

# TOTO

## TOTO CORPORATE REPORT 2013



# Contents

## ■ TOTO CORPORATE REPORT 2013

### Preface

- 01 Contents
- 02 Overview of TOTO Group Communication Tools
- 03 Top Commitment

### THE TOTO WAY

Common Philosophy/Vision

- 07 Common Group Philosophy and Visions for Business Activities
- 08 TOTO Manufacturing
- 09 TOTO V-Plan 2017
- 11 TOTO GREEN CHALLENGE
- 13 TOTO Group Business Expansion

### HIGHLIGHT 2012

Highlights of 2012 Activities

- 15 Domestic Housing Equipment Business
- 17 Overseas Housing Equipment Business
- 18 New Business Domains
- 19 Environmental Initiatives

### TOTO NOW

TOTO Group Priorities

- 21 **TOTO NOW 1** Global Strategy
- 23 **TOTO NOW 2** Logistics Innovation
- 25 **TOTO NOW 3** Recovery from the Great East Japan Earthquake

### TOTO in ACTION

TOTO Group Activities Annual Report

- 27 Highly Objective and Transparent Management
- 28 Stakeholder Engagement
- 29 Ensuring Customer Satisfaction
- 31 Continuing Development of Creative, Self-Motivated Human Resources
- 33 Promoting CSR Procurement Together with Suppliers
- 35 Social Contributions and Community Involvement

### For Better Reporting

- 36 Third-Party Opinion/Questionnaire Results

### Supplemental Publication TOTO CORPORATE REPORT 2013 Financial & ESG Section

(Issued in July 2013)

#### Financial Section

Six-Year Summary of Selected Financial Data  
Management's Discussion and Analysis of Operations  
Consolidated Financial Statements

#### ESG Section

Environmental Data  
Social Data  
Governance Data

#### Corporate Data

TOTO Group Global Network  
Stock Information  
Corporate Data

#### GRI Guidelines Reference

### Web

Website Content

### About TOTO

Our Environmental Initiatives  
CSR Activities  
Investor Relations

## Overview of TOTO Group Communication Tools

### ■ Editorial Policy

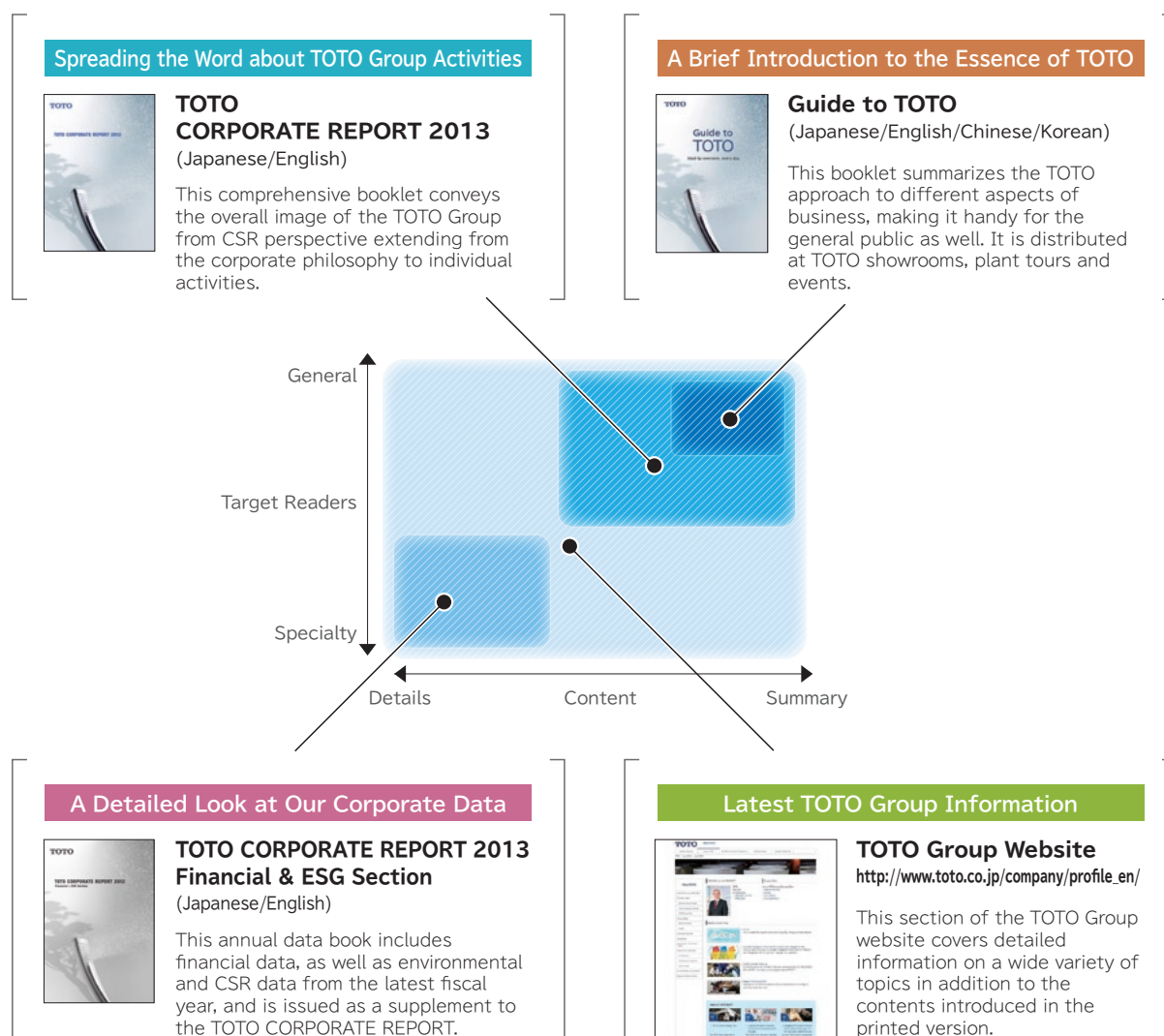
The TOTO Group first released our Social and Environmental Report in fiscal 2004 and CSR Report the following year. From fiscal 2009, we started issuing the TOTO CORPORATE REPORT as a comprehensive communications tool for all stakeholders.

Amid increasing importance of corporate social responsibility (CSR), the TOTO CORPORATE REPORT transcends the framework of the annual CSR Report to convey a broader view of TOTO's business and desired stance based on the idea that CSR is an integral part of all corporate activities.

TOTO aims to ensure communication that meets the needs of a diverse array of stakeholders and that is easily accessible by way of four tools that include this report as well as TOTO CORPORATE REPORT Financial & ESG (Environment, Society, and Governance) Section, a booklet outlining annual financial and ESG information; Guide to TOTO providing a convenient summary; and the TOTO Group website, which offers more detailed information.

Through these communication tools, TOTO hopes to increase interest in its corporate stance that links the present with its founding and its initiatives to further raise corporate value for the future.

- Period of reporting: Fiscal 2012 (April 1, 2012 to March 31, 2013).  
This report includes some information pertaining to before or after the period.
- Scope of reporting: TOTO LTD. and Group companies
- Guidelines: GRI Sustainability Reporting Guidelines (Version 3)  
Environmental Reporting Guidelines (2012 edition) issued by the Ministry of the Environment





## Top Commitment

**Aiming to be a truly global company**

**In working to achieve the goals of TOTO V-Plan 2017, we continue to push ahead with our mid-term management plan, based on our Common Group Philosophy.**

**The TOTO Group strives to pass down its Common Group Philosophy to each and every employee.**

**Founder's Conviction**  
**"Improve the lifestyle and culture of the people. Provide a healthy and civilized way of life."**

**Common Group Philosophy**

**Company Mottos, TOTO Group Corporate Philosophy  
and Charter of TOTO Group Corporate Behavior**

**Visions for Business Activities**

**Vision, Mission and Mid- or Long-Term Management Plan (TOTO V-Plan 2017)**

\*Refer to pp. 7-10 for details. ▶

Based on its Company Mottos and the TOTO Group Corporate Philosophy, the TOTO Group promotes its business activities with the goal of continuing to be a beneficial presence to society and for the global environment broadly.

At the root of our corporate activities is a strong conviction to improve people's lives and provide a healthy and civilized way of life, concepts espoused by our founder.

With our Company Mottos and Corporate Philosophy in mind, to continue to be indispensable to our customers and to society, and in turn, to enhance our corporate value in the medium to long term, the TOTO Group has established the TOTO V-Plan 2017, outlining a vision for the Group in our centenary of fiscal 2017, and a strategic framework for achieving that vision.

The TOTO V-Plan 2017 lays out our goal of providing customers around the world with a new "every day," and becoming a truly global company that remains indispensable to society.

As we push ahead to promote three core businesses of the domestic housing equipment business, the overseas housing equipment business, and new business domains, as well as the four cross-organizational innovation activities, the TOTO GREEN CHALLENGE, our environmental vision, will be the driving force behind these initiatives undertaken by the entire TOTO Group.

In the two years between fiscal 2010 and 2011, we brought an optimal company-wide viewpoint to our business activities, based on the TOTO V-Plan 2017, and made

progress in putting the foundations in place. To ensure that we achieve the goals of TOTO V-Plan 2017, at the beginning of fiscal 2012 we also established a Mid-Term Management Plan for fiscal 2012-2014.

### **TOTO GREEN CHALLENGE Activities**

TOTO Group products are used by customers throughout the world in their daily lives. This is why conserving water and energy by them can, over time, have such an enormous impact on the global environment. By bringing environmentally-friendly TOTO products to customers worldwide, the business activities promoted under the TOTO V-Plan 2017 will, as a result, contribute to the global environment by enabling those customers to save water and energy and reduce CO<sub>2</sub> emissions in their everyday lives. In short, the TOTO Group's business activities, in themselves, lead to environmental contributions.

To accomplish this, we are aggressively expanding our activities under the environmental targets through fiscal 2017 set forth in the TOTO GREEN CHALLENGE, with the goal of ensuring that TOTO Group products in use around the world are easy for customers to use and maintain, and enable them to continue enjoying comfortable lives while achieving even greater water and energy conservation.





*Kunio Harimoto*

Kunio Harimoto  
President, Representative Director

## Fiscal 2012 Business Results

**Solid promotion of business activities in line with the strategic framework of the Mid-Term Management Plan achieved results exceeding plan.**

Conditions surrounding the domestic market in Japan in fiscal 2012 saw weak movement backed by the global economic slowdown, but subsequent economic and monetary measures resulted in a falling yen and a recovery in stock prices, with the nation's economy rallying later in the fiscal year. In the domestic housing market, a recovery trend continued with the impact of low interest rates and efforts to promote home ownership.

Overseas, meanwhile, a break in the European fiscal crisis and signs of recovery in the economies of the U.S. and Asia have seen markets begin to escape their doldrums.

Amidst these conditions, business results in fiscal 2012 recovered to levels prior to the Lehman crisis, with consolidated net sales of ¥476.2 billion, a 5.2% increase over the previous year, consolidated operating income of ¥23.3 billion, up 24.5% year-on-year, and net income of ¥26.0 billion, an increase of 33.5% year-on-year. This performance was led by the domestic and overseas housing equipment businesses, and resulted from solid progress with the four cross-organizational innovation activities undertaken in line with the strategic framework of the Mid-Term Management Plan started in fiscal 2012.

### (1) Domestic Housing Equipment Business

In new construction, housing units were up backed by a recovery in new housing starts, while public buildings, such as hospitals, senior care homes and other facilities also did well.

In the remodeling\* segment, residential remodeling grew, and growth was also seen in remodeling of public facilities such as renovation of toilets in buildings and schools.

TOTO, DAIKEN, and YKK AP are working together to perform "Green Remodel" renovations contributing to the environment by proposing design remodels of living spaces encompassing toilets, bathrooms, kitchens and washrooms, and living rooms utilizing Green Remodel Evaluations.

\*Remodeling: A promise to go beyond ordinary alterations and extensions, providing customers with plans for achieving a new lifestyle beyond their expectations.

### (2) Overseas Housing Equipment Business

The global economy is moving toward a gradual recovery from the slowdown triggered by the European fiscal crisis. Given these conditions, TOTO moved ahead with a solid growth strategy for the overseas housing equipment business based on the TOTO V-Plan 2017 and the Mid-Term Management Plan, while maintaining an eye on economic and social trends in each country and region.

### (3) New Business Domains

New business domains include the Ceramics Business, utilizing TOTO's "Only One" technologies, and the Green Building Materials Business, which provides building materials and coatings using TOTO's HYDROTECT environmental cleaning technology. Business activities in these domains were promoted with the goal of achieving the targets set forth in the TOTO V-Plan 2017 and the Mid-Term Management Plan.

## Strategy for Fiscal 2013-2014

**Recognizing our success in fiscal 2012 and the priority issues for our respective business domains, we will continue to promote strategies toward achieving sustained growth.**

First, as we work toward the targets raised in the TOTO V-Plan 2017, we will focus on achieving the goals of the Mid-Term Management Plan currently underway, while also continuing to be indispensable to our customers and to society.

To accomplish this, TOTO will strengthen its corporate governance and ensure the optimal allocation of corporate resources. At the same time, each business domain will prioritize the five basic strategies of the Mid-Term Management Plan (1. Continue and accelerate reforms; 2. Get on a growth track; 3. Establish a firm footing for our business in growth markets; 4. Invest aggressively; and 5. Prepare for risks), and will promote those strategies together with the four cross-organizational innovation activities.

### (1) Domestic Housing Equipment Business

As Japan's population continues aging and shrinking and the number of new housing starts falls, we will continue to evolve our Green Remodel Evaluations, which has been very well-received as a new remodeling strategy, and which serves as a tool to differentiate TOTO from its competitors. We will further strengthen our business model to accommodate the expanding market for used home remodeling, while enhancing our partnerships and construction systems.

We will also identify other growing markets, introducing products to those markets and implementing other action plans.

We will also promote supply chain and manufacturing innovation, two of the four cross-organizational innovation activities under the TOTO V-Plan 2017. This will include working to establish a high-speed supply chain across

raw materials procurement, production, and logistics, while also continuing cost reductions through platforming (standardization/unification) across a wide range of products.

### (2) Overseas Housing Equipment Business

To become a "truly global company," TOTO has positioned the overseas housing equipment business as an important pillar, and is aggressively expanding its business in this domain.

Based on a global five-polar structure built on markets in Japan, the Americas, China, Asia/Oceania, and Europe, we are building a structure to develop, produce and sell products in each of those regions that meet their local needs and respect each region's culture and lifestyle.

While concerns exist about fiscal uncertainties in Europe and a slowing of economic growth in China, we will continue to increase our significance in the U.S. and Asia, where the economy is showing signs of a recovery and emerging nations.

