

# Corporate Governance

## 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 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 consumers who use the Company's products as well as the many stakeholders surrounding the Company (including principal customers, business partners, employees, and others).

Lion regards increasing management transparency, strengthening supervisory functions, accelerating the speed of management decision making, and ensuring the maintenance of high standards of compliance as its most-important corporate governance issues. By strengthening and improving its corporate governance system, Lion aims to increase its corporate value.

## Approach to Management Supervision and Monitoring Functions

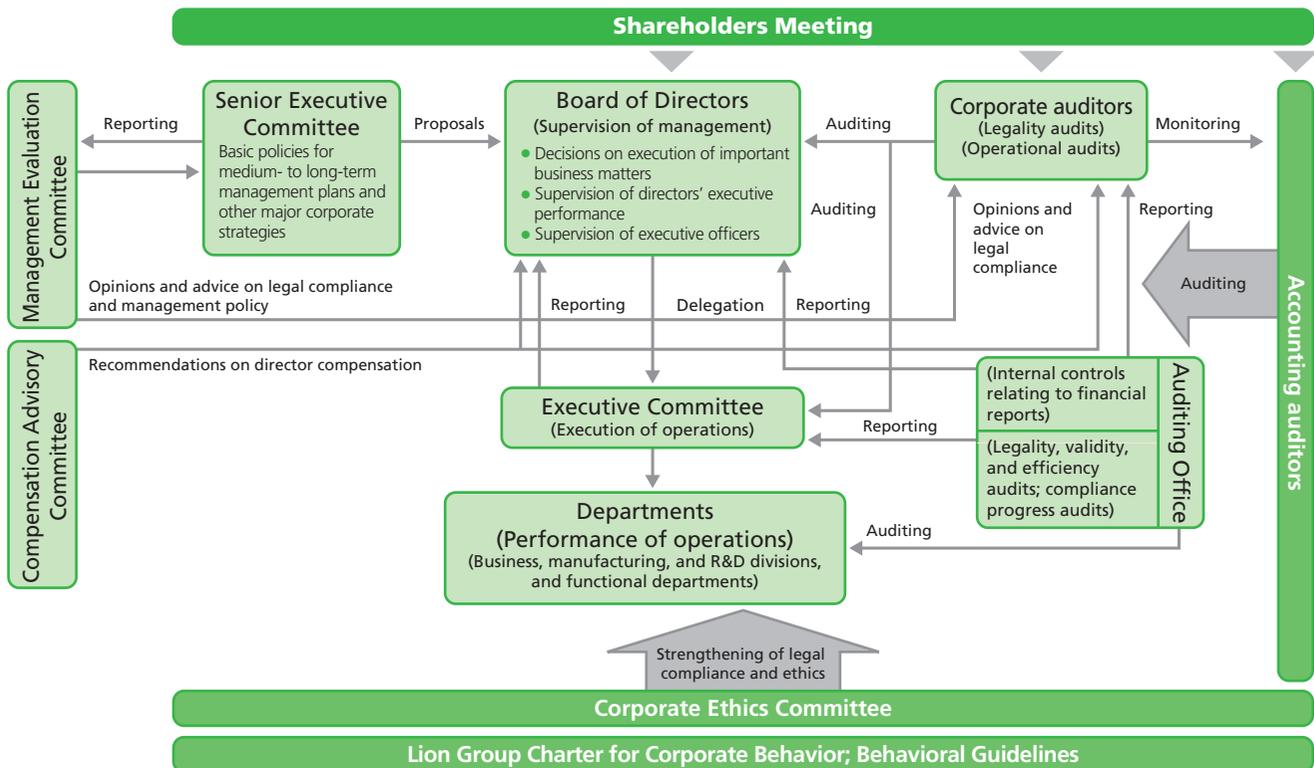
To strengthen both its management decision-making functions and its business execution functions, Lion has adopted the executive officer system, and the supervision of management is conducted through a corporate auditor system.

To provide for stronger corporate governance, Lion has already taken steps from previous years to improve its management supervision and monitoring functions by installing four independent members of management (two external directors and two external auditors) who satisfy the criterion of having no vested interests in the Company, any of its major business partners, or others. These four independent directors and auditors have all been selected for their independence and absence of concern regarding conflicts of interest with the Company's shareholders.

## The Board of Directors and Executive Committee

The Board of Directors has 10 members. It holds regular meetings once a month and other meetings as necessary. The Board's responsibilities include making decisions on key management matters and supervising the conduct of duties by the directors and the executive officers.

