

Notes to Lease Transactions

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

(Millions of yen)

	FY 2006 (January to December 2006)	FY 2005 (January to December 2005)
1. Equivalent acquisition cost, equivalent accumulated depreciation, and equivalent balance at end of period		
Equivalent acquisition cost		
Machinery and equipment	90	80
Other property, plant and equipment	1,595	1,623
<u>Intangible assets</u>	<u>228</u>	<u>196</u>
Total	1,914	1,900
Equivalent accumulated depreciation		
Machinery and equipment	30	31
Other property, plant and equipment	921	839
<u>Intangible assets</u>	<u>161</u>	<u>107</u>
Total	1,113	978
Equivalent balance at end of period		
Machinery and equipment	59	48
Other property, plant and equipment	673	783
<u>Intangible assets</u>	<u>67</u>	<u>89</u>
Total	800	921
2. Equivalent lease commitments at end of period		
Due within one year	336	368
<u>Due after one year</u>	<u>464</u>	<u>553</u>
Total	800	921
3. Lease payments (Equivalent depreciation)	408	472
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.	Yokkaichi-shi, Mie	Millions of yen 1,000	Production and sales of fatty acid nitrogen derivatives	50.0% direct	3 shared 3 seconded	Purchase of fatty acid nitrogen derivatives	Purchase of fatty acid nitrogen derivatives	5,080	Accounts payable	2,067
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	13,392	Accounts payable	7,009

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 2006

(Dec. 31, 2006)

Deferred tax assets

Allowance for doubtful accounts in excess of the amount allowable	721
Taxable portion of sales return reserve	363
Taxable portion of sales promotion reserve	65
Retirement benefits reserve in excess of the amount allowable	13,759
Taxable portion of reserve for directors' retirement benefits	135
Excess of amortization of goodwill	1,559
Taxable portion of impairment loss	32
Taxable portion of loss on shutdown of a plant	619
Accrued enterprise tax	175
Tax loss carryforwards	4,382
Unrealized profits of inventory assets and fixed assets	162
<u>Other</u>	<u>2,325</u>
Deferred tax assets subtotal	24,303
<u>Valuation allowance</u>	<u>(645)</u>
Deferred tax assets total	23,657

Deferred tax liabilities

Special tax-purpose reserve	(1,808)
Taxable portion of gain of employee pension trust	(5,712)
Temporary difference from distribution of retained earnings of foreign affiliates	(368)
<u>Unrecognized holding gain on other securities</u>	<u>(3,193)</u>
Deferred tax liabilities total	(11,082)
Net deferred tax assets	<u>12,575</u>

(Note) "Others" under the current liabilities includes ¥7 million in deferred tax liabilities, and "others" under fixed liabilities includes ¥1,180 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	(4.9)
Expenses not deductible for tax purposes	3.7
Dividends earned and other items permanently excluded from gross revenue	(0.6)
Deductible net income before income taxes due to tax loss carryforward	4.3
Unrealized gain not recorded in deferred tax assets	7.0
Impairment loss on land	0.8
Corporate inhabitant tax on a per capita basis	0.5
Others	3.7
Effective tax rates	55.2

Securities

1. Consolidated fiscal 2006 (at December 31, 2006)

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	9,556	17,723	8,166
Securities whose book value does not exceed their acquisition cost			
Stocks	1,283	1,166	(117)
Total	10,840	18,889	8,048

b) Other marketable securities sold during fiscal 2006

(Millions of yen)

Sale price	Total gain on sale	Total loss on sale
14,242	8,387	-

c) Securities without market prices

(Millions of yen)

	Book value for fiscal 2006
Other marketable securities	
Unlisted stocks	1,391

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				
Local government bonds	-	-	2	-
Total	-	-	2	-

2. 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 2005
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	-

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. Twelve 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 2006 (Dec. 31, 2006)	FY 2005 (Dec. 31, 2005)
A. Projected benefit obligation	(69,784)	(71,300)
B. Fair value of pension plan assets	68,508	65,390
C. Funded status (A + B)	(1,275)	(5,910)
D. Unrecognized actuarial difference	(9,080)	10,147
E. Unrecognized prior service cost	(3,565)	(5,093)
F. Unrecognized pension plan assets	-	(20,285)
G. Net amount on consolidated balance sheet (C + D + E + F)	(13,921)	(21,141)
H. Prepaid pension expense	9,766	3,727
I. Accrued employees' retirement benefits (G - H)	(23,687)	(24,868)

FY 2006	FY 2005
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 2006 (January to December 2006)	FY 2005 (January to December 2005)
A. Service cost (See Notes 1)	2,229	2,169
B. Interest cost	1,705	1,742
C. Expected return on pension plan assets	(824)	(635)
D. Amortization of actuarial loss	(443)	762
E. Amortization of prior service cost	(1,528)	(1,528)
F. Extra payment for premium severance payments (See Notes 2)	994	
G. Premium contribution for defined-contribution pension plan	62	40
H. Retirement benefits costs (A + B + C + D + E + F + G)	2,195	2,550

FY 2006	FY 2005
Notes: 1. Where the simplified method is adopted, the retirement benefit costs are recorded to "A. Service Costs."	Notes: 1. Same as at left.
2. Recorded as part of early retirement payments and other included under extraordinary loss.	-

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

	FY 2006 (January to December 2006)	FY 2005 (January to December 2005)
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%	2.0%
D. Recognition period of actuarial gain or loss (See Note 2)	15 years	15 years
E. Amortization period of prior service cost (See Note 3)	5 years	5 years

FY 2006	FY 2005
<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 2006 (January to December 2006)	FY 2005 (January to December 2005)	Change
	Millions of yen	Millions of yen	%
Home products	193,828	204,546	(5.2)
Pharmaceutical products	6,777	5,437	24.6
Chemicals	19,058	13,388	42.3
Other businesses	4,250	4,713	(9.8)
Total	223,915	228,085	(1.8)

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 2006 (January to December 2006)	FY 2005 (January to December 2005)	Change
	Millions of yen	Millions of yen	%
Home products	235,020	237,241	(0.9)
Pharmaceutical products	47,981	50,315	(4.6)
Chemicals	32,334	33,898	(4.6)
Other businesses	15,044	10,343	45.4
Total	330,380	331,798	(0.4)

Note: Intercompany transactions between each segment were balanced out.

Figures above do not include the consumption tax.