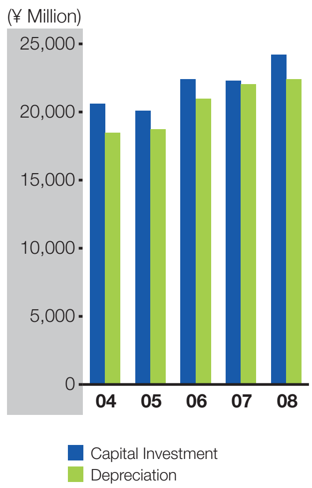
Net Assets and ROE



R&D Costs



Capital Investment and Depreciation



Cash Flows

Cash flows in the fiscal year ended March 31, 2008, were as follows.

Net Cash Provided by Operating Activities

Net cash provided by operating activities increased ¥4.3 billion from the previous fiscal year to ¥32.9 billion. The main sources of cash included ¥15.9 billion from income before income taxes and minority interests, and ¥22.4 billion from depreciation and amortization. Items that reduced cash included a ¥5.5 billion reduction in allowance provisions for employees' retirement benefits.

Net Cash Used in Investing Activities

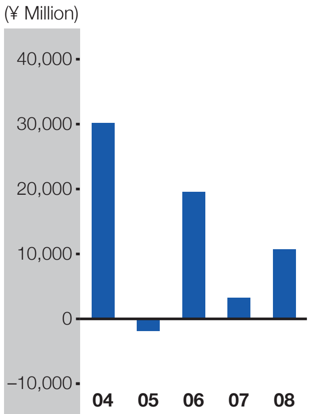
Net cash used in investing activities totaled ¥22.1 billion, down ¥3.2 billion from the previous fiscal year. The primary component was ¥17.3 billion for purchases of property, plant and equipment.

Net Cash Used in Financing Activities

Net cash used in financing activities decreased ¥3.6 billion from the previous fiscal year to ¥7.2 billion. The main use of funds was ¥29.7 billion for the redemption of convertible bonds, while the main sources of funds included ¥15.1 billion from a net increase in short-term bank loans and ¥10.0 billion from the issuance of corporate bonds.

As a result, cash and cash equivalents at the end of the fiscal year under review totaled ¥43.7 billion, up ¥3.1 billion from ¥40.6 billion at the end of the previous fiscal year. Free cash flow (cash flow provided by operating activities and cash flow used in investing activities) was positive ¥10.8 billion.

Free Cash Flow



Business Risk

The following is a list of some of the major risk factors that could potentially impact the Company's business performance and financial position. The risks described below do not constitute the entire range of risks that should be considered when investing in the Company's stock.

1. Risk of Change in Operating Environment

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

2. Risk Related to Product and Service Quality Guarantees

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

3. Risk of Personal Information Leak

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

4. Risk of Natural Disasters

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

5. Risk of War, Civil Unrest and Terrorism

The TOTO Group engages in business in many countries around the world. 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, 2007 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 3)
Assets	2007	**2008**	**2008**
Current assets:			
Cash and cash equivalents	¥ 40,579	**¥ 43,674**	**$ 435,912**
Short-term investments (Note 15)	527	**10**	**100**
Notes and accounts receivable:			
Trade	91,543	**84,093**	**839,335**
Allowance for doubtful receivables	(799)	**(698)**	**(6,967)**
	90,744	**83,395**	**832,368**
Inventories (Note 4)	67,205	**66,763**	**666,364**
Deferred tax assets (Note 9)	5,778	**3,708**	**37,010**
Other current assets	12,947	**12,576**	**125,521**
Total current assets	217,780	**210,126**	**2,097,275**
Property, plant and equipment (Note 6)**:**			
Land	47,182	**46,826**	**467,372**
Buildings and structures	166,568	**168,370**	**1,680,507**
Machinery and equipment	145,093	**141,175**	**1,409,073**
Construction in progress	3,479	**3,247**	**32,408**
Other	61,535	**64,345**	**642,230**
	423,857	**423,963**	**4,231,590**
Accumulated depreciation	(262,812)	**(266,038)**	**(2,655,335)**
Property, plant and equipment, net	161,045	**157,925**	**1,576,255**
Investments and other assets:			
Investment securities (Notes 6 and 15)	46,206	**31,247**	**311,877**
Investments in and loans to unconsolidated subsidiaries and affiliates	6,299	**6,170**	**61,583**
Long-term loans receivable	487	**308**	**3,074**
Guaranty money deposited	5,979	**6,185**	**61,733**
Deferred tax assets (Note 9)	11,915	**23,521**	**234,764**
Goodwill	26	**401**	**4,002**
Other	16,999	**15,861**	**158,310**
Total investments and other assets	87,911	**83,693**	**835,343**
Total assets	¥ 466,736	**¥ 451,744**	**$ 4,508,873**

See notes to consolidated financial statements.

