

## **Management Policies**

### **1. Basic Management Policies**

Committed to its mission of active contribution to society and based on its philosophy that the market is where everything starts, Lion Corporation is striving toward becoming a “leading company in the new, comfortable lifestyle support industry” by providing customers with products and services that offer increased satisfaction in relation to the pursuit of cleanliness, health and beauty. Lion will do everything it can to maintain a good, healthy relationship with its stakeholders, including shareholders, customers, business clients, community members, and employees, and enhance the effectiveness of its corporate governance system. It will also do its utmost to fulfill corporate social responsibilities, which include environmental preservation, making every effort to further increase its corporate value as a highly trustworthy company capable of meeting the expectations of society.

### **2. Basic Policy on the Distribution of Earnings**

Lion’s management considers its most important issue to be the return of profits to shareholders on a permanent and stable basis through efforts to increase consolidated earnings capacity. To this end, Lion will continue the stable payment of dividends. At the same time, Lion retains a portion of its profits for investment in R&D and production facilities and the acquisition of external resources. This initiative is designed to enhance Lion’s growth capacity and to ensure a sustainable business foundation.

### **3. Reason and Policy for Lowering Investment Unit**

Lion is aware of the importance of having sufficient stock liquidity and many investors participate in the stock market in order to invigorate the market and form appropriate share prices. Lion discloses information in a proper manner through financial reports and our Web site. Lion is examining the feasibility of lowering its investment unit from a cost-benefit perspective and in broad consideration of share price levels and market trends.

### **4. Medium and Long-term Management Strategies**

Through implementation of the Value Innovation Plan Part II 09, a medium-term management plan launched in the previous fiscal year with the aim of bolstering management capabilities to enhance corporate value, the Lion Group is working to establish a business structure capable of withstanding global competition. Lion is also strengthening growth potential by creating new businesses, while streamlining its management for enhanced operational efficiency.

Lion will continue to implement the three reforms described below, striving to increase its corporate value

through the creation of customer value, as a company helping people to lead pleasant, comfortable lives through its pursuit of cleanliness, health, and beauty. Lion aims to achieve consolidated ROE of 10% in fiscal 2009, and achieve a No. 1 position in the new, comfortable lifestyle support industry that integrated toiletries, OTC drugs, and functional foods industries.

### **Reform 1: Restructuring the Foundation for Growth**

Aiming to grow into a highly efficient and profitable corporate group that responds flexibly and swiftly to operating environment changes, Lion is shifting toward a business structure focusing on its core businesses. Lion is also endeavoring to enter new business fields by developing pioneering and innovative products with future profit potential.

In the fiscal year under review, Lion worked vigorously to restore market share through aggressive marketing and investment activities. This was particularly evident in the oral care products business, which celebrated 110 years of toothpaste sales, and for the Top brand of laundry detergents, which marked a half-century since its debut. In addition to the release of new high-value-added products such as Look Kirei no Mist disinfectants for kitchens, bathrooms, toilets and fabrics, and Care Veil laundry detergent and fabric softener, Lion introduced a series of products in new business categories including Gussumin, Kyupurun and Guronsan Tomato no Akazu Drink, drinks that support individual health and beauty. Through these means, Lion is striving to further boost customer satisfaction.

### **Reform 2: Improvement of the Profit Structure**

In fiscal 2001 Lion established a Committee for Improving the Profit Profile and since then it has engaged in efforts to reduce the total costs of the entire Lion Group in a top-down fashion continuously. In 2005 Lion established a new target of reducing total costs by ¥10.0 billion in five years, and it is working forcefully to accomplish fundamental structural reform.

As in the previous fiscal year, Lion was again buffeted by sharp increases in material costs throughout the fiscal year ended December 31, 2006. In response, measures were taken to reduce manufacturing, logistics and other costs. We also closed the Tokyo Factory, as a part of Lion's manufacturing facility reorganization, and to achieve greater flexibility and production cost reduction. During the fiscal year under review, Lion also sold all of its shares in a building maintenance subsidiary and a spice, seasoning and salad dressing manufacturing and sales subsidiary.

