

LION

Committed

To a consistent philosophy

Dedicated

To health, comfort, and
the environment



ANNUAL REPORT 2009

Year Ended December 31, 2009

CONTENTS

1	INTRODUCTION	38	CORPORATE SOCIAL RESPONSIBILITY
5	FINANCIAL HIGHLIGHTS	40	The environment and Lion
6	INTERVIEW WITH THE PRESIDENT	44	CORPORATE GOVERNANCE
12	SPECIAL FEATURE : Creating innovative new products	46	Directors, corporate auditors, and executive officers
20	REVIEW OF OPERATIONS	48	MAJOR SUBSIDIARIES, AFFILIATES, AND NON-PROFIT ORGANIZATION
20	Lion at a glance	50	ELEVEN-YEAR FINANCIAL SUMMARY
22	Health Care Products Division	52	MANAGEMENT'S DISCUSSION AND ANALYSIS
27	Short report: Lion's positions of leadership	62	CONSOLIDATED BALANCE SHEETS
28	Household Products Division	64	CONSOLIDATED STATEMENTS OF INCOME
32	Chemical Products Division	65	CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
34	OVERSEAS OPERATIONS	67	CONSOLIDATED STATEMENTS OF CASH FLOWS
35	Feature topic: Introducing eco-friendly detergent material "MES" to the world	68	NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
36	Market reports	79	INDEPENDENT AUDITORS' REPORT
37	In-depth report: Thailand / South Korea	80	INVESTOR INFORMATION
		81	IR GUIDE

About this Annual Report

This annual report is intended to serve as a communications tool that helps investors and a wide range of other parties to better understand Lion Corporation and develop strong relationships with the Company. In addition to the Company's business results and strategies, the report offers a focused presentation of distinctive characteristics of the Company that might be difficult to grasp from an outside perspective. These characteristics include Lion's management philosophy, thoughts about lifestyles and environments, human resources, and relationships with a variety of stakeholders.

Forward-looking Statements

This annual report contains "forward-looking statements," including statements concerning the Company's outlook for fiscal 2010 and beyond; business plans and strategies and their anticipated results; and similar statements concerning anticipated future events and expectations that are not historical facts. The forward-looking statements in this report are subject to numerous external risks and uncertainties, including the effects of economic conditions, market trends, and currency rates, which could cause actual results to differ materially from those expressed in or implied by the statements herein.



FTSE4Good

Lion Corporation has been included
in the world's prestigious RI index,
FTSE4Good Global Index.

INTRODUCTION

Lion's operations are based on the motto "fulfilling a spirit of love," reflecting the Company's aim to enhance the happiness and lifestyles of each and every customer.

This motto is the essence of Lion's philosophy, and throughout its history of nearly 120 years, the Company has endeavored to put its philosophy into practice in all of its business activities. Through the provision of toothpastes, detergents, and OTC drugs, we have worked to make a contribution to the lifestyles of our customers. To support healthy, comfortable lifestyles, we believe it is our duty to ensure that our product development reflects consideration for the environment as well as to provide products that satisfy and contribute to the happiness of our customers.



President and Chief Executive Officer
SADAYOSHI FUJISHIGE

1852–1910

Lion's founder, Tomijiro Kobayashi, strictly adhered to his philosophy of contributing to society through business, for the entirety of his 58-year life, and is consequently known as a pioneer of social contribution in Japan. Mr. Kobayashi started a program of donations to charitable organizations through "Lion's toothpaste with charity coupons" program, which continued over a 20-year period. The amount of money the Company donated through this program amounts to several billion yen in today's money.



Technologies that contribute to healthier and more-comfortable lifestyles

Through the manufacturing and sales of products that are closely connected to people's everyday lives, such as soaps and toothpastes, Lion has always played a part in enhancing the lifestyles of its customers. Customers are increasingly beginning to value spiritual richness over material wealth, and there is a growing trend toward self-medication. In this environment, the technologies and knowledge that we have cultivated throughout our extensive history are becoming even more valuable. Accordingly, we will leverage these strengths in the creation of new products.

(For further information about R&D in this field, please see page 14.)



1921

After the initial goals of the charity coupon activities were achieved, the Company changed the direction of its social contribution activities, and the Lion Dental Clinic for Children was established in 1921. This clinic made a major contribution to educating children about oral hygiene through a variety of activities, including preventive care, research, dental instruction, and on-site dental education activities.

Technologies that preserve the environment for the next generation

The act of “washing,” which is a part of our daily lives, cannot be separated from the use of water. In brushing their teeth, washing their hair, bathing, or doing laundry, Lion’s customers use the Company’s products together with water, and subsequently those products are disposed of together with the water. Consequently, the preservation of the aquatic environment, as well as other elements of the natural environment, has always been a key aspect of our business operations as well as the driving force behind our history of developing environmentally responsive technologies. (For further information about R&D in this field, please see page 16.)



1967, 1973

In the 1960s, there were incidents of foam forming in rivers due to the non-biodegradable surfactants that were used in synthetic detergents. In response, Lion developed AOS*, a highly biodegradable surfactant, and began sales of *Dash*, the world’s first laundry detergent using AOS, in 1967. In the 1970s, there were cases where phosphates, which were used to increase the cleaning power of detergents, were one of the causes of eutrophication in rivers and lakes. In response, Lion began sales of *Seseragi*, the world’s first phosphate-free detergent, in 1973.

* AOS — alpha olefin sulfonate

We are **committed** and **dedicated**.

Our vision

Relentless focus on health, comfort, and beauty

Becoming the leading company in environmental friendliness

The vision outlined above will guide our operations over the medium to long term. In the fields of health, comfort, and the environment, there are two elements that are essential for Lion's further growth. These are providing products, services, and information that create lifestyle value for customers, and fulfilling social responsibilities to support the realization of a sustainable, recycling-oriented society. Lion's operations have always been closely linked to people's lives. Our corporate brand, which essentially incorporates the peace of mind and trust of our customers, is vitally important. With that brand as the foundation of our operations, we will strive to meet the expectations of customers through the provision of highly differentiated products.

While responding flexibly to the diversification of customer values and to changes in the social environment, Lion will move forward with solid management, guided by the philosophy that we have followed since our founding.

The new comfortable lifestyle support industry

We have defined the scope of our operations as the new comfortable lifestyle support industry. This market, which has a scale of about ¥3 trillion a year, comprises three fields—toiletries, at ¥1.5 trillion; OTC drugs, at ¥800.0 billion; and functional foods, at ¥700.0 billion. This is a new industry category defined by Lion; we believe that these are the markets in which we can contribute the most by drawing on the knowledge and technologies we have cultivated. In this way, we will respond to customer lifestyle values that emphasize the realization of more-fulfilling lives through individual initiative. Through a focus on new lifestyle values in this market, we will bolster our growth capacity, reinforce our earnings foundation, and work to be the No. 1 company in the new comfortable lifestyle support industry.



FINANCIAL HIGHLIGHTS

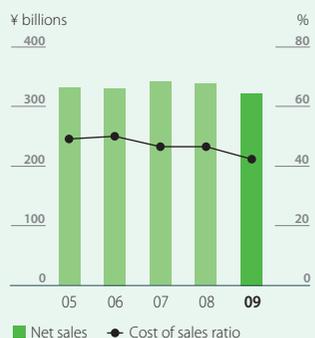
For the year	Millions of yen					Thousands of U.S. dollars ¹
	2009	2008	2007	2006	2005	2009
Net sales	¥321,947	¥338,236	¥341,717	¥330,380	¥331,798	\$3,495,633
Health care products	136,833	136,384	135,461	133,707	—	1,485,708
Household products	160,217	163,541	168,448	149,294	—	1,739,604
Chemical products	22,127	31,474	32,445	32,334	—	240,260
Cost of sales	136,619	157,523	159,200	165,570	163,153	1,483,387
Operating income	10,036	8,277	8,905	343	6,066	108,979
Net income	5,465	3,040	5,423	5,540	5,473	59,347
Capital expenditures ²	7,969	11,717	39,282	10,149	11,794	86,526
R&D expenses	9,057	8,522	8,745	7,922	8,506	98,342
Depreciation and amortization ²	12,425	12,444	10,590	9,634	9,754	134,914
At year-end						
Total net assets ³	¥103,624	¥100,574	¥107,540	¥105,133	¥111,892	\$1,125,133
Total liabilities and net assets	256,220	267,438	279,147	246,327	249,303	2,781,982
Per share data						
	Yen					U.S. dollars ¹
Net income	¥20.22	¥11.23	¥20.06	¥19.60	¥19.10	\$0.22
Cash dividends	10.00	10.00	10.00	10.00	9.00	0.11
Key ratios						
	%					
Cost of sales ratio	42.4%	46.6%	46.6%	50.1%	49.2%	
Operating margin	3.1	2.4	2.6	0.1	1.8	
ROE	5.5	3.0	5.3	5.3	5.2	
Dividend payout ratio	65.4	93.0	53.2	47.2	54.7	

1 U.S. dollar amounts above and elsewhere in this annual report are converted from Japanese yen for convenience only at the rate of ¥92.10 = U.S.\$1.00, the approximate rate of exchange in effect on December 31, 2009.

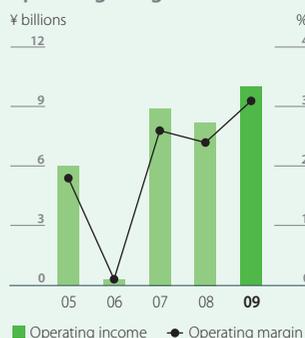
2 Includes the effects of intangible assets.

3 Figures under "Total net assets" are newly provided to conform to Japanese accounting regulation revisions.

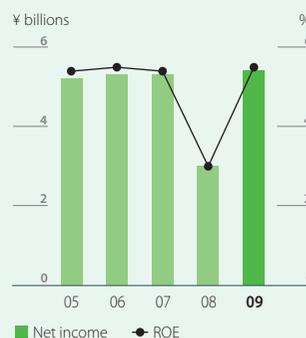
Net sales and cost of sales ratio



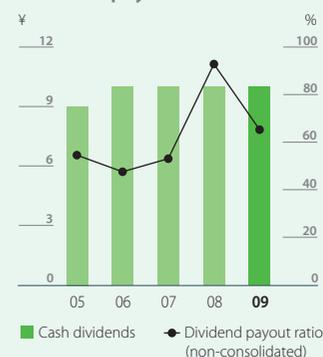
Operating income and operating margin



Net income and ROE



Cash dividends and dividend payout ratio





President and Chief Executive Officer
SADAYOSHI FUJISHIGE

Guided by the key words “health, comfort, and the environment,” Lion works to fulfill its mission of contributing to better lives for customers and to environmental conservation. By fulfilling this social responsibility, we are aiming to achieve sustained growth and to increase corporate value.

Q.

Lion has completed the final year covered by the Value Innovation Plan Part II 09 medium-term management plan. What type of initiatives has the Company implemented over the past five years?

A.

We determined the operational fields in which we could best leverage our strengths, and we steadily implemented measures to strengthen our operational foundation in those fields and to increase the Company’s corporate value.

First, we defined the scope of our operations as the new comfortable lifestyle support industry, which comprises the three fields of toiletries, OTC drugs, and functional foods. These are fields in which we can take full advantage of our technologies and know-how to make the greatest contribution to the well-being of our customers. In that context, we formulated our vision of “aiming to be No. 1” and “aiming to be a leading company in environmental friendliness.”

To become No. 1 in the new comfortable lifestyle support industry, which has an annual market scale of ¥3 trillion, each year we have formulated an annual theme and implemented specific initiatives. In 2005, we focused on strengthening our business foundations, and in 2006, we emphasized enhancing our profitability. In this way, we implemented the principles of selection and concentration. In consideration of the growing prominence of the trend toward self-medication, in 2007, we focused on increasing our growth potential, and in 2008, we worked at strengthening the customer satisfaction level. In 2009, our theme was maximizing brand value. In this way, we have worked to build a foundation for sustained growth.

Five years of progress

	Theme	Specific Initiatives	Results
2005	Strengthening foundations	<ul style="list-style-type: none"> Strove to generate synergies between toiletries operations and OTC drug operations, which were acquired from Chugai Pharmaceutical Co., Ltd., at the end of 2004. 	<ul style="list-style-type: none"> Established foundation for the proposal of new value, such as through the active launch of new products and through drugs that improve quality of life.
		<ul style="list-style-type: none"> Entered the South Korea market upon the acquisition of the toiletries operations of CJ Cheiljedang Corporation, of South Korea. 	<ul style="list-style-type: none"> Bolstered operational development in Asia.
2006	Enhancing profitability	<ul style="list-style-type: none"> Worked to consolidate production bases and reduce wholesale inventories. Sold food and building maintenance operations. 	<ul style="list-style-type: none"> Transitioned to strong operational structure facilitating a focus on core operations.
2007	Increasing growth potential	<ul style="list-style-type: none"> Acquired trademark rights for <i>BUFFERIN</i> in Japan, Asia, and Oceania. 	<ul style="list-style-type: none"> Established foundation for the flexible provision of products that meet customer needs.
		<ul style="list-style-type: none"> Made full-scale entry into the field of functional foods. Entered direct marketing business. 	<ul style="list-style-type: none"> Laid foundation for new growth with both new products and sales channels.
2008	Strengthening customer satisfaction level	<ul style="list-style-type: none"> Consolidated the marketing systems for oral care, beauty care, and pharmaceutical businesses, with consideration for the revised Pharmaceutical Affairs Law. 	<ul style="list-style-type: none"> Bolstered product development and marketing capabilities.
2009	Maximizing brand value	<ul style="list-style-type: none"> Rigorously verified the brand statement of each brand. Established brand managers in charge of brand management and trade marketers in charge of nurturing the brand in the retail industry. 	<ul style="list-style-type: none"> Established a system for the integrated cultivation of brands, from product development to stores (scheduled to be put into operation in 2010).

Q.

What environmental initiatives has Lion implemented?

A.

We have developed and commercialized next-generation detergents. These efforts showcase our development of environmentally friendly products.

Over the past five years, the highlights of our environmental initiatives include the development and commercialization of detergents using MES (methyl ester sulfonate). MES is a plant-based detergent ingredient, and because it does not use petroleum-based materials, its use does not increase atmospheric CO₂. In addition, because it is highly biodegradable, it is also friendly to the aquatic environment. MES showcases our development of environmentally friendly products.

Also, from the viewpoint of life cycle assessment, we have established a range of our own original environmental standards for all stages, from raw materials procurement to household use and disposal, and we are working to increase the products that meet those standards. Currently, on a sales basis, 80% of our products available in the domestic toiletries market clear those standards.

Q.

How would you evaluate the results of the Company's initiatives?

A.

We are seeing results in the qualitative aspects of these initiatives, such as the transition to an organizational structure that can generate sustained growth.

Looking at specific initiatives, I believe that we have made steady, appropriate efforts over the past five years, and we are now seeing results from those efforts. For example, we have continued to take steps to reduce expenses, realizing a cumulative total of ¥14.8 billion in savings. In comparison with five years ago,

I believe that we have developed an exceptionally strong organizational system. In addition, guided by the key words “health, comfort, and the environment,” we have clearly identified our future direction—businesses that contribute to better lives for customers and to environmental conservation. We have also instituted organizational reforms to ensure that we can realize progress in that direction, and we have implemented the principles of selection and concentration in our operations. As a result, we have succeeded in creating a distinctive, original corporate image. Moreover, new products contributed 21% of our domestic net sales in 2008 and 17% in 2009. The fact that new products have become a pillar of our earnings is a direct result of our ability to continually create high-value-added new products that appeal to the sensibilities of customers.

However, due to the unusual rise in raw material prices in 2008 and the dramatic fluctuations in the operating environment, we failed to meet the quantitative goals spelled out in the plan—net sales of ¥400.0 billion, ordinary income of ¥20.0 billion, and ROE of 10% or more. Moving forward, we will continue to strive for the achievement of these goals.

Q.

Would you provide more detail about the factors behind the Company’s failure to meet its quantitative goals?

A.

For the past five years, the operating environment has been challenging.

The influence of these difficult operating conditions has been substantial. On the one hand, intensified competition has led to pressure on sales prices, while on the other hand, production costs have increased due to higher prices for raw materials, such as crude oil as well as vegetable oil and fats. In addition, from fall 2008, accompanying declines in corporate results due to sluggish economic conditions, industrial demand has declined rapidly, and business-to-business sales of chemical products have been significantly affected.

In our overseas businesses, however, we have recorded double-digit growth each year on a local currency basis. Our overseas operations have been a major quantitative success.

Despite the various changes in the operating environment, the fact is that we have failed to meet the goals spelled out in our plan. Accordingly, we will do our utmost to improve our results and to achieve sustained growth in the years ahead.



Q.

Would you describe your vision for improving the Company's results and achieving sustained growth in the years ahead? Also, would you outline Lion's key strengths in those initiatives?

Lion's ¥10 billion brands



Clinica



Dentor Systema



KireiKirei



BUFFERIN



TOP



BLUE DIA



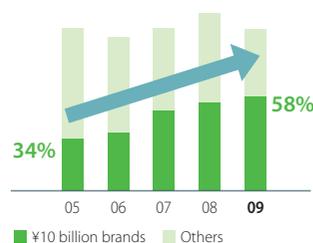
SOFLAN



CHARMY

Share of sales from ¥10 billion brands

Domestic retail market



A.

Drawing on our strengths in R&D, marketing, sales, and sales channels, we will leverage synergies among our three business fields to achieve quantitative and qualitative growth.

There will be no change in the direction that we pursue. Guided by the key words “health, comfort, and the environment,” we will strive to meet the expectations of our customers and earn their trust through the provision of differentiated added value.

In the domestic market, which is mature in terms of market scale, we will pursue qualitative growth. Specifically, we will continue working to maximize the value of our brands. We will focus our investment on ¥10 billion brands, which have annual sales of more than ¥10.0 billion, and on No. 1 brands, which have No. 1 market shares, as we work to continue to increase their brand values. In addition, we will endeavor to nurture the next generation of brands that have the potential to become ¥10 billion brands or No. 1 brands. We currently have eight ¥10 billion brands, and we plan to add more brands to this group in the next few years. After building robust earnings foundations for these strong brands, we will add new products that propose new benefits.

In overseas markets, meanwhile, we will pursue quantitative growth. In toiletries markets in Asia, Lion currently is basically in a No. 2 market position. Moving forward, we will develop brands that are strong in Japan, such as *TOP*, *Systema*, and *Shokubutsu-Monogatari*, as common global brands. At the same time, we will sell products that meet local needs. In this way, our strategy will be to record growth with complete coverage of a wide variety of customer needs. As such, we will work to expand our operations, with a focus on enhancing our positions in the markets for oral care products and laundry detergents. Our quantitative goals include raising the overseas sales percentage from the current 15% to about 30%.

Another initiative will be the nurturing of new businesses. Over the past two years, functional foods and the direct marketing sales channel by which they are distributed have expanded to the point where this product category has the potential to become a new pillar of growth for the Company. In addition, we will undertake global development of MES for powder detergents, striving to build MES into the next-generation standard for detergent ingredients. In particular, laundry habits have begun to change in the European market as environmental consciousness has increased. In this setting, there are excellent market prospects for MES, which has high detergency even when used with hard water at low temperatures and also has high biodegradability after use. In preparation for the global development of MES, we have established a new company in Malaysia, Lion Eco Chemicals Sdn. Bhd., which has opened a plant for MES production.

Our distinctive strengths in R&D, marketing, sales, and sales channels will help us to implement these three strategies.

The starting point of these endeavors is our portfolio of operations in three fields—toiletries, OTC drugs, and functional foods. This unique business portfolio enables us to generate highly distinctive synergies.

In R&D, for example, synergies include *Stoppa A*, a fast-acting anti-diarrhea medicine that disintegrates rapidly in the mouth. *Stoppa A* utilizes the surfactant technologies that Lion has cultivated in its toiletries business. Another example of R&D synergies is *Care Veil* laundry detergent and fabric softener. These products utilize skin-care-related evaluation technologies from Lion's OTC drug operations. In marketing, we have created lineups of products that provide total care, from treatment to prevention, and our strengths enable us to nurture high-value-added brands, such as the *Dent Health* periodontal disease care brand. In sales, utilizing the know-how that we have accumulated in these three fields, we can make proposals regarding sales areas that are highly efficient in terms of turnover per unit of floor space. In sales channels, as

a result of the revision of the Pharmaceutical Affairs Law, certain OTC drugs can now be sold not only at drug stores but also at convenience stores and supermarkets. Lion can effectively utilize the strong ties with these formats that we have built in the toiletries business.

As we foster the mutual exchange of technologies and knowledge among these three fields, we can conduct highly distinctive business development initiatives. This capability bolsters our ability to generate added value that appeals to customers and will provide strong support for our growth potential in the years ahead.

Q.

In Japan, major changes are taking place in the lifestyles of customers and in society as a whole against a background of an aging population and fewer children per family. How is Lion approaching this situation?

A.

There are indications that the pursuit of material abundance has reached its limit and that we are seeing the beginning of a transition toward a society that emphasizes spiritual abundance and coexistence with the environment.

In customer lifestyles as well as in society as a whole, I believe we are seeing structural changes that transcend the traditional business cycle. In a sense, I think that perhaps we are seeing an end to the pursuit of material abundance that was widely seen as the route to happiness in the 20th century. At one point, economic growth was driven by mass production, mass sales, and mass consumption, but that model has begun to lose its vitality. Currently, people are looking for a 21st century route to happiness involving an emphasis on spiritual abundance.

I think the following three points could play a key role in society's approach to this new era.

The first is harmony with nature. We need to create an economic growth model under which abundance is achieved not by taking resources from the natural environment but by existing in harmony with nature.

The second is the realization of a recycling-oriented society. We need to establish a social model based not on new resource development but rather on prioritizing the reuse of resources.

And the third is the realization of healthy, comfortable lifestyles. In raising the quality of lifestyles—given the importance of healthy, comfortable lifestyles—it is essential to provide technologies and services that meet those needs.

Q.

In regard to the themes that you have mentioned, what are your thoughts about corporate value and social responsibility?

A.

For Lion, I believe that the greatest value lies in our brands, which are backed by differentiated added value and the trust of society.

Corporate value is something that cannot be measured just by numbers, such as business results and market capitalization. I believe that differentiated added value and social trust are important components of corporate value. Lion is a company with an extensive history and tradition in toiletries markets, and throughout that history we have cultivated strong bonds with customers and a familiar corporate brand. These are the most important management resources for the Company and are the source of the high motivation among our employees. Through a range of corporate activities, we must continue to earn the trust and meet the expectations of customers.

Looking at Lion's history and tradition, since our founding, we have continually conducted operations that meet people's needs in the fields of health, comfort, and the environment. At the same time, in raising hygiene- and environment-related awareness in fields that are closely related to daily lifestyles, we have conducted innovative operations that have an effect on society.

For example, in the fields of health and hygiene, since we first began to sell toothpaste in 1896, we have continually offered innovative products that contribute to oral health. Moreover, we have a long history of oral health education initiatives beginning with the Lion Dental Clinic for Children, which was established in 1921. We are proud of the accomplishments in continually supporting the lifestyles and health of people in Japan.

Moreover, from the viewpoint of the environment, we have produced and sold products that are closely related to water, such as soap and detergent. Consequently, we have always dedicated ourselves to reducing the burden of our products on the aquatic environment.

As we have developed our operations, we have always worked in concert with human awareness and changes in the social environment, keeping step with qualitative improvements in lifestyles and conservation of the natural environment. We will continue that tradition in the years ahead.

However, I believe that tradition is something that is created through repeated innovation; the moment you defensively try to protect it, it is lost. Even brands with tradition always have hidden quality, and the fresh customer inspiration that is created by that hidden quality encourages customers to develop loyalty to products and to use them for long periods of time. By determining customer needs and continually providing products that propose new benefits, we can contribute to qualitative improvements in customer lifestyles and to environmental conservation. I believe that this is not only one of Lion's social responsibilities but also a route to higher corporate value for the Company.

Q.

Finally, would you discuss your thoughts about shareholder and investor relations?

A.

We consider shareholders to be partners of the Company, and I would like to have more investors develop a better understanding of our products and our approach to our business.

A distinctive feature of our shareholder base is the high percentage of individual shareholders, and I consider this to be very important. In addition to owning Lion stock, most of our individual shareholders are also regular users of Lion products. They are very loyal to the Company and our products, and they are also advisers who offer their opinions, sometimes in a very straight and direct manner. The number of attendees at the shareholders' meeting has been increasing steadily over the past few years, and we are aggressively conducting investor relation activities for individual investors. In the future, I want to ensure that we continue to receive feedback and ideas from our shareholders as equal partners who cooperate with us in improving lifestyles and the environment.

On the other hand, it is our goal to make MES into a next-generation standard detergent ingredient. We are planning global business development for MES, and it is my wish to have a broader range of investors around the world understand Lion's products and approaches to product development. As we move ahead, I would like to ensure that the Company works to build an extended range of cooperative relationships with investors and to maximize corporate value as well as shareholder value.

March 2010



Sadayoshi Fujishige
President and Chief Executive Officer

Creating **innovative** new **products**

In May 2009, Lion opened a new research and development center in Hirai, Edogawa Ward, Tokyo. Upon the opening of this new facility, the Company will accelerate its efforts to leverage its advanced technologies and R&D activities in accordance with the key words “health, comfort, and the environment.”



1890–1981

A memorial on the grounds of the Hirai R&D center has the words of Toshiro Takei, who achieved great success in R&D in the Company’s early days. These words—“The new technologies always have power. Pursue technologies that are new, appropriate, and timely.”—have become the philosophical backbone of Lion’s R&D initiatives.



Executive Director
KEIKICHI SUGIYAMA
 Executive General Manager of Research and
 Development Headquarters

Our competitive strengths will be driven by the synergies generated through the leveraging of mutual interactions among the Company's original technologies. We will provide innovative products that reflect consideration for healthy, comfortable lifestyles and for the environment.