In product development, we will focus on building the optimum development structure to meet the product grades in individual regions, while strengthening the local development capabilities of our respective overseas locations. In product supply, we will continue building an optimal global production structure to respond to robust worldwide demand, including establishing new plants in Fujian, China and India's Gujarat State in fiscal 2014. In sales, we will work to build a flexible foundation that can withstand changing conditions in our existing markets in the Americas, China, Asia/Oceania, and Europe, while steadily expanding our business in growth markets such as India, Brazil, and Russia.

Also, TOTO will continue to promote the development and hiring of local human resources as we move to shift management to local hands in overseas markets.

### (3) New Business Domains

The TOTO Group is conducting a variety of activities aimed at the creation of new business utilizing TOTO's "Only One" technologies.

#### Ceramics Business

Fiscal 2012 saw a further clarification of the restructuring taking place in the markets for semiconductors, plasma displays, and fiber optic communications. Given these conditions, TOTO will focus on promoting development of products using its "Only One" technologies, proposing solutions, and expanding globally.

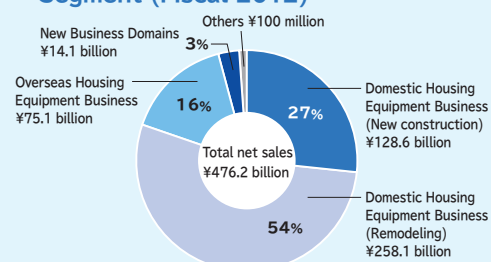
By continuing to provide the products that meet the needs of customers with expectations for greater quality

## Actual Results Since the Formulation of the TOTO V-Plan 2017, and Performance Plan for Fiscal 2013-2014

(Unit: Billion yen)

	Fiscal 2009 Results	Fiscal 2010 Results	Fiscal 2011 Results	Fiscal 2012 Results	Fiscal 2013 Plan	Fiscal 2014 Plan
Net Sales	421.9	433.5	452.6	476.2	517.0	520.0
Operating Income	6.5	14.0	18.7	23.3	29.0	30.0
Operating Income as a Percentage of Sales	1.6%	3.2%	4.1%	4.9%	5.6%	5.8%
ROA (operating income basis)	1.7%	3.7%	5.0%	6.0%	6.9%	7.0%

## Net Sales\* Structure by Business Segment (Fiscal 2012)



\*Net sales to outside customers (not including inter-segment sales and transfers).

and performance, TOTO will further enhance its significance as a supplier of key components to these customers.

#### Green Building Materials Business

After a transitional period that saw the start-up of the HYDROTECT licensing and exterior construction materials business, and the consolidation of plants, the Mid-Term Management plan will shift to a growth phase, including the Hydrocera, overseas B-to-B, and exterior construction materials businesses.

For the Hydrocera business, TOTO will focus on enhancing technology development capabilities and its supply chain, while the B-to-B business will work on quickly securing new licensing agreements and transitioning to the business of selling photocatalytic coatings.

#### Fuel Cell Business

With regards to the power generation modules that are at the heart of solid oxide fuel cells (SOFCs), TOTO is promoting the manufacture and development of its “Only One” technology for ceramic power generating cells and power generation modules, with the goal of early commercialization.

### Enhancing CSR Management

**The TOTO Group will promote an ESG (Environment, Society, and Governance) perspective in all of its corporate activities, while working toward a strategic integration of its business and CSR activities.**

In fiscal 2011, the TOTO Group registered as a corporate participant in the Global Compact put forward by the United Nations. The TOTO group supports the 10 principles of the Global Compact concerning human rights, labor, the environment, and anti-corruption. We make these principles a part of our corporate strategy, culture, and day-to-day work, while promising the people of the world that we will take part in initiatives toward achieving the U.N.’s millennium development goals. In fiscal 2012, we pushed to instill these programs and practices throughout the TOTO Group, offering training in human rights and anti-monopoly law, running a Whistleblowing System, engaging in dialogue with our stakeholders, and promoting the TOTO GREEN CHALLENGE, our vision for the environment.

In fiscal 2013 and beyond, we will continue to act as a globally responsible corporate citizen. The TOTO Group reiterates to the international community its commitment to proactively fulfilling its social responsibilities, and putting that commitment into practice throughout all of the Group’s business activities.

### Shareholder Returns

**TOTO works to maintain and strengthen a healthy financial base, while ensuring a stable return of profits under its policy of emphasizing returns to shareholders.**

Return of profit to shareholders is an important part of our management policy. We make it a rule to retain enough earnings to secure funds for building a firm corporate structure and expanding our business while ensuring a stable return of profit to shareholders.

Retained earnings will be spent to improve product strengths, streamline and strengthen production and sales



systems, and develop new and overseas businesses to establish a long-lasting, solid management basis.

Our targeted dividend payout ratio is 30% of consolidated net income for the term, with a goal of tying return of profits to business results while working to maintain a stable dividend. Dividends will be issued in two payments a year, at mid-term and at year end.

In addition, buyback of treasury stock will be determined based on a comprehensive consideration of factors, including the need to execute dynamic capital management policies, and the impact on the Group’s financial standing.

Note that the fiscal 2012 dividend was ¥14.0 per share of common stock (¥6.0 yen at mid-term, ¥8.0 yen at year end).

### To Our Stakeholders

**As a creator and provider of lifestyle value, the TOTO Group will unite in achieving the V-Plan.**

As President, I lead the TOTO Group in delivering on its corporate mottos and corporate philosophy, and will continue to promote the solid implementation of our Mid-Term Management Plan as the first step in achieving our long-term management plan, the TOTO V-Plan 2017.

Our goal as a company that coexists with the earth is to lead in the creation of a truly sustainable society. The TOTO Group is a company that creates and provides lifestyle value. Looking to “tomorrow” and leading to the future, we offer an “every day” that exceeds expectations like never before.

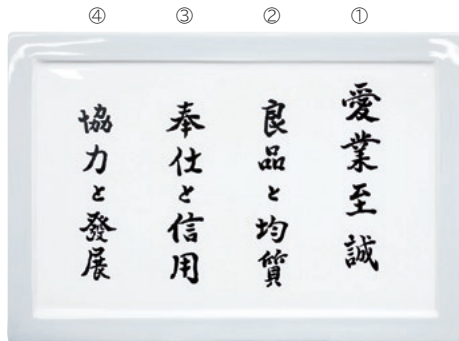
Providing the World a New Every Day. Everyone in the TOTO Group will work in unison to achieve the goals we have set forth.



# THE TOTO WAY

## Common Group Philosophy

### ■ Company Mottos



Established in 1962

The Company Mottos reflect our determination to contribute to the improvement of our customers' cultured lifestyles with a strong service-oriented mindset, and to unite ourselves to support the social development.

- ①Take pride in your work, and strive to do your best
- ②Quality and Uniformity
- ③Service and Trust
- ④Cooperation and Prosperity

### ■ TOTO Group Corporate Philosophy

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

To achieve our philosophy, TOTO will:

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

### ■ Charter of TOTO Group Corporate Behavior (Preamble)

The TOTO Group wants to contribute to socio-economic development and be a broadly helpful entity for society by creating added value through fair competition and encouraging job creation in the countries and regions in which its businesses are promoted. To realize that, all people working for the TOTO Group strive to play an active role with a strong sense of duty based on the concepts indicated in the corporate motto and philosophy, and to fulfill their social responsibilities.

The Charter of TOTO Group Corporate Behavior stipulates the basic stance of behavior of all people working for TOTO Group to realize all stakeholders' satisfaction.



For details regarding the Charter of Corporate Behavior, please see the Common Group Philosophy section of the website at:  
[http://www.toto.co.jp/company/profile\\_en/philosophy/group/index.htm](http://www.toto.co.jp/company/profile_en/philosophy/group/index.htm)

## Visions for Business Activities

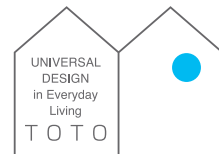
### ■ Visions

Toward a Dynamic, Vibrant and Excellent TOTO

### ■ Missions

“Providing the World a New Every Day” through the three missions.

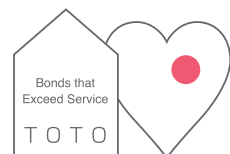
#### Universal Design In Everyday Living



#### For the Earth and Living In Harmony with the Environment



#### Bonds that Exceed Service



# TOTO Manufacturing

## Passing on Our Founding Spirit and Continuing to Promote Innovation

The history of TOTO production stretches back almost 100 years. In 1912, when the concept of public sewage systems was not yet widespread in Japan, Kazuchika Okura, then president of Nippon Toki Gomei Kaisha (currently Noritake Co., Ltd.), upon exposure to advanced lifestyles overseas, established a ceramic sanitary ware laboratory based on a desire to provide sanitary living spaces. Two years later in 1914, the laboratory successfully produced Japan's first ceramic sanitary ware. In 1917, Toyo Toki K.K. (currently TOTO LTD.) was founded to permeate the market with these products.

A letter written by the company's first president, Kazuchika Okura, to his successor, Saburo Momoki, contains words that have been treasured as the "Words of the Predecessor."

### [Words of the Predecessor]

Kindness must always come first.  
Bring the concept of service to your work.  
Your goal should be to provide good products and satisfy the customer. Accomplish that, and profit and compensation will follow.  
Many in this world chase after the shadow of profit, but to the end never capture the real thing.

Since then, we have sought to contribute to the development of society based on a spirit of service that inspires the provision of high-quality products and ensures customer satisfaction. This determination is expressed in TOTO's Company Mottos formulated in 1962. TOTO's manufacturing, which began with Japan's first ceramic sanitary ware, continued to expand into development of products for the bath, washroom, and kitchen, as the company aimed for improved quality and environmental optimization.

Even today, as our business expands worldwide, the hopes and convictions of Kazuchika Okura, our founder, are being passed down to each and every employee in the TOTO Group.

### Pre-founding (~1916)



Founder: Kazuchika Okura



1912: Establishes ceramic sanitary ware laboratory



1914: Successfully produces Japan's first ceramic sanitary ware

### 1st Generation (1917~1946)



1917: Toyo Toki Company, Limited established in Kokura, Kyushu



1946: Commenced production of fittings for water faucets



1918: Tableware Division established (discontinued in 1970)

### 2nd Generation (1947~1976)



1976: Launches CS Series low-water, noise-reducing toilet



1958: Launches TOTOLITE Bath FRP bathtubs



1963: Develops construction method for prefabricated bathroom module



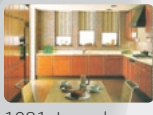
1980: Launches Washlet (toilet seats with a warm-water washing feature)



1970: Develops enamel bathtub



1968: Launches bathroom vanity unit



1981: Launches modular kitchen

### 3rd Generation (1977~2006)



1990: Launches 6L-flush toilet in the U.S.



1985: Launches Shampoo dresser bathroom vanity



1998: Develops HYDROTECT technology



1993: Launches NEOREST toilets



2004: Develops thermal insulating "Mahobin" bathtub



2001: Develops Karari floor for thorough drainage

### 4th Generation (2007~)



2007: Launches NEOREST Hybrid Series



2007: Company name changed to TOTO LTD.

■ TOTO V-Plan 2017  
(Long-Term Management Plan)

Meaning of the Three Vs

Vital  
Victory  
V-shaped recovery

## Be a truly global company by 2017

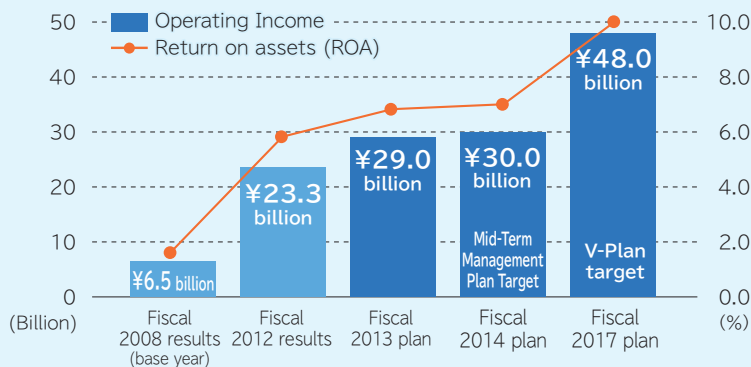
Provide customers over the world with a new “every day” and continue to be indispensable to society.

FY2017: Achieve net sales of ¥600.0 billion, operating income of ¥48.0 billion and ROA of 10%

Realizing environmental contribution through “TOTO GREEN CHALLENGE”



Target Figures for TOTO V-Plan 2017



For more information on this page, please see the “About TOTO” of the website at:  
[http://www.toto.co.jp/company/profile\\_en/index.htm](http://www.toto.co.jp/company/profile_en/index.htm)



# Initiatives under TOTO V-Plan 2017

## TOTO V-Plan 2017

As we move toward our centenary in 2017, the TOTO Group aims to be a “truly global company” that remains indispensable to customers around the world by providing a new “every day.” To achieve this, we formulated TOTO V-Plan 2017, a long-term management plan in July 2009. With this strategic framework, we will reinforce corporate governance, the basis of our corporate activities, and promote the three core businesses of the “domestic housing equipment business,” “overseas housing equipment business” and “new business domains” as well as the four cross-organizational innovation activities, with the optimization of the entire company in mind. Our environmental vision, TOTO GREEN CHALLENGE, will be the driving force behind these initiatives undertaken throughout the TOTO Group.

We aim to achieve net sales of ¥600.0 billion, operating income of ¥48.0 billion and ROA of 10% in fiscal 2017 (as of March 2018).

## Promoting the Mid-Term Management Plan

From fiscal 2010 to fiscal 2011, we have been working on objectives under TOTO V-Plan 2017 and have managed to establish solid foundations. This has allowed us to formulate a new Mid-Term Management Plan that runs from fiscal 2012 to fiscal 2014. Under this plan, we will continue with reforms and strive to further accelerate implementation to put TOTO V-Plan 2017 on a stable growth track. To achieve this, we will invest aggressively and establish businesses in growth markets, as well as promote our TOTO GREEN CHALLENGE, so that our business activities contribute to the environment.

## The Three Core Businesses

### Domestic housing equipment business

As the number of new housing starts drops, and society shifts toward a stock-based society, TOTO will further accelerate its remodeling strategy, one of our strengths. We will also progress with cost structure reforms, with the goal of building a corporate structure that generates profits.

### Overseas housing equipment business

As a driver of growth, the foundations of the overseas housing equipment business will be strengthened to withstand changing markets and environments in the four

regions of the Americas, China, Asia/Oceania, and Europe, as well as in emerging nations. This business will develop new markets and lead growth for the TOTO Group.

### New business domains

This business is expanding globally, with TOTO “Only One” technologies for ceramic products built on our experience with ceramic sanitary ware, and with HYDROTECT, technology that uses photocatalytic to provide environmental cleaning through the power of light. We are also working to quickly build a business in fuel cells.