### **Reform 3: Rapid Improvement of Management Capabilities**

Lion will seek to increase the organizational strength of the entire Lion Group with a thoroughgoing implementation of performance- and competency-based human resource evaluation, and by developing and strengthening organizations with a downsized but highly capable workforce.

During the fiscal year under review, Lion introduced a trust-type rights plan as a countermeasure

against future hostile takeover bids. At the same time, Lion appointed external directors to enhance the transparency and objectivity of the oversight function and worked to strengthen its corporate governance systems. In an effort to accelerate the consolidation of financial accounts and to further bolster the Group's focus on consolidated management through centralized accounting tasks, Lion adopted a new accounting system and will continue to progressively introduce this system at each Group company.

## **5. Management Issues**

Continued harsh operating conditions are forecast for the Lion Group. Against this backdrop, Lion is committed to fulfilling the vision outlined in its Value Innovation Plan (VIP) II 09 Plan, a medium-term management plan that commenced in 2005. In order to become the leading company in the new, comfortable lifestyle support industry, including toiletries, OTC drugs and functional foods, Lion will focus on restructuring its growth foundation and redoubling efforts to enhance management efficiency. Particularly in the final three years of the Plan, Lion believes a vital factor will be reorienting management's focus toward increasing corporate value.

Lion recognizes the following as particularly immediate and important issues:

1. Reconstructing our growth foundation for greater responsiveness to changes in the business environment
2. Accelerating measures against rising raw material costs caused by surging crude oil prices
3. Expanding and deepening activities that will position Lion as a leading environmentally friendly company

To tackle the first management issue, "Reconstructing our growth foundation for greater responsiveness to changes in the business environment," Lion will continue to expand and upgrade its lineup of high-value-added products and functional food products that help customers lead pleasant and comfortable lives. To generate greater synergy through our proprietary technologies and management resources, we will examine opportunities for externally obtaining resources through mergers and acquisitions and other schemes. In addition, we will include functional food products within the scope of proprietary direct marketing channels with the aim of expanding business. Furthermore, Lion will reorganize its business structure to deliver more promptly a continuous stream of items designed to better satisfy its customers, and more flexibly and accurately respond to changes in the retail and logistics markets.

To accelerate measures against rising raw material costs caused by surging crude oil prices, which is our second management issue, the Committee for Improving the Profit Profile will play a central role, adding new cost reduction initiatives while frontloading existing initiatives. Lion aims to raise cost efficiency in its operations by effectively rationalizing sales promotion costs and fixed costs. Targeting higher management efficiency, we will strive to bring innovation to our manufacturing processes, thereby reducing manufacturing costs in our mainstay product categories, while reconstructing core systems and streamlining indirect operations. At the same time, we will shift toward an optimal production structure involving overseas operational bases and the outsourcing of

unprofitable businesses. In this manner, we will implement comprehensive and structural earnings reform.

Our third management issue, "Expanding and deepening activities that will position Lion as a leading environmentally friendly corporation," calls for reduction of greenhouse gas emissions, recycling and efficient use of natural resources, creation of environmentally friendly products, safe management of chemical substances and fostering in-house awareness of the environment. These environmental protection activities constitute Lion's ECO LION activities that Lion is proactively enhancing. In specific terms, Lion is promoting switches to palm and coconut oils and other plant-based raw materials mainly used in laundry detergents and fabric softeners. This contributes to the prevention of global warming through the reduction of CO<sub>2</sub> emissions. Adding to this initiative, Lion is proactively developing environmentally friendly products and eliminating excessive use of containers and packaging.

We will position chemicals as a potential core business, and will work to switch to a business structure centered on high-performance, environmentally friendly products along the theme of ecology, performance, and oleo-chemicals (EPOC), seeking to develop chemicals as a business that will support Lion's future growth. The Lion Group will examine future prospects for external sales of MES (Methyl Ester Sulfonate). We will continuously conduct various activities to preserve the environment, thereby contributing significantly to the realization of a sustainable, recycling-oriented society.

## **6. Matters Related to the Parent Company**

None.