

Annual Report 2013

Year Ended December 31, 2013

# Balancing Business Strategy with Sustainable Daily Life



life.love.  
**LION**

# Products that enrich and give back to

## Growing by Offering Products Based on Advanced Technology

Oral care has been our main business since we began manufacturing our first toothpastes in 1896. In the interim, we have developed toothpastes and toothbrushes that have new functions to meet the needs of the times, based on Lion's strong technological capabilities. Lion has also developed many products that have been "firsts," both in Japan and globally, and it is the No. 1 company in Japan's oral care industry.

\* INTAGE Inc. SRI survey of the total markets for toothpaste, toothbrush, dental rinse, and dental care products. Accumulated sales amount from January through December 2013



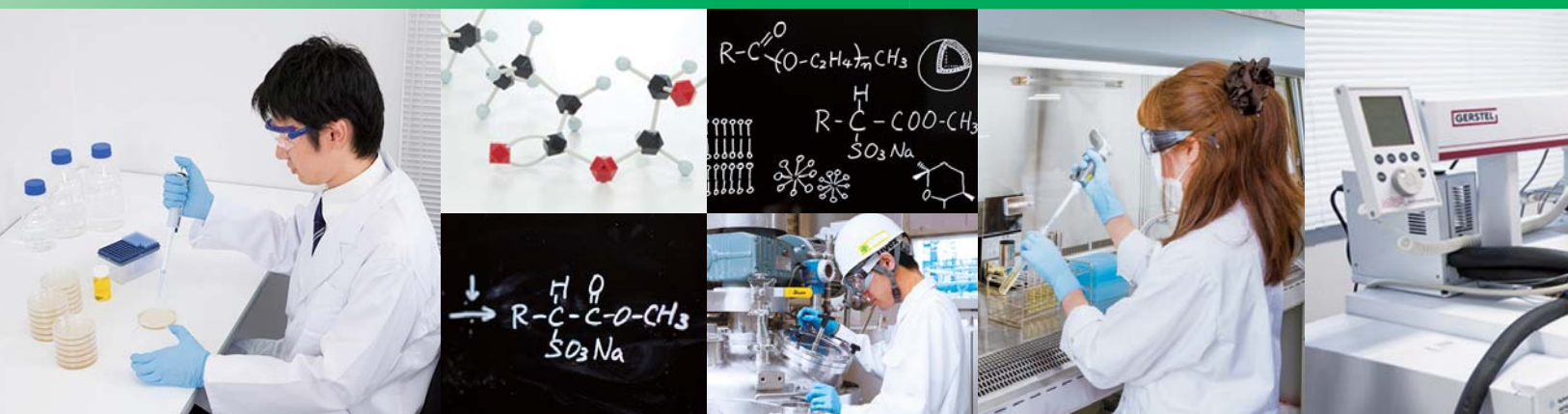


# our lives society

## **Sustaining Growth by Helping People to Understand the Importance of Oral Hygiene**

We are doing more than just selling toothpastes and toothbrushes. We are also helping people to acquire good habits as part of their daily routines by offering accurate information and knowledge about oral hygiene. Lion engages in these personal hygiene educational activities both in Japan and in the other countries in Asia where it has a business presence.





# How we are innovat good and for future

## Growing through Technological Innovation

Methyl ester sulfonate (MES) is an anionic surfactant derived from palm oil that has superior detergency and biodegradability properties as a surface-active agent. Lion was the first in the world to succeed in producing MES commercially in 1991 and has established an MES manufacturing company in Malaysia that has begun to supply plant-derived ingredients to the world's detergent manufacturers.







### **Sustaining Growth through Eco-Responsiveness**

Lion has been responsible for a series of innovative technologies for detergents that have addressed the environmental issues of the times. These have included the development of low-foaming detergents, phosphorous-free detergents, concentrated detergents that come in resource-saving containers and packaging, and recyclable plant-derived raw materials. These innovative products and processes have been developed in the pursuit of clean living and environmental conservation.

# ing for generations





# Corporate Philosophy

## Company Motto

Lion Corporation positions “Fulfilling a Spirit of Love” as fundamental to its management, and thus contributes to the enrichment of the happiness and lives of people.

## Management Philosophy

1. We bring together the power of our personnel, the power of our technology and the power of our marketing, as we provide superior products that are helpful in the daily lives of people.
2. We respect the “Spirit of Tenacity and Creativity” that we have maintained since our founding, as we continue developing our business.
3. We deeply appreciate all those who extend their valuable support to us, as we prosper together through sincerity and mutual trust.



Since 2009, we have participated in the United Nations Global Compact, a global framework to realize sustainable growth, working on achievement of the 10 principles, including human rights, labor, environment, and anti-corruption.



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



Lion Corporation has been included in the Morningstar Socially Responsible Investment Index on a continuing basis since January 2010.

# Contents



## Role of This Annual Report in Our Communications Toolbox

This annual report is intended to serve as a communications tool that helps investors and a wide range of other stakeholders 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.

This annual report has been prepared with an awareness of corporate social responsibility (CSR), and it presents the essential elements of Lion's CSR as well as the relationships between CSR and Lion's business activities.

## CSR Report

The purpose of the CSR Report is to communicate what corporate social responsibility (CSR) means to Lion and to outline Lion's CSR activities. It provides an overview of Lion's approach to CSR and describes activities carried out.

If you would like further information on Lion and its CSR activities, please refer to our CSR Report and the CSR section of our website.

URL <http://www.lion.co.jp/en/csr/>

## Website

The aim of Lion's website is to ensure timely and appropriate disclosure of information required by customers, experts, and all other stakeholders.

URL <http://www.lion.co.jp/en/>

## Forward-Looking Statements

This annual report contains "forward-looking statements," including statements concerning the Company's outlook for fiscal 2014 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.

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## Strategy

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In view of the deterioration in performance in fiscal 2012, Lion placed priority on improving the quality of its earnings in Japan and accelerated the growth of its overseas operations and direct-to-consumer business.

## Review of Operations

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## Sustainability

The origins of Lion's approach to CSR can be traced to the Company's founding spirit of "working for the benefit of people and society."

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Lion's R&D divisions have selected strategic themes that will contribute to attaining the objectives of "Vision 2020."

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# Financial Highlights

## Net Sales

¥352.0  
billion

As a result of growth in sales, mainly overseas,  
Lion reached its revised numerical targets.

## Free Cash Flow

¥10.0 billion

Lion is generating stable free cash flows.

## Debt-to-Equity Ratio

27.2%

Lion is strengthening the soundness of its financial position.



Operating  
Income +50%

Lion reported a major gain in operating income because of  
the improvement in the product mix in its domestic consumer  
products businesses and expansion in sales in Overseas  
Business.



ROE  
5.4%

ROA  
4.6%

Lion strengthened its earnings-generating capacity through  
implementing its four strategies under "Vision 2020."

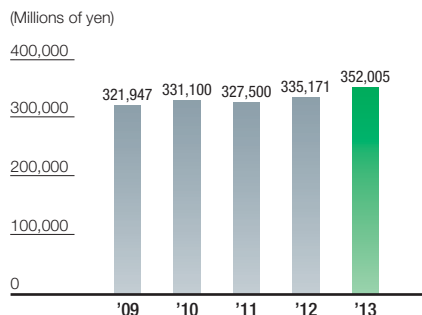
Cash Dividends  
¥10.0

Assuming continuing stable performance,  
Lion will work to expand its return to share-  
holders.

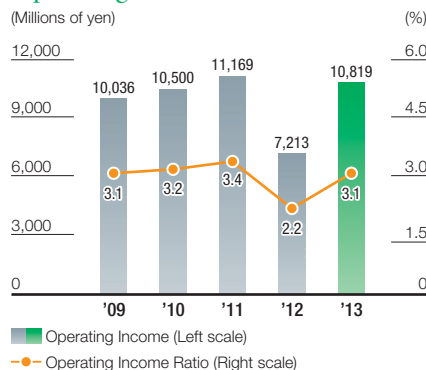


## PROFITABILITY

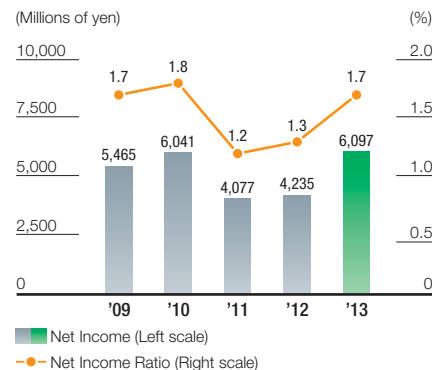
### Net Sales



### Operating Income/ Operating Income Ratio

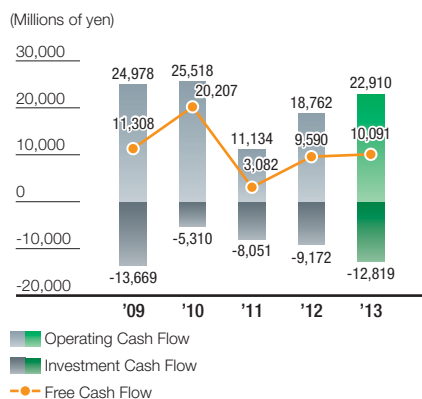


### Net Income/ Net Income Ratio

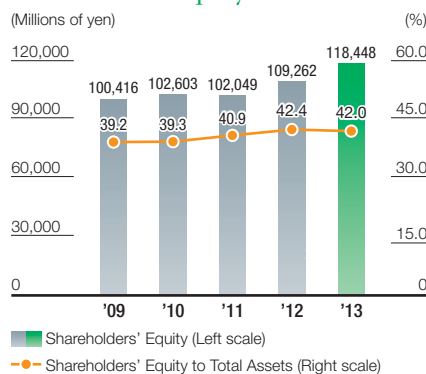


## SOUNDNESS

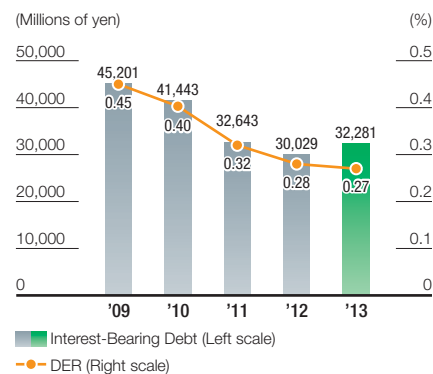
### Operating Cash Flow/Investment Cash Flow/Free Cash Flow



### Shareholders' Equity/ Shareholders' Equity to Total Assets

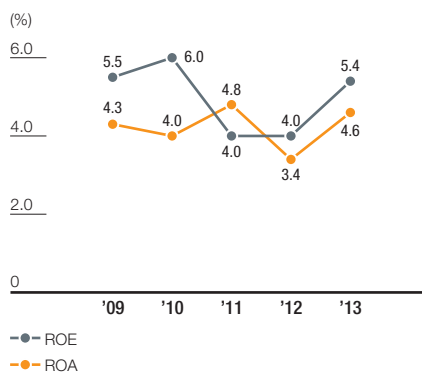


### Interest-Bearing Debt/DER

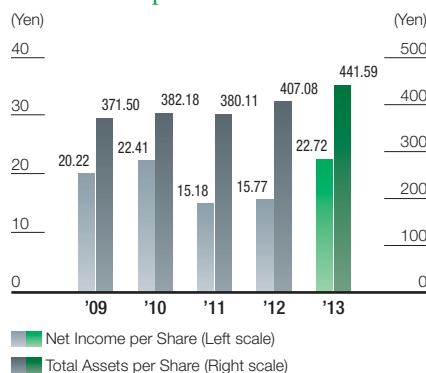


## EFFICIENCY

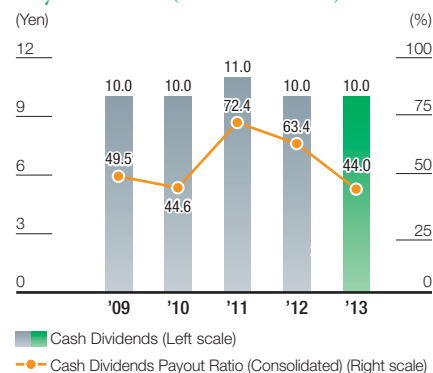
### ROE/ROA



### Net Income per Share/ Total Assets per Share



### Cash Dividends/Cash Dividends Payout Ratio (Consolidated)



\* The cash dividend of ¥11 for 2011 includes a ¥1 dividend to commemorate the Company's 120th anniversary.

# Eleven-Year Financial Summary

Lion Corporation and Consolidated Subsidiaries

	2013	2012	2011
<b>Income statement data:</b>			
Net sales	¥352,005	¥335,171	¥327,500
Cost of sales	153,336	145,385	139,646
Gross profit	198,668	189,785	187,854
Selling, general and administrative expenses	187,849	182,572	176,684
Operating income	10,819	7,213	11,169
Income (loss) before income taxes and minority interests	10,925	8,594	7,780
Net income (loss)	6,097	4,235	4,077
<b>Balance sheet data:</b>			
Total liabilities and net assets	¥282,098	¥257,595	¥249,272
Property, plant and equipment, net	68,989	61,955	58,503
Total long-term liabilities	26,208	47,288	49,417
Total liabilities	157,865	143,431	144,020
Total net assets*1	124,232	114,163	105,252
Total shareholders' equity	—	—	—
<b>Other selected data:</b>			
Capital expenditures*2	¥14,100	¥10,811	¥ 8,368
R&D expenses	9,618	8,989	8,913
Depreciation and amortization*2	11,227	11,834	12,009
Number of employees	6,162	6,006	5,973
<b>Common share data (yen):</b>			
Net income (loss) per share – basic*3	¥ 22.72	¥ 15.77	¥ 15.18
Net income per share – diluted	22.68	15.75	15.16
Dividends paid per share	10.00	10.00	11.00
Net assets per share*4	441.59	407.08	380.11
Common stock (number of shares outstanding)	299,115,346	299,115,346	299,115,346
<b>Financial ratios (% , times):</b>			
As a percent of net sales:			
Gross profit	56.4%	56.6%	57.4%
Selling, general and administrative expenses	53.4	54.5	53.9
Operating income	3.1	2.2	3.4
Income (loss) before income taxes and minority interests	3.1	2.6	2.4
Net income (loss)	1.7	1.3	1.2
Return on equity	5.4	4.0	4.0
Current ratio	112.5	136.3	134.5
Debt-to-equity ratio	27.2	28.1	32.0
Inventory turnover	10.0x	10.8x	11.3x

\*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 on the website.

\*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.



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

2010	2009	2008	2007	2006	2005	2004	2003
¥331,100	¥321,947	¥338,236	¥341,717	¥330,380	¥331,798	¥309,514	¥308,545
140,400	136,619	157,523	159,200	165,570	163,153	149,150	148,971
190,700	185,327	180,712	182,517	164,810	168,644	160,363	159,574
180,200	175,290	172,435	173,611	164,467	162,577	154,341	149,708
10,500	10,036	8,277	8,905	343	6,066	6,021	9,865
10,925	9,694	6,088	9,564	13,020	8,737	(5,017)	13,985
6,041	5,465	3,040	5,423	5,540	5,473	(4,723)	10,946
¥260,939	¥256,220	¥267,438	¥279,147	¥246,327	¥249,303	¥235,405	¥249,199
60,668	62,846	63,473	64,345	65,606	68,570	68,641	69,262
52,483	58,688	65,758	75,522	42,818	36,008	35,955	32,190
155,179	152,595	166,864	171,607	141,193	137,411	132,167	135,654
105,760	103,624	100,574	107,540	105,133	111,892	—	—
—	—	—	—	—	109,103	101,021	112,105
¥ 7,081	¥ 7,969	¥11,717	¥39,282	¥10,149	¥11,794	¥23,266	¥7,290
8,910	9,057	8,522	8,745	7,922	8,506	7,844	7,835
12,349	12,425	12,444	10,590	9,634	9,754	14,352	7,853
5,972	5,750	5,774	5,761	5,771	6,024	5,721	5,594
¥ 22.41	¥ 20.22	¥ 11.23	¥ 20.06	¥ 19.60	¥ 19.10	¥ (16.66)	¥ 36.81
22.37	20.19	11.22	20.02	19.52	19.05	—	36.75
10.00	10.00	10.00	10.00	10.00	9.00	8.00	8.00
382.18	371.50	362.02	382.80	376.76	384.60	356.90	385.83
299,115,346	299,115,346	299,115,346	299,115,346	299,115,346	313,515,346	313,515,346	313,515,346
57.6%	57.6%	53.4%	53.4%	49.9%	50.8%	51.8%	51.7%
54.4	54.4	51.0	50.8	49.8	49.0	49.8	48.5
3.2	3.1	2.4	2.6	0.1	1.8	2.0	3.2
3.3	3.0	1.8	2.8	3.9	2.6	(1.6)	4.5
1.8	1.7	0.9	1.6	1.7	1.7	(1.5)	3.5
6.0	5.5	3.0	5.3	5.3	5.2	(4.4)	10.0
128.0	123.8	120.7	132.2	125.0	116.1	117.5	134.3
40.4	45.0	54.7	52.1	21.1	13.4	12.9	6.7
12.5x	12.5x	12.5x	12.6x	12.3x	12.7x	13.1x	14.6x

Strategy

Review of Operations

Sustainability

Financial Information

Corporate Data

## Our Brands

**1.5%**  
**Other**

Net Sales  
**¥5.4 billion**

Lion subsidiaries located in Japan primarily undertake operations of each Lion Group business. The main products and services are construction contractor business, real estate management, distribution/storage, and temporary staffing services.

**8.9%**

### Industrial Products Business

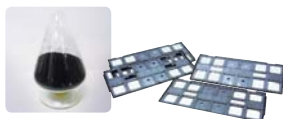
Net Sales  
**¥31.2 billion**

The Industrial Products Business comprises Lion's Chemical Products Business, which handles surfactant and electro-conductive carbon black products, and detergents for institutional-use businesses, which supplies a range of cleaning preparations and hand soaps for use in hotels, restaurants, and other industries.

Palm fatty acid ester-based insulating oil



Electro-conductive carbon black products



Products for institutional use



Total Net  
**¥352.0**

**20.6%**  
**Overseas Business**

Net Sales  
**¥72.7 billion**

The Overseas Business engages mainly in the manufacture and sale of commodities by affiliated overseas businesses.

Thailand



South Korea



Singapore



Philippines



China



Taiwan



Hong Kong



Malaysia



Indonesia





# 69.0%

## Consumer Products Business

Net Sales **¥242.7 billion**

We offer a wide range of products and information in Japan, including products such as toothpastes, laundry detergents, and OTC drugs that support “total care, from prevention to treatment and comfort.”

### Oral Care Business

Toothpastes, Toothbrushes, Mouthwashes



### Fabric Care Business

Laundry detergents, Bleach, Fabric softeners



### Living Care Business

Dishwashing detergents, Household cleaners, Cooking-aid products



### Pharmaceutical Business

Analgesics, Eyedrops, Tonics, Insecticides



### Other

Functional food products, Gift products, Pet supplies



### Beauty Care Business

Liquid hand soaps, Antiperspirants



## Message from the Management

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**Sadayoshi  
Fujishige**

Representative Director  
and Chairman

**Itsuo  
Hama**

Representative  
Director  
and President





## Moving steadily ahead to our goal of being a company that creates value for lifestyle and spiritual fulfillment

Lion's vision for 2020 focuses on becoming a company that creates value for lifestyle and spiritual fulfillment. Under our "Vision 2020" management plan that we are now implementing, the financial targets we envision for fiscal 2020 are ¥500 billion in net sales, ¥50 billion in operating income, and, thus, an operating income ratio of 10%.