Two core technologies—Lion's technical DNA

As a manufacturer of toiletries, we have cultivated a range of core technologies in three key fields—life science, surface science, and chemical synthesis. Of these, there are two core technologies that could be called Lion's technical DNA: washing technologies and oral care technologies.

Washing technologies are surfactant-related technologies with a broad range of applications, from uses involving clothing, dishes, and the body to industrial applications. Since our establishment in 1891, we have explored the use of every conceivable kind of oil and fat, including fish oil and other animal-based oils as well as soy sauce oil and other plant-based oils. At one point, we turned to petroleum-based materials, but we have always emphasized the use of plant-based oils, where we have focused our research activities. As a result, we have accumulated a broad body of knowledge about oil and fats, including how to refine them, and that knowledge has been the source of our strong competitive edge in the environmental field. Moving forward, we will further dedicate ourselves to environmental conservation, and implement technical development targeting the further use of plant-based materials, including entirely new uses for plant resources that are not currently being utilized.

Our oral care technologies involve the prevention and treatment of oral diseases through such products as toothpastes and toothbrushes. Since Lion's founding, the Company has implemented educational activities designed to establish toothbrushing as a regular habit in Japan. At the same time, we have moved ahead with the development of technologies and products that resolve oral care problems, such as cavities, gum disease, and halitosis. Recent research has made clear that periodontal disease has an influence on systemic diseases, such as heart disease and diabetes. Moreover, the mouth is an organ that plays an important role in leading a full life in ways besides eating and talking. Through oral care, we will work to develop innovative products and technologies, with consideration for systemic diseases and quality of life.

Lion's original synergies stemming from its two core technologies

In recent years, OTC drugs and functional foods have been among the Company's strategic product fields. We are effectively using our two core technologies in these fields, which, at first glance, might seem to be unrelated to oral care and detergent products.

One example is *Smile 40EX* eyedrops. This product includes vitamin A, which has benefits for the health of eyes. Vitamin A is a substance for which it is exceptionally difficult to achieve a stable aqueous solution, and our development of this product was made possible by our surfactant technologies.

I believe that Lion's competitive edge rests in part on the creation of highly original OTC drugs and functional foods by using the core technologies that Lion has cultivated since the Company's founding.

Strategic research theme: Beautiful aging

In addition to the environment, "health and comfort" is another key theme in our efforts. In this area, we have maintained a special focus on beautiful aging in recent years. For Lion, beautiful aging means living a full life at each life stage, including the enjoyment of a meaningful old age. To support beautiful aging suited to each individual, despite the various troubles and diseases encountered at each stage of life, we will strive to make progress in the development of technologies for the diagnosis of health conditions, the provision of information, and the supply of products based on those results.

Pursuing advanced, scientific technologies

Moving forward, Lion will utilize technologies from advanced fields, such as kansei engineering (sense engineering) and brain science, in the field of toiletries, which is closely linked to daily lives. In addition, we will work to develop technologies that are useful in reducing CO₂ emissions as well as in environmental purification, and technologies that utilize new raw materials. In this way, with a focus on the near future, we will provide products that contribute to healthy, comfortable lifestyles and environmental conservation, thereby supporting growth in Lion's corporate value.

Technologies that contribute to healthier and more-comfortable lifestyles

Development of FASTab Technology —For Fast-Acting Relief of Intense Headaches and Fevers

Overview of the Brand

- Year of launch **1962**
- A total of 10 products and 22 SKUs
- No. 1 share¹ by sales value among antipyretic analgesics
- From January 2010, sales also started in South Korea

BUFFERIN PLUS S



According to a survey conducted by Lion, fast-acting relief is the No. 1 need of users of antipyretic analgesics. *BUFFERIN PLUS S* is a new product that makes full use of FASTab (Fine Assembled Tablet) technology², which was developed to satisfy this need. To act rapidly after they have been ingested, drugs should dissolve rapidly in the stomach and subsequently be easily absorbed. Through an optimal blend of hydrophilic particles and disintegrating agents, FASTab technology reduces the time required for tablets to disintegrate, and as a result the active ingredients are dissolved from the tablet in a shorter period of time. Diagram 1 shows a model of a tablet that uses FASTab technology. When the tablet comes into contact with water, the water rapidly penetrates the tablet as a result of the action of the hydrophilic particles. The tablet then disintegrates from the inside through the action of the disintegrating agents. A high degree of affinity between the tablet surface and the water plays an important role in ensuring that the water rapidly penetrates the tablet. When we measured the affinity (contact angle) between water and the surface of *BUFFERIN PLUS S* tablets, we confirmed that the contact angle is less than one-half that of tablets not using the FASTab technology and that the surface of the *BUFFERIN PLUS S* tablets is highly hydrophilic. As a result, these tablets break

down in one-half the time required by tablets that do not use FASTab technology (Diagram 2). We succeeded in developing tablets that provide “fast-acting relief for intense headaches and fevers.” These tablets offer performance that exceeds tablets that do not use FASTab technology, including the speed of the dispersion of the principal ingredients (acetylsalicylic acid and acetaminophen), in the highly acidic environment of the stomach (pH = 1.2) (Diagram 3).

1 2009 INTAGE Inc. SDI Survey. 2 Process patent No. 4329947

Diagram 1
Disintegration mechanism of tablets that use FASTab technology

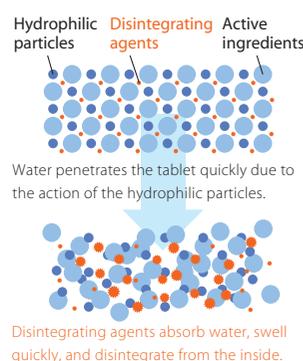


Diagram 2
Disintegration time of *BUFFERIN PLUS S* tablets that use FASTab technology

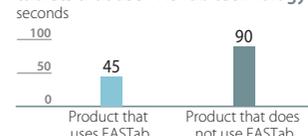
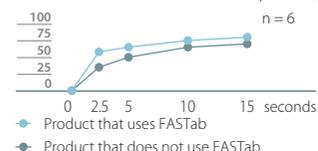


Diagram 3
Dissolution of principal ingredients of *BUFFERIN PLUS S* using FASTab technology (pH = 1.2)



From the Front Lines of R&D

For *BUFFERIN PLUS S*, our development goal was to halve the tablet disintegration time of an existing Lion product, *BUFFERIN PLUS*. We had no success with previous approaches, such as changing the type or quantity of disintegrating agents, and consequently we faced a major hurdle. However, one day a young researcher discovered that if we added an antacid agent,

such as those included in gastrointestinal medicine, the affinity between water and the tablet increased, and the disintegration time was substantially reduced. As a result, we were able to make dramatic research progress and to complete the development of FASTab technology, which became the core technology in the design of the *BUFFERIN PLUS S* formulation.



Research Manager,
Pharmaceutical Research Laboratories No. 1
HIROYUKI MASUI

Effectiveness of Enteric Coated Lactoferrin Tablets in Reducing Visceral Fat—Analysis of the Visceral Fat Reduction Mechanism

Overview of the Brand

- Year of launch **2007**
- Sales surpassed ¥2.0 billion in 2009
- A new SKU—*Nicelim Essence Lactoferrin + Labre*—was added in October 2009

Nicelim Essence Lactoferrin

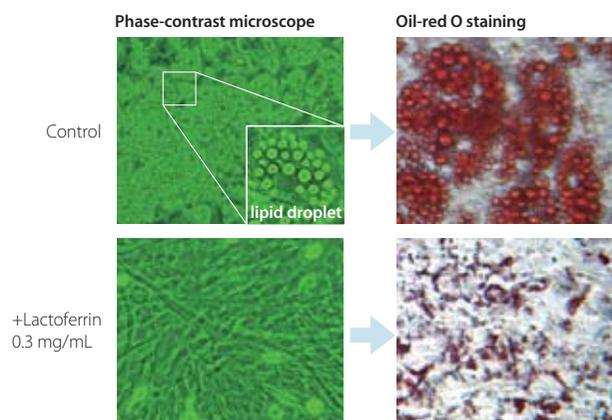


Lactoferrin, a type of protein that is found in the milk of many mammals, has been reported to have a range of functional activity, including antibacterial, anti-inflammatory, and immunostimulatory activity. Lion, which originally focused on lactoferrin through oral care research, discovered that lactoferrin has the potential to be effective in the prevention of periodontal disease through the deactivation of poisons produced by oral bacteria. In addition, Lion also focused on lactoferrin's ability to prevent lipid metabolism disorders, and the Company decided to develop lactoferrin as a functional food product.

Normally, lactoferrin is degraded in the stomach, so we developed enteric coated lactoferrin tablets, which utilize a special coating technology to ensure that the lactoferrin reaches the small intestine without being dissolved in the stomach. The results of two months of clinical trials showed that lactoferrin had a completely new action, the reduction of visceral fat. Furthermore, we continued research to identify our original theory of visceral fat reduction, and we were able to clarify a surprising effect: lactoferrin that reaches the small intestine is absorbed in the body, accumulates in visceral fat, and markedly limits the accumulation of fat in fat cells (Diagram).

Through the results of this research, we confirmed that enteric coated lactoferrin tablets effectively inhibit the accumulation of visceral fat, a fundamental cause of metabolic syndrome, and at the same time, we discovered the mechanism of this action is possibly that the lactoferrin reaching the visceral fat limits the accumulation of fat in fat cells. Moving forward, we will develop functional food products backed by verified effectiveness and a confirmed mechanism.

Diagram Visceral fat reduction effect



Assistant Research Manager,
Life Science Research Laboratories
TOMOJI ONO

From the Front Lines of R&D

The key to our success was the testing that we conducted on ourselves. We did not know if the effects seen in cellular and animal testing would also be seen in humans, so first we all took lactoferrin ourselves. As a result, we were able to confirm that lactoferrin exceeded expectations for everyone in related departments. We were certain

that customers would be satisfied, which made us feel a strong sense of mission. The efforts of each department harmonized perfectly, and sales of our lactoferrin products are growing successfully. Now, my mission is to communicate the benefits of lactoferrin to as many people as possible.

Technologies that preserve the environment for the next generation

Launch of **TOP NANOX** Next-Generation Liquid Laundry Detergent —Targeting High Detergency, Compact Size, and Environmental Friendliness

Overview of the Brand

- Year of launch **2010**

The share of liquid laundry detergents in the domestic laundry detergent market has expanded fourfold over the past five years, and by the end of 2009, liquid laundry detergents accounted for more than 40% of the laundry detergent market*. The liquid laundry detergent market has moved from a stage of expansion to a stage of product differentiation. In this environment, Lion's researchers took on a new challenge at the end of 2005, the year in which the liquid laundry detergent market began to record rapid growth. That challenge was to create a super-concentrated detergent that works with only half the amount of detergent necessary with existing Lion products. We believed that the key to success in developing a super-concentrated detergent was to ensure that customers can be confident about using only a small amount of detergent. In other words, we targeted "certain detergency" that prevents waste. According to a Lion survey, due to a heightened interest in cleanliness, more than half of the housewives surveyed confirm that laundry is clean not only visually but also by checking for odors. Consequently, the challenges that we had to overcome were to achieve a compact size with a super-concentrated detergent that requires only half the amount of existing products, as

well as to achieve certain detergency that eliminates odors.

Lion has been shifting to the increased use of environmentally friendly, plant-based materials. In order to simultaneously achieve high detergency and high concentration, we decided to use plant-based MEE (methyl ester ethoxylate), a nonionic surfactant. Lion was the first company in the world to succeed in the industrial production of MEE with solid catalyst. In comparison with AE (alcohol ethoxylate), which is widely used in conventional liquid detergents, the MEE molecule is slightly curved and has a distinctive structure, including an oleophilic group at the tip of a hydrophilic group (Diagram 1). It is our hypothesis that this structural difference results in the distinctive cleaning mechanism described below and contributes to the ability to create a super-concentrated formulation.

Oleic acid is found in sebum, which is difficult to remove from deep inside fibers. Oleic acid is broken down by bacteria and oxidation, resulting in aldehyde and fatty acids, which are one cause of the oily odors that slightly remain (or cannot be removed perfectly) on clothes after washing and are noticed by customers. The force produced by the water flow in washing machines is not always fully

Diagram 1
Image of molecular structure

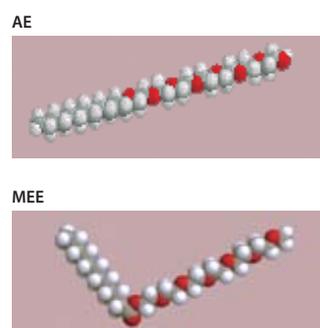
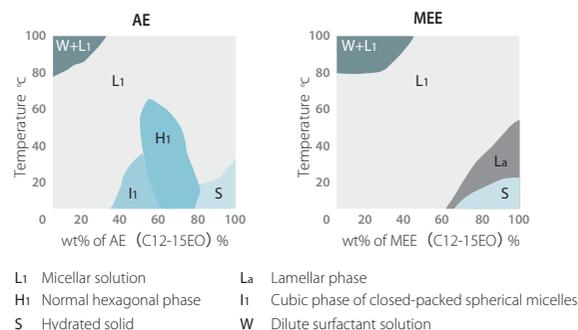


Diagram 2
"Nano-Washing"



Diagram 3
Phase diagram of MEE/water system





TOP NANOX

applied deep inside fibers. Accordingly, it is difficult to completely remove oily smells with just the “rolling up” mechanism, which is how conventional detergents remove grime from clothing by dissolving oil (oleic acid and the substances that result from its breakdown) at the micro level. On the other hand, we found that, because of the high affinity between its distinctive structure and odor-causing grime, MEE breaks down odors and grime at the nanometer level, removes them from deep inside fibers, and consequently shows superior detergency. We gave this mechanism of removing odors and grime the name “Nano-Washing,” and we observed a “fluctuating” effect as dirt is dissolved at the nanometer level (Diagram 2).

As shown in diagram 3, MEE maintains good fluidity over a wide range of concentrations, including high concentrations. Accordingly, it is possible to increase the concentration of surfactants in the detergent by two times in comparison with conventional surfactants. Even with the container size reduced by more than half, TOP NANOX provides as many washes as our conventional products. The super concentration has facilitated a compact package size. As a result, we have been able to reduce the weight carried by customers while

shopping, make it easier to store the product in the home, and reduce the burden on the environment by reducing the use of plastic.

A life cycle assessment of how the compact size affects its environmental friendliness shows that, due to such factors as increased transportation efficiency and reduced plastic usage volume, CO₂ emissions are reduced by about 20% compared with the Company's existing products and by 74% compared with the products sold by the Company in 1990.

Furthermore, because MEE has effective defoaming and favorable rinsability characteristics, it is possible to remove detergent residue with only one rinse cycle, thereby saving water and electricity.

The container has a strong image that expresses next-generation, advanced characteristics; compactness; and high detergency. Furthermore, with a focus on simple design, we utilized a cube-shaped container design and a round-shaped measuring cap.

TOP NANOX offers “Nano-Washing” that leverages the special features of super-concentrated MEE. It is a super-concentrated liquid laundry detergent with high detergency that can remove odors and grime. This new product showcases Lion's advanced technologies.

* 2009 INTAGE Inc. SRI Survey.



Research Manager,
Fabric Care Research Laboratories
TAKAHIRO OKAMOTO

From the Front Lines of R&D

With a focus on reducing the environmental burden and on selecting surfactants that can be highly concentrated, we settled on MEE, a proprietary surfactant that we developed 15 years ago. Furthermore, we found the developed formulation showed superior detergency to remove odors. To understand the cause of those

features, we formed a project team selected from multiple research labs. As a result, we were able to clarify the cause of the odors from freshly washed laundry and at the same time we were able to discover “Nano-Washing,” the special washing mechanism of MEE.

Selected information about Lion's R&D activities

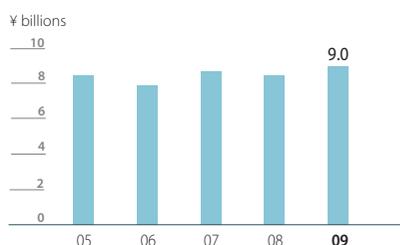
FUNDAMENTAL R&D POLICY

- Development of products that amaze and inspire customers
- Development of products and technologies that create new markets
- Development of technologies focused on health and the environment for future generations

Investing for growth

On a consolidated basis, R&D expenses in fiscal 2009 were ¥9,057 million, constituting 2.8% of net sales. In May 2009, with the objective of pursuing technological synergies and increasing the pace of development by fostering increased interaction among research facilities, Lion completed a new R&D center (located within the Hirai Office).

R&D expenses



Lion's intellectual property strategy

Lion has a wide range of intellectual property (IP) in Japan and around the world, centered on the fields of oral science, where we have achieved a number of Japan firsts with our oral care products; pharmacology, which is the basis of OTC drug research; and surface science, which is the basis of detergent research. Of course, in making an ongoing contribution to the lives of customers and to the conservation of the environment, what is important is not the size of an IP portfolio but rather its quality. In accordance with that approach, we are implementing strategic IP management to support global competitiveness.

Lion has created a range of superior products that contribute to people's lives, including toothpastes and cleaners, and the Company has secured IP rights—such as patents, design rights, and

trademarks—for those products' technologies, designs, and brands. From the viewpoint of technical development capabilities, patent rights are an especially important indicator of corporate value, and Lion is moving ahead with strategic patent applications in leading-edge technical fields. These include oral science and pharmacology, where the Company is striving to contribute to beautiful aging, and surface science and oleochemical science, where the Company is working to support hygienic lifestyles and environmental cleanliness. In order to increase competitiveness, Lion's global business development activities utilize a three-part system comprising R&D strategy, operating strategy, and IP strategy. As always, we remain committed to conducting unique product creation activities that respect and do not infringe upon the rights of other companies.

Major R&D progress in fiscal 2009

Health Care

Oral Care: *Dentor Systema "Sonic Assist" Brush, Clinica Advantage toothpaste*

Beauty Care: *PRO TEC STYLE Deodorant Mist, KireiKirei Otefuki Wet Sheets*

Pharmaceutical: *BUFFERIN PLUS S, Varsan CPM Jet*

Functional Foods: *Nicelim Essence Lactoferrin Labre*

Household

Fabric Care: *TOP Clear Liquid, Kaori Tsuzuku (Long-Lasting Fragrance) TOP Sweet Harmony*

Living Care: *CHARMY Crysta Powder, CHARMY Awa no Chikara (Power of Suds) Fresh Lemon*

R&D system

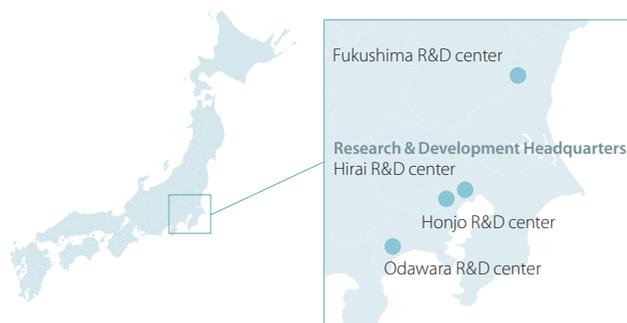
The Research & Development Headquarters has three divisions—Developmental Research, Applied Research, and Research Supporting. We strive to conduct rapid product development by promoting the exchange of technologies among laboratories, as well as to make

progress in the development of new technological “seeds” from a long-term perspective. Moreover, we also implement active exchanges with institutions in Japan and overseas, such as technical sharing for related companies in Asia.



R&D bases

Lion conducts R&D at four bases in Japan. There is frequent information exchange among divisions and laboratories. For example, we can use information exchange opportunities provided by research briefing sessions for all research divisions (held once or twice a month) and by briefing sessions open for participation by any employee. We also make full use of the shared in-house systems related to product development and the Research & Development Headquarters intranet. As a result, we are making steady advances in cooperation among laboratories to support timely product development.



Research & Development Headquarters (Hirai R&D center)

The communication center, which is located inside this new R&D center, is open to partner companies, scientific institutions, and customers. The center introduces the current state and history of the Company's R&D initiatives. It has a presentation zone, in which visitors can actually hold products in their hands, as well as monitoring booths in which the Company can receive product evaluations. In these ways, the center is implementing a wide range of communications activities. Using videos and presentation materials, the Company is communicating its thoughts regarding lifestyles in the near future, and the direction of technical development targeting the realization of those lifestyles.



Communication center



Laboratory



Biotope

Other distinctive features

- Synergies are promoted through large R&D laboratories that enable researchers in each lab to engage in mutual exchange.
- The center also reflects consideration for the environment, such as a rooftop biotope and solar electricity generation equipment.

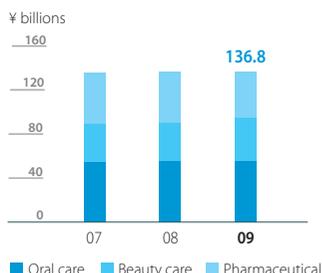
Lion at a glance

Health care products

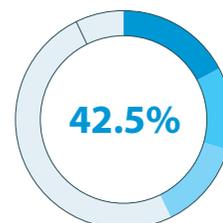
Net Sales **¥136.8 billion**

We offer a wide range of products and information that support “total care, from prevention to treatment and comfort.”

Net sales by department



Net sales

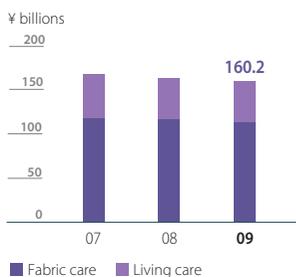


Household products

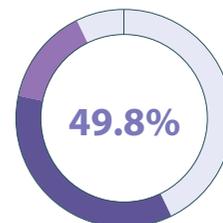
Net Sales **¥160.2 billion**

In the fields of fabric care and living care, the Household Products Division provides environmentally friendly products that foster comfortable, healthy lifestyles in the fields of apparel, food, and the home.

Net sales by department



Net sales

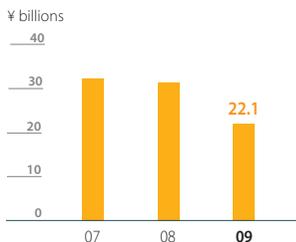


Chemical products

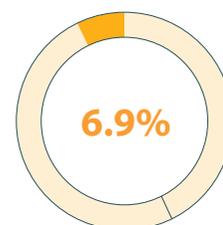
Net Sales **¥22.1 billion**

Environmentally friendly, safe, highly functional industrial-use products that leverage Lion’s surfactant technologies, such as plant-based natural oil and fat derivatives, products using surfactants, and electro-conductive carbon black.

Net sales by department



Net sales



Other business units

For operational purposes, Lion Corporation’s businesses include the divisions shown on the right, which are separate from the business segments for accounting purposes that are shown above.

International Division

This division, which conducts operations in eight countries and regions in Asia, is sustaining a high growth capacity through strategic brand development.

• Oral care

17.2%

Toothpastes, toothbrushes, mouthwashes, breath fresheners, interdental products, etc.



• Beauty care

12.2%

Shampoos, conditioners, hair styling products, hair-nourishment treatments, beauty soaps, liquid hand soaps, body washes, skin care products, antiperspirants and deodorants, etc.



• Pharmaceutical

13.1%

Analgesics, cold medicines, eyedrops, gum-disease products, analgesic and anti-inflammatory poultices, gastrointestinal medicines, nutritional products, semi-adhesive cooling pads for fevers, medicinal skin care products, insecticides, prescription drugs (antiplatelet drugs and analgesics), etc.



• Fabric care

35.4%

Laundry detergents, delicate laundry care products, pre-care products, stain removers, bleach, fabric softeners, wrinkle relaxers, etc.



• Living care

14.4%

Dishwashing detergents, household cleaners, kitchen-related products, cooking-aid products, industrial cleaners, etc.



• Chemical

6.9%

Base chemical products, such as natural oil and fat derivatives (fatty esters, glycerin) and various types of surfactants (nonionic, anionic, nitrogen derivatives (Lion Akzo Co., Ltd.)); performance chemicals, such as industrial detergents (used in the IT/electronics and automobile fields), electro-conductive carbon black, and related products



Gift and Channel-Specific Products Division

This division, which develops and sells novelty items and gifts and works to develop the direct marketing sales channel, is contributing to the expansion of Lion's operational foundation.

Health Care Products Division

Executive General Manager of Health Care Products Division
TAKEO SAKAKIBARA



The Health Care Products Division is implementing an aggressive growth strategy and working to help Lion become the leading company in the new comfortable lifestyle support industry.

Competitive edge

In health care operations, we are aiming to achieve growth while maintaining profitability by providing products and information that are useful in the creation of healthy new habits that serve to increase the quality of life of consumers. For example, with the population aging, we are supporting the 80-20 campaign, which aims to have people aged 80 years old retain 20 or more of their teeth.

This division comprises three fields—oral care, beauty care, and pharmaceutical operations—and has strong brands in each of these fields. In oral care operations, we have the *Dentor Systema* and the *Clinica* brands, and we have the No. 1 share* in the toothpaste and toothbrush markets in Japan. At the Lion Foundation for Dental Health (LDH), we are implementing various educational activities,

such as toothbrushing instruction, and from the perspective of providing products and information we are supporting the health of the teeth of people in Japan. In beauty care operations, our *KireiKirei* brand has the No. 1 share* of the domestic market for hand soaps, and we are working to further promote good hygiene practices, such as routine hand washing. In pharmaceutical operations, we have brands with long-established positions in Japan, such as *BUFFERIN*, which has the No. 1 market share* in antipyretic analgesics and is a pillar of Lion's earnings.

Overseas, we are cultivating common global brands, such as *Systema* and *Shokubutsu-Monogatari*, and working to expand our operations.

* 2009 INTAGE Inc. SRI/SDI Survey.

