

III. 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 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 strengthen 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. Performance Targets

Through the thorough selection of and concentration of investment in management initiatives, and efforts to reform its business structure and reinforce its earnings structure, Lion is striving to increase corporate value with the goal of reaching consolidated ROE of 10% in fiscal 2009. Furthermore, Lion will acquire and develop new businesses and allocate resources to expand existing business domains for the purpose of ensuring future business opportunities.

3. Medium and Long-term Management Strategies

Guided by the medium-term management plan, Value Innovation Plan Part II 09 (VIP II 09), the Lion Group is endeavoring to increase its corporate value. To this end, Lion is establishing a business that is capable of withstanding global competition, strengthening growth potential by creating new businesses and implementing initiatives designed to enhance management and operational efficiency.

Lion will continue to implement the three reforms described below, striving to increase its corporate value through the creation of customer value through its pursuit of cleanliness, health, and beauty. Lion aims to achieve a No. 1 position in the new comfortable lifestyle support industry that integrated toiletries, over-the-counter (OTC) drugs, and functional foods industries as a company helping people to lead pleasant, comfortable lives.

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.

During the period under review, Lion established a subsidiary in Malaysia in June 2007 for the

purpose of commercializing MES (methyl ester sulfonate) surfactant derived from palm oil, and started preparing for production scheduled for December 2008. Lion will aggressively use capital expenditure to conduct sales of this environmentally friendly MES to detergent makers around the world.

Lion had entered technical service and trademark rights contracts with U.S.-based Bristol-Myers Squibb Company. During the period under review, the Company acquired the trademark for Bufferin[®] analgesics and other products in Japan and Asia-Oceania (excluding several countries and regions including China) from Bristol-Myers Squibb. Against this backdrop, Lion will develop its businesses by further utilizing the brand value of Bufferin[®] and other products to accelerate the growth of its Health Care business.

With these investments, Lion will further strengthen its business foundation to make itself No. 1 in the “new comfortable lifestyle support industry,” while strengthening its position as a leading company in environmental responsiveness.

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 this fiscal year under review, Lion continued its efforts to proactively address policies including those concerning the reduction of production and logistics costs. However, increased material costs from crude oil prices that hovered at high levels and spiraling prices for vegetable oil and fat significantly impacted performance results. Given this, Lion will work on structural reforms including revamping of production process with the aim enhancing the flexibility of production and reducing 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.

During the period under review, Lion reorganized its core domestic consumer goods business (Home Products and Pharmaceutical Products Divisions). Specifically, Lion transferred operations of the former Pharmaceutical Products segment into the new Health Care Products segment (Oral Care and Beauty Care) in order to enhance synergistic effects in technology, branding and logistics. After the reorganization, Lion restructured its consumer goods business into the three segments of Health Care Products, Household Products and the Gift and Channel-Specific Products Division.

Furthermore, Lion divided former Home Products Sales Headquarters into two business

domains, namely the Health Care and the Household Sales Department, to promote more consistent business strategies and to clarify each segments' responsibility and domain. Under the new business segment structure, each division (Health Care and Household Products Division) independently handles planning and sales functions.

4. Management Issues

Continued harsh operating conditions are forecast for the Lion Group. Against this backdrop, Lion aims to be a leading company in new comfortable lifestyle support industry and recognizes the following as pressing objectives of particular importance:

1. To strengthen our growth foundation
2. To lift our ability to combat rising costs brought on by the sharp upswing in raw material prices
3. To expand and deepen activities that will position us as a leading company in environmental responsiveness

In its efforts to strengthen its growth foundation, Lion will enhance the brand prowess of its core products. To this end, Lion will reinforce its product development and planning capabilities, establish a logistics structure and sales platform that are capable of responding appropriately to changes in the competitive environment and ensure that marketing investments are allocated effectively to priority areas. Furthermore, Lion will bolster the Bufferin[®] brand, acquired during the year under review, and pursue external sales of MES.

Lion is committed to strengthening its ability to combat rising costs brought on by the sharp upswing in raw material prices. To this end, the Company will combine efforts to introduce and nurture high-value-added products with measures that enhance Lion's cost efficiency. Buoyed by innovative reforms to its production processes, Lion will also reinforce manufacturing cost-reduction measures, specifically for its core products. Working to improve management efficiency by rationalizing administrative operations, the Company will bolster its commitment to profit structure reform.

Our third management objective, "To expand and deepen activities that will position Lion as a leading company in environmental responsiveness," calls for the reduction of greenhouse gas emissions, recycling and the 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. Adding to this initiative, the Lion Group also established its Three-Year Medium-Term Environmental Plan (the Environmental Plan), setting out the Group-wide specific goal of environmental management activities until 2009. Lion is diligently working toward the goals of its Environmental Plan through the proactive use of plant-derived raw materials, which do not lead to an increase in CO₂ emissions in the air. Our Group will continuously conduct various activities to preserve the environment, thereby contributing significantly to the realization of a sustainable, recycling-oriented society.

Despite our efforts to heighten consumers' awareness about the need to take special care to keep away from open flames or sparks when using Varsan Hyosatsu Jet Spray for Flying Bugs and Varsan Hyosatsu Jet Spray for Creeping Bugs, insecticide sprays released in March 2007, several cases of incidents involving combustion arose. Recognizing the gravity of this situation and the paramount need for customer safety, Lion undertook a voluntary recall of each product. The Lion Group would like to take this opportunity to apologize to its shareholders for any inconvenience and concern it may have caused. Looking ahead, Lion will redouble its efforts to develop finished products that are both safe and reliable and that instill confidence in customers and in the general market.