Liabilities and net assets	Millions of yen 2007	2008	Thousands of U.S. dollars (Note 3) 2008
Current liabilities:			
Notes and accounts payable:			
Trade	¥ 61,919	**¥ 59,317**	**$ 592,045**
Property and equipment	3,516	**3,883**	**38,756**
	65,435	**63,200**	**630,801**
Short-term bank loans (Note 5)	28,606	**43,353**	**432,708**
Current portion of long-term debt (Notes 5 and 6)	30,372	**125**	**1,248**
Commercial paper (Note 5)	10,000	**10,000**	**99,810**
Other accounts payable	6,855	**5,955**	**59,437**
Accrued income taxes (Note 9)	3,960	**1,942**	**19,383**
Accrued expenses	19,948	**19,517**	**194,800**
Accrued directors' bonuses	86	**69**	**689**
Accrual for loss on inspection and repair of products	3,079	**1,112**	**11,099**
Other current liabilities (Note 9)	13,610	**15,024**	**149,955**
Total current liabilities	181,951	**160,297**	**1,599,930**
Long-term liabilities:			
Long-term debt (Notes 5 and 6)	1,693	**15,376**	**153,468**
Accrued retirement benefits for employees (Note 10)	48,383	**43,120**	**430,382**
Accrued retirement benefits for directors	490	**–**	**–**
Other (Note 9)	977	**1,421**	**14,184**
Total long-term liabilities	51,543	**59,917**	**598,034**
Contingent liabilities (Note 14)			
Net assets:			
Shareholders' equity (Notes 7 and 17)**:**			
Common stock without par value			
Authorized – 1,400,000,000 shares			
Issued – 371,662,595 shares in 2007, and 371,662,595 shares in 2008	35,579	**35,579**	**355,115**
Capital surplus	29,380	**29,467**	**294,111**
Retained earnings	166,309	**174,899**	**1,745,673**
Less treasury stock, at cost; 25,114,108 shares in 2007 and 25,113,119 shares in 2008	(14,217)	**(14,275)**	**(142,479)**
Total shareholders' equity	217,051	**225,670**	**2,252,420**
Valuation and translation adjustments:			
Net unrealized holding gains on securities	12,417	**1,077**	**10,750**
Translation adjustments	(859)	**(506)**	**(5,051)**
Total valuation and translation adjustments	11,558	**571**	**5,699**
Share subscription rights (Note 8)	–	**135**	**1,348**
Minority interests	4,633	**5,154**	**51,442**
Total net assets	233,242	**231,530**	**2,310,909**
Total liabilities and net assets	¥466,736	**¥451,744**	**$4,508,873**

Consolidated Statements of Income

TOTO LTD. and Consolidated Subsidiaries
Years ended March 31, 2007 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2008	2008
Net sales	¥512,200	**¥501,060**	**$5,001,098**
Cost of sales	337,735	**330,782**	**3,301,547**
Gross profit	174,465	**170,278**	**1,699,551**
Selling, general and administrative expenses (Note 11)	148,277	**147,555**	**1,472,752**
Operating income	26,188	**22,723**	**226,799**
Other income (expenses):			
Interest and dividend income	1,090	**1,261**	**12,586**
Interest expense	(1,675)	**(1,404)**	**(14,013)**
Gain (loss) on sales and disposal of property, plant and equipment, net	2,073	**(458)**	**(4,571)**
Gain on sales of investment securities, net	13	**–**	**–**
Loss on devaluation of securities	(99)	**(172)**	**(1,717)**
Loss on disposal of inventories	(596)	**(1,399)**	**(13,963)**
Foreign exchange gain (loss), net	49	**(1,278)**	**(12,756)**
Sales discounts	(1,100)	**(1,204)**	**(12,017)**
Loss on impairment of fixed assets	(1,709)	**(2,014)**	**(20,102)**
Loss on devaluation of investments in unconsolidated subsidiaries	(590)	**–**	**–**
Loss on devaluation of memberships	(7)	**(15)**	**(150)**
Equity in earning of unconsolidated subsidiaries and affiliates	1,155	**992**	**9,901**
Costs related to environmental measures	(284)	**–**	**–**
Loss on overseas operations	(750)	**–**	**–**
Loss on inspection and repair of products	(3,096)	**(1,853)**	**(18,495)**
Other, net	1,167	**674**	**6,727**
Income before income taxes and minority interests	21,829	**15,853**	**158,229**
Income taxes (Note 9)**:**			
Current	5,571	**3,470**	**34,634**
Deferred	1,557	**(1,895)**	**(18,914)**
	7,128	**1,575**	**15,720**
Minority interests	(1,157)	**(1,038)**	**(10,360)**
Net income (Note 12)	¥ 13,544	**¥ 13,240**	**$ 132,149**

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

TOTO LTD. and Consolidated Subsidiaries
Years ended March 31, 2007 and 2008

Millions of yen

	Number of shares in issue	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gains on securities	Translation adjustments	Share subscription rights	Minority interests	Total net assets
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
Net income	**–**	**–**	**–**	**13,240**	**–**	**–**	**–**	**–**	**–**	**13,240**
Cash dividends paid	**–**	**–**	**–**	**(4,680)**	**–**	**–**	**–**	**–**	**–**	**(4,680)**
Effect of increase in consolidated subsidiaries	**–**	**–**	**–**	**30**	**–**	**–**	**–**	**–**	**–**	**30**
Purchases of treasury stock	**–**	**–**	**–**	**–**	**(214)**	**–**	**–**	**–**	**–**	**(214)**
Disposition of treasury stock	**–**	**–**	**87**	**–**	**156**	**–**	**–**	**–**	**–**	**243**
Net changes in items other than shareholders' equity	**–**	**–**	**–**	**–**	**–**	**(11,340)**	**353**	**135**	**521**	**(10,331)**
Balance at March 31, 2008	**371,662,595**	**¥35,579**	**¥29,467**	**¥174,899**	**¥(14,275)**	**¥ 1,077**	**¥ (506)**	**¥135**	**¥ 5,154**	**¥231,530**