External factors that affected results

- Spread of H1N1 influenza
- Contraction of market for health tonic drinks
- Changes in product labeling, sales methods, and in-store display methods due to revision of the Pharmaceutical Affairs Law

Selected financial data

	¥ billions		
	2007	2008	2009
Net sales	135.4	136.3	136.8
Operating income	5.4	7.9	8.8
Total assets	111.2	106.4	105.0
Capital expenditures	32.9	3.7	3.1

Lion's major health care product fields and 2009 market positions in Japan

	Billions of yen Market size in Japan	Lion's market position
Toothpastes	¥70	1
Toothbrushes	43	1
Liquid hand soaps	20	1
Antiperspirants and deodorants	45	4
Analgesics	46	1
Eyedrops	70	3

Source: 2009 INTAGE Inc. SRI/SDI Survey.

Note: Figures for market size presented above are based on retail sales data and do not include sales of gift packages.

Performance in fiscal 2009

In the domestic oral care field, we launched new, high-value-added products under the key *Systema* and *Clinica* brands, and overall sales were favorable. In beauty care operations, hygiene awareness increased due to the spread of H1N1 influenza, and the *KireiKirei* series of hand soaps and hand sanitizers recorded solid results. In pharmaceutical operations, however, sales were down year on year due to contraction of the scale of the OTC drug market and intensified competition.

Overseas sales increased on a local currency basis, but they declined on a yen basis due to the appreciation of the yen. However, due to strong domestic sales in oral care operations and beauty care operations, the division's net sales increased year on year.

Operating income rose as higher domestic sales of oral care and beauty care products and the progress of cost reduction initiatives offset lower sales of pharmaceutical products.

MOVING AHEAD WITH CREATIVE MARKETING

Dentor Systema "Sonic Assist" Brush



Launched in April 2009, this toothbrush can effectively eliminate grime from the periodontal pocket, and it is lightweight, low noise, and easy to use. As a result, it has been highly evaluated by customers, and in the six months following its launch, 300,000 handsets were sold. The electric toothbrush market had previously been on a declining trend, but expanded after the launch of *Dentor Systema "Sonic Assist" Brush*. The product made a significant contribution to this market expansion.

Before commencing the design of this product, we listened carefully to the opinions of people who had at one point used an electric toothbrush but had stopped doing so. We achieved the ease-of-use of a conventional toothbrush by giving the new toothbrush a compact head, a lightweight, reduced vibrations, and a slim neck. In addition, we utilized a design that clearly communicates to consumers in the store the benefits of the product—super-tapered bristles, sonic vibrations, a slim neck and compact head, and a lightweight. Furthermore, to attract the interest of shoppers, we emphasized both its periodontal pocket cleaning power and its ease-of-use by displaying the "sonic assist" toothbrush in the same section as conventional toothbrushes and by using sales tools that move to attract the attention of customers.

PAIR A Tablets—Tablet-type oral medicine to improve adult acne from inside the body



According to a Lion survey, women in their twenties and thirties named adult acne as one of the skin problems that they most wanted to cure. As a result of this survey, we understood the depth of their concern with acne that recurs and is difficult to treat. Accordingly, to improve adult acne, Lion focused on increasing skin cell turnover and promoting the release of accumulated waste materials from the skin. We developed *PAIR A Tablets*, an oral medicine that works from inside the body to stimulate cell turnover and promote the elimination of waste materials. Sales began in July 2008.

Lion's proposal of improving adult acne from inside the body was new and easy to understand, and we provided product information through explanatory DVDs and other means, not only in the oral medicine sections of stores but also in the topical acne treatment sections. In addition, we utilized a wide range of media coordinated with customer activity, such as seminars as well as advertisements on the Internet, TV, and public transportation. As a result, we were able to create new demand, centered on working women, and in the 14 months following the launch, sales exceeded 1 million units.

Oral Care Business Department

Performance in fiscal 2009

In the domestic market for oral care products, a rise in oral care awareness led to increased sales of high-value-added, high-priced products. Nonetheless, due to a growing overall preference for lower-priced products, sales were basically flat year on year.

In Japan, we launched improved versions of products under the core *Clinica* brand. One of these was *Clinica Advantage*, which utilizes vitamin E and helps to prevent cavities and support healthy gums. Sales of *Clinica Advantage* were about 30% higher than previous versions. Nonetheless, the competitive environment worsened, and as a result overall sales of toothpastes were flat year on year. In toothbrushes, the scale of the market is contracting due to the consumer preference for lower prices. However, the *Dentor Systema Toothbrush* recorded favorable results, and consequently overall sales of toothbrushes increased substantially year on year. Moreover, the launch of the new *Dentor Systema "Sonic Assist" Brush*, a lightweight type of electric toothbrush, also contributed to expansion of the electric toothbrush market. *Dent Health*, a high-end brand for the prevention of periodontal disease, registered continued growth. Overall, sales of oral care products in the domestic market recorded solid growth year on year. Overseas sales increased on a local currency basis, but they declined on a yen basis due to the appreciation of the yen. As a result, net sales in the oral care business were up slightly year on year.

Outlook for fiscal 2010

Oral care awareness among consumers continues to grow. As a comprehensive oral care company, Lion will strive to contribute to improving the quality of life of consumers by supporting their oral health. To that end, we will work to nurture key brands and move ahead with the establishment of new fields that meet emerging consumer needs.

In fiscal 2010, we will launch a new product, *Dentor Systema Haguki Plus (the gums) Dental Rinse*. The active ingredients of this mouthwash continue to function in the mouth for an extended period of time, and the mouthwash shows a high level of effectiveness. Early in fiscal 2010, we added a new flavor to *Clinica Advantage*, a toothpaste that has recorded favorable sales. Moving forward, we will continue to nurture our key brands, *Dentor Systema* and *Clinica*. In addition, we launched *platus*, a high-value-added toothpaste with advanced beauty effectiveness, thereby creating a new market for toothpastes that meet latent consumer needs.

Overseas, in South Korea, we launched the common global brand *Dentor Systema (Dentor System* in South Korea) in fall 2009. We will work to expand our oral care business in Asia, centered on the *Dentor Systema* series.



Clinica Advantage Medicated toothpaste with cavity-prevention and gum-invigoration functions

This toothpaste uses an enzyme to break down and remove plaque and, with the inclusion of fluorine, helps shield teeth from cavities by strengthening the structure of teeth. In addition, it also uses vitamin E to invigorate the gums, which support the teeth. *Clinica Advantage* is a highly functional medicated toothpaste that helps support healthy gums.



platus creamy up paste Medicated Toothpaste

Personal beauty toothpaste for beautiful aging

This medicated toothpaste, which enables users to enjoy a fine, creamy foaming sensation, dislodges dullness buildup* that increases the visual age of teeth.

* Tinted microscopic grime that adheres to the surface of teeth



Dentor Systema Haguki Plus (the gums) Dental Rinse

Milky white medicated mouthwash for the prevention of periodontal disease

This medicated mouthwash for the prevention of periodontal disease features a double action: penetrating communities of bacteria in periodontal pockets and invigorating gums. This milky white liquid continues to work for an extended period of time and provides care for the periodontal pocket.

Beauty Care Business Department

Performance in fiscal 2009

Due to the global spread of H1N1 influenza, awareness of hand washing and gargling is increasing, and as a result demand for related products, such as hand soaps, hand sanitizers, and gargles, recorded substantial growth in fiscal 2009.

In Japan, we nurtured the *KireiKirei* brand, which has the No. 1 share* of the hand soap market, with the launch of a new muscat grape scent for *KireiKirei Medicated Foaming Hand Soap*. We also implemented educational activities to promote good hand washing habits. Sales of hand soaps recorded substantial growth year on year, and the *KireiKirei* brand hand sanitizer that we launched in the previous fiscal year recorded a fourfold increase in sales year on year, while *KireiKirei* brand gargle recorded a threefold growth in sales. In addition, we worked to acquire new customers with the launch of *PRO TEC STYLE Deodorant Mist*, a deodorant for men in their thirties. *Nicelim Essence Lactoferrin*, a functional food product that was launched in 2007 through direct marketing, recorded favorable results, and sales surpassed ¥2.0 billion in fiscal 2009.

Overseas sales increased on a local currency basis, but they declined on a yen basis due to the appreciation of the yen. Nonetheless, due to higher sales in the beauty care business in the domestic market, overall net sales in the beauty care business increased year on year.

Outlook for fiscal 2010

In the beauty care business, we have positioned skin cleansing and scalp and hair cleansing as our main business fields. To increase profitability, we will bolster the *KireiKirei* brand and develop new products that leverage our proprietary technologies.

In fiscal 2010, we will launch a convenient portable size of *KireiKirei Medicated Foaming Hand Sanitizer*. In addition, we will step up efforts to nurture *KireiKirei Medicated Foaming Hand Soap*. In this way, we will work to reinforce the No. 1* position of the *KireiKirei* brand. In addition, in the market for two-in-one conditioning shampoos, which accounts for 10% of the overall shampoo market, we will launch *Soft in 1 Shampoo Silkie*, a treatment shampoo in the high-price range that is highly effective at repairing damaged hair, and strive to expand the market. In antiperspirants and deodorants, we will work to achieve increased sales. To that end, we will launch the *High Density Ban Medicated Deodorant* series, which will offer enhanced antiperspirant and deodorant effectiveness. In addition, in the market for sheet-type products, which has recorded rapid growth, we will expand our lineup of *Ban Refresh Shower Sheet* perspiration wipes and will launch *PRO TEC STYLE Body Sheet*.

Overseas, we will focus on nurturing *Shokubutsu-Monogatari* as a common global brand.

* 2009 INTAGE Inc. SRI Survey.



Soft in 1 Shampoo Silkie

With one product, repair damaged hair while shampooing

This two-in-one treatment shampoo is for women in their thirties and forties who are concerned about damaged hair and who are also looking for simplicity in hair washing. With this product, only one bottle is needed to quickly wash hair and achieve a smooth finish while also repairing damaged hair.



KireiKirei Medicated Foaming Hand Soap

Medicated hand soap that emerges from the bottle as foam as soon as the pump is pressed

Foaming-type products are leading the growth of the hand soap market. To meet fragrance needs, we added a muscat grape scent. Accompanying an increase in the frequency of use of these products, sales of refill products are also increasing.



High Density Ban Medicated Deodorant Series

Focused prevention of odors from their source

This series of highly functional medicated deodorant products is for women who are highly concerned about body odor and want a highly effective product with a pleasant sensation.

Pharmaceutical Business Department

Performance in fiscal 2009

Japan's OTC drug market contracted in the year under review due to consumers' increased purchases of supplements and to sluggish sales of type 1 OTC drugs following the implementation of the revised Pharmaceutical Affairs Law.

The *BUFFERIN* brand has the No. 1 share* in the domestic market for antipyretic analgesics. In fiscal 2009, we introduced an improved package for *BUFFERIN Luna*, which is effective for menstrual pain and headaches, and launched the improved *BUFFERIN PLUS S*, which is faster acting. In addition, we aggressively instituted sales promotion activities for the mainstay *BUFFERIN A* product. *BUFFERIN Luna* and *BUFFERIN PLUS S* recorded higher sales than the previous versions of these products, and we successfully reinforced *BUFFERIN*'s No. 1 share*. In eyedrops, the *Smile 40EX* series, which has the No. 1 share* among middle-aged and older consumers, recorded favorable results. As a result, overall sales of eyedrops were strong. In addition, *PAIR A Tablets*, an oral medicine that improves adult acne, became a hit product that sold 1 million units in the 14 months following its launch. However, our other core products, health tonic drinks and insecticides, were adversely affected by contracting markets and by the influence of intensified competition, and overall net sales in the pharmaceutical business were down year on year.

* 2009 INTAGE Inc. SDI Survey.

Outlook for fiscal 2010

In fiscal 2010, we will increase investment in key brands—*BUFFERIN* and *Smile*—and strive to achieve growth in sales and profitability.

We will take further steps to nurture the *BUFFERIN* brand, centered on *BUFFERIN PLUS S* and *BUFFERIN Luna*, which were launched in the second half of fiscal 2009. In addition, we launched *Smile 40EX GOLD*, and we will work to reinforce our No. 1 share* in the market for eyedrops for middle-aged and older consumers. In the field of insecticides, we will expand the lineup of products in the *Varsan CPM Jet* series of fumigation-type products, which was launched in fiscal 2009 and has received a favorable response from customers. In this way, we will work to activate the market for fumigation-type products and to increase profitability.

Overseas, we have introduced the *BUFFERIN* brand of antipyretic analgesics in South Korea. Moving forward, while closely tracking conditions in each market, we will strive to make steady progress with OTC drug products in overseas markets.



BUFFERIN PLUS S

Faster-acting antipyretic analgesic

Utilizing Lion's proprietary rapid-dissolving tablet technology, FASTab, this antipyretic analgesic features fast-acting effectiveness for intense headaches and fevers and is mild on the stomach.



Smile 40EX GOLD

Includes 8 active ingredients

These eyedrops are effective against blurring and tiredness of the eyes due to aging and overuse of the eyes. *Smile 40EX GOLD* was launched under the *Smile 40EX* brand, which has the No. 1 share* of the market for middle-aged and older consumers.



Varsan CPM Jet

Powerful fumigation-type insecticide

This product, which is the most powerful *Varsan* fumigation-type product, includes three active ingredients for a strong insect-eradication effect, from tough cockroaches to mites.

Short report: Lion's positions of leadership

Oral Care: No. 1 in Toothpastes and Toothbrushes*

Lion began the production and sales of toothpastes in 1896. In the more than 110 years since that beginning, we have cultivated R&D and marketing capabilities in the field of oral care, and we have also implemented oral hygiene educational activities for consumers. In this way, for many years we have maintained our No. 1 positions in the domestic markets for toothpastes and toothbrushes.

In recent years, accompanying the trend toward self-medication in Japan, consumer awareness of oral care has been increasing, and as a result sales of high-value-added oral care products have been strong. In 2009, medium to high priced products that are sold in stores at

prices of ¥500 or more accounted for 28.6% of the overall market* and recorded year-on-year growth of 107.0%*.

Lion's *Dent Health* toothpaste, which was launched in 2006, has enjoyed favorable demand since its launch, with sales growing at a double-digit pace for three consecutive years.



Beauty Care: No. 1 in Hand Soaps*

KireiKirei hand soap, which was launched in 1997, now has the No. 1 share* of the domestic market for hand soaps. Hand washing is a very effective method of preventing food poisoning and influenza. In November 2008, to ensure that everyone understands the importance of hand washing, Lion commenced the Fight Against Germs Project as an educational activity teaching proper hand washing and gargling, principally in nursery schools. By the end of 2009, about 800,000 nursery school students had participated in these activities, and we continue working to promote further awareness of hygiene through this project. In 2009, awareness of hand washing and gargling increased

further due to the spread of H1N1 influenza, and sales of the Company's hand soaps rose more than 30% year on year. In addition, *KireiKirei* brand hand sanitizer and gargle products, which were added to the *KireiKirei* lineup in 2008, recorded substantial sales in 2009.

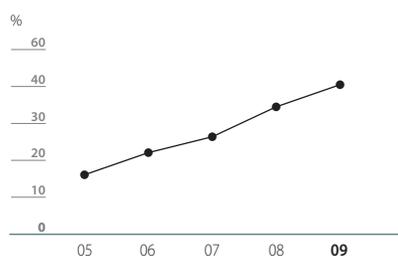


Fabric Care: Major Changes in the Laundry Detergent Market

Major changes are under way in the domestic market for laundry detergents. The market share of liquid detergents has increased from about 15% in 2005 to about 40% in 2009*, and in 2010 it is expected to surpass 50%. The reasons for this growth are related to the specific characteristics of liquid detergents, such as increases that have been achieved in the detergency of liquid detergents as well as their dissolvability. In 2008, Lion released the liquid-type *Kaori Tsuzuku (Long-Lasting Fragrance) TOP*, with a fragrance that lasts a long time after washing, and it subsequently became a hit product. Furthermore, in 2009 we introduced *TOP Clear Liquid*, which emphasizes detergency, and expanded the lineup of *Kaori Tsuzuku (Long-Lasting Fragrance) TOP*.

As a result, we recorded growth that exceeded market growth. In early 2010, we launched *TOP NANOX*, a super-concentrated liquid laundry detergent. Moving forward, we are aiming for the No. 1 share of the domestic liquid laundry detergent market.

Market share of liquid laundry detergents



* 2009 INTAGE Inc. SRI Survey.

Household Products Division

Executive General Manager of Household Products Division
MASAZUMI KIKUKAWA



Lion is working to provide highly functional, high-value-added products that meet customer needs and is taking on the challenge of moving forward as a leader in corporate environmental responsiveness.

Competitive edge

In the fields of apparel, food, and the home, the Household Products Division is working to provide high-value-added products that make daily lives more convenient and comfortable. In this way, the division is working to raise profitability, one of its key challenges. To achieve its vision of being a leader in corporate environmental responsiveness, Lion strives to provide environmentally friendly products. One of the ways Lion works toward that goal is by making use of plant-based materials, one of the Company's strengths. With the improved *TOP* laundry detergent, which was launched in February 2009, Lion has achieved both high detergency and environmental friendliness. By increasing the percentage of plant-based cleaning ingredients to 76% in the improved *TOP*, CO₂ emissions have been reduced by 51% compared with the *TOP* sold in 1990.

For the Household Products Division, product fields that are recording rapid expansion are highly important from a strategic perspective. These fields are liquid laundry detergents, fabric softeners with fragrance and deodorizing functions, and automatic dishwashing detergents. For ¥10 billion brands, such as *TOP* laundry detergent, *SOFLAN* fabric softener, and *CHARMY* dishwashing detergent, we are working to expand operations by launching new, high-value-added products that anticipate emerging customer needs in growing market sectors. We are also working to expand operations overseas. In addition to *TOP*, which is a common global brand, we are cultivating local brands that have strong ties to individual markets.

External factors that affected results

- Lower prices for powder laundry detergents
- Expanded market for liquid laundry detergents
- Trend toward eating at home more often

Selected financial data

	¥ billions		
	2007	2008	2009
Net sales	168.4	163.5	160.2
Operating income	3.1	0.7	2.4
Total assets	83.6	84.7	79.3
Capital expenditures	4.5	3.7	3.0

Lion's major household product fields and 2009 market positions in Japan

	Billions of yen Market size in Japan	Lion's market position
Laundry detergents	¥118	3
Fabric softeners	64	3
Dishwashing detergents	45	3

Source: 2009 INTAGE Inc. SRI Survey.

Note: Figures for market size presented above are based on retail sales data and do not include sales of gift packages.

Performance in fiscal 2009

In our fabric care business, under the core *TOP* brand, we launched two new products in the market for liquid laundry detergents, which is showing notable growth. In addition, we expanded the lineup of *SOFLAN* products in the market for fabric softeners with fragrance and deodorizing functions, which continues to expand. As a result, in each of these markets, we achieved growth in sales that exceeded the rate of growth in the market itself. Nonetheless, due to sluggish sales of powder laundry detergents, total sales of fabric care products declined year on year. In our living care business, we worked to increase sales of dishwashing detergents by expanding the lineup of *CHARMY*

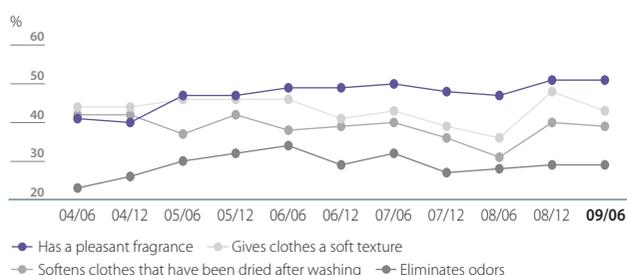
brand products. However, due to competition in such sectors as household cleaners, total sales of living care products were down year on year. Overseas, we continued to cultivate *TOP*, a common global brand, and sales of local brands in individual markets increased. Overseas sales were higher on a local currency basis, but due to the appreciation of the yen, sales declined on a yen basis. As a result, net sales in the Household Products Division decreased year on year.

Nonetheless, operating income increased as a result of the success of new products, the effectiveness of cost reduction initiatives, and the trend in raw material prices, which were low in comparison with 2008.

MOVING AHEAD WITH CREATIVE MARKETING

Kaori to Deodorant no SOFLAN (*SOFLAN with Fragrance and Deodorant*)

Key factors in the purchase of fabric softener (brand research)¹



In February 2005, Lion took a step toward making laundry more enjoyable with the launch of *Kaori to Deodorant no SOFLAN* (*SOFLAN with Fragrance and Deodorant*), the first time a major domestic company offered two fragrances within a single brand. According to subsequent Lion research, since 2005, purchasers of fabric softeners have focused more on fragrance than on softness after drying, the basic function of these products. Furthermore, more than half of the purchasers of fabric softeners with fragrance and deodorizing functions indicated that their next purchase would be a softener with a different fragrance. As a result, we realized that consumers are looking for a fragrance that they like and trying fabric softeners with various fragrances. In 2009, the share of fabric softeners with fragrance and deodorizing functions expanded to nearly 70% of the overall fabric softener market².

In response to these consumer needs for enjoyable fragrances for laundered clothing, we took steps to expand sales by expanding our lineup to four products. In October 2009, we surpassed a cumulative total of 200 million units sold since the launch of this series in 2005.

¹ Research by Lion
² 2009 INTAGE Inc. SRI Survey.

Style-Guard Siwa-mo-Nioi-mo Sukkiri Spray (*Wrinkle Releasing / Deodorizing Spray*)



Distribution of samples through college career center facilities

Style-Guard Siwa-mo-Nioi-mo Sukkiri Spray (*Wrinkle Releasing / Deodorizing Spray*) was released in March 2009. In addition to releasing wrinkles in fabrics, this product also offers a strengthened deodorizing function. Furthermore, it is the only clothing spray with sterilizing and deodorizing functions. By responding in this way to the needs of consumers who want to keep their clothes clean and want a simple way to take care of their clothes without constantly taking them to the dry cleaners, in the period from its launch in March to December 2009, this new product recorded sales that were 2.3 times the sales of another Lion product of the same type in the corresponding period of the previous fiscal year.

Sales promotion measures included initiatives to let consumers actually experience the functionality of this product. To that end, we focused on offices where uniforms are worn and on college students engaged in job search activities, which entail the frequent wearing of a limited number of suits. We also developed experience-based communications through original pamphlets and sampling activities. Furthermore, we provided samples to passenger cabin crew members of airlines, who are highly conscious of their grooming and appearance and are very influential. In these ways, we are working to achieve strong recognition of the functionality of *Style-Guard Siwa-mo-Nioi-mo Sukkiri Spray* (*Wrinkle Releasing / Deodorizing Spray*).

Fabric Care Business Department

Performance in fiscal 2009

Japan's fabric care market was activated by the launch of new products, mainly liquid laundry detergents. In addition, sales of high-value-added products increased in the fabric softener market. As a result, the scale of the domestic market for fabric care products expanded.

In Japan, in the rapidly growing market for liquid laundry detergents, we launched *TOP Clear Liquid*, a new product with high detergency, and added a new fragrance to the lineup of *Kaori Tsuzuku (Long-Lasting Fragrance) TOP*, which has earned strong support from consumers who place a high value on fragrance. Consequently, our sales of liquid laundry detergents grew faster than the market. In fabric softeners, the market for products with fragrance and deodorizing functions continued to grow. Lion also added a new fragrance to *Kaori to Deodorant no SOFLAN (SOFLAN with Fragrance and Deodorant)*. Fabric softener sales increased, but powder laundry detergent sales were weak. Overall, domestic sales of fabric care products declined.

Overseas, we worked to cultivate *TOP* laundry detergent, a common global brand, and strong sales were recorded for local brands in Thailand (*Pao*) and South Korea (*Beat*). However, while overseas sales increased substantially in local currencies, after conversion to yen, overseas sales declined year on year due to exchange rate fluctuations. As a result, net sales in the fabric care business were down year on year.

Outlook for fiscal 2010

The history of laundry detergents is a history of technical innovation. In Japan, high detergency and concentrated formulations have long been the targets of technical innovation initiatives. The share of liquid laundry detergents in the domestic laundry detergent market surpassed 40% in 2009* and is expected to reach 50% in 2010. Now, the liquid laundry detergent market is in a stage of product differentiation.

In 2010, with major trends including liquid products and concentrated formulations, we launched *TOP NANOX*, a super-concentrated liquid laundry detergent. *TOP NANOX* is a next-generation detergent that features highly concentrated methyl ester ethoxylate (MEE), a plant-based, high-detergency ingredient. Lion was the first company in the world to successfully develop MEE for commercial production. This new product achieves both high detergency and environmental friendliness.

Overseas, in addition to *TOP*, which is a common global brand, we are cultivating local brands that have strong ties to individual markets. In this way, we are implementing a strategy to strengthen our position in laundry detergent markets.

* 2009 INTAGE Inc. SRI Survey.



TOP NANOX

Removes the source of odors using Lion's proprietary "Nano-Washing" technology MEE, a plant-based, high-detergency ingredient, effectively removes sebum—which causes odors—at the nano* level. This super-concentrated liquid laundry detergent requires only half the amount of detergent required by existing Lion products.

* Abbreviation for nanometer, which equals one-billionth of a meter

Kaori Tsuzuku (Long-Lasting Fragrance) TOP

Liquid laundry detergent containing fabric softener with a long-lasting fragrance that remains on clothing between wearing

The market for liquid laundry detergents continues to grow, especially, with products with fabric softener and long-lasting fragrance effects accounting for a growing share of that market. The Sweet Harmony fragrance has joined the already popular Fresh Chamomile.

Kaori to Deodorant no SOFLAN (SOFLAN with Fragrance and Deodorant)

Aromatic fabric softener enabling customers to enjoy fragrances while doing the laundry

With the addition of the Blue Rose Aroma fragrance in February 2009, four fragrances are now available. We are emphasizing the distinctive features of long-lasting, relaxing-type fragrances, and sales are recording favorable growth.

Living Care Business Department

Performance in fiscal 2009

The living care market in Japan expanded due to aggressive new product introductions by several companies.

