

Notes to Lease Transactions

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

(Millions of yen)

	FY 2007 (January to December 2007)	FY 2008 (January to December 2008)
1. Equivalent acquisition cost, equivalent accumulated depreciation, and equivalent balance at end of period		
Equivalent acquisition cost		
Machinery and equipment	113	112
Other property, plant and equipment	1,415	1,477
<u>Intangible assets</u>	<u>159</u>	<u>91</u>
Total	1,687	1,681
Equivalent accumulated depreciation		
Machinery and equipment	47	61
Other property, plant and equipment	756	755
<u>Intangible assets</u>	<u>111</u>	<u>67</u>
Total	916	884
Equivalent balance at end of period		
Machinery and equipment	65	51
Other property, plant and equipment	658	722
<u>Intangible assets</u>	<u>47</u>	<u>23</u>
Total	771	797
2. Equivalent lease commitments at end of period		
Due within one year	295	297
<u>Due after one year</u>	<u>476</u>	<u>499</u>
Total	771	797
3. Lease payments (Equivalent depreciation)	364	356
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.	Yokkaichishi, 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 5,987	Accounts payable	Millions of yen 2,787

Note: 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 2008
	<u>(Dec. 31, 2008)</u>
Deferred tax assets	
Allowance for doubtful accounts in excess of the amount allowable	13
Taxable portion of sales return reserve	421
Taxable portion of sales promotion reserve	88
Retirement benefits reserve in excess of the amount allowable	8,861
Excess of amortization of goodwill	519
Taxable portion of impairment loss	47
Accrued enterprise tax	152
Tax loss carryforwards	6,873
Unrealized profits of inventory assets and fixed assets	321
<u>Other</u>	<u>2,855</u>
Deferred tax assets total	20,155
Deferred tax liabilities	
Special tax-purpose reserve	(1,894)
Taxable portion of gain of employee pension trust	(5,582)
Temporary difference from distribution of retained earnings of foreign affiliates	(331)
<u>Unrecognized holding gain on other securities</u>	<u>(726)</u>
Deferred tax liabilities total	(8,534)
Net deferred tax assets	<u>11,621</u>

Note: "Others" under the current liabilities includes ¥10 million in deferred tax liabilities, and "others" under fixed liabilities includes ¥1,296 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	(1.3)
Expenses not deductible for tax purposes	2.9
Dividends earned and other items permanently excluded from gross revenue	(1.3)
Deductible net income before income taxes due to tax loss carryforward	(0.6)
Corporate inhabitant tax on a per capita basis	1.0
Unrealized gain not recorded in deferred tax assets	(0.7)
Impairment loss on land and other impossible schedule items	8.9
Others	(3.2)
Effective tax rates	46.4

Securities

1. 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	—

2. Consolidated fiscal 2008 (at December 31, 2008)

a) Other marketable securities with market prices

(Millions of yen)

	Acquisition cost	Book value for fiscal 2008	Difference
Securities whose book value exceeds their acquisition cost			
Stocks	6,459	9,499	3,039
Securities whose book value does not exceed their acquisition cost			
Stocks	5,347	4,153	(1,193)
Total	11,806	13,652	1,846

b) Other marketable securities sold during fiscal 2008

(Millions of yen)

Sale price	Total gain on sale	Total loss on sale
3	2	—

c) Securities without market prices

(Millions of yen)

	Book value for fiscal 2008
Other marketable securities	
Unlisted stocks	1,236

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	—	1	—	—
Total	—	1	—	—

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. 10 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 2007 (December 31, 2007)	FY 2008 (December 31, 2008)
A. Projected benefit obligation	(68,568)	(67,425)
B. Fair value of pension plan assets	61,583	42,966
C. Funded status (A + B)	(6,985)	(24,459)
D. Unrecognized actuarial difference	83	21,475
E. Unrecognized prior service cost	(2,037)	(509)
F. Net amount on consolidated balance sheet (C + D + E)	(8,939)	(3,493)
G. Prepaid pension expense	13,954	18,163
H. Accrued employees' retirement benefits (F - G)	(22,893)	(21,657)

FY 2007	FY 2008
Note: Consolidated subsidiaries have adopted the simplified method for calculating their retirement benefit obligation.	Note: Same as at left.

3. Items concerning retirement benefits costs

(Millions of yen)

	FY 2007 (January 1 to December 31, 2007)	FY 2008 (January 1 to December 31, 2008)
A. Service cost (See Note 1)	2,210	1,974
B. Interest cost	1,663	1,624
C. Expected return on pension plan assets	(1,006)	(1,084)
D. Amortization of actuarial loss	(402)	181
E. Amortization of prior service cost	(1,528)	(1,528)
F. Premium contribution for defined-contribution pension plan	76	69
G. Retirement benefits costs (A + B + C + D + E + F)	1,013	1,238

FY 2007	FY 2008
Note: 1. Where the simplified method is adopted, the retirement benefit costs are recorded to "A. Service Costs."	Note: 1. Same as at left.