During fiscal 2013, we worked to reach our highest priority goal in the domestic market of "recovery in profitability of domestic daily consumer products businesses." To attain this objective, we undertook active initiatives to raise profitability by developing and promoting high-value-added products as well as products aimed at opening up new market segments. Because of these initiatives and expansion in our Overseas Business as well as growth in sales in our direct-to-consumer business to more than ¥10 billion, we were pleased to report increases in both consolidated net sales and operating income of the Lion Group in fiscal 2013.

In fiscal 2014, we will continue to pursue qualitative growth of domestic businesses through fostering the development of high-value-added products as we also work toward the quantitative expansion of overseas businesses. In parallel with this, we will expand our CSR activities, including our continuing initiatives to become a company that is advanced in the area of environmental responsiveness, as we also focus on enhancing our corporate governance systems. Through these and other activities, we will move steadily ahead to reach the goal of being a company that creates value for lifestyle and spiritual fulfillment.

We are committed to continuing to respond to the expectations of you, our shareholders, and are grateful for your continued support and encouragement.

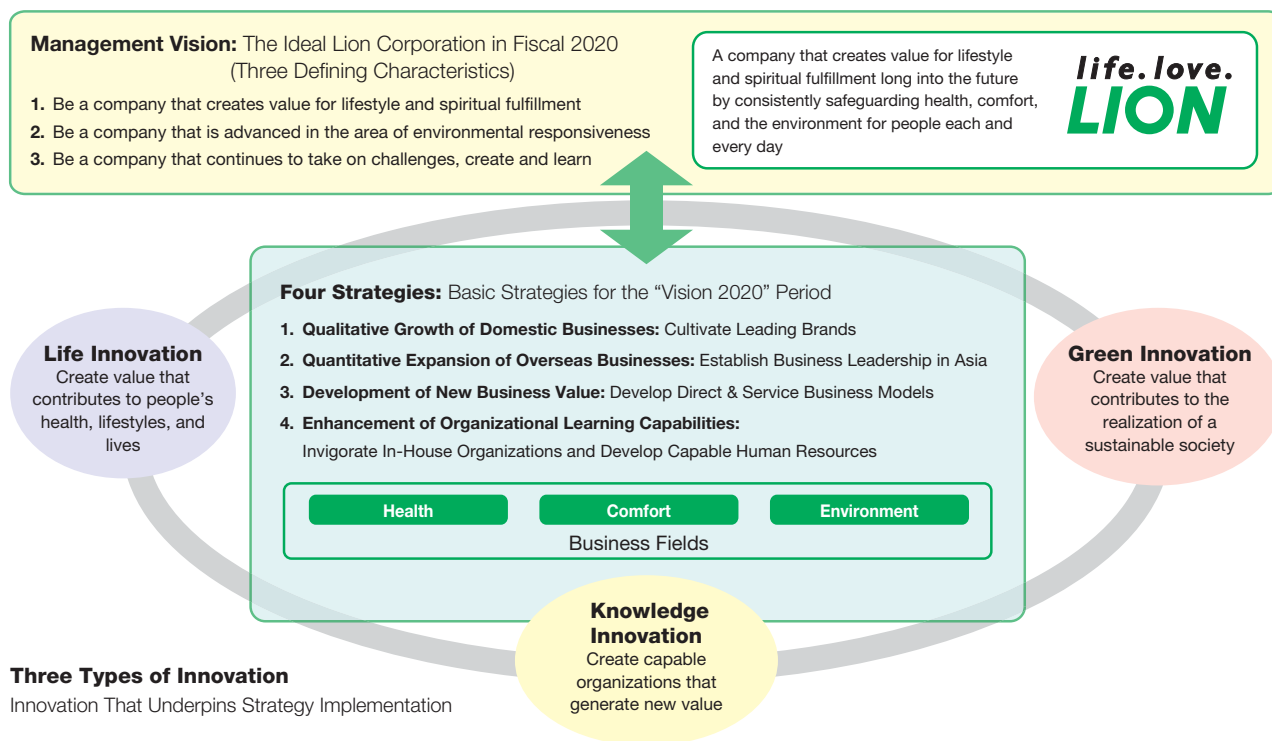
April 2014

# Management Strategy

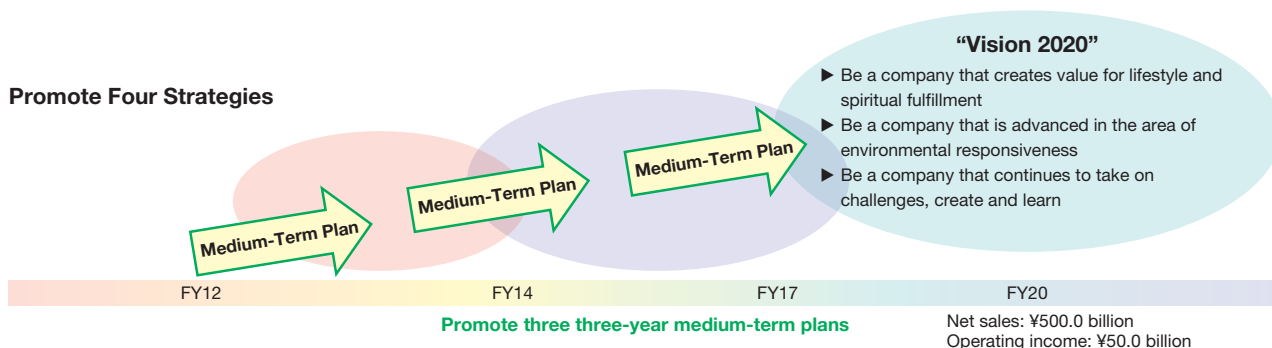
The Lion Group issued its New Management Vision “Vision 2020,” which sets objectives for the year 2020.

## PLAN

### Vision 2020



### “Vision 2020”: Time Frame and Numerical Targets



## DO

### Summary of the Company's Operations in Fiscal 2013

#### QUALITATIVE GROWTH OF DOMESTIC BUSINESSES

##### Achievements

- Recorded expansion in sales of high-value-added products and market-creation-type products
- Used promotional expenditures more efficiently by stabilizing prices of lower-priced consumer goods

##### Challenges

- Strengthening Oral Care and Pharmaceutical businesses
- Improving the product mix by shifting to high-value-added products
- Continuing to work to allocate promotional expenditures more efficiently

#### QUANTITATIVE EXPANSION OF OVERSEAS BUSINESSES

##### Achievements

- Net sales exceeded ¥100 billion (including sales of equity method companies)
- Expanded into new business areas, including commencement of business operations in the Philippines
- Made steady progress in expansion of production capacity

##### Challenges

- Continuing growth in Overseas Business
- Expand sales in the Philippines and sales of Lion Eco Chemicals Sdn. Bhd.

#### DEVELOPMENT OF NEW BUSINESS VALUE

##### Achievements

- Reached ¥10 billion sales target in the direct-to-consumer business

##### Challenges

- Developing second major pillar in the direct-to-consumer business

## TARGETS

### Performance Targets of the "V-1 Plan"

#### Fiscal 2014

Net sales	¥360.0 billion
Operating income	¥12.0 billion
Ordinary income	¥13.0 billion
Net income	¥7.0 billion

### Principal Business Policies

#### Domestic Businesses

- Launch new products in the core brand lines of oral care and pharmaceuticals, while taking further initiatives to develop high-value-added products
- Nurture brand value in the health-care business
- Implement cost structure reforms in the home-care and chemicals businesses through realignment of production facilities in response to changes in the market

#### Overseas Businesses

- Promote Group synergies overseas through sharing product and sales know-how and other means
- Make overseas operations in the Philippines, Lion Eco Chemicals Sdn. Bhd., and other activities where Lion has made investments up-front profitable

#### New Businesses

- Develop second core pillars for sales through direct-to-consumer channels
- Develop Internet channel markets



## Interview with the President

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Representative Director and President  
**Itsuo Hama**

During fiscal 2013, ended December 31, 2013, we achieved recovery because of qualitative growth in domestic businesses by offering higher-value-added products and quantitative expansion of overseas businesses. We are convinced that this improvement in results is only the beginning of a period of growth for Lion Corporation. In fiscal 2014, we are going to continue to enhance the profitability of our business activities in Japan and accelerate the growth of our overseas businesses.

---

**Q** Could you please comment on what issues you initially expected to face in fiscal 2013, Lion's performance during the year, and the factors that contributed to the major recovery in profitability in comparison with fiscal 2012?

**A** In Japan, the declining trend in consumer prices began to bottom out, and the economy was on a recovery trend with consumer spending improving and corporate profitability rising. We saw a braking of the decline in prices in the markets where Lion sells its products, but competition continued to be very tough.

Under these market conditions, in Japan, we placed maximum priority on recovering profitability in our consumer products businesses by improving our product mix. We did this by shifting the mix toward high-value-added items, by launching and promoting new innovative products aimed at opening up new market segments, and by furthering sales of goods in the lower price range while maintaining stable prices.

In addition, under the new sales systems we launched in fiscal 2013, at the sales level we exerted firm control

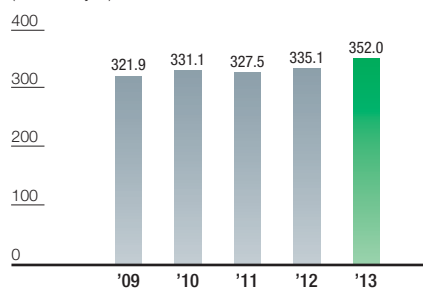
over our product mix by strengthening our detailed supervision and management of sales activities.

Therefore, we were able to make more-efficient use of marketing expenditures, and our operating income improved and rose substantially above our initial goals.

In our Overseas Business activities, sales in Thailand, which account for a significant percentage of total overseas sales, slowed because of increasing competition in the market and uncertain political conditions. Over the course of the year, however, overseas sales expanded about 30%, led by expansion in sales of Lion Eco Chemicals Sdn. Bhd. (LECO) in Malaysia and favorable performance of oral care products in China. In addition, we entered the Philippine market and, at present, have expanded our activities into nine countries and regions outside Japan. We are also searching for new opportunities for further quantitative growth. Moreover, to respond to future expansion in demand, we raised production capacity during the year. Our total consolidated net sales overseas for fiscal 2013 amounted to ¥76.8 billion, and, for the first time, the sum of overseas sales before eliminations, including companies accounted for by the equity method, rose to more than ¥100 billion. Additionally, the percentage of overseas

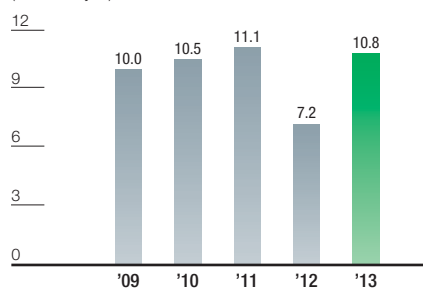
### Net Sales

(Billions of yen)



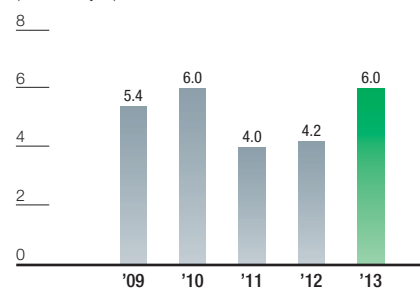
### Operating Income

(Billions of yen)



### Net Income

(Billions of yen)



sales in Lion's consolidated net sales rose to 21%, compared with 17% in 2012. This brings us within sight of our target under "Vision 2020," our management vision for the year 2020, of increasing overseas sales to 30% of total consolidated sales.

**Q** What is your outlook for Lion's performance in fiscal 2014? We are particularly interested in your views of the impact of the increase in Japan's consumption tax, which is scheduled for April 2014. Also, 2014 will be the final year of your "V-1 Plan," but your forecasts have been short of the performance targets. Will this mean that Lion will make changes in its medium-term management plan or its "Vision 2020" longer-term management plan?

**A** Our targets for fiscal 2014 are ¥360.0 billion in consolidated net sales and ¥12.0 billion in operating income, which will be the highest in Lion's history.

We are expecting to come close to the sales target under our medium-term plan, but operating income will be below the target of ¥20 billion. Although we reported an early recovery in 2013, we will not be able to make up for the shortfall in 2012, which was the first year under our "V-1 Plan."

We intend to set specific revised targets and dates for their attainment next year and thereafter as we

monitor developments during the current year.

However, we will continue to steadily implement the four strategies (discussed below) contained in "Vision 2020." Our highest priority now is to achieve our targets for 2014 and thereby build a firm foundation for growth.

The first of the strategies we are implementing to realize the goals of "Vision 2020" by the year 2020 is "Qualitative Growth of Domestic Businesses." Last year, to strengthen profitability in Lion's consumer products businesses in the medium-to-long term, we continued to introduce and nurture additional innovative and high-value-added products as we controlled the cost of goods in the lower price range. Also in fiscal 2014, to nurture the high-value-added items we introduced the year before last, we will launch new, high-value-added products in the oral care and OTC pharmaceutical markets.

In the oral care field, to strengthen the value and increase the profitability of our *Clinica* brand, which is our core lineup of oral care products, and increase its profitability, we will upgrade the *Clinica* product lineup to reflect our awareness of preventive dentistry\* as a good routine that consumers should acquire in their oral care activities. In the fabric care field, we will implement a number of measures to increase the usage of *TOP NANOX* and *TOP HYGIA* and accelerate the shift toward super-concentrated liquid laundry detergents.

\* Preventive dentistry: Preventing dental problems before they emerge through self-care based on professional dental care and guidance from dentists

In the OTC pharmaceutical field, we will launch a number of new products. These will include *BUFFERIN PREMIUM*, a high-value-added new member of the antipyretic analgesic *BUFFERIN* lineup; *HALIX*



*HOGRELA*, an analgesic and anti-inflammatory poultice; as well as other products.

In fiscal 2014, we will make aggressive use of advertising and other promotional expenditures and work to raise the value of our core brands and enhance their market presence.

The impact of the increase in the consumption tax will take place before and following the tax hike, which is scheduled for April. Over the course of the full year, we are anticipating that demand for consumer goods will remain unaffected, and we believe the tax rise will have only a marginal impact on performance for the full fiscal year. However, we are assuming that there will be a surge in demand in March, prior to the tax rise, and, to capture the full benefits of the demand surge, we will launch time-limited offers and other sales strategies to encourage bulk buying by consumers. Also, after the surge in demand, a reactionary decline in demand is expected to follow the tax hike. To stimulate demand without setting off price wars, we will focus on accelerating the launching of new and high-value-added products as well as products aimed at opening up new market segments.

The second strategy under “Vision 2020” is “Quantitative Expansion of Overseas Businesses.” Although there are signs of economic and political instability in the emerging economies, the sales and operating income of Lion’s overseas businesses in these areas are forecast to continue to rise above the previous fiscal year, thus bringing an improvement in performance. We will consolidate our position in the

Philippine market, which we entered last year, and expand sales of MES manufactured by LECO by stepping up our activities to increase the number of companies using this detergent ingredient.

The third strategy under “Vision 2020” is “Development of New Business Value.” In our direct-to-consumer business, in fiscal 2013, we had already reached our target for 2014 of ¥10 billion in sales. Looking ahead, we will work to develop sales of *Fleuria*, a hair care product for women that we launched in June 2013, and other products with the goal of making them the second and third major pillars of our direct-to-consumer business.



The fourth strategy under “Vision 2020” is “Enhancement of Organizational Learning Capabilities.” Our initiatives in this area include introducing a new personnel management system and conducting programs and other activities to develop personnel with skills for contributing to the development of Lion’s activities around the world. Along with these activities, we are moving ahead with a number of business reform projects to strengthen the Lion organization.

**Q** At present, Lion is implementing its “Eco Vision 2020,” which was announced in June 2013, on a Company-wide basis. What are its objectives?

**A** Lion has implemented environmental activities, an important part of its corporate activities, and takes them into account in product development and in the growth of its business operations.

One of the objectives that Lion has set forth in its “Vision 2020” is “to become an environmentally advanced company.” In June 2013, Lion issued its “Eco Vision 2020,” which targets proactive goals for environmental responsiveness and contributing to the creation of a sustainable society. These targets are “Realizing a Low Carbon Society,” “Realizing a Sound Material-Cycle Society,” and “Harmony with Nature.”

Lion aims to attain these targets by developing eco-friendly products that meet goals for reducing emissions of greenhouse gases and the volume of water used.

To achieve harmony with nature, we worked to obtain approval from the Roundtable on Sustainable Palm Oil (RSPO), which enabled the procurement of vegetable oils and contributes to the preservation of biodiversity as well as the implementation of other activities for biodiversity preservation.

**Q** Market analysts have given your overseas strategy high marks. What aspects of your strategy do you think have been effective? In view of your current overseas presence, what measures do you think will be essential for Lion to adopt to reach your goal of ¥150 billion in annual sales overseas by 2020?

**A** Lion is securing rapid growth in Asia because it has built strong partnerships with local companies. Lion’s division of labor with partners has been the best approach, with Lion providing production and marketing know-how, technology, brands, and other skills and the local partner taking charge of distribution. The winning strategy for responding to the bipolarization of consumption will be to position brands from Japan as high-value-added global brands. On the other hand, we should position local brands that have already established a presence in their respective markets in the lower price range.

Looking ahead, to reach our goal for overseas sales, first, we must promote the sharing of information between Japan and other countries, introduce products

that meet the needs of various countries and markets before our competitors, and nurture the development of major brands. Second, we must enter new product categories and establish presences in countries where we have no business activities at present. After entering the Philippines last year, we began operations in the Philippines and are now considering entry into other countries in Southeast Asia.

**Q To significantly improve Lion's performance, it is thought that launching additional high-value-added products in Japan will be essential. Could you please share with us your thoughts on your basic R&D strategy going forward?**

**A** Japan's population has already begun to decline but, from various perspectives, there are signs of major changes in people's lifestyles and preferences. If we can identify these signs of change, we believe that there will be ample opportunities for growth as we propose new ideas and products for more-affluent living, develop high-value-added products, and launch items that are aimed at opening up new market segments.

To achieve this kind of growth, we must first collect evidence and clarify the target markets, and then seek to develop products that give consumers a distinctive sense of satisfaction when they use them. To facilitate product development, Lion opened new R&D facilities in Tokyo in July 2013. These facilities are now providing an

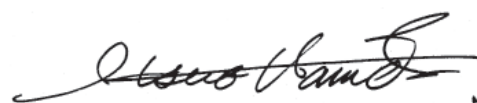
environment for collaboration between Japanese and overseas researchers from differing professional fields.

**Q In conclusion, would you please state your policy for providing a return to shareholders?**

**A** I think providing stable and continuing dividends is the basis of and important for providing returns to shareholders. We declared an annual dividend of ¥10 per share for fiscal 2013. On behalf of our shareholders, we are focusing on raising Lion's corporate value through improving performance, paying dividends as a matter of course, and continuing to enhance our information disclosure.

Lion's business domains are deeply rooted in the basic human needs for health, comfort, and the environment. Looking ahead, as we continue to conduct eco-friendly business activities, we want to continue to provide major value to consumers through supporting healthy and comfortable lifestyles not only for our shareholders but also for all our stakeholders.