In the domestic dishwashing detergent market, which has become a mature market, we strengthened the lineup of our core *CHARMY Awa no Chikara (Power of Suds)* series by improving the three existing products and introducing a new product with Fresh Lemon fragrance. In addition, we effectively implemented sales promotions for bottle type dishwashing detergents in order to increase the sales of their corresponding refill packages, which represent a large share of our product mix. As a result, our sales grew faster than market growth. However, due to intensified competition in household cleaners as well as cooking-aid products centered on the *REED* brand, living care business sales were lower than the previous year.

In overseas markets, sales increased on a local currency basis through such contributions as *Chamgreen* dishwashing detergent in South Korea. On the other hand, sales declined on a yen basis due to the strong yen. As a result, living care business net sales overall were lower than the previous year.

Outlook for fiscal 2010

We will enhance *CHARMY* brand value by expanding the lineup of *CHARMY Crysta* automatic dishwasher detergents and implementing active sales promotions for existing products.

We will also strive to expand sales of *LOOK* brand products by launching the renewed *Ofuro no LOOK* bath cleaner, which has good rinsing performance with quick foam dispersion.

This year is the 40th anniversary of the *REED* brand of cooking-aid products. We will, therefore, strive to expand sales of *REED* brand products by proposing new cooking methods for vegetable cooking in order to further penetrate the *REED* brand concept of “healthy dining” due to the opportunities provided by the increased dining-at-home trend, which is a result of the recent economic depression and reduced consumer spending. In overseas markets, we will focus on expanding sales of existing products.



CHARMY Awa no Chikara (Power of Suds)

Reducing the stress of having to wash dishes twice

This dishwashing detergent offers a 20% increase in grease detergency, thereby eliminating the need to wash dishes twice even if they are greasy in the latter part of the dishwashing routine.

Ofuro no LOOK bath cleaner

Providing a bath cleaner with good foam dispersion and quick rinsing

This bath cleaner provides improved foam dispersion, high detergency, and quick rinsing speed that shortens the cleaning time, thereby satisfying an important consumer need.

REED Healthy-Cooking Paper

Celebrating the 40th anniversary

This cooking paper is celebrating its 40th anniversary by continuing to support healthy dining with the 2010 theme “Let’s enjoy delicious vegetables!”

Chemical Products Division

Executive General Manager of
Chemicals Division

KAZUHIRO YOKOYAMA



Lion is working to develop its solutions business, which is principally focused on the environment, on a foundation of surface science technologies.

Competitive edge

Lion's Chemical Products Division is developing an environmental solutions business on a foundation of surface science technologies. The division's products have been highly evaluated by customers in Japan and overseas.

In our core surfactant and oleochemical operations, we manufacture and market raw materials, such as fatty acid esters and surfactants that are made from palm oil and coconut oil. In addition to base chemicals, such as raw materials for cleaners and cosmetics, we are aggressively developing high-value-added products and environmentally friendly products, such as plant-based electric insulating oil with superior biodegradability.

In leading-edge growth fields, we are developing aqueous industrial cleaners that meet the needs for nanometer-level cleaning and low environmental burdens in the automobile and IT/electronics industries. In addition, we are developing advanced resins that facili-

tate lighter automobiles and Ketjenblack, an original, highly electro-conductive material that is a key part of advanced energy devices, such as secondary batteries. By bolstering these initiatives, we are working to increase our earnings capacity.

In addition, to maximize earnings, Lion is working in cooperation with related companies that have distinctive strengths in specific fields. For example, Lion Akzo Co., Ltd., offers amine derivatives for a wide range of applications, and Ipposha Oil Industries Co., Ltd., provides a variety of industrial-use functional chemical products, such as rubber chemicals.

Moving forward, with a focus on contributing to the cleanliness, health, and safety of the natural environment, we will strive to use our original, highly functional materials and advanced technical capabilities to meet diverse needs in industry and further expand our operations.

External factors that affected results

- Global economic slump
- Sluggish industrial demand (reduced production, inventory adjustments)

Selected financial data

¥ billions

	2007	2008	2009
Net sales	32.4	31.4	22.1
Operating income(loss)	(0.1)	(0.6)	(1.3)
Total assets	44.7	41.9	37.4
Capital expenditures	1.4	3.5	1.4

Performance in fiscal 2009

By focusing our management resources on three advanced growth fields—ester derivatives, electro-conductive carbon black, and industrial cleaners—we worked to establish a high-profit structure. However, the automobile and IT/electronics industries, which are key customers for the division, were adversely affected by the global decline in industrial production that began in fall 2008, and the division's sales declined substantially. Nonetheless, we worked to improve profitability by taking steps to bolster our operational foundation, such as reducing distribution costs through streamlined inventories.

Outlook for fiscal 2010

In developing countries, a recovery in business conditions is expected accompanying increasing demand for consumables. However, given the domestic deflationary trend, fluctuating exchange rates, and high prices for raw materials, overall the future course of the economic environment is expected to remain unclear. In this setting, our key initiatives will be to (1) move ahead with aggressive sales expansion and new product introduction initiatives, including in new fields, in the three core businesses of ester derivatives, electro-conductive carbon black, and industrial cleaners; (2) increase profitability in surfactant and oleochemical operations; and (3) move ahead with initiatives to develop new areas of business and internationalize operations. We will maintain a proactive posture as we emphasize operational management with an enhanced focus on profits.

PRODUCT REVIEW

Aqueous cleaners offering superior recyclability



In the production processes for automobiles and IT/electronics products, there is a growing need for cleaners with low environmental burdens, and accordingly there is an ongoing shift from the previous petroleum-based cleaners to aqueous cleaners. However, when aqueous cleaners are used with cutting oil or other grease, the resulting waste liquid contains both oil and water, and this waste liquid including both oil and water has been disposed of as industrial waste. However, Lion has developed cleaners incorporating original, highly functional cationic cleaning support agents. These cleaners both offer cleaning functionality and make it easy to separate the oil and the water in the cleaning waste liquid. As a result, cleaning-water can be reused, and the amount of energy used in disposing of industrial waste can be substantially reduced.

Insulating oil that is both biodegradable and highly functional



The transformer oil that is used in the transformers in plants and substations has conventionally been made from petroleum-based oil. In cooperation with Japan AE Power Systems Corporation, one of the largest transformer manufacturers in Japan, Lion has developed *Pastell NEO*, a highly functional transformer oil that uses plant-based raw material (palm fatty acid ester). This product contributes to the environment through its carbon neutral characteristics, which stem from its high biodegradability, and it also offers a high level of insulating and cooling effectiveness. In January 2008, Lion acquired the Eco Mark environmental label for *Pastell NEO*.

OVERSEAS OPERATIONS



Executive General Manager of International Division
KENJIRO KOBAYASHI

We provide high-quality products that help people in Asian countries to enjoy healthy, comfortable lifestyles throughout their lives.

Lion's presence in Asian markets

Lion's International Division conducts business in eight ASEAN and Northeast Asian countries and regions that are recording ongoing expansion in the toiletries market due to population growth and to higher living standards. Through joint ventures, principally with local companies, we offer oral care products, such as toothpastes and toothbrushes; beauty care products, such as shampoos, conditioners, body soaps, and hand soaps; fabric care products, such as laundry detergents and fabric softeners; and living care products, such as dishwashing detergents. To help people in Asian countries to enjoy healthy, comfortable lifestyles throughout their lives, we do more than just sell our products. We also promote hygiene awareness and good hygiene habits, and we manufacture and sell products suited to the cultures and lifestyle habits of each country. In these markets, we offer high-value-added common global brands that are popular in Japan, such as *TOP* laundry detergent, *Systema* oral care series, and *Shokubutsu-Monogatari* beauty care products. At the same time, we are also developing original local brands that meet the preferences of customers in each region at economical prices. The division is working to achieve further growth with a strategy of effectively combining these common global brands and local brands. To that end, the division combines Japan's technologies with local marketing know-how to establish a system for the fastest possible development and introduction of products that meet local needs.

Outlook for fiscal 2010

The division will endeavor to further expand its business by nurturing common global brands that leverage synergies with domestic operations and by effectively combining these global brands with local brands that meet the needs of consumers in each region.

In the past, the division's operations were centered on laundry detergents, but we have also been taking steps to further expand our operations in the oral care field in which Lion can demonstrate distinctive strengths. For example, in 2009 we launched the *Dentor System* series, including toothpastes, toothbrushes, and dental rinses, in South Korea. By expanding our oral care business in this way, we will aim to bolster our market position in laundry detergents and oral care products in Asia.

Moreover, we are leveraging our original technologies in Malaysia, and we have completed the construction of a plant for the production of MES (methyl ester sulfonate), our original detergent ingredient, which has high detergency and is environmentally friendly. Full-fledged commercial production at this plant will start in 2010. Moving forward, we will supply MES, a surfactant with superior characteristics, to customers in Asia, Europe, and America. (Please refer to page 35.)

Feature topic



Introducing eco-friendly detergent material "MES" to the world

From 2010, we will start full-fledged commercial production of MES (methyl ester sulfonate), our original detergent ingredient, which has high detergency and is environmentally friendly.

We will first commence supplying Lion-related companies in Asian countries, such as Thailand, Malaysia, and South Korea.

Since 1991, Lion has utilized MES, a surfactant derived from palm oil, as a principal detergent ingredient in laundry detergent. In comparison with surfactants derived from petroleum, MES contributes to reducing the emission of CO₂ into the atmosphere¹. In addition, MES also has other superior characteristics, such as high detergency, biodegradability, and compatibility with hard water².

- 1 Plant-based surfactants release CO₂ into the atmosphere when they are released into the environment and broken down, but this CO₂ was originally absorbed from the atmosphere by plants, and accordingly this product does not lead to a new increase in atmospheric CO₂ (carbon neutral).
- 2 Although hard water (water that includes a large amount of calcium) often has an adverse effect on detergency, MES has the characteristic of substantially maintaining detergency even in hard water.

To supply the surfactant MES, which has these superior characteristics, to overseas detergent manufacturers, Lion established a subsidiary in Malaysia, a leading producer of palm oil, and built a new plant for the production of MES. In 2008, Lion completed pre-registration for REACH (Registration, Evaluation and Authorisation and Restriction of Chemicals), the chemical substance regulations that originated in Europe.



Detergent performance evaluation at Lion Eco Chemicals

Major milestones for Lion Eco Chemicals Sdn. Bhd.

June 2007

Establishment of Lion Eco Chemicals Sdn. Bhd.

Capital: ¥2.5 billion

Ground area: 77 thousand square meters

Location: Johor Bahru, Johor, Malaysia

December 2009

Plant opening ceremony

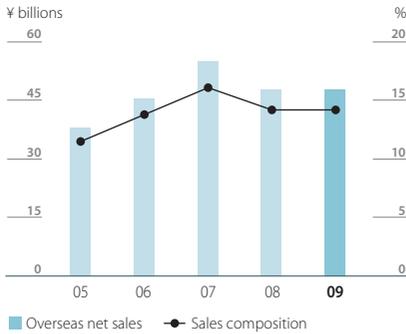
2010

Commencement of commercial production



Market reports

Overseas net sales / Sales composition*

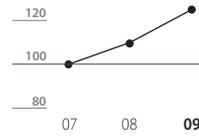


* Consolidated results after translation into Yen.

Thailand



Sales growth rate¹

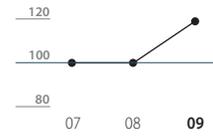


In laundry detergents, substantial growth was recorded by the economically priced *Pro* brand and the mainstay *Pao* brand. In beauty care, sales of *KireiKirei* products recorded substantial growth under the influence of H1N1 outbreak. Overall, sales have been increasing year on year, and raw material prices declined. As a result, profits increased.

Malaysia²



Sales growth rate¹

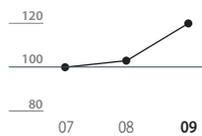


In laundry detergents, efficient advertising activities and sales promotion initiatives were stepped up, centered on *TOP* brand products, and Lion secured the No. 1 market share in the laundry detergent category. Oral care products also recorded a favorable performance, and overall sales have grown year on year. In addition, with a contribution from lower raw material prices, profits substantially increased year on year.

Singapore



Sales growth rate¹



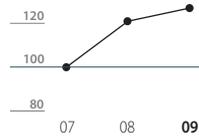
Systema
Toothbrushes

In laundry detergents, sales promotions for the core *TOP* brand were bolstered, and in dish-washing detergents, an increase in sales was recorded, centered on antibacterial products. In oral care, the *Systema* brand was aggressively promoted. Overall, profits rose substantially year on year due to the higher sales and to the contribution of lower raw material prices.

Indonesia



Sales growth rate¹



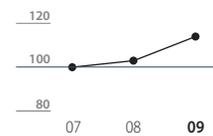
Ciptadent
Toothpastes

Ciptadent brand toothpastes and toothbrushes recorded favorable performances, and due to bolstered sales promotion initiatives to counter competitors, overall sales were up year on year. Due to progress in cost reduction and greater efficiency in advertising and sales promotion, profits increased substantially.

South Korea



Sales growth rate¹



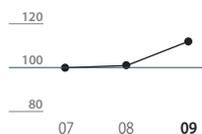
Dentor System
Oral care products

Five periodontal disease prevention products were launched in the *Dentor System* series, and preparations were made to bolster the foundation for oral care operations. Due to the launch of the laundry detergent *Kaori Tsuzuku (Long-Lasting Fragrance) Beat*, sales of liquid laundry detergents recorded substantial growth. Substantial growth in sales was also recorded by *Chamgreen* dishwashing detergent as well as by hand soaps, sales of which rose due to the influence of H1N1 outbreak.

China



Sales growth rate¹



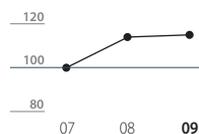
ZACT
Toothpastes

In China, where operations are concentrated on the oral care business, favorable performances were recorded by *ZACT* toothpastes, which benefited from the launch of new products, and by *Systema* toothbrushes. Overall, sales increased. Efforts to rationalize sales channels continued, and substantial gains were recorded in both sales and profits.

Taiwan



Sales growth rate¹



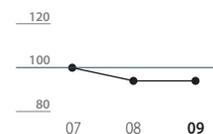
Systema
Toothbrushes

In oral care, advertising and sales promotions were stepped up for *Systema* toothbrushes, which recorded substantial sales gains and contributed to the growth of the *Systema* series. Powder laundry detergents registered favorable results and contributed to a stronger management foundation.

Hong Kong



Sales growth rate¹



TOP
Laundry detergents

In oral care products, we bolstered in-store sales promotions and advertising for *Systema* brand toothbrushes and interdental brushes, and sales increased year on year. In laundry detergents, *TOP* brand products recorded a strong performance.

¹ Indexed at 2007 = 100
Local currency basis.
Total sales growth rate by country.

² Excluding Lion Eco Chemicals Sdn. Bhd.

In-depth report

Thailand

As Lion's largest overseas subsidiary, and No. 1 among overseas subsidiaries in sales of laundry detergents, Lion Corporation (Thailand) Ltd. plays an important role in Lion's strategy of strengthening the sales of laundry detergents in Asia. Rising living standards are leading to growth in the toiletries market in which Lion Corporation (Thailand) offers a wide range of products, including toothpastes and toothbrushes, shampoos and conditioners, body soaps, hand soaps, laundry detergents, fabric softeners, and dishwashing detergents.

In 2008, Lion Corporation (Thailand) increased the production capacity of its plant, and established a system for enhancing quality and supporting increased exports to neighboring countries. In 2009, when Lion Corporation (Thailand) marked the 40th anniversary since the establishment of its operations in Thailand, it introduced additional social contribution activities including establishment of the Lion Award to promote research related to oral care. Moving forward, we will continue working to contribute to increasing oral hygiene awareness in Thailand.



Systema

South Korea

In 2004, we acquired the toiletries products operations of South Korea's CJ Cheiljedang Corporation, and started operations as CJ Lion Corporation. In laundry detergents, CJ Lion offers a lineup of products responding to the change in lifestyle habits. These include *Beat*, a conventional powder detergent; *Beat Drum Color Care*, a high-value-added product for front load washing machines; and *Kaori Tsuzuku (Long-Lasting Fragrance) Beat*, a liquid detergent. In addition, in oral care, from October 2009, under the common global brand *Systema*, CJ Lion launched *Dentor System* series toothpastes, toothbrushes, interdental gels, interdental brushes, and dental rinses. Sales were favorable, exceeding its plan. As a result, the *Systema* brand is now available in all regions where Lion has a presence. Moreover, accompanying the spread of H1N1 outbreak, hygiene awareness has been increasing. Consequently, sales of *KireiKirei* hand soap recorded substantial gains. Moving forward, CJ Lion will bolster efforts to nurture *KireiKirei* as a hygiene-oriented toiletries brand.



KireiKirei hand soaps

Dentor System

Overseas social contribution activities in fiscal 2009

Thailand

KireiKirei hand gel donated to the Ministry of Public Health (H1N1 influenza countermeasure)

Malaysia

Lion Dental Hygiene Center (LDHC) activities

South Korea

Japanese schools in South Korea participation through the Internet in Tooth Brushing Exercise for School Children program held in Japan



Tooth Brushing Exercise for School Children program



The fundamental approach of Lion to CSR is fulfilling social responsibilities through its corporate activities. To respond to social expectations, Lion is further deepening its communications with stakeholders.

Corporate social responsibility—our basic philosophy

Maintaining consistent core values since our foundation

Since its foundation, Lion has sought to earn society’s trust. Lion has upheld founder Tomijiro Kobayashi’s philosophy of contributing to society through business and viewing employees as partners that work together to develop the Company. Our current company motto and management philosophy reflect that spirit. Based on that management philosophy, we are building corporate governance* and compliance systems. At the same time, through dialogue with our stakeholders, we aim to advance corporate activities that are in step with social trends and thereby help achieve a sustainable society.

* For information on corporate governance, please see page 44.

Cultivating dialogue with stakeholders

For Lion, the idea of companies having social responsibility is natural—it lies at the very heart of the Company’s business activities. However, because society’s expectations of Lion change as society changes, the Company must constantly incorporate outside views and revise its initiatives accordingly.

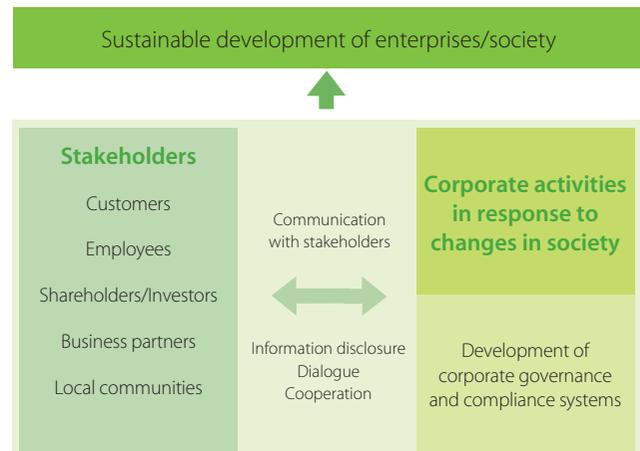
With that in mind, since 2008 we have held stakeholder dialogues in which outside experts offer opinions on our business activities. Themed on “Ensuring Lion delivers safety and reliability to all customers,” our second stakeholder dialogue meeting held in November 2009 resulted in a wide-ranging discussion that deepened mutual understanding.

We intend to continue deepening dialogue with stakeholders and advancing CSR initiatives.

An overview of our CSR initiatives

The Company promotes CSR activities in accordance with its company motto, management philosophy, and Lion-Group Charter for Corporate Behavior.

We establish effective systems for corporate governance and compliance in the framework of these basic concepts. This is done while implementing corporate activities in response to changes in society by communicating with our major stakeholders toward creating a sustainable society.



Customers and Lion

Placing the highest priority on customer satisfaction

Customer feedback is the starting point of Lion's product manufacturing. Drawing on customer feedback from our customer inquiries services, market research, and customer research, we investigate customer needs and wants and reflect them in products. Further, in order to cultivate a customer-oriented corporate culture, we began customer feedback training in which employees talk directly with customers from 2005.

Lion established a quality policy in 2008, and, in accordance with its ISO 9001 compliant product management system, the Company conducts exacting quality checks at all stages, from product planning and development through to manufacturing, promotion, and response to customers.

Efforts for reliability, safety, and quality



Employees and Lion

Fostering a diverse workforce as the base of corporate growth

Our goal is to grow with employees by respecting the individuality and motivation of each employee. To that end, we try to provide workplace environments that are fair, easy to work in, healthy, and safe. Also, we have a range of programs designed to keep employees healthy and help develop their skills.

The current decline in Japan's birth rate makes nurturing the next generation more important than ever. Bearing that in mind, Lion urges employees to strike a balance between their work and private lives while creating employee-friendly working conditions to help employees produce the best results. Because a large number of our mainstay

products are particularly familiar to them, female employees can in many cases bring their life experience to bear in their work. Consequently, the percentage of female employees in managerial posts is trending upward, reaching 4.8% in fiscal 2009. Further, based on the concept of normalization, we actively employ the physically challenged, who accounted for 1.96% of our workforce in fiscal 2009.

To ensure that each individual within its diverse workforce grows through their work, Lion provides an extensive menu of training programs tailored for specific qualifications, employee ranks, age groups, and areas of responsibility. Further, we have a distinctive system called the Lion Challenge Cup in which employees report the results of independent group studies directly to the senior management team. Employees presented 12 such projects in fiscal 2009.

Society and Lion

Promoting oral care from the outset

Under the key themes of health, comfort, and the environment, since its foundation Lion has consistently promoted and provided education on proper oral care as part of its social contribution activities. At present, the Lion Foundation for Dental Health (LDH), which

we established in 1964, leads our promotion of oral care and related educational activities. Reflecting the belief that health begins with a healthy mouth, LDH is tasked with helping improve people's quality of life by enabling them to maintain and enhance oral functions such as eating, talking, and laughing throughout their lives.

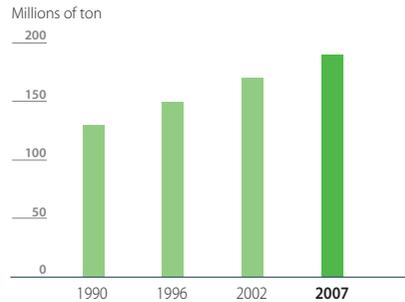
2008 activities related to oral care promotion and education and dental care



The environment and Lion

Looking ahead to the realization of a sustainable society based on recycling and minimal carbon usage, we are energetically tackling initiatives to preserve the world's environment.

Japan's household CO₂ emissions



Source: *The GHGs Emissions Data of Japan*, Greenhouse Gas Inventory Office of Japan

Our goal—become a leading company in environmental friendliness

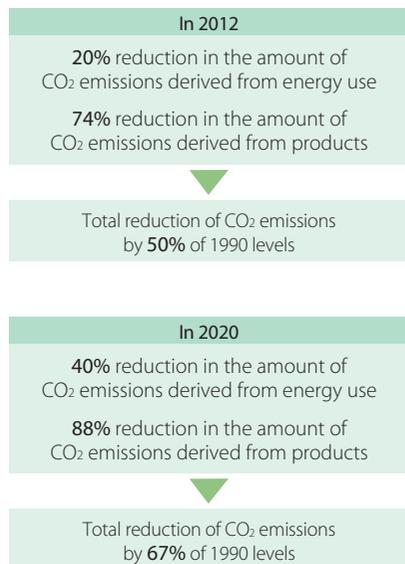
Helping reduce household CO₂ emissions

Worldwide, diverse groups are looking at various ways to curb the effect of climate change on the global environment. For its part, Japan's government has set out as a new target reducing greenhouse gas emissions 25% by 2020, compared with 1990 levels. Reaching that ambitious target will require committed effort in accordance with measures to curb climate change not only from industry but from each household and individual.

As a company that manufactures products used in everyday life, Lion is as a matter of course reducing the burden that its business activities place on the environment. Moreover, through product development we try to reduce the environmental burden of our products when customers use them at home. Another testament to Lion's active role in environmental preservation is its participation in the Ministry of the Environment's national campaign to prevent global warming, Challenge 25¹, as the flagship Eco First Company².

- 1 Challenge 25: This campaign sets out a specific code of conduct and calls on the public to take action in order to reduce CO₂ emissions.
- 2 Eco First Company: This indicates a company the Ministry of the Environment recognizes as a foremost company in the field of environmental preservation. Lion was the first manufacturer accredited as an Eco First Company. Companies accredited as an Eco First Company make a commitment to the Minister of the Environment regarding their environmental preservation initiatives.

Long-term CO₂ reduction targets



Lion's environmental management targets and achievements

Realizing results steadily in each area

Since preparing the 2007–2009 Three-Year Medium-Term Environmental Plan in 2007, Lion has achieved solid results across a range of areas. Subsequently, we set ourselves more-challenging emissions reduction targets. In 2008, we set the bar higher for environmental management in 2009 as well as establishing ambitious new long-term reduction targets for 2012—the final year of the Kyoto Protocol—and 2020, anticipating a post-Kyoto Protocol framework.

2007–2009 Three-Year Medium-Term Environmental Plan: 2008 results

Task	Initial target	Progress in 2008	Revised target for 2009
CO ₂ emissions reduction	Reduce 10% versus 1990	○ (reduced 17%)	Reduce 18% or more
	Reduce unit energy consumption of Logistics Division 1% or more year on year	× (increased 4% versus 2007)	Reduce 2% or more year on year
Chemical substance management	Reduce volatile organic compound (VOC) emissions 40% or more versus 2000	○ (reduced 62%)	Reduce 65% or more
Waste control	Reduce total waste generation 40% or more versus 1990	○ (reduced 49%)	Reduce 50% or more
	Reduce final waste landfill volume 90% or more versus 1990	○ (reduced 90%)	Not revised
Environment-friendly products	Reduce CO ₂ emissions originating from products 150,000 tons or more versus 1990	(reduced 100,000 tons)	Reduce 105,000 tons or more
	Reduce volume of plastic containers used per unit in 8 household product categories 30% or more versus 1995	(reduced 29%)	Not revised

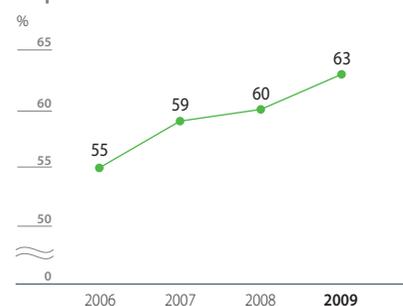
○ = Achieved × = Not achieved

Environment-friendly products

Lion develops environment-friendly products from the perspective of life cycle assessment, which quantitatively evaluates the environmental burden from raw materials procurement for a product through disposal after household use.