## The Four Cross-organizational Innovation Activities

### Marketing innovation

This activity calls for product planning from an optimal company-wide perspective, while also promoting selection and focus on research topics that address changes in market conditions, including the aging population and the shift toward a low-carbon society. Using TOTO’s “Only One” technologies, we will work to develop products that appeal to the customer. Using core technology developed in Japan as a common base, we will develop and produce products that meet local, regional attributes, with the goal of creating a global product strategy that will surpass our competitors as only TOTO can.

### Supply chain innovation

By treating the process from procurement of raw materials, to production, to logistics, through to final delivery of a product to the customer, as a single flow, TOTO will establish a high-speed supply chain and increase cost competitiveness, with the goal of achieving a more robust management structure.

### Manufacturing innovation

With the optimal company-wide production technology development structure in place, including development of next-generation production equipment, materials innovations, promotion of platforming (standardization/unification), and restructuring of production sites, TOTO aims to bring new concepts to manufacturing that defeat existing stereotypes.

### Management resource innovation

To achieve a robust management structure immune to sales fluctuations, TOTO will work to streamline administrative operations, while deploying more human resources in strategic functions, transforming the company into a strong organization that can achieve its growth strategies. In our human resource strategy, we will develop a diverse and capable workforce and a corporate culture that embraces challenge, with the goal of improving our comprehensive strengths as a company.

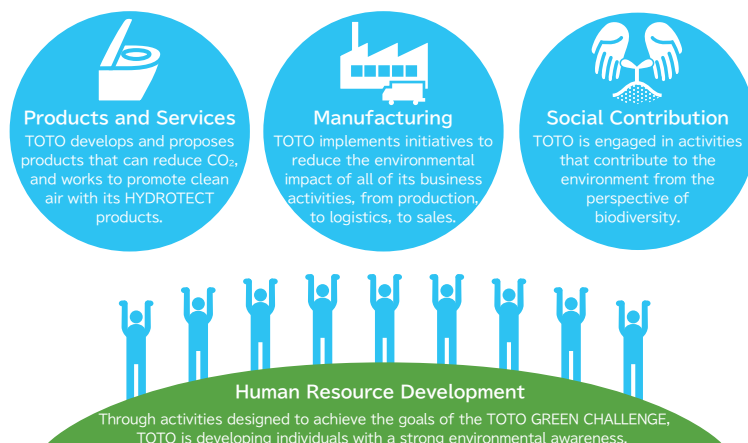
## TOTO GREEN CHALLENGE

In 2010, the TOTO Group began the TOTO GREEN CHALLENGE to significantly accelerate the environmental contributions of TOTO Group businesses and expand them to worldwide activities. With an action plan and numeric goals to be accomplished in our centenary of fiscal 2017, the entire Group is united in making this initiative an engine for promoting the TOTO V-Plan 2017.

### TOTO GREEN CHALLENGE: Three Key Perspectives, and Human Resource Development

As a leading manufacturer of plumbing products, TOTO has long treated the environment as one of its highest priorities and has aggressively promoted environmental activities. This is because, among many global environmental issues, global warming, water resource limitations, and pollution all relate to plumbing and are thus areas in which our business itself can contribute.

The TOTO GREEN CHALLENGE focuses on three key perspectives: products and services, manufacturing, and social contribution. At the base of all of these is human resource development.



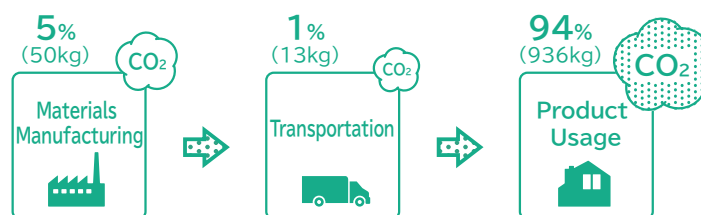
### Saving water and reducing CO<sub>2</sub> during product use are the biggest issues

TOTO Group products are used by our customers in their everyday lives. These products have useful lifespans of as much as 25 to 30 years, and since they are in use longer than typical household appliances, the vast majority of product lifecycle CO<sub>2</sub> emissions are generated during product use. This is why, to ensure daily use by the customer leads to an environmental contribution, TOTO has worked to elevate the green technology performance of its products.

Approximately 22% of Japan's total CO<sub>2</sub> emissions come from the home, and around 25% of that amount is emitted from household plumbing systems\*. TOTO has focused on the maximum extent to which these figures can be reduced. Using water-saving technologies, we develop products that significantly reduce CO<sub>2</sub> emissions from household plumbing systems and then get customers to use them, with the goal of promoting initiatives that contribute to a reduction in environmental impact.

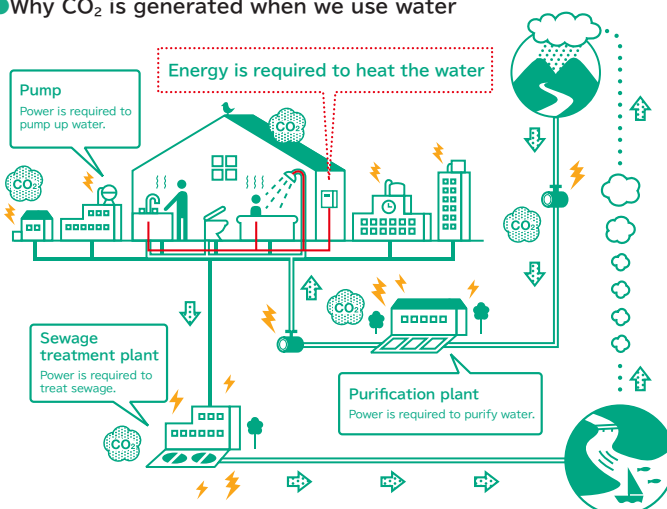
\*Source: Greenhouse Gas Inventory Office of Japan: GHGs Emissions Data of Japan (fiscal 2011)  
Within the "Power etc." category of "CO<sub>2</sub> emissions from households," toilet seats with warm water shower feature and dishwashers stated in "Power consumption per device in the home (2005 estimate)" are treated as plumbing equipment.

#### ●Comparison of CO<sub>2</sub> emissions in Product Lifecycle



The NEOREST toilet with integrated Washlet (launched 2005, 8L flushes)  
\*Estimate based on TOTO product and environmental assessment criteria (assuming a product lifecycle of 10 years)

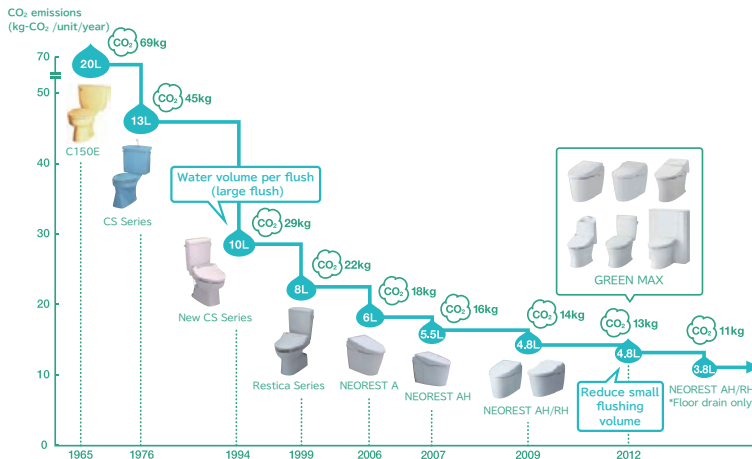
#### ●Why CO<sub>2</sub> is generated when we use water



Why does conserving water and hot water in toilets and showers lead to reduced CO<sub>2</sub> emissions? When we use water, power is needed to purify the water, and energy needed to heat it. Conserving water and hot water thus leads to reduced energy use.

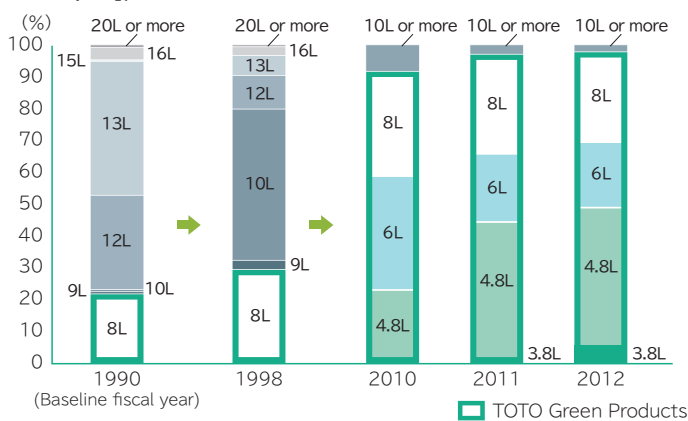
### ●The evolving environmental performance of toilets (Japan)

(Amount of water used per flush and annual CO<sub>2</sub> emissions)



\*Graph shows trend for the latest models using water volume per large flush.  
CO<sub>2</sub> emissions levels assume a 4-member family (2 male, 2 female) and 1 large and 3 small flushes per person, per day.

### ●Toilet basin shipments by quantity of water used in flushing (based on number of units shipped [by TOTO Group companies in Japan])



## Contributing to Society through Business with Products Offering Advanced Water and Energy Saving Performance

The TOTO Group is working to promote the development and wider use of TOTO green products, which enable customers to contribute to the global environment simply through their daily use.

Toilets, in particular, use the most water in the household, and for many years, TOTO has worked to develop technology to control flushing water. Today, we have gone from 13L to our latest minimum of 3.8L, a reduction of more than 70% per flush. These efforts go beyond product development, as TOTO is aggressively engaged in spreading this technology throughout the industry and across society. As we steadily increase the rate of shipment of water-saving toilets and other TOTO green products, we have also worked through our business activities to contribute to improving environmental issues such as water shortages and global warming.

In fiscal 2012, TOTO achieved a maximum reduction in CO<sub>2</sub> emissions of 43% (versus fiscal 1990 levels) through use of TOTO green products in the four plumbing spaces of the home. By promoting CO<sub>2</sub> reductions across all of its plumbing-related products, TOTO is aiming to reduce those emissions by 50% by fiscal 2017.

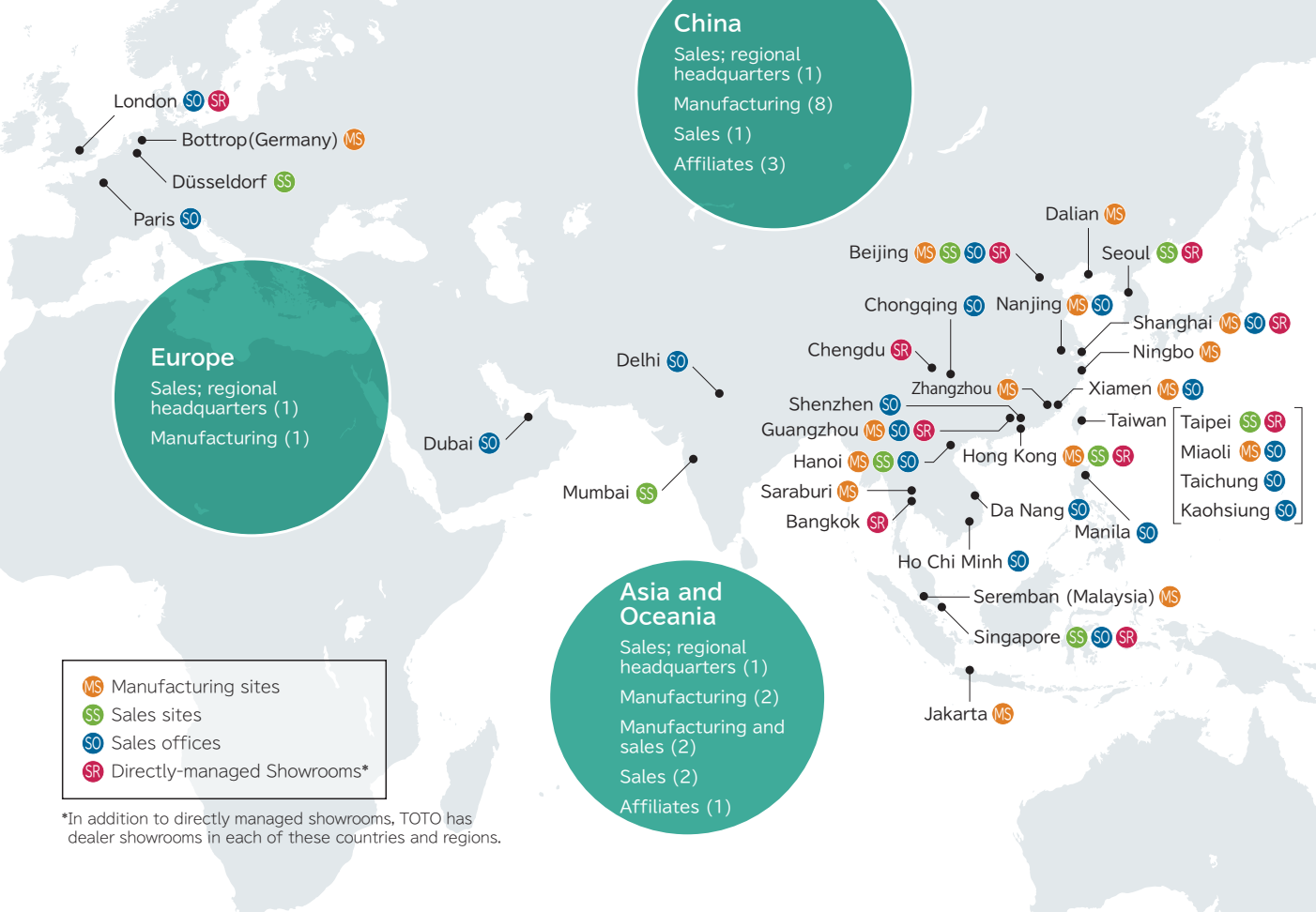
## TOTO is Working with a Variety of Stakeholders to Expand the TOTO GREEN CHALLENGE.

In addition to global warming, the world is faced with the worsening problem of air pollution from NO<sub>x</sub> (nitrogen oxides). By encouraging wider use of its HYDROTECT photocatalyst technology, with air purifying effects that can eliminate NO<sub>x</sub>, TOTO further contributes to the environment. We have already completed licensing agreements with over 100 companies around the world and are working to extend the global reach of HYDROTECT as a way of contributing to the environment on a global basis.

Achieving the fiscal 2017 goals set forth in the TOTO GREEN CHALLENGE will not be possible without partnerships with businesses, industry groups, and government, or without a trust relationship with our customers built through our products and services. TOTO will continue to strengthen its alliances with its various stakeholders, and by working in unison with companies, the industry, government, and ordinary citizens, will forge ahead with contributions to the global environment.