April 2014



Itsuo Hama

Representative Director and President



# Consumer Products Operations



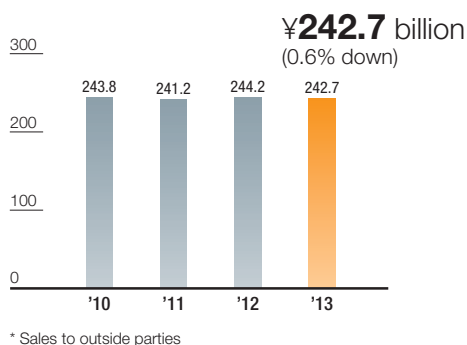
**Masazumi Kikukawa**

Director, Executive Officer, and Executive General Manager of Health and Home Care Products Division

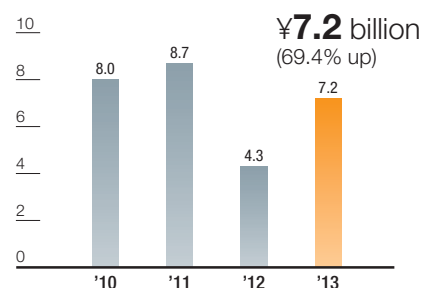


In its business operations in Japan, Lion is working to improve the quality of its businesses. This means placing priority on improving the product mix and stabilizing the sales prices of products in the lower-priced range. Thus, net sales were approximately the same as in the previous year. Operating income showed a major gain, because of our emphasis on offering high-value-added products and using our marketing resources more efficiently.

**Net Sales**  
(Billions of yen)



**Operating Income**  
(Billions of yen)



## Market Environment

In the markets for toiletries products where Lion is a participant, the declining trend in unit prices that had continued from 2009 onward began to bottom out. In fiscal 2013, prices were at about the same level as in the previous fiscal year. In terms of units, the launching of high-value-added products in each of the markets stimulated demand, and the market expanded about 2%\* year on year.

\* INTAGE Inc. SRI survey of 40 household goods markets. Accumulated unit sales from January through December 2013, compared with the previous year

## Market Environment and Performance in Fiscal 2013

In view of the decline in profitability in fiscal 2012, during fiscal 2013, Lion took measures (1) to improve its product mix by nurturing the development of high-value-added products and (2) to stabilize the prices of products in the lower-priced range to allocate sales promotional resources more efficiently.

One example of the nurturing of high-value-added products was Lion's response to the rising "preventive

consciousness” among consumers. To offer products that prevent certain undesirable outcomes before they emerge, Lion developed *TOP HYGIA*, which is a concentrated liquid laundry detergent that increases the resistance of laundry items to germs with each washing. Another newly introduced product responding to the preventive consciousness trend among consumers is *TOP HYGIA Fabric Refresher antibacterial, antiviral deodorant*, which can eliminate germs and viruses as well as prevent the growth of germs.

Another new product aimed at creating a new market is *Smile 40 Premium*, an eyedrop preparation that has beneficial effects on elderly consumers suffering from eyestrain. Lion identified this market opportunity among people in the middle to upper age categories and was able to attract new consumers from these age-groups.

Moreover, Lion’s direct-to-consumer sales of functional food products and other items that support the quality of life (QOL) of its customers are showing favorable expansion. Sales of *Nice rim essence Lactoferrin*, one of Lion’s core health food products, are expanding steadily. In addition, Lion has launched *Fleuria* in its aging hair care series for mature women

that promotes beautiful and healthy hair and is working to enlarge the overall product lineup in its direct-to-consumer sales business.

As a result, sales were at about the same level as in the previous year, but operating income rose substantially in part because of cost reductions, including lowering of manufacturing costs.

## Strategy in Fiscal 2014

In its Consumer Products Business, Lion is developing its business operations around three key words—“health, comfort, and environment”—in the three fields of daily necessities, OTC pharmaceuticals, and functional food products and as it aims for “Qualitative Growth of Domestic Businesses.” Lion defines “qualitative growth” as stable expansion that emphasizes profitability. Based on the identification of consumers’ latent needs, Lion takes up the challenge of launching new products by offering new value proposals and creating new markets. In existing markets, Lion works to raise unit prices and accelerates the expansion of growth markets, with the aim of raising profitability.

## Market Position of Products in Japan

Lion’s major product fields and 2013 market positions in Japan



**No. 1** ¥80 billion

**Toothpastes**

**Toothbrushes**

**No. 1** ¥43 billion



**Laundry detergents**

**No. 3** ¥131 billion

**Fabric softeners**

**No. 3** ¥79 billion



**Liquid hand soaps**

**No. 1** ¥20 billion



**Dishwashing detergents**

**No. 3** ¥45 billion

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

Source: INTAGE Inc., SRI survey, each category. Data from January through December 2013, on the basis on sales value

## Oral Care Business

Performance of newly introduced toothbrushes was favorable, but growth in sales of toothpastes was sluggish, and sales of this business were below the previous fiscal year.

### Key Products Contributing to Performance in Fiscal 2013

#### *Dentor Systema Brand Line*

The *Dentor Systema* line has won high appraisal among consumers as a brand that offers solid protection against periodontal disease through application of Lion's periodontal pocket care technology.

In the toothpaste business, in addition to *Dentor Systema* and *Dentor Systema EX* toothpastes for preventing periodontal disease, which were launched in previous years, in 2012, Lion introduced *Dentor Systema Toothpaste Sensitive Care*, which guards against the stinging pain caused by hypersensitivity as well as periodontal disease. During 2013, sales of *Dentor Systema Toothpaste Sensitive Care* were favorable. In addition, in the toothbrush business, sales of *Dentor Systema Shikkari-Kegoshi (Core-Sheath Bristles) Type* toothbrushes and *Dentor Systema Haguki Plus* toothbrushes were steady, and *Dentor Systema* brand toothbrushes maintained their No. 1\* position in the toothbrush market in Japan for the 14th consecutive year.

In 2014 also, by continuing its advertising and in-store promotional activities, Lion will work to further the growth of the *Dentor Systema* brand as



a comprehensive lineup of oral care products for preventing periodontal disease.

\* INTAGE Inc. SRI survey of 40 household goods markets. Accumulated unit sales from January through December 2013, compared with the previous year

### Strategy in Fiscal 2014

As more and more people have become aware of the idea of “wanting to have longer and more-affluent lives by maintaining healthy teeth,” the concept of preventive dentistry has received increasing attention. Preventive dentistry means not getting dental treatment after such problems as tooth decay have appeared, but preventing them before they occur. To enjoy the benefits of preventive dentistry, it is important not only to have access to professional care in dental clinics but also to practice “self-care” under the guidance of a dental specialist.

In 2014, Lion rebranded its *Clinica* lineup of oral care products under the theme of preventive dentistry and repositioned *Clinica* as a group of products that help people actually practice self-care as recommended by dental professionals. The new *Clinica* lineup includes toothpastes, toothbrushes, dental rinses, and other



dental products, all of which support consumers in their dental self-care activities as recommended by dental specialists.

Among toothpastes, *Clinica* line products feature Lion's proprietary high adhesion fluoride formula that helps fluoride remain on the surface of teeth longer after brushing and promotes the repairing of the quality of the enamel. In addition, Lion has launched an improved version of *Clinica Advantage* toothpaste, which now provides total care because it contains three medicated ingredients for the comprehensive control of the causes of tooth problems. In the dental floss field, the *Clinica Advantage Y-Type Dental Floss* makes it easy to clean even the difficult-to-reach rearmost molars. In the dental rinse field, Lion has newly launched its *Clinica Advantage Dental Rinse*, which contains ingredients that provide the germ-killing power of two anti-bacterial agents in the mouth with Lion's long-acting anti-bacterial formula. Using this

rinse before bedtime prevents the formation of cavities during sleep.

Lion's activities to communicate the benefits of its *Clinica* oral care products and increase their perceived brand value among consumers include a wide range of activities that convey consistent content and brand message, from TV commercials to in-store promotions.



## Sustainability Topics

The Lion Foundation for Dental Health (LDH) disseminates the knowledge and experience in promoting awareness and education of oral health care that it has accumulated over many years, focusing especially on the countries of Southeast Asia. The aim of these activities is to promote habits for healthy-living behavior through all life stages and contribute to

improvement in oral health. Working in cooperation with the regional governments, dentist associations, and dental hygiene specialists of those countries, LDH intends to provide support to make it possible for good oral health practices to take root firmly in these countries.

## Fabric Care Business

Liquid laundry detergents and fabric softeners with long-lasting fragrances showed robust performances in 2013, and sales in this business rose over the previous year.

### Key Products Contributing to Performance in 2013

#### *Kaori to Deodorant no SOFLAN (SOFLAN with Fragrance and Deodorant) Brand Line*

The fabric softener market is showing continuing growth and rose 6%\*<sup>1</sup> over the previous year during the fiscal term under review. Within this market, Lion is developing two lineups of its *Kaori to Deodorant no SOFLAN (SOFLAN with Fragrance and Deodorant)* to respond to an increasingly broad range of needs. The first of these two lineups, *SOFLAN with Fragrance and Deodorant*\*<sup>2</sup>, offers natural fragrances and superior deodorant effectiveness and has been favorably received by consumers. In 2013, Lion introduced an improved version in this lineup: *Kaori to Deodorant no SOFLAN (SOFLAN with Fragrance and Deodorant) Aroma Natural*, which features an increased natural aroma oil content and is available in three fragrances. In parallel with this, Lion added its *Premium Deodorizer* to the lineup, which contains Lion's original nano-deodorizing ingredients that effectively eliminate odors. As a result, Lion now has the product lineup to satisfy consumers' needs for fine fragrances as well as their needs for superior odor removal. The second *SOFLAN* lineup



is *Kaori to Deodorant no SOFLAN (SOFLAN with Fragrance and Deodorant) Aroma Rich*, which features long-lasting type\*<sup>2</sup> fragrances, and it has been well received by consumers for its rich, long-lasting fragrances. In 2013, Lion added a new aroma, *Annie*, in this lineup, which has a distinctive sweet fragrance and has attracted new consumers. Aided by the expansion of its two *SOFLAN* lineups, growth in Lion's fabric softener sales exceeded those of the overall market and elevated its position in this category of products.

\*1 INTAGE Inc. SRI survey of the fabric softener market. Accumulated sales amount from January through December 2013, compared with the previous year

\*2 According to Lion's classification

## Strategy in Fiscal 2014

In the laundry detergent business, Lion will introduce an improved version of *TOP HYGIA*, its super-concentrated liquid detergent. This new product is capable of dissolving and eliminating the biofilm that is generated by microbes clinging to washing machine tubs, and Lion will work to expand the number of customers among hygiene-conscious consumers who give it a trial. Also, in response to the trend toward buying in bulk, Lion will add larger refill packages of *TOP NANOX* and *TOP HYGIA*, its super-concentrated laundry detergents, to its product lineup.

In the fabric softener business, Lion is working to further develop the *SOFLAN with Fragrance and Deodorant* brand through further marketing of its improved *Aroma Natural* line and the *Aroma Rich* line, with a new fragrance added, both of which were introduced in 2013.

In 2014, Lion will continue to invest in the marketing of super-concentrated liquid detergents and fabric softeners that offer long-lasting fragrances and effective odor elimination with the goal of becoming the No. 1 company in these market categories.



## Sustainability Topics

Lion has continued to develop products that reflect proper concern for the environment. These have included the usage of plant-derived raw materials that prevent global warming, the use of ingredients with good biodegradability, and products that require the use of smaller amounts and thus help to protect the water environment. MES and MEE

(methyl ester ethoxylate), which are representative surfactants and were developed by Lion based on this approach to environmental protection, are included in Lion's powdered and liquid laundry detergents.



## Pharmaceutical Business

Sales of eyedrops were favorable, but, as a result of more-intense competition in Lion's core antipyretic analgesic business, overall sales in this business were at the same level as in the previous year.

### Key Products Contributing to Performance in 2013

#### *Smile 40 Premium*

Along with the growing use of smartphones and PCs, the number of persons in the middle and older age-groups complaining of eye problems has increased. Particularly among people 40 years of age or older, eye problems, including eye fatigue, are becoming more serious.

Identifying an opportunity in the midst of these changes in society, Lion launched its *Smile 40 Premium* ophthalmic eyedrops for alleviating eye fatigue caused by aging and the prolonged use of the eyes. In developing this new eye remedy, Lion developed new technologies that enable inclusion of large amounts of "absorbable vitamin A" into this product, the largest amount of any other product in the *Smile* eyedrop series. *Smile 40 Premium* also contains 10 kinds of active ingredients that alleviate eye fatigue and itchiness (which is caused by the presence of too much mucus in the eyes), and it has been formulated to be easy on the eyes of persons in the middle and older age-groups.



To communicate the effectiveness of this product and help consumers to better understand the effects of aging on the eyes as well as the benefits of absorbable vitamin A, Lion focused on marketing in stores that can explain the effectiveness of *Smile 40 Premium* and used newspaper advertising and live media commercials. This campaign was successful, and, from the time the product was launched through December 2013, the number of vials sold exceeded 930,000. This new product made a major contribution to rejuvenating the market for eyedrops. In 2013, the market for eyedrops in the middle and older aged groups expanded 7%\*<sup>1</sup>, while the overall eyedrop market also increased 7%\*<sup>2</sup> in size.

\*1 INTAGE Inc. SDI survey of the eyedrop market for middle-aged and older consumers (as defined by Lion). Accumulated sales amount from January through December 2013, compared with the previous year

\*2 INTAGE Inc. SDI survey of the eyedrop market. Accumulated sales amount from January through December 2013, compared with the previous year

## Strategy in Fiscal 2014

Lion launched *BUFFERIN PREMIUM*, a new product in the *BUFFERIN* brand lineup of antipyretic analgesics, which is now the top of the *BUFFERIN* brand lineup and offers not only fast and effective relief but also is gentle on the stomach. This new product is targeted at consumers who want high performance in the form of “quick attack and relief,” “high effectiveness in relieving pain,” and “prevention of gastrointestinal discomfort.” *BUFFERIN PREMIUM* is a new preparation that responds to these high-level needs. It contributes to making life more comfortable for people suffering with headaches. Lion aims to use this new product to help rejuvenate the stagnant market for these remedies. Also, to provide relief for the approximately 70% of women who are troubled by stiff shoulders, Lion will introduce *HALIX HOGRELA*, an analgesic that comes as an adhesive poultice or as a roll-on type preparation. Lion has made this product available in these two forms to broaden the range of

occasions when it can be used. The first is pads that are applied to the skin and improve circulation in stiff shoulders, giving users relief from deep inside the tissues. The second is a roll-on type that can be carried in a bag or cosmetic pouch to wherever the user goes to provide relief from shoulder stiffness and pain. Lion is working to win over new consumers for these products and leverage them to help rejuvenate the market for analgesics and anti-inflammatory poultices.



### Sustainability Topics

*BUFFERIN PREMIUM* incorporates Lion's original “quick attack tablet” and “fast-dissolving ibuprofen” technologies that overcome the difficulties of providing both the fast disintegration of the tablet and the quick dissolvability of the ibuprofen that were experienced previously in these preparations. The successful development of this product, with its

state-of-the-art technology, was due not only to the technical know-how in pharmaceutical manufacturing that has been accumulated over the 50 years since the brand's debut but also the combination of Lion's many other technologies.

## Beauty Care Business

Sales of foaming hand soaps and new antiperspirant products were favorable, but overall sales in this business were below the level of the previous fiscal year.

### Key Products Contributing to Performance in Fiscal 2013

#### *KireiKirei Medicated Foaming Hand Soap*

The market for hand soaps expanded because of growth in foaming hand soaps. Consumers, including not only children but the rest of the family as well, like foaming-type hand soaps because they are simpler and easier to use than conventional liquid types, and, as a result, the market share of foaming types has risen to 68%\*<sup>1</sup> of the total. In addition, among foaming types, those featuring fragrances account for 40%\*<sup>2</sup> of the market, and the interest among consumers in enjoying many kinds of fragrances is rising. Lion offers three fragrances in its hand soap lineup and also launched limited-edition products with new fragrances. Growth in sales of these products has exceeded the rate of expansion in the overall market.



\*1 INTAGE Inc. SRI survey of the foaming-type hand soap market.  
Accumulated sales amount from January through December 2013  
\*2 According to Lion research

### Strategy in Fiscal 2014

In 2014, Lion launched *Ban Anti-perspirant Deodorant (Roll-on type): Block "Sweat Gland,"* a preparation that blocks underarm perspiration with a nano ion antiperspirant ingredient before it emerges by clinging to the sweat pores. This new preparation offers women who are bothered by underarm sweat a way of dealing effectively with the sweat stains and odors it can cause. To promote this deodorant product and rejuvenate the antiperspirant market, Lion has set up a new genre of in-store promotional sales points especially for giving advice on eliminating underarm sweat problems.



### Sustainability Topics

After the disasters caused by the Great East Japan Earthquake, which struck in 2011, Lion has implemented a continuing support project in the three prefectures in the Tohoku region of Japan that were most affected by the earthquake: Miyagi, Iwate, and Fukushima. The objective of the program is to familiarize the people in this region with the benefits of

frequent hand washing. In 2013, Lion employees conducted educational activities for hand washing four times in the area, which were aimed at children in nursery schools and kindergartens. Lion plans to continue these activities going forward.

## Living Care Business

Sales of Lion's fogged type of fungicide for preventing growth of black mold in the bathroom were robust, but performance of dishwashing detergents was relatively weak, leading to overall sales in the year under review at the same level as in the previous year.



### Key Products Contributing to Performance in 2013

#### LOOK Bath Antimold Fogger

Lion's *LOOK Bath Antimold Fogger*, which was newly launched in 2012, represents an important breakthrough in bathroom cleaning concepts. Unlike conventional mold-removal products for the bathroom, *LOOK Bath Antimold Fogger* eliminates bacteria and prevents black mold from growing throughout the bathroom with fumigation technology.

In 2013, in advance of the rainy season in Japan, when demand for preventing mold is strong, Lion successfully communicated the message, through its advertising and website, that the cause of black mold growth is "invisible mold lurking on the ceiling." This brought major expansion in sales of this product, and, in

2013, the market for mold-removal products grew 14%\* over the previous year, thus revitalizing the market.

\* INTAGE Inc. SRI survey of the mold-removal market. Accumulated sales amount from January through December 2013, compared with the previous year

### Strategy in Fiscal 2014

To encourage more consumers to try *LOOK Bath Antimold Fogger*, in 2014, Lion is communicating the message "preventing the growth of mold" through its advertising and its website. Lion is also taking other initiatives to continue to develop this product and establish its market position, including the introduction of limited-edition items during the high-demand season. Among cooking-aid products, in the *REED Healthy-Cooking Paper* lineup, Lion launched a new *Smart Type*. Lion will work to create new demand and stimulate the market by emphasizing how easy to use and convenient this *Smart Type* is.

### Sustainability Topics

*LOOK Bath Antimold Fogger* was developed by applying Lion's fumigation technology developed from its *VARSAN* insecticide products and its "silver ion" bacterial removal agent, which is used in Lion's household cleaners. Lion has made applications for four patents in connection with these technologies. Looking ahead, Lion will continue to create new

markets through synergies and the application of technologies across product categories as well as the interchange of personnel.



## Other Products

The Other Products Business includes the direct-to-consumer business, which sells functional food and other products through direct channels to consumers, the pet supplies business, and other businesses.



### Direct-to-Consumer Business Performance in Fiscal 2013

In the direct-to-consumer business, *Nice rim essence Lactoferrin*, a supplement that provides healthy support for consumers who are dieting, showed close to double-digit growth. In addition, Lion launched a new product, *Fleuria*, in the aging hair care series. This series responds to the needs of women in the middle to upper age categories, and it includes a hair growth formula, hair conditioners, and shampoos. The goal for direct-to-consumer sales in fiscal 2014 was ¥10 billion, but this business has already exceeded this objective.