Aiming to promote environment-friendly product development, Lion has established its own Lion Eco Standards for development and classifies products meeting one or more of these standards as Eco Products. Based on those standards, we are increasing Eco Products as a percentage of all products.

Eco Products* as a percentage of all products



* Products that meet at least one criterion of the Lion Eco Standards

Lion Eco Standards

Stage	Evaluation item	Evaluation criteria
1. Raw materials procurement	Use of plant-based materials	<ul style="list-style-type: none"> The ratio of plant-based materials to organic composition in products should be over 50%
2. Packaging materials procurement	Use of recycled materials Use of plant-based and biodegradable materials	<ul style="list-style-type: none"> Materials (paper and plastic) should be recycled materials (for paperboard, the ratio of recycled paper, thinned wood, or certified forest pulp should be over 94% of the 2010 target established by the Ministry of Economy, Trade and Industry and the paper manufacturing industry) Materials should use plant-based or biodegradable resins
3. Manufacturing	Energy conservation Decreased generation of waste	<ul style="list-style-type: none"> Either energy consumption or waste volume should be reduced by more than 20% compared with the conventional manufacturing method
4. Logistics	Energy conservation due to smaller-sized containers and more-concentrated content	<ul style="list-style-type: none"> Both containers and contents should be over 20% smaller or more concentrated than existing products
5. Household use	Reduction of usage volume Energy conservation Water conservation	<ul style="list-style-type: none"> Organic loading generated through use of the product should be 20% or less compared to existing products Energy consumption in product use should be 20% or less compared to existing products Save 20% or more water in product use
6. Disposal	Reduction of container and packaging materials Reduction of waste by means of refillable containers	<ul style="list-style-type: none"> Materials used for containers and packaging should be reduced 15% or more than for existing products Materials used for pouch and refill packages should be less than 50% of the original container weight

Environment-friendly formulation development

Making maximum use of plant-based raw materials

Lion's formulation development aims to help prevent global warming and preserve aquatic environments. Specific measures focus on three main requirements: using plant-based raw materials, reducing the amount of organic matter used per laundry load, and using biodegradable surfactants.

We focus on using more plant-based raw materials. Surfactants, which are the washing component of detergents, contain carbon and release CO₂ as they degrade in the environment after use. Plant-based surfactants, however, do not increase the CO₂ in the atmosphere after use because the carbon they contain comes from atmospheric CO₂ that plants have absorbed and photosynthesized. In other words, they are carbon neutral.

Lion's representative surfactant MES (methyl ester sulfonate) is carbon neutral because it uses palm oil as a raw material. It boasts outstanding environmental performance that meets the three requirements mentioned above. In other words, it is highly biodegradable, has excellent detergency, and enables the use of lower amounts of organic matter per laundry load. By using MES, we have reduced CO₂ emissions for our mainstay laundry detergent TOP 51% from 1990 levels.

Lion's plant-based products



Fabric softeners

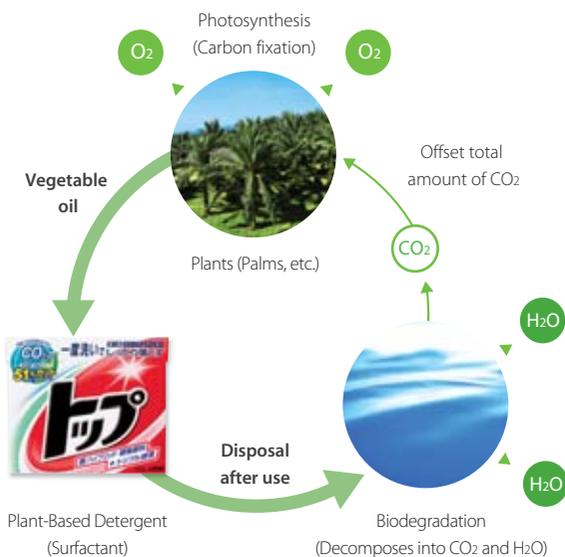


Body care and hair care products

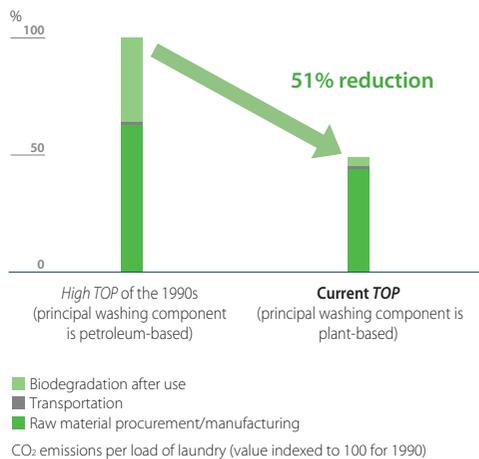


Laundry detergents

The carbon neutral concept



Comparison of the CO₂ emissions of TOP



Environment-friendly package development

Reducing container and packaging materials rigorously

Lion is reducing container and packaging materials as an initiative that relates to the packaging materials procurement, logistics, and disposal stages of the Lion Eco Standards. Our goal is to reduce, re-use, and recycle while ensuring that we continue marketing quality, customer-friendly products.

Reduce—making products compact, designing innovative containers

In order to reduce container and packaging materials, we are concentrating such products as detergents and fabric softeners, which enables us to use more-compact containers. Further, when devising container structures to reduce container materials, we incorporate innovative designs that help compensate for the accompanying loss of structural strength and ensure the containers remain easy for customers to use.

Designing innovative containers

Reduced 14% of plastic use
Containers that are easy to hold even without a handle
Improved plastic container type

Reduced 20% of plastic use
Plastic use is reduced by changing from triple to double-layer film
Refill package type

Reuse—increasing refills

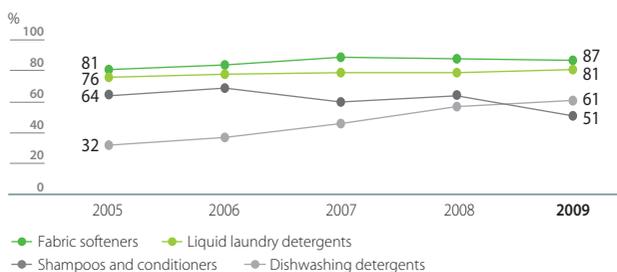
Lion has been increasing its lineup of refills since 1992. Customers can use the products' plastic containers repeatedly by refilling them. Furthermore, refill packages use less material than regular product containers, which helps reduce household waste.

The household waste reduction benefits and innovations of refills

98% reduction in volume
83% reduction in weight
Easy-to-open perforation
Easy-to-refill extended pour spout

Comparison of containers
Plastic container type
Refill package type

Refill product sales ratio for Lion's mainstay product categories



Recycle—using recycled materials

As far as possible, we use recycled materials for the plastic and paper comprising the main materials of containers. We have been particularly successful in plastic recycling. Having collaborated with container manufacturers to develop technology that enables the use of recycled PET plastic, we began incorporating it in products from 1989. After further development, we realized a technology that overcame the difficulties of using recycled PET plastic in transparent bottles.

Products using recycled materials

TOP
The outer box includes at least **70% pulp from recycled paper**

Charmy Awa no Chikara (Power of Suds)
The container includes at least **20% PET plastic from recycled PET beverage bottles**



In corporate governance, Lion's key initiatives include working to increase management transparency, to bolster the oversight function, to facilitate more-rapid decision making, and to ensure compliance. By strengthening and enhancing our corporate governance system, we are striving to increase our corporate value.

Business management system

Lion utilizes the corporate auditor system to implement management oversight. The Company has also introduced an executive officer system in order to separate the oversight and implementation of business management. The Board of Directors is responsible for making decisions about business management and for oversight functions.

In order to further enliven and heighten the flexibility of the Board of Directors, the Company has elected two external directors to the Board of Directors and established one-year service terms for directors. Moreover, the Company has four corporate auditors, including two external corporate auditors.

Activities of external directors and external corporate auditors

Position	Name	Board of Directors attendance	Board of Corporate Auditors attendance	Principal activities
External director	Mitsuaki Shimaguchi	Attended 16 of 17 meetings	—	With a view to strengthening the Company's business, provides informed opinions about overall policies for business management and marketing
External director	Hideo Yamada	Attended 17 of 17 meetings	—	With a view to strengthening the crisis management system, provides informed opinions about such topics as countermeasure for the spread of H1N1 influenza
External corporate auditor	Kazumi Idogawa	Attended 16 of 17 meetings	Attended 13 of 13 meetings	With a view to ensuring appropriateness primarily in relation to finance and accounting, provides informed opinions
External corporate auditor	Masahiro Mikami	Attended 17 of 17 meetings	Attended 13 of 13 meetings	With a view to ensuring appropriateness primarily in relation to tax matters, provides informed opinions

Management Evaluation Committee

Lion established the Management Evaluation Committee in order to reflect in its business management outside experts' evaluations and opinions of the Company in the context of socially accepted norms.

Compensation Advisory Committee

In December 2006, Lion established the Compensation Advisory Committee, comprising external directors and external corporate auditors, in order to improve the objectivity and transparency of executive compensation.

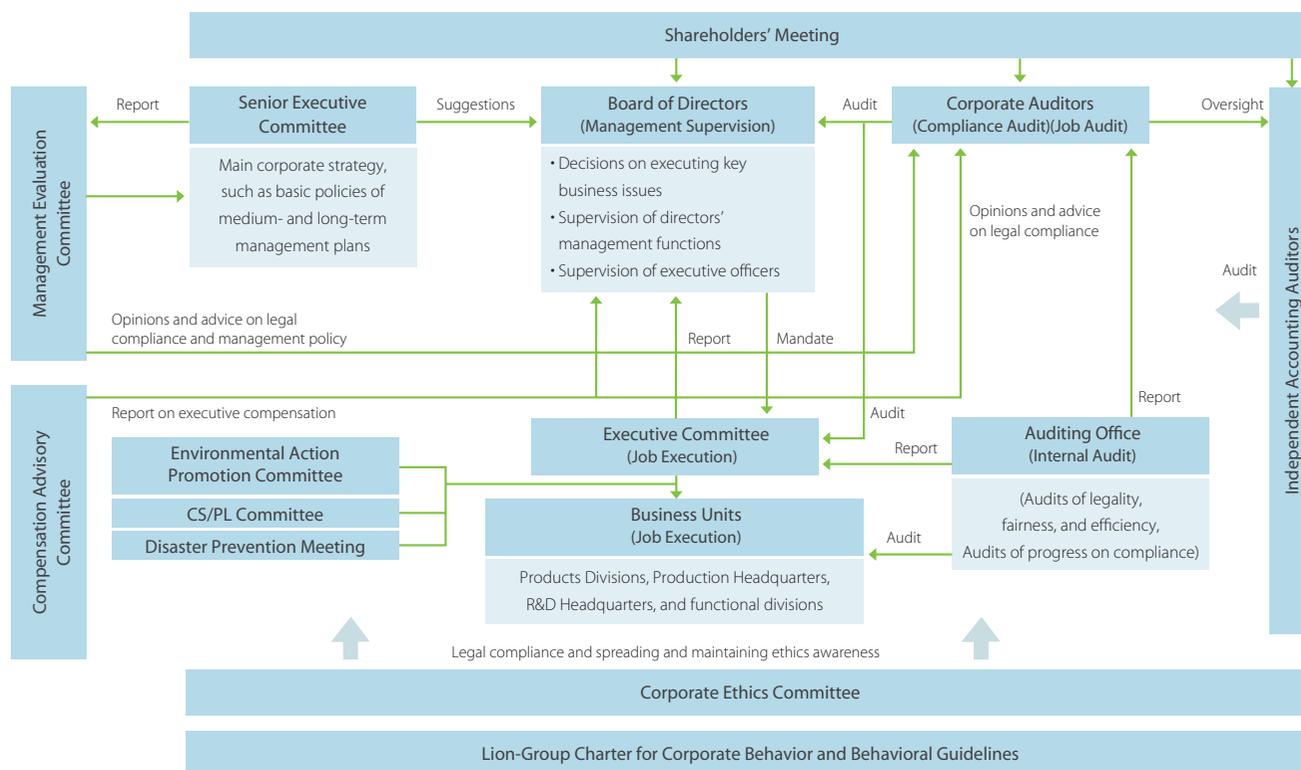
Total compensation of directors and corporate auditors for fiscal 2009

Category	Number of directors / corporate auditors	Total compensation
Directors (of whom external directors)	13 (2)	¥392 million (¥22 million)
Corporate auditors (of whom external corporate auditors)	4 (2)	¥75 million (¥22 million)
Total (of whom external directors or external corporate auditors)	17 (4)	¥468 million (¥44 million)

Corporate Ethics Committee

The Board of Directors selects the corporate ethics director, who leads the Corporate Ethics Committee. This committee promotes concrete measures for spreading and reinforcing awareness of corporate ethics.

Model of corporate governance system



Continuing efforts to strengthen corporate governance

In order to strengthen its corporate governance system, Lion has implemented the following ongoing measures.

2003	Formulated Lion-Group Charter for Corporate Behavior and Behavioral Guidelines Established Management Evaluation Committee
2004	Introduced executive officer system
2006	Introduced external directors Changed service terms of directors (two years → one year) Abolished retirement bonuses Established basic policy for internal control systems Established Compensation Advisory Committee Introduced compensation linked to business results for in-house directors
2007	Built internal controls for financial reporting

Development of internal control systems

In accordance with Japan's Corporation Law and related enforcement regulations, we have formulated Basic Internal Control System Policies* to ensure the appropriateness of operations at all Lion Group companies. Further, in accordance with Japan's Financial Instruments and Exchange Law, to enhance internal control over financial reporting, we have also formulated basic internal control system policies for financial reporting and developed internal control systems. The new system was launched in January 2009.

* For more information, please refer to the "Basic Internal Control System Policies" (<http://www.lion.co.jp/en/company/html/com0501f.htm>)

Advancement of compliance

To all of its employees, the Lion Group distributes a booklet on the Lion-Group Charter for Corporate Behavior and Behavioral Guidelines, which form the foundation of its compliance system. We seek to inculcate the charter and guidelines by checking employees' familiarity with the booklet and compliance awareness through an annual e-learning program. Further, since 2008 we have conducted educational initiatives aimed at heightening awareness of corporate ethics and related laws and statutory regulation for specific employee ranks and divisions. Those efforts include in-house training that specialist lawyers or our Legal Department conduct (legal support caravan).

Dialogue with shareholders and investors and disclosure

We have established the Investor Relations Office. After the release of full-year and interim business results, Lion holds results briefings for analysts and institutional investors. Also, Lion's website has an investor information section (www.lion.co.jp/en/invest/), which includes financial information, shareholder convocation notices, annual reports, and presentation materials. Furthermore, the investor information section has an investor relations e-mail distribution service that provides notification of information updates and press releases related to investor relations. In addition, Lion organizes presentations and plant tours for individual investors, analysts, institutional investors, and overseas investors as necessary.

Directors, corporate auditors, and executive officers

As of March 30, 2010



Representative director and president

SADAYOSHI FUJISHIGE

Chairman of the Board and Chief Executive Officer



Representative director and senior executive director

KAZUO OBAYASHI

Responsible for Risk Management, General Overseas Matters, International Division, Purchasing Headquarters, and Corporate Planning



Representative director and senior executive director

TETSUO YAMADA

Responsible for Corporate Ethics, Finance, Secretary, System, Legal, Pharmaceutical Affairs, and Logistics Planning & Development



Executive director

KEIKICHI SUGIYAMA

Executive General Manager of Research & Development Headquarters, and Responsible for Intellectual Property



Executive director

ITSUO HAMA

Responsible for Health Care Products Division, Household Products Division, Gift and Channel-Specific Products Division, Advertising, Behavioral Science Research, Distribution Policy, and Customer Development



Director

SHUICHI OHTA

Responsible for Corporate Communication (Public Relations, Consumer Service, CSR Promotion), Personnel, General Affairs, and Investor Relations; and President of Lion Business Service Co., Ltd.



Director

TAKAO TERUI

Responsible for Production Headquarters and Business Coordination



Director
KIYOTAKA ABE
 Responsible for Chemicals Division



External director
MITSUAKI SHIMAGUCHI
 (Professor of Hosei University Graduate School)



External director
HIDEO YAMADA
 (Attorney at Law)



Standing corporate auditor
TAKAYASU KASAMATSU



Standing corporate auditor
YOSHIHIRO SHIMOURA



External corporate auditor
KAZUMI IDOGAWA
 (Certified Public Accountant)



External corporate auditor
MASAHIRO MIKAMI
 (Certified Tax Accountant)

Substitute corporate auditor
JUNZOU DOI
 (Certified Public Accountant)

Executive officer, senior
YUJI WATARI
 Executive General Manager of Purchasing Headquarters

KENJIRO KOBAYASHI
 Executive General Manager of International Division

Executive officer
SHINJIRO IWAHORI
 Director of Finance Department

SHOZO HANADA
 Executive General Manager of Gift and Channel-Specific
 Products Division

KAZUHIRO YOKOYAMA
 Executive General Manager of Chemicals Division

EIJI KUDOU
 Executive General Manager of Production
 Headquarters

MASAZUMI KIKUKAWA
 Executive General Manager of Household Products
 Division

TAKEO SAKAKIBARA
 Executive General Manager of Health Care Products
 Division

MAJOR SUBSIDIARIES, AFFILIATES, AND NON-PROFIT ORGANIZATION

As of March 30, 2010

Domestic



CONSOLIDATED SUBSIDIARIES

Company	Lion Chemical Co., Ltd.
Capital	7,800 Millions of yen
Voting shares	100.0%
Business outline	Manufacture and marketing of surfactants, detergents, and raw materials for diverse industrial products
Company	Lion Business Service Co., Ltd.
Capital	490 Millions of yen
Voting shares	100.0%
Business outline	Real estate rental, dealing, and brokerage management of employee welfare facilities
Company	Lion Hygiene Co., Ltd. www.lionhygiene.co.jp
Capital	300 Millions of yen
Voting shares	100.0%
Business outline	Manufacture and marketing of institutional-use kitchen cleaners, etc.
Company	Lion Trading Co., Ltd. www.lion-shoji.co.jp
Capital	240 Millions of yen
Voting shares	100.0%
Business outline	Marketing of industrial-use products related to household products
Company	Lion Packaging Co., Ltd.
Capital	180 Millions of yen
Voting shares	100.0%
Business outline	Manufacture and marketing of detergents and insecticide, etc.
Company	Lion Engineering Co., Ltd. www.lion-eng.co.jp
Capital	100 Millions of yen
Voting shares	100.0%
Business outline	Facility design, construction, and maintenance
Company	Lion Field Marketing Co., Ltd.
Capital	50 Millions of yen
Voting shares	100.0%
Business outline	Sales promotion related activities
Company	Lion Logistics Service Company, Ltd.
Capital	40 Millions of yen
Voting shares	100.0%
Business outline	Shipping and warehousing

Company	Lion Cordial Support Co., Ltd. www.lion-cordial-s.co.jp
Capital	20 Millions of yen
Voting shares	100.0%
Business outline	Human resources services
Company	Lion Dental Products Co., Ltd.
Capital	10 Millions of yen
Voting shares	100.0%
Business outline	Marketing of oral care products
Company	Ipposha Oil Industries Co., Ltd. www.ipposha.co.jp
Capital	200 Millions of yen
Voting shares	78.3%
Business outline	Manufacture and marketing of surfactants, etc.

EQUITY-METHOD AFFILIATES

Company	Lion Akzo Co., Ltd. www.lion.co.jp/laco/index_j.htm
Capital	1,000 Millions of yen
Voting shares	50.0%
Business outline	Manufacture and marketing of fatty acid nitrogen derivatives, etc.
Company	Lion Idemitsu Composites Co., Ltd.* www.ilcc.co.jp*
Capital	100 Millions of yen
Voting shares	50.0%
Business outline	Manufacture and marketing of chemicals
Company	Ketjen Black International Company
Capital	50 Millions of yen
Voting shares	66.6% (held by Lion Akzo Co., Ltd.)
Business outline	Manufacture and marketing of carbon black

* AS of April 1, 2010

NON-PROFIT ORGANIZATION

Company	The Lion Foundation for Dental Health www.lion-dent-health.or.jp
Business outline	Activities to promote good oral care habits

Overseas



CONSOLIDATED SUBSIDIARIES

Location Taiwan
 Company **Lion Chemical Industry (Taiwan) Co., Ltd.**
 50, Cheng Tai Rd., Sec. 3, Wu Ku Hsiang, Taipei Hsien,
 Taiwan, R.O.C.

Tel: +886-2-2291-1140~3
 Capital 218,150 Thousands of NT\$

Voting shares 53.8%

Location Hong Kong

Company **Lion Corporation (Hong Kong) Ltd.**
 21st Floor, Sing Pao Building, 101 King's Rd., North
 Point, Hong Kong, S.A.R., People's Republic of China
 Tel: +852-2571-5022

Capital 12,000 Thousands of HK\$

Voting shares 100.0%

Location Thailand

Company **Lion Corporation (Thailand) Ltd.**
 666 Rama 3 Rd., Yannawa, Bangkok 10120, Thailand
 Tel: +66-2-294-0191
 www.lion.co.th

Capital 300,000 Thousands of baht

Voting shares 51.0%

Location Malaysia

Company **Lion Eco Chemicals Sdn. Bhd.**
 Tanjung Langsat Industrial Complex 81700 Pasir
 Gudang, Johor, Malaysia
 Tel: +60-7-255-1224

Capital 90,000 Thousands of M\$

Voting shares 100.0%

Location Singapore

Company **Lion Corporation (Singapore) Pte. Ltd.**
 221 Kallang Bahru, Lion Building, Singapore 339349
 Tel: +65-6296-6122
 www.lioncorp.com.sg

Capital 9,000 Thousands of S\$

Voting shares 100.0%

Location China

Company **Lion Daily Necessities Chemicals
 (Qingdao) Co., Ltd.**
 No. 336 Taihangshan Rd., Qingdao Economic and
 Technical Development Zone, Qingdao City,
 Shangdong Province, People's Republic of China
 # 266555
 Tel: +86-532-8689-7122/5858
 www.chinalion.cn

Capital 723 Millions of yen

Voting shares 95.0%

Location South Korea

Company **CJ Lion Corporation**
 11th Floor, Chungjeong Tower, 464, 3-ga,
 Chungjeong-ro, Seodaemun-gu, Seoul 120-723,
 Republic of Korea
 Tel: +82-2-6363-1114
 www.cjlion.net

Capital 5,000,000 Thousands of won

Voting shares 81.0%

EQUITY-METHOD AFFILIATES

Location Malaysia

Company **Southern Lion Sdn. Bhd.**
 3, Jalan Firma 2, Tebrau Industrial Estate,
 81100 Johor Bahru, Johor, Malaysia
 Tel: +60-7-354-6042
 www.southernlion.com.my

Capital 22,000 Thousands of M\$

Voting shares 50.0%

Location Indonesia

Company **P.T. Lion Wings**
 Jalan Inspeksi, Cakung Drain Timur No.1,
 Jakarta Timur 13920, Indonesia
 Tel: +62-21-4682-6566
 www.lionwings.com

Capital 64,062 Millions of rupiah

Voting shares 48.0%

ELEVEN-YEAR FINANCIAL SUMMARY

Lion Corporation and Consolidated Subsidiaries

	2009	2008	2007	2006
Income statement data:				
Net sales	¥321,947	¥338,236	¥341,717	¥330,380
Cost of sales	136,619	157,523	159,200	165,570
Gross profit	185,327	180,712	182,517	164,810
Selling, general and administrative expenses	175,290	172,435	173,611	164,467
Operating income	10,036	8,277	8,905	343
Income (loss) before income taxes and minority interests	9,694	6,088	9,564	13,020
Net income (loss)	5,465	3,040	5,423	5,540
Balance sheet data:				
Total liabilities and net assets	¥256,220	¥267,438	¥279,147	¥246,327
Property, plant and equipment, net	62,846	63,473	64,345	65,606
Total long-term liabilities	58,688	65,758	75,522	42,818
Total liabilities	152,595	166,864	171,607	141,193
Total net assets ¹	103,624	100,574	107,540	105,133
Total shareholders' equity	—	—	—	—
Other selected data:				
Capital expenditures ²	¥ 7,969	¥11,717	¥39,282	¥10,149
R&D expenses	9,057	8,522	8,745	7,922
Depreciation and amortization ²	12,425	12,444	10,590	9,634
Number of employees	5,750	5,774	5,761	5,771
Common share data (yen):				
Net income (loss) per share – basic ³	¥ 20.22	¥ 11.23	¥ 20.06	¥ 19.60
Net income per share – diluted	20.19	11.22	20.02	19.52
Dividends paid per share	10.00	10.00	10.00	10.00
Net assets per share ⁴	371.50	362.02	382.80	376.76
Common stock (number of shares outstanding)	299,115,346	299,115,346	299,115,346	299,115,346
Financial ratios (% , times):				
As a percent of net sales:				
Gross profit	57.6%	53.4%	53.4%	49.9%
Selling, general and administrative expenses	54.4	51.0	50.8	49.8
Operating income	3.1	2.4	2.6	0.1
Income (loss) before income taxes and minority interests	3.0	1.8	2.8	3.9
Net income (loss)	1.7	0.9	1.6	1.7
Return on equity	5.5	3.0	5.3	5.3
Current ratio	123.8	120.7	132.2	125.0
Debt-to-equity ratio	152.0	170.3	165.6	138.7
Inventory turnover	12.5x	12.5x	12.6x	12.3x

1 Figures under "Total net assets" are newly provided to conform to Japanese accounting regulation revisions. The fiscal 2005 figures have also been restated to reflect this change.