## TOTO Group Business Expansion



## Domestic Housing Equipment Products



TOTO offers residential products for the restroom, bathroom, kitchen, and washroom, along with water faucets, to meet both new construction and remodeling demand. We also offer products for restroom and washroom spaces in offices, commercial facilities, schools, hospitals, and

other public facilities.

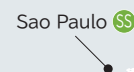
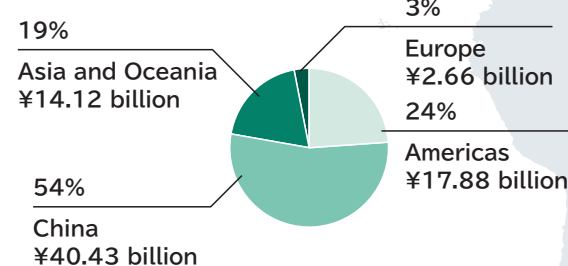
TOTO can offer complete plumbing system solutions with products featuring unique TOTO technology that conserves hot and cold water and energy, and have a low environmental impact.



## Company Data (as of March 2013)

Date of establishment: May 15, 1917  
 Capital: ¥35,579 million  
 Headquarters: 1-1, Nakashima 2-chome, Kokurakita-ku, Kitakyushu, Fukuoka, Japan  
 Number of employees: 24,921 (consolidated)  
 8,173 (non-consolidated)  
 Group companies: 62 companies  
 \*60 consolidated subsidiaries and affiliates (domestic: 31, overseas: 29)

## Overseas Sales Breakdown (Fiscal 2012)



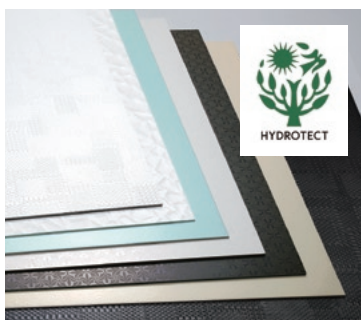
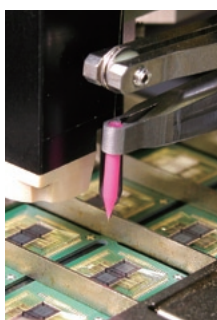
## Overseas Housing Equipment Products



TOTO offers products for the restroom, bathroom, and washroom featuring core technologies developed in Japan, along with water faucets.

TOTO can offer complete plumbing system solutions with products featuring unique TOTO technology that conserves hot and cold water and energy, and have a low environmental impact, as well as unified, suite-style spaces.

## New Domain Business Products



### Ceramics Business

TOTO manufactures and sells a range of high-quality, high-precision ceramics for the semiconductor, plasma display manufacturing, and fiber optic communications industries, including air bearings, electrostatic chucks, bonding capillaries, and receptacles.

### Green Building Materials Business

TOTO offers paints and building materials utilizing HYDROTECT, an environmental purification technology. TOTO also does business of making license agreements and technology introduction contract with companies worldwide that handle exterior building materials (including tile, paint, metal panel, glass, and architectural stone).

# HIGHLIGHT 2012

## Activities Report for Three Core Businesses

We report business results and activities undertaken in fiscal 2012 for the three core businesses of the TOTO V-Plan 2017, namely the domestic housing equipment business, overseas housing equipment business, and new business domains.

### Domestic Housing Equipment Business

We achieved net sales of ¥386.8 billion (increase of 3.0% year on year) and operating income of ¥21.6 billion (increase of 25.5% year on year) in fiscal 2012.

### TDY Coordination

- TOTO, DAIKEN, and YKK AP (hereafter “TDY”) are working together to perform “Green Remodel” renovations contributing to the environment by proposing design remodels of living spaces encompassing toilets, bathrooms, kitchens, washrooms, and living rooms utilizing Green Remodel Evaluations. A total of 2,200 shops (as of the end of March 2013) are using Green Remodel Evaluations, and we aim to increase this to 3,000 shops in fiscal 2013.
- In November 2012, the three companies of the TDY collaboration opened the TDY Tokyo Collaboration Showroom as a flagship showroom. It is the largest showroom (approximately 3,700 m<sup>2</sup>) among all the TDY collaboration showrooms and conveys to potential customers the appeal of “Green Remodel” renovations offered by the collaboration through displays of the five home zones of toilets, bathrooms, kitchens, washrooms, and living rooms.

### Product Development

- Sales continue to remain strong for the NEOREST Hybrid Series and the Washlet Apricot released in February 2012, which have been highly recognized for the new function to spray antibacterial electrolyzed water in toilets.
- The SAZANA, TOTO’s system bathroom line released in August 2012, has added the new Cradle Bathtub to its line-up, which is designed to provide users with cradle-like comfort. The water-saving Air in Shower showerhead and an thermal insulating “Mahobin” bathtub are offered as standard equipment. By creating designs that can contribute to energy savings, TOTO is making substantial contributions to higher reductions of CO<sub>2</sub> emissions through bathroom, which has high CO<sub>2</sub> emissions.

In addition, TOTO has fully remodeled the system bathroom floor structure to further promote platforming (standardization/unification). This also facilitates a higher degree of design freedom, design sophistication, and installation ease as well as shortens the development phase and offers other efficiencies such as improved productivity through standardization of parts.



TDY Tokyo Collaboration Showroom



SAZANA



- Regarding plumbing fixtures, the Air in Shower received the Chairperson's Award (Eco-Products Awards Steering Committee) in the Eco-Products Category of the 9th Eco-Products Awards.

Following the Minister's Prize, the Ministry of Environment, received last year for the Eco Single faucet (product number TKHG31PE), this is the second consecutive year a plumbing fixture has received an Eco-Products award. In addition, the Air in Shower also received the Chairman's Prize, Energy Conservation Center, Japan, in the Product Category & Business Model Category of the 2012 Energy Conservation Grand Prize for Excellent Energy Conservation Equipment, thereby garnering two awards in recognition of the environmental benefits of TOTO technology.



Air in Shower

## Universal Design

- Because the TOTO Group's products are used by everyone, every day, we develop and propose products with universal design (UD) in mind so that our products are comfortable and safe to use for everyone. Mobilizing this know-how, in the Barrier Free Book: Living Edition 2012 catalog of home remodeling proposals published last year, we offer three levels of remodeling designs that take into account age-related changes in physical condition to allow people to live comfortably in their homes for longer, including preparing for a less active pace of life in the future.
- Smile Partner, a product series (including existing products) suitable for elderly-care facilities and home-based nursing care released in April 2013, further enhances our range of proposals for general plumbing needs.



Smile Partner installation image

## Cost Structure Reforms

- Developing our activities aimed at supply chain innovation and manufacturing innovation, which are part of the TOTO V-Plan 2017's company-wide innovation activities, we are continuing to establish a high-speed supply chain from raw materials procurement to production and logistics in addition to reducing costs through such efforts as platforming (standardization/unification) across a wide range of products.

## TOPIC

### First-generation Washlet G Receives Mechanical Engineering Heritage Certification

Washlet G, the first generation of the Washlet (TOTO History Museum collection) that TOTO produced and sold in 1980, has received certification as

Mechanical Engineering Heritage from the Japan Society of Mechanical Engineers. This is the first time a machine used in the home has received certification and is recognition of how the first-generation Washlet G created new toilet rituals in Japan as well as its historical value as a machine contributing to citizens' lifestyle.



First-generation Washlet G

## Overseas Housing Equipment Business

We achieved net sales of ¥75.1 billion (increase of 20.0% year on year) and operating income of ¥8.1 billion (increase of 15.5% year on year) in fiscal 2012.

### Americas

- We achieved net sales of ¥17.8 billion (increase of 19.9% year on year) and operating income of ¥300 million (an operating loss of ¥600 million the previous year) in fiscal 2012.
- In the United States, although the pace of market recovery has continued to be moderate, we are seeking to enhance our brand value and differentiate ourselves from our competitors by demonstrating the superiority and value of our products as the leading manufacturer in the middle and high-end market.
- In September 2012, we released a new water-saving toilet as well as a Washlet equipped with the antibacterial eWater+ Technology feature that helps keep the toilet bowl clean. In January 2013, we released a NEOREST toilet with integrated Washlet in the United States equipped with the same features. These toilets use 3.8L of water per flush to offer high environmental performance compared with ordinary toilets (which use about 6L of water per flush).
- In the emerging market of Brazil in the Americas, we will continue to focus our efforts on designated activities in the high-end market, including hotels and commercial facilities.

### China

- We achieved net sales of ¥40.4 billion (increase of 19.7% year on year) and operating income of ¥7.8 billion (increase of 7.9% year on year) in fiscal 2012.
- In China, despite signs of moderate economic recovery, market conditions continue to be affected by government policies of monetary tightening and real-estate controls.
- Against this background, we are continuing to open large-scale showrooms in inland China where the market is expanding as well as upgrade our existing showrooms in metropolitan areas. We renovated and reopened our flagship Shanghai showroom in March 2013. Capitalizing on TOTO's strengths as a luxury brand, we will pursue business activities that are supported by local customers.
- In order to meet growing demand resulting from long-term market growth in China, TOTO is continuing efforts to build optimum production and supply systems.

### Asia and Oceania

- We achieved net sales of ¥14.1 billion (increase of 18.2% year on year) and operating income of ¥800 million (decrease of 29.3% year on year) in fiscal 2012.
- In the Asia/Oceania region, TOTO is working to boost marketing capabilities in emerging economies and enhance production and marketing systems in Thailand and Indonesia. In Indonesia and Taiwan, we are establishing our position as a luxury brand.
- In India, we are steadily developing our marketing network, including establishing new dealer showrooms. In terms of production, we began construction of a

sanitary-ware plant in Gujarat State in March 2012, aiming for completion at the end of 2013 and the start of full-scale operations in July 2014.

### Europe

- We achieved net sales of ¥2.6 billion (increase of 36.1% year on year) and an operating loss of ¥900 million (an operating loss of ¥700 million the previous year) in fiscal 2012.
- In Europe, TOTO is developing its marketing channels with a focus on Germany, France, and the United Kingdom as global brand communication platforms. We are promoting to increase dealer showrooms displaying our products.
- We are also aiming to differentiate ourselves from other companies by releasing products in the market such as the NEOREST series that are highly water efficient and feature sophisticated designs to demonstrate the appeal of TOTO's brand presence not only in Europe, but around the world.

## TOPIC

### Recognized Design Excellence

TOTO has received a Reddot Design Award in the globally influential design competition for the Washlet D Shape, a toilet seat with a warm-water washing feature intended for overseas markets including China and Asia/Oceania. TOTO Group products have received the globally influential design award for five consecutive years in high recognition of their design excellence.



reddot design award  
winner 2013



Washlet D Shape



## New Business Domains

We achieved net sales of ¥14.1 billion (decrease of 2.5% year on year) and an operating loss of ¥3.5 billion (an operating loss of ¥2.9 billion the previous year) in fiscal 2012.

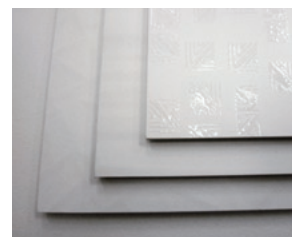
### Ceramic Business

- We achieved net sales of ¥5.2 billion (decrease of 2.2% year on year), and an operating loss of ¥2.0 billion (an operating loss of ¥1.3 billion the previous year).
- We are working to develop the optimum production system by specializing in high-precision ceramic parts such as structural elements and electrostatic chucks incorporating “Only One” technologies as well as by pursuing manufacturing innovation as part of company-wide innovation activities.
- In order to expand marketing channels and accelerate global development, TOTO actively participates in trade exhibitions both in Japan and overseas. In fiscal 2012, we displayed products at trade exhibitions in Japan, the United States, and Singapore with the aim of promoting awareness of new materials and products as well as advances in TOTO's ceramic technologies. We also collected information on market trends and technological issues at the exhibitions.
- A plant of TOTO Fine Ceramics located within 20 km of the Fukushima Daiichi Nuclear Power Station suspended operations due to the Great East Japan Earthquake. As it is unclear when the safety and security of the area can be assured, we had no choice but to abandon plans to restore operations. The products that were produced at this plant have been transferred to production lines at TOTO Fine Ceramics' Nakatsu Plant and the Ibaraki Plant of TOTO WASHLET TECHNO to ensure ongoing product supply capability.

- We are expanding our HYDROTECT business worldwide to contribute to environmental protection and sustainability working together with our licensee partners to increase HYDROTECT applications through global promotional efforts and activities.
- In Japan, with our promotion and efforts, large home builders standardized HYDROTECT tiles in their new housing construction. In the remodeling market, TOTO's nationwide network of Remodel Club branches, which specialize in building extensions and structural renovations, acted as a strong driving force of HYDROTECT business.
- In March 2013, we released new Hydrocera Floor and Wall products that were designed mainly for bathroom remodeling at hospitals, elderly-care facilities, and other commercial facilities. HydroCera Floor and Wall products are large ceramic slabs for interior applications and have antibacterial, antifouling, and deodorizing features thanks to HYDROTECT coating.



Hydrocera Floor PU (thin type)



Hydrocera Wall Light-Diffusing Premium White Series

### Green Building Materials Business

- We achieved net sales of ¥8.8 billion (decrease of 2.6% year on year) and an operating loss of ¥1.5 billion (an operating loss of ¥1.5 billion the previous year) in fiscal 2012.
- HYDROTECT is an environmental cleaning technology that harnesses the power of light and water to clean surfaces of dirt and grime through photocatalyst reaction. HYDROTECT technology has been adopted by many customers in numerous applications, from exterior walls to interior walls and floors.



Shanghai Takashimaya's RF1 adopting Hydrocera Walls for the store's interior walls

- TOTO has more than 100 partners globally for HYDROTECT and photocatalyst technology, primarily in Japan, North America, and Europe. With an aim to further develop the HYDROTECT Network, we will continue on building and establishing partnership with building manufacturers worldwide. In May 2012, TOTO concluded a master agreement with a leading Italian tile manufacturer, Casalgrande Padana S.p.A. The agreement is regarding sales of raw materials and equipment and includes licensing of HYDROTECT know how and patents.

### Fuel Cell Business

- TOTO aims to rapidly commercialize this business by manufacturing and developing ceramic power generation cells, which use “Only One” TOTO technology, and power generation modules, which are the core component of solid-oxide fuel cells (SOFC).
- We realized high power-generating efficiency, but we will continue to conduct joint experiments with such partners as fuel cell system manufacturers, gas companies, and research institutes. We are engaging in development efforts toward practical use with a focus on increasing durability.