### Strategy in Fiscal 2014

The direct-to-consumer business will focus on the development and nurturing of its product lineup, including the previously mentioned new product, *Fleuria*, as well as other new items. In its existing product areas of *Nice rim essence Lactoferrin*, *Tomato Su Seikatsu*, and *Denshichi Ninjin Shukan*, this business will work to increase profitability through the more-efficient allocation of competition costs, including encouraging “sleepers,” those who have ceased buying these products, to order and take them again.

### Pet Supplies Business Performance in Fiscal 2013

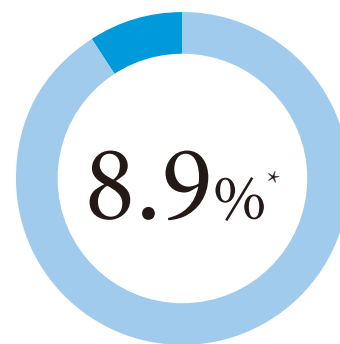
During fiscal 2013, Lion focused on introducing products that respond to consumers' latent needs and raising their awareness of these items. Lion proclaimed that the year 2013 would be “The first year of the Pet Oral Care era” and, in line with the oral care programs recommended by veterinarians, newly introduced the *Pet Kiss* series of oral care products for pets, while also engaging in activities to raise the awareness of pet health care. Lion's activities also included promoting the health of pets' oral cavities.

### Strategy in Fiscal 2014

In fiscal 2014, Lion will take up the challenge of “furthering the development of pet oral care” and “creating a pet laundry care category.” In the *Pet Kiss* oral care series, Lion will launch new products with additional functional features and work to deepen its activities for raising consciousness about pet oral care. In addition, Lion will launch a new laundry detergent especially for cleaning pet apparel that will contain ingredients to eliminate odors characteristic of pets and will focus on creating a new market segment for this type of detergent.

# Industrial Products Business

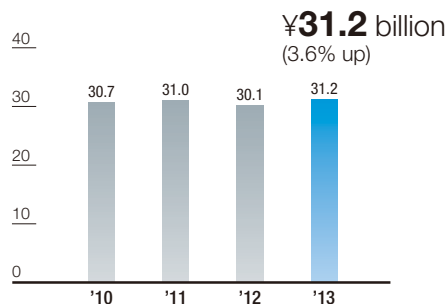
In the Industrial Products Business, sales of electro-conductive carbon black to overseas customers and sales of anionic surfactants in Japan were on a recovery trend and showed expansion for the year. In addition, progress was made in developing new customers for detergents for industrial use, and, as a result, overall sales in this business were higher than in the previous fiscal year.



\* % of consolidated net sales  
\* Sales to outside parties

## Net Sales

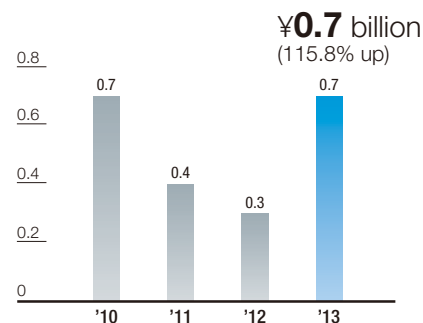
(Billions of yen)



\* Sales to outside parties

## Operating Income

(Billions of yen)



## Chemical Products

### Review of Fiscal 2013 and Outlook for Fiscal 2014

During fiscal 2013, Lion worked to expand sales and income in its three core areas of ester derivatives, electro-conductive carbon black, and industrial cleaners. Sales of electro-conductive carbon black to the electronic components industry were robust, and performance of these businesses was on a recovery trend. In fiscal

2014, Lion is proceeding with the further development of its businesses with electro-conductive carbon black as the core business. In addition, in overseas markets where growth is anticipated, Lion will endeavor to nurture business fields where it can draw on technological superiority and proceed aggressively with business reforms.

## Detergent for Institutional-Use Business (Lion Hygiene Co., Ltd.)

### Review of Fiscal 2013 and Outlook for Fiscal 2014

Trends were favorable and sales of industrial laundry detergents, hand soap, alcohol, and other items to major users—including hotels, hospitals, elderly care facilities, food processing plants, and other users—expanded at a robust pace. In 2014, we will significantly strengthen our services for users and respond to the rise in hygiene consciousness by expanding sales of

detergents for use in institutional dishwashing machines; items for institutional kitchens, such as cooking paper, hand soap, and alcohol for disinfecting purposes; and cleaning preparations. In these activities, we will seek to win new customers by submitting proposals for comprehensive hygiene management services.

# Overseas Business

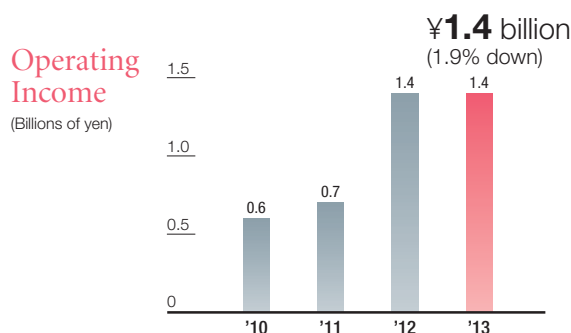
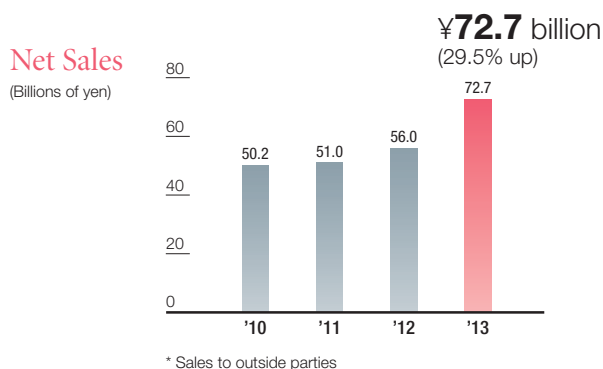


**Kenjiro Kobayashi**

Director, Executive Officer, and Executive General Manager of International Division



Sales overseas rose above the previous year, driven by the favorable performance of oral care products in Thailand and major gains in sales of laundry detergents in Hong Kong. Operating income from Overseas Business was at about the same level as in the preceding year as sales promotional expenses to enhance Lion's market position increased.



## Market and Social Environments in Fiscal 2013

In the countries of Southeast Asia where Lion has a presence, economic growth is running generally at about 5% annually. Growth in these countries is driven by expansion in personal consumption, but Lion is aiming to maintain growth above the rate of economic expansion by launching high-value-added products that respond to the preferences of the growing middle-income classes.

## Review of Performance in Fiscal 2013

During fiscal 2013, overseas sales increased 30%, boosted by the decline in the value of the yen. After the exclusion of foreign currency factors, sales growth in local currencies was 5.2%. Reasons for this expansion in sales included the introduction of products suited to the needs of consumers in each of the markets where Lion operates, continued expansion of sales channels, and growth in sales following the completion of additions to production capacity at Lion Eco Chemicals.

Sdn. Bhd. Operating income decreased 1.9% from the previous year as a consequence of a growing mood of restraint on consumer spending in Thailand, more-intense competition, and other factors.

In its Overseas Business, Lion is aiming for quantitative growth and is implementing product policies and capital investment policies to secure the positions of “No. 1 in oral care products” and “No. 1 in laundry detergents.”

To become No. 1 in oral care products, Lion implemented policies in 2013 to strengthen its global brand *Systema* and launch new products under the *Systema* brand in each of the overseas markets where it has a presence. In addition, during the fiscal year, Lion completed and commenced operations at a new plant in Thailand and is moving forward with the construction of a new production facility in China.

To attain the position of No. 1 in laundry detergents, Lion is implementing policies aimed at expanding the scale in quantitative terms of its operations in each of these countries. Lion continues to be the No. 1\* company in laundry detergents in Malaysia and has expanded production capacity for liquid laundry detergents there. In Thailand, Lion introduced a new high-value-added powdered laundry detergent containing MES. Also, to respond to the increase in the percentage of liquid laundry detergents used, Lion launched new liquid detergent products to drive quantitative market expansion.

\* According to Lion research

## Strategy for Fiscal 2014

In fiscal 2014, Lion's business policy will be to “offer health and cleanliness to the consumers of Asia and support the lengthening of their healthy life expectancy. To do this, Lion will work to become the No. 1 company in oral care products and in laundry detergents, as well as attain double-digit sales growth. Accordingly, to strengthen its business base and increase its cost-competitiveness, Lion will (1) attain quantitative growth by conducting aggressive marketing activities and implementing capital investments, (2) nurture its global brands, and (3) draw on the capabilities of its efficient production facilities. In new business fields, Lion will work to expand its presence in the Philippines, where it commenced operations in fiscal 2013, at an early date, increase the sales of its MES production business, and expand into additional geographic areas. Through these activities, Lion will endeavor to further establish its presence in Asia and continue its quantitative expansion.



## Regional Reports

# Thailand

Sales Growth Rate  
(Year on year, local currency basis)

+5%

### Market Environment and Performance in Fiscal 2013

Lion's sales in Thailand account for more than 50% of its consolidated overseas net sales. In the laundry detergent business, sales of conventional powdered detergents and sales of newly introduced liquid detergents held firm during fiscal 2013. Moreover, in the Oral Care business, initiatives to introduce improved versions of *Systema* toothpastes, the launching of *KODOMO* toothpaste for children and other new products, as well as stronger sales promotion for *Systema* toothbrushes met with success. In the latter half of the fiscal year, however, the rising level of household debt tended to weaken consumer confidence, but overall sales rose substantially over the previous year.

### Products

Toothpaste, Toothbrushes, Body soap, Shampoo, Laundry detergents, Fabric softeners, Dishwashing detergents, Etc.

### Strategy in Fiscal 2014

In the laundry detergent business, Lion will work to further develop its *Pao* brand concentrated

powdered detergents, high-performance liquid detergents, and its detergents containing MES and MEE, which are eco-friendly ingredients developed with Lion's original technology. Also, in the health-care field, including the Oral Care business, Lion will step up its activities for promoting sales of high-value-added products.

In its activities, Lion will endeavor to expand sales and secure income by developing new, highly differentiated products for specified price segments and geographical areas.



New oral care product facility in Thailand



*Systema*  
Toothpastes



*Systema*  
Toothbrushes



*Pao*  
Laundry detergents



*Lipon*  
Dishwashing detergent

# South Korea

**Sales Growth Rate**  
(Year on year, local currency basis)

**Nearly  
the Same**

## Market Environment and Performance in Fiscal 2013

In South Korea, Lion is developing its business operations in the fields of laundry detergents, oral care products, dishwashing detergents, hand soaps, and other items. During fiscal 2013, low-price competition in the South Korean market intensified along with the introduction of a government policy of restricting the number of business days of large-scale retail stores.

In the laundry detergent business, sales of *Beat* brand liquid detergent and sales of a new foaming version of Lion's hand soap *Ai-kekute* (sold under the brand name *KireiKirei* in Japan) were favorable, but sales of dishwashing detergents were stagnant. Overall sales in South Korea showed a slight rise from the previous year.

## Strategy in Fiscal 2014

In South Korea, Lion has identified raising overall profitability and making investments to increase brand value as priority themes. Lion will aim to raise its position in the market by launching highly differentiated, high-value-added products and by marketing through new sales channels. At the same time, Lion will seek to develop more in-depth communication with Korean consumers through tie-ups with the mass media and offering sampling opportunities to consumers.

## Products

Toothpaste, Toothbrushes, Hand soap, Shampoo, Conditioner, Laundry detergents, Dishwashing detergents, Etc.



*Ai-kekute*  
Hand soap



*Cham Green*  
Dishwashing detergent



*Systema*  
Toothbrush



*Beat*  
Liquid laundry detergent

## China

**Sales Growth Rate**  
(Year on year, local currency basis)

**+1%**

Sales of *Systema* brand toothbrushes were favorable, but overall sales in China showed a slight rise over the previous fiscal year. In fiscal 2014, Lion's new plant for oral care products will increase its production capacity and is scheduled to go into operation.

### Products

Toothpaste, Toothbrushes, Etc.



*Systema*  
Toothbrushes

## Taiwan

**Sales Growth Rate**  
(Year on year, local currency basis)

**-14%**

In the Oral Care business, newly launched toothbrushes contributed to an increase in sales of this business. In the Fabric Care business, sales of laundry detergents stagnated, and overall sales in Taiwan were below the previous fiscal year.

### Products

Toothpaste, Toothbrushes, Laundry detergents, Body soap, Etc.



*Lanpao*  
Laundry detergent

## Hong Kong

**Sales Growth Rate**  
(Year on year, local currency basis)

**+15%**

In the Fabric Care business, sales of *TOP NANOX* super concentrated liquid laundry detergent were favorable. In addition, sales of oral care products, including toothpastes and toothbrushes, continued to be firm. As a result, total sales in Hong Kong rose at a double-digit rate.

### Products

Toothpaste, Toothbrushes, Laundry detergents, Etc.



*TOP NANOX*  
Liquid laundry detergent

## Singapore

**Sales Growth Rate**  
(Year on year, local currency basis)

**+6%**

Lion expanded its product lineup in Singapore by adding a new low-foaming type detergent in the *Liquid TOP* brand line in the laundry detergent business. Also, in the Beauty Care business, Lion added refill packages in the *Shokubutsu* body soap lineup. Sales in all businesses rose over the previous year.

### Products

Toothpaste, Toothbrushes, Body soap, Hand soap, Laundry detergents, Dishwashing detergents, Etc.



*Shokubutsu*  
Body soap

# Philippines

Lion commenced sales of oral care products in July 2013 and, in September, began the marketing of beauty care products. During fiscal 2014, Lion will expand the lineup of product offerings in these two fields while it works to establish its market presence at an early date.

## Products

Toothpaste, Toothbrushes, Body soap, Hand soap, Etc.



# Malaysia<sup>\*2</sup> <sup>\*3</sup>

**Sales Growth Rate**  
(Year on year, local currency basis)

**+6%**

In the laundry detergent business, where Lion has the No. 1 market share<sup>\*1</sup>, major growth was reported in sales of Lion's *Liquid TOP* in the fast-growing liquid detergent market. Also, in the powdered detergent business, Lion added a new type of powdered detergent in the *TOP* brand line. As a result, overall sales showed substantial expansion over the previous year. In addition, in the Oral Care business, sales of *Systema* toothbrushes were favorable.

## Products

Toothpaste, Toothbrushes, Body soap, Shampoo, Laundry detergents, Etc.



# Indonesia<sup>\*3</sup>

**Sales Growth Rate**  
(Year on year, local currency basis)

**+24%**

As growth continued in the markets where Lion has a presence, Lion continued to make advertising investments to increase the value of its existing brands, and sales in the Beauty Care, Oral Care, and Living Care businesses were favorable. In the Oral Care business, Lion launched its *Systema* series of products in May.

## Products

Toothpaste, Toothbrushes, Shampoo, Body soap, Dishwashing detergents, Etc.



\*1 Results of Lion's research

\*2 Excluding Lion Eco Chemicals Sdn. Bhd.

\*3 Company accounted for under the equity method



# Corporate Social Responsibility (CSR)

## Fulfilling Our Social Responsibilities as a Corporation that Continues to Prioritize Cleanliness, Health, Comfort, and the Environment

The origins of Lion's approach to CSR can be traced to its founding spirit of "working for the benefit of people and society." Having built a robust foundation for business based on its Company Motto and management philosophy, Lion is continuing to contribute to the sustainable development of society by conducting business activities under its management vision.

Since its founding, Lion has worked to promote oral hygiene and create a culture of cleanliness by offering products that are useful for daily life, conducting related promotional and educational activities, and encouraging the formation of good health habits. Oral hygiene is Lion's core business area. Over the years, we have contributed to the improvement of people's living habits by developing many dentifrices with new functions and have disseminated the correct knowledge about dental and oral hygiene. Also, by supplying many kinds of detergents, including those for laundry use as well as soaps, we have helped to instill a culture of cleanliness in society.

In product development, we are currently working to help solve global environmental issues, including those related to water quality.

In 2011, we prepared a management vision and corporate message. With the slogan of "life. love. LION", we are pursuing business activities, including those related to mental health and comfort, as we aim to become a company that contributes to value creation now and into the future.

When implementing our CSR-related activities, we refer to ISO 26000, the international social responsibility standards. We confirm and assess our response to CSR requirements, refer to the opinions of independent third-party organizations, and assess the importance of each for the Lion Group. We also establish objectives based on discussions with Lion Group companies and are moving forward as a group to attain these. The table below shows the seven core themes of ISO 26000. These are "organizational governance," "human rights," "labor practices," "environment," "fair operating practices," "consumer issues," and "community involvement and development." We identify the "Ideal Visions," "Important Issues," and "Medium-Term Objectives (2014)." We then monitor and report on our accomplishments toward addressing each of these themes to give impetus to these activities in the future.

Core Themes of ISO 26000

Core Subjects	Ideal Visions	Important Issues	Medium-Term Objectives (2014)
Organizational Governance	Maintain a sound management system that is continuously trusted by the society	Establish the Group-wide CSR management structure	<ul style="list-style-type: none"> <li>Disseminate the Lion Group Charter for Corporate Behavior as a CSR policy</li> <li>Set objectives/KPIs and manage progress</li> </ul>
Human Rights	Establish framework for respecting human rights	Create and disseminate human rights policy Human rights due diligence	<ul style="list-style-type: none"> <li>Strengthen the framework securing respect for human rights</li> <li>Disseminate information regarding the hotline and strengthen the advice and whistle-blowing framework</li> </ul>
Labor Practices	Change the awareness of employees through raising morale and motivation	Human resource development/revitalization programs  Establish good working environments	<ul style="list-style-type: none"> <li>Implement human resource development/revitalization programs</li> <li>Carry out diverse human resources promotion programs</li> <li>Achieve the requirements for the Next-Generation Support Act Phase 4 Action Plan</li> </ul>
Environment	Contribute to a sustainable society as an environmentally advanced company	Progressive environmental activities	<ul style="list-style-type: none"> <li>Promote and manage progress of "Eco Vision 2020"</li> </ul>
Fair Operating Practices	Promote social responsibility activities throughout the value chain	Promote CSR procurement	<ul style="list-style-type: none"> <li>Carry out supplier CSR questionnaires and offer its feedback to suppliers</li> </ul>
Consumer Issues	Pursue customer satisfaction by creating safe and trustworthy products	Offer products and information that contribute to sustainable development Communicate information useful for daily life and educational activities	<ul style="list-style-type: none"> <li>Promote and manage progress of "Eco Vision 2020"</li> <li>Enhance the provision of information that contributes to healthy and comfortable life according to the lifestyle and life stages</li> </ul>
Community Involvement and Development	Co-exist and co-prosperity with society and communities/contribute to the development of society in health, comfort, and environmental areas	Enhance social contribution programs in health and comfort areas (environmental programs to be dealt with under "Eco Vision 2020")	<ul style="list-style-type: none"> <li>Promote oral hygiene activities</li> <li>Promote children's tooth brushing education programs</li> <li>Promote hygiene programs</li> <li>Promote children's hand washing and gargle program</li> </ul>

# Organizational Governance

## Maintain a Sound Management System That Is Continuously Trusted by Society

### Corporate Mission and Basic Approach to Corporate Governance

The mission of corporations is to use the funds that investors have placed with them effectively and to generate business results. Ultimately, these company results belong to the shareholders who invested their funds. However, in the medium-to-long term, to generate results that shareholders expect and continue to build on the assets that have been placed with Lion, it must, first and foremost, value its customers, who use the Company's products, as well as the many stakeholders surrounding the Company (including principal customers, business partners, employees, and others).

Lion's top priorities for corporate governance are increasing management transparency, improving the pace of supervision and decision making, and ensuring compliance. By strengthening and improving its corporate governance system, Lion aims to enhance its corporate value.