### Model of Corporate Governance System



In addition, to implement policies directly related to the conduct of business activities, Lion has formed an Executive Committee, which discusses and gives consideration to a wide range of management issues. This committee includes the Representative Director and President, who is the chief operating officer of the Company, directors with the rank of Senior Executive Director or lower (excluding external directors and auditors), Executive Officers and others who are Executive General Managers, and the Standing Auditors.

## Board of Corporate Auditors

The Board of Corporate Auditors exchanges opinions from the perspective of risk management and coordinates the activities of its members regarding the audit reports submitted by the independent auditing firm (including reports on internal control, which are prepared as part of the auditing process), audit reports submitted by the Auditing Office, which is in charge of internal auditing (including the results of evaluations of the design and operation of internal controls related to financial reporting pursuant to the stipulations of Japan's Financial Instruments and Exchange Law), and other matters.

## Activities of External Directors and External Corporate Auditors

| Position                      | External director  | External director  | External auditor  | External auditor   |
|-------------------------------|--|--|---|--|
| Name                          | Mitsuaki Shimaguchi  | Hideo Yamada   | Hideo Doi   | Sumiaki Nomura   |
| Board of Directors attendance | Attended 17 of 17 meetings   | Attended 17 of 17 meetings   | Attended 13 of 13 meetings  | Attended 13 of 13 meetings   |
| Board of Auditors attendance  | —  | —  | Attended 9 of 9 meetings  | Attended 9 of 9 meetings   |
| Principal activities          | Provides informed opinions about overall policies for business management with a view to ensuring proper and appropriate decision making | Provides informed opinions, principally regarding the Group's risk management and compliance systems | Provides informed opinions with a view to ensuring appropriateness of management, primarily in relation to finance and accounting | Provides informed opinions with a view to ensuring appropriateness of management, primarily in relation to tax matters |

Note: Since external auditors Hideo Doi and Sumiaki Nomura resigned from their positions at the Annual Meeting of Shareholders held on March 30, 2011, the number of meetings of the Board of Directors and the Board of Auditors they attended during the period after their resignations and the number of meetings of the Board of Directors attended by Mitsuaki Shimaguchi and Hideo Yamada are recorded in the table above.

## Total Compensation of Directors and Corporate Auditors for Fiscal 2011

| Category                               | Directors (of whom external directors) | Corporate auditors (of whom external corporate auditors) | Total (of whom external directors or external corporate auditors) |
|--|--|--|---|
| Number of directors/corporate auditors | 12 (2)                                 | 8 (4)  | 20 (6)  |
| Total compensation                     | ¥373 million (¥22 million)             | ¥75 million (¥22 million)                                | ¥448 million (¥44 million)  |

## 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 Company 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. It is composed of the two external directors and the two external auditors.

## Risk Management

Lion is building up a management framework for dealing with all the major risks that it may confront in the conduct of its business activities. Discussions regarding risk management focus on issues that may have a major impact on management, particularly lowering the risks resulting from accidents or disasters and the prevention of product-related problems and the establishment of initial response plans.

We are also proceeding with discussions regarding ways to ensure business continuity following a large-scale disaster, including strengthening the structure of office buildings and plants to withstand major seismic shocks, making alternative arrangements for the execution of headquarters functions, and arranging for backup production at other plants following disasters.

When the Great East Japan Earthquake struck in March 2011, based on the Company's *Earthquake Response Manual*, a disaster management task force headed by the president was set up at Lion's Tokyo headquarters. After initially working to confirm employee safety and the status of facilities, business partners, etc. that were affected by the earthquake, the task force set about formulating and implementing recovery plans for damaged plants. In parallel with this, the task force executed a pre-determined business continuity plan to ensure the delivery of products as quickly as possible.

### Information Security

---

Lion has established a number of guidelines and regulations to prevent information leaks. These include a basic policy on information management, information management regulations, privacy regulations, information security regulations, and guidelines for the management of information technology and equipment. In addition, employees undergo e-learning programs each year to prevent the leakage of information.

### Internal Control Systems

---

Based on Japan's Companies Act and the Ordinance for Enforcement of the Companies Act, the Company has designed and implemented internal control systems to ensure the proper conduct of operations in the companies of the Lion Group. The Auditing Office (with a staff of 10 at present) conducts audits of departments and subsidiaries based on an annual internal auditing plan and reports the results to the president. These audits are conducted to verify the "legality, validity, and efficiency" of internal control systems as well as the status of the implementation of compliance measures.

