

**LION**

ANNUAL REPORT 2010  
Year Ended December 31, 2010

**The Right Choice**

**120**

APPRECIATING YOUR SUPPORT

# The Right Choice

We fulfill our social responsibilities by making the right choices to contribute to creating a sustainable society and to improving the quality of our consumers' lives.

We aim to offer products that enrich people's lives and conduct our corporate activities to realize a sustainable society.

We conduct our business activities based on three key words: "health," "comfort," and "the environment." Moreover, we seek to bring change to society and prepare the way to the future.

We offer superior products that are useful in daily life, and we maintain the spirit of tenacity and creativity that Lion has held since its founding. We gratefully acknowledge all who support Lion and will continue to work to build goodwill and trust as we prosper together.

Lion's potential for growth and its record of accomplishments over 120 years will open the way to the future.

## Operating Highlights

Lion launched *TOP NANOX*, a super-concentrated liquid laundry detergent.

Newly introduced *BUFFERIN* brand combination cold medicine

Launched *platus creamy up paste*, a new brand of toothpaste

Sales of *Nicelim Essence Lactoferrin* (sold through Lion's mail-order service) held strong.

Lion reported close to double-digit growth in its overseas business activities.

## Financial Highlights

As a result of priority initiatives in Japan and overseas aimed at raising brand value, both net sales and net income increased for the fiscal year under review. Net sales amounted to ¥331.1 billion (an increase of 2.8% over the previous fiscal year) and net income was ¥6.0 billion, up 10.5% year on year.

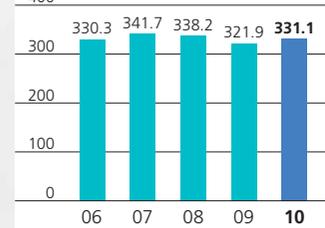
In Japan, although there was a substantial reaction following the passing of the new H1N1 influenza strain in the previous year, sales were ¥280.8 billion, supported by the strong performance of newly launched products *TOP NANOX* and *BUFFERIN "Kaze (Cold)" EX*.

Overseas, Lion concentrated on marketing its global common brands, principally laundry detergents and oral care products, as well as brands developed for local markets. As a result, sales amounted to ¥50.2 billion (an increase of 9.9% year on year).

### Net Sales

(Billions of Yen)

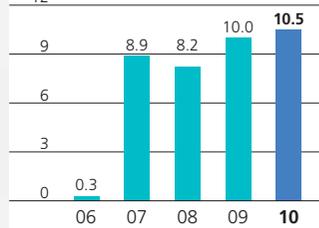
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### Operating Income

(Billions of Yen)

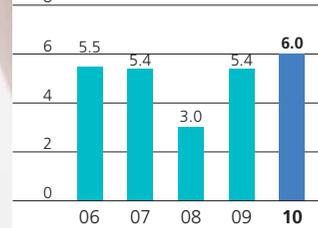
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### Net Income

(Billions of Yen)

8





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**About This Annual Report**

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

**Forward-looking Statements**

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



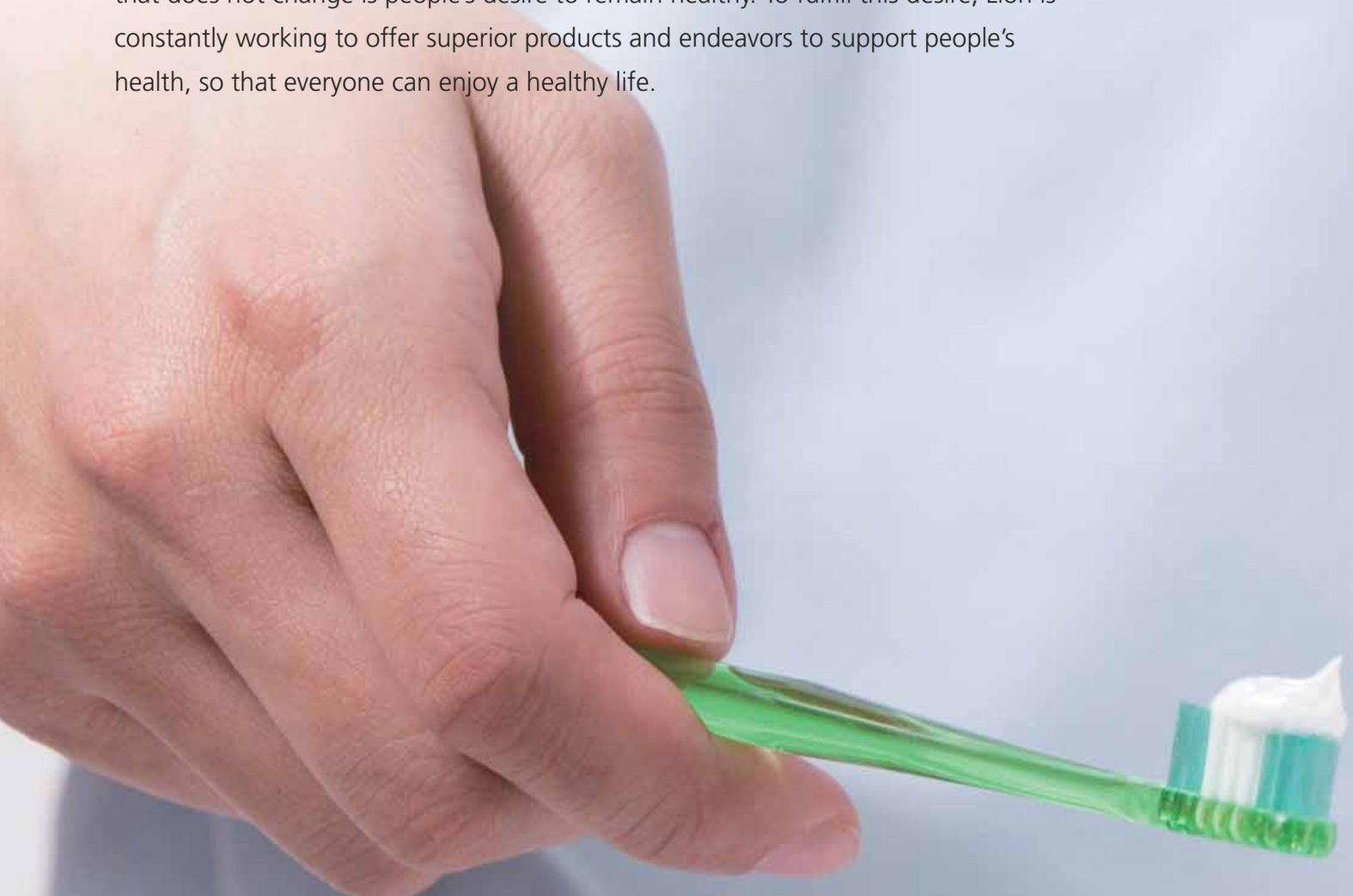
Lion Corporation has been included in the world's prestigious RI index, FTSE4Good Global Index.

# The Right Choice for You—Health

Since launching its first toothpaste in 1896, Lion has worked to provide support for “healthy lives.”

Since its establishment, Lion has worked on the theme of “health” and, in addition to introducing a wide range of oral care products, has also offered OTC drugs. At the same time, to support the health of the people of Japan, Lion has endeavored since 1913 to disseminate information on oral health care.

People’s awareness and society are in constant flux around us. However, one thing that does not change is people’s desire to remain healthy. To fulfill this desire, Lion is constantly working to offer superior products and endeavors to support people’s health, so that everyone can enjoy a healthy life.





### History of Lion Corporation



- 1891** Tomijiro Kobayashi established T. Kobayashi & Co. in Tokyo, Japan. ①
- 1893** Began manufacture and sales of first product, *Kohyo Soap*.
- 1896** Launched *Lion Toothpowder*. ②



**1918** **Kobayashi Co., Ltd.** established.

#### The Lion Dentifrice Co., Ltd.

- 1922** Began mass production of *Lion Dental Cream*.
- 1949** Changed name to The Lion Dentifrice Co., Ltd.
- 1960** Established Lion Dentifrice (Malaysia) Sdn. Bhd.
- 1965** Established Bristol-Myers Lion Ltd.
- 1966** Established Lion Dentifrice (Thailand) Co., Ltd.

#### Lion Fat and Oil Co., Ltd.

- 1919** Soap business spun off as Lion Soap Co., Ltd.
- 1940** Lion Soap Co., Ltd. changed name to Lion Fat and Oil Co., Ltd.
- 1953** Launched *Lion Laundry Soap for Washing Machine* (powder).
- 1956** Launched *LIPON-F*, Japan's first dishwash detergent. ③
- 1965** Launched *BLUE DIA*, laundry detergent.
- 1966** Launched *Mama Lemon*, a smooth-on-the-skin, lotion-type dishwash detergent.
- 1967** The Lion Fat and Oil (Thailand) Co., Ltd., established.
- 1979** Launched *TOP*, laundry detergent.



#### Lion Corporation

- 1980** The Lion Dentifrice Co., Ltd., and Lion Fat and Oil Co., Ltd., merge to form Lion Corporation.
- 2004** Acquired over-the-counter (OTC) drug business from Chugai Pharmaceutical Co., Ltd.
- 2004** Took over operations of the Home & Personal Care Division of CJ Corporation in South Korea.
- 2007** Acquired trademark rights to the *BUFFERIN* analgesics brand and other brands in Japan and other countries in Asia and Oceania from Bristol-Myers Squibb Company.
- 2007** Established a subsidiary and started to build a plant in Malaysia for the purpose of manufacturing methyl ester sulfonate (MES), a plant-based surfactant.
- 2010** Expansion work on plants in Thailand and Malaysia began.

Lion will mark the 120th anniversary of its founding in October 2011. Since its establishment in 1891, Lion has endeavored to contribute to society by providing superior products that help to create more comfortable lifestyles by enhancing health and cleanliness.

