

## 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 2007 (January to December 2007)
1. Equivalent acquisition cost, equivalent accumulated depreciation, and equivalent balance at end of period		
Equivalent acquisition cost		
Machinery and equipment	90	113
Other property, plant and equipment	1,595	1,415
<u>Intangible assets</u>	<u>228</u>	<u>159</u>
Total	1,914	1,687
Equivalent accumulated depreciation		
Machinery and equipment	30	47
Other property, plant and equipment	921	756
<u>Intangible assets</u>	<u>161</u>	<u>111</u>
Total	1,113	916
Equivalent balance at end of period		
Machinery and equipment	59	65
Other property, plant and equipment	673	658
<u>Intangible assets</u>	<u>67</u>	<u>47</u>
Total	800	771
2. Equivalent lease commitments at end of period		
Due within one year	336	295
<u>Due after one year</u>	<u>464</u>	<u>476</u>
Total	800	771
3. Lease payments (Equivalent depreciation)	408	364
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	2 shared	Purchase of fatty acid nitrogen derivatives	Purchase of fatty acid nitrogen derivatives	Millions of yen 5,884	Accounts payable	Millions of yen 2,492

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

The terms of transactions amount is in principle determined through consultation between Lion Corporation and the 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 2007
	<u>(Dec. 31, 2007)</u>
Deferred tax assets	
Allowance for doubtful accounts in excess of the amount allowable	40
Taxable portion of sales return reserve	482
Taxable portion of sales promotion reserve	113
Retirement benefits reserve in excess of the amount allowable	11,025
Taxable portion of reserve for directors' retirement benefits	5
Excess of amortization of goodwill	1,039
Taxable portion of impairment loss	21
Accrued enterprise tax	138
Tax loss carryforwards	5,931
Unrealized profits of inventory assets and fixed assets	274
<u>Other</u>	<u>2,792</u>
Deferred tax assets subtotal	21,865
Deferred tax liabilities	
Special tax-purpose reserve	(1,941)
Taxable portion of gain of employee pension trust	(5,662)
Temporary difference from distribution of retained earnings of foreign affiliates	(449)
<u>Unrecognized holding gain on other securities</u>	<u>(2,300)</u>
Deferred tax liabilities total	(10,354)
Net deferred tax assets	<u>11,510</u>

(Note) "Others" under the current liabilities includes ¥10 million in deferred tax liabilities, and "others" under fixed liabilities includes ¥1,334 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.

The difference between the statutory tax rate and the tax burden rate of corporate tax after applying tax effect accounting is less than 5/100 of the statutory tax rate. Accordingly, this information has been omitted.

## 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 2006	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 2007 (at December 31, 2007)

a) Other marketable securities with market prices

(Millions of yen)

	Acquisition cost	Book value for fiscal 2007	Difference
Securities whose book value exceeds their acquisition cost			
Stocks	8,354	14,993	6,638
Securities whose book value does not exceed their acquisition cost			
Stocks	4,115	3,409	(706)
Total	12,470	18,402	5,932

b) Other marketable securities sold during fiscal 2007

(Millions of yen)

Sale price	Total gain on sale	Total loss on sale
79	8	65

c) Securities without market prices

(Millions of yen)

	Book value for fiscal 2007
Other marketable securities	
Unlisted stocks	1,404

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	—
Commercial papers	923	—	—	—
Total	923	—	2	—

**Derivatives**

Derivatives to which hedge accounting is applied are excluded from the scope of disclosure.

## 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. Ten of the Group companies also have lump-sum severance indemnity plans.

In addition, the Company has a pension trust.