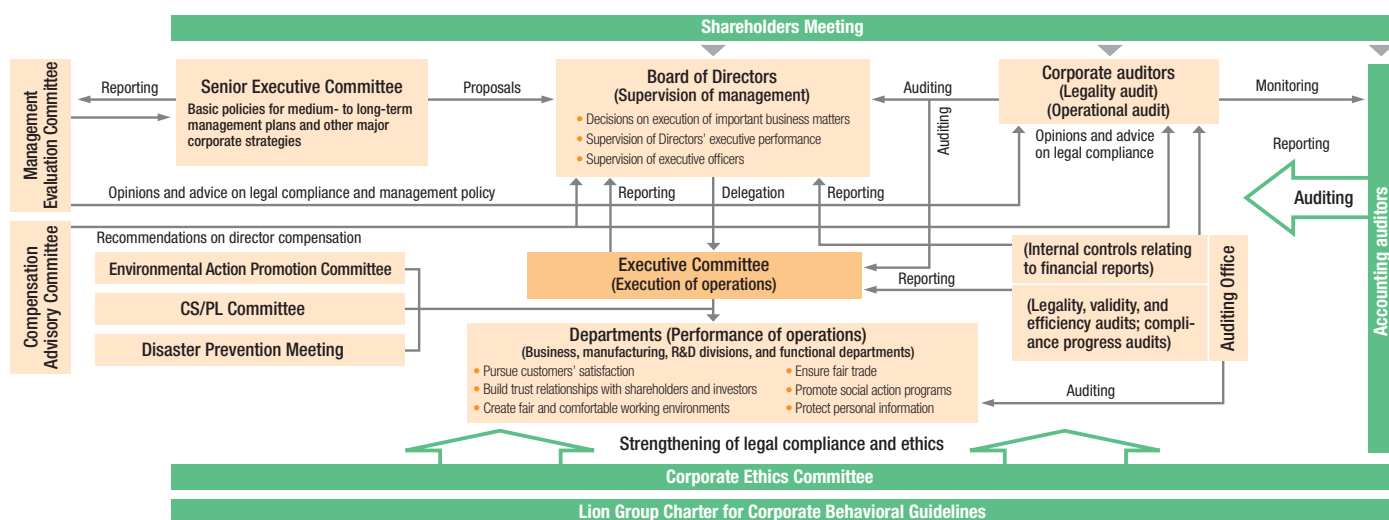
### Corporate Governance System

Lion has adopted a system of executive officers to strengthen the managerial decision making and executive functions. At the

same time, the supervision of management is conducted through a corporate auditor system. Since January 2012, we have enhanced our governance system, separating the supervision and execution of management.

Guided by its Criteria for the Independence of External Directors, which can be found on the Company's website (<http://www.lion.co.jp/jp/company/about/pdf/independence.pdf>, in Japanese only), Lion has adopted a variety of measures, including the appointment of four independent members of management (two external directors and two external auditors) and submitted all appropriate documentation to the Tokyo Stock Exchange. These initiatives are aimed at enhancing the supervision and monitoring of management as well as strengthening corporate governance. All four external appointees have been designated as independent officers who exhibit no risk of any conflict of interest with the Company's shareholders. Also, in October 2003, the Company formed its Management Evaluation Committee, and, in December 2006, established its Compensation Advisory Committee, which is composed of external directors.

Model of Corporate Governance System



# Corporate Social Responsibility (CSR)

## Board of Directors

The Board of Directors has the responsibility of determining Company-wide objectives and targets while also drawing up management plans to ensure that these objectives and targets are achieved. The Board of Directors is comprised of 10 members, 2 of whom are appointed from outside the Company. Board of Directors' meetings are held regularly once a month, with extraordinary meetings convened as and when necessary. Responsibilities of the Board of Directors include making decisions on key management matters and supervising the conduct of duties by directors and executive officers. The term of office of each director is one year.

To enhance objectivity and transparency, compensation paid to directors is determined by the Board of Directors based on the recommendations of the Compensation Advisory Committee.

## Board of Corporate Auditors

In accordance with standards relating to the conduct of audits by corporate auditors and auditing policies established by the Board of Corporate Auditors, each corporate auditor attends meetings of the Board of Directors and other important meetings, monitors the execution of the specific duties of each director, implements on-site audits of Lion's Head Office and major work sites, and conducts audits of subsidiaries and affiliates. In addition, corporate auditors meet twice a year with representative directors to exchange opinions.

The Board of Corporate Auditors serves as a coordinating entity, undertaking a variety of activities, including the exchange of opinions regarding the audit reports submitted by the independent auditing firm and the Auditing Office, which is in charge of internal auditing.

### The Total Amounts of Compensation Paid to Directors and Corporate Auditors for Fiscal 2013

Category	Total Number of Officers (Number of External Officers)	Total (Figures in parentheses represent the amount paid to external officers) (Millions of yen)
Directors	10 (2)	399 (22)
Corporate Auditors	4 (2)	75 (22)
Total	14 (4)	474 (44)

### The Status of Major Activities of External Directors and External Corporate Auditors

Status	Name	Attendance at Board of Directors' Meetings	Attendance at Board of Corporate Auditors' Meetings	Major Remarks and Contributions
External Directors	Mitsuaki Shimaguchi	Attended 17 of 17 meetings	—	Provides informed opinions about overall business management policies with a view to ensuring proper and appropriate decision making
	Hideo Yamada	Attended 17 of 17 meetings	—	Provides informed opinions, principally regarding the Group's risk management and compliance systems
External Corporate Auditors	Hideo Doi	Attended 17 of 17 meetings	Attended 12 of 12 meetings	Provides informed opinions with a view to ensuring the appropriateness of management, primarily in relation to finance and accounting
	Sumiaki Nomura	Attended 17 of 17 meetings	Attended 12 of 12 meetings	Provides informed opinions with a view to ensuring the appropriateness of management, primarily in relation to tax matters

## Executive Officer System

Attended by all executive officers, the Executive Committee meets once a month to ensure that the execution of duties is conducted in a timely manner and to strengthen the function of the Board of Directors. At the same time, the Executive Committee serves to promote expeditious decision making with respect to both fundamental and important matters as they apply to business execution. There are currently 15 executive officers, 7 of whom hold the concurrent position of director. The term of office of each executive officer is one year, which equates to the term of office of directors.

## Management Evaluation Committee

Composed of seven knowledgeable persons from outside the Company, this committee meets twice each year and was set up to enable Lion to draw on the evaluations and opinions of its members and reflect these in the Company's overall management. Matters addressed by this committee include the corporate governance system, the direction of business and product development, the approach to corporate social responsibility (CSR), and other matters.

## Compensation Advisory Committee

This committee was formed to increase the objectivity and transparency of matters related to executive compensation. This committee is comprised of the Company's two external directors and two external auditors, for a total of four independent officers.

## Risk Management

Lion has appointed an officer responsible for overseeing risk as a part of exhaustive and comprehensive efforts to manage risk across the Group as a whole. In particular, steps are taken to ensure that individual committees relating to such wide-ranging areas as the environment, quality assurance, accidents, and disasters consider all necessary risks and countermeasures in advance. The risk management process also entails deliberation by the Executive Committee as and when required. Moreover, each plant has acquired ISO 14001 certification and is actively engaged in quality management and environmental protection activities.

In the event of a natural disaster or accident, and in accordance with the Emergency Response System, steps are taken to collect all relevant information, formulate responsible policies and measures, and clarify causes. Details are then reported to the Board of Directors.

Turning to business continuity plans, Lion has bolstered alternative arrangement for the execution of headquarters functions as well as the functions for receiving orders at the time of a disaster. Moreover, the Company has strengthened measures for arranging backup production in the event of a plant shut-down and securing adequate inventories to ensure the continuous supply of products.

## Bolstering Internal Control Systems

Systems and provisions have been put in place to ensure the appropriateness of Lion Group operations in accordance with Japan's Companies Act and the Ordinance for Enforcement of the Companies Act.

With regard to systems for evaluating and auditing internal control over financial reporting, as prescribed in Japan's Financial Instruments and Exchange Act, Lion and the rest of the Lion Group have established controls at the Company-wide

and business process levels since July 2006. In December 2008, the Board of Directors passed a resolution on the "Internal Control Policies Regarding Financial Results Reporting."

Evaluations of internal control effectiveness are carried out by the Auditing Office, which reports findings to the president and corporate auditors, as well as on a regular basis to the Board of Directors. In the event of an inadequacy, details of items requiring improvement are communicated to concerned divisions and the progress of improvements verified.

In 2012, Lion's internal control over financial reporting was deemed effective. A report on internal controls was submitted to the Prime Minister in March 2013 together with the Company's securities report.

## Promotion of Compliance

Within the Lion Group, the Corporate Ethics Committee, chaired by the director responsible for corporate ethics, works to actively foster compliance awareness.

The basis for compliance is the *Lion Group Charter for Corporate Behavior*. This is distributed in pamphlet form to all people working for the Lion Group and is publicly available via Lion's website. Also, an annual program of employee awareness surveys and regular educational activities is also implemented. The latter includes e-learning, lectures by outside speakers, and various training courses conducted in each workplace according to rank.

The e-learning activities conducted in 2013 include securing agreement of each employee to abide by the *Lion Group Charter for Corporate Behavior* as well as instruction related to rules of employment and other basic labor matters, social media risks, and information security.

## Compliance Awareness Survey

All Lion Group employees are asked periodically to complete a compliance awareness survey. Findings are reported to management, and feedback is provided to individual divisions to communicate issues within the same workplace or company. These activities contribute to the maintenance and strengthening of compliance systems.



## Directors, Corporate Auditors, and Executive Officers As of March 28, 2014



Representative Director and  
Chairman of the Board of Directors  
**SADAYOSHI FUJISHIGE**



Representative Director and President  
**ITSUO HAMA**  
Executive Officer, Chief Executive Officer



Executive Director, Executive Officer  
**TAKAYASU KASAMATSU**  
Responsible for Risk Management, Corporate Ethics, Secretary, Corporate Brand Promotion Office, Corporate Planning Department, Finance, Personnel, General Affairs, Corporate Communication Center, Consumer Service Center, CSR Promotion Department, Pharmaceutical Affairs and Quality Assurance Department, and Legal Department



Executive Director, Executive Officer  
**YUJI WATARI**  
Responsible for Purchasing Headquarters, Production Headquarters, Logistics Planning and Development, System, Business Coordination Center, and Production Engineering Research Center



Director, Executive Officer  
**MASAZUMI KIKUKAWA**  
Responsible for Health and Home Care Products Division, Gift and Channel-Specific Products Division, Executive General Manager of Health and Home Care Products Division, Responsible for Advertising, Behavioral Science Research, and Distribution Policy Department



Director, Executive Officer  
**KENJIRO KOBAYASHI**  
Responsible for General Overseas Matters and Executive General Manager of International Division and Director of Business Development Department I



Director, Executive Officer  
**YASUO SHIMIZU**  
Executive General Manager of Health and Home Care Products Sales Division



Director, Executive Officer  
**TOSHIO KAKUI**  
Responsible for Research and Development Headquarters and Chemicals Division and Responsible for Intellectual Property Department



External Director  
**MITSUAKI SHIMAGUCHI**  
 (Professor Emeritus of Keio University)

The notification of the nomination of Mr. Mitsuaki Shimaguchi and Mr. Hideo Yamada as independent directors has been sent to the Tokyo Stock Exchange.



External Director  
**HIDEO YAMADA**  
 (Attorney at Law)



Standing Corporate Auditor  
**SHINJIRO IWAHORI**



Standing Corporate Auditor  
**SHOZO HANADA**



External Corporate Auditor  
**HIDEO DOI**  
 (Certified Public Accountant)

The notification of the nomination of Mr. Hideo Doi and Mr. Sumiaki Nomura as independent directors has been sent to the Tokyo Stock Exchange.



External Corporate Auditor  
**SUMIAKI NOMURA**  
 (Certified Tax Accountant)

Substitute Corporate Auditor  
**NOBORU KOJIMA**  
 (Certified Public Accountant, Certified Tax Accountant)

Executive Officers  
**HIDEYUKI IMAI**  
 Director of Behavioral Science Research Institute

**SADAO HAMADA**  
 Executive General Manager of Gift and Channel-Specific Products Division

**FUMIHIRO MIKUCHI**  
 Executive General Manager of Production Headquarters and President of Lion Chemical Co., Ltd.

**TAKEO SAKAKIBARA**  
 President of Lion Trading Co., Ltd.

**SHU KAWAZOE**  
 President of Lion Hygiene Co., Ltd.

**HIROYUKI CHIBA**  
 Executive General Manager of Chemicals Division

**TOMOMICHI OKANO**  
 Executive General Manager of Research and Development Headquarters

**KOHEI MIYAUCHI**  
 Executive General Manager of Purchasing Headquarters

### Messages from the Board of External Directors

External Director

**Mitsuaki Shimaguchi**

(Professor Emeritus of Keio University)



It has been said that the sustainability of a company, as a member of society, is dependent on how well it can reflect and respond to the values of that society. In that sense, I believe that Lion Corporation has an excellent corporate philosophy and management vision. Within an organization that may tend to become exclusively inward looking, the role of external directors is to bring in an objective viewpoint from the outside. For Lion, as a company that “cares for people,” to become an organization that is even more caring, it must not only think of its employees but also its external stakeholders, including consumers, its stockholders, and the community. Even though this may appear to be a thankless task, I would like us to continue to make efforts in this direction going forward. I will accomplish this by expressing my views in meetings of the Board of Directors and endeavoring to prevent “caring for people” from possibly leading to a lack of close attention to Lion’s business activities, I would like to do my part, however small, to be sure that Lion continues to pay close attention to continuing to implement business reforms and to being an agent for change.

External Director

**Hideo Yamada**

(Attorney at Law)



I think that Lion is one of those few priceless Japanese companies that gives people a sense of “beauty.” There is hardly a day that goes by when we fail to encounter Lion products in our daily lives. Lion supports the well-being of the Japanese people and has put down deep roots to become an integral part of their lives. This is precisely the reason why Lion’s mission must be to continue to offer great products for people in keeping with its corporate message of “life. love. LION”, which means living each day going by to the fullest.

I want to continue to provide my encouragement for Lion—a company with an incomparable, excellent corporate culture and legacy—to survive, maintain itself, and develop further. I also think that my role, at times, should be to provide candid advice and make some requests that may be difficult to implement. At those times, I will be aware, as I express my views, that the eyes of society are upon us, including not only those of stockholders, employees, and business partners but also seniors who have retired from Lion. I will always want to make my comments from a point of view that takes account of the implementation of compliance best practices, fulfilling corporate social responsibility, and policies that befit Lion’s philosophy and mission in society.

## Human Rights

### Establish Framework for Respecting Human Rights

#### Framework to Ensure Respect for Human Rights

From the perspective of due diligence related to human rights, Lion believes it is important to enhance its frameworks for ascertaining the impact of its activities on human rights, its frameworks for reporting, taking corrective action, and conducting other related follow-up.

Lion conducts e-learning courses for its employees that cover periodic training related to the *Lion Group Charter for Corporate Behavior* and activities to make all employees aware of the importance of human rights as they related to sexual and power harassment. To confirm compliance with the *Lion Group Charter for Corporate Behavior*, Lion conducts compliance awareness surveys on an annual basis. In addition, Lion confirms respect for human rights at various stages, including hiring, personnel assessments, and setting terms of employment, based on the *Lion Group Charter for Corporate Behavior*.

For our customers, Lion complies with its originally developed product management system and works at all times to ensure safety and proper functionality. Lion has also prepared a manual for the preparation of product labels that give consideration to the needs of senior citizens, children, and other vulnerable groups, and endeavors to develop product packaging, including labels, that are clear and easy to read.

For its suppliers, Lion has made available publicly its basic procurement policy, which reflects its concern for social responsibility, including human rights. In 2013, Lion newly issued its Supplier CSR Guidelines, which includes content related to human rights, including elimination of child labor and forced labor. Based on these guidelines, we request our suppliers and other business partners to conduct self-checks on their own human rights initiatives. In addition, Lion has made available a hotline for its suppliers that makes it possible to confirm factual matters and respond appropriately.

## Labor Practices

### Change the Awareness of Employees through Raising Morale and Motivation

#### Human Resource Diversity

Lion has made efforts to promote human resource diversity in light of major changes in the composition of its workforce and the need to respond swiftly to changes in the business environment.

The Diverse Human Resource Promotion Committee was set up in 2010 to plan and formulate personnel measures for promoting the active participation of diverse human resources.



Career Forum (Diverse Human Resource Promotion Committee)

#### Promoting Work-Life Balance

Lion strives to create an environment where employees can work dynamically and deliver results, while placing value on maintaining an optimal balance between their working and private lives.

In 2013, consideration was given to increasing the efficiency of operations and reducing overtime hours, and steps were taken to improve the working environment.

#### Safety and Disaster Prevention Initiatives

Based on the principle of “safety first,” Lion has established its unique “Health, Safety, and Disaster Prevention Management system”—which combines the “Occupational Safety and Health Management System” of Japan’s Ministry of Health, Labour and Welfare with disaster prevention provisions. Lion set up a Disaster Prevention Meeting, which consists of representatives from the production, R&D, administration, as well as sales divisions, and is responsible for managing and promoting Company-wide policies, targets, annual plans, and achievements in the areas of safety and disaster prevention.



## Environment

### Contribute to a Sustainable Society as an Environmentally Advanced Company

#### Environmental Guidelines

Lion's Environmental Guidelines adhere to the spirit of the *Lion Group Charter for Corporate Behavior and Action Guidelines*, which state: "We shall play a positive and active role in creating a sustainable society, harmonizing economic development and environmental protection."

In 2013, together with the preparation of its Eco Vision 2020, Lion revised its Environmental Guidelines. These revised guidelines clarify Lion's policies of "realizing a low-carbon society," "realizing a sound material-cycle society," and "achieving harmony with nature" as well as its stance toward environmental initiatives overseas.

#### Environmental Management System

The purpose of the Lion Group's environmental management system is to identify, evaluate, and rectify any adverse effects on the environment associated with its business activities, products, and services, and to facilitate ongoing improvements in the Group's environmental protection activities. We are working to achieve ongoing improvements through the implementation of a plan-do-check-act (PDCA) cycle in line with our Environmental Guidelines.

Systems for environmental management and reporting activities have been enhanced with the aim of bolstering the Group's global environmental response capabilities. Data of overseas affiliated companies is posted on our website.\*

\* Data on the environmental footprints of the plants of our overseas affiliated companies may be accessed at URL: [http://www.lion.co.jp/en/csr/pdf/csr\\_2013\\_17.pdf](http://www.lion.co.jp/en/csr/pdf/csr_2013_17.pdf)

#### Eco Vision 2020

1.  
Realizing a  
Low-Carbon  
Society

2.  
Realizing a  
Sound Material-  
Cycle Society

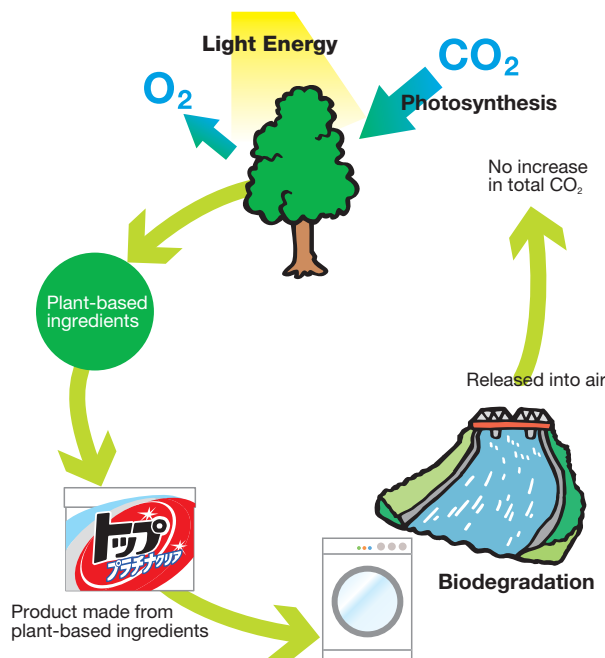
3.  
Achieving  
Harmony with  
Nature

#### Sustainable Use of Resources

Methyl ester sulfonate (MES) and methyl ester ethoxylate (MEE), unique surfactants developed by Lion, are raw materials of detergents derived from reproducible plants, which can contribute to the reduction of CO<sub>2</sub> emissions.