Thousands of U.S. dollars (Note 3)

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gains on securities	Translation adjustments	Share subscription rights	Minority interests	Total net assets
Balance at March 31, 2007	$355,115	$293,243	$1,659,936	$(141,900)	$123,935	$ (8,574)	$ –	$46,242	$2,327,997
Net income	**–**	**–**	**132,149**	**–**	**–**	**–**	**–**	**–**	**132,149**
Cash dividends paid	**–**	**–**	**(46,711)**	**–**	**–**	**–**	**–**	**–**	**(46,711)**
Effect of increase in consolidated subsidiaries	**–**	**–**	**299**	**–**	**–**	**–**	**–**	**–**	**299**
Purchases of treasury stock	**–**	**–**	**–**	**(2,136)**	**–**	**–**	**–**	**–**	**(2,136)**
Disposition of treasury stock	**–**	**868**	**–**	**1,557**	**–**	**–**	**–**	**–**	**2,425**
Net changes in items other than shareholders' equity	**–**	**–**	**–**	**–**	**(113,185)**	**3,523**	**1,348**	**5,200**	**(103,114)**
Balance at March 31, 2008	**$355,115**	**$294,111**	**$1,745,673**	**$(142,479)**	**$ 10,750**	**$(5,051)**	**$1,348**	**$51,442**	**$2,310,909**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

TOTO LTD. and Consolidated Subsidiaries
Years ended March 31, 2007 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2008	2008
Operating activities:			
Income before income taxes and minority interests	¥ 21,829	¥ 15,853	$ 158,229
Depreciation and amortization	22,040	22,390	223,475
Loss on impairment of fixed assets	1,709	2,014	20,102
Interest and dividend income	(1,090)	(1,261)	(12,586)
Interest expense	1,675	1,404	14,013
Provision for directors' bonuses	86	(18)	(180)
Provision for loss on inspection and repair of products	3,079	(1,967)	(19,633)
Employees' retirement benefits paid, net of provision	(5,049)	(5,480)	(54,696)
Directors' retirement benefits paid, net of provision	(105)	(490)	(4,890)
(Gain) loss on sales and disposal of property, plant and equipment, net	(2,073)	458	4,571
Gain on sales of investment securities, net	(13)	–	–
Loss on devaluation of securities	99	172	1,717
Loss on devaluation of investments in unconsolidated subsidiaries	590	–	–
Loss on devaluation of memberships	7	15	150
Notes and accounts receivable	(1,177)	8,314	82,982
Inventories	(5,615)	480	4,791
Notes and accounts payable	1,989	(4,185)	(41,771)
Bonuses to directors and statutory auditors	(122)	–	–
Other	(2,977)	(114)	(1,137)
Subtotal	34,882	37,585	375,137
Interest and dividend income received	1,434	2,305	23,006
Interest expense paid	(1,666)	(1,427)	(14,243)
Income taxes paid	(6,075)	(5,579)	(55,684)
Net cash provided by operating activities	28,575	32,884	328,216
Investing activities			
Purchases of property, plant and equipment	(17,745)	(17,313)	(172,802)
Proceeds from sales of property, plant and equipment	4,569	1,856	18,525
Increase in marketable and investment securities	(1,026)	(3,611)	(36,042)
Decrease in time deposits	43	186	1,856
Acquisition of subsidiaries' stock resulting in changes in the scope of consolidation	–	(104)	(1,038)
Acquisition of investments in subsidiaries	(7,910)	–	–
Other	(3,241)	(3,135)	(31,289)
Net cash used in investing activities	(25,310)	(22,121)	(220,790)
Financing activities			
(Decrease) increase in bank loans	(5,459)	17,927	178,930
Proceeds from issuance of commercial paper	50,000	30,000	299,431
Redemption of commercial paper	(50,000)	(30,000)	(299,431)
Cash dividends paid	(4,335)	(4,680)	(46,711)
Purchases of treasury stock	(230)	(137)	(1,367)
Proceeds from issuance of bonds	–	10,000	99,810
Redemption of convertible bonds	–	(29,732)	(296,756)
Other	(811)	(625)	(6,238)
Net cash used in financing activities	(10,835)	(7,247)	(72,332)
Effect of exchange rate changes on cash and cash equivalents	320	(1,026)	(10,241)
Net (decrease) increase in cash and cash equivalents	(7,250)	2,490	24,853
Cash and cash equivalents at beginning of year	47,829	40,579	405,020
Increase due to inclusion of subsidiaries in consolidation	–	809	8,075
Decrease due to exclusion of subsidiaries from consolidation	–	(204)	(2,036)
Cash and cash equivalents at end of year	¥ 40,579	¥ 43,674	$ 435,912

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

TOTO LTD. and Consolidated Subsidiaries
March 31, 2008

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 Financial Instruments 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 for the year ended March 31, 2007 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.