## Environmental Initiatives

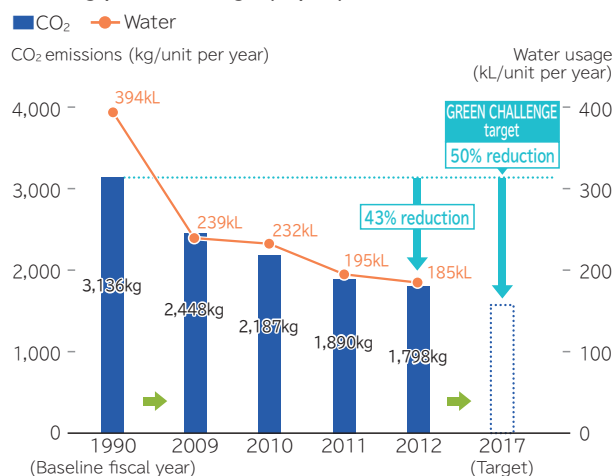
Under the TOTO GREEN CHALLENGE to dramatically accelerate the environmental activities that we have been conducting, we are implementing initiatives in the three key spheres of Products and Services, Manufacturing, and Social Contribution as well as Human Resources Development which serves as the foundation of these spheres. As part of setting milestones in the three key spheres, we have devised the eighth Global Environmental Action Plan (fiscal 2012–2014) and are taking concrete steps toward its realization.

### Products & Services Initiatives

We are developing activities to conserve water and reduce CO<sub>2</sub> emissions during product use, which has particularly large environmental impact among the stages of the product life cycle.

In fiscal 2012, we reduced CO<sub>2</sub> emissions during product use in Japan by 43% (compared to fiscal 1990) by developing environmentally friendly products (TOTO Green Products), including water- and hot-water saving products such as the Air in Shower showerhead and NEOREST series. Per household, this translates into an annual CO<sub>2</sub> emissions reduction of approximately 1,338 kg (baseline of 1990) and approximately 209 kL in annual water usage reduction (baseline of 1990). By actively developing and expanding use of these kinds of water-saving and energy-saving products, TOTO is facilitating environmental contributions through business activities.

#### ● Changes in CO<sub>2</sub> emissions and water consumption during product usage (Japan)



\*When using the latest main products for the four major plumbing spaces (assuming a four-person household)



Air in Shower

### Manufacturing Initiatives

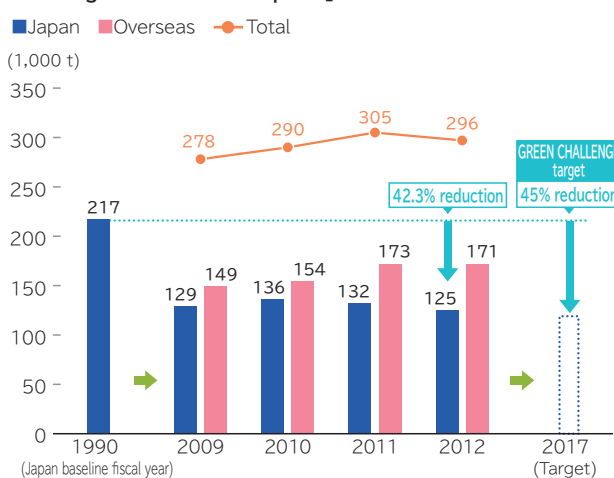
We are making concerted efforts in Japan and overseas to reduce CO<sub>2</sub> emissions in all of our business activities including production, logistics and sales. In fiscal 2012, in addition to our ongoing activities of improving production facilities and promoting energy saving at plants, showrooms, offices, and other workplaces, from fiscal 2011 we have made large-scale investments to save energy in Japan in order to meet needs to conserve electricity and have implemented a variety of environmentally conscious measures, including replacing older equipment with high-efficiency equipment (air conditioners, light fixtures, transformers) and introducing LED lighting.

These efforts have resulted in a 42.3% reduction in CO<sub>2</sub> emissions in Japan (baseline of 1990). We have also reduced overseas CO<sub>2</sub> emissions, and Group-wide our CO<sub>2</sub> emissions came to 0.296 million tons, a reduction of 9,000 tons compared to the previous fiscal year.

In addition, we have introduced the latest energy-saving technologies into the production line of TOTO SANITECHNO Shiga Plant, which produces sanitary ware and was put into operation in February 2012, including the latest high-combustion-efficiency fiber kiln and exhaust heat recovery equipment. As a result, the plant's total CO<sub>2</sub> emissions in the year after operations started were reduced by approximately 3,000 t/year (reduction of 40% compared to a typical plant), achieving significant environmental contributions.

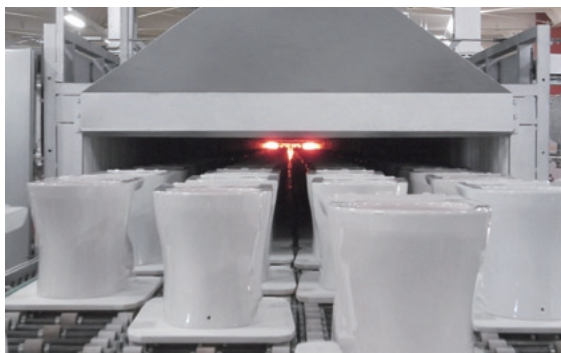
Other measures we are developing include installing solar photovoltaic power generation systems on office and plant buildings, including at Group companies.

#### ● Changes in TOTO Group CO<sub>2</sub> emissions



\*The CO<sub>2</sub> emissions equivalent for Japan is the coefficient in the Act on Promotion of Global Warming Countermeasures (however, electricity is 0.378 kg of CO<sub>2</sub>/kWh), and for overseas, it is the coefficient in the GHG Protocol 2005. Some of the past data is based on estimated figures.





High-combustion-efficiency fiber kiln, TOTO SANITECHNO Shiga Plant



Solar panels, Kanagawa Branch, TOTO MTEC

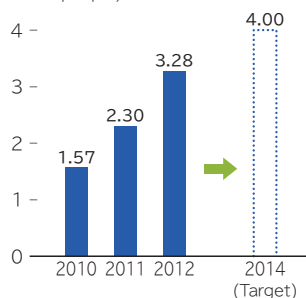
## Social Contribution Initiatives

The social contribution initiatives in the TOTO GREEN CHALLENGE are called Green Volunteer and encompass environmental contribution activities involving local communities, such as the Acorn Reforestation Project and local cleanup activities.

In fiscal 2012, the number of Green Volunteer participants reached a total of 32,818 (42% increase over fiscal 2011) through expanding the network of environmental contribution activities in local communities. This expansion included actively seeking participation

### Number of Green Volunteer participants

(10,000 people)



from employees and their families as well as business partners and introducing an award system to further promote active volunteer participation by employees.

The TOTO Water Environment Fund established in fiscal 2005 provides financial support to non-profit organizations and

citizen groups working to preserve the natural environment in various communities, and employees also participate in its activities as volunteers.

In the future, TOTO intends to further expand systems that facilitate participation in these activities by an even broader group of stakeholders.

Overseas, we established the TOTO China Water Environment Fund in 2008 under the China Environmental Protection Foundation. In the five years since, we have donated 5 million yuan, conducted water-saving educational activities, and provided water-supply facilities. We have decided to continue the Fund's activities for another five years and held the signing ceremony in February 2012.



TOTO Acorn Reforestation Project  
Tree-planting activities along the Edo River (Saitama Prefecture)



TOTO Water Environment Fund's river cleanup activities with the Yanamune River Watershed Sightseeing Boat (Shiga Prefecture)



Signing ceremony for the continuation of TOTO China Water Environment Fund activities (China)

# TOTO NOW 1



## TOTO's Global Strategy "Now"

The TOTO Group's vision of becoming a "truly global company" involves continuing to be a company rooted in each country and region and indispensable to the customers living there. We will establish our brand in each country and region and further developing our business globally toward achievement of TOTO V-Plan 2017.

### European Business Development Seen at ISH 2013

In March 2013, the TOTO Group displayed for the first time the NEOREST AC, which is equipped with new photocatalytic technology Actilight developed by incorporating HYDROTECT photocatalytic technology into ceramic sanitary ware, at the International Sanitary and Heating (ISH) exhibition held in Frankfurt, Germany, one of the three largest housing equipment exhibitions in the world. In addition, TOTO announced a business alliance with Villeroy & Boch AG, a long-standing German ceramics manufacturer that carries ceramic sanitary ware and tableware products. This alliance demonstrates the European market's acceptance of TOTO's technological capabilities and high product quality.

Europe is a mature sanitary-ware market and highly competitive due to the large number of global luxury brands. To become a "truly global company," TOTO cannot ignore this market. Therefore, we are developing sales of highly functional products with sophisticated designs that are equipped with washing and water-saving technologies not found in the conventional European market while adapting the products to European culture and standards. We have also promoted our originality as a comprehensive plumbing manufacturer, including by making whole-bathroom space proposals.

Continuing from the 2009 and 2011 exhibitions, TOTO participated in ISH 2013 exhibition and has increased the number of European companies covered under HYDROTECT licensing agreements to make TOTO technologies broadly visible. In the coming years, TOTO will accelerate business

development to move from brand recognition to brand penetration.

### TOTO Has Looked Overseas Since Its Founding

The TOTO Group operates 60 consolidated companies in 18 countries and regions (31 in Japan, 29 overseas). Based on the five-polar global structure that consists of Japan, the Americas, China, Asia/Oceania, and Europe, we are creating a system for the development, production, and sale of products tailored to local markets by five-polar structure cooperating while respecting the culture and lifestyle habits of that region.

This is the vision that we have maintained since our founding, going back to our naming as Toyo Toki Company, Limited ("Toyo" means "Orient" in Japanese) at the time of our establishment in 1917 with an eye to developing markets in the Orient (China and Southeast Asia). Selecting Kokura in Kitakyushu City for the location of our headquarters and production bases, which facilitates export of products to China and Southeast Asia as well as procurement of raw materials and fuel needed to mass-produce ceramic sanitary ware, was also for this reason.

### Meaning of the TOTO Group's Vision of "Localization"

The TOTO Group does not view countries and regions outside Japan simply as production bases or markets. Our vision is to put down roots as a corporate citizen in each country and region, practice our Corporate Mottos





NEOREST AC



NEOREST GH

(p. 21-22 two at bottom left) Exhibition booth at ISH in Frankfurt, Germany  
(p. 22 two at top left) Kitchen & Bath China 2013 in Shanghai, China  
(p. 22 top right) NEOREST AC (planned to be released in Europe) and NEOREST GH (planned to be released in China) equipped with the new photocatalytic technology Actilight

## TOPIC

### NEOREST AC, the First Product Developed Overseas

The NEOREST AC, which attracted the most attention at the latest ISH exhibition, comes with many of TOTO's environmentally friendly technologies accumulated to date, including the new photocatalytic technology Actilight, CeFIONtect antifouling technology, and the Tornado Flush. To add momentum to realization of TOTO V-Plan 2017, we intend to successively release similar types of products from Europe to the Americas and China (release in Japan is to be determined).



of "Quality and Uniformity," "Service and Trust," and "Cooperation and Prosperity," and expand use of our products with high environmental performance in line with the goals outlined in our environmental vision TOTO GREEN CHALLENGE.

To achieve this, after being recognized as a company of the respective country and region, we must continue being indispensable to the local society and customers not as a "Japanese company that has entered the local market," but as a company of the respective country and region. This is why the TOTO Group is working to advance localization of human resources. The ratio of locally hired employees in top management of overseas Group companies was 20% in fiscal 2012, and we aim to increase this to 50% by fiscal 2017.

Realizing our goals of permeating our brand rooted in local communities and contributing to improving lifestyles and sanitary culture is part of the localization that the TOTO Group is advancing and is our vision as a "truly global company."

## Achieving TOTO V-Plan 2017 by Mobilizing Overseas Business Development

In May 2013, we participated in the Kitchen & Bath China 2013 in Shanghai, China, where we displayed the NEOREST GH equipped with the same new photocatalytic technology Actilight as the European NEOREST AC. In 2014, our sanitary-ware plant in Zhangzhou City, Fujian Province, is scheduled to begin operations. This will enhance our ability to supply products to inland China where future growth is anticipated.

In the Americas, we established a local sales subsidiary in Brazil in January 2011 and are working to further expand business.

In the rapidly growing market of India, we began construction of a sanitary-ware plant in Gujarat state in 2012 and plan to put it into operation in 2014.

One target of TOTO V-Plan 2017 is growing our overseas housing equipment business from the current 16% of sales to 25%. The TOTO Group intends to develop and expand business in overseas markets by deploying a business model rooted in local communities and building brand awareness, permeating the brand, and creating an established brand in a stepwise manner in all five of the global polar regions.

## TOTO NOW 2



(Left) "Visibility" of work hours with cards (Top right) Loading efficiency improvements with pallettes (Bottom right) "Visibility" of shipment hours with shipping tags

### Logistics Innovation Supporting the Domestic Housing Equipment Business

The TOTO Group has been fundamentally revising logistics flow since fiscal 2010 and has undertaken innovation activities to thoroughly reduce waste. While incorporating improvement suggestions from worksites, we have reduced workloads and substantially shortened lead times. In the future, these activities will support growth in the Japanese housing equipment business by firmly meeting continually expanding demand for remodeling.

#### Supply Chain Innovation Able to Meet Market Needs

In the process of working to achieve the targets of TOTO V-Plan 2017 and TOTO GREEN CHALLENGE, the TOTO Group is implementing company-wide innovation activities. One of these innovation activities, supply chain innovation, encompasses fundamentally changing the flow of goods from raw materials procurement, through production and logistics, to delivery of products to customers. By speeding up this flow, we have succeeded in raising our cost competitiveness.

A major aim of the logistics innovation that is one aspect of supply chain innovation consists of the three points of logistics cost improvements, substantial shortening of logistics lead times, and reduction of CO<sub>2</sub> emissions through optimization of transportation routes. The momentum for undertaking logistics innovation also includes the background context of shifting demand from new construction to remodeling and shifting needs from mass production to high-mix low-volume production with shorter time to delivery. Compared to new construction, in remodeling, the time it takes customers to decide on products is shorter and in more than a few cases the specifications change suddenly due to circumstances at the installation site. Changes to our business model have made it more difficult to meet needs based on past ways of doing business, and it became necessary to undertake a major innovation of our logistics.

#### Logistics Innovation Results through Two Steps

The first step was transportation system innovation from the production plant to the delivery center and/or terminal. Previously, products were transported from the Kyushu production plants to four logistics centers around Japan including a center in Chiba through a variety of routes, some of which included main vendor terminals while other routes did not go through a logistics center but shipped products directly to delivery company terminals.