## History of Environmental Activities

- 1967** Launched *Dash* high biodegradable laundry detergent using AOS (alpha olefin sulfonate).
  - 1973** Launched *Seseragi*, Japan's first phosphorus-free laundry detergent.
  - 1980** Commenced sales of fully phosphate-free *Murin TOP* detergent. <sup>4</sup>
- 
- 1988** Commenced sales of high-performance *High TOP* compact laundry detergent.
  - 1990** Launched the Environment Action Promotion Committee.
  - 1991** Commenced sales of *Spark* laundry detergent, whose primary component is MES.
  - 1993** Established Basic Environmental Philosophy.
  - 1997** Joined Japan Responsible Care Council (JRCC).
  - 2001** Received simultaneous ISO14001 certification for all factories.
  - 2002** Achieved zero emissions at all factories.
  - 2005** Joined Team-6%, a national project.
  - 2006** Eco Lion Declaration.
  - 2006** Participated in Roundtable on Sustainable Palm Oil (RSPO).
  - 2006** Revised the Environmental Guidelines.
  - 2007** Presented with the Grand Prize for the Global Environment Award.
  - 2007** Established the Three-Year, Medium-Term Environmental Plan (2007–2009).
  - 2008** Selected in the global SRI (socially responsible investing) index, FTSE4Good Global Index.
  - 2008** Became the first manufacturing company in Japan to participate in the "Eco First Program".
  - 2009** Lion introduced an e-waste management system. Lion participated in the Eco First Promotion Conference.
  - 2009** Launched *TOP* laundry detergent containing MES, which reduces CO<sub>2</sub> emissions by 51% (in comparison with Lion products available in 1990).
  - 2010** Began marketing of *TOP NANOX* super-concentrated liquid laundry detergent with MEE.

## History of Social Activities

- 1900** Introduced program of donations to charity for each empty Lion toothpaste bag returned (~1920).
  - 1913** First oral hygiene lecture held.
  - 1921** Lion dental clinic for children established.
  - 1932** First Mass Tooth Brushing Drill for children held. <sup>5</sup>
- 
- <sup>5</sup> A recent toothbrushing drill (2010)
- 1958** Conducted dental examinations in small villages without clinics.
  - 1964** The Lion Foundation for Dental Health established.
  - 1973** First visited schools in Taiwan.
  - 1991** Aided victims of Unzen Fugendake eruption.
  - 1991** Joined Japan Business Federation's 1% Club.
  - 1991** Began publishing Lion product information in braille.
  - 1995** Aided victims of the Great Hanshin Earthquake.
  - 2001** Founded the Lion Award.
  - 2005** Donated relief funds to the areas stricken by the Sumatra Earthquake.
  - 2005** Established CSR Promotion Department.
  - 2006** Set up "Lion Forest in Yamanashi" together with Eco Lion activities.
  - 2008** Commenced aquatic environment protection efforts in cooperation with the Japan River Association.
  - 2009** Lion participated in the United Nations Global Compact.
  - 2009** Donated relief funds to the areas stricken by the Western Sumatra Earthquake.
  - 2010** Began activities to protect loggerhead sea turtles as part of the biodiversity preservation initiatives.

A smiling woman with dark hair tied back, wearing a white cardigan over a white top and light-colored pants, is sitting on a white sofa. She is holding a white cloth or piece of fabric in her hands. The background is a bright, minimalist room with white walls and a white sofa.

# The Right Choice for You—Comfort

**Products that are based on a deeper search for latent consumer needs help us lead comfortable lives.**

In mature societies, people's desires are undergoing a major change, away from the pursuit of material abundance toward the pursuit of spiritual richness. Even in the cleaning of apparel, people want more than just washing; today, they want a sense of real "comfort" when they put on a pure white shirt and when they use a towel with a nice fragrance. Lion is working to develop products that respond to these desires of consumers for a more-comfortable lifestyle.

Lion offers services and products that meet the needs of people to lead healthy and happy lives.



*Kaori to Deodorant no SOFLAN*  
*(SOFLAN with Fragrance and Deodorant)*  
*Aroma Rich*  
Fabric softeners with rich, long-lasting fragrances



A hand in a light blue sleeve holds a white shirt against a clear blue sky. The shirt is held up, showing its collar and sleeves. The background is a solid, bright blue sky with some faint, out-of-focus light spots.

# The Right Choice for You—Environment

Through its business activities, Lion works to keep the soil, the water, and the air clean, and, based on the “Lion Eco Standards,” develops products that are environmentally responsive.

Lion’s business activities, which are closely linked to “washing,” have a close relationship with water. In the 1970s, Lion introduced phosphorous-free detergents and other products as well as launched products that are friendly to the water environment.

Lion places emphasis on shifting to plant-based raw materials, reducing and/or maintaining the level of CO<sub>2</sub>, reducing waste, and practicing the “3Rs” with the goal of creating a low-carbon and recycling-oriented society. Accordingly, at all stages of its business operations, Lion’s activities are environmentally responsive, ranging from the procurement of raw materials to final waste disposal.

At Lion, our activities protect the global environment and enable people and other living things to live together symbiotically.



TOP Platinum Clear



TOP NANOX



Laundry detergents containing a plant-based, eco-friendly ingredient with powerful detergency



# The Right Choice for You—Future Goals

From Japan to the rest of Asia, offering products that meet local needs based on more than 40 years of partnership and experience

Showing strong competitiveness in growth markets

Lion's overseas sales have exceeded ¥50 billion, and have grown to account for 15% of its net sales. This has been due to the powerful combination of Lion's technology and strong distribution network throughout Asia.

In Asian markets, growth is expected in laundry detergents and oral care products. Lion's global brands, such as *TOP* and *Systema*, offer consumers new suggestions for high-value-added products based on the latest technology. In addition, the local brands that Lion has developed in a range of countries have become well-established products.

Looking to the future, Lion will continue to help consumers enjoy healthy and comfortable lives.



Lion's Pao detergent on display in a retail store in Thailand

# Eleven-Year Financial Summary

Lion Corporation and Consolidated Subsidiaries

	2010	2009	2008
<b>Income statement data:</b>			
Net sales	¥331,100	¥321,947	¥338,236
Cost of sales	140,400	136,619	157,523
Gross profit	190,700	185,327	180,712
Selling, general and administrative expenses	180,200	175,290	172,435
Operating income	10,500	10,036	8,277
Income (loss) before income taxes and minority interests	10,925	9,694	6,088
Net income (loss)	6,041	5,465	3,040

## Balance sheet data:

Total liabilities and net assets	¥260,939	¥256,220	¥267,438
Property, plant and equipment, net	60,668	62,846	63,473
Total long-term liabilities	52,483	58,688	65,758
Total liabilities	155,179	152,595	166,864
Total net assets* <sup>1</sup>	105,760	103,624	100,574
Total shareholders' equity	—	—	—

## Other selected data:

Capital expenditures* <sup>2</sup>	¥ 7,081	¥ 7,969	¥11,717
R&D expenses	8,910	9,057	8,522
Depreciation and amortization* <sup>2</sup>	12,349	12,425	12,444
Number of employees	5,972	5,750	5,774

## Common share data (yen):

Net income (loss) per share – basic* <sup>3</sup>	¥ 22.41	¥ 20.22	¥ 11.23
Net income per share – diluted	22.37	20.19	11.22
Dividends paid per share	10.00	10.00	10.00
Net assets per share* <sup>4</sup>	382.18	371.50	362.02
Common stock (number of shares outstanding)	299,115,346	299,115,346	299,115,346

## Financial ratios (% , times):

As a percent of net sales:			
Gross profit	57.6%	57.6%	53.4%
Selling, general and administrative expenses	54.4	54.4	51.0
Operating income	3.2	3.1	2.4
Income (loss) before income taxes and minority interests	3.3	3.0	1.8
Net income (loss)	1.8	1.7	0.9
Return on equity	6.0	5.5	3.0
Current ratio	128.0	123.8	120.7
Debt-to-equity ratio	151.2	152.0	170.5
Inventory turnover	12.5x	12.5x	12.5x

\*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.

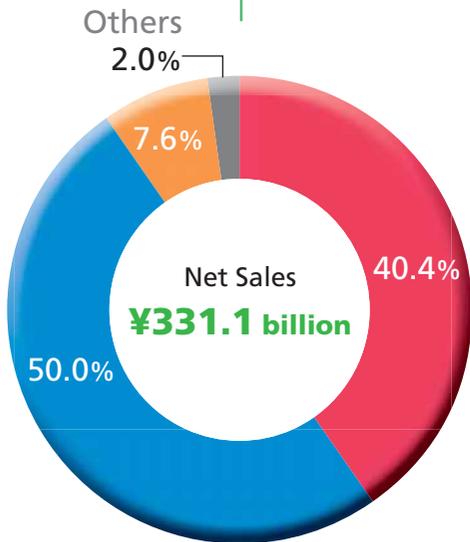
\*3 See Note 2 (o) of the Notes to Consolidated Financial Statements on the web site.