Changes in method of depreciation of tangible fixed assets

In accordance with the revision made to the Corporate Tax Law of Japan (the "Tax Law") which went into effect on April 1, 2007, effective the year ended March 31, 2008, the Company and domestic consolidated subsidiaries have adopted the new method prescribed in the revised Tax Law for depreciating tangible fixed assets acquired on or after April 1, 2007. As a result, operating income, and income before income taxes and minority interests for the year ended March 31, 2008 both decreased by ¥519 million ($5,180 thousand) from the corresponding amounts which would have been reported under the previous method.

In addition to the above adoption, effective the year ended March 31, 2008, these companies depreciate the difference between 5% of acquisition cost and nominal value by the straight-line method over a period of five years from the year following the year in which the accumulated depreciation has reached 95% of acquisition cost with respect to the tangible fixed assets acquired on or before March 31, 2007. As a result, operating income, and income before income taxes and minority interests both decreased by ¥964 million ($9,622 thousand) for the year ended March 31, 2008 from the corresponding amounts which would have been reported under the previous method.

The effect of these changes on segment information is explained in Note 16.

(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.

Until the year ended March 31, 2007, directors and statutory auditors of the Company were entitled to lump-sum payments under an unfunded retirement plan, and provisions for the retirement benefits for these officers were made at estimated amounts. However, a resolution was approved at the general shareholders' meeting held on June 28, 2007 to discontinue such retirement plan and introduce a stock option plan instead. At the meeting, a resolution was also approved to make payments of retirement benefits for directors and statutory auditors for services rendered up to that day in the aggregate amount of ¥529 million ($5,280 thousand), which has included in "Other" under long-term liabilities, when they retire.

(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.

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 ¥100.19 = US$1.00, the exchange rate prevailing on March 31, 2008. 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, 2007 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Finished products	¥38,594	**¥37,740**	**$376,684**
Semifinished products, work in process and contracts in progress	15,616	**15,695**	**156,652**
Raw materials	9,255	**9,500**	**94,820**
Supplies	3,740	**3,828**	**38,208**
	¥67,205	**¥66,763**	**$666,364**

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, 2007 and 2008 were 2.1% and 1.9%, respectively. Commercial paper is due within one year with annual interests of 0.7% and 0.8% as of March 31, 2007 and 2008, respectively.

Long-term debt at March 31, 2007 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Unsecured convertible bonds:			
2.7% due 2007	¥29,875	**¥ –**	**$ –**
1.4% unsecured bonds due 2012	–	**10,000**	**99,810**
Bank loans maturing through 2015 at interest rates ranging from 1.24% to 2.72%:			
Secured	60	**344**	**3,434**
Unsecured	2,130	**5,157**	**51,472**
	32,065	**15,501**	**154,716**
Less current portion	30,372	**125**	**1,248**
	¥ 1,693	**¥15,376**	**$153,468**

The aggregate annual maturities of long-term debt subsequent to March 31, 2008 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2009	¥ 125	$ 1,248
2010	339	3,383
2011	5,017	50,075
2012	7	70
2013	10,006	99,870
2014 and thereafter	7	70
	¥15,501	$154,716

6. Pledged Assets

The assets pledged as collateral for long-term debt at March 31, 2007 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Property, plant and equipment, at net book value	¥495	**¥559**	**$5,579**

In addition to the above, investment securities in the amounts of ¥11 million and ¥6 million ($60 thousand) were utilized as security deposits at March 31, 2007 and 2008, respectively.

7. Capital Surplus and Retained Earnings

The Corporation Law of Japan (the "Law") provides that an amount equal to 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 ($82,753 thousand) as of both March 31, 2007 and 2008.

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. Stock Options

Stock option plan	2007 Stock option
Number of individuals covered by the plan:	
Directors	14
Corporate auditors	2
Officers	16
Total	32

Type and numbers of shares to be issued upon exercise of stock subscription rights	Common stock 168,000 shares
Granted date	August 17, 2007
Exercise period	August 18, 2007 – August 17, 2037

Non-vested stock options (Number of shares):	
Outstanding at March 31, 2007	–
Granted	168,000 shares
Forfeited	–
Vested	168,000 shares
Outstanding at March 31, 2008	–
Vested stock options (number of shares):	
Outstanding at March 31, 2007	–
Vested	168,000 shares
Exercised	–
Forfeited	–
Outstanding at March 31, 2008	168,000 shares

Exercise price (yen)	¥ 1
Weighted average exercise price (yen)	¥ –
Fair value per stock at the granted date (yen)	¥804

Stock option expense included in selling, general and administrative expenses for the year ended March 31, 2008 amounted to ¥98 million ($978 thousand). The fair value of options granted is estimated using the Black-scholes option pricing model with the following weighted average assumptions.