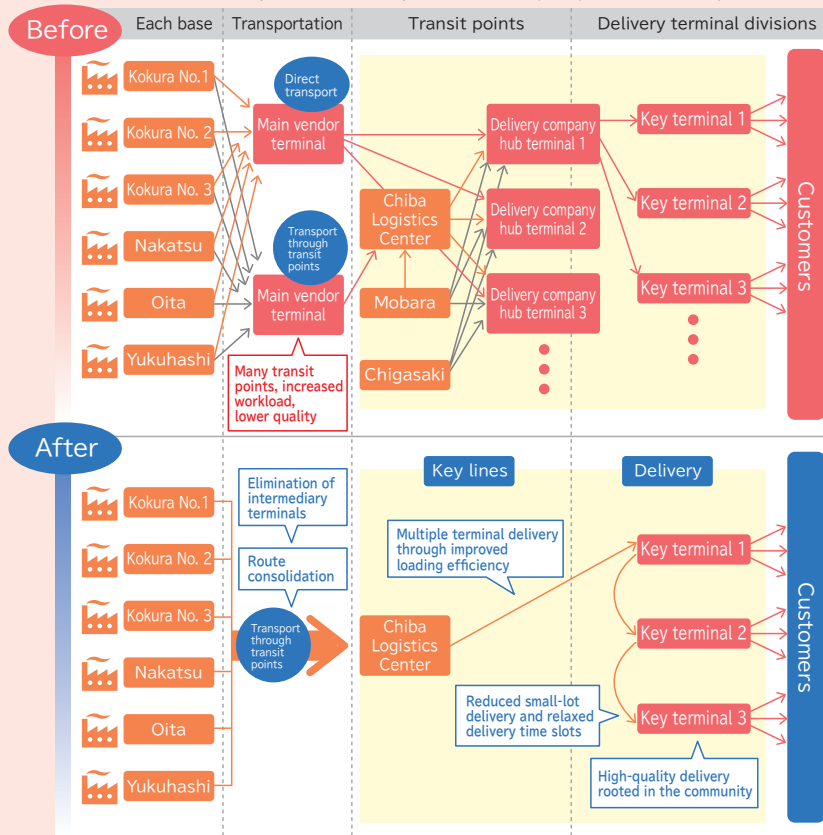
Complicated shipping routes also means more loading work. Therefore, we worked to build the Single Pass Logistics system to transport goods from production plants to logistics centers without going through intermediary terminals. The transportation method was also changed from truck transport to ferry transport using large trailers to establish a consolidated transportation system.

The second step was fundamental reform of logistics centers where diversified products were stored together. In logistics centers, products were typically delivered two days before shipment. The outbound shipment process would take one and a half days from the afternoon of the day before. Products therefore would sit at the centers unshipped, resulting in more work to manage and sort products. Here, we established a "zero lead-time" system in which products are delivered to logistics centers the morning and are shipped that afternoon. Shipment work that had taken one and a half days was shortened to half a day, with a smooth afternoon shipment process the key to its success. As delays at one point in the process cause delays throughout the system, all work processes were

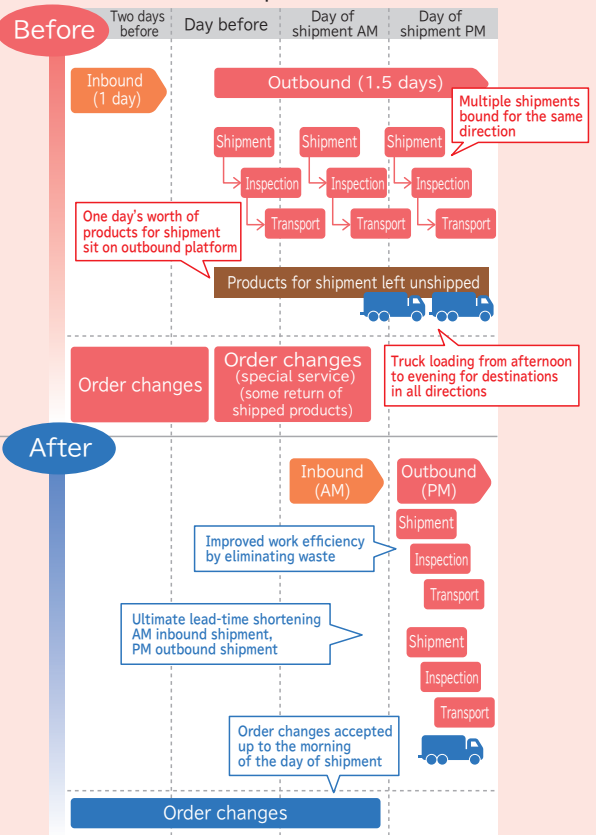


## First step Transportation system innovation

Case of delivery from bases in Kyushu to East Japan (via the Chiba Logistics Center)



## Second step Logistics center work-process innovation



checked carefully and revised to be more efficient. By switching to this kind of system, in which the necessary goods are handled in a consolidated manner when they are needed, we have also enhanced our ability to meet remodeling needs.

In implementing this logistics innovation, we devoted time to communicate with employees and cooperating companies, striving to share with them the objectives of the innovation. As a result, employees who run the worksites came up with a range of improvement ideas, and we successfully created a workplace environment in which all members participated with a sense of independence. These activities halved overall logistics lead times at all bases, from an average of 3.9 days to 2 days, while modal shift also achieved a 2.4% reduction in CO<sub>2</sub> emissions (compared to fiscal 2009 levels). In terms of costs, we strived for an improvement of ¥1.5 billion compared to before the logistics innovation.

In addition, this logistics innovation activities received the 2012 Logistics Grand Prize, and the attention our results received gave employees a sense of reward and led to significantly higher scores on an employee awareness survey.

## The Third Step Is Innovation Activities Focused on the Entire Industry

In the third step, we are attempting new activities that capitalize on the results we have obtained thus far. In February 2013, we collaborated on logistics with Cleanup Logistics Co., Ltd. to begin joint delivery of modular kitchens. The collaboration already extends to 14 prefectures, and we are aiming for expansion nationwide within fiscal 2013. To improve efficiency of vehicle dispatching, in collaboration with Zenrin Co., Ltd. we are also examining electronic maps that indicate road widths using a color code for roads in the vicinity of delivery destinations. Moreover, we are also utilizing information technology to improve efficiency, including sending mobile phone texts to consignees informing them of delivery times in order to reduce loss from consignee absence. We are striving to contribute to breakthroughs in the logistics industry and establish a next-generation business model by implementing collaborative projects with other companies and industries. By supporting the Japanese housing equipment business with innovative logistics efficiency improvements, we are taking steps toward creation of a profitable corporate constitution with an eye to achieve TOTO V-Plan 2017.

### TOPIC Logistics Grand Prize in Recognition of Worksite Improvements

TOTO Group's logistics innovation has been recognized for excellence in logistics advancement, receiving the Logistics Grand Prize in September 2012. The Logistics Grand Prize was created by the Japan Institute of Logistics Systems for the purpose of social penetration of logistics and raising awareness among people involved in logistics divisions. The award is based on the six criteria of originality, level of results, level of management innovation, level of technical innovation, social relevance, and level of effort.

# TOTO NOW 3



Photo: The Yomiuri Shimbun



## Management Foundation Strength Demonstrated in Recovery from the Great East Japan Earthquake

Supporting our foundation to achieve TOTO V-Plan 2017 is our unified Group control system and investment in human resources development. Through our risk management activities and strength and resilience to quickly recover in emergency situations, the TOTO Group was able to overcome the unprecedented level of damage inflicted by the Great East Japan Earthquake through company-wide recovery efforts.

### Rapid Restoration Activities through Quick Decision-making

The Great East Japan Earthquake of March 11, 2011 inflicted damage to production, sales, and logistics bases and showroom buildings and equipment in the Tohoku region of Japan as well as throughout eastern Japan. In crisis response, the initial response is of utmost importance in order to minimize damage and ensure continuity of business activities. To respond quickly, it is necessary to secure a continuously functional contact system that allows information to be quickly collected and shared.

Therefore, immediately after the earthquake struck at 2:46 p.m., the TOTO Group established the Disaster Response Headquarters headed by President Harimoto and began confirming safety at each business location in the affected area. At noon on March 13, two days after the earthquake, confirmation of the damage to and operational status of all TOTO Group divisions was completed. Subsequently, each morning the Disaster Response Headquarters met to discuss and decide aid to the disaster-affected regions as well as measures aimed at restoration of our production system based on an understanding of the conditions in order to realize rapid restoration of business activities.

In conjunction with revising the logistics system to resolve problems arising from the massive scale of the disaster across a wide area, we made efforts to decentralize production, realize product platforming, and reduce procurement risks for key components, working to prepare for future large-scale disasters and strengthen our business continuity capability.

### Risk Management System, the Foundation of Business Continuity

In addition to rapid initial response, we were able to achieve rapid restoration of business activities after the disaster due to the robust nature of the risk management system that we have steadily built to date.

In 2005, the TOTO Group established the Risk Management Committee to integrate all risk management activities and the crisis management system. Each year, the Risk Management Committee identifies major risks that could impact stakeholders and works to prevent crises before they occur under the direction of the respective Risk Management Supervising Division General Manager.

In addition, we have conducted scenario-based risk simulations more than 60 times since 2004 in order to develop human resources with crisis response capabilities able to independently make judgments and take action flexibly and quickly according to conditions during times of emergency. These repeatedly taken steps proved effective, as each location was able to engage in prompt and appropriate crisis response even when this earthquake disaster struck. After the earthquake, we have also introduced practical risk simulations in addition to the scenario-based risk simulations with the aim of further improving worksite response capabilities, and we intend to continue enhancing our risk response capabilities in Japan and overseas.





(p. 25 left) Oita Plant seismic strengthening construction  
(p. 25 right) Conditions in March 2011 immediately after the earthquake (Top) Inside the Tohoku Sales Warehouse (Bottom) Sendai Showroom  
(p. 26 top left) Scene of a crisis-response meeting immediately after the earthquake  
(p. 26 bottom left) Risk simulation scene  
(p. 26 center) Volunteer activities in the disaster-affected area  
(p. 26 right) Message from the President via the Intranet

## TOPIC

### Evaluation of Business Continuity Management

Our series of business continuity activities at times of disaster have been highly evaluated, and TOTO Group was awarded the Grand Prize for most outstanding efforts in the BCAO Awards 2011 sponsored by the Business Continuity Advancement Organization (BCAO). In the 2012 DBJ Business Continuity Management (BCM) Rating by the Development Bank of Japan (DBJ), TOTO also received the highest rank of "A." Due to low-interest financing in association with this, the TOTO Group is scheduled to complete seismic strengthening of all business sites four years ahead of the initial plan. Seismic strengthening construction at 74 bases throughout Japan is planned for completion in fiscal 2013.

## Sense of Unity and Human Resources Development, Generated from Information Disclosure and Sharing

Beginning immediately after the earthquake struck, we continued to communicate the status of our crisis response to our customers, employees, shareholders, and other concerned parties. We launched a dedicated Intranet site for employees, which was updated each time response conditions changed at the Disaster Response Headquarters. We created an environment in which all employees were able to share the nature of the crisis that was changing moment by moment as well as our response, making this visible even for business sites located far away from the disaster-affected areas. By allowing people to see the information with their own eyes, a unified Group awareness of the crisis response arose naturally, and the entire Group, even including far-away bases, was able to share in the support system as much as possible. Supplies unable to be procured locally were sent from Kansai and Kyushu to business locations that needed them in the disaster-affected areas of Tohoku and Kanto, and transportation means to send them were also secured through an extended support network that transcended work and organizational frameworks.

## Assistance through Donations and Volunteer Activities

Wishing for the fastest possible recovery for the disaster-affected areas, five days after the earthquake the TOTO Group donated ¥100 million as well as ¥18 million in donations raised voluntarily from current and former

Group employees to the disaster-affected areas via the Japanese Red Cross and other organizations. Following this, interested employees continued fundraising activities, and we expanded the donation system for employees set up immediately after the earthquake (which allows employees to make donations from their computers) to Group companies in July 2012.

Interested employees who have the desire to help local areas in other ways beyond assistance and donations through the company are also continuing volunteer activities. In cooperation with non-profit organizations and volunteer centers active in the disaster-affected areas, these employees have participated in debris-removal work a total of 10 times between June 2011 and March 2013. The number of employees voluntarily participating during the approximately two years of these activities has reached 400.

## Building an Even Stronger Corporate Constitution

TOTO brand products, including the ceramic sanitary ware products we have continued to supply for close to 100 years, are today an integral part of many customers' daily lives. For this reason, we must be able to meet our supply responsibilities even in times of disaster. We have learned this lesson from our experience in the Great East Japan Earthquake. As we face risks from numerous potential natural and other disasters now and in the future, we will work to create a strong corporate constitution through risk management and other activities in order to protect the corporate quality that has been handed down from our predecessors and fulfill our supply responsibilities.

# TOTO in ACTION

## Highly Objective and Transparent Management

The TOTO Group considers that an essential aspect of corporate management is ensuring the satisfaction of stakeholders and ongoing expansion of corporate value by improving objectivity and transparency in management and clarifying management responsibility.



Detailed information on TOTO's corporate governance and risk management promotion system is included in the TOTO Corporate Report 2013 Financial & ESG Section and the TOTO Group Website.



A report on corporate governance is available on our website.  
[http://www.toto.co.jp/company/ir\\_en/reference/governance/index.htm](http://www.toto.co.jp/company/ir_en/reference/governance/index.htm)



TOTO Group Business Conduct Guidelines



Interactive Compliance Training

### Corporate Governance

For matters requiring management decisions, TOTO recognizes the importance of systematizing “who makes the decision, on what and where” as well as “what checks are implemented” in a fair and honest manner. TOTO has adopted the Audit & Supervising Board system and been promoting more efficient and effective decision-making, supervision and business execution.

#### Group Management

To realize better corporate governance, it

is important to understand the roles of the Board of Directors, the Audit & Supervising Board, the Independent Accounting Auditors and the operational divisions. TOTO is continually improving and refining its Group management system in order to make this possible. The TOTO Group Business Conduct Guidelines, which set out specific guidelines for implementing our corporate ethos, applies to everyone who works for the TOTO Group.

### Creating a Compliance Infraction-free Workplace

Interactive compliance training is held to strengthen communication and raise awareness of diverse values and share them, so as to create a “dynamic, vibrant and excellent” workplace free of compliance infractions.

Compliance training aims to heighten employees' awareness, encouraging them to move up from awareness that they themselves do not commit compliance infractions to the awareness that they will

not ignore compliance infractions if they witness such instances.

And as the Group's business operations expand globally, TOTO has also strengthened its rules for compliance promotion management, modeling them on the United Nations Global Compact and the U.S. federal sentencing guidelines. Training and education programs and audit and monitoring functions are being strengthened.