### 2. Items concerning retirement benefit obligation

(Millions of yen)

	FY 2006 (December 31, 2006)	FY 2007 (December 31, 2007)
A. Projected benefit obligation	(69,784)	(68,568)
B. Fair value of pension plan assets	68,508	61,583
C. Funded status (A + B)	(1,275)	(6,985)
D. Unrecognized actuarial difference	(9,080)	83
E. Unrecognized prior service cost	(3,565)	(2,037)
F. Net amount on consolidated balance sheet (C + D + E)	(13,921)	(8,939)
G. Prepaid pension expense	9,766	13,954
H. Accrued employees' retirement benefits (F - G)	(23,687)	(22,893)

FY 2006	FY 2007
Notes: Consolidated subsidiaries have adopted the simplified method for calculating their retirement benefit obligation.	Notes: Same as at left.

3. Items concerning retirement benefits costs

(Millions of yen)

	FY 2006 (January to December 2006)	FY 2007 (January to December 2007)
A. Service cost (See Notes 1)	2,229	2,210
B. Interest cost	1,705	1,663
C. Expected return on pension plan assets	(824)	(1,006)
D. Amortization of actuarial loss	(443)	(402)
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	76
H. Retirement benefits costs (A + B + C + D + E + F + G)	2,195	1,013

FY 2006	FY 2007
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 2007 (January to December 2007)
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 2007
Notes: 1. Expected dividend yield is used for the pension trust.	Notes: 1. Same as at left.
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.	2. Same as at left.
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.	3. Same as at left.

## Stock Options

Consolidated fiscal 2007 (January 1, 2007 to December 31, 2007)

### 1. Amount Equivalent to Stock Options and Relevant Line Items

Selling, general and administrative expenses: ¥74 million

### 2. Details of Stock Options Offered during the Fiscal Year under Review

	Stock options (subscription rights) as part of a stock-linked compensation plan decided on March 29, 2007
Number of persons to which subscription rights shall be allotted	Directors (except external directors): 9 Executive officers: 10
Type and number of shares to be issued (Note 1)	149,619 shares of common stock
Date of subscription right offer allotment	April 16, 2007
Vesting conditions	(Note 2)
Conditions related to employment period	None
Exercise period for subscription rights	Lion's Board of Directors shall determine an exercise period that falls between April 16, 2007 and April 15, 2037.
Exercise Price (Yen)	1
Fair unit price as of the date granted (Yen) (Note 3)	654

Notes:

1. Stock options are converted into shares of common stock.
2. Lion's directors (excluding external directors) shall exercise their subscription rights within a 10-day period from the day following their leave from office after at least one year of service in the said position. This condition does not apply to directors in the event of death. Lion's executive officers shall exercise their subscription rights within a 10-day period from the next day following (1) their leave from office, or (2) their retirement date, whichever date comes later after at least one year of service in the said position. This condition does not apply to executive officers in the event of death.
3. The aforementioned amounts were calculated using the Black-Scholes model on April 16, 2007.

### Matters Related to Business Combinations

None

### Per Share Information

	FY 2006 (January 1 to December 31, 2006)	FY 2007 (January 1 to December 31, 2007)
Net assets per share	376.76 Yen	382.80 Yen
EPS	19.60 Yen	20.06 Yen
Diluted EPS	19.52 Yen	20.02 Yen

Note: Net income per share (EPS) and diluted net income per share (diluted EPS)

	FY 2006 (January 1 to December 31, 2006)	FY 2007 (January 1 to December 31, 2007)
EPS		
Net income (millions of Yen)	5,540	5,423
Amount not belong to common stockholders (millions of Yen)	—	—
Net Income concerning common stock (millions of Yen)	5,540	5,423
Average number of outstanding shares during the period (thousands of shares)	282,721	270,386
Diluted EPS		
Net income adjustment (millions of Yen)	—	—
Increase in number of common stocks (thousands of shares)	1,101	584
Of which, stock options (thousands of shares)	[1,101]	[584]
Summary of residual shares not included in diluted EPS due to lack of dilution effect.	Stock options resolved by the Ordinary Annual General Meeting of Shareholders held on March 30, 2006 (Subscription Rights) 950 thousands shares of common stocks	Same as at left

### Significant Post Balance Sheet Date Events

There were no significant post balance sheet date events.