	2007 Stock options
Expected volatility	31.551%
Expected holding period	15 years
Expected dividend	¥13 per share
Risk-free rate	1.882%

9. 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 2007 and 2008. 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, 2007 and 2008 differ from the statutory tax rate for the following reasons:

	2007	2008
Statutory tax rate	40.4%	**40.4%**
Effect of:		
Expenses not deductible for income tax purposes	1.2	**2.0**
Dividend income deductible for income tax purposes	(0.3)	**(0.6)**
Per capita taxes	1.0	**1.4**
Losses deducted for tax purposes as part of proceedings of subsidiaries' liquidation procedures	–	**(32.2)**
Other, net	(9.6)	**(1.1)**
Effective tax rate	32.7%	**9.9%**

The significant components of deferred tax assets and liabilities as of March 31, 2007 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Deferred tax assets:			
Accrued bonus	¥ 3,185	**¥ 3,022**	**$ 30,163**
Retirement allowances	19,333	**17,220**	**171,873**
Net operating loss carryforwards	3,779	**7,738**	**77,233**
Other	9,043	**7,777**	**77,623**
Total gross deferred tax assets	35,340	**35,757**	**356,892**
Valuation allowance	(7,021)	**(5,865)**	**(58,539)**
Total deferred tax assets	28,319	**29,892**	**298,353**
Deferred tax liabilities:			
Net unrealized holding gains on securities	(8,320)	**(694)**	**(6,927)**
Reserve under Special Taxation Measures Law	(1,210)	**(1,263)**	**(12,606)**
Other	(1,322)	**(942)**	**(9,402)**
Total deferred tax liabilities	(10,852)	**(2,899)**	**(28,935)**
Net deferred tax assets	¥ 17,467	**¥26,993**	**$269,418**

10. 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, 2007 and 2008 for the Company's and the consolidated subsidiaries defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Retirement benefit obligation	¥(144,200)	**¥(149,955)**	**$(1,496,706)**
Plan assets at fair value	92,684	**86,151**	**859,876**
Unfunded retirement benefit obligation	(51,516)	**(63,804)**	**(636,830)**
Unrecognized actuarial loss	6,231	**23,672**	**236,271**
Unrecognized prior service cost	(2,889)	**(2,621)**	**(26,160)**
Net retirement benefit obligation	(48,174)	**(42,753)**	**(426,719)**
Prepaid pension cost	209	**367**	**3,663**
Accrued retirement benefits	¥ (48,383)	**¥ (43,120)**	**$ (430,382)**

The components of retirement benefit expenses for the years ended March 31, 2007 and 2008 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Service cost	¥ 4,753	**¥ 4,898**	**$ 48,887**
Interest cost	3,584	**3,526**	**35,193**
Expected return on plan assets	(2,963)	**(3,188)**	**(31,819)**
Amortization of actuarial loss	913	**722**	**7,206**
Amortization of prior service cost	(268)	**(268)**	**(2,675)**
Total	¥ 6,019	**¥ 5,690**	**$ 56,792**

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

	2007	2008
Discount rate	2.5%	**2.5%**
Expected return on plan assets	3.5%	**3.5%**

11. Research and Development Costs

Research and development costs included in selling, general and administrative expenses for the years ended March 31, 2007 and 2008 amounted to ¥11,752 million and ¥12,001 million ($119,782 thousand), respectively.

12. 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.

		Yen	U.S. dollars
	2007	**2008**	**2008**
Net income:			
Basic	¥ 39.07	**¥ 38.21**	**$0.38**
Diluted	37.96	**37.81**	**0.38**
Net assets	659.68	**652.84**	**6.52**
Cash dividends applicable to the year	13.00	**14.00**	**0.14**

13. 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, 2007 and 2008 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:

		Millions of yen	Thousands of U.S. dollars
	2007	**2008**	**2008**
Acquisition costs:			
Machinery and equipment	¥ 385	**¥ 345**	**$ 3,443**
Other assets	4,084	**3,702**	**36,950**
	¥4,469	**¥4,047**	**$40,393**
Accumulated depreciation:			
Machinery and equipment	¥ 271	**¥ 233**	**$ 2,325**
Other assets	2,799	**2,743**	**27,378**
	¥3,070	**¥2,976**	**$29,703**
Net book value:			
Machinery and equipment	¥ 114	**¥ 112**	**$ 1,118**
Other assets	1,285	**959**	**9,572**
	¥1,399	**¥1,071**	**$10,690**

Lease payments relating to finance leases accounted for as operating leases amounted to ¥974 million and ¥771 million ($7,695 thousand) for the years ended March 31, 2007 and 2008, respectively. The depreciation expense of the leased assets computed by the declining-balance method over the respective lease terms amounted to ¥894 million and ¥643 million ($6,418 thousand) for the years ended March 31, 2007 and 2008, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2008 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2009	¥ 615	$ 6,138
2010 and thereafter	1,369	13,664
Total	¥1,984	$19,802

(b) Operating leases

Future minimum operating lease payments subsequent to March 31, 2008 for non-cancelable operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2009	¥391	$3,902
2010 and thereafter	224	2,236
Total	¥615	$6,138

14. Contingent Liabilities

The Company and its consolidated subsidiaries had the following contingent liabilities at March 31, 2008:

	Millions of yen	Thousands of U.S. dollars
Trade notes receivable endorsed	**¥ 3**	**$ 30**
Guarantor of indebtedness of others	**1,292**	**12,895**

15. Securities

a) Information regarding marketable securities classified as other securities as of March 31, 2007 and 2008 is as follows:

			Millions of yen
March 31, 2007	Acquisition cost	Carrying value	Gross unrealized holding gains (losses)
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	¥20,907	¥41,815	¥20,908
Debt securities	501	505	4
Subtotal	21,408	42,320	20,912
Securities whose acquisition cost exceeds their carrying value:			
Equity securities	3,512	3,281	(231)
Subtotal	3,512	3,281	(231)
Total	¥24,920	¥45,601	¥20,681