### Information Security

The basic provisions of the information management security system are based on the TOTO Group Security Policy. In fiscal 2012, we changed standard designations and definitions for security categories and labeling methods standard throughout the TOTO Group, reviewed confidential information rules and set down new guidelines. In conjunction with

this revision, we implemented information security education through e-learning for all TOTO Group employees, including those of cooperating companies. We have implemented a self-check system for assessing handling and management of confidential information which is in use throughout the company.

### Activities to Eliminate Work-related Accidents

TOTO has been working to increase awareness of safety and stop unsafe work practices and conditions in order to eliminate work-related accidents. In recent years, we have been concentrating on raising the level of safety management activities through mandatory activities at workplaces where improvements were needed, putting in place accident prevention activities appropriate for each workplace. This has contributed to improving the overall level of workplace safety management as well

as individual workers' safety awareness, resulting in reducing work-related accidents in designated workplaces by half compared to two years ago (occurrence rate per workplace of 3.6 accidents in fiscal 2010 cut to 1.6 accidents in fiscal 2012) and raising the standard of workplace safety management throughout the Group. We will continue these activities to build up our safety and occupational health system to further reduce work-related accidents.



# Stakeholder Engagement

TOTO considers the concept of stakeholder engagement to be vital in building relationships of trust with stakeholders and to facilitate cooperation. By doing so, we aim to improve society for generations to come.

## Promoting Two-Way Communication

The TOTO Group places importance on communication with all stakeholders, including customers, employees, shareholders, business partners and the society, and endeavors to develop closer relations with them.

To deepen interaction with customers, we communicate with them through various occasions such as events at our showrooms, plant tours and TOTO Summer Festivals.

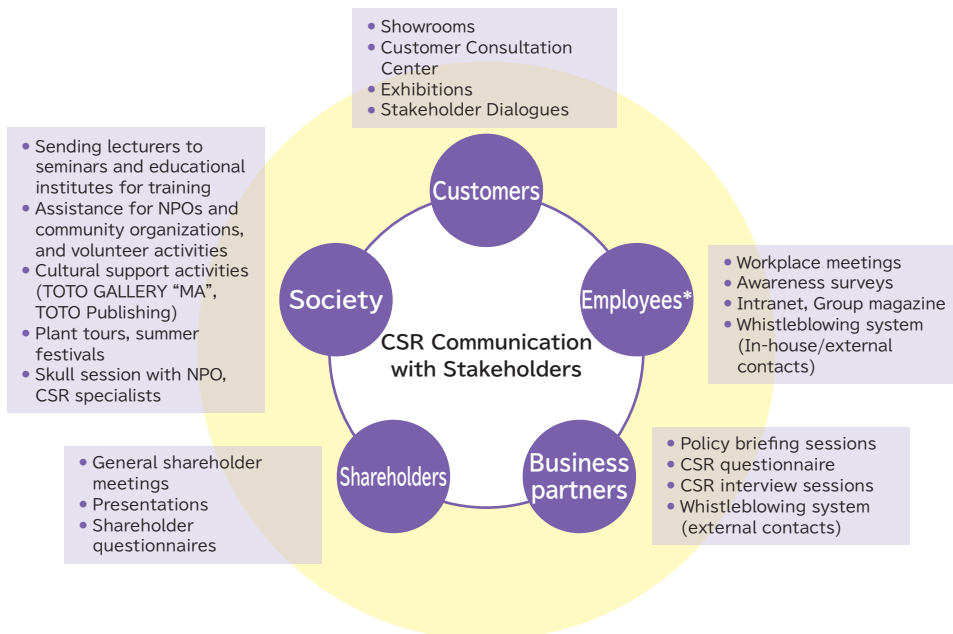
We promote communication with our business partners through policy briefing sessions and by calling on them directly. To improve the TOTO Group's standard of CSR activities, in fiscal 2012 we held meetings to exchange views with experts.

We will continue trying to improve stakeholder satisfaction through communication as a way of further advancing our corporate activities.

Note

**TOTO Summer Festivals**  
See p. 35 for details

### ● CSR Communication with Stakeholders



\*At the TOTO Group, all persons working for the TOTO Group are referred to as "employees."

## International Recognition of the TOTO Group's CSR Management

TOTO was included in the international SRI index Dow Jones Sustainability World Indexes for the second consecutive year. We also won the RobecoSAM Sustainability Award (Bronze Class) CSR award in the Building Materials & Fixtures division. We were chosen for these awards because we promote corporate activities from the ESG (environment, social, governance) perspective and particularly for our efforts to reduce our environmental

footprint and our ongoing dialogue with stakeholders.

We were also included in the Carbon Disclosure Leadership Index (CDLI) 2012 in the CDP Japan 500 Climate Change Report 2012 as a company demonstrating outstanding performance in terms of climate change related disclosure by CDP, an international NPO which provides environmental information.

**Dow Jones Sustainability Indexes**  
Member 2012/13

**ROBECOSAM Sustainability Award**  
Bronze Class 2013

**CDP CLIMATE DISCLOSURE LEADER 2012**

## Ensuring Customer Satisfaction

To continue bringing our customers peace of mind and contentment in their daily lives, everyone at the TOTO Group makes a sincere effort to listen to their feedback. All the related divisions work together to provide quality products and services that exceed customer expectations.

### WEB

More information on our customer satisfaction initiatives can be found on our website at [http://www.toto.co.jp/company/csr\\_en/cs/index.htm](http://www.toto.co.jp/company/csr_en/cs/index.htm)

### Using Our Products with Peace of Mind

TOTO Group products are used daily by a diverse array of people. Therefore, our mission is to provide safe products that can be used safely and with peace of mind.

The TOTO Group implements an integrated quality management system based on ISO9001 standards and is working on ongoing improvement of the quality assurance system. To ensure product safety and compliance with laws and regulations, our employees receive extensive training to increase their safety knowledge and awareness. As a basic policy for product safety, we have also drawn up voluntary action guidelines on product safety—the TOTO Group Voluntary Action Guidelines Related to Product Safety—to enhance awareness of product safety throughout the TOTO Group.

We also incorporate risk reduction measures from the design stage. This includes design focusing on fire and leak prevention and structures that minimize

the spread of damage beyond the product itself in case a fire or leak does arise due to an internal abnormality. In particular, at the design stage specialized departments carry out meticulous inspections of electrical components that could cause fires.



Product risk assessment by the manufacturing, quality assurance and design departments is conducted jointly with suppliers at the development stage. Risk assessment implemented to identify and eliminate risks at the design stage

### Outside Evaluation of Our Users' Manuals

Our users' manuals for the Washlet Apricot and the NEOREST Hybrid Series launched in February 2012 won two awards at the Japan Manual Awards 2012 held by the Japan Technical Communicators Association: the Sectorial Award for operation manuals, and the Jury Special Award for Safety. The manuals were recognized for listing of remote control functions, illustrations communicating information clearly and an easy to read list of safety labeling.



Clear illustrations convey the message



Product maintenance

### Quality After-Sales Service

"TOTO quality" refers not just to the quality of the products themselves but also encompasses product assembly and maintenance if a problem arises.

In light of customer expectations and changes in the business environment, we work to enhance all aspects of after-sales service: improving maintenance technology, educating staff on appropriate behavior when making a service call, and speeding

up the process from booking a service call to repair completion, so that we can render after-sales service by the date and time promised.

The After-Service department and the Manufacturing division work in close coordination to improve products rapidly and improve service quality to match product quality.

## Sharing Customer Feedback to Resolve Issues

We aim to attain a level of satisfaction in our products and services that exceeds customer expectations. TOTO makes full use of customer feedback as the starting point in product development and quality management. The Customer Division promptly sorts opinions and requests from user questionnaires and through the Customer Consultation Center and conveys them to the division in charge while posting such information on the intranet as a means to also share information with employees who generally do not deal directly with customers.

Since fiscal 2008, we have been holding meetings in various locations to hear from

our customers, which are attended by communicators in the Customer Consultation Center and staffs in business divisions engaged in product development and production. This has helped to encourage active use of customer feedback to resolve issues. Many of the ideas put forward have been reflected in new product development and product improvement.

We constantly seek to improve customer satisfaction by spreading company-wide the cases with customers' perspectives including the TOTO Group Customer Satisfaction Convention and Call Center Customer Satisfaction Case Convention.



A call center



Meeting to hear customer feedback



Dialogue with stakeholders

## Dialogue with Customers

The TOTO Group has been holding yearly stakeholder dialogues since 2004 with the aim of two-way communications with customers.

In fiscal 2012, at a meeting on the topic of providing customer satisfaction through TOTO products and services, there was lively discussion among participants with differing perspectives—ordinary consumers, consumer issue experts, and corporate customer service staff. TOTO intends to use the valuable feedback obtained to

improve its products and services and provide satisfaction exceeding customer expectations.

At TOTO showrooms, where customers can view products at their leisure, we hold various events and fairs together with Remodel Club stores to provide opportunities for forging closer bonds with customers. The remodeling fairs at TOTO Group plants in Japan, which started in June 2009, have been held 18 times and attracted 34,000 visitors in fiscal 2012.

## Ensuring Swift Information Disclosure

In case of an accident caused by a TOTO product, or indications that one may occur, we gather information quickly from relevant sources, including the customer, and cooperate with outside sales agents to promptly disclose key information and

make the necessary response. If a major incident occurs, we swiftly announce the information publicly and recall the product to keep impact to a minimum. The cause is then thoroughly investigated to prevent recurrence and make future improvements.



Remodeling fair at a TOTO plant

## Important Announcements Released in Japan



Some direct-pressure kerosene water heaters (TOTO sales brand name: High Acty Series) manufactured from May 2000 to August

2004, have experienced malfunctions due to kerosene leaks. In September and November 2008, TOTO announced this information in newspapers and via our website. We conduct inspections and replacement of the relevant part free of charge.



Some table-top dishwasher-dryers manufactured from September 2000 to March 2005 may emit smoke, due to heat from an electrical connector. In February 2008, TOTO announced this information in newspapers. We conduct inspections and replacement of the relevant part free of charge.



Some toilets with integrated Washlet manufactured from March 1999 to December 2001 may emit smoke or ignite due to contact failure. In April 2007, TOTO announced this information in newspapers. We conduct inspections and replacement of the relevant part free of charge.

## Continuing Development of Creative, Self-Motivated Human Resources

To enable all members of its diverse workforce to use their talents to the full, the TOTO Group promotes diversity, human resources development, work-life balance and mental and physical health.



Detailed data regarding human resources and safety are included in the TOTO Corporate Report 2013 Financial & ESG Section.

### Note

#### Diversity

Taking advantage of a diverse range of perspectives and ideas to create synergy and provide satisfaction that exceeds customer expectations.



More information on our personnel activities can be found on our website at [http://www.toto.co.jp/company/csr\\_en/employees/index.htm](http://www.toto.co.jp/company/csr_en/employees/index.htm)

### Note

#### Mentoring sessions

Mentoring sessions provide opportunities for women employees to think about their careers and learn about various approaches to work allowing them to effectively combine career and private life.



The "Top 100 Companies Encouraging Diversity in Management"

### Promoting Diversity

The TOTO Group respects the individuality of its workforce, which differs in such respects as age, gender and nationality. We believe that we can create prosperous and comfortable lifestyles by leveraging the fresh new ideas born from these differences.

In 2005, the "Kirameki" office directly under our president was created to maximize the capabilities of female employees and change attitudes toward gender roles. This office was transferred to the Human Resources Development Division in 2010 and renamed the Diversity Promotion Section, which has initiated a wider range

of activities, including promotion of women's careers, employment of persons with disabilities and an "employment status step-up" system for temporary and contract employees. In connection with the re-employment system for retirees, we encourage employees to develop a vision for their career path from an early age. Workers past age 50 are given opportunities to think about how they would like to work in their remaining years at TOTO, with the aim of improving their motivation and work methods, to enable us to make the best use of highly-skilled and experienced human resources.

#### Career Support for Women Employees

The percentage of women in management in TOTO's domestic operations was 4.6% in fiscal 2012. By fiscal 2017, which will mark TOTO's first century of operation, we aim to raise this to 10%. We are continuing to hire women employees in order to help us reach that goal, and mentoring sessions are offered to women in the age group facing life stage milestones such as marriage or childbirth. Step-up training and other programs are also offered to women employees in their 30s to help them upgrade their problem-solving and presentation skills. To provide more career opportunities for women, at our sales offices in Japan contract employees are being assigned to sales positions and hired as regular employees.

With regard to these activities, we are promoting a corporate culture that values input from women employees in all aspects of operations. Creating new value for customers in this way has earned us a positive reputation, and TOTO was included in the first "Top 100 Companies Encouraging Diversity in Management" list compiled by Japan's Ministry of Economy, Trade and Industry.

#### Creating a More Global Workforce

Approximately 32% of the TOTO Group's employees are non-Japanese, and in recent years we have been hiring more local employees in management positions for overseas Group companies. In fiscal 2012, 20% of top management in overseas Group companies was locally hired personnel. TOTO aims to raise this ratio to 50% by fiscal 2017 to make the company part of the local community and of local people's lives. Within Japan, talented individuals of any nationality are hired under the same hiring criteria as those applied to Japanese candidates.

#### Promoting Employment of Persons with Disabilities

The TOTO Group aims to realize normalization in its workplaces to ensure that persons with disabilities are treated in exactly the same manner as able-bodied persons. To this end, we continue to recruit those with physical challenges. We believe the perspectives of persons with disabilities are important in many ways at TOTO through our plumbing-related products.

In fiscal 2012, persons with disabilities made up 2.12% of the TOTO Group workforce. We aim to raise this figure to 2.5% by fiscal 2017, and to achieve this we are committed to opening more job categories to persons with disabilities across the entire TOTO Group.



Women's step-up training



## Human Resources Development

The TOTO Group seeks to develop self-directed personnel who can think and act on their own. To that end, we clearly define the image of the self-direction, knowledge and skills required for each employee qualification and provides opportunities to enable personnel to develop their capabilities autonomously. Specifically, these include a three-year nurturing program for new recruits to strengthen their basic business skills, hierarchy-based training to heighten awareness of the duties of positions one rank higher, and self-selected open training to support employees eager for new challenges. We also encourage exchange with personnel from other businesses or industries and operate a TOTO Management School (Keiei-Juku) to develop the next generation of leaders. Specialized trainings are also conducted at Training centers for sales personnel and Training centers for manufacturing personnel and each division's human resources development functions. The TOTO Group provides on-the-job training in each division which

combines opportunities for skill development with measures to promote communication between superiors and subordinates, to systematically and continuously produce self-directed human resources. We have also been recognized as "Top of the World (in the sector)" for our human resources development activities by the international SRI index Dow Jones Sustainability World Indexes.