After use, surfactants, including detergents, are decomposed by microbes in the environment to become CO<sub>2</sub> and water. As plants grow, they absorb CO<sub>2</sub> in the atmosphere. Therefore, even when surfactants made from plant-based ingredients decompose emitting CO<sub>2</sub>, there is no increase in the amount of CO<sub>2</sub> in the air. This is referred to as carbon neutral. Moving forward, we will endeavor to use plant-derived materials.

#### Carbon Neutrality



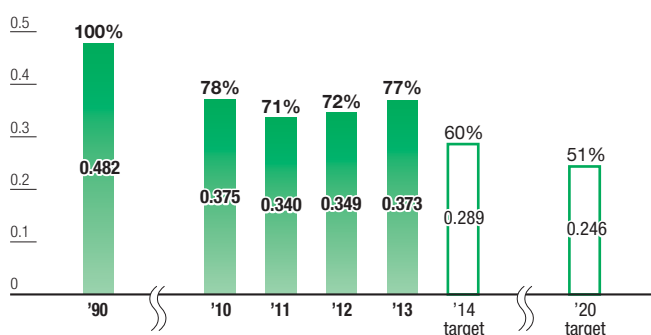
## Climate Change Mitigation and Adjustments

To reduce CO<sub>2</sub> emissions, Lion has worked to develop highly concentrated laundry detergents, review and upgrade its manufacturing processes in production divisions, introduced energy-saving equipment when older facilities are retired, and taken other eco-friendly measures. In addition, all departments Company-wide, including administrative, operating, and R&D units, engage in energy-conservation activities. However, because of the prolonged stoppage of nuclear power plants, the estimated CO<sub>2</sub> emission coefficients of electric power companies in 2013 in Japan have expanded. As a result, in 2013, CO<sub>2</sub> emissions (per unit of sales), which had declined to 77% of the level of 1990, are estimated to have increased over the previous year once again.

Overseas emissions of CO<sub>2</sub> of the Lion Group rose over the level of the previous year along with the expansion in overseas production. However, Lion is engaging in activities to decrease its CO<sub>2</sub> emissions by 1% or more for each unit of output on an annual basis. In addition to the previously mentioned activities to reduce CO<sub>2</sub> emissions, Lion is working to reduce such emissions from its business activities and emissions in the post-usage, transport, and other phases of the life cycles of its products.

Total CO<sub>2</sub> Emissions from Business Activities (per unit of sales)

(tons per million yen)



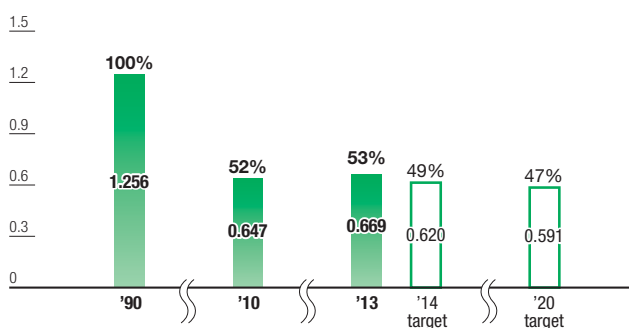
## Biodiversity Conservation

Lion has assumed a leading role in tackling water environmental issues, such as pollution and the eutrophication of waterways linked to the use of detergents, and has considered biodiversity conservation at each stage from raw material procurement to disposal.

Looking ahead, Lion will continue to position the conservation of biodiversity and the water environment as important issues.

Total CO<sub>2</sub> Emissions due to Product Use (per unit of sales)

(tons per million yen)



Note: To increase the level of accuracy, the method of calculation for 2013 data has been changed. To set the base dates in 1990 and 2010, the figures for these years have been calculated using the new method.

### Fair Operating Practices

#### Promoting Social Responsibility Activities throughout the Value Chain

##### Frameworks for Securing Fairness in Business Activities

At Lion, the Corporate Ethics Committee, chaired by the director responsible for corporate ethics, works to actively foster compliance awareness within the Lion Group.

We believe that it is important for Lion to fulfill its corporate social responsibilities based on a spirit of mutual co-existence and co-prosperity with its business partners. We have published basic *Procurement Principles* that reflect consideration for social responsibilities, including guidelines for appropriate and reasonable transactions that observe laws and social norms, environmental conservation, and other related matters. In 2013, we newly issued our *Lion Supplier CSR Guidelines*, which requests our business partners to take the initiative in conducting self-checks on their relationships, including transactions, with Lion and other business partners as well as other stakeholders, based on these guidelines. In addition, we have made available a hotline for use by business partners.

##### Initiatives in the Value Chains

Lion believes that one of the important CSR-related issues in its value chains is to strengthen teamwork with its suppliers of raw materials and its manufacturing partners. To reduce the impact on the environment of our business activities and minimize possible negative effects on society as well as work toward the further sustainable and mutual development of business activities with our business partners, we believe it is necessary to revitalize CSR activities by sharing information on CSR and other related activities. In addition, we have been aware that one of our important issues is to procure supplies of palm oil for the production of MES, which was developed originally by Lion as a plant-derived ingredient used in the production of laundry detergent. Therefore, as demand for palm oil expands, we are working toward sustainable procurement and promoting the use of substitutes.

##### Aiming for Sustainable Palm Oil Procurement

The output of palm oil is expanding year by year because it can be harvested all year round and is, therefore, efficient to produce. However, the cutting of tropical rain forests to develop new palm plantations is raising issues because it has certain adverse effects, including shrinkage in the size of wildlife habitats.

To resolve these and related issues, Lion has participated in the Roundtable on Sustainable Palm Oil (RSPO) since 2006. In 2012, the Oreo chemical plant of Lion Chemical Co., Ltd., which takes the delivery of supplies of palm oil, obtained a supply chain certification from RSPO, and Lion has begun to use palm oil obtained under this certification. Lion is working to assure the sustainability of palm oil sources, and has set a goal of procuring all its palm oil from RSPO-certified sources by 2015.

##### Respect for Intellectual Property Rights

Lion's basic policy regarding intellectual property, which is set forth in its *Behavioral Guidelines*, is to create, appropriately protect, and proactively use intellectual properties, respect intellectual property rights of others, and avoid improper acquisition and use of the rights.

We established a department specializing in intellectual properties to confirm that rights are properly used without infringing on the rights of others.

## Consumer Issues

### Pursuing Customer Satisfaction by Creating Safe and Trustworthy Products

#### Developing Safe and Reliable Products

In product planning, we strive to fully comprehend the valuable opinions received from customers in an effort to identify customers' needs. In product development, the quality of developed products is verified with respect to seven parameters, including function and performance. Furthermore, we endeavor to provide clear, easy-to-read labeling for customers.

Quality is managed at each stage of the manufacturing process. Products that have passed inspections are shipped with data identifiable for each lot. This initiative is effective in after-sale management.

A wealth of information is relayed through explanations about our products and the supply of samples to wholesalers and retailers.

#### Appropriate Information Provision

In order to provide information that customers need in an unbiased and appropriate manner, we have a system in place through which several departments check the labeling of products and advertisements.

Turning to activities outside Japan, we indicate usage and ingredients in the local language, in compliance with laws and regulations of the sales area, to facilitate customers' accurate understanding about the features of our products.

#### Examples of KireiKirei Hand Soap Labeling



Thai

Korean

Chinese

#### Approach to Safety and Reliability

Lion evaluates the safety of raw materials and safety during product use to ensure customer peace of mind.

#### Safety of Raw Materials

Use of raw materials is determined only after verifying safety and implementing sample evaluations and supplier surveys to ensure a predetermined level of quality. Before use, raw materials undergo quality inspections using parameters and testing methods according to specific categories, including drugs and food; quasi-drugs and cosmetics; and various products.

#### Safety during Product Use

Considering our consumers' various usage styles as well as the needs of our consumers with vulnerabilities, Lion conducts safety evaluations of its products based on a policy of averting risk through product design.

Evaluation check sheets are employed to confirm whether safety has been achieved through product design, ranging from "normal use" cases to "mistaken use" cases. Even for "irregular use" cases, we evaluate whether risk has been minimized and whether the risk is acceptable. The evaluation results are reflected in product safety, for example, with the inclusion of sufficient warnings on labels when necessary.

#### Responding to Customers' Inputs

To draw on inputs obtained during consultations with customers and work to make product improvements and develop new products, we have developed systems to strictly manage personal information. After information has been registered in our database, this system provides for Company-wide sharing of information, after personal information has been excluded.

Information gathered that is deemed to have an effect on customer satisfaction is included in Lion's *Voice of the Customer* (VOC) daily bulletins, which is reported to management on a daily basis. With the product planning divisions as the focal point, we take the customers' perspective and make use of this information by giving it prompt consideration and developing responses to improve product quality. In 2013, Lion transmitted a total of 239 VOC daily bulletins.



## Community Involvement and Development

### Co-Existence and Co-Prosperity with Society and Communities/Contribute to the Development of Society in Health, Comfort, and Environment Areas

#### Social Contribution Activities through the Lion Foundation for Dental Health

Under the consistent philosophy of “returning benefits from corporate activities to society,” since its founding, Lion has been conducting oral care promotion and educational activities since 1913. The Lion Foundation for Dental Health (LDH) was founded in 1964 under the approval of the then-Ministry of Health and Welfare of Japan, and was recognized as a public interest incorporated foundation by Japan's Cabinet Office in 2010. LDH continues to contribute to society in the front line of oral health, leading to a better quality of life for all people, by maintaining and improving the dental and oral health of ordinary citizens through three projects\* in cooperation with dental associations, universities, government authorities, and other parties. Lion has provided full support for these activities.

\* The three LDH projects:

1. Raising awareness of and promoting oral health: Promotion of and dissemination of information related to oral health of people at all life stages
2. Research and investigation: Research related to the importance of oral health in lengthening people's healthy life expectancy and dissemination of research results obtained through business and activities to specialists and the general public
3. Education and training: Providing of various seminars and lectures for health instructors and dental specialists



A school-age children's tooth brushing event



A school-age children's tooth brushing event (2013)

#### Conservation Work

Lion is inherently linked to water through its role as a supplier of detergents and other products, including toothpaste and hand soaps. Therefore, we have a responsibility to protect the water environment by taking into consideration the natural environment in the development of our products. Lion is quite active in this area, and its initiatives include forest maintenance activities in the Lion Forest in Yamanashi, which plays a major role in the protection of water resources, and promoting the understanding and usage of rainwater—a water resource we are all familiar with.

## TOPICS Lion's Principal Contributions to Society

### Forest Preservation Activities in the Lion Forest in Yamanashi

Lion established the "Lion Forest in Yamanashi" in 2006 and has positioned it as a place for field activities that will raise environmental awareness among employees. Objectives include forest maintenance activities with the aim of preserving biodiversity, preserving forests as sources of water, and revitalizing local communities. During 2013, a cumulative total of 148 persons participated in related activities, including new employees

undergoing training and volunteers who participated in forest maintenance activities on two occasions.

### 2013 Rainwater Utilization Idea Contest

To encourage primary and middle-school pupils throughout Japan to think more about the importance of water resources, Lion held its "2013 Rainwater Utilization Idea Contest" for another consecutive year. A total of 5,738 entries were submitted in the four categories of "essays," "posters," "free research," and "slogans." Nine prizes for

excellence were presented during an awards ceremony held in March 2014 at Lion's Hirai Office. In addition, school encouragement awards were presented to each primary school and the middle school that submitted the most-outstanding entries.



## Column

### Introducing the Lion CSR Report

Lion views its CSR Report as an important tool allowing the Company to communicate its CSR initiatives and draw on stakeholder opinions while furthering corporate activities.

Lion issued its Japanese-language CSR Report 2013 in June 2013. The English-language edition of this report was posted on the Company's website in November 2013.



[www.lion.co.jp/en/csr/](http://www.lion.co.jp/en/csr/)



# Research and Development

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## Lion's R&D Policy and Core Technology

Lion's R&D divisions have selected strategic themes that will contribute to attaining the objectives of "Vision 2020." As these divisions tackle the challenges of meeting high R&D objectives and developing innovative technologies, they are proceeding with the development of new products.

Lion's core technologies encompass four fields: oral health science, interface science, life science, and material science. The fields where Lion has been conducting research since the commencement of its R&D activities are oral health science and interface science.

In the field of oral health science, Lion is building on its R&D findings that have been accumulated over many years and is conducting joint research with outside R&D institutions to clarify the relationship between the intraoral environment and systemic health. Lion is also combining a broad range of in-house and outside technologies, primarily together with oral care technologies, to create new value in many fields, including not only for oral care products but also for food products and pharmaceuticals.

In the field of interface science, Lion has conducted R&D activities and has led the field in developing and enabling Lion to offer consumers detergents of new value with leading-edge technologies. In recent years, to respond to the need for eco-friendly products, Lion has developed a plant-based surfactant derived from palm oil, which has drawn worldwide attention because of its high detergency and biodegradability. In addition, Lion is working aggressively and steadily on a day-to-day basis on the development of washing technologies of the future that will not require the use of surfactants.

## R&D Center and New Research Facilities

Since 2009, Lion has engaged in the redevelopment of its R&D facilities to strengthen R&D and production technology as well as its consumer research capabilities. Phase II of the redevelopment activities was completed with the opening of new facilities in summer 2013. These facilities are based around three concepts. The first one is to concentrate development functions related to oral care. State-of-the-art equipment for research has been installed in the new facilities. The aim of the concentration of facilities is to promote synergies in research activities to further improve the quality and speed of Lion's R&D activities. The second concept is "to expand and enhance open innovation functions." Open facilities make possible collaboration with overseas subsidiaries and affiliates as well as outside organizations. These facilities also include a laboratory space with evaluation rooms that can simulate climate and water quality around the world. The third concept is promoting closer interaction among Lion's R&D researchers. The new facilities have been designed to promote organic ties among Lion's laboratories and mutual communication among research staffs. Lion's R&D aims to create new value in the health, comfort, and environmental domains that will impress consumers by stepping up, to a higher level than at present, the mutual exchange of technology among Lion's research laboratories, and encouraging collaboration with the R&D members of the Lion Group in Asia and outside institutions.



Evaluation rooms that can simulate climate and water quality around the world

# Management's Discussion and Analysis

Lion Corporation and Consolidated Subsidiaries

Strategy

Review of Operations

Sustainability

Financial Information

Corporate Data

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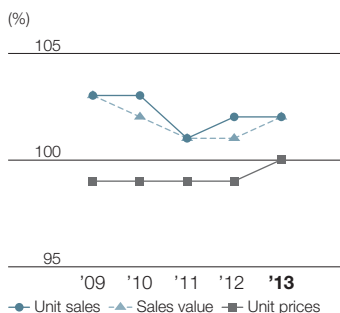
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Lion Corporation's Consolidated Financial Statements and  
Notes to Consolidated Financial Statements can be accessed at:  
<http://www.lion.co.jp/en/invest>



## MARKET ENVIRONMENT

### Trends in Home Products Market (YOY)\*



Note: INTAGE Inc. SRI surveys. Figures for the change in unit sales, sales value, and unit prices are the accumulated totals from January through December of the respective years, compared with the corresponding figures of the previous year. Data for 2009 and 2010 cover 44 household goods markets, data for 2011 and 2012 cover 42 such markets, and data for 2013 cover 40 markets.

### 2014 GDP Growth Forecasts for Countries in which Lion Has Operations

	Growth rate (vs. 2013) (%)
Thailand	3.5%
Singapore	3.4
Malaysia	5.0
Indonesia	5.5
Philippines	5.5
South Korea	3.4
China	7.4
Hong Kong	4.0
Taiwan	3.5

Source: Mitsubishi Research Institute forecast  
(As of February 2014)

During fiscal 2013, the Japanese economy generally remained on a recovery trend as the government's economic and monetary policies succeeded in weakening the value of the yen and bringing a rallying in stock prices. As a result of these developments, corporate profitability rose, personal consumption showed improvement, and, in the latter half of the year, consumer prices bottomed out.

In the domestic daily necessities industry, which is the focus of the Lion Group's business operations, market unit prices showed a trend toward bottoming out, but intense competition at the retail store level continued. Because of these and other factors, conditions in the business environment were severe.

In the domestic market for daily necessities, Lion has a presence in 40 of these. The decline of about 1% a year in the average prices in these markets that had continued for the previous four years ceased and prices in fiscal 2013 remained at 100%\*<sup>1</sup> of the level of the previous fiscal year. In the latter half of the fiscal year, prices rose to 101%\*<sup>1</sup> of the level of the same period of the previous year, and there were signs of an upward trend. Factors accounting for this included the rise in the percentage composition of toothpaste sales in the medium-to-higher priced zones, reflecting the rising awareness of dental health and a shift toward high-value-added laundry detergents and fabric softeners, which had a major positive impact.\*<sup>1</sup>

On the other hand, sales in unit sales terms maintained a rising trend of about 2%\*<sup>2</sup>. This was because of the rise in the percentage of sales of refill packages accompanying the expansion in the percentage of liquid types in the laundry detergent business and growth in the number of consumers preferring fabric softeners with attractive fragrances.

As a consequence, the size of the domestic markets for daily necessities where Lion is a participant expanded 2%\*<sup>3</sup> in fiscal 2013 compared with the previous year.

In the over-the-counter (OTC) pharmaceutical market, where Lion has a presence in eight of the market segments, average prices for the fiscal year in those eight OTC pharmaceutical markets recovered to 100%\*<sup>4</sup> of the level of the previous fiscal year. Reasons for this included the shift toward high-value-added products along with the introduction of new, higher-priced items especially for middle-aged and senior consumers in the eyedrop market segment. However, due to the shrinkage in the size of the market for insecticides, sales in unit volume and monetary terms stood at 99%\*<sup>5</sup> of the level of the previous fiscal year.

In overseas markets, although there was a deterioration in the environment for consumer spending in Thailand in the latter half of the fiscal year, the market for daily necessities expanded because of growth in the population and the number of households and rising awareness among consumers of hygiene matters. Also, because of expansion in the middle-income classes, the need for high-value-added products is increasing. As a result of Lion's analysis of these and other factors, the potential for growth in the Asian countries where Lion has a presence is extremely high.

Please note also that Lion began operations in a new market in Asia in fiscal 2013, the Philippines, thus expanding the number of countries and regions where it has a presence to nine.