			Millions of yen			Thousands of U.S. dollars
March 31, 2008	Acquisition cost	Carrying value	Gross unrealized holding gains (losses)	Acquisition cost	Carrying value	Gross unrealized holding gains (losses)
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	**¥11,923**	**¥18,007**	**¥ 6,084**	**$119,004**	**$179,729**	**$ 60,725**
Subtotal	**11,923**	**18,007**	**6,084**	**119,004**	**179,729**	**60,725**
Securities whose acquisition cost exceeds their carrying value:						
Equity securities	**16,410**	**12,062**	**(4,348)**	**163,789**	**120,391**	**(43,398)**
Subtotal	**16,410**	**12,062**	**(4,348)**	**163,789**	**120,391**	**(43,398)**
Total	**¥28,333**	**¥30,069**	**¥ 1,736**	**$282,793**	**$300,120**	**$ 17,327**

b) Information regarding sales of securities classified as other securities for the years ended March 31, 2007 and 2008 is as follows:

		Millions of yen	Thousands of U.S. dollars
	2007	**2008**	**2008**
Proceeds from sales	¥42	**¥0**	**$6**
Gains on sales	13	**0**	**0**
Losses on sales	0	**–**	**–**

16. 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 year ended March 31, 2007 is as follows:

					Millions of yen
Year ended March 31, 2007	Equipment for construction	Other	Total	Eliminations or corporate	Consolidated
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

As net sales and operating income of the equipment for construction business constituted more than 90% of the consolidated totals, the disclosure of business segment information has been omitted for the year ended March 31, 2008.

The geographical segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2007 and 2008 is as follows:

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, 2008	Japan	North and Central America	China	Other	Total	Eliminations or corporate	Consolidated
							Millions of yen
I. Sales and operating income:							
Sales to third parties	**¥440,743**	**¥30,348**	**¥22,641**	**¥ 7,328**	**¥501,060**	**¥ –**	**¥501,060**
Intra-group sales and transfers	**12,027**	**161**	**14,581**	**11,816**	**38,585**	**(38,585)**	**–**
Total sales	**452,770**	**30,509**	**37,222**	**19,144**	**539,645**	**(38,585)**	**501,060**
Operating expenses	**427,437**	**27,947**	**31,497**	**17,359**	**504,240**	**(25,903)**	**478,337**
Operating income	**¥ 25,333**	**¥ 2,562**	**¥ 5,725**	**¥ 1,785**	**¥ 35,405**	**¥(12,682)**	**¥ 22,723**
II. Assets	**¥301,495**	**¥21,465**	**¥31,986**	**¥19,037**	**¥373,983**	**¥ 77,761**	**¥451,744**

Year ended March 31, 2008	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	**$4,399,072**	**$302,904**	**$225,981**	**$ 73,141**	**$5,001,098**	**$ –**	**$5,001,098**
Intra-group sales and transfers	**120,042**	**1,607**	**145,533**	**117,936**	**385,118**	**(385,118)**	**–**
Total sales	**4,519,114**	**304,511**	**371,514**	**191,077**	**5,386,216**	**(385,118)**	**5,001,098**
Operating expenses	**4,266,264**	**278,940**	**314,373**	**173,261**	**5,032,838**	**(258,539)**	**4,774,299**
Operating income	**$ 252,850**	**$ 25,571**	**$ 57,141**	**$ 17,816**	**$ 353,378**	**$(126,579)**	**$ 226,799**
II. Assets	**$3,009,232**	**$214,243**	**$319,253**	**$190,010**	**$3,732,738**	**$ 776,135**	**$4,508,873**

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

3) Changes in method of depreciation of tangible fixed assets

As described in Note 2 (h), in accordance with the revision made to the Corporate Tax Law (the "Tax Law"), effective the year ended March 31, 2008, the Company and domestic consolidated subsidiaries have adopted the new method prescribed in the revised Tax Law for depreciating tangible fixed assets acquired on or after April 1, 2007.

As a result, operating expenses increased by ¥493 million ($4,921 thousand) for "Japan" segment and ¥26 million ($260 thousand) for "Eliminations or corporate" over the corresponding amounts which would have been reported under the previous method, and operating income decreased by the same amounts for the year ended March 31, 2008.

As described in Note 2 (h), in addition to the above adoption, effective the year ended March 31, 2008, these companies depreciate the difference between 5% of acquisition cost and nominal value by the straight-line method over a period of five years from the year following the year in which the accumulated depreciation has reached 95% of acquisition cost with respect to the tangible fixed assets acquired on or before March 31, 2007.

As a result, operating expenses increased by ¥917 million ($9,153 thousand) for "Japan" segment and ¥47 million ($469 thousand) for "Eliminations or corporate" over the corresponding amounts which would have been reported under the previous method, and operating income decreased by the same amounts for the year ended March 31, 2008.