2 Includes the effects of intangible assets.

3 See Note 2(o) of the Notes to Consolidated Financial Statements.

4 Following amendments to accounting rules in 2001, the figures for net assets per share are calculated using the number of shares issued less treasury stock.

5 Wholesale prices were significantly revised in 2001, while revisions in all other years were either minor with nominal impact or not undertaken.

Millions of yen
(Except per share amounts and otherwise noted)

2005	2004	2003	2002	2001 ⁵	2000	1999
¥331,798	¥309,514	¥308,545	¥308,572	¥308,512	¥332,631	¥342,008
163,153	149,150	148,971	153,780	156,522	169,007	175,700
168,644	160,363	159,574	154,792	151,989	163,624	166,307
162,577	154,341	149,708	146,393	145,712	155,428	158,353
6,066	6,021	9,865	8,398	6,276	8,195	7,954
8,737	(5,017)	13,985	10,477	(25,464)	10,145	10,544
5,473	(4,723)	10,946	5,847	(13,856)	8,373	5,965
¥249,303	¥235,405	¥249,199	¥250,210	¥243,405	¥254,736	¥253,052
68,570	68,641	69,262	73,225	78,275	81,670	86,914
36,008	35,955	32,190	43,389	41,090	19,547	20,802
137,411	132,167	135,654	141,079	133,638	125,670	133,235
111,892	—	—	—	—	—	—
109,103	101,021	112,105	107,871	108,587	127,563	118,363
¥11,794	¥23,266	¥7,290	¥6,697	¥7,558	¥ 7,986	¥ 5,910
8,506	7,844	7,835	8,030	8,845	9,425	—
9,754	14,352	7,853	8,698	9,420	10,170	10,664
6,024	5,721	5,594	5,483	5,620	6,050	—
¥ 19.10	¥(16.66)	¥ 36.81	¥ 18.91	¥(44.32)	¥ 26.13	¥ 18.87
19.05	—	36.75	—	—	—	—
9.00	8.00	8.00	8.00	8.00	8.00	8.00
384.60	356.90	385.83	358.26	351.47	400.73	368.86
313,515,346	313,515,346	313,515,346	313,515,346	314,289,346	318,332,346	320,896,346
50.8%	51.8%	51.7%	50.2%	49.3%	49.2%	48.6%
49.0	49.8	48.5	47.5	47.3	46.7	46.3
1.8	2.0	3.2	2.7	2.0	2.5	2.3
2.6	(1.6)	4.5	3.4	(8.3)	3.0	3.1
1.7	(1.5)	3.5	1.9	(4.5)	2.5	1.7
5.2	(4.4)	10.0	5.4	(11.7)	6.8	5.3
116.1	117.5	134.3	138.6	133.7	131.5	123.2
125.9	130.8	121.0	130.8	123.1	98.5	112.6
12.7x	13.1x	14.6x	14.5x	13.2x	14.0x	15.1x

MANAGEMENT'S DISCUSSION AND ANALYSIS

Lion Corporation and Consolidated Subsidiaries

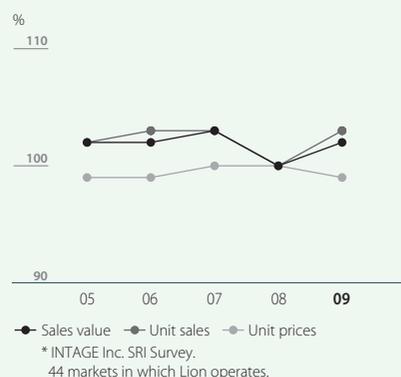
MARKET ENVIRONMENT

During fiscal 2009, against the backdrop of the global economic recession, corporate profits continued to fall and consumer prices entered a period of moderate decline. Consequently, conditions in the Japanese economy remained severe despite signs of a recovery in consumer spending as a result of increased fiscal spending on the part of the national government.

At the same time, the domestic toiletries and OTC drug industries—the Lion Group's main fields of operations—continued to be marked by intensifying competition in stores, and as a result business conditions remained challenging. In the domestic markets for 44 product categories in which Lion is active, unit prices have been flat over the past five years, with year-on-year declines limited to less than 1%. Given the pressure on prices from intensifying competition, this trend is expected to continue in the future. Up until 2007, the trend in unit sales had been growth of about 2% to 3% a year, due primarily to increases in the number of households, growth in the number of stores selling products, and higher sales of refill products. In 2008, however, the growth trend, which had been driven by these three factors, appears to have stopped. In 2009, both unit sales and sales value increased, but this growth was due to extraordinary factors, such as higher sales of hygiene-related products accompanying the spread of H1N1 influenza and growth in sales of laundry-related products due to the large number of days of favorable weather with high temperatures. Looking ahead, however, there is little reason to expect growth in market scale, especially in unit sales.

In other Asian countries, however, the markets for these products are expanding. In addition to economic growth, favorable background factors include higher living standards, and consequently demand for toiletries is increasing. In this environment, Lion will work to achieve higher unit prices in Japan through a shift to high-value-added products, while in Asia, the Company will work to increase unit sales by enhancing its presence in the key markets of laundry detergents and oral care products.

Trends in home products market (YOY)*



2010 GDP growth forecasts for countries in which Lion has operations

	Growth rate (vs. 2009) (%)
Thailand	3.2%
Singapore	4.6
Malaysia	4.0
Indonesia	5.9
South Korea	3.8
China	8.7
Hong Kong	3.1
Taiwan	3.0

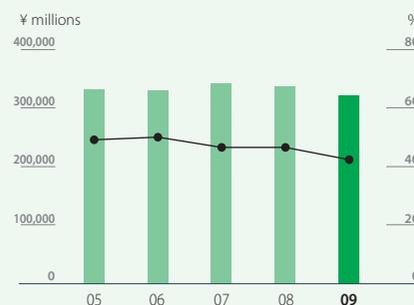
Source: Mitsubishi Research Institute forecast (As of February 2010)

NET SALES AND OPERATING INCOME

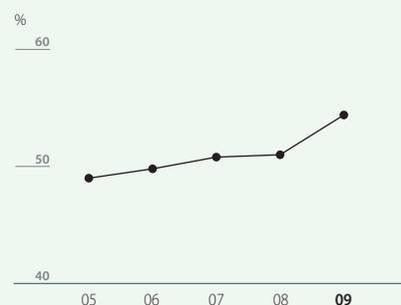
In Japan, Lion introduced new, high-value-added products and expanded its product lineup, principally in growth markets. In addition, the Company worked to cultivate its mainstay brands. As a result, domestic sales were firm. Overseas, Lion took steps to expand sales, such as cultivating common global brands and, with local brands, introducing products that leverage Lion's proprietary technologies. However, due to the effects of sluggish industrial demand in the Chemical Products segment, intensifying competition in the Pharmaceutical Products Division, and the adverse effect of exchange rate fluctuations on the conversion of the sales of overseas subsidiaries into yen, the Company's net sales were down 4.8% year on year, to ¥321,947 million. (Excluding the influence of exchange rate fluctuations, net sales were down 2.4% year on year.)

In addition, comprehensive cost reduction initiatives were implemented, from product development and production to distribution. These initiatives showed results in such areas as lower production costs and distribution expenses, and as a result operating income increased 21.3% year on year, to ¥10,036 million.

Net sales and cost of sales ratio



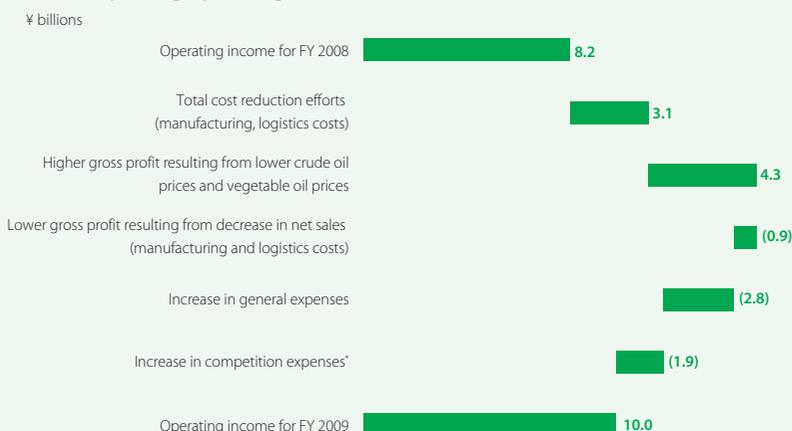
SG&A expenses to net sales



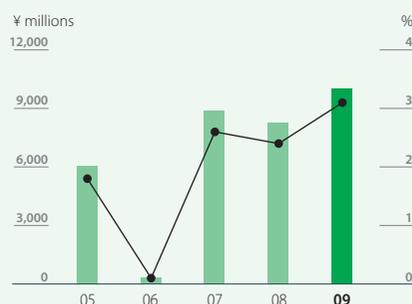
SG&A expenses breakdown

	2009		2008		2007	
	Amount (Millions of yen)	% of net sales	Amount (Millions of yen)	% of net sales	Amount (Millions of yen)	% of net sales
Selling, general and administrative expenses	¥175,290	54.4%	¥172,435	51.0%	¥173,611	50.8%
Sales incentive expenses	16,658	5.2	16,850	5.0	15,719	4.6
Sales promotion expenses	71,148	22.1	68,090	20.1	67,488	19.7
Freight and storage expenses	15,168	4.7	16,347	4.8	16,818	4.9
Advertising expenses	18,838	5.9	19,831	5.9	21,934	6.4
Salaries and allowances	13,236	4.1	14,077	4.2	14,603	4.3
R&D expenses	9,057	2.8	8,522	2.5	8,745	2.6
Other	31,185	9.7	28,716	8.5	28,300	8.3

Factors impacting operating income in fiscal 2009



Operating income and operating margin



* Competition expenses are comprised of sales incentive, sales promotion, and advertising expenses.

OPERATING REVIEW BY SEGMENT

Health Care Products

	FY 2009	% of segment sales	FY 2008	% of segment sales	Millions of yen	
					Amount	Change
Net sales	¥136,833		¥136,384		¥449	0.3%
Operating income	8,806	6.4%	7,928	5.8%	877	11.1

The Health Care Products segment is divided into the Oral Care Products Division, the Beauty Care Products Division, and the Pharmaceutical Products Division. Net sales in this segment were ¥136,833 million, an increase of 0.3% year on year. (Excluding the influence of exchange rate fluctuations, net sales increased 1.9% year on year.) Operating income increased to ¥8,806 million.

Net sales by division

	FY 2009	FY 2008	Millions of yen	
			Amount	Change
Oral Care Products Division	¥55,449	¥54,942	¥ 506	0.9%
Beauty Care Products Division	39,243	35,484	3,758	10.6
Pharmaceutical Products Division	42,140	45,956	(3,815)	(8.3)

Lion's major health care products fields and 2009 market positions in Japan

	Billions of yen Market size in Japan	Lion's market position
Toothpastes	¥70	1
Toothbrushes	43	1
Liquid hand soaps	20	1
Antiperspirants and deodorants	45	4
Analgesics	46	1
Eyedrops	70	3

Source: 2009 INTAGE Inc. SRI/SDI Survey.

Note: Figures for market size presented above are based on retail sales data and do not include sales of gift packages.

Oral Care Products Division

In the Oral Care Products Division, Lion continued to cultivate its ¥10 billion brands *Dentor Systema* and *Clinica* through the introduction of new, high-value-added products. In addition, the Company worked to bolster the *Dent Health* series.

In toothpastes, strong sales were recorded by the *Dent Health* series of highly functional periodontal disease products. Lion launched *Clinica Advantage*, a product that improves tooth structure to prevent cavities and uses vitamin E to maintain healthy gums. Nonetheless, due to intensified competition, overall sales remained flat year on year.

In toothbrushes, the newly improved *Dentor Systema Toothbrush*, which features super-tapered bristles, recorded strong sales, and the *Dentor Systema "Sonic Assist" Brush* (a lightweight toothbrush that

features a low-noise design and uses sonic vibrations to completely remove grime deep within the periodontal pocket) garnered favorable customer reviews. Overall, sales of toothbrushes increased considerably year on year.

In mouthwashes, as a result of solid sales of *Dentor Systema EX Dental Rinse* and *Clinica Dental Rinse*, overall sales recorded a significant gain year on year.

In dental products, sales of *Brilliant more* whitening toothpaste were strong. Overall, sales of dental products increased slightly year on year.

Overseas, sales of toothbrushes in Thailand recorded considerable growth, and sales of toothpastes and toothbrushes in China were favorable. Overall, overseas sales were up substantially year on year in local currencies, but when stated in yen, net sales were down due to the effect of exchange rate fluctuations.

Net sales for this division were ¥55,449 million, up 0.9% year on year. (Excluding the influence of exchange rate fluctuations, net sales increased 3.0% year on year.)

Beauty Care Products Division

In the Beauty Care Products Division, in addition to cultivating the *KireiKirei* brand series, Lion has also taken steps to develop new markets, such as introducing new *PRO TEC HEAD* products.

In shampoo and conditioners, sales of the mainstay *Soft in 1 Shampoo* were sluggish, and overall, sales were down year on year.

In hand soaps, the spread of H1N1 influenza led to a heightened awareness of the importance of hand washing, and as a result sales of *KireiKirei Medicated Foaming Hand Soap* were favorable. At the same time, sales of *KireiKirei Medicated Foaming Hand Sanitizer*, which is easy to use, even without water, increased fourfold year on year. Overall, sales of hand soaps increased substantially year on year.

In antiperspirants and deodorants, Lion launched *PRO TEC STYLE Deodorant Mist*, which controls odors specific to men in their thirties. In addition, *Ban* brand deodorant body sheets that wipe away perspiration recorded favorable sales. Nonetheless, due to the influence of a shrinking market for mainstay powder spray products, overall, sales of antiperspirants and deodorants were flat year on year.

In functional foods, overall sales increased twofold year on year as a result of strong sales of *Nicelim Essence Lactoferrin*—a supplement that effectively delivers milk-derived lactoferrin to the intestines (sold through direct marketing).

Overseas, *KireiKirei Hand Soap* recorded strong sales in Thailand and South Korea. Overall, overseas sales were up considerably year on year in local currencies, but when stated in yen, net sales were sluggish due to the effect of exchange rate fluctuations.

Net sales for this division stood at ¥39,243 million, a 10.6% increase year on year. (Excluding the influence of exchange rate fluctuations, net sales increased 13.2% year on year.)

Pharmaceutical Products Division

In the Pharmaceutical Products Division, Lion took steps to improve the product lineup of the mainstay *BUFFERIN* brand and worked to cultivate the *Smile* and *PAIR* brands.

In analgesics, the new *BUFFERIN PLUS S*, a rapidly dissolving antipyretic analgesic that displays superior, fast-acting effectiveness for intense headaches and fevers, received favorable reviews from customers. In addition, *BUFFERIN Luna*, which provides quick relief of menstrual cramps and headaches, registered good sales. However, due to the influence of intensified competition on sales of Lion's mainstay *BUFFERIN A*, overall, sales of analgesics decreased year on year.

In eyedrops, sales of the *Smile Contact* series were flat, but sales of Lion's mainstay *Smile 40EX* were robust. Overall, sales rose slightly compared with the previous fiscal year.

In tonics and nutrients, due to the influence of intensified competition on sales of the *Guronsan* and *New Guromont* health tonic drinks, overall sales declined year on year.

In insecticides, Lion launched *Varsan CPM Jet*, a new fumigation-type product. Nonetheless, overall, the influence of intensified competition resulted in a decrease in sales year on year.

Moreover, *PAIR A Tablets*, an oral medicine for improving adult acne and rough skin, garnered favorable customer reviews, and sales registered a significant gain year on year.

Net sales for this division were ¥42,140 million, a decline of 8.3% year on year.

Household Products

	FY 2009	% of segment sales	FY 2008	% of segment sales	Millions of yen	
					Amount	Change
Net sales	¥160,217		¥163,541		¥(3,324)	(2.0)%
Operating income	2,476	1.5%	725	0.4%	1,751	241.6

Lion's Household Products segment is divided into the Fabric Care Products Division and the Living Care Products Division. Net sales in this segment were ¥160,217 million, a decrease of 2.0% year on year. (Excluding the influence of exchange rate fluctuations, net sales increased 1.5% year on year.) Due to reductions in manufacturing and distribution costs and to lower raw material prices, operating income reached ¥2,476 million.

Net sales by division

	FY 2009	FY 2008	Millions of yen	
			Amount	Change
Fabric Care Products Division	¥113,926	¥116,572	¥(2,646)	(2.3)%
Living Care Products Division	46,290	46,969	(678)	(1.4)

Lion's major household product fields and 2009 market positions in Japan

	Billions of yen Market size in Japan	Lion's market position
Laundry detergents	¥118	3
Fabric softeners	64	3
Dishwashing detergents	45	3

Source: 2009 INTAGE Inc. SRI Survey.

Note: Figures for market size presented above are based on retail sales data and do not include sales of gift packages.

Fabric Care Products Division

In the Fabric Care Products Division, in the liquid laundry detergent market, which continues to expand, Lion released new products under the mainstay *TOP* brand. In addition, the Company worked to cultivate the *SOFLAN* fabric softener brand, which features an augmented lineup of products.

In laundry detergents, favorable customer reviews were received by *TOP Clear Liquid*, a new product that completely removes the invisible grime that causes odors and dullness, and by *Kaori Tsuzuku (Long-Lasting Fragrance) TOP Sweet Harmony*. As a result, sales of liquid laundry detergents rose significantly year on year. In powdered laundry detergents, *BLUE DIA* recorded favorable sales, but Lion's mainstay *TOP* brand registered sluggish sales. Consequently, overall laundry detergent sales were down year on year.

In bleaches, due to the influence of intensified competition on Lion's mainstay *Temanashi Bright* brand and on the *Chokko Bright* brand, overall sales decreased year on year.

In fabric softeners, favorable sales were recorded by *Kaori to Deodorant no SOFLAN (SOFLAN with Fragrance and Deodorant)* products, including a new fragrance, Blue Rose Aroma. Overall sales rose year on year.

Overseas, strong sales growth was recorded by laundry detergents in Thailand and South Korea. Overall sales were up substantially year on year in local currencies, but when stated in yen, net sales were down year on year due to the effect of exchange rate fluctuations.

Net sales for this division were ¥113,926 million, down 2.3% year on year. (Excluding the influence of exchange rate fluctuations, net sales increased 1.8% year on year.)

Living Care Products Division

In the Living Care Products Division, Lion bolstered the product lineup of its mainstay *CHARMY* brand and took steps to cultivate the *REED* series of cooking-aid products to promote healthy, balanced eating habits.

In dishwashing detergents, favorable sales were recorded by *CHARMY Awa no Chikara (Power of Suds)* products, including a new fresh lemon fragrance, and by *CHARMY Crysta Powder* automatic dishwasher detergent. As a result, overall sales increased by a considerable amount year on year.

In household cleaners, sales of *Ofuro no LOOK* bath cleaner were solid, and Lion released improved versions of *LOOK Noko (Strong &*

Effective) Pipeman and *LOOK Kirei no Mist*. Nonetheless, overall sales decreased year on year due to the influence of intensified competition.

In cooking-aid products, due to the influence of intensified competition for *REED Healthy-Cooking Paper* and *REED Healthy-Cooking Sheet*, overall sales were down year on year.

Overseas, dishwashing detergents recorded strong sales in Thailand and South Korea. Overall sales were up considerably year on year in local currencies, but when stated in yen, net sales were down year on year due to the effect of exchange rate fluctuations.

Net sales for this division stood at ¥46,290 million, down 1.4% year on year. (Excluding the influence of exchange rate fluctuations, net sales increased 0.8% year on year.)

Chemical Products

	FY 2009	% of segment sales	FY 2008	% of segment sales	Millions of yen Change	
					Amount	%
Net sales	¥22,127		¥31,474		¥(9,346)	(29.7)%
Operating income (loss)	(1,328)	—%	(605)	—%	(722)	—

In the Chemical Products segment, net sales were down 29.7% year on year, to ¥22,127 million, and an operating loss of ¥1,328 million was recorded, compared with an operating loss of ¥605 million in the previous fiscal year.

Due to sluggish industrial demand, the Chemical Products segment continued to face a severe operating environment.

In this setting, the Chemical Products segment worked to increase its profitability by nurturing highly functional products and taking steps to improve the product portfolio.

In activators derived from oil and fats, sales of fatty acid methyl esters used in food additives in Japan, fatty acid methyl esters used in the production of alcohol overseas, and surfactants used for detergents and cosmetics in Japan remained sluggish. As a result, overall sales in this category decreased year on year.

In electro-conductive carbon, sales of compound raw materials for semiconductor casings and used in secondary batteries in Japan remained sluggish. Overall sales in this category were down year on year.

Other Businesses

	FY 2009	% of segment sales	FY 2008	% of segment sales	Millions of yen Change	
					Amount	%
Net sales	¥2,768		¥6,836		¥(4,067)	(59.5)%
Operating income	95	3.4%	241	3.5%	(146)	(60.6)

In Other Businesses, net sales amounted to ¥2,768 million, a 59.5% decline year on year, due to a decline in the number of completed projects in the construction contracting business. Operating income was ¥95 million, a 60.6% decline year on year.

NET INCOME

In the year under review, accompanying construction of a new R&D center, an impairment loss on old buildings was recorded as another expense. Nonetheless, operating income increased, and equity in earnings of non-consolidated subsidiaries and affiliates increased.

In addition, loss on devaluation of investment securities declined. As a result, income before income taxes and minority interests was up 59.2%, to ¥9,694 million. Net income increased 79.8%, to ¥5,465 million.

ROE was up 2.5 percentage points, at 5.5%, while net income per share rose ¥8.99, to ¥20.22.

FINANCIAL POSITION

Consolidated financial status

	FY 2009	FY 2008	Change
Total assets (millions of yen)	¥256,220	¥267,438	¥(11,217)
Total net assets (millions of yen)	103,624	100,574	3,050
Total shareholders' equity to total assets ¹ (%)	39.2%	36.6%	2.6 points
Net assets per share ² (yen)	371.50	362.02	9.48

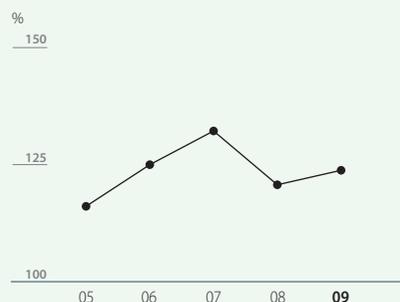
1 Shareholders' equity to total assets = (Net assets – Subscription rights to shares and Minority interests) / Total assets

2 Subscription rights and minority interests were excluded from calculation of net assets per share.

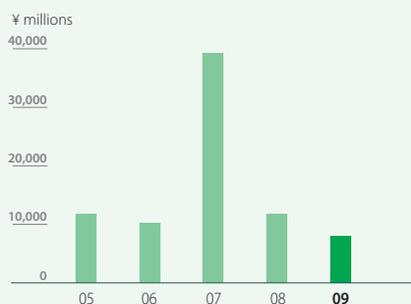
Total assets



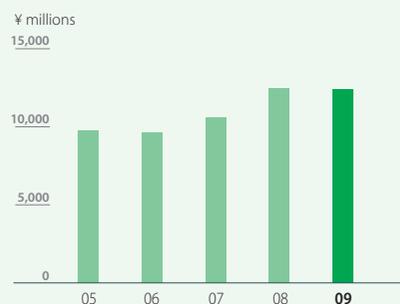
Current ratio



Capital expenditures



Depreciation and amortization



Trade notes and accounts receivable declined ¥6,014 million, and intangible assets decreased ¥4,337 million. As a result, total assets were down ¥11,217 million year on year, to ¥256,220 million.

Total liabilities were down ¥14,268 million, to ¥152,595 million. Declines were recorded in trade notes and accounts payable and in the current portion of long-term debt. As a result, total current liabilities declined ¥7,198 million from a year earlier, to ¥93,907 million. Total long-term liabilities decreased ¥7,069 million, to ¥58,688 million, due primarily to a decline in long-term loans payable. As a result, the current ratio at year-end was 123.8%, compared with 120.7% a year earlier.

Total shareholders' equity was up ¥2,458 million, to ¥102,181 million, due primarily to higher retained earnings. Total net assets increased ¥3,050 million, to ¥103,624 million. In addition, the ratio of total shareholders' equity to total assets increased from 36.6% a year earlier to 39.2%.

Capital expenditures, including intangible assets, totaled ¥7,969 million, a decrease of ¥3,747 million from a year earlier. Depreciation and amortization, including intangible assets, was about the same as in the previous year, at ¥12,425 million.

CASH FLOWS

Consolidated cash flows

	Millions of yen		
	FY 2009	FY 2008	Change
Net cash provided by operating activities	¥ 24,978	¥ 15,183	¥ 9,795
Net cash provided by (used in) investing activities	(13,669)	(11,798)	(1,871)
Net cash provided by (used in) financing activities	(11,658)	(2,689)	(8,968)
Effect of exchange rate changes on cash and cash equivalents	63	(815)	879
Net increase (decrease) in cash and cash equivalents	(285)	(121)	(164)
Cash and cash equivalents at end of the year	32,812	33,098	(285)

Cash and cash equivalents at the end of fiscal 2009 totaled ¥32,812 million, a decline of ¥285 million from a year earlier.

Net cash provided by operating activities totaled ¥24,978 million. Major components were increases in income before income taxes and minority interests, decreases in trade notes and accounts receivable, and decreases in inventories.

Net cash used in investing activities totaled ¥13,669 million. Major components were purchases of property, plant and equipment and purchases of investment securities.