\*<sup>1</sup> INTAGE Inc. SRI survey of 40 household goods markets. Accumulated average unit prices from January through December 2013, compared with the previous year

\*<sup>2</sup> INTAGE Inc. SRI survey of 40 household goods markets. Accumulated unit sales from January through December 2013, compared with the previous year

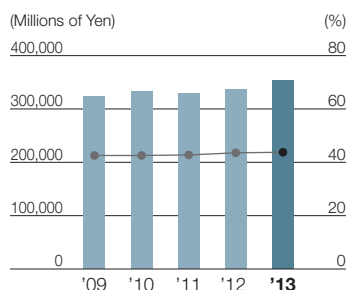
\*<sup>3</sup> INTAGE Inc. SRI survey of 40 household goods markets. Accumulated sales amount from January through December 2013, compared with the previous year

\*<sup>4</sup> INTAGE Inc. SDI survey of 8 pharmaceutical product markets. Accumulated average unit prices from January through December 2013, compared with the previous year

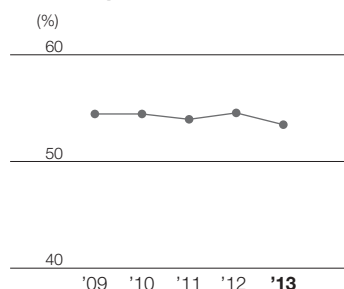
\*<sup>5</sup> INTAGE Inc. SDI survey of 8 pharmaceutical product markets. Accumulated sales amount and unit sales from January through December 2013, compared with the previous year

## SALES AND OPERATING INCOME

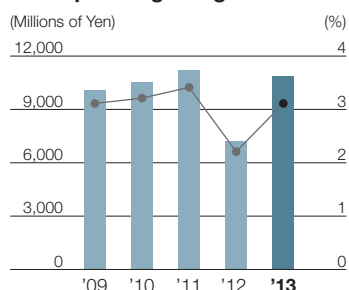
### Net Sales and Cost of Sales Ratio



### SG&A Expenses to Net Sales



### Operating Income and Operating Margin



Amid the market conditions described in the previous section, the Group proceeded with the implementation of its three-year medium-term plan, “V-1 Plan (Vision 2020, Part 1)” to make further progress toward attaining the objectives of its long-term vision Management Vision “Vision 2020.” This plan focuses on four strategic themes: Qualitative Growth of Domestic Businesses, Quantitative Expansion of Overseas Businesses, Development of New Business Value, and Enhancement of Organizational Learning Capabilities.

In its business activities in Japan, in fiscal 2013 Lion positioned recovery in profitability in its domestic consumer products businesses as its objective with highest priority. To attain this objective, Lion worked to improve profitability by focusing on the development and nurturing of high-value-added products and products aimed at opening up new market segments, including the launching of new products in its Oral Care, Fabric Care, Pharmaceutical, and Other businesses. In addition, Lion proceeded with activities to raise profitability by using competition costs efficiently and advancing cost reductions. Also, as part of initiatives to develop new business value, in its direct-to-consumer business, Lion worked to expand the scale of this business by increasing sales of its core products in this business and launching new products aimed at developing new customer segments.

In its Overseas Business activities, Lion moved forward with activities to increase the value of its core brands, concentrating on key areas, including oral care and detergent products, principally in Thailand. Lion also expanded production capacity in Thailand and Malaysia as well as worked to upgrade its R&D capabilities and systems. In addition, Lion commenced its operations in the Philippines and succeeded in enlarging the geographical area covered by its business activities.

As a consequence of these activities and developments, the Group’s consolidated net sales in fiscal 2013 were ¥352,005 million, an increase of 5.0% from the previous year (or a 0.9% rise after the exclusion of the effects of foreign currency movements). This was higher than Lion’s revised forecast for the fiscal year. Operating income amounted to ¥10,819 million, an increase of 50.0% from the previous year. This rise in profitability was due to gains in net sales, principally in Overseas Business, the positive impact of improvements in the product mix for consumer products businesses in the domestic market, and other factors. Ordinary income was ¥12,300 million, an increase of 43.6% from the prior fiscal year, and the highest level in Lion’s history. Net income amounted to ¥6,097 million, an increase year on year of 43.9%. As a result, ROE, defined as the ratio of net income to shareholders’ equity, was 5.4%, compared with 4.0% in the previous year. Earnings per share were ¥22.72, versus ¥15.77 for the prior year.

### SG&A Expenses Breakdown

	2013		2012		2011	
	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	<b>¥187,849</b>	<b>53.4%</b>	¥182,572	54.5%	¥176,684	53.9%
Sales commission expenses	<b>11,960</b>	<b>3.4</b>	16,673	5.0	16,706	5.1
Sales promotion expenses	<b>78,384</b>	<b>22.3</b>	71,229	21.3	69,160	21.1
Freight and storage expenses	<b>15,979</b>	<b>4.5</b>	15,810	4.7	15,058	4.6
Advertising expenses	<b>24,273</b>	<b>6.9</b>	24,724	7.4	22,128	6.8
Salaries and allowances	<b>13,665</b>	<b>3.9</b>	12,999	3.9	12,915	3.9
R&D expenses	<b>9,618</b>	<b>2.7</b>	8,989	2.7	8,913	2.7
Other	<b>33,966</b>	<b>9.6</b>	32,146	9.6	31,804	9.7

## Factors Impacting Operating Income in Fiscal 2013

(Billions of Yen)



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

## OPERATING REVIEW BY SEGMENT

The Group's business segments are classified by product and service, based on operating divisions and subsidiaries, and by geographical area. Its four reporting segments are Consumer Products, Industrial Products, Overseas, and Other.

Reporting segments are as follows:

### Consumer Products Business

Lion manufactures and sells daily necessities, OTC pharmaceuticals, functional food products, and other products mainly in Japan. Principal products include toothpaste, toothbrushes, hand soaps, antipyretic analgesics (for fever and pain relief), eyedrops, tonics and nutrients, insecticides, laundry detergents, dishwashing detergents, fabric softeners, household cleaners, bleaches, gift items, functional food products, and pet supplies.

### Industrial Products Business

This Group manufactures and sells chemical intermediate materials in Japan and overseas, products for institutional and other industrial uses, and other items. Principal products include activators derived from oil and fats, electro-conductive carbon, detergents for institutional use, and other items.

### Overseas Business

The Group's overseas subsidiaries and affiliates are primarily engaged in manufacturing and selling daily necessities.

### Other

The Group's subsidiaries in Japan are primarily engaged in activities related to businesses of the Group. Principal products and services include construction, management of real estate, transportation and storage, human resources services, and other activities.

## Consumer Products Business

Lion's activities are classified into Oral Care business, Beauty Care business, Fabric Care business, Living Care business, Pharmaceutical business, and Other.

Total sales in the Consumer Products Business segment in fiscal 2013 were ¥265.2 billion, 0.3% below the level of the previous fiscal year. To place maximum priority on recovering profitability, Lion worked to improve its product mix by launching and promoting high-value-added items and innovative products aimed at opening up new market segments and by stabilizing product prices in the lower-priced range. Lion also introduced new sales management and transactions systems aimed at conducting more-appropriate sales administration.

As a result of these activities, costs for remaining competitive decreased, as a consequence of the more-efficient allocation of sales promotional costs, and operating income of this segment rose a major 69.4% over the previous year.

	Millions of Yen					
	FY2013	% of segment sales	FY2012	% of segment sales	Change	
					Amount	%
Net sales	<b>¥265,207</b>		¥266,042		¥ (835)	(0.3)%
Operating income	<b>7,289</b>	2.7%	4,304	1.6%	2,985	69.4

## Net Sales by Business

	Millions of Yen			
	FY2013	FY2012	Change	
			Amount	%
Oral Care business	<b>¥51,628</b>	¥52,917	¥(1,288)	(2.4)%
Beauty Care business	<b>19,044</b>	20,374	(1,329)	(6.5)
Fabric Care business	<b>80,951</b>	80,596	354	0.4
Living Care business	<b>21,620</b>	21,851	(231)	(1.1)
Pharmaceutical business	<b>36,776</b>	37,193	(416)	(1.1)
Other	<b>55,185</b>	53,108	2,076	3.9

## Lion's Major Toiletry Products Fields and 2013 Market Positions in Japan

	Billions of Yen Market Size in Japan	Lion's Market Position
Toothpastes	¥ 80	1
Toothbrushes	43	1
Liquid hand soaps	20	1
Laundry detergents	131	3
Fabric softeners	79	3
Dishwashing detergents	45	3

Source: 2013 INTAGE Inc., each category, Data from January through December 2013, on the basis of sales value  
Note: Figures for market size presented above are based on retail sales data and do not include sales of gift packages.



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### Oral Care Business

Consumers in the market for oral care products have clearly moved toward two bipolar groups: Those who prefer high-value-added products and those buying products in the lower-priced range. In fiscal 2013, Lion focused on developing and promoting high-value-added products and on stabilizing the prices of products in the lower-priced range and, in parallel with these initiatives, worked toward a more-efficient allocation of sales promotional resources.

In the toothpaste field, sales of Lion's core high-value-added brand *Dentor Systema* expanded steadily, and sales of *Hitect Shoyaku no Megumi (Bountiful Herbal Medicine)* brand toothpaste held firm. On the other hand, sales of *Dentor Clear MAX*, a lower-priced product, were stagnant, and, as a consequence, overall sales of toothpastes were below the previous year.

In the toothbrush field, Lion newly launched *Clinica Advantage Toothbrush*, which features an extremely thin toothbrush head and neck for smoothly reaching and cleaning the back of the molars. Consumers understood and accepted this new toothbrush as a high-value-added item, and overall sales of toothbrushes showed a slight increase over the previous year.

In the mouthwash field, sales of *Dentor Systema* brand dental rinses were firm, but sales of *platus beautiful teeth essence* dental rinse were stagnant. Thus, overall sales in this field were below the level of the previous year.

### Beauty Care Business

In the Beauty Care business, Lion offers hand soaps, antiperspirants, and other products that are aimed at opening up new market segments by providing consumers with new hygiene routines for their daily lives.

In the hand soap business, Lion is promoting a shift toward high-value-added foaming types that have higher prices than conventional liquid types. In fiscal 2013, sales of *KireiKirei Medicated Foaming Hand Soap* were favorable. Therefore, their share of Lion's hand soap sales exceeded 60%, and they contributed to profitability. On the other hand, sales of liquid hand soaps were stagnant, and total sales of hand soaps were level with the previous year.

In the antiperspirant business, in February 2013, Lion launched a new product, *Ban Shower Deodorant*, which is an aqueous preparation that provides a "just showered" feeling and contains micro powder ingredients that provide a long-lasting feeling of smooth skin. Because of its effectiveness and satisfying feel when applied, the usage of *Ban Shower Deodorant* by the target age segment of women in their 20s and 30s rose, and this product made a major contribution to expanding the market for aqueous deodorants. Sales of *Ban Shower Deodorant* were 13% higher than Lion's planned targets, but because of stagnant sales of power-type deodorants, overall sales of antiperspirants were below the previous year's level.

### Fabric Care Business

In the laundry detergent market, which is one of Lion's principal markets in Japan, Lion is promoting a shift from powdered detergents, where price competition is intense, to high-value-added super-concentrated liquid detergents. In 2013, because of focusing market activities on expanding sales of *TOP HYGIA*, which is a super-concentrated liquid detergent that enhances the antibacterial properties of laundry through washing, *TOP HYGIA* prices were not discounted at the retail level, and it maintained its position as a high-value-added product. Sales of *TOP NANOX* and Lion's other super-concentrated liquid detergents together rose to account for more than 30% of Lion's sales of laundry detergents. Among liquid laundry detergents in the lower-price range, sales of *TOP Clear Liquid* were favorable. However, because of the impact of the decline in the size of the market for powdered detergents, sales of laundry detergents as a whole were below the previous year.

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In the fabric softener business, owing to the success of Lion's addition of new fragrances and other activities to strengthen its product lineups, sales of the high-value-added *Kaori to Deodorant no SOFLAN (SOFLAN with Fragrance and Deodorant) Aroma Rich* series of products, which features long-lasting, pleasant fragrances, rose to account for 40% of Lion's fabric softener sales. In addition, as a result of Lion's renewal of its *Kaori to Deodorant no SOFLAN (SOFLAN with Fragrance and Deodorant) Aroma Natural* product lineup, sales of these products were favorable, and overall sales of fabric softeners were substantially above the previous year.

Also in 2013, Lion newly launched *TOP HYGIA Fabric Refresher antibacterial, antiviral deodorant* that eliminates bacteria, viruses, and odors from clothing and fabric with just a quick spray.

### Living Care Business

Lion's *LOOK* brand line of household cleaners for use in the bath, toilet, and elsewhere is opening up new market segments for preparations that make pleasant living environments a reality by proposing new cleaning routines. Sales of *LOOK Bath Antimold Fogger*, which eliminates bacteria and prevents black mold from growing throughout the bathroom, expanded steadily, in part because of the effectiveness of introductions of this product via the mass media just before the rainy season, when molds tend to grow. As a consequence, *LOOK Bath Antimold Fogger* contributed to expansion in the market for mold removers, which had been on a shrinking trend. Also, sales of *LOOK Mame-Pika Antibacterial Toilet Cleaner*, which was newly introduced in 2011 and contains ingredients for reducing odor-causing bacteria, were favorable. Therefore, total sales of home cleaning products exceeded those of the previous year.

In the dishwashing detergent business, sales of automatic dishwasher detergents in the *CHARMY Crysta* series were favorable, but sales of the *CHARMY Awa no Chikara (Power of Suds)* series were stagnant. As a consequence, overall sales in this business were below those of the previous year.

### Pharmaceutical Business

Lion supplies products for eight markets within the OTC pharmaceutical market. In recent years, as the number of people visiting doctors and hospitals directly has increased, the unit volume of sales and prices in the OTC market have continued to decline. However, Lion believes that, along with the demographic aging of the population and increases in medical care costs, the OTC market will expand going forward. In addition, consumer needs are shifting from the treatment of diseases to prevention, and, as more and more people seek to prevent diseases in their daily lives, forecasts are that this shift will be reflected in a transition in consumer lifestyles toward purchasing OTC preparations.

In the eyedrop business, in the high-priced range, Lion launched *Smile 40 Premium* ophthalmic eyedrops, which have superior effectiveness in relieving eye fatigue and blurry vision caused by aging and the prolonged use of the eyes. Lion also launched *Smile 40 EX GOLD Mild* in the medium-priced range, which gives users a more-subdued cool sensation. Lion is using these two new products mainly to accelerate the trend among consumers to use more medium-to-high priced eye preparations. Due to growth in sales of these and similar preparations, Lion's sales of eyedrops in the medium-to-high price range increased twofold over the previous year and thus expanded to account for about 25% of eyedrop sales. This was an excellent example of an improvement in Lion's product mix that contributed to profitability.

In the antipyretic analgesic business, overall sales were below the level of the previous year, as Lion's core product *BUFFERIN A* experienced more-intense competition.

In the insecticide business, sales of the *Varsan* series, Lion's principal fumigation-type pesticides, were affected by the shrinkage in the overall market for fumigation pesticides, and overall sales in this business were below the previous year.

#### Other

Overall sales in Lion's direct-to-consumer channels expanded significantly as sales of functional food products, including mainstay product *Nice rim essence Lactoferrin*, rose and as Lion introduced a new product, *Fleuria*, an aging hair care product for women, in June 2013. As a consequence, the direct-to-consumer business, which is in line with Lion's strategy of "Development of New Business Value," has expanded faster than anticipated, reaching annual sales of ¥10 billion, which was originally the goal set for fiscal 2014, one year ahead of schedule.

In the pet supplies business, sales of oral care products and *Pet Kirei: Nioi o Toru Suna* cat litter held firm, but overall sales in this business were about the same as in the previous year.

#### Industrial Products Business

	Millions of Yen					
	FY2013	% of segment sales	FY2012	% of segment sales	Change Amount	%
Net sales	<b>¥51,630</b>		¥49,784		¥1,846	3.7%
Operating income	<b>778</b>	1.5%	360	0.7%	417	115.8

This business handles activators derived from oil and fats, electro-conductive carbon, detergents for institutional use, and other products.

Sales in the activators-derived oil and fats category were slightly above the level of the previous year as demand for materials used in detergents, shampoos, and other products held firm.

In the electro-conductive carbon field, sales to overseas customers in the electronic components and other industries were steady, and sales were considerably higher than in the prior year.

Overall sales in the detergents for institutional-use business were substantially above the previous year, as sales of hand soaps and alcohol for disinfectant use in institutional kitchens were favorable.

Accordingly, sales in the Industrial Products Business rose 3.7% over the previous year, to ¥51.6 billion. Operating income of the segment rose 15.8%, as sales of high-margin products expanded.

## Overseas Business

	Millions of Yen					
	FY2013	% of segment sales	FY2012	% of segment sales	Change Amount	%
Net sales	<b>¥76,865</b>		¥59,173		¥17,691	29.9%
Operating income	<b>1,435</b>	1.9%	1,462	2.5%	(27)	(1.9)

The Lion Group added the Philippines to the list of overseas countries where it conducts its Overseas Business, bringing the total to nine countries and regions, including Thailand, South Korea, China, and certain other countries. Lion is aggressively launching new products and implementing other activities to secure the positions of “No. 1 in oral care products” and “No. 1 in laundry detergents” in these areas. In fiscal 2013, Lion introduced new products in its lineup of *Systema* oral care products that are sold in all these areas and, in the laundry detergents business, strengthened its lineup of products sold under its *TOP* global brand, including liquid types.

In Thailand, consumer spending weakened because of the growing debt burden on households, and, in the latter half of the year, sales slowed, but, for the year as a whole, sales in fiscal 2013 were above those of the previous year both in local currency and yen terms because of firm sales of *Systema* toothbrushes and laundry detergents. In South Korea, sales of dishwashing detergents showed weak growth, but sales of *KireiKirei* hand soaps and *Beat* laundry detergents were favorable. Although sales showed slight increases overall on a local currency basis, in yen terms, they increased significantly. In China, total sales rose marginally over the previous year on a local currency basis but showed a major gain in yen terms, as sales of *Systema* toothbrushes held strong.

As a consequence of the previously mentioned developments, total sales in the Overseas Business segment rose 29.9% (a 5.2% rise after the exclusion of foreign currency factors), to ¥76.8 billion. The ratio of overseas net sales to external customers stood at 21% of consolidated net sales. Segment operating income decreased 1.9% from the prior year because of investment costs related to entering the Philippine market and marketing investments for increasing Lion's market presence and maintaining its competitive position. Sales of overseas companies in fiscal 2013, including those accounted for under the equity method, exceeded ¥100 billion, thus giving evidence of steady quantitative expansion in the Lion Group's overseas business activities.

## Other

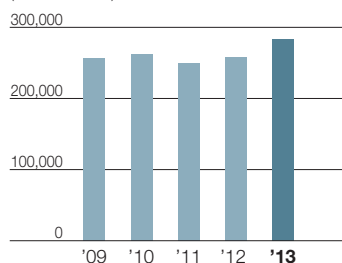
	Millions of Yen					
	FY2013	% of segment sales	FY2012	% of segment sales	Change Amount	%
Net sales	<b>¥28,723</b>		¥29,798		¥(1,075)	(3.6)%
Operating income	<b>1,016</b>	3.5%	971	3.3%	44	4.6

Sales of the construction business and other businesses in this category amounted to ¥28,723 million (a decline of 3.6% year on year), and, for the segment as a whole, operating income was ¥1,016 million (an increase of 4.6% year on year).