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 years ended March 31, 2007 and 2008 are summarized as follows:

				Millions of yen
Year ended March 31, 2007	North and Central America	China	Other	Total
Overseas sales	¥28,590	¥17,716	¥10,364	¥ 56,670
Consolidated net sales	–	–	–	512,200
Overseas sales as a percentage of consolidated net sales	5.6%	3.5%	2.0%	11.1%

				Millions of yen
Year ended March 31, 2008	North and Central America	China	Other	Total
Overseas sales	**¥30,140**	**¥22,666**	**¥12,261**	**¥ 65,067**
Consolidated net sales	**–**	**–**	**–**	**501,060**
				Thousands of U.S. dollars
Overseas sales	**$300,828**	**$226,230**	**$122,377**	**$ 649,435**
Consolidated net sales	**–**	**–**	**–**	**5,001,098**
Overseas sales as a percentage of consolidated net sales	**6.0%**	**4.5%**	**2.5%**	**13.0%**

17. Subsequent Events

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, 2008, was approved at a meeting of the Board of Directors held on May 21, 2008 and became effective June 6, 2008:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥7.00 – $0.070 per share)	**¥2,426**	**$24,214**

ERNST & YOUNG SHINNIHON

Report of Independent Auditors

The Board of Directors
TOTO LTD.

We have audited the accompanying consolidated balance sheets of TOTO LTD. and consolidated subsidiaries as of March 31, 2007 and 2008, 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, 2007 and 2008, 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.

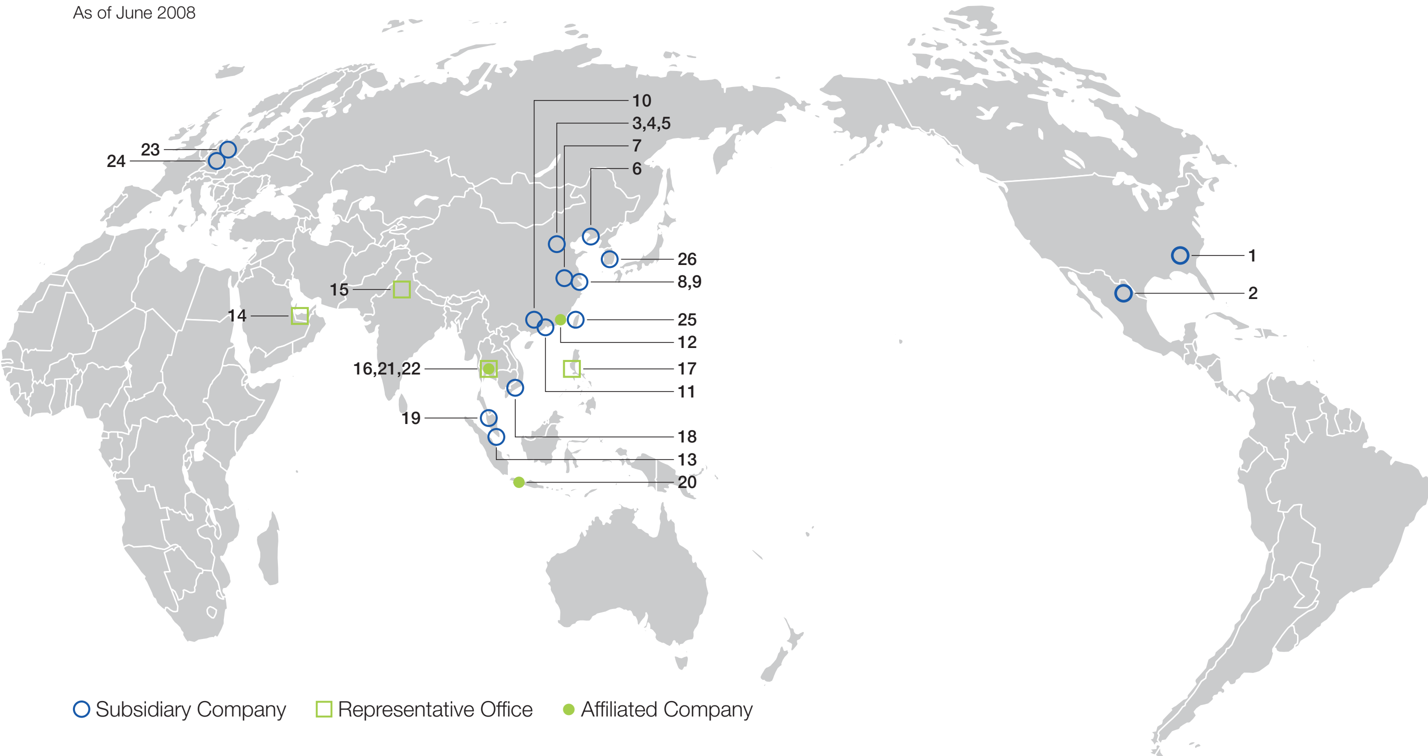
The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

Ernst & Young ShinNihon

Fukuoka, Japan
June 27, 2008

International Network

As of June 2008



○ Subsidiary Company □ Representative Office ● Affiliated Company

U.S.A.