Net cash used in financing activities totaled ¥11,658 million. A major component was repayment of long-term loans payable.

OUTLOOK FOR FISCAL 2010

	FY 2010	FY 2009	Millions of yen	
			Amount	Change %
Net sales	¥330,000	¥321,947	¥8,052	2.5%
Operating income	10,000	10,036	(36)	(0.4)
Net income	5,500	5,465	34	0.6

There are signs of a recovery in corporate profits in certain sectors of the economy, but nonetheless Lion expects continued uncertainty in the Japanese economy, due in part to the ongoing severity of the employment situation. In the domestic toiletries industry—Lion's main field of operations—slumping consumer spending and intensifying competition in stores are expected to lead to continued difficult operating conditions.

In this challenging setting, to increase corporate value, Lion will introduce new products, principally in growth markets in Japan and overseas. The Company will implement proactive marketing investment and bolster sales activities in stores.

In the Health Care Products segment, Lion will focus its investment on its core brands for such products as toothpastes, toothbrushes, and analgesics. At the same time, the Company will launch new products that offer customers new value. Lion is forecasting a year-on-year increase in sales as a result of these measures.

In the Household Products segment, the Company will launch new, high-value-added products in growing liquid laundry detergents market and cultivate these products through proactive advertising and promotion. Lion is forecasting a year-on-year increase in sales as a result of these initiatives.

In the Chemical Products segment and Other Businesses segment, the influence of sluggish industrial demand led to lower net sales for fiscal 2009. However, Lion expects to see a recovery in demand in fiscal 2010, and as a result the Company is forecasting a year-on-year increase in net sales in both of these segments.

As a result, for fiscal 2010, Lion is forecasting consolidated net sales of ¥330,000 million, an increase of 2.5% from fiscal 2009; operating income of ¥10,000 million, a decline of 0.4%; and net income of ¥5,500 million, an increase of 0.6%.

(Assumptions used in calculating the estimated figures in the Outlook for Fiscal 2010)

Lion used the following foreign exchange rates in the calculation of the estimated figures above: ¥93 = US\$1.00 and ¥2.7 = 1.00 baht

BASIC POLICY ON THE DISTRIBUTION OF EARNINGS AND CASH DIVIDENDS

Lion considers its most important management issue to be the return of profits to shareholders on a permanent and stable basis. To this end, the Company strives to consistently enhance consolidated earnings capacity in an effort to ensure the payment of continuous and stable cash dividends. Taking into consideration the appropriate level of internal reserves required to secure medium- and long-term growth, Lion also undertakes the acquisition of treasury stock. Working to reinforce the Company's growth potential and to develop a sustainable business foundation, Lion allocates internal reserves to research and development, capital investment in production facilities, and the acquisition of external resources.

Taking into consideration the Company's cash dividend payment record, as well as its dividend payout ratio target, Lion's Board of Directors resolved to pay an interim dividend of ¥5 per share (payment date: September 4, 2009) and a year-end dividend of ¥5 per share (payment date: March 5, 2010).

For dividends in fiscal 2010, in accordance with its basic policy, Lion plans to maintain both the interim and year-end dividend at ¥5 per share, for an annual dividend of ¥10.

RISK INFORMATION

The Lion Group's management performance and financial status may be adversely affected by various risks as business activities are pursued in the future. Of these risks, the following items, in particular, may have a material impact on the decisions of investors.

Forward-looking statements are based on decisions made by the Lion Group as of February 10, 2010. Business risks are not limited to the items listed below.

(1) Product quality and value

The Lion Group plans, develops, produces, and sells products under management based on international quality standards while strictly following related laws and regulations, such as the Pharmaceutical Affairs Law, to provide worry-free, safe, convenient, and environmentally conscious products to customers. In addition, the Company makes full use of customer opinions received through its Consumer Service Office to improve its products, packaging and containers, and product instructions and information.

In the event of an unforeseen and serious problem with product quality, however, the affected product and all products made by the Lion Group may lose their perceived value. This may adversely affect the Lion Group's management performance and financial status.

(2) Changes in raw materials prices

The Lion Group's products use petrochemical and vegetable oil and fats as raw materials. Since these materials are easily affected by international market prices, the Company has measures in place to reduce costs and diversify the range of materials used. However, an increase in raw materials prices may adversely affect the Lion Group's management performance and financial status.

(3) Exchange rate fluctuations

The Lion Group translates into yen the financial statements of overseas subsidiaries when preparing consolidated financial statements. The values of items denominated in foreign currencies may be affected by prevailing foreign exchange rates when translated into yen. The Lion Group has taken steps to minimize the risk of an increase in raw material costs by hedging against exchange rate fluctuations. However, short-, medium-, and long-term changes in foreign exchange rates may adversely affect the Lion Group's management performance and financial status.

(4) Major lawsuits

As of December 31, 2009, Lion is not involved in any lawsuits that may have significant impact on its business. However, in a future lawsuit, if the Lion Group is successfully sued for significant damages, it may adversely affect the Lion Group's management performance and financial status.

(5) Earthquakes and other natural disasters

In the product manufacturing process, the Lion Group has put in place safety measures against earthquakes and other natural disasters. In the event of a major disaster, however, the Company's production equipment may be damaged, or business activities may cease, adversely affecting the Lion Group's management performance and financial status.

CONSOLIDATED BALANCE SHEETS

Lion Corporation and Consolidated Subsidiaries
December 31, 2009 and 2008

ASSETS	Millions of yen		Thousands of U.S. dollars [Note 1(b)]
	2009	2008	2009
Current assets:			
Cash and time deposits [Note 10] [Note 14]	¥ 31,387	¥ 33,318	\$ 340,797
Short-term investments [Note 4] [Note 14]	1,667	—	18,101
Trade notes and accounts receivable	52,440	58,455	569,391
Inventories [Note 5]	25,166	26,323	273,257
Deferred income taxes [Note 7]	4,355	2,531	47,296
Prepaid expenses and other current assets	1,358	1,525	14,755
Less allowance for doubtful accounts	(122)	(150)	(1,328)
Total current assets	116,254	122,003	1,262,268
Property, plant and equipment, at cost:			
Land [Note 10]	18,283	18,496	198,516
Buildings and structures [Note 10]	63,266	61,134	686,928
Machinery and equipment [Note 10]	134,094	131,838	1,455,969
Lease assets	823	—	8,940
Construction in progress	3,817	4,154	41,445
Total	220,284	215,623	2,391,798
Less accumulated depreciation	(157,437)	(152,149)	(1,709,421)
Property, plant and equipment, net	62,846	63,473	682,377
Intangible assets:			
Trademarks	26,803	30,720	291,031
Patent rights and other	1,555	1,977	16,894
Total intangible assets	28,359	32,697	307,925
Investments and other assets:			
Investment securities [Note 4]	19,315	14,891	209,721
Investments in non-consolidated subsidiaries and affiliates	4,737	4,365	51,442
Long-term loans receivable	134	179	1,461
Prepaid pension cost [Note 8]	16,507	18,163	179,238
Deferred income taxes [Note 7]	6,863	10,396	74,521
Other	1,252	1,341	13,603
Less allowance for doubtful accounts	(52)	(72)	(573)
Investments and other assets, net	48,758	49,264	529,412
Total assets	¥ 256,220	¥ 267,438	\$ 2,781,982

See accompanying notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars [Note 1(b)]
	2009	2008	2009
Current liabilities:			
Short-term loans payable [Note 6]	¥ 6,151	¥ 6,213	\$ 66,796
Current portion of long-term debt [Note 6]	6,305	8,300	68,460
Trade notes and accounts payable	39,825	46,918	432,418
Accrued expenses and other payables	35,330	34,971	383,607
Accrued income taxes	1,258	1,216	13,661
Accrued bonuses for employees	1,829	323	19,863
Other	3,206	3,162	34,817
Total current liabilities	93,907	101,105	1,019,622
Long-term liabilities:			
Long-term debt [Note 6]	33,414	39,050	362,805
Accrued retirement benefits [Note 8]	20,495	21,947	222,532
Other	4,778	4,760	51,889
Total long-term liabilities	58,688	65,758	637,226
Total liabilities	152,595	166,864	1,656,849
Contingent liabilities [Note 11]			
Net assets:			
Shareholders' equity:			
Common stock:			
Authorized: 1,185,600,000 shares at December 31, 2009 and 2008			
Issued and outstanding: 299,115,346 shares at December 31, 2009 and 2008	34,433	34,433	373,873
Capital surplus	31,499	31,499	342,017
Retained earnings	52,099	49,657	565,686
Treasury stock, at cost [Notes 9(a), (b)]	(15,851)	(15,868)	(172,115)
Total shareholders' equity	102,181	99,723	1,109,461
Valuation and translation adjustments:			
Unrealized holding gain on other securities	747	1,060	8,118
Deferred losses on derivative financial instruments used for hedge accounting	1	(24)	15
Foreign currency translation adjustments	(2,514)	(2,912)	(27,307)
Total valuation and translation adjustments	(1,765)	(1,875)	(19,173)
Stock acquisition rights	138	109	1,505
Minority interests	3,070	2,617	33,340
Total net assets	103,624	100,574	1,125,133
Total liabilities and net assets	¥256,220	¥267,438	\$2,781,982

CONSOLIDATED STATEMENTS OF INCOME

Lion Corporation and Consolidated Subsidiaries
Years ended December 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars [Note 1(b)]
	2009	2008	2009
Net sales	¥321,947	¥338,236	\$3,495,633
Cost of sales	136,619	157,523	1,483,387
Gross profit	185,327	180,712	2,012,246
Selling, general and administrative expenses [Note 12]	175,290	172,435	1,903,267
Operating income	10,036	8,277	108,979
Other income:			
Interest and dividend income	400	496	4,353
Equity in earnings of non-consolidated subsidiaries and affiliates	1,156	193	12,554
Reversal of allowance for doubtful accounts	46	859	499
Gain on sales of investment securities	12	—	133
Other	800	689	8,694
Total other income	2,416	2,239	26,234
Other expenses:			
Interest expense	1,038	1,134	11,276
Loss on disposal of property, plant and equipment	337	263	3,667
Loss on impairment of fixed assets	724	78	7,865
PCB disposal cost	195	—	2,118
Loss on devaluation of investment securities	152	2,032	1,652
Other	310	919	3,370
Total other expenses	2,758	4,427	29,948
Income before income taxes and minority interests	9,694	6,088	105,265
Income taxes			
Current	1,594	1,475	17,318
Deferred	2,160	1,349	23,460
	3,755	2,825	40,778
Income before minority interests	5,939	3,262	64,487
Minority interests	(473)	(222)	(5,140)
Net income	¥ 5,465	¥ 3,040	\$ 59,347

	Yen	U.S. dollars [Note 1(b)]
Amounts per share:		
Net income : Basic	¥ 20.22	¥ 11.23
: Diluted	20.19	11.22
Cash dividends applicable to the year	10.00	10.00
Net assets	371.50	362.02
Weighted-average number of shares of common stock outstanding during the year (in thousands)	270,299	270,644

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Lion Corporation and Consolidated Subsidiaries
Years ended December 31, 2009 and 2008

	Millions of yen				
	Number of shares issued and outstanding	Shareholders' equity			
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost
Balance at December 31, 2007	299,115,346	¥ 34,433	¥ 31,505	¥ 49,344	¥ (15,727)
Net income	—	—	—	3,040	—
Cash dividends	—	—	—	(2,706)	—
Treasury stock acquired [Note 9(a)]	—	—	—	—	(366)
Treasury stock disposed of [Note 9(a), (b)]	—	—	(6)	(19)	225
Net increase due to affiliates included in consolidation	—	—	—	—	—
Other, net	—	—	—	—	—
Balance at December 31, 2008	299,115,346	34,433	31,499	49,657	(15,868)
Effect of changes in accounting policies applied to foreign subsidiaries	—	—	—	(308)	—
Net income	—	—	—	5,465	—
Cash dividends	—	—	—	(2,702)	—
Treasury stock acquired [Note 9(a)]	—	—	—	—	(36)
Treasury stock disposed of [Note 9(a), (b)]	—	—	—	(12)	52
Other, net	—	—	—	—	—
Balance at December 31, 2009	299,115,346	¥34,433	¥31,499	¥52,099	¥(15,851)

	Thousands of U.S. dollars [Note 1(b)]				
Balance at December 31, 2008	299,115,346	\$ 373,873	\$ 342,017	\$ 539,174	\$ (172,295)
Effect of changes in accounting policies applied to foreign subsidiaries	—	—	—	(3,350)	—
Net income	—	—	—	59,347	—
Cash dividends	—	—	—	(29,348)	—
Treasury stock acquired [Note 9(a)]	—	—	—	—	(392)
Treasury stock disposed of [Note 9(a), (b)]	—	—	—	(137)	571
Other, net	—	—	—	—	—
Balance at December 31, 2009	299,115,346	\$373,873	\$342,017	\$565,686	\$(172,115)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS (CONTINUED)

Lion Corporation and Consolidated Subsidiaries
Years ended December 31, 2009 and 2008

	Millions of yen				
	Valuation and translation adjustments			Stock acquisition rights	Minority interests
	Unrealized holding gain on other securities	Deferred losses on derivative financial instruments used for hedge accounting	Foreign currency translation adjustments		
Balance at December 31, 2007	¥ 3,524	¥(10)	¥ 500	¥ 74	¥ 3,894
Net income	—	—	—	—	—
Cash dividends	—	—	—	—	—
Treasury stock acquired [Note 9(a)]	—	—	—	—	—
Treasury stock disposed of [Note 9(a), (b)]	—	—	—	—	—
Net increase due to affiliates included in consolidation	—	—	—	—	—
Other, net	(2,463)	(13)	(3,412)	35	(1,277)
Balance at December 31, 2008	1,060	(24)	(2,912)	109	2,617
Effect of changes in accounting policies applied to foreign subsidiaries	—	—	—	—	—
Net income	—	—	—	—	—
Cash dividends	—	—	—	—	—
Treasury stock acquired [Note 9(a)]	—	—	—	—	—
Treasury stock disposed of [Note 9(a), (b)]	—	—	—	—	—
Other, net	(312)	25	397	28	453
Balance at December 31, 2009	¥ 747	¥ 1	¥(2,514)	¥138	¥3,070

	Thousands of U.S. dollars [Note 1(b)]				
Balance at December 31, 2008	\$11,517	\$(262)	\$ (31,623)	\$ 1,190	\$ 28,418
Effect of changes in accounting policies applied to foreign subsidiaries	—	—	—	—	—
Net income	—	—	—	—	—
Cash dividends	—	—	—	—	—
Treasury stock acquired [Note 9(a)]	—	—	—	—	—
Treasury stock disposed of [Note 9(a), (b)]	—	—	—	—	—
Other, net	(3,398)	278	4,316	315	4,922
Balance at December 31, 2009	\$ 8,118	\$ 15	\$(27,307)	\$1,505	\$33,340

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Lion Corporation and Consolidated Subsidiaries
Years ended December 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars [Note 1(b)]
	2009	2008	2009
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 9,694	¥ 6,088	\$105,265
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	12,425	12,444	134,914
Loss on impairment of fixed assets	724	78	7,865
Increase in accrued bonuses for employees	1,491	61	16,197
Increase (decrease) in accrued retirement benefits	163	(5,347)	1,774
Interest and dividend income	(400)	(496)	(4,353)
Interest expense	1,038	1,134	11,276
Loss on disposal of property, plant and equipment	337	263	3,667
Loss on devaluation of investment securities	152	2,032	1,653
Equity in earnings of non-consolidated subsidiaries and affiliates	(1,156)	(193)	(12,554)
Decrease in trade notes and accounts receivable	6,432	414	69,845
Decrease (increase) in inventories	1,396	(272)	15,165
Increase (decrease) in trade notes and accounts payable	(7,337)	3,977	(79,668)
Increase (decrease) in accrued expenses and other payables	909	(620)	9,878
Other, net	624	(2,766)	6,779
Subtotal	26,497	16,797	287,702
Interest and dividends received	1,143	1,265	12,413
Interest paid	(1,076)	(1,144)	(11,693)
Income taxes paid	(1,584)	(1,735)	(17,209)
Net cash provided by operating activities	24,978	15,183	271,213
Cash flows from investing activities:			
Decrease in time deposits	14	95	160
Purchases of property, plant and equipment	(8,462)	(10,459)	(91,883)
Proceeds from sales of property, plant and equipment	70	29	769
Purchases of intangible assets	(52)	(104)	(574)
Purchases of investment securities	(5,286)	(1,335)	(57,404)
Proceeds from sales of investment securities	35	3	380
Increase in loans receivable	(24)	(59)	(270)
Collection of loans receivable	59	71	645
Other, net	(22)	(39)	(247)
Net cash used in investing activities	(13,669)	(11,798)	(148,425)
Cash flows from financing activities:			
Increase in short-term loans payable	7,670	8,890	83,281
Repayment of short-term loans payable	(7,851)	(7,233)	(85,244)
Repayment of long-term loans payable	(8,300)	(1,195)	(90,119)
Purchases of treasury stock	(36)	(366)	(392)
Proceeds from disposal of treasury stock	37	156	402
Cash dividends	(2,710)	(2,698)	(29,429)
Cash dividends to minority shareholders	(207)	(242)	(2,252)
Other, net	(260)	—	(2,827)
Net cash used in financing activities	(11,658)	(2,689)	(126,581)
Effect of exchange rate changes on cash and cash equivalents	63	(815)	688
Net decrease in cash and cash equivalents	(285)	(121)	(3,105)
Cash and cash equivalents at beginning of the year	33,098	33,219	359,377
Cash and cash equivalents at end of the year [Note 14]	¥32,812	¥33,098	\$356,273

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Lion Corporation and Consolidated Subsidiaries, December 31, 2009

Note 1 Basis of Presenting Consolidated Financial Statements

(a) The accompanying consolidated financial statements of Lion Corporation (the "Company") and its consolidated subsidiaries have been compiled from the consolidated financial statements filed with the Director of the Kanto Local Finance Bureau as required by the Financial Instruments and Exchange Law of Japan. The consolidated financial statements have been prepared from the accounts maintained by the Company in accordance with the provisions set forth in the Commercial Code of Japan.

The accompanying consolidated financial statements of the Company and its consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

(b) The Company and its domestic consolidated subsidiaries maintain their accounting records in Japanese yen, and its foreign consolidated subsidiaries maintain their accounting records in the currencies of their respective countries of domicile. The U.S. dollar amounts included in the accompanying consolidated financial statements, solely for the convenience of the reader, represent the arithmetic results of translating yen amounts into U.S. dollar amounts at ¥92.10 = U.S.\$1.00, the approximate rate of exchange in effect on December 31, 2009. This translation into U.S. dollars should not be construed as a representation that the yen amounts have been or could be converted into U.S. dollars at the above or any other rate.

(c) As permitted under the Financial Instruments and Exchange Law of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements do not necessarily agree with the sum of the individual amounts.

Note 2 Summary of Significant Accounting Policies

(a) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries controlled directly or indirectly by the Company in accordance with the accounting standard for consolidation. Affiliated companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the accompanying consolidated financial statements accounted for by the equity method.

The consolidated subsidiaries for the year ended December 31, 2009 were as follows:

Lion Chemical Co., Ltd./ Lion Business Service Co., Ltd./
Lion Hygiene Co., Ltd./ Lion Trading Co., Ltd./
Lion Packaging Co., Ltd./ Lion Engineering Co., Ltd./
Leo Field Promotions Co., Ltd./ Lion Field Marketing Co., Ltd./
Lion Logistics Service Company, Ltd./ Lion Cordial Support Co., Ltd./
issua Co., Ltd./Lion Dental Products Co., Ltd./
Ipposha Oil Industries Co., Ltd./
Lion Eco Chemicals Sdn. Bhd./ Lion Corporation (Singapore) Pte. Ltd./
Lion Corporation (Hong Kong) Ltd./ Lion Advertising Ltd./
Lion Daily Necessities Chemicals (Qingdao) Co., Ltd./CJ Lion Corporation/
Lion Chemical Industry (Taiwan) Co., Ltd./ Lion Corporation (Thailand) Ltd./

The number of non-consolidated subsidiaries at December 31, 2009 and 2008 was four. Their aggregate total assets, retained earnings, net sales and net income were not significant.

Lion Trading (Shanghai) Co., Ltd. was liquidated in 2009 and excluded from the scope of consolidation for the year ended December 31, 2009.

The equity method has been applied, in accounting for the investments in two non-consolidated subsidiaries and nine affiliates for the years ended December 31, 2009 and 2008.

Investments in non-consolidated subsidiaries and affiliates, other than those accounted for by the equity method, are stated principally at cost determined by the moving-average method.

Differences between investment cost and equity in net assets acquired are being amortized over a period of 10 years or charged to income when the amount is not significant.

(b) Foreign Currency Translation

All current and long-term monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates in effect at the balance sheet date. Foreign exchange gain/loss on translation is recognized in the accompanying consolidated statements of income to the extent that the underlying assets and liabilities are not hedged by forward foreign exchange contracts.

The financial statements of the foreign consolidated subsidiaries and affiliates are translated into Japanese yen at the rates of exchange in effect at the balance sheet date for all assets and liabilities, at the average rates for income and expense accounts, and at historical rates for the components of net assets excluding minority interests. Differences arising from translation are presented as "Foreign currency translation adjustments" and "Minority interests" in the accompanying consolidated balance sheets.

(c) Derivatives and Hedge Accounting

The Company and its consolidated subsidiaries utilize derivative financial instruments to hedge their exposure to fluctuation in interest rates and foreign exchange rates.

Derivative financial instruments and foreign currency transactions are accounted for as follows:

- (i) All derivatives are recognized as either assets or liabilities and measured at fair value, and gain/loss on the derivative transactions is recognized in the accompanying consolidated statements of income;
- (ii) Because of the high correlation of their effectiveness, gain/loss on derivatives positions which qualify as hedges is deferred until the maturity of each underlying hedged transaction; and
- (iii) The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differences paid or received under the swap agreements are recognized and included in interest expense or income.

(d) Cash Equivalents

For purposes of the consolidated statements of cash flows, the Company considers deposits with banks and short-term investments with original maturities of three months or less to be cash equivalents.

(e) Securities

Securities are classified into one of the following categories based on management's intent in holding them:

- (i) Held-to-maturity debt securities are stated at amortized cost.
- (ii) (a) Other securities (marketable) are stated at fair value, with any unrealized holding gain or loss, net of the applicable taxes, presented as a separate component of net assets.
(b) Other securities (non-marketable) are stated at cost by the moving-average method.

Debt securities due within one year are presented as current and all other securities are presented as non-current in the accompanying consolidated balance sheets.

(f) Inventories

Inventories are stated mainly at cost determined by the first-in, first-out method for merchandise and finished products, and by the moving-average method for other inventories. When the net selling value falls below the cost at the end of the fiscal period, inventories are carried at the net selling value on the balance sheet, regarded as decreased profitability of assets.

(g) Property, Plant and Equipment and Depreciation

Property, plant and equipment is stated at cost. Depreciation is computed by the declining-balance method based on the estimated useful lives of the respective assets, except that certain consolidated subsidiaries apply the straight-line method.

The accounting standard for the impairment of fixed assets requires that tangible and intangible fixed assets be carried at cost less depreciation, and be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company and its consolidated subsidiaries are required to recognize an impairment loss in their consolidated statements of income if certain indicators of asset impairment exist and if the book value of an asset exceeds the undiscounted total of its future cash flows. This standard states that impairment losses should be measured as the excess of the book value over the higher of (i) the fair market value of the asset, net of disposition costs, and (ii) the present value of future cash flows arising from ongoing utilization of the asset and its disposal after use. This standard covers land, factories, buildings, and other forms of property, plant and equipment as well as intangible assets. Fixed assets are to be grouped at the lowest levels for which there are identifiable cash flows which are independent of the cash flows of other groups of assets.

(h) Intangible Assets

Trademarks, patent rights and certain capitalized software are amortized by the straight-line method over their respective estimated useful lives.

(i) Lease Assets

Lease assets are depreciated by the straight-line method over the lease period without residual value.

(j) Research and Development Expenses

Research and development expenses are charged to income as incurred.

(k) Income Taxes

The Company and its consolidated subsidiaries have adopted tax-effect accounting which requires the recognition of income taxes by the asset and liability method. Under this method, deferred tax assets and liabilities are determined based on the temporary differences between the reported amounts in the financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates which will be in effect when the differences are expected to reverse.

(l) Accrued Bonuses for Employees

The Company and its consolidated subsidiaries provide accrued bonuses for employees based on the estimated amounts.

Introduction of the performance-based bonus scheme

The Company and its domestic consolidated subsidiaries have introduced a new scheme of the bonus payments for the employees. Under the new scheme, bonuses are paid in June, December in current year, and March in the following year. Bonus to be paid in March is the performance-based bonus.

(m) Accrued Retirement Benefits

Employees of the Company and certain of its consolidated subsidiaries who terminate their employment are generally entitled to lump-sum severance payments determined by reference to their current basic rate of pay, length of service and the conditions under which the termination occurs.

The Company and certain of its consolidated subsidiaries have adopted the accounting standard for employees' retirement benefits and provide for this liability based on the actuarial present value of their defined retirement benefit plans and the related pension plan assets recognized as of each balance sheet date.

The Company and certain of its consolidated subsidiaries also provide for retirement allowances to directors based on their internal regulations at an estimate of the amount which would be required to be paid if all directors retired at the balance sheet date. However, the Company has not provided additional allowances to directors after March 30, 2006.

(n) Stock Options

The Company has adopted the accounting standard for share-based payment and recognizes compensation expense for stock options based on the fair value at the date of grant and in the period during which the services or goods expected to be acquired and consumed should be expensed. In the accompanying consolidated balance sheets, the stock options are presented as "Stock acquisition rights" as a separate component of net assets until they are exercised or expire.

(o) Amounts per Share

Basic net income per share is computed by dividing net income available for distribution to shareholders of common stock by the weighted-average number of shares of common stock outstanding during the year (exclusive of the dilutive effect of the exercise of any stock options).

