

# Management's Discussion and Analysis

Lion Corporation and Consolidated Subsidiaries

Strategy

Review of Operations

Sustainability

Financial Information

Corporate Data

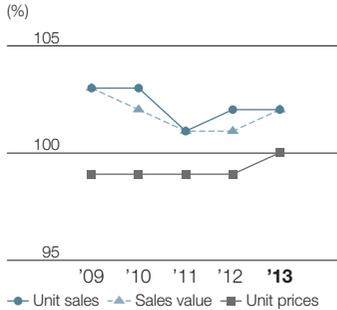
## Contents

- 56 MARKET ENVIRONMENT
- 57 SALES AND OPERATING INCOME
- 58 OPERATING REVIEW BY SEGMENT
- 64 FINANCIAL POSITION
- 65 CASH FLOWS
- 65 OUTLOOK FOR FISCAL 2014
- 66 BASIC POLICY ON THE DISTRIBUTION OF EARNINGS AND CASH DIVIDENDS
- 67 BUSINESS RISK INFORMATION

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

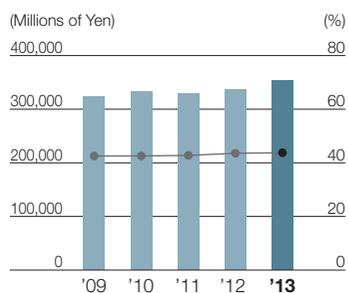
\*<sup>3</sup> INTAGE Inc. SRI survey of 40 household goods markets. Accumulated sales amount from January through December 2013, compared with the previous year

\*<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

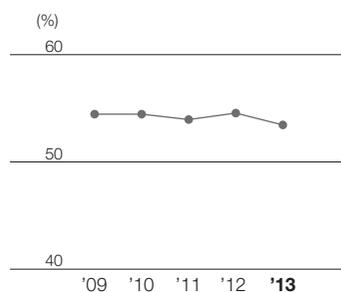
\*<sup>5</sup> INTAGE Inc. SDI survey of 8 pharmaceutical product markets. Accumulated sales amount and unit sales from January through December 2013, compared with the previous year

## SALES AND OPERATING INCOME

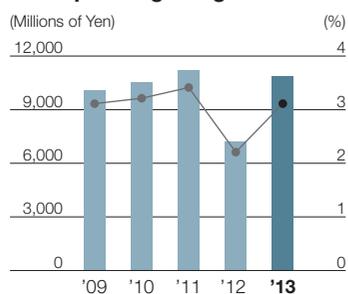
### Net Sales and Cost of Sales Ratio



### 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

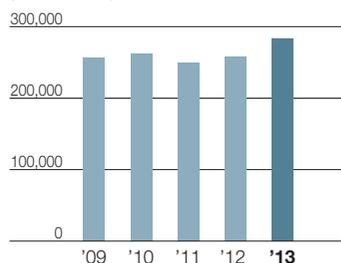
	Millions of Yen					
	FY2013	% of segment sales	FY2012	% of segment sales	Change	
					Amount	%
Net sales	<b>¥28,723</b>		¥29,798		¥(1,075)	(3.6)%
Operating income	<b>1,016</b>	3.5%	971	3.3%	44	4.6

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

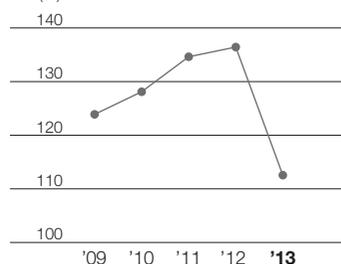
### Total Assets

(Millions of Yen)



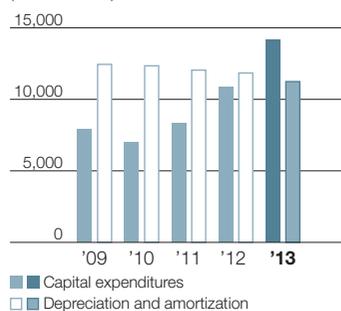
### Current Ratio

(%)



### 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

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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>