## FINANCIAL POSITION

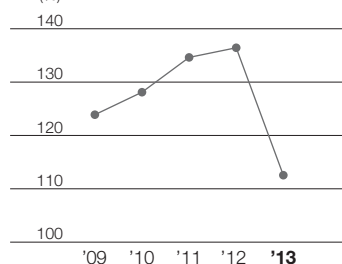
### Total Assets

(Millions of Yen)



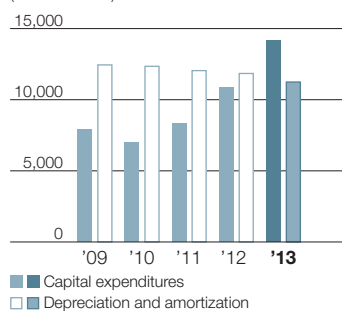
### Current Ratio

(%)



### Capital Expenditures and Depreciation and Amortization

(Millions of Yen)



## Consolidated Financial Status

	FY2013	FY2012	Change
Total assets (millions of yen)	<b>¥282,098</b>	¥257,595	¥24,502
Total net assets (millions of yen)	<b>124,232</b>	114,163	10,069
Shareholders' equity to total assets*1 (%)	<b>42.0%</b>	42.4%	(0.4) point
Net assets per share*2 (yen)	<b>441.59</b>	407.08	34.51

\*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 consolidated assets at the end of the fiscal year amounted to ¥282,098 million, ¥24,502 million higher than at the end of the previous year. This is primarily attributable to an increase in securities, including short-term investments in securities and investment securities.

Total consolidated liabilities at the end of the fiscal year were ¥157,865 million, ¥14,434 million higher than at the end of the previous fiscal year. This was due to increases in notes and accounts payable—trade and short-term loans payable. Current liabilities amounted to ¥131,656 million, ¥35,514 million higher than at the end of the previous fiscal year, and the current ratio at year-end was 112.5%.

Total consolidated shareholders' equity rose ¥3,315 million, to ¥110,588 million, due to the increase in retained earnings. Net assets increased ¥10,069 million, to ¥124,232 million, and the ratio of shareholders' equity to total assets at fiscal year-end was 42.0%.



## CASH FLOWS

### Consolidated Cash Flows

	Millions of Yen		
	FY2013	FY2012	Change
Net cash provided by (used in) operating activities	<b>¥22,910</b>	¥18,762	¥4,147
Net cash provided by (used in) investing activities	<b>(12,819)</b>	(9,172)	(3,647)
Net cash provided by (used in) financing activities	<b>(2,772)</b>	(4,923)	2,151
Effect of exchange rate changes on cash and cash equivalents	<b>709</b>	602	106
Net increase (decrease) in cash and cash equivalents	<b>8,027</b>	5,273	2,754
Cash and cash equivalents at end of the period	<b>48,941</b>	40,913	8,027

Net cash provided by operating activities totaled ¥22,910 million, due to a decline in notes and accounts receivable—trade and other factors.

Net cash used in investing activities amounted to ¥12,819 million, owing to purchases of property, plant and equipment.

Net cash used in financing activities was ¥2,772 million, as a result of cash dividends paid, the repayment of long-term loans payable, and other factors.

As a consequence, cash and cash equivalents at the end of the fiscal year were ¥48,941 million, ¥8,027 million higher than at the end of the previous fiscal year.

## OUTLOOK FOR FISCAL 2014

	Millions of Yen			
	FY2014	FY2013	Change	
			Amount	%
Net sales	<b>¥360,000</b>	¥352,005	¥7,994	2.3%
Operating income	<b>12,000</b>	10,819	1,180	10.9
Net income	<b>7,000</b>	6,097	902	14.8

Although the Japanese economy is forecast to remain on an upward trend in fiscal 2014, the outlook is for a temporary slowdown in domestic demand, principally personal consumption, after the increase in the consumption tax in April. Also, in the global economy, uncertainties about future trends are expected to continue because of trends in monetary policy in the United States, the slowdown in the economies of the emerging countries, and other factors. As a consequence, the business environment for Lion is forecast to become severer as conditions in the markets for daily necessities where Lion conducts its principal business activities will be impacted by the increase in the consumption tax, more-intense competition at the retail store level, increases in raw materials costs, and other factors.

The Lion Group will respond flexibly to these changes in the operating environment and continue to steadily implement its basic strategies set forth in its V-1 Plan (Vision 2020, Part 1) with the aim of reporting the highest levels of operating income and ordinary income in its history. In parallel, Lion will also endeavor to strengthen its foundation for the next stages in its growth.

In domestic business operations, Lion will continue to give highest priority to “Improving Profitability in Consumer Product Businesses.” To this end, Lion will launch new products, shift to high-value-added products as well as products aimed at opening up new market segments, mainly in the Oral Care, Fabric Care, and Pharmaceutical businesses. Lion will also work to strengthen its brands by making aggressive investments in advertising and promotion and accelerate its drive to attain qualitative growth. In addition, in the direct-to-consumer business, Lion will endeavor to expand its product offerings, with *Nice rim essence Lactoferrin* as the core item, and with the

second major supports of this business, including *Fleuria* and other products. Also, apart from our direct-to-consumer business, Lion will undertake aggressive marketing activities to further develop its Internet channel business, including sales through other websites engaging in direct-to-consumer marketing and sales.

In its Industrial Products Business, Lion will focus on developing new customers for its institutional-use detergents business. It will also give priority to further developing its high-performance products in the electro-conductive carbon business and activators derived from oils and fats business. Through these and other activities, Lion will realign its businesses from the perspective of profitability.

In Overseas Business activities, Lion will strengthen its marketing activities while continuing to focus on oral care products and laundry detergents. To attain further quantitative expansion, Lion will also work to expand its business activities in the Philippine market, which it has newly entered, and in Malaysia, where it has recently increased capacity for the production of surfactant methyl ester sulfonate (MES). Additionally, Lion will make further aggressive capital investments aimed at quantitative expansion and work to maximize Group synergies as it develops an optimal production system not only for Japan but also for Asia as a whole.

As a consequence of the business policies previously mentioned, in 2014, Lion is forecasting consolidated net sales of ¥360.0 billion (2.3% growth over the previous year), operating income of ¥12.0 billion (10.9% growth), ordinary income of ¥13.0 billion (5.7% growth), and net income of ¥7.0 billion (14.8% growth).

The outlook for cash flows in fiscal 2014 is as follows. Among cash flows from operating activities, Lion is forecasting ¥12.5 billion in income before income taxes and depreciation and amortization of ¥11.0 billion.

Cash flows used in investing activities are forecast to amount to ¥11.0 billion, including purchases of property, plant and equipment.

Cash flows used in financing activities are expected to amount to ¥25.5 billion, consisting principally of dividends paid and the repayment of long-term loans payable.

As a result of the above cash flow movements, the balance of cash and cash equivalents at the end of the fiscal year is forecast to be ¥13.0 billion lower than at the end of fiscal 2013.

Note: The following were the principal exchange rates used in calculating performance forecasts for 2014: US\$1 = ¥102 and one baht = ¥3.1. The forecasts shown are as of February 10, 2014.

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## **BASIC POLICY ON THE DISTRIBUTION OF EARNINGS AND CASH DIVIDENDS**

The Group considers the return of profits to shareholders, on a continuing and stable basis, as its consolidated earnings capacity rises, to be its most-important management issue. As it continues to pay stable dividends, the Group will give comprehensive consideration to, and is considering making, purchases of its own shares from the market, while at the same time giving due attention to the accumulation of retained earnings to finance medium- to long-term growth. Retained earnings will also be allocated to research and development as well as to investment in production facilities and the acquisition of external resources with the objectives of strengthening corporate growth and preparing a sustainable business base for future expansion.

After taking into consideration Lion's record of cash dividend payments from retained earnings, as well as its dividend payout ratio, for fiscal 2013, Lion's Board of Directors resolved to pay an interim dividend of ¥5 per share (paid on September 5, 2013) and a year-end dividend of ¥5 per share (paid on March 5, 2014).

For dividends in fiscal 2014, under its basic dividend policy, Lion plans to pay interim and year-end dividends of ¥5 per share, thus bringing the total dividends for the full year to ¥10 per share.

## BUSINESS RISK INFORMATION

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

Please note that forward-looking statements are based on judgments made by the Lion Group as of February 10, 2014. Business risks are not limited to the items listed below.

### 1. Perceptions of product quality and value

The Lion Group plans, develops, produces, and sells products following management practices that are based on international quality standards while strictly following related laws and regulations, such as Japan's Pharmaceutical Affairs Law, to provide worry-free, safe, convenient, and environmentally conscious products to consumers. In addition, after products have been launched, the Company makes full use of consumers' opinions received through its Customer Service Office to improve its products, packaging, labeling, and other aspects of its products.

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 position.

### 2. Changes in raw materials prices

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

### 3. Exchange rate fluctuations

The Lion Group translates into yen the figures in the financial statements of overseas subsidiaries when preparing its consolidated financial statements. The value of items denominated in foreign currencies may, therefore, be affected by foreign exchange rates when they are converted to yen. The Lion Group takes steps to minimize the risk of increases in raw materials 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 position.

### 4. Major lawsuits

In fiscal 2013, Lion was not involved in any lawsuits that might have a significant impact on its business. However, if the Lion Group is found to be liable to pay significant damages in a future lawsuit, this may adversely affect the Lion Group's management performance and financial position.

### 5. Earthquakes and other natural disasters

In its manufacturing facilities, the Lion Group implements safety measures against earthquakes and other natural disasters. In the event of a major disaster, however, if the Group's production activities are interrupted because of damage to facilities and/or issues related to raw materials procurement and logistics, this may adversely affect the Lion Group's management performance and financial position.

Detailed financial information on Lion Corporation can be accessed at

<http://www.lion.co.jp/en/invest> and

<http://www.lion.co.jp/en/invest/html/inv0301f.htm>

## Major Subsidiaries and Affiliates

As of March 28, 2014



## Domestic

## CONSOLIDATED SUBSIDIARIES

Company	Capital	Voting shares	Business outline
Lion Engineering Co., Ltd. www.lion-eng.co.jp	¥100 million	100.0%	Construction contracting
Lion Chemical Co., Ltd.	¥7,800 million	100.0%	Manufacture and marketing of surfactants, detergents, and raw materials for diverse industrial products
Lion Cordial Support Co., Ltd. www.lion-cordial-s.co.jp	¥20 million	100.0%	Human resources services
Lion Dental Products Co., Ltd. www.lion-dent.com	¥10 million	100.0%	Marketing of oral care products for dentists
Lion Trading Co., Ltd. www.lion-shoji.co.jp	¥240 million	100.0%	Marketing of pet supplies
Lion Hygiene Co., Ltd. www.lionhygiene.co.jp	¥300 million	100.0%	Manufacture and marketing of institutional-use kitchen cleaners, etc.
Lion Packaging Co., Ltd.	¥180 million	100.0%	Manufacture and marketing of household products and insecticide, etc.
Lion Business Service Co., Ltd.	¥490 million	100.0%	Real estate rental, dealing, and brokerage; and management of employee welfare facilities
Lion Field Marketing Co., Ltd.	¥50 million	100.0%	Sales promotion related activities
Lion Logistics Service Company, Ltd. www.lion-logi-s.co.jp	¥40 million	100.0%	Shipping and warehousing
Ipposha Oil Industries Co., Ltd. www.ipposha.com	¥200 million	100.0%	Manufacture and marketing of surfactants, etc.
LION SPECIALTY CHEMICALS CO., LTD. www.lcco.co.jp (Subsidiary since April 2014)	¥1,000 million	100.0%	Manufacture and marketing of fatty acid nitrogen derivatives, etc.

## EQUITY-METHOD AFFILIATE

Company	Capital	Voting shares	Business outline
Lion Idemitsu Composites Co., Ltd. www.ilcc.co.jp	¥100 million	50.0%	Manufacture and marketing of special compound resins

## PUBLIC INTEREST INCORPORATED FOUNDATION

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

## Overseas

### CONSOLIDATED SUBSIDIARIES

Location	Company	Capital	Voting shares
Hong Kong	<a href="#">Lion Corporation (Hong Kong) Ltd.</a> Room 2101, 21F., 101 King's Rd., North Point, Hong Kong	HK\$12,000 thousand	100.0%
Singapore	<a href="#">Lion Corporation (Singapore) Pte. Ltd.</a> 221 Kallang Bahru, Lion Building, Singapore 339349 <a href="http://www.lioncorp.com.sg">www.lioncorp.com.sg</a>	S\$9,000 thousand	100.0%
Malaysia	<a href="#">Lion Eco Chemicals Sdn. Bhd.</a> PLO116, Jalan Rumbia 1, Tanjung Langsat Industrial Complex, 81700 Pasir Gudang, Johor, Malaysia	M\$201,000 thousand	100.0%
China	<a href="#">Lion Daily Necessities Chemicals (Qingdao) Co., Ltd.</a> No. 336 Taihangshan Road, Qingdao Economic and Technical Development Zone, Qingdao City, China #266555 <a href="http://www.chinalion.cn">www.chinalion.cn</a>	¥723 million	100.0%
South Korea	<a href="#">CJ Lion Corporation</a> 11th Floor, Chungjeong Tower, 464, Chungjeong-ro 3-ga, Seodaemun-gu, Seoul, Korea 120-723 <a href="http://www.cjlion.net">www.cjlion.net</a>	₩5,000,000 thousand	81.0%
Taiwan	<a href="#">Lion Chemical Industry (Taiwan) Co., Ltd.</a> 50, Sec. 3, Chengtai Rd., Wugu Dist., New Taipei City 24843, Taiwan <a href="http://www.lion-corp.com.tw/lioncorp/index1.php">www.lion-corp.com.tw/lioncorp/index1.php</a>	NT\$218,150 thousand	53.8%
Thailand	<a href="#">Lion Corporation (Thailand) Ltd.</a> 666 Rama 3 Rd., Bangpongpan, Yannawa, Bangkok 10120, Thailand <a href="http://www.lion.co.th">www.lion.co.th</a>	BT300,000 thousand	51.0%
Philippines	<a href="#">PEERLESS LION CORPORATION</a> Airstrip St., Silangan Industrial Park, Canlubang, Calamba City, Laguna, Philippines	Peso 600,000 thousand	51.0%

### EQUITY-METHOD AFFILIATES

Location	Company	Capital	Voting shares
Malaysia	<a href="#">Southern Lion Sdn. Bhd.</a> 3, Jalan Firma 2, Tebrau Industrial Estate, 81100 Johor Bahru, Johor, Malaysia <a href="http://www.southernlion.com.my">www.southernlion.com.my</a>	M\$22,000 thousand	50.0%
Indonesia	<a href="#">P.T. Lion Wings</a> Jalan Inspeksi, Cakung Drain Timur No. 1, Jakarta Timur 13910, Indonesia <a href="http://www.lionwings.com">www.lionwings.com</a>	Rp64,062 million	48.0%



# Investor Information

As of December 31, 2013

## 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

6,162 (consolidated)  
2,497 (non-consolidated)

## Paid-in capital

¥34,433,728,970

## Common stock

Issued and outstanding: 299,115,346 shares

## Number of shareholders

42,544

## Stock exchange listing

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

## Independent auditors

Ernst & Young ShinNihon LLC

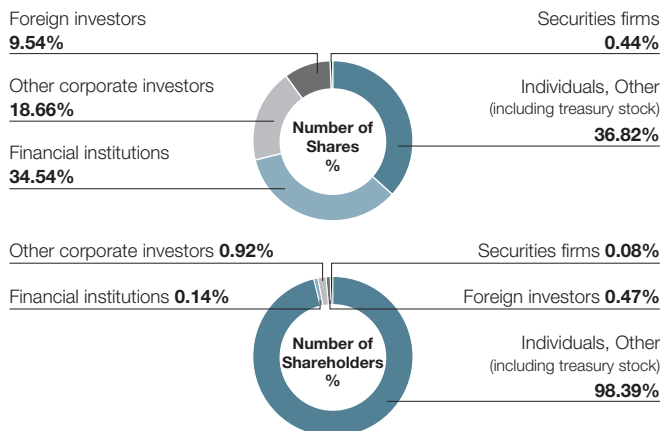
## Transfer agent

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

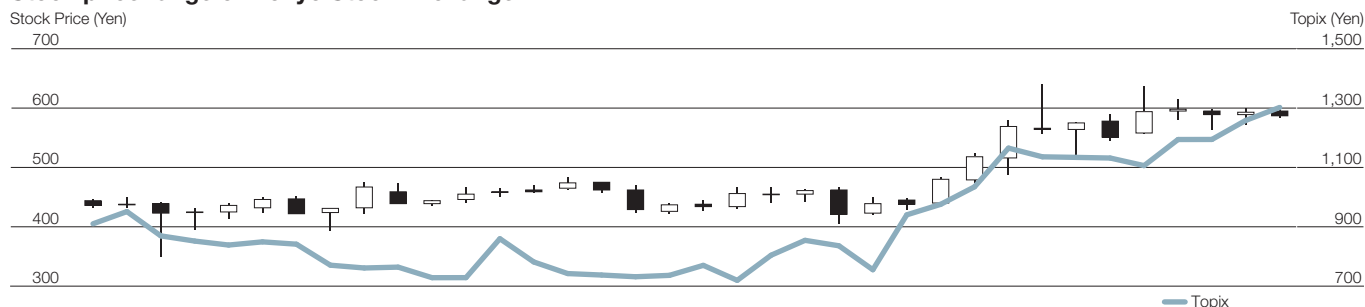


## Principal shareholders

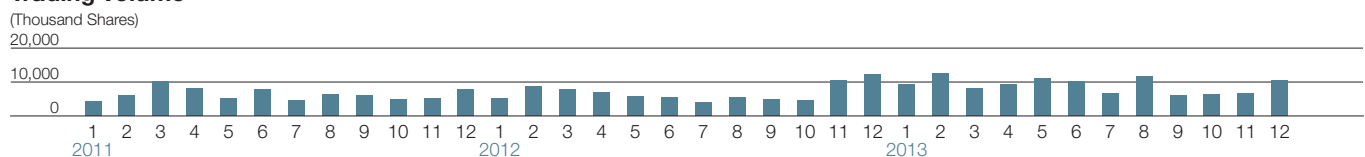
Shareholders	Number of shares owned (Thousands of shares)	Shareholding ratio (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	22,797	8.49
Trust & Custody Services Bank, Ltd., as trustee for Mizuho Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.	16,282	6.07
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	10,109	3.76
The Master Trust Bank of Japan (Trust Account)	6,556	2.44
Tokio Marine & Nichido Fire Insurance Co., Ltd.	6,443	2.40
Mitsubishi UFJ Trust and Banking Corporation	6,257	2.33
Meiji Yasuda Life Insurance Company	4,957	1.84
Lion Employee Stock Ownership Plan	4,282	1.59
Toyota Tsusho Corporation	3,506	1.30
Mitsubishi Corporation	3,203	1.19

1 Figures for the number of shares owned are rounded down to the nearest thousand shares.  
2 The number of shares of treasury stock is subtracted from the total number of shares issued to determine the number of shares (268,232,642) 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



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/](http://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, such as detailed product information that could not be included in the annual report.



## Investor information website: [www.lion.co.jp/en/invest/](http://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. (To access the detailed financial statements, go to <http://www.lion.co.jp/en/invest/html/inv0301f.htm>)



## CSR website: [www.lion.co.jp/en/csr/](http://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.



### On the Cover

The fan-shaped array of toothbrushes on the cover of this annual report displays examples of the products sold by the Lion Group under its Systema global brand.

Lion is developing sales of this global brand, which originated in Japan, in a range of countries in Asia. The toothbrush array on the cover symbolizes Lion's expanding international coverage.

From left to right, these toothbrushes are sold in the following countries and regions: Philippines, Thailand, China, Malaysia, South Korea, Japan, Hong Kong, Taiwan, Singapore, and Indonesia.

*life.love.*  
**LION**



Lion Corporation believes that caring for Japan's forests and making more use of timber from its forestlands are important. We are, therefore, supporting the Forestry Agency's "Kizukai Undo" (Use Wood Movement).



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