

### **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**

Through implementation of the Value Innovation Plan Part II 09, a medium-term management plan launched in fiscal 2005 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 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, 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 interim 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 has entered technical service and trademark rights contracts with U.S.-based Bristol-Myers Squibb Company. During the interim period under review, the Company decided to acquire 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 the interim period 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 interim 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 recognizes the following as particularly immediate and important issues:

1. Reconstructing our growth foundation for greater responsiveness to changes in the business environment
2. Strengthening measures to deal with raising raw material costs caused by high crude oil prices and increased costs for vegetable oils and fats
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 management resources including proprietary technologies, 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 direct marketing channels with the aim of expanding business. Furthermore, Lion reorganized its business structure in March 2007 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 Strengthen measures to deal with raising raw material costs caused by high crude oil prices and increased costs for vegetable oils and fats, 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.

Lion also established its Three-Year Medium-Term Environmental Plan (the Environmental Plan), setting out Group-wide specific goal of environmental management activities until 2009. On top of a reduction target for CO<sub>2</sub> emission in business activities, the Environmental Plan is unique in setting a goal to reduce CO<sub>2</sub> emissions of Lion products used in the home. Lion continues to strive to achieve these goals for 2009 through various measures, including the proactive use of plant-based ingredient that do not increase CO<sub>2</sub> in the atmosphere.

We will continuously conduct various activities to preserve the environment, thereby contributing significantly to the realization of a sustainable, recycling-oriented society.