Hierarchy-based training

Note

**Dow Jones Sustainability World Indexes**

See p. 28 for details

## Promoting Work-Life Balance

At the TOTO Group, we believe that if all employees review their work hours to improve the balance between work and home life, they will be more productive and obtain more satisfaction from their work.

To encourage employees to use their paid leave, TOTO introduced a system for taking paid leave by the hour. Awareness surveys were also conducted to explore current conditions in the organizational culture, which led to adopting no-overtime days and an improved system of reduced work hours or work patterns to help employees who need to care for a family member. TOTO has also set up a personnel registration system providing information about job openings to

former employees who have had to quit their jobs due to marriage, childbirth, a spouse's job transfer, or to care for a family member.

Both male and female employees use the child care leave/shorter hours work system every year. Information content about childcare and elder care on our intranet has been expanded. In recognition of these efforts to improve work-life balance, TOTO received the 6th Annual Grand Prize for Work-Life Balance, sponsored by the Japan Productivity Center, and has also obtained the Japanese Ministry of Health, Labour and Welfare's "Kurumin" certification in recognition of its activities in support of child rearing.

Note

**Work-life balance**

Ensuring a good balance between career and private life



The "Kurumin" certification logo

## Support for Mental and Physical Health

The TOTO Group promotes mental health measures for all employees.

These measures consist of self-care for new employees and employees in their third year of work, which includes mental health seminars and training in stress management techniques; line-care for new managers and supervisors to help them quickly identify and help employees in poor mental health; and

care by industrial health staff on site, who provide training to the personnel and general affairs department, handle consultations and so forth. Mental health consultations and counseling are also available. We also actively encourage physical health maintenance and improvement to ensure that all employees can be at their best in the workplace.



Training for managers and supervisors to identify mental health issues

## Promoting CSR Procurement Together with Suppliers

The TOTO Group endeavors to meet its corporate responsibilities in the areas of the environment, society and governance and to achieve sustainable development of the Earth.

We offer products and services of value to our customers together with our suppliers, through fair and equitable purchasing activities.



Please see our website for more details on CSR procurement:  
[http://www.toto.co.jp/company/csr\\_en/customers/index.htm](http://www.toto.co.jp/company/csr_en/customers/index.htm)

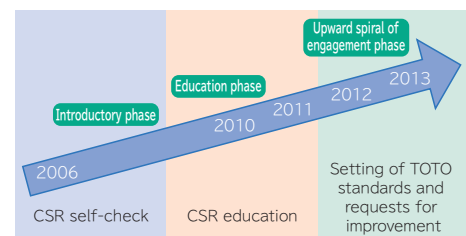
### The CSR Procurement Approach

The TOTO Group is dedicated to CSR procurement, working together with parts and raw materials suppliers and contractors who install our products. We also try to improve understanding of the need for CSR undertakings, gearing our activities to

conditions in the respective industries. At our overseas offices in particular, we try to promote better understanding to achieve coexistence by respecting local laws and customs and carrying out CSR activities appropriate to conditions in each country.

### CSR Procurement Activities

Our CSR activities for suppliers follow a three-step program that consists of a CSR self-check, CSR education, and setting of TOTO standards and requests for improvements. We are prioritizing these steps at parts and raw materials suppliers in Japan and instituting a similar program for overseas parts and raw materials suppliers and for domestic contractors who install our products.



CSR procurement activities for domestic suppliers

### Policy Briefing Sessions for Suppliers

To encourage two-way communication with suppliers, we hold a yearly policy briefing session. At the fiscal 2012 session, we briefed suppliers on TOTO Group procurement policies, CSR procurement and other issues.



Policy briefing sessions for suppliers

### Parts and Raw Materials Procurement

#### Domestic Suppliers

We make requests and set achievement standards for our domestic parts and raw materials suppliers and make achieving those standards a prerequisite for their

doing business with us. Our requests include activities for promoting CSR procurement directed to suppliers' business partners. (See below: "Requests to our suppliers - 5. Supplier management")

#### Requests to our suppliers

1. Human rights/labor
  - (1) Prohibition of inhumane labor conditions and discrimination
  - (2) Wages and working hours
  - (3) Building constructive labor-management relations
2. Safety/health
  - (1) Employee health management
  - (2) Workplace/facility safety measures
  - (3) Appropriate measures during emergencies and workplace accidents
3. Environment
  - (1) Chemical substance management
  - (2) Environmental preservation
4. Information security
  - (1) Security measures against computer network threats
  - (2) Authentication system
5. Supplier management
  - (1) Development at own company suppliers
6. Fairness/ethical conduct
  - (1) Adherence to laws and regulations, prevention of misconduct, early detection system
  - (2) Prohibition of abuse of a superior bargaining position
7. Quality
  - (1) Quality control
  - (2) Quality complaints
8. Social contributions
  - (1) Contributions to local community and society

### Overseas Suppliers

As we do with our domestic suppliers, we endeavor to educate overseas suppliers about the importance of CSR procurement and raise their level of engagement through CSR questionnaires and local monitoring surveys. We act to deepen mutual understanding and operate in coexistence by pursuing activities suited to the conditions in each country.



Discussion with overseas suppliers

### Domestic Contractors Installing TOTO Products

The TOTO Group sets out achievement standards by industry for domestic contractors installing TOTO products and has clarified evaluation and

improvement standards.

We provide support to enable contractors to meet our standards.

### Procurement Respecting Biodiversity

The TOTO Group positions global environmental preservation as a priority issue. We conduct our business activities with strong environmental awareness and make efforts to preserve biodiversity and achieve sustainable use of resources to help create a sustainable society.

In 2010, we adopted Sustainable Raw Materials Procurement Standards. We practice CSR procurement for key earth and stone raw materials and materials for wood-based products, respecting human rights, labor and compliance regulations and taking steps to minimize impact on the producing areas' environment, ecosystems and local communities.

We balance sustainable use of resources with stable procurement.

#### Earth and Stone Raw Materials

We confirm the legality and sustainability of earth and stone raw materials at all mines through surveys or interviews through the intermediary of trading companies, including whether TOTO-designated standards concerning reforestation or restoration of areas where mining has ended and measures to prevent pollution of rivers and lakes from mining or tailings are being met.

We visit mines or resource production sites as needed to confirm conditions. We conduct reforestation in areas where mining has ended in order to restore the sites.



Mining site

### Evaluation of Our CSR Procurement

For the second consecutive year, the TOTO Group has been included in the international SRI index Dow Jones Sustainability World

Indexes for supply chain management, one of the evaluation criteria of this index.

Note

**Dow Jones Sustainability  
World Indexes**  
See p. 28 for details.

## Social Contributions and Community Involvement

The TOTO Group carries out various social contribution activities, for community involvement and the betterment of society.

### Lifestyle Culture

#### TOTO GALLERY "MA"

This gallery operated by TOTO in the Minami-Aoyama district of Tokyo specializes mainly in architecture and design. Since its opening in 1985, the gallery has held to the objective of presenting high-quality information, and it has conveyed the thinking and philosophy of architects and designers from Japan and other countries. In fiscal 2012, the gallery hosted a return exhibition of the "Architecture. Possible here? Home-for-All" exhibit, which won the Japan Pavilion a Golden Lion award for best national participation at the 13th Venice Biennale International Architecture Exhibition.



"Architecture. Possible here? Home-for-All"  
©Nacása & Partners Inc.

#### TOTO Publishing

TOTO Publishing has been issuing books presenting unique viewpoints on architecture, design, lifestyle culture, and various other such topics since its founding in 1989. In fiscal 2012, it published a total of six books, including the second volume in the TOTO Architecture Library series, titled *Juso-suru Kenchiku*, and a collection of works by modern Indian architects attracting global attention, *STUDIO MUMBAI: Praxis*. To date, more than 320 books have been published, with over 2.5 million copies printed.



#### TOTO History Museum

The TOTO History Museum on the grounds of our headquarters in Kitakyushu displays sanitary wares dating from the Taisho to Showa eras, products that were used in the Diet Building, and the original Washlet, as well as eating utensils and other items. Since its opening in 2007, the museum has welcomed a total of some 60,000 visitors from around the world. Items on display include legacy examples of industrial modernization, architectural equipment technology and machinery of important historical value.



### Social Welfare

#### Volunteering and Donation Drives

The TOTO Group has a volunteering sabbatical program, which is used by employees active in youth guidance or support activities for persons with disabilities. Employees also worked as volunteers or held donation drives to support those affected in northeastern Japan after the Great East Japan Earthquake of March 2011 and after widespread flooding in northern Kyushu.



### Arts and Sports

#### Kitakyushu International Music Festival

Kitakyushu is the home of our headquarters, and to support the development of Kitakyushu as a city of culture, TOTO has been a special supporter of the Kitakyushu International Music Festival since it was first held in 1988. The festival has brought in major artists from Japan and other countries and has provided large numbers of visitors with opportunities for music appreciation.



#### TOTO Athletics Club

Founded in 1986. Members aim to come in among the top place finishers at various sports meets. Members also actively participate in neighborhood sporting events and hold track and field clinics at elementary schools to teach members of the local community the fun of running.



### Contributing to Local Communities

To thank local residents for their support, the TOTO Group holds annual TOTO Summer Festivals at its plants throughout the country. To encourage communication with local communities, employees take the lead in planning and operating events, setting up street booths and so forth. Plant tours and remodeling fairs held at plants throughout the country also help communicate TOTO's passion for manufacturing.





# For Better Reporting

## Third-Party Opinion



**Mizue Unno**  
Managing Director  
So-Tech Consulting Inc.

So-Tech Consulting Inc. provides comprehensive consulting services on management in the fields of the environment and CSR. The company uses its unique analytical capabilities to provide practical guidance on CSR-related management based on the fundamental idea that a company's set of values forms the foundation of CSR and raises corporate value.

Ever since the company was first established, TOTO has been committed to contributing to the improvement of people's cultured lifestyles; environmental and social issues are at the heart of TOTO's business activities. In particular, on the environmental side, the TOTO GREEN CHALLENGE has been positioned as a key element of the TOTO V-Plan 2017 long-term management plan, demonstrating just how closely environmental issues are integrated into TOTO's operations. TOTO has also applied this approach when moving into new business areas, making effective use of the company's existing technology to develop products that can make an even broader contribution toward solving environmental problems.

It is important that TOTO announces clear strategies with respect not only to environmental issues but also lifestyle and social issues; TOTO needs to clarify where it will be focusing its efforts in this regard in each of its three main business areas.

In TOTO's domestic housing equipment business, rather than emphasizing the water-saving and electricity-saving properties of individual product items, TOTO should be thinking first about household lifestyles and about local communities in their entirety. If TOTO can move beyond stressing the quality and craftsmanship of its products to develop services and solutions for society that help to improve people's quality of life by solving problems and providing emotional support, then it should be possible for TOTO to win an even higher level of trust from its stakeholders.

In its overseas housing equipment business, it is important for TOTO to explain clearly what strategies it is adopting for key regions within the global market as a whole. With a little more reference to countries such as China that account

for a high percentage of TOTO's overseas sales, while also explaining the strategy for Europe in light of TOTO's shift from the Japan-centric product development to a greater emphasis on localization, TOTO can bring across its determination to become a truly global company. It would also seem advisable for TOTO to have a forward-looking strategy in place for the emerging markets that targets not only high-income households but also the middle class, which will constitute the largest market share in the future.

With regard to new business domains, if TOTO can present the "story" of how TOTO's business operations are meeting society's needs in a way that is readily understood by stakeholders, then TOTO's approach will be that much more persuasive and convincing. For example, TOTO's HYDROTECT constitutes an example of product development that embodies TOTO's awareness of the global problem of atmospheric pollution.

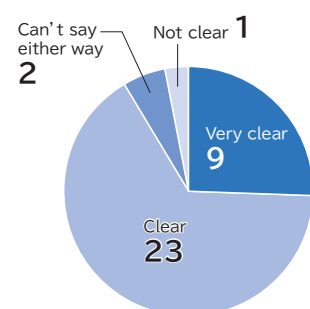
A further point is that, when developing new business areas in the future, there will be a need for ideas that diverge completely from the approaches to product development that have been followed in the past. These ideas will need to be based on the perspective of people living in a global community whose infrastructure varies widely. The types of needs which will require addressing include demand for toilets that can process waste effectively in the absence of a sewage network, and sanitary facilities that do not need water to work. One can envisage business development in emerging markets or disaster response; enhancing people's lives by solving sanitation-related problems is a perfect embodiment of the philosophy espoused by TOTO's founder. I believe that this philosophy can continue to serve as the foundation for TOTO's operations, in any era.

Conducting a business within a complex environment of the kind we are faced with today requires engagement with a wide range of different stakeholders. Stakeholders can play an important role as partners in future business development efforts, by identifying local needs, coming up with new ideas, and helping to drive business growth. The management style that TOTO will need to adopt in the future must emphasize not only the globalization and localization of TOTO's in-house human resources, but also a greater effort to promote collaboration with TOTO stakeholders throughout the world and make effective use of their wisdom and knowledge.

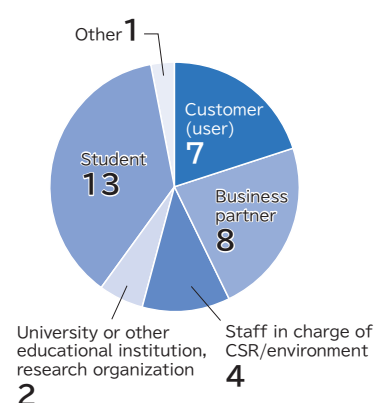
## Comments and feedback from the questionnaire on the TOTO Group Corporate Report 2012

35 items received as of April 2013

### Opinion of the report as a whole



### Who read the report?



### Content that attracted interest (multiple answers) (top 10)





### The Air in Shower

The Air in Shower from TOTO is a new kind of shower that balances comfort with an eco-friendly design. By using new technology to aerate the water, each drop actually enlarges, providing an enjoyable shower experience while conserving water use by about 35% compared to TOTO's conventional showers.

The product was awarded the Chairman's Prize, Energy Conservation Center, Japan, in the Product Category & Business Model Category of the 2012 Energy Conservation Grand Prize. At the 9th Eco-Products Awards, it also won the Chairperson's Award (Eco-Products Awards Steering Committee) in the Eco-Products Category. These two awards served to recognize the environmental performance of TOTO technology.

### Public & Investors Relations Dept. TOTO LTD.

1-1, Nakashima 2-chome, Kokurakita-ku,  
Kitakyushu, Fukuoka, Japan  
<http://www.toto.co.jp/en/>

Published in July 2013 [No.1190]



This report has been printed using environmentally-friendly paper, inks, and printing methods.