○ **1. TOTO U.S.A., INC.**

Manufacture and sale of TOTO products

MEXICO

○ **2. TOTO MEXICO, S.A. DE C.V.**

Manufacture of sanitary ware

CHINA

○ **3. TOTO (CHINA) CO., LTD.**

Holding company and sale of TOTO products

○ **4. BEIJING TOTO CO., LTD.**

Manufacture of sanitary ware

○ **5. TOTO (BEIJING) Co., Ltd.**

Manufacture of sanitary ware

○ **6. TOTO DALIAN CO., LTD.**

Manufacture of faucets

○ **7. NANJING TOTO CO., LTD.**

Manufacture of enameled cast-iron and acrylic bathtubs

○ **8. TOTO (SHANGHAI) CO., LTD.**

Manufacture of sanitary equipment-related products

○ **9. TOTO EASTCHINA CO., LTD.**

Manufacture of sanitary ware

○ **10. TOTO (GUANGZHOU) CO., LTD.**

Manufacture of sanitary equipment-related products

○ **11. TOTO (H.K.) LTD.**

Sale of TOTO products

● **12. VORETO (XIAMEN) PLUMBING TECHNOLOGY CO., LTD.**

Manufacture of plastic products

ASIA and OCEANIA

○ **13. TOTO ASIA OCEANIA PTE. LTD.**

Holding company and sale of TOTO products

□ **14. DUBAI BRANCH**

Sale of TOTO products

□ **15. DELHI BRANCH**

Sale of TOTO products

□ **16. BANGKOK BRANCH**

Sale of TOTO products

□ **17. MANILA BRANCH**

Sale of TOTO products

VIETNAM

○ **18. TOTO VIETNAM CO., LTD.**

Manufacture and sale of sanitary ware

MALAYSIA

○ **19. TOTO MALAYSIA SDN. BHD.**

Manufacture of Washlets

INDONESIA

● **20. P.T. SURYA TOTO INDONESIA**

Manufacture of sanitary ware, faucets and other hardware

THAILAND

● **21. THE SIAM SANITARY FITTINGS CO., LTD.**

Manufacture of faucets

● **22. Siam Sanitary Ware Co., Ltd.**

Manufacture of sanitary ware

EUROPE

○ **23. TOTO Europe GmbH**

Holding company and sale of TOTO products

○ **24. TOTO Germany GmbH**

Manufacturing company

TAIWAN

○ **25. TAIWAN TOTO CO., LTD**

Manufacture and sale of sanitary ware and unit bathrooms

KOREA

○ **26. TOTO KOREA LTD.**

Sale of TOTO products

Corporate Data

As of March 31, 2008

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
21,005 (Consolidated)
7,385 (Nonconsolidated)

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

Branch Offices and Sales Offices.......104

Showrooms.......106

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

Stock Listings
Tokyo, Nagoya and Fukuoka

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

Common Stock
¥35,579 million (US$355,115 thousand)

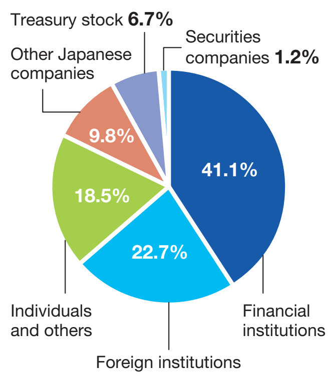
Number of Shareholders
32,203

Transfer Agent
Mitsubishi UFJ Trust and Banking Corporation

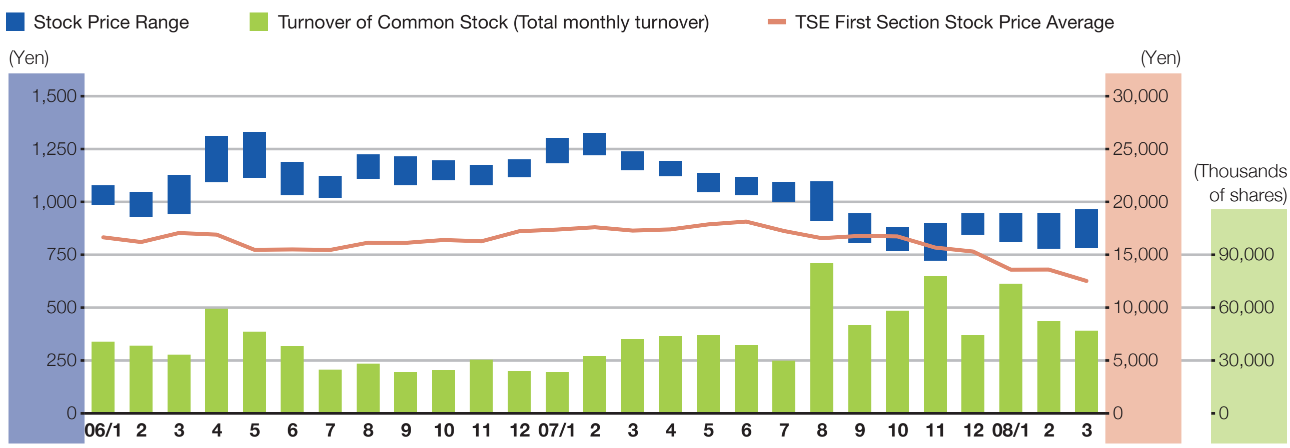
Major Shareholders

	Percentage of shares held (%)
State Street Bank & Trust Company	10.3
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
Japan Trustee Services Bank, Ltd. (Trust Account)	2.9
Tokio Marine & Nichido Fire Insurance Co., Ltd.	2.6
The Master Trust Bank of Japan, Ltd. (Trust Account)	2.5
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2.5
AXA Life Insurance Co., Ltd.	1.6

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
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URL: http://adm.toto.co.jp/Contact/en/form/forme.htm

TOTO

http://www.toto.co.jp/en

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