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

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

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

2007	2006	2005	2004	2003	2002	2001*5	2000
¥341,717	¥330,380	¥331,798	¥309,514	¥308,545	¥308,572	¥308,512	¥332,631
159,200	165,570	163,153	149,150	148,971	153,780	156,522	169,007
182,517	164,810	168,644	160,363	159,574	154,792	151,989	163,624
173,611	164,467	162,577	154,341	149,708	146,393	145,712	155,428
8,905	343	6,066	6,021	9,865	8,398	6,276	8,195
9,564	13,020	8,737	(5,017)	13,985	10,477	(25,464)	10,145
5,423	5,540	5,473	(4,723)	10,946	5,847	(13,856)	8,373
¥279,147	¥246,327	¥249,303	¥235,405	¥249,199	¥250,210	¥243,405	¥254,736
64,345	65,606	68,570	68,641	69,262	73,225	78,275	81,670
75,522	42,818	36,008	35,955	32,190	43,389	41,090	19,547
171,607	141,193	137,411	132,167	135,654	141,079	133,638	125,670
107,540	105,133	111,892	—	—	—	—	—
—	—	109,103	101,021	112,105	107,871	108,587	127,563
¥39,282	¥10,149	¥11,794	¥23,266	¥7,290	¥6,697	¥7,558	¥7,986
8,745	7,922	8,506	7,844	7,835	8,030	8,845	9,425
10,590	9,634	9,754	14,352	7,853	8,698	9,420	10,170
5,761	5,771	6,024	5,721	5,594	5,483	5,620	6,050
¥ 20.06	¥ 19.60	¥ 19.10	¥ (16.66)	¥ 36.81	¥ 18.91	¥ (44.32)	¥ 26.13
20.02	19.52	19.05	—	36.75	—	—	—
10.00	10.00	9.00	8.00	8.00	8.00	8.00	8.00
382.80	376.76	384.60	356.90	385.83	358.26	351.47	400.73
299,115,346	299,115,346	313,515,346	313,515,346	313,515,346	313,515,346	314,289,346	318,332,346
53.4%	49.9%	50.8%	51.8%	51.7%	50.2%	49.3%	49.2%
50.8	49.8	49.0	49.8	48.5	47.5	47.3	46.7
2.6	0.1	1.8	2.0	3.2	2.7	2.0	2.5
2.8	3.9	2.6	(1.6)	4.5	3.4	(8.3)	3.0
1.6	1.7	1.7	(1.5)	3.5	1.9	(4.5)	2.5
5.3	5.3	5.2	(4.4)	10.0	5.4	(11.7)	6.8
132.2	125.0	116.1	117.5	134.3	138.6	133.7	131.5
165.7	138.7	125.9	130.8	121.0	130.8	123.1	98.5
12.6x	12.3x	12.7x	13.1x	14.6x	14.5x	13.2x	14.0x

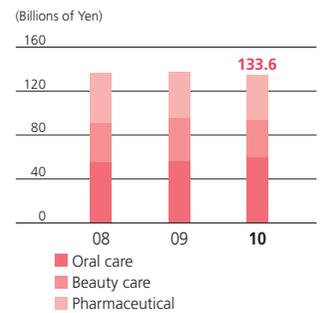


## Health care products

Net Sales **¥133.6 billion**

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

### Net sales by department

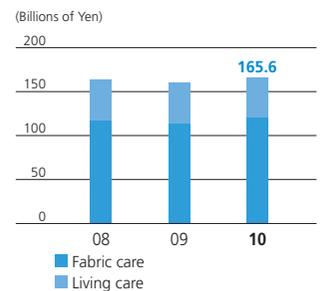


## Household products

Net Sales **¥165.6 billion**

In the fields of fabric care and living care, the Household Products Division provides environmentally friendly products that foster comfortable, healthy lifestyles in the fields of fabric care, cooking, and house-keeping.

### Net sales by department

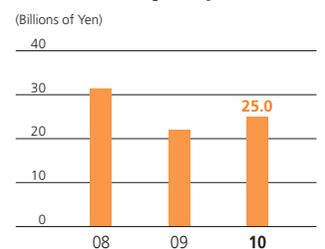


## Chemical products

Net Sales **¥25.0 billion**

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

### Net sales by department



## Other business units

For operational purposes, Lion's businesses include the divisions shown on page 15, which are separate from the business segments for accounting purposes that are shown above.

### International Division

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

■ Oral care: 17.8%



Toothpastes      Toothbrushes      Mouthwashes      Overseas

■ Beauty care: 10.4%



Shampoos      Liquid hand soaps      Antiperspirants      Overseas

■ Pharmaceutical: 12.2%



Analgesics      Cold medicine      Eyedrops      Tonics      Overseas

■ Fabric care: 36.4%



Laundry detergents      Bleach      Fabric softener      Overseas

■ Living care: 13.6%



Dishwashing detergents      Household cleaners      Cooking-aid products      Overseas

■ Chemical: 7.6%



IC chip packaging materials      Electro-conductive carbon black      Hard disk      Industrial cleaners      High-capacity electric transformers      Palm fatty acid ester-based insulating oil

**Gift and Channel-Specific Products Division**

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

## Lion.....the Right Choice



**Sadayoshi Fujishige**  
President and Chief Executive Officer

## What Kind of Company Is Lion Striving to Become?

We have three visions for Lion: “Become a leading company in the new comfortable lifestyle support industry,” “Become a leading company in environmental responsiveness,” and “Promote a corporate culture of challenge, creativity, and learning.”

In the 20th century, the formula for achieving happiness was the pursuit of material abundance. In the 21st century, however, the route to happiness has shifted toward the pursuit of spiritual richness. Meeting the needs implied by this formula, and helping people pursue spiritual richness, is a condition for today's corporations to win acceptance and continue their development.

That is why we have settled on the three visions that I mentioned. Three key words sum up the ways we plan to attain our visions: "health," "comfort," and "the environment." Explaining our mission in somewhat more detail, we are relentlessly working to deliver "comfortable support for people" and "substantial support for the global environment."

Among our three visions, "Become a leading company in the new comfortable lifestyle support industry" means being the top company in the markets for toiletries, OTC drugs, and functional foods. These markets, taken together, have now reached ¥3 trillion in size in Japan annually, and Lion is exceptional in being one of the few companies that provide products and services in all three of these fields. Our aim is to help as many people as possible to extend their healthy life expectancy\* and attain spiritual richness.

\* The concept of a healthy life expectancy is advocated by the World Health Organization and refers to the period in a human being's life span when they can live independently.

## ■ The Year in Review

**Q: What impact did the difficult operating environment in Japan during fiscal 2010 (ended December 31, 2010) have on Lion's business activities?**

**A:** During 2010, government economic policies, including subsidies for buying eco-friendly cars and the eco-point system for purchases of household appliances, created special demand, but recovery in employment and income conditions was not sufficient. As a result, product prices in the markets for toiletries and OTC drugs declined, and sales competition at the store level grew more intense. On the other hand, although there were some negative quantitative trends, such as a reactionary decline following the passing of the new H1N1 influenza epidemic, mainly in the number of units sold of hand soaps and disinfectants, the hot summer weather stimulated growth in sales of home laundry products, antiperspirants and deodorants, and health tonic drinks.

Amid this operating environment, we increased our net sales by launching new high-value-added products and increasing our unit prices in comparison with the market as a whole.

**Q: What is your evaluation of Lion's performance in fiscal 2010?**

**A:** We reported increases in net sales and income. I think we have made progress in stabilizing our earnings power, since our operating income exceeded ¥10.0 billion for the second consecutive year and we set a new record for operating income.

These results were supported mainly by the favorable performance of new products in the domestic market. Since growth in volume in the Japanese market is expected to reach a limit, we are aiming for growth in qualitative terms. In our mainstay *TOP* and *BUFFERIN* brand lines, we introduced new high-value-added products that have generated a high level of consumer

satisfaction and become hit products. In addition, we launched new products in high-value-added growth segments; for example, in beauty enhancing toothpastes, we newly launched the medicated toothpaste *platus creamy up paste*, under our “beautiful aging” concept, and it has been quite well received by consumers.

Another point is that we have been successful in reducing our production and distribution costs, and this has pushed income even higher.

The focus of our overseas business in Asia is on laundry detergents and oral care products. We are making substantial progress in expanding our business in this region as we respond to the strong growth potential in local markets. Sales in local currencies of both laundry detergents and oral care products have risen approximately 40% in comparison with fiscal 2007, which we believe is quite a favorable performance. Going forward, the ratio of our overseas sales to total net sales should also increase steadily.

### ■ Environmental Protection Initiatives

**Q: Environmental issues are drawing increasingly greater attention these days.**

**What are your initiatives in this area?**

**A:** In fiscal 2010, we began to implement our three-year medium-term environmental plan. One of our main environmental initiatives has been shifting to plant-based materials. Lion was the first company in the world to succeed in the commercial production of methyl ester sulfonate (MES), which is produced from plant-based materials. By using MES as the principal detergent ingredient, we have been able to curb increases in our CO<sub>2</sub> emissions into the atmosphere (thus attaining carbon neutrality).

Another of our environmental initiatives is to develop products that meet specific ecological standards. For example, we have set quantitative standards for the use of plant-based materials, for the use of recycled paper, and in other areas. At present, 63% of all Lion products clear these standards on a numbers basis, while 82% meet or exceed the standards on a sales basis. Our plans call for continuing to significantly increase these percentages.

In addition to these two initiatives, a third is the protection of water resources. Our products, including toothpaste and laundry detergents, have a close relationship with water. Accordingly, we are concentrating on making contributions to water conservation, cleaning rivers and streams, and attaining other objectives.

Our notable record of environmental initiatives includes a reduction of 27% in CO<sub>2</sub> emissions from our business operations in 2010 compared with 1990. In our current three-year plan, our objective is to lower emissions further, to 30% in comparison with 1990.

As I mentioned previously, our aim is to be a leading company in environmental responsiveness. This, of course, includes contributing to the development of a low-carbon society as well as upgrading and strengthening our environmental management systems and our initiatives for protecting water resources and biodiversity.



#### ■ Development of Overseas Activities

**Q:** Your overseas operations are also expanding. Looking ahead, what strategies will you implement overseas?

**A:** At present, our overseas operations span eight countries and regions in Asia: Thailand, Malaysia, Indonesia, Singapore, South Korea, China, Hong Kong, and Taiwan. Our approach to market entry is to establish a joint venture with a leading company based in each country and region and then provide R&D functions and production technology as well as know-how in branding and other aspects of marketing from Japan. We rely on local management for sales, distribution, labor management, and other functions. To respond accurately to the special features of individual markets and customs, including the tastes of local consumers for fragrances and the volume of suds, we believe it is best to rely on local staff. This is why, in the case of branding, we have both global brands that are in common with those in Japan and original local brands that meet the needs of local consumers.

We are placing the greatest emphasis on laundry detergents and oral care products, as demand for products in these categories shows substantial growth. Our laundry detergents have won the top market share in Malaysia. Across all the countries where we have established a presence, Lion products are generally No. 2 in terms of market share, but we are aiming to raise this to the No. 1 position. In the case of oral care as well, our objective is to capture the No. 1 market share. At present, we are beginning to build new plants in Thailand and Malaysia. In the near future, we are looking to enter the remaining markets in Asia.