### Advancement of Compliance

---

With the Lion Group Charter for Corporate Behavior as a basis, the Lion Group has formed its Corporate Ethics Committee, which is chaired by the director in charge of corporate ethics. This committee is actively engaged in programs to instill an awareness of compliance among personnel. All persons employed in the Lion Group have received a booklet containing the Lion Group Charter for Corporate Behavior, and it is made available publicly on the

Company's website. Moreover, in line with an annual program of compliance-related activities, the Company conducts training by employee level that includes surveys of employee awareness, e-learning, lectures by speakers invited from outside the Company, and various other related activities, while also providing periodic training at the workplace level.

### Corporate Ethics Committee

This committee was formed to promote the implementation of specific measures to instill a lasting awareness of corporate ethics.

### Basic Approach to and Current Status of Activities to Eliminate Antisocial Forces

---

The Lion Group Charter for Corporate Behavior, which is the basis for the Group's compliance systems, states the basic policy in this area as follows, "We shall reject all contacts and confront antisocial entities and organizations threatening the order and security of civil society."

### Contact for Employee Consultation and Internal Reporting

---

An internal reporting system, the AL Heart Hotline,\* has been set up as a point of contact for consultations when employees have discovered instances of non-compliance that cannot or should not be reported through normal channels. Information on the existence and significance of this hotline has been made available throughout the Company. In 2011, there were seven instances of consultation or reporting, but no cases of grave misconduct were found.

\* All-Lion (AL) Heart Hotline

### Compliance Awareness Surveys

---

All Lion Group employees are asked every year 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. This contributes to the maintenance and strengthening of compliance systems. The fiscal 2010 survey (conducted in March 2011) was administered to about 4,000 employees and 94% responded. Responses included opinions on a range of issues, including issues related to the work environments. The Company will conduct a similar survey in 2012.

## Message from External Board Members



### MITSUAKI SHIMAGUCHI

#### External Member of the Board of Directors

April 1987: Professor of the Graduate School of Business Administration, Keio University

March 2006: External Director of Lion Corporation (current position)

April 2007: Professor Emeritus of Keio University (current position)

September 2007: Chairman of the Board, Japan Marketing Association (current position)

Companies that cannot reflect the values of society are short-lived. Fortunately, Lion Corporation has attained excellence in performance for more than a century. I think the role of external directors is not to be content with the present, but to reflect the values of consumers, shareholders, employees, and society as a whole in Lion's value as a corporation and to contribute to its continued development. Although there may be times when I may be resented, I would like to contribute to Lion's innovative increases in value and its sustained growth.

Today's excellent companies are required not only to show high economic results, but also, at the same time, to show human kindness as organizations. Lion's philosophy of "Fulfilling a Spirit of Love," which it has nurtured throughout its long history, and the implementation of this philosophy are superior conditions that should be mentioned in particular. However, kindness to human beings, which is a reflection of love, should not be understood as being soft in the performance of work activities. As Chairman Fujishige has said, "being both kind to human beings and strict when it comes to work" is an issue today and will be a condition for making further leaps forward in development.



### HIDEO YAMADA

#### External Member of the Board of Directors

April 1984: Mr. Yamaha registered as an attorney at law (Daini Tokyo Bar Association)

April 1992: Established the Hideo Yamaha Law Office (currently, the Yamada Ozaki Law Office) (current position)

April 2001: Vice Chairman of the Daini Tokyo Bar Association

March 2006: External director of Lion Corporation (current position)

I believe Lion Corporation selected me as an external director because of its expectations regarding my years of practical experience in the legal profession and my experience as external director of other companies. Drawing on this experience, when I have the slightest doubt about any points, I ask questions with the aims of increasing transparency and objectivity of management. To do this, I think it is important to listen carefully during briefings prior to directors' meetings, read the related documents, and form my own opinions. I believe that external directors should be both stern monitors and good advisors.

Lion's corporate culture still retains many of the good qualities that are now being lost in other companies in Japan. Lion is gentle and kind to people and to society, places high value on human relationships, and has many other commendable qualities, while having no compliance issues to address. What is necessary is not to be afraid of failure and to have unflagging determination as well as powerful persistence in realizing objectives. When people are both gentle and strong, they are undefeatable.