Diluted net income per share is computed based on the net income available for distribution to the shareholders and the weighted-average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the exercise of stock options for the years ended December 31, 2009 and 2008.

In determining the hypothetical shares repurchased, the average price per share during the year is used.

Cash dividends per share represent the cash dividends proposed by the Board of Directors as applicable to the respective years together with the interim cash dividends paid.

Net assets per share are computed by dividing net assets excluding minority interests and stock acquisition rights by the number of shares of outstanding common stock at December 31, 2009 and 2008.

(p) Consumption Taxes

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

Note 3

Accounting Changes

(a) Accounting Standard for Measurement of Inventories

Effective the year ended December 31, 2009, the Company and its consolidated subsidiaries have adopted "Accounting Standard for Measurement of Inventories" (Accounting Standards Board of Japan ("ASBJ") Statement No.9, issued July 5, 2006). Measurement method of inventories held for sale in the ordinary course of business have changed from stating at cost to stating mainly at cost. When the net selling value falls below the cost at the end of the fiscal period, inventories are carried at the net selling value on the balance sheet, regarded as decreased profitability of assets. The impact of adopting the new standard on income and loss was immaterial for the year ended December 31, 2009.

(b) "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements"

Effective January 1, 2009, the Company has adopted "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ Practical Issues Task Force No.18, issued May 17, 2006) and the necessary modifications have been made in the consolidated process. Retained earnings declined by ¥308 million at beginning of the fiscal period by the adoption of this practical issues task force. The impact of adopting the new standard on income and loss was immaterial for the year ended December 31, 2009.

(c) Accounting Standard for Lease Transaction

Previously, the Company and its domestic consolidated subsidiaries accounted for lease transactions that do not transfer ownership as operating leases. Effective the year ended December 31, 2009, the Company and its domestic consolidated subsidiaries adopted "Accounting Standard for Lease Transactions" (ASBJ Statement No.13, issued March 30, 2007; revised from standard originally issued by the Corporate Accounting Council on June 17, 1993) and "Guidance on Accounting Standard for Lease Transactions" (ASBJ Guidance No.16, issued March 30, 2007; revised from the standard originally issued by the Japanese Institute of Certified Public Accountants on January 18, 1994).

Accordingly, all finance lease transactions are recognized as lease assets and lease obligations on the balance sheet. Lease assets are depreciated by the straight-line method over the lease period without residual value. There was no impact of adopting the revised standards on income and loss for the year ended December 31, 2009.

Note 4

Securities

Marketable and investment securities at December 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Current:			
Commercial paper and other	¥ 1,667	¥ —	\$ 18,101
Subtotal	¥ 1,667	¥ —	\$ 18,101
Non-current:			
Marketable equity securities	17,562	13,652	190,694
Government and corporate bonds	501	1	5,445
Non-marketable equity securities and other	1,250	1,236	13,582
Subtotal	19,315	14,891	209,721
Total	¥20,982	¥14,891	\$227,822

The acquisition cost and related fair value of other securities at December 31, 2009 were as follows:

	Millions of yen			
	Acquisition cost	Fair value	Unrealized gains	Unrealized losses
Other securities:				
Marketable equity securities	¥16,423	¥17,562	¥3,480	¥2,341
Total	¥16,423	¥17,562	¥3,480	¥2,341

	Thousands of U.S. dollars			
	Acquisition cost	Fair value	Unrealized gains	Unrealized losses
Other securities:				
Marketable equity securities	\$178,324	\$190,694	\$37,790	\$25,420
Total	\$178,324	\$190,694	\$37,790	\$25,420

Other main securities whose fair value was not determinable at December 31, 2009 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	Carrying value	Carrying value
Held-to-maturity debt securities:		
Subordinated debenture	¥ 500	\$ 5,429
Other securities:		
Non-marketable equity securities	¥1,250	\$13,582

At December 31, 2009, the redemption schedule for securities with maturity dates classified as held-to-maturity debt securities was as follows:

	Millions of yen		
	Due one year or less	Due after one year through five years	Due after five years through ten years
Government and corporate bonds	¥ —	¥1	¥500
Commercial paper and other	1,667	—	—
Total	¥1,667	¥1	¥500

	Thousands of U.S. dollars		
	Due one year or less	Due after one year through five years	Due after five years through ten years
Government and corporate bonds	\$ —	\$16	\$5,429
Commercial paper and other	18,101	—	—
Total	\$18,101	\$16	\$5,429

Note 5

Inventories at December 31, 2009 and 2008 consisted of the following:

Inventories

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Merchandise and finished products	¥17,076	¥18,135	\$185,415
Work in process	2,234	2,377	24,259
Raw materials and supplies	5,856	5,810	63,583
Total	¥25,166	¥26,323	\$273,257

Note 6

Short-Term Loans Payable and Long-Term Debt

Short-term loans payable, represents notes principally issued to banks with the maturity of 365 days from the issuance date at average interest rates of 2.10% and 2.95% at December 31, 2009 and 2008, respectively.

Long-term debt at December 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Long-term loans payable	¥39,050	¥47,350	\$423,996
Less: Current portion from banks at average interest rates of 1.18% and 1.28% at December 31, 2009 and 2008, respectively	(6,050)	(8,300)	(65,689)
Long-term debt less current portion from banks at average interest rates of 2.04% and 2.10% at December 31, 2009 and 2008, respectively	¥33,000	¥39,050	\$358,306
Lease obligation	¥ 669	¥ —	\$ 7,270
Less: Current portion			
Lease obligation	(255)	—	(2,770)
Long-term debt less current portion			
Lease obligation	¥ 414	¥ —	\$ 4,500

Note 7**Deferred Income Taxes**

The significant components of deferred tax assets and liabilities at December 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Deferred tax assets:			
Allowance for doubtful accounts	¥ 4	¥ 13	\$ 51
Accrued retirement benefits	8,105	8,861	88,013
Amortization of goodwill	—	519	—
Loss on impairment of fixed assets	1,798	47	19,525
Accrued enterprise taxes	162	152	1,769
Tax loss carryforwards	5,027	6,873	54,588
Unrealized intercompany profit	297	321	3,229
Other	4,847	3,365	52,637
Less valuation allowance	(3,789)	—	(41,145)
Total deferred tax assets	16,455	20,155	178,667
Deferred tax liabilities:			
Special tax-purpose reserve	(1,825)	(1,894)	(19,824)
Gain on contribution of securities to pension trust	(4,078)	(5,582)	(44,284)
Unrecognized holding gain on other securities	(316)	(726)	(3,435)
Other	(266)	(331)	(2,897)
Total deferred tax liabilities	(6,487)	(8,534)	(70,440)
Net deferred tax assets	¥ 9,967	¥ 11,621	\$ 108,227

Deferred tax liabilities included in current liabilities and non-current liabilities were ¥7 million and ¥1,243 million, respectively, at December 31, 2009 and ¥10 million and ¥1,296 million, respectively, at December 31, 2008.

A reconciliation of the differences between the statutory tax rate and the effective tax rate for the years ended December 31, 2008 was summarized as follows:

	2008
Statutory tax rate:	40.7%
Permanent differences, net	1.6
Equity in earnings of non-consolidated subsidiaries	(1.3)
Tax benefits realized on losses of subsidiaries	(0.6)
Unrealized profit	(0.7)
Loss on impairment of investment securities and other differences that are not expected to reverse	8.9
Other	(2.2)
Effective tax rate	46.4%

The difference between the statutory tax rate and the effective tax rate for the year ended December 31, 2009 has not been disclosed because such difference was less than 5% of the statutory rate.

Note 8**Accrued Retirement Benefits**

The Company and certain of its consolidated subsidiaries have defined benefit pension plans. The primary plans are the "Lion Pension Fund" of the Company. In addition, the Company has a pension trust. The Company and certain of its consolidated subsidiaries also have lump-sum severance indemnity plans. In certain cases, additional severance indemnities are paid when employees retire.

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the accompanying consolidated balance sheets at December 31, 2009 and 2008 for the Company's and its consolidated subsidiaries' defined benefit pension plans:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Projected benefit obligation	¥(65,258)	¥(67,425)	\$(708,557)
Fair value of pension plan assets	43,231	42,966	469,392
Funded status	(22,027)	(24,459)	(239,164)
Unrecognized actuarial gain / loss	18,033	21,475	195,798
Unrecognized prior service cost	297	(509)	3,226
Accrued employees' retirement benefits, net	(3,696)	(3,493)	(40,140)
Prepaid pension cost	16,507	18,163	179,238
Accrued employees' retirement benefits	¥(20,204)	¥(21,657)	\$(219,378)

Retirement allowances to directors, included in "Accrued retirement benefits" in the accompanying consolidated balance sheets, were ¥290 million (U.S.\$3,153 thousand) and ¥290 million at December 31, 2009 and 2008, respectively.

The components of net periodic retirement benefit expenses for the years ended December 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Service cost	¥1,785	¥1,974	\$19,385
Interest cost	1,610	1,624	17,482
Expected return on pension plan assets	(893)	(1,084)	(9,704)
Amortization of actuarial gain / loss	1,620	181	17,591
Amortization of prior service cost	(456)	(1,528)	(4,961)
Contributions made to defined contribution pension plans	77	69	846
Net periodic retirement benefit expenses	¥3,742	¥1,238	\$40,640

The assumptions used in accounting for the above plans for the years ended December 31, 2009 and 2008 are set forth as follows:

	2009	2008
Discount rate	2.5%	2.5%
Expected rates of return on pension plan assets	2.0%	2.0%
Recognition period for actuarial gain/loss	Mainly 16 years	15 years
Amortization period for prior service cost	5 years	5 years

Note 9 Net Assets

(a) Treasury Stock

In order to meet the requests of shareholders who own odd lot shares of common stock, the Company repurchased 77 thousand shares of common stock during the year ended December 31, 2009 at an aggregate cost of ¥36 million (U.S.\$392 thousand) and 702 thousand shares of common stock during the year ended December 31, 2008 at an aggregate cost of ¥366 million.

In addition, at the request of shareholders who own odd lot shares of common stock, the Company sold 23 thousand shares of its common stock for a total of ¥12 million (U.S.\$139 thousand) during the year ended December 31, 2009 and 157 thousand shares of its common stock for a total of ¥86 million during the year ended December 31, 2008.

(b) Stock Option Plans

Directors and certain eligible employees of the Company were granted stock options as a retirement benefit for the purchase of an aggregate of 366 thousand shares of its common stock as of December 31, 2009. The stock options may be exercised within 10 days after each director and certain eligible employees retire.

As a result of the exercise of these stock options, the Company sold 72 thousand shares of its common stock for a total of ¥39 million (U.S.\$433 thousand) during the year ended December 31, 2009 and 266 thousand shares of its common stock for a total of ¥138 million during the year ended December 31, 2008.

(c) Legal Reserve

The Corporation Law of Japan (the "Law"), which superseded most of the provisions of the former commercial Code of Japan, went into effect on May 1, 2006. The Law provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the earned reserve) be transferred to the capital reserve and the earned reserve, respectively, until the legal reserve equals 25% of the capital stock account.

The Company's Board of Directors is supposed to determine distributions of dividends on the basis of the Company's Articles of Incorporation.

The Company's Board of Directors approved a resolution at a meeting held on February 10, 2010 for the payment of cash dividends of ¥5.00 (U.S.\$0.05) per share, aggregating to ¥1,351 million (\$14,674 thousand), which has not been reflected in the accompanying consolidated financial statements for the year ended December 31, 2009.

Note 10
Pledged Assets

The assets pledged as collateral for short-term loans payable and trade notes and accounts payable at December 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Cash and time deposits	¥ 35	¥ 143	\$ 386
Land	24	247	265
Buildings and structures	1,048	954	11,382
Machinery and equipment	473	374	5,146
Total	¥1,582	¥1,720	\$17,179

Note 11
Contingent Liabilities

Contingent liabilities at December 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
As guarantors of indebtedness of certain non-consolidated subsidiaries, affiliates and employees	¥2,177	¥2,339	\$23,644
Negotiation of export bills under L/C	8	18	95
Total	¥2,186	¥2,357	\$23,739

Note 12
Research and Development Expenses

Research and development expenses, all of which have been included in selling, general and administrative expenses, amounted to ¥9,057 million (U.S.\$98,342thousand) and ¥8,522 million, for the years ended December 31, 2009 and 2008, respectively.

Note 13
Leases**Accounting for Leases**

Previously, the Company and its domestic consolidated subsidiaries accounted for lease transactions that do not transfer ownership as operating leases. Effective the year ended December 31, 2009, the Company and its domestic consolidated subsidiaries adopt "Accounting Standard for Lease Transactions."

Accordingly all finance lease transactions are recognized as lease assets and lease obligations on the balance sheet.

As amount of finance lease assets for the year ended December 31, 2009 is not material, note related to finance lease assets for the year ended December 31, 2009 are omitted.

Operating leases:

The amounts to be expensed under non-cancelable operating leases in the following years were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2009	2009
Within one year	¥ 30		\$ 336
Over one year	647		7,026
Total	¥678		\$7,362

Previously, non-cancelable leases were accounted for as operating leases regardless of whether such leases were classified as operating or finance leases, except that lease agreements which stipulate the transfer of ownership of the leased property to the lessee were accounted for as finance leases.

For the year ended December 31, 2008, lease expenses for finance leases which do not transfer ownership totaled 356 million.

Pro forma data concerning acquisition costs, accumulated depreciation, net book value and depreciation expense of the leased assets, including the interest portion thereon, was summarized as follows:

	Millions of yen
	2008
Acquisition costs	¥1,681
Accumulated depreciation	(884)
Net book value	797
Depreciation expense	356

Future minimum lease payments subsequent to December 31, 2008, including the interest portion thereon, was summarized as follows:

	Millions of yen
	2008
Within one year	¥297
Over one year	499
Total	¥797

Note 14 **Consolidated Statements of** **Cash Flows**

A reconciliation between the balance of cash and time deposits reflected in the accompanying consolidated balance sheets and that of cash and cash equivalents in the accompanying consolidated statements of cash flows as of December 31, 2009 and 2008 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Cash and time deposits	¥31,387	¥33,318	\$340,797
Short-term investments	1,667	—	18,101
Time deposits with maturities greater than three months and other	(241)	(219)	(2,625)
Cash and cash equivalents at end of the year	¥32,812	¥33,098	\$356,273

Note 15 **Segment Information**

Business Segment Information

The Company and its consolidated subsidiaries operate principally in four segments: health care products, household products, chemical products and other.

Operations in the health care products segment involve the manufacture and sale of personal care products, such as toothpastes, toothbrushes, soaps, analgesic medicines, eyedrop solutions, inflammation and pain-relieving first-aid products, health- tonic drinks and insecticides.

Operations in the household products segment involve the manufacture and sale of laundry detergents, dishwashing detergents, fabric softeners, cleansers and bleaches.

Operations in the chemical products segment involve activators and electro-conductive carbon.

Operations in the other segment involve plant construction, property management services, transportation and storage.

Business segment information for the years ended December 31, 2009 and 2008 is summarized as follows:

Millions of yen						2009
	Health care products	Household products	Chemical products	Other	Eliminations/Corporate	Consolidated
Sales to external customers	¥136,833	¥160,217	¥22,127	¥ 2,768	¥ —	¥321,947
Intersegment sales	18	115	7,930	7,946	(16,011)	—
Total sales	136,852	160,332	30,058	10,715	(16,011)	321,947
Operating expenses	128,046	157,855	31,386	10,620	(15,998)	311,910
Operating income (loss)	¥ 8,806	¥ 2,476	¥ (1,328)	¥ 95	¥ (13)	¥ 10,036
Total assets	¥105,056	¥ 79,360	¥37,465	¥ 2,952	¥31,386	¥256,220
Depreciation and amortization	7,032	4,183	777	94	336	12,425
Loss on impairment of fixed assets	261	355	104	—	2	724
Capital expenditures	3,174	3,067	1,410	36	280	7,969

Thousands of U.S. dollars						2009
	Health care products	Household products	Chemical products	Other	Eliminations/Corporate	Consolidated
Sales to external customers	\$1,485,708	\$1,739,604	\$240,260	\$ 30,061	\$ —	\$3,495,633
Intersegment sales	203	1,252	86,108	86,285	(173,849)	—
Total sales	1,485,912	1,740,856	326,368	116,346	(173,849)	3,495,633
Operating expenses	1,390,294	1,713,962	340,789	115,313	(173,703)	3,386,654
Operating income (loss)	\$ 95,618	\$ 26,893	\$ (14,420)	\$ 1,034	\$ (146)	\$ 108,979
Total assets	\$1,140,677	\$ 861,675	\$406,789	\$ 32,057	\$ 340,784	\$2,781,982
Depreciation and amortization	76,360	45,426	8,447	1,023	3,659	134,914
Loss on impairment of fixed assets	2,841	3,864	1,133	—	27	7,865
Capital expenditures	34,463	33,306	15,317	391	3,049	86,526

Millions of yen						2008
	Health care products	Household products	Chemical products	Other	Eliminations/Corporate	Consolidated
Sales to external customers	¥136,384	¥163,541	¥31,474	¥ 6,836	¥ —	¥338,236
Intersegment sales	15	10	10,703	5,224	(15,953)	—
Total sales	136,399	163,552	42,178	12,060	(15,953)	338,236
Operating expenses	128,471	162,827	42,783	11,819	(15,941)	329,959
Operating income (loss)	¥ 7,928	¥ 725	¥ (605)	¥ 241	¥ (12)	¥ 8,277
Total assets	¥106,465	¥ 84,704	¥41,943	¥ 4,609	¥29,715	¥267,438
Depreciation and amortization	6,788	4,411	939	121	183	12,444
Loss on impairment of fixed assets	14	64	—	—	—	78
Capital expenditures	3,713	3,711	3,555	360	375	11,717

Geographical Segment Information

Geographical segment information for the years ended December 31, 2009 and 2008 is summarized as follows:

Millions of yen					2009
	Japan	Asia	Eliminations/Corporate	Consolidated	
Sales to external customers	¥276,277	¥45,670	¥ —	¥321,947	
Intersegment sales	856	1,142	(1,999)	—	
Total sales	277,134	46,813	(1,999)	321,947	
Operating expenses	268,995	45,252	(2,337)	311,910	
Operating income	¥ 8,138	¥ 1,560	¥ 337	¥ 10,036	
Total assets	¥200,087	¥24,994	¥31,139	¥256,220	

	Thousands of U.S. dollars			
	2009			
	Japan	Asia	Eliminations/ Corporate	Consolidated
Sales to external customers	\$2,999,756	\$495,877	\$ —	\$3,495,633
Intersegment sales	9,304	12,409	(21,713)	—
Total sales	3,009,060	508,286	(21,713)	3,495,633
Operating expenses	2,920,694	491,341	(25,380)	3,386,654
Operating income	\$ 88,367	\$ 16,945	\$ 3,667	\$ 108,979
Total assets	\$2,172,498	\$271,382	\$338,102	\$2,781,982

	Millions of yen			
	2008			
	Japan	Asia	Eliminations/ Corporate	Consolidated
Sales to external customers	¥290,241	¥47,995	¥ —	¥338,236
Intersegment sales	974	1,427	(2,401)	—
Total sales	291,215	49,422	(2,401)	338,236
Operating expenses	283,525	48,820	(2,386)	329,959
Operating income	¥ 7,689	¥ 602	¥ (14)	¥ 8,277
Total assets	¥215,643	¥21,539	¥30,254	¥267,438

Sales to Overseas Customers

Sales to overseas customers for the years ended December 31, 2009 and 2008 are summarized as follows:

Millions of yen		
2009		
Asia	Other	Sales to overseas customers
¥ 46,988	¥ 1,204	¥ 48,192

Thousands of U.S. dollars		
2009		
Asia	Other	Sales to overseas customers
\$510,187	\$13,073	\$523,260

Millions of yen		
2008		
Asia	Other	Sales to overseas customers
¥50,117	¥2,926	¥53,043

Note 16 Derivatives

The Company and its consolidated subsidiaries utilize derivative financial instruments primarily to hedge their exposure to adverse fluctuation in interest rates and foreign exchange rates. As a matter of policy, the Company and its consolidated subsidiaries do not engage in derivatives transaction other than hedging purposes.

The Company and its consolidated subsidiaries do not anticipate nonperformance by any of the counterparties to such transactions, all of whom are domestic financial institutions and trading companies with high credit ratings.

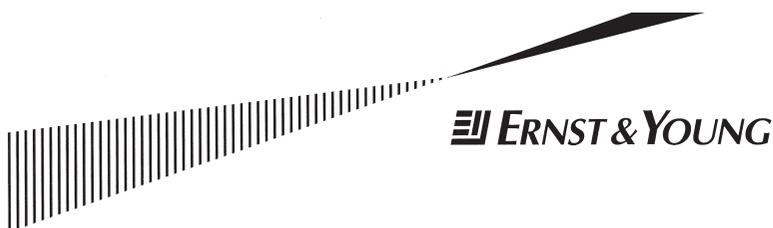
Derivative transactions are controlled by the Finance Department of the Company or the Administrative Section of each consolidated subsidiary based on their internal rules.

The positions of outstanding derivatives at December 31, 2009 and 2008 were measured at fair value but the related unrealized gain/loss is deferred until the underlying hedged transactions become due or expire.

Note 17 Subsequent Event

On February 10, 2010, the following distribution of retained earnings was approved at a meeting of the Company's Board of Directors:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends (¥5.00 (U.S.\$0.05) per share)	¥1,351	\$14,674



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Report of Independent Auditors

The Board of Directors
Lion Corporation

We have audited the accompanying consolidated balance sheets of Lion Corporation and consolidated subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lion Corporation and consolidated subsidiaries at December 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2009 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2(b).

Ernst & Young ShinNihon LLC

March 30, 2010

INVESTOR INFORMATION

As of December 31, 2009

Head office

3-7, Honjo 1-chome, Sumida-ku, Tokyo 130-8644, Japan
Tel: +81-3-3621-6211

Established

October 30, 1891

Number of employees

5,750 (consolidated)
2,449 (non-consolidated)

Paid-in capital

¥34,433,728,970

Common stock

Issued and outstanding: 299,115,346 shares

Number of shareholders

47,596

Stock exchange listing

Tokyo Stock Exchange
(Listed May 1949, Stock Code 4912)

Independent auditors

Ernst & Young ShinNihon

Transfer agent

Mitsubishi UFJ Trust and Banking Corporation

Annual meeting of shareholders

The annual meeting of shareholders of Lion Corporation is normally held in March each year in Tokyo, Japan.

Composition of shareholders



Principal shareholders

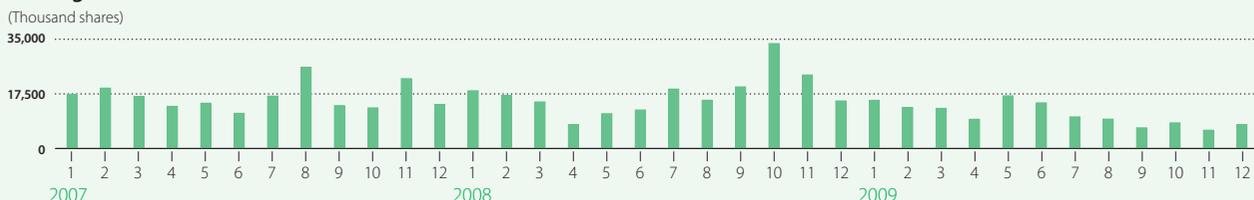
Shareholders	Number of shares owned (Thousands of shares)	Shareholding ratio (%)
Trust & Custody Services Bank, Ltd., as trustee for Mizuho Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.	14,518	5.37
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	12,109	4.48
Mizuho Corporate Bank, Ltd.	10,946	4.04
Tokio Marine & Nichido Fire Insurance Co., Ltd.	6,443	2.38
Japan Trustee Services Bank, Ltd. (Trust Account)	6,411	2.37
Mitsubishi UFJ Trust and Banking Corporation	6,257	2.31
Mizuho Trust & Banking Co., Ltd.	6,189	2.28
Sompo Japan Insurance Inc.	5,799	2.14
Meiji Yasuda Life Insurance Company	5,382	1.99
The Dai-ichi Mutual Life Insurance Company	4,500	1.66

- Figures for the number of shares owned are rounded down to the nearest thousand shares.
- The number of shares of treasury stock is subtracted from the total number of shares issued to determine the number of shares (270,298,068) used in calculating the shareholding ratios. The shareholding ratios are rounded down to the nearest one-hundredth of a percent (two decimal places).

Stock price range on Tokyo Stock Exchange



Trading volume



IR GUIDE

In order to ensure that all shareholders, including those overseas, have fair and timely access to information about the Company, Lion is taking steps to enhance the provision of information through its website.

Corporate website:
www.lion.co.jp/en/



This website offers important management and financial information, as well as timely press releases on a wide range of topics, such as new products. In addition, the website provides a variety of information to ensure a better understanding of Lion and its history of more than 100 years, such as detailed product information that could not be included in the annual report.

Investor information website:
www.lion.co.jp/en/invest/



This website provides not only the timely release of important management decisions and financial information but also historical financial data. Moreover, the website also provides a full range of qualitative information, such as messages from the president. Requests for printed versions of annual reports can also be made through this website.

CSR website:
www.lion.co.jp/en/csr/



Lion's annual CSR report provides detailed information about the Company's CSR activities, which have an extremely important position in Lion's corporate activities. An abridged translation of that report is provided on this website. Also, the website outlines the history of Lion's CSR activities, which began at a very early stage after the Company's founding.

from Good Morning to Good Night
More Dreams for Your Life

LION



In order to achieve "a 6% reduction in greenhouse gas emissions," which is the goal of the Kyoto Protocol, it is essential to realize "3.9% CO₂ absorption" by forests in Japan. This annual report was printed utilizing red pine trees in the "Lion Forest in Yamanashi" as papermaking stock, contributing to the increased CO₂ absorption by forests in Japan.



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