With an eye to further developing plant-based MES to become the global standard laundry detergent ingredient in the 21st century, we began commercial production in Malaysia in 2010. We have already begun to make deliveries of MES to manufacturers in the rest of Asia and Europe.

## ■ Lion's Brand Strategy

### Q: What are your strategies for further increasing the power of your brands?

**A:** Lion has approximately 60 brands, and 8 of them are “¥10 billion brands,” with sales exceeding ¥10 billion. These account for 60% of our sales of domestic consumer products sales. We want to increase the number of “¥10 billion brands” to 11 and increase their share of net sales to 70%. Also, within our individual business segments, we are working to increase the number of brands that have No. 1 market shares in their respective product areas.

To increase the power of our brands, advertising activities are crucial. Especially today, what is important is delivering persuasive brand messages to each and every one of our diverse range of consumers. Even when using the media, the concept of “one-to-one marketing” is necessary. We make full use of a multiplicity of media, including not only conventional TV, radio, newspaper, and magazine advertisements but also the Internet, which is rapidly becoming more significant as a media tool. Through the use of these media, we are able to deliver our messages about each of our brands and products to the right consumers in the proper ways. This approach increases the quality of communication with consumers, raises the value of our brands, and promotes sales growth.

Lion's brand image among consumers has strong associations of “friendliness,” “trust,” “safety,” and “reliability,” but our research indicates that we need to give our brands a more-youthful image. Therefore, we must leverage and strengthen them to gain broader support for Lion products among people in their 20s and 30s.

Although we reduced our advertising expenditures temporarily in fiscal 2008 because of a rise in raw material costs and the effects of the collapse of Lehman Brothers Holdings, we increased these again to more than ¥20 billion in fiscal 2010. At this level, they are clearly generating positive results. At present, the ratio of our advertising expenditures to net sales is between 7% and 8%, but we are thinking of eventually increasing it to about 10%.

Further strengthening our brand power will be indispensable for maintaining stable profitability growth in the medium-to-long term. This will require an increase in advertising expenditures, but we believe that, as a result, it will lead to stable returns for investors.

## ■ To Our Shareholders

### Q: This year marks the 120th anniversary of Lion's establishment. Do you have a special message that you would like to convey to investors, including return to shareholders?

**A:** We will mark the 120th anniversary of Lion's establishment in 2011. We would like to express our sincerest thanks to our shareholders as well as our many other stakeholders whose support has been essential to our continuing development over the years. Our predecessors at Lion have, in all the intervening years, remained faithful to Lion's aim of “enhancing the happiness and lifestyles of people” and acted accordingly. This has provided strong support for our activities and has enabled us to win high appraisals from consumers.

Since Lion's founding, we have emphasized customs and a culture based on the values of “cleanliness” and “sanitation.” We have subsequently added the values of “health,” “comfort,” and “the environment,” and we intend to continue to deliver value-added products, services, and information as we have in previous years.

The Lion Foundation for Dental Health, which has educated people over the years about oral care and disseminated related information, has been recognized for its accomplishments, and in 2010, the foundation made a new beginning as a Public Interest Incorporated Foundation. Oral care is the origin of Lion's business activities and is also fundamental to the health of the whole body. We believe that we have been able to contribute, in small ways, to longevity in Japanese society. To mark the 120th anniversary of Lion's establishment, we are planning to step up our activities not only to supply our products and services to countries around the world, beginning with the rest of Asia, but also to conduct our business and social contribution activities to better communicate information on Japan's healthy and comfortable lifestyles and culture.

Regarding providing a return to shareholders, our policy is to pay stable and continuing cash dividends. Based on this policy, we paid an annual dividend of ¥10 per share for fiscal 2010. In fiscal 2011, we are planning to continue dividends of ¥5 per share for the interim and year-end dividends, plus a year-end dividend of ¥1 to commemorate Lion's 120th anniversary, thus bringing the total dividend for fiscal 2011 to ¥11 per share.

Looking ahead, we are planning to work to increase the number of shareholders overseas and expand our investor base among individual shareholders.

In closing, the damage caused by the Great East Japan Earthquake, which struck on March 11, 2011, is greater than that experienced by the Japanese people in any such disaster in the past. We pray that the souls of those who perished will find rest and wish to express our sincerest condolences to all who have been impacted by the disaster.

Immediately following the earthquake, Lion worked to confirm the whereabouts and safety of its employees and their families as well as the status of damage to its suppliers and customers. We have decided on the measures that our personnel will take going forward, the relief assistance we will provide, as well as other matters related to ascertaining current conditions and bringing the situation under control.

Fortunately, our employees and their families are safe, but there was damage to inventories, buildings, manufacturing equipment, and other assets in certain of our distribution facilities and plants. We have not determined the amount of related losses, but, in the event that this may have a major effect on performance, we will disclose the relevant information as quickly as possible.

As a manufacturer of daily necessities, Lion is devoting its maximum efforts to fulfilling its product supply responsibilities. We are also continuing to proceed with initiatives aimed at ensuring the operation of our supply systems when risks arise.

April 2011



Sadayoshi Fujishige  
President and Chief Executive Officer

# The Right Choice for Future Generations

## Strengthening our ¥10 billion brands

Lion has created a strong profit base with its powerful brands, and takes the initiative in maximizing its brand value.

As the market in Japan matures, Lion is working not so much for growth in volume but seeks to strengthen its competitiveness through growth and improvement in quality. Lion is endeavoring to maximize its brand value, and, to this end, is investing with an emphasis on ¥10 billion brands, which are defined as those with annual sales of ¥10 billion or more and also the No. 1 brands with the top market shares in their product categories. In 2005, 34% of Lion's sales\* were accounted for by ¥10 billion brands, but in 2010, this had increased to 60%, reflecting further concentration in top-selling items.

\* Domestic sales of general consumer goods

Overseas, Lion is aiming for quantitative growth and is expanding the sales of its brands that are strong in Japan, such as *TOP*, *Systema*, and *Shokubutsu-Monogatari*, over a broader geographic area. At the same time, Lion is working to further increase its overseas sales by promoting sales of products that meet a wider range of local requirements and a broader range of consumer needs. Lion is placing priority on increasing its presence in the oral care and laundry detergents markets.

Both in Japan and overseas, the Lion brand is known for offering and proposing new ideas and products that not only bring health and comfort to people's lives but are also eco-friendly.



### TOP

Lion's core laundry detergent brands offer a wide selection from liquid detergents, including super-concentrated liquid detergent brands to powder detergent products.



### BLUE DIA

A powder laundry detergent with bleach ingredients that rids clothing of difficult-to-remove body odors and dirt



### SOFLAN

A fabric softener. *Kaori to Deodorant no SOFLAN*, *Kaori to Deodorant no SOFLAN Aroma Rich*, and other items in Lion's fabric softener brand lineup are attracting consumers because of their appealing fragrance.

## Clinica

An oral care product series focused around toothpastes that contain the effective ingredient dextranase enzyme, the only such product in Japan



## Dentor Systema

The Dentor Systema series effectively prevents periodontal diseases.



## KireiKirei

With sterilizing ingredients, this medicinal hand soap, which can remove both dirt and bacteria, is the No. 1 brand\* in Japan.

\* 2010 INTAGE Inc., SRI Survey



## CHARMY

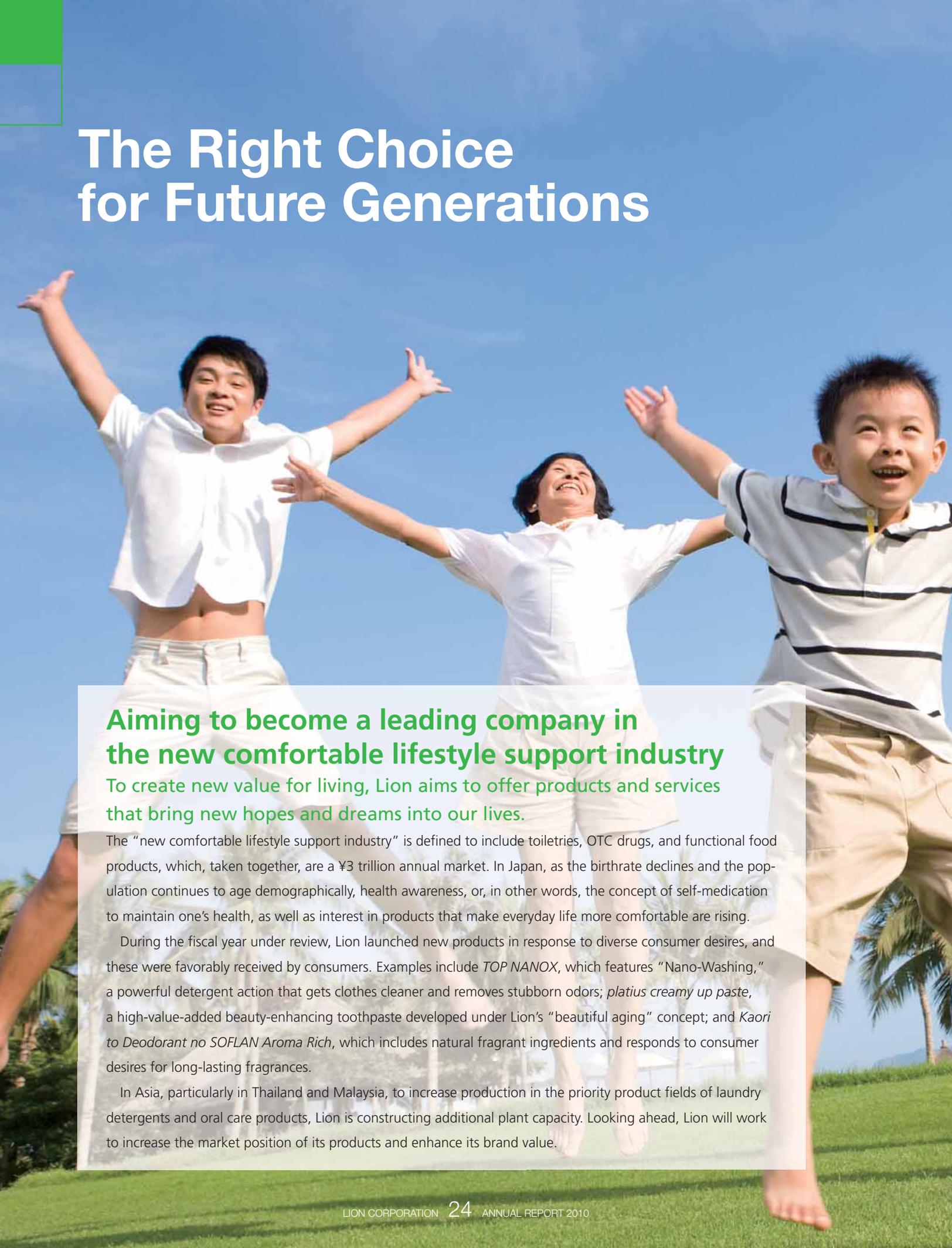
A dishwashing detergent. In addition to the mainstay item CHARMY Awa no Chikara (Power of Suds), Lion offers a lineup of detergents for automatic dishwashers.



