

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 field of products that help people lead comfortable lives” 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 considers its most important management issue as increasing its capacity to generate consolidated earnings so as to distribute earnings to shareholders on a permanent and stable basis. Lion aims to continue stable distributions of earnings through such means as dividend payments, while balancing these with the need to retain earnings within the Lion Group for use in developing 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 field of products that help people lead comfortable lives (household products, OTC drugs, and functional foods).

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.

1. We will revise business and product strategies in order to prioritize competitive and growth areas and to cultivate new business areas.
2. We will promote the integration of marketing and R&D to develop products more precisely and promptly.
3. We will increase our sales power at retail stores in order to strengthen sales capabilities dramatically.

During the interim period under review, Lion conducted aggressive advertising activities in order to secure steady growth in the over-the-counter (OTC) pharmaceutical business and Home Products business in South Korea that were both acquired at the end of fiscal 2004. At the same time, Lion has boosted investment in marketing for its oral care products business, which marked 110 years of operations, and for the Top brand of laundry detergents, which has been on the market for 50 years since its debut. In line with efforts to pursue sales growth through investment in principal brands such as KireiKirei and Clinica Dental Rinse, Lion introduced new lines of customer-satisfaction-oriented products including the following: the disinfectant spray series Look Kirei no Mist for Kitchens, Bathrooms and Toilets, as well as drinks that support health and beauty such as Gussumin, Kyupurun, and Guronsan Tomato no Akazu Drink.

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.

During the first half of the current fiscal year, Lion continued its efforts to reduce manufacturing and logistics costs. However, operations were impacted by increasing raw material costs caused by soaring crude oil prices, which hovered at high levels. We are undertaking structural reforms, such as

reorganizing our production bases, to achieve more flexible production operations and further reduce production costs.

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.

In the first half, Lion reorganized its Home Products business and Research & Development Headquarters in order to strengthen its business operating structure and ability to develop unique and innovative products ahead of its rivals. Lion also reorganized its Home Products Sales Headquarters with the aim of enhancing its capability to respond to changes in distribution structures. Aiming to reinforce consolidated management, we are advancing the introduction of new accounting systems throughout the Lion Group to improve consolidated accounting administration efficiency and centralize accounting functions.

5. Management Issues

While the difficult business environment is expected to persist, Lion believes its most important issue is achieving a successful shift to management focused on increasing corporate value through the vigorous implementation of the Value Innovation Plan Part II 09 begun this fiscal year. In order to survive amidst severe global competition, Lion is working to 1) increase product development ability and brand strength, 2) augment sales capabilities in response to changes in the distribution structure, and 3) establish a competitive cost structure in order to promote business growth and become a highly efficient and highly profitable corporate group.

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. Furthermore, we will consider in detail the independent development of direct marketing channels, with functional foods as core products. Adding to the business reorganization in March 2006, we aim to establish a business structure that allows flexible, accurate response to market changes and continuously aims to provide

customer-satisfaction through unparalleled products. To this end, we are considering the shift toward a management structure that enables more efficient and effective business operations.

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 CO₂ emissions. Adding to this initiative, Lion is proactively developing environmentally friendly products and eliminating excessive use of containers and packaging. In March 2006, we released an improved version of our Top laundry detergent. The new Top, with a more than 70% plant-based composition in its total cleansing ingredients, achieved a 47% reduction of CO₂ emissions into the atmosphere from 1990 levels. In connection with its environmental and social activities related to palm oil production, Lion officially joined the RSPO (Roundtable on Sustainable Palm Oil), an international non-profit organization.

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.