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

	FY 2007 (January 1 to December 31, 2007)	FY 2008 (January 1 to December 31, 2008)
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 2007	FY 2008
Note: 1. Expected dividend yield is used for the pension trust.	Note: 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'	2. Same as at left.

average remaining service period as at the time such differences arise.	
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 2008 (January 1, 2008 to December 31, 2008)

1. Amount Equivalent to Stock Options and Relevant Line Items

Selling, general and administrative expenses: ¥78 million

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

(1) Stock options (subscription rights) as part of a stock-linked compensation plan resolved on December 28, 2007

Number of persons to which subscription rights shall be allotted	Executive officers: 6
Type and number of shares to be issued (Note 1)	6,133 shares of common stock
Date of subscription right offer allotment	January 17, 2008
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 January 17, 2008 and January 16, 2038.
Exercise Price (Yen)	1
Fair unit price as of the date granted (Yen) (Note 3)	450

Note:

1. Stock options are converted into shares of common stock.
2. a. Based on the condition that they have served a minimum of one year, Lion's executive officers shall exercise their subscription rights within a 10-day period from the day following either (1) their departure from office or (2) their retirement date, whichever is the later. Other conditions apply in the event of an executive officer's death while in office. The executive officers shall exercise their allotted subscription rights in full at one time. However, in the event that: (1) an executive officer's term of office has been less than a year; or (2) an executive officer's term of office has been more than a year and is terminated in the middle of his or her term of office due to resignation, the Company's Board of Directors may determine that their allotted subscription rights, the issue date of which fell in the previous 12-month period can be exercised on a prorated basis according to their actual term of office. In this case, a portion of their term of office less than a month shall be calculated as a month. Also, fractional figures below one subscription right resulting from the calculation shall be omitted.
- b. Other terms and conditions relating to the exercise of subscription rights shall be defined in a subscription right allotment agreement, subject to the approval by the Board of Directors, signed between the Company and the recipient of the allotted subscription rights.
3. The aforementioned amounts were calculated using the Black-Scholes model on January 17, 2008.

(2) Stock options (subscription rights) as part of a stock-linked compensation plan resolved at the Board of Directors' meeting held on March 28, 2008

Number of persons to which subscription rights shall be allotted	Directors (except external directors): 9 Executive officers: 9
Type and number of shares to be issued (Note 1)	143,771 shares of common stock
Date of subscription right offer allotment	April 15, 2008
Vesting conditions	Note 2
Conditions related to employment period	None
Exercise period for subscription rights	From April 15, 2008 to April 14, 2038.
Exercise Price (Yen)	1
Fair unit price as of the date granted (Yen) (Note 3)	441

Note:

1. Stock options are converted into shares of common stock.
2. a. Director
Based on the condition that they have served a minimum of one year, Lion's directors (excluding external directors) shall exercise their subscription rights within a 10-day period from the day following their departure from office. Other conditions apply in the event of a director's death while in office. The directors shall exercise their allotted subscription rights in full at one time.
- b. Executive Officer
Based on the condition that they have served a minimum of one year, Lion's executive officers shall exercise their subscription rights within a 10-day period from the day following either (1) their departure from office or (2) their retirement date, whichever is the later. Other conditions apply in the event of an executive officer's death while in office. The executive officers shall exercise their allotted subscription rights in full at one time. However, in the event that: (1) an executive officer's term of office has been less than a year; or (2) an executive officer's term of office has been more than a year and is terminated in the middle of his or her term of office due to resignation, the Company's Board of Directors may determine that their allotted subscription rights, the issue date of which fell in the previous 12-month period can be exercised on a prorated basis according to their actual term of office. In this case, a portion of their term of office less than a month shall be calculated as a month. Also, fractional figures below one subscription right resulting from the calculation shall be omitted.
- c. The Board of Directors shall determine an exercise period for subscription rights so that: (1) the period falls within the period presented in the table above; or (2) the period falls within the period specified under a. and b. above.
3. The aforementioned amounts were calculated using the Black-Scholes model on April 15, 2008.

Matters Related to Business Combinations

None

Per Share Information

	FY 2007 (January 1 to December 31, 2007)	FY 2008 (January 1 to December 31, 2008)
Net assets per share	382.80 Yen	362.02 Yen
EPS	20.06 Yen	11.23 Yen
Diluted EPS	20.02 Yen	11.22 Yen

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

	FY 2007 (January 1 to December 31, 2007)	FY 2008 (January 1 to December 31, 2008)
EPS		
Net income (millions of Yen)	5,423	3,040
Amount not belong to common stockholders (millions of Yen)	—	—
Net Income concerning common stock (millions of Yen)	5,423	3,040
Average number of outstanding shares during the period (thousands of shares)	270,386	270,644
Diluted EPS		
Net income adjustment (millions of Yen)	—	—
Increase in number of common stocks (thousands of shares)	584	290
Of which, stock options (thousands of shares)	(584)	(290)
Summary of residual shares not included in diluted EPS due to lack of dilution effect.	<p>Stock options resolved by the Ordinary Annual General Meeting of Shareholders held on March 30, 2004 (Subscription Rights) 8,019,000 shares of common stocks</p> <p>Stock options resolved by the Ordinary Annual General Meeting of Shareholders held on March 30, 2005 (Subscription Rights)</p>	Same as at left

	628,000 shares of common stocks	
	Stock options resolved by the Ordinary Annual General Meeting of Shareholders held on March 30, 2006 (Subscription Rights) 950,000 shares of common stocks	

Significant Post Balance Sheet Date Events

There were no significant post balance sheet date events.