## BUFFERIN

The fast-acting, mild-on-the-stomach pain killer for relief from fever and headaches. BUFFERIN "Kaze (Cold)" EX, also available in this series, contains cold treatment medicine.





# The Right Choice for Future Generations

## Aiming to become a leading company in the new comfortable lifestyle support industry

To create new value for living, Lion aims to offer products and services that bring new hopes and dreams into our lives.

The “new comfortable lifestyle support industry” is defined to include toiletries, OTC drugs, and functional food products, which, taken together, are a ¥3 trillion annual market. In Japan, as the birthrate declines and the population continues to age demographically, health awareness, or, in other words, the concept of self-medication to maintain one’s health, as well as interest in products that make everyday life more comfortable are rising.

During the fiscal year under review, Lion launched new products in response to diverse consumer desires, and these were favorably received by consumers. Examples include *TOP NANOX*, which features “Nano-Washing,” a powerful detergent action that gets clothes cleaner and removes stubborn odors; *platus creamy up paste*, a high-value-added beauty-enhancing toothpaste developed under Lion’s “beautiful aging” concept; and *Kaori to Deodorant no SOFLAN Aroma Rich*, which includes natural fragrant ingredients and responds to consumer desires for long-lasting fragrances.

In Asia, particularly in Thailand and Malaysia, to increase production in the priority product fields of laundry detergents and oral care products, Lion is constructing additional plant capacity. Looking ahead, Lion will work to increase the market position of its products and enhance its brand value.

## Features for New Products

Health

Comfort

Environment



Innovation

Clear Targets

Actual Use



### **TOP NANOX**

Through its original "Nano-Washing" action, liquid laundry detergent **TOP NANOX** dissolves and removes odors at their source, and, because it is super-concentrated, the volume of detergent needed is half that of conventional types.



### **platius creamy up paste**

A toothpaste that aims to give people more sparkling and beautiful teeth by removing accumulated substances, which give people an appearance of being older than they really are.



### **Dentor Systema Haguki (the gums) Plus**

A milky-type dental rinse with medicinal ingredients that remain on the gums longer and act on the periodontal pocket



### **Nicelim Essence Lactoferrin (mail-order service product)**

Milk-based lactoferrin, a supplement that supports healthy living, is not dissolved in the stomach and reaches the intestines.

# The Right Choice for Future Generations

## Aiming to become a leading company in environmental responsiveness

Implementing the Eco Lion activities and working to make the low-carbon and recycling-oriented society a reality

Lion has prepared a three-year, medium-term environmental plan, which sets new targets for reduction in greenhouse gas emissions. Lion is also participating in the Challenge 25 Campaign, which is supported by the Japanese government and aims to prevent global warming, and pursuing other activities, including our environmental protection activities (Eco Lion activities).

Lion has established Eco Standards for its products, which aim for environmental responsiveness at every stage from materials procurement to manufacturing, distribution, and use/disposal in the home.

Especially in 2009, Lion launched a renewed version of *TOP* laundry detergent, with a higher ratio of methyl ester sulfonate (MES), a detergent ingredient developed originally by Lion and adopted in its products, thus bringing the ratio of plant-based ingredients to total detergent materials to 3/4. Compared with the previous version of *TOP*, which was launched in 1990, the level of CO<sub>2</sub> emissions produced by this detergent per laundry load has been reduced 51%\*. In addition, beginning in 2009, to fulfill its international corporate social responsibilities (CSR), Lion became a signatory to the United Nations Global Compact and is placing emphasis on caring for biodiversity.

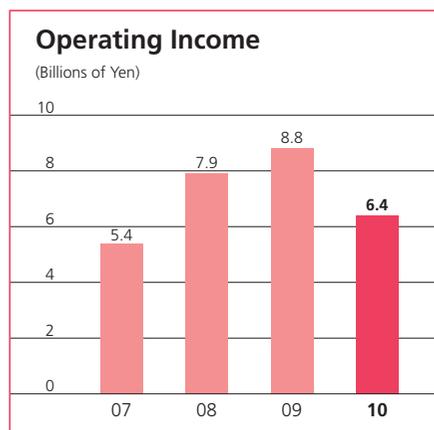
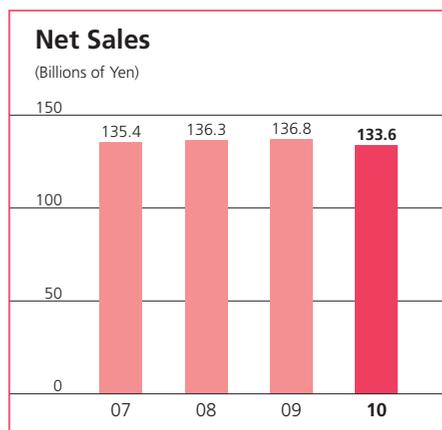
\* LCA analysis conducted by Mizuho Information & Research Institute, Inc.



Five Initiatives under the Eco Lion Activities



# Health Care Products Operations



The Health Care Products Division comprises the Oral Care Business Department, the Beauty Care Business Department, and the Pharmaceutical Business Department. Net sales of this division during the year under review amounted to ¥133,660 million, 2.3% lower than in the previous year, and operating income was ¥6,462 million, a decrease of 26.6% from the prior year.

## Market Environment and Performance in 2010

In the domestic market, the mainstay brands in the oral care business showed steady performances and sales of high-value-added toothpastes expanded. However, because of the unexpectedly large reaction following the passing of the new H1N1 influenza strain in the previous year, net sales of this division as a whole were below those of the prior year. In addition, in the pharmaceutical business, we made a full-scale entry into the market for cold medicines for adults, and worked to strengthen our brands to expand our position in the over-the-counter (OTC) business.

Overseas, we gave priority to strengthening our common global brands that we are developing in the oral care and beauty care businesses and were able to maintain growth overall above the previous year.

Profitability in the health care products business was below the level of the previous year because of the ending of the previous year's new H1N1 epidemic and the shrinkage of the OTC pharmaceutical markets.

## New Products

### *platius creamy up paste*

Newly launched *platius creamy up paste* is a beauty aging care toothpaste and aims to create a new market differentiated from the existing high-quality whitening toothpaste products.



### *Dentor Systema Haguki Plus (the gums) Dental Rinse*

This new, high-value-added dental rinse, which has revitalized the market, remains on the gums longer and gives users the feeling that it is highly effective in working to keep them healthy.



### *BUFFERIN "Kaze (Cold)" EX*

"A cold medicine for adults" that incorporates Lion's technologies for facilitating rapid dissolution of the active ingredients.



## Competitive Advantages and Basic Strategies

The aim of the Health Care Products Division is to grow by offering products and information that support the creation of new health care routines and promote the health and comfort of users. The needs of consumers for enhancing the quality of their lives are becoming increasingly sophisticated and diverse. We at Lion pay close attention to people's day-to-day lives and develop products that support new, more-comfortable lifestyles. When consumers use our products over and over, these products naturally become a part of their daily routine, and contribute to enhancing their quality of life. To make this happen, we communicate consistent messages through our media advertising and in-store sales promotions. Through our educational campaigns also, we work to provide consumers with new information and ideas that help to raise the quality of their lives.

In the oral care business, Lion has the No. 1 market share among manufacturers of toothpaste and toothbrushes in Japan\*1. Our two especially strong brands in this field, *Dentor Systema* and *Clinica*, each have sales of more than ¥10 billion annually.

As the leading company in the oral care field, we have world-class R&D capabilities. For many years, we have worked to disseminate information on oral hygiene, thereby helping to support the dental health as well as the all-round good health of the people of Japan and the rest of Asia. For oral conditions which may occur easily in persons of various age-groups, from infants to seniors, we offer a range of products and information to deal effectively with these health issues based on Lion's original, advanced technologies.

In the beauty care business, Lion is proud of its *KireiKirei* brand, which occupies the No. 1 position in Japan's hand soap market\*1. In Japan and the rest of Asia, we have promoted the spread of clean and healthy living among consumers and improvement in sanitary conditions through the use of hand washing, gargling, and the use of disinfectants. By offering products that enable consumers to enjoy cleanliness, from the hair on their heads, to their hands, and the rest of their bodies, we are responding to the desire among consumers for improvement in the quality of life.

In the pharmaceutical business, we have brands that consumers have used and valued for many years. These include *BUFFERIN*, the No. 1 selling analgesic in Japan\*1 that works quickly to relieve pain and fever and that is one of our important sources of income. Our objective is to be an OTC specialty pharmaceutical company that offers consumers preparations for self-medication that enable them to gain relief from mild, partially disabling conditions\*2 and thereby contribute to dispelling patient anxiety and helping them to maintain healthy and comfortable lifestyles.

Overseas, we are building common global brands, such as *Dentor Systema* and *Shokubutsu-Monogatari*, and working to expand our operations. We are also working to promote the spread of oral hygiene and hand-washing customs.

\*1 2010 INTAGE Inc., SRI/SDI Survey

\*2 Diseases and conditions, such as diarrhea and headaches, that are not likely to be fatal but may be an impairment to leading normal lives

### Market Position of Products in Japan

Lion's major health care product fields and 2010 market positions in Japan



Market size in Japan

Source: 2010 INTAGE Inc., SRI/SDI Survey

## Oral Care Business

### Performance Summary

In the domestic market for oral care products, overall market size increased compared with the previous year along with the expansion in the lineup of higher-priced products.

Amid these market conditions, we were active in launching high-valued-added products and conducted our business activities as the No. 1 Japanese company\* in toothpastes, toothbrushes, and other product markets. In the toothpaste business, in February 2010, we launched *platus creamy up paste*, which features advanced beauty effectiveness in line with our theme of "beautiful aging." Between the launch and the end of 2010, we sold more than 1.4 million tubes of *platus creamy up paste*, which was 1.2 times the planned level. In addition, sales of *Dent Health* and *Hitect* toothpastes, which are effective in helping to prevent gum diseases, were also favorable. Among toothbrush products, sales of our mainstay brands, *Dentor Systema* and *Clinica*, were favorable. In the mouthwash field, new product *Dentor Systema Haguki Plus* (the gums) *Dental Rinse*, a milky-type rinse with medicinal ingredients that remain on the gums longer to keep them healthy, was well received in the market, and, combined with sales of previously launched products, added to our share of sales. As a result of these developments, overall sales growth of oral care products exceeded that of the market as a whole.

Overseas, we stepped up our development of the *Systema* global brand, and, because of these and other developments, total sales in this business expanded steadily.

### Future Growth Strategy

In the domestic market, we focus on launching new products in our mainstay brand lines and expanding our offering of high-value-added products. In the periodontal disease prevention field, which is a growth area, under the *Dentor Systema* brand, we launched improved versions of toothpaste and dental rinse that will provide more-advanced periodontal pocket care for users. The improved products feature the effect of penetration to the biofilm in the periodontal pocket and blocking bacteria from adhering to the teeth and gums. We also expanded our lineup of *Dentor Systema* toothbrushes with super-tapered bristles to work to promote the growth of the *Dentor Systema* brand as a whole. Also, in the *Hitect* brand line, we added new flavors to the *Hitect Shoyaku no Megumi* line of toothpastes that contain plant extracts to prevent pyorrhea and work to strengthen our lineup of products in the fast-growing, higher-priced segment of the market. Also, for parents rearing children and becoming more conscious of oral care, in the *Clinica* brand line, we launched new products for children's dental finishing care and expanded our lineup of products for children. We also work to promote the understanding of oral care habits and strengthen our brand.

Overseas, with the goal of becoming No. 1 in oral care in Asia, we are promoting the development of our lineup of toothpastes, toothbrushes, and mouthwashes under the unified *Dentor Systema* brand as well as working to develop and establish original regional brands.

\* 2010 INTAGE Inc., SRI Survey

### Topic



Mizuki Hashimoto,  
Oral Care Business Department

In recent years, as the awareness of self-medication has grown in Japan along with the demographic aging of the population, sales of high-performance, higher-priced toothpaste products have shown favorable growth. In 2006, about 23% of toothpaste sales were accounted for by products priced at ¥500 or more, but in 2010 this figure had increased to 33%\*. Among our high-value-added, higher-priced products, sales of *platus creamy up paste*, which features advanced beauty effectiveness, as well as *Dent Health* and *Hitect*, which offer advanced preventive care for periodontal disease, have attained double-digit growth over the previous year, thus growing more rapidly than the market as a whole. We believe that adding further value to our oral care products will give us leeway for growth for some time to come, and we intend to strengthen our position in this field.

\* 2010 INTAGE Inc., SRI Survey.

# Beauty Care Business

## Performance Summary

In the beauty care products market, shampoo sales increased, and unit sales rose. In addition, the market for antiperspirants and deodorants grew in size, stimulated by the summer heat. However, demand for disinfectants and gargle preparations fell sharply because of the passing of the new H1N1 influenza epidemic. Overall, the market for beauty care products declined slightly.

In Japan, in the *KireiKirei* brand line, we introduced a portable sanitizer and other products that responded to the rising awareness of cleanliness among consumers. However, with the end of the new H1N1 influenza epidemic, sales of hand soaps and gargle preparations sales dropped below the previous year. Growth in sales of our sheet-type deodorants exceeded that of the market as a whole, but our mainstay powder spray-type deodorants were adversely affected by rising competition. In addition, in the functional food product categories, annual sales of *Nicelim Essence Lactoferrin*, a lactoferrin product that is sold through our mail-order service, held strong and exceeded ¥3.0 billion. This product is a supplement that effectively delivers milk-derived lactoferrin to the intestines.

Overseas, sales of *Shokubutsu-Monogatari* body soap exceeded the levels of the previous year in Thailand and Malaysia. However, overall net sales in the beauty care business were below the previous year.

## Future Growth Strategy

In the domestic market, we have positioned skin cleansing as well as scalp and hair cleansing as our main businesses within the beauty care business and are continuing to strengthen our key brands in this field. In the *KireiKirei* brand lineup, we are working to expand the number of our foaming hand soap users. We also implement integrated promotional activities, from advertising through promotion, including activities to heighten the awareness of health and sanitation, with the theme of encouraging consumers to make gargling and cleansing part of their daily routine. In the *PRO TEC* brand line, which was designed to help men in their 30s to care for their hair and scalp as well as control odors, we developed new *PRO TEC* series items. These have included especially the introduction of the *PRO TEC Washing Brush*, which is better at cleaning dirt that clogs scalp pores than hand washing.\* In the *Ban* deodorant brand line, we are introducing new products that act directly on odor molecules at the nanometer level. This “nano-ion deodorizing” is based on the application of our accumulated original powder technologies. In connection with these new products, we are implementing the largest promotional program in our history, incorporating close coordination between media advertising and store-level promotions, with the aim of making consumers aware of the features of this brand as quickly as possible.

Overseas, we are focusing on further developing *Shokubutsu-Monogatari* and *KireiKirei* as common global brands.

\* Based on Lion research

### Topic



Keisuke Suzuki,  
Beauty Care Business Department

The *KireiKirei* brand has won strong consumer support as the No. 1\* brand in the domestic hand soap market. Based on our philosophy of helping people enjoy healthy and comfortable lives, through this brand, we are implementing activities to increase the awareness of sanitary behavior, including hand washing and finger disinfection as well as gargling. Beginning in 2010, we are implementing a three-year campaign in Japan that will contribute to improving sanitary conditions and promoting sanitary education in Asia. As part of these initiatives, we are providing support for the “water and sanitation” activities of UNICEF in Myanmar. Through collaboration among our subsidiaries in Japan and overseas, we promote the “establishment of good health practices” via the *KireiKirei* brand.

\* 2010 INTAGE Inc., SRI Survey

For further information, please access:  
<http://www.lion.co.jp/en/press/html/2010012f.htm>

# Pharmaceutical Business

## Performance Summary

In Japan, the OTC drug market as a whole decreased in size during the year because of the absence of an epidemic of colds and pollen allergies as well as stagnation in the market for type 1 OTC drugs.

In the pharmaceutical business field, we made a full-scale entry into the market for adult cold medicines by adding *BUFFERIN "Kaze (Cold)" EX* to our lineup of *BUFFERIN* brand products, which hold the No. 1\* position in Japan among analgesics for fever and pain relief. In addition, we launched *Smile 40EX GOLD* eyedrops that feature ingredients effective for the relief of discomfort due to eye fatigue and blurred vision caused by eye strain. This newly introduced eye medicine, which offers substantially higher value added, is part of our *Smile 40* series, which is the No. 1\* brand used by the middle-aged and senior generations. However, our mainstay analgesics, tonics and nutrient products, and insecticides were adversely affected by increased competition and shrinkage in the size of the market. As a consequence, overall sales in these businesses decreased in comparison with the previous year.

## Future Growth Strategy

Our strategies going forward include giving high priority to advertising investments for promoting the *BUFFERIN* product lineup, increasing the value added of *Smile* brand products, and further strengthening other mainstay brands.

In the *BUFFERIN* brand series, we will focus on conducting thoroughgoing activities for *BUFFERIN "Kaze (Cold)" EX*, which is a cold medicine that is personalized to meet individual's symptoms, which we introduced in fall 2010. In the fever and pain killer field, we will step up our advertising and promotional activities, taking full advantage of the synergies with our other cold medicines to hold onto our No. 1 position in this area. In the *Smile* eyedrop lineup of products, we renewed and re-launched *Smile Contact*, eyedrops for persons wearing contact lenses. We also newly introduced several new products to upgrade the value added of our product line and expand this business. These included *Smile Contact COOL BLACK*, which offers a highly refreshing cool sensation to contact wearers, and *Smile 40EX COOL*, a similarly refreshing eyedrop medication for the middle-aged and senior generations.

In addition, we will sustain the profitability of anti-diarrhetic drug *Stoppa*, tonic *Guronsan*, and insecticide *Varsan*, also making investments as appropriate, to nurture these products to enhance their contribution to profits in the future.

Overseas, we launched *BUFFERIN* brand products for relief from fever and pain in the South Korean market in 2010, and we will move forward steadily with developing the markets for self-medication preparations elsewhere overseas, giving priority to the South Korean market.

\* 2010 INTAGE Inc., SDI Survey

### Topic



Osamu Izaki,  
Pharmaceutical Business Department

The percentages of contact lens users in their 30s, 40s, and 50s are rising. Contact lens users in these age brackets are experiencing discomfort—including eye fatigue, lenses adhering to the eye surface, and other problems—in wearing contact lenses as they use them for extended periods and grow older. They want not only a feeling of refreshment from using eyedrops but also high-performance ingredients that are gentler and better for the eye. *Smile Contact*, which we improved and re-launched, is the only type of eyedrops especially for contact wearers, and it contains ingredients that augment “refreshment + the four fundamental functions of tears.” In addition, to rejuvenate the contact eyedrop market, we added *Smile Contact COOL BLACK*, which offers the most-refreshing sensation to contact users, to the *Smile* product offerings. Thus, we will make available four types of eyedrops for contact users that will enable them to choose the eyedrops best suited to how they feel in use and the wearer's symptoms.

## Development of Technology

### Launch of *BUFFERIN* Brand Cold Medicine

In September 2010, Lion made a full-scale entry into Japan's combination cold medicine market (annual sales of approximately ¥100 billion, based on Lion research with its launch of *BUFFERIN* "Kaze (Cold)" EX.

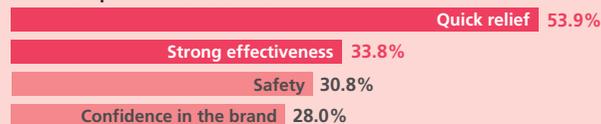


The newly launched product has been developed to expand the breadth of the *BUFFERIN* brand line of products, which Lion has licensed from Bristol-Myers Squibb since 1964 and which has won the top share of the Japanese market\*<sup>1</sup> for analgesic antipyretics.

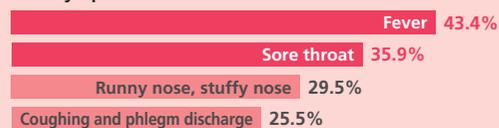
While the Japanese cold medicine market has generally focused on products designed for use by entire families, there are steadily growing needs in Japan for such specialized products as those for adults only and for personal use by individuals. In addition, it has become clear that the characteristic of OTC cold medicines that is given the greatest emphasis by the Japanese consumer is the "speed of efficacy."

### What are the requirements for OTC cold medicines?

#### Results expected of OTC cold medicines



#### Cold symptoms that OTC cold medicines treat



Accordingly, it has become extremely important to employ technologies that facilitate the rapid dissolution of ibuprofen, which is the active ingredient of cold medicines that reduces fever and the pain of sore throats. Conventional types of ibuprofen have characteristics that make them difficult to dissolve in water, but Lion spent approximately two years developing a new technology—the Quick Melt Process Technology—that increases the ease with which ibuprofen dissolves. Developed using detergent manufacturing technologies, this technology leverages Lion's proprietary strengths. The results of consumer surveys indicated that *BUFFERIN*'s "brand promise" (the things that a brand says it can do, and consumers' perception of a brand's quality, functions, and value) can be summed up concisely in just four features—"pain-killing, fever-reducing, fast-acting, gentle to the stomach." Making full use of the assets it has accumulated in the Japanese market for analgesic antipyretics, Lion has begun establishing a full-scale presence in Japan's cold medicine market with the launch of its new *BUFFERIN* "Kaze (Cold)" EX product, which is targeting the growing adult/personal-use segment of the market.

As of February 2011, *BUFFERIN* "Kaze (Cold)" EX had earned the third-largest share of Japan's cold medicine market\*<sup>2</sup> (with respect to adult-use cold medicines designed to treat fever and sore throats).

\*<sup>1</sup> 2010 Intage Inc., SDI Survey

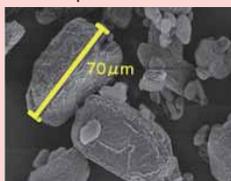
\*<sup>2</sup> Based on Lion research. Two months from January to February 2011

### Lion's "Quick Melt Process" makes ibuprofen dissolve quickly.

Lion's original technology, which features the two steps shown below, makes ibuprofen dissolve and go to work quickly.

#### Step 1: Pulverization of the medicine

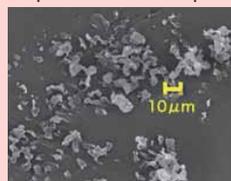
Bulk ibuprofen



Bulk ibuprofen comes in large crystals and we would like to pulverize it more finely, but this is difficult because it is soft.

Pulverize with cellulose derivative

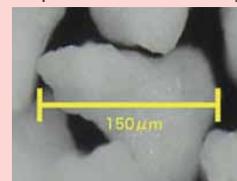
Ibuprofen after finer pulverization



Pulverized ibuprofen increases the contact area with digestive fluids.

#### Step 2: Drug surface modification

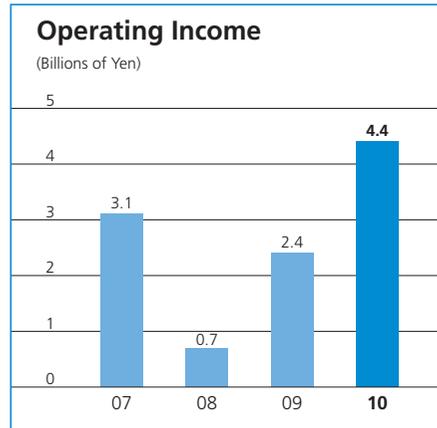
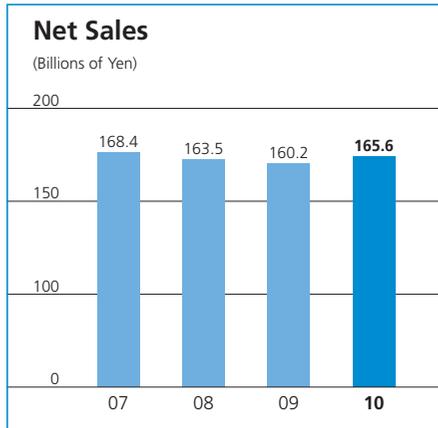
Ibuprofen after re-forming



Greater water solubility causes ibuprofen to dissolve faster.

Coat with a water-soluble polymer and re-form

# Household Products Operations



This division comprises the Fabric Care Business Department and the Living Care Business Department. The net sales of this division for the year under review increased 3.4% over the previous year, to ¥165,699 million, and operating income climbed 81.2%, to ¥4,487 million.

## Market Environment and Performance in 2010

In Japan, sales of liquid laundry detergents are expanding, and, in 2010, their share exceeded 50% of the market as a whole. In addition, as the trend toward the use of liquid laundry detergents continues, the percentage of purchases of refill packages is rising, and the number of units of laundry detergent expanded significantly during summer 2010 because of effects of the hot weather. We introduced two types of super-concentrated liquid laundry detergent, and growth in our liquid detergent sales exceeded that of the liquid laundry detergent market as a whole. In addition, sales of *CHARMY* brand dishwashing detergents were favorable, and

overall sales of the Household Products Division rose over the previous year.

Overseas, net sales continued to be firm as, in Thailand and Malaysia, we focused on strengthening our common global brands and cultivating our original local brands. In addition, we launched a new powdered detergent drawing on the powers of MES (methyl ester sulfonate). Overall profitability of this division increased sharply over the previous year because of improvements in the product mix, reductions in the cost of sales due to lower material costs, and other cost reduction initiatives.

## New Products

### TOP NANOX

A next-generation liquid detergent that aims to create a new market for super-concentrated liquid laundry detergent sold in compact containers



### Kaori to Deodorant no SOFLAN (SOFLAN with Fragrance and Deodorant) Aroma Rich

A fabric softener that enables the wearer to enjoy a rich and long-lasting fragrance when clothing is worn



### CHARMY Awa no Chikara (Power of Suds) Hand Premium

A newly introduced dishwashing detergent with strong and efficient cleaning power, but soft on the skin because of Lion's irritation blocker technology



## Competitive Advantages and Basic Strategies

Through its activities in the fabric care business and the living care business, the Household Products Division works to offer products that deliver convenience and comfort to the daily lives of consumers in the fields of “cooking,” “fabric care,” and “housekeeping.” At present, this division has 11 brand lines, and 4 of these—*TOP* and *BLUE DIA* laundry detergents, *SOFLAN* fabric softeners, and *CHARMY* dishwashing detergents—each have annual sales exceeding ¥10 billion.

It is sometimes said that, because Japan’s population is declining, no major growth can be expected in the markets for daily necessities. To the contrary, we believe that by creating products that offer new value and marketing these to consumers, we can still expand the markets for our products. In fact, we developed a new laundry bleach with the new benefit of removing and resisting bacteria in addition to the existing benefit of removing stains. As a result, in 2010 the market for this product expanded 110% over the previous year. Similarly, in the fabric softener market, we launched a product that not only softens clothing but also adds new value by imparting a pleasant and long-lasting fragrance. This product showed year-on-year growth of 103%.\* In the market for laundry detergents, which is much larger in scale, a rapid shift is in progress from powdered to liquid detergents. By offering products that draw on the superior properties of liquid detergents for removing odors, we are bringing new life to the laundry detergent market. As a result, sales of liquid laundry detergents in 2010 expanded 128% over the prior year.

In all our businesses, we seek to discover consumers’ latent needs, and, by launching products that add new value to meet these needs, we aim to expand and breathe new life into the market. At the same time, by giving priority in the

allocation of our advertising investments to these growth markets, we are aiming to strengthen our brands and the market presence of our businesses as a whole. As we do this, our strengths include an in-depth understanding of the behavior and psychology of consumers, which we have accumulated over the years, and our eco-friendly technologies. By deepening our understanding of consumers, we are working to add new value that goes beyond “functional value added,” such as washing and softening fabrics, and also adds “emotional value,” such as the healing effect of fragrances. Also, as consumers become increasingly aware of issues related to the natural environment, eco-friendliness of our products will become another important kind of value added. Drawing on our production and application technologies for the environmentally friendly, plant-based surfactants MES (methyl ester sulfonate) and MEE (methyl ester ethoxylate), we are working to “become a leading company in environmental responsiveness.”

In the Household Products Division, we will further advance our business activities by implementing a basic strategy of enhancing our market presence by cultivating our brands through offering products with new value, sowing the seeds for developing new markets, aggressively launching new products, and continuing to invest in advertising activities.

In overseas growth markets, we are working to substantially further develop our business operations. In addition to strengthening the market position of *TOP* laundry detergent, our common global brand, we will cultivate our original local brands that have strong ties to individual markets, and are already showing double-digit expansion in growth markets. Drawing on our detergent ingredient MES, we will also aggressively launch new, eco-friendly products.

\* 2010 INTAGE Inc., SRI Survey

### Market Position of Products in Japan

Lion’s major household product fields and 2010 market positions in Japan

Laundry detergents



**No. 3**

¥126 billion



Fabric softeners



**No. 3**

¥66 billion

Dishwashing detergents



**No. 3**

¥45 billion

Market size in Japan

Source: 2010 INTAGE Inc., SRI Survey

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

## Fabric Care Business

### Performance Summary

In Japan's fabric care business, the market expanded significantly over the previous year as consumers accepted new detergent products—including super-concentrated liquid detergents, suitable for use in water-saving washing machines—and increased use of laundry detergents due to hot summer weather.

In Japan, our liquid detergents sales growth exceeded overall market expansion as we introduced new products and our sales of laundry detergents increased markedly. These new products included a super-concentrated liquid detergent *TOP NANOX* and *Super-Concentrated Kaori Tsuzuku* (long-lasting fragrance) *TOP*, containing fabric softener, both of which can wash a load of clothes with half the detergent required by conventional concentrated products. In addition, in the laundry bleach field, we launched *Sterilizing & Antibacterial Bright W*, which can be used for washing clothes in leftover bathwater, and overall sales of bleach increased significantly. In the fabric softener field, we launched *Kaori to Deodorant no SOFLAN* (SOFLAN with Fragrance and Deodorant) *Aroma Rich*, featuring a longer-lasting fragrance than the existing series. Sales of this new product were brisk, but, owing to increased competition, overall sales of fabric softeners increased slightly over the prior year.

Overseas, sales of *TOP* laundry detergent, which we are developing as a common global brand, focusing on Southeast Asia, and sales of *Pao*, a local brand we market in Thailand, were favorable.

As a result, net sales in the fabric care business expanded over the previous year.

### Future Growth Strategy

In Japan's market for laundry detergent products, sales of liquid detergents, especially super-concentrated types, are expanding. During 2011, we will raise sales of *TOP NANOX* and *Super-Concentrated Kaori Tsuzuku TOP*. In the powder detergents market, which still accounts for nearly 50% of the laundry detergent market, we launched a new product, *TOP Platinum Clear*. We note that, recently, as use of washing machines with larger capacity and water-saving features has expanded and as consumers have become more aware of efficiency and saving, more and more consumers want to wash "everything together and at the same time," including clothes soiled by various kinds of substances. *TOP Platinum Clear* contains three different kinds of enzymes as well as ingredients to prevent dirt from sticking to clothes again. We are positioning it as a powerful detergent that can wash many dirty clothes at once while using less water. In the fabric softener market, sales of products that have especially longer-lasting effectiveness are expanding. In 2011, we are working to promote sales of *Kaori to Deodorant no SOFLAN Aroma Rich* and *Kaori to Deodorant no SOFLAN*, which was introduced previously and has an appealing fragrance.

Overseas, we are further developing sales of *TOP*, which is a common global brand, by launching new and improved products containing MES detergent ingredients. In addition, we are developing the positions of our original brands in local markets and thereby strengthening the market position of our laundry detergents.

### Topic



Naoko Matsui,  
Fabric Care Business Department

Currently, the transition to liquid detergents in Japan is proceeding rapidly. As use of water-saving washing machines broadens and suitable developments take place, the liquid detergent share in the concentrated laundry detergent segment, which accounts for over 90% of the laundry detergent segment in 2010, has increased from 29% in 2007 to more than 50% in 2010.\* We introduced *TOP NANOX* in January 2010, and, with that month as a transition point, the liquid detergents share exceeded powder detergents. *TOP NANOX* has created a new consumer group for liquid detergents, and we expect this shift to accelerate. In October 2010, we introduced two versions of *Super-Concentrated Kaori Tsuzuku TOP*, and we are fighting for the No. 1 position in the super-concentrated liquid detergents market.

\* 2010 INTAGE Inc., SRI Survey  
Lion has its own definition of concentrated laundry detergent.

## Living Care Business

### Performance Summary

In the living care market in Japan, the impact of the trend toward consumer preferences for low-cost items persisted, leading to a decline in unit prices and only a slight gain in overall sales. Growth in unit terms was supported by an increase in sales of deodorizing fabric cleaners, reflecting the rising concern with cleanliness, and a larger number of cooking paper sheets sold, accompanying the trend toward purchasing more prepared foods in Japan.

In the domestic dishwashing detergent market, we expanded our offerings in the *CHARMY* brand lineup by launching a new product, *CHARMY Awa no Chikara (Power of Suds) Hand Premium*, containing sodium lactate for improved moisture retention. In addition, we launched an improved version of *Ofuro no LOOK* bathroom cleaner, which offers quick rinsing performance. However, sales of the *REED* brand cooking product series were below the level of the previous fiscal year because of increased competition.

In overseas markets, sales of dishwashing detergents in Thailand and South Korea were sluggish.

As a result of these various factors, net sales of the living care business overall were lower than in the previous year.

### Future Growth Strategy

In the domestic living care market, we have a presence in the dishwashing detergent, household cleaner, cooking-aid

product, and other fields. Although these are mature market segments, we are anticipating further expansion as a result of the rising awareness of cleanliness and sanitation. In addition, we believe that, despite the trends in consumer preferences toward thriftiness and purchasing lower-priced goods, growth is also possible if we offer consumers new value by launching products that meet their needs for better performance as well as ease and fun in use. We are, therefore, offering new products that are differentiated by their superior features and are continuing to strengthen the brand value of our products. In our core brand lineup of *CHARMY* dishwashing detergents, we are launching an improved version, *CHARMY Crysta Powder*, for automatic dishwasher use. This new version has two differentiating and superior features. One is its strong power to remove the film that sticks to dishes, based on Lion's original cleansing technology. The other is the adoption of a container equipped with a spoon holder, which prevents the detergent powder from sticking to the user's hands even if they are wet. Leveraging these differentiating features, we are working to strengthen the *CHARMY* brand overall and capture the No. 1 position in the automatic dishwashing detergent market. In the toilet cleaner category, we launched *LOOK Mame-Pika Toilet Cleaner* (an effective wiping toilet cleaner). Through such new product launches, we intend to further strengthen the *LOOK* brand and differentiate it by making housecleaning a more-pleasant activity.

In overseas markets, we are focusing on marketing of existing products and expanded sales.

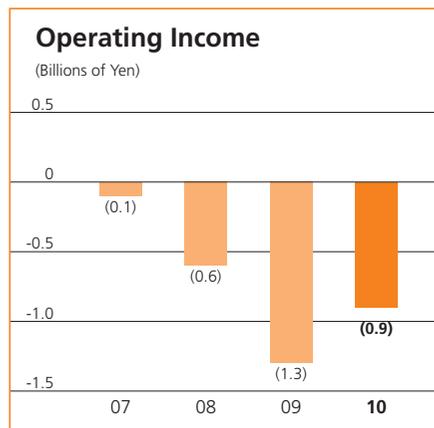
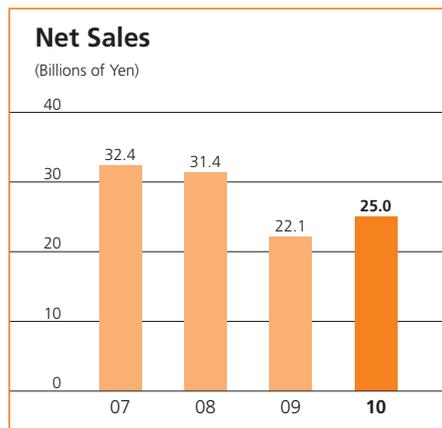
#### Topic



Hironobu Yokote,  
Living Care Business Department

Many housewives say "we want keep the toilet spotless at all times," and when they discover dirt or grime, they "wipe it away immediately with toilet tissue." Our consumer research indicates, however, that housewives are not satisfied with toilet tissue as a wiping cleaner. They say that scrubbing with toilet tissue alone will not kill germs and it is hard to get rid of accumulated grime. Also, if a cleanser is applied to toilet tissue, the tissue tends to disintegrate. To address these shortcomings of tissue, we introduced *LOOK Mame-Pika Toilet Cleaner*, which can easily be used on the toilet seat, the toilet bowl, and the surrounding floor area because it contains ingredients that prevent tissue from disintegrating and make possible cleaning and killing germs at the same time. The compact and attractive package and the fresh apple fragrance of this product enable housewives to clean the toilet in an easy and more enjoyable way.

# Chemical Products Operations



Benefiting from a recovery in industrial demand, the Chemical Products Division recorded a strong performance in domestic business related to surfactant and electro-conductive carbon black products, and it was consequently able to increase its net sales 13.3% from the previous year. Operating profitability improved by approximately ¥340 million compared with the previous year, reflecting the strengthening of sales operations for high-value-added products.

## Lion's Strengths and Fundamental Strategies

The division is implementing a strategy for developing environmental solution business based on surface science technologies, and its products are earning high evaluations from customers in Japan and overseas.

In our core surfactant and oleochemical operations, we manufacture and market products made from natural materials, such as palm and coconut oil. In addition to mainstay surfactant products used as raw materials for cleaners and cosmetics, we are proactively developing such environment-friendly, high-value-added products as plant-based electric insulating oils that utilize our *Pastell* high-purity, plant-based fatty esters.

In growth fields related to the automobile and IT/electronics industries, we are developing unique products to create a highly profitable business structure. These include *SunWash* aqueous industrial cleaners for nanometer-level cleaning and

low environmental impact; *Ketjenblack*, an original, highly electro-conductive material, which is key for advanced energy devices, such as secondary batteries; and *Leopound* high-performance resins, which are helping meet needs related to dust-resistant materials in the electronics materials field as well as to creating lighter automobiles.

Lion is maximizing earnings by working with affiliated companies with distinctive strengths. For example, Lion Akzo Co., Ltd., offers amