

## Notes to Lease Transactions

Finance leases excluding leases where ownership is transferred to the lessee:

(Millions of yen)

	FY 2005 (January to December 2005)	FY 2004 (January to December 2004)
1. Equivalent acquisition cost, equivalent accumulated depreciation, and equivalent balance at end of period		
Equivalent acquisition cost		
Machinery and equipment	80	48
Other property, plant and equipment	1,623	2,131
<u>Intangible assets</u>	<u>196</u>	<u>779</u>
Total	1,900	2,959
Equivalent accumulated depreciation		
Machinery and equipment	31	19
Other property, plant and equipment	839	1,264
<u>Intangible assets</u>	<u>107</u>	<u>642</u>
Total	978	1,926
Equivalent balance at end of period		
Machinery and equipment	48	28
Other property, plant and equipment	783	867
<u>Intangible assets</u>	<u>89</u>	<u>137</u>
Total	921	1,032
2. Equivalent lease commitments at end of period		
Due within one year	368	415
<u>Due after one year</u>	<u>553</u>	<u>617</u>
Total	921	1,032
3. Lease payments (Equivalent depreciation)	472	662
4. Equivalent depreciation is calculated according to the straight-line method.		
5. The interest inclusive method is used above since equivalent lease commitments at end of period account for only a small proportion of the balance of property, plant and equipment at end of period.		

## Related Party Transactions

### Affiliated companies

Name	Location	Capitalization	Business	Voting shares held by Lion	Nature of business relationship		Nature of transaction	Transaction amount	Account	Year-end balance
					Shared positions, etc.	Operational relationship				
Lion Akzo Co., Ltd.	Sumida-ku, Tokyo	Millions of yen 1,000	Production and sales of fatty acid nitrogen derivatives	50.0% direct	3 shared 2 seconded	Purchase of fatty acid nitrogen derivatives	Purchase of fatty acid nitrogen derivatives	5,385	Accounts payable	2,298
Bristol-Myers Lion Ltd.	Shinjuku-ku, Tokyo	200	Production and sale of pharmaceutical agents	49.0% direct	6 shared	Purchase of pharmaceutical agents	Purchase of pharmaceutical agents	14,446	Accounts payable	7,463

Notes: 1. Transaction terms and determination method for transaction terms

The terms of transactions with Lion Akzo Co., Ltd. and Bristol-Myers Lion Ltd. are in principle determined through consultation between Lion Corporation and each of these affiliates based on market price, the affiliate's overall cost, and Lion's suggested price.

2. The transaction amount is net of consumption tax, but year-end balances are gross of consumption tax.

## Tax Effect Accounting

### 1 . Main reasons for the accrual of deferred tax assets and deferred tax liabilities

(Millions of yen)

FY 2005

(Dec. 31, 2005)

#### Deferred tax assets

Allowance for doubtful accounts in excess of the amount allowable	709
Taxable portion of sales return reserve	320
Taxable portion of sales promotion reserve	268
Retirement benefits reserve in excess of the amount allowable	15,870
Taxable portion of reserve for directors' retirement benefits	367
Excess of amortization of goodwill	2,078
Taxable portion of impairment loss	34
Accrued enterprise tax	256
Tax loss carryforwards	4,798
Unrealized profits of inventory assets and fixed assets	415
<u>Other</u>	<u>2,696</u>
Deferred tax assets subtotal	27,817
<u>Valuation allowance</u>	<u>(351)</u>
Deferred tax assets total	27,466

#### Deferred tax liabilities

Special tax-purpose reserve	(995)
Taxable portion of gain of employee pension trust	(5,712)
Temporary difference from distribution of retained earnings of foreign affiliates	(310)
<u>Unrecognized holding gain on other securities</u>	<u>(5,232)</u>
Deferred tax liabilities total	(12,251)
Net deferred tax assets	<u>15,214</u>

(Note) "Others" under the current liabilities includes ¥22 million in deferred tax liabilities, and "others" under fixed liabilities includes ¥51 million in deferred tax liabilities.

2. Breakdown of the difference between statutory tax rates and the tax burden rates of corporate tax after applying tax effect accounting, etc.

(%)

Statutory tax rate	40.7
	(Adjustments)
Equity in earnings of non-consolidated subsidiaries and affiliates	(8.2)
Expenses not deductible for tax purposes	1.7
Dividends earned and other items permanently excluded from gross revenue	(0.7)
Deductible net income before income taxes due to tax loss carryforward	2.2
<u>Corporate inhabitant tax on a per capita basis</u>	<u>2.3</u>
Effective tax rates	38.0

## Securities

Consolidated fiscal 2005 (at December 31, 2005)

### a) Other marketable securities with market prices

(Millions of yen)

	Acquisition cost	Book value for fiscal period	Difference
Securities whose book value exceeds their acquisition cost Stocks	14,097	27,088	12,990
Securities whose book value does not exceed their acquisition cost Stocks	0	0	(0)
Total	14,098	27,088	12,990

### b) Other marketable securities sold during fiscal 2005

(Millions of yen)

Sale price	Total gain on sale	Total loss on sale
5	5	-

### c) Securities without market prices

(Millions of yen)

	Book value for fiscal period
1. Held-to-maturity bonds Unlisted yen-denominated foreign bonds	500
2. Other marketable securities Unlisted stocks	1,378

### d) Redemption schedule for other marketable securities with maturities and for held-to-maturity bonds

(Millions of yen)

	Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Held-to-maturity securities Unlisted yen-denominated foreign bonds	500	-	-	-
Local government bonds	-	-	2	-
Total	500	-	2	-

Consolidated fiscal 2004 (at December 31, 2004)

a) Other marketable securities with market prices

(Millions of yen)

	Acquisition cost	Book value for fiscal period	Difference
Securities whose book value exceeds their acquisition cost			
Stocks	8,919	15,080	6,160
Securities whose book value does not exceed their acquisition cost			
Stocks	474	403	(70)
Total	9,393	15,484	6,090

b) Held-to-maturity bonds sold during fiscal 2004

(Millions of yen)

	Cost	Sale price	Loss/gain on sale	Reason for sale
Unlisted yen-denominated foreign bonds	500	500	-	Advance redemption
Total	500	500	-	-

c) Other marketable securities sold during fiscal 2004

(Millions of yen)

Sale price	Total gain on sale	Total loss on sale
10	4	-

d) Securities without market prices

(Millions of yen)

	Book value for fiscal period
1. Held-to-maturity bonds	
Unlisted yen-denominated foreign bonds	500
2. Other marketable securities	
Unlisted stocks	1,381

e) Redemption schedule for other marketable securities with maturities and for held-to-maturity bonds

(Millions of yen)

	Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Held-to-maturity securities				
Unlisted yen-denominated foreign bonds	-	-	500	-
Local government bonds	-	-	3	-
Total	-	-	503	-

### Derivatives Position, Market Value, and Valuation Gain or Loss

There is no derivatives position to disclose as of the end of fiscal 2005 and fiscal 2004.

## Retirement Benefits

### 1. Outline of the retirement benefit plans adopted by the company

The Company and certain domestic consolidated subsidiaries have defined benefit pension plans: for example, corporate pension plans and lump-sum severance benefit plans. In certain cases, additional severance indemnities are paid when an employee retires.

Certain foreign consolidated subsidiaries have defined contribution plans.

The primary plans are the Lion Corporate Pension Fund and the tax-qualified retirement pension plan joined by four of the Company's domestic consolidated subsidiaries. Thirteen of the Group companies also have lump-sum severance indemnity plans.

In addition, the Company has a pension trust.

In April 2004, the Company decided to revise its retirement benefits plans, which since July of the same year have been switched over to a cash balance plan (linked to market interest rates).

### 2. Items concerning retirement benefit obligation

(Millions of yen)

	FY 2005 (Dec. 31, 2005)	FY 2004 (Dec. 31, 2004)
A. Projected benefit obligation	(71,300)	(72,405)
B. Fair value of pension plan assets	65,390	46,105
C. Funded status (A + B)	(5,910)	(26,300)
D. Unrecognized actuarial difference	10,147	8,703
E. Unrecognized prior service cost	(5,093)	(6,621)
F. Unrecognized pension plan assets	(20,285)	(745)
G. Net amount on consolidated balance sheet (C + D + E + F)	(21,141)	(24,963)
H. Prepaid pension expense	3,727	
I. Accrued employees' retirement benefits (G - H)	(24,868)	(24,963)

FY 2005	FY 2004
Notes: 1. Consolidated subsidiaries have adopted the simplified method for calculating their retirement benefit obligation.	Notes: 1. Same as at left.

3. Items concerning retirement benefits costs

(Millions of yen)

	FY 2005 (January to December 2005)	FY 2004 (January to December 2004)
A. Service cost (See Notes 1, 2)	2,169	2,171
B. Interest cost	1,742	1,837
C. Expected return on pension plan assets	(635)	(876)
D. Amortization of actuarial loss	762	971
E. Amortization of prior service cost	(1,528)	(1,018)
F. Extra payment for premium severance payments		385
G. Premium contribution for defined-contribution pension plan	40	35
H. Retirement benefits costs (A + B + C + D + E)	2,550	3,504

FY 2005	FY 2004
Notes: 1.	Notes: 1. Employees' contributions to the national government welfare pension fund plan are deducted.
2. Where the simplified method is adopted, the retirement benefit costs are recorded to "A. Service Costs."	2. Same as at left.

4. Items concerning the basis for calculating retirement benefit obligation, etc.

	FY 2005 (January to December 2005)	FY 2004 (January to December 2004)
A. Method adopted to allocate expected retirement benefits	Method of allocating fixed amount throughout the period	Method of allocating fixed amount throughout the period
B. Discount rate	2.5%	2.5%
C. Expected rate of return on pension plan assets (See Note 1)	2.0%	3.5%
D. Recognition period of actuarial gain or loss (See Note 2)	15 years	16 years
E. Amortization period of prior service cost (See Note 3)	5 years	5 years

FY 2005	FY 2004
<p>Notes:</p> <p>1. Expected dividend yield is used for the pension trust.</p>	<p>Notes:</p> <p>1. Same as at left.</p>
<p>2. Actuarial differences are expensed from the subsequent consolidated fiscal year using the straight-line method based on the employees' average remaining service period as at the time such differences arise.</p>	<p>2. Same as at left.</p>
<p>3. Prior service liabilities are expensed from the current consolidated fiscal year using the straight-line method based on a certain number of years not exceeding the employees' average remaining service period as at the time such liabilities arise.</p>	<p>3. Same as at left.</p>

## Production, Orders, and Sales

### 1. Production

	FY 2005 (January to December 2005)	FY 2004 (January to December 2004)	Change
	Millions of yen	Millions of yen	%
Home products	204,546	197,355	3.6
Pharmaceutical products	5,437	1,661	227.4
Chemicals	13,388	13,729	(2.5)
Other businesses	4,713	5,414	(13.0)
Total	228,085	218,159	4.6

Note: Yen amounts are calculated from producer prices and do not include the consumption tax.

### 2. Orders

Lion Corporation does not engage in production to order.

### 3. Sales

	FY 2005 (January to December 2005)	FY 2004 (January to December 2004)	Change
	Millions of yen	Millions of yen	%
Home products	237,241	230,398	3.0
Pharmaceutical products	50,315	32,162	56.4
Chemicals	33,898	33,108	2.4
Other businesses	10,343	13,844	(25.3)
Total	331,798	309,514	7.2

Note: Figures above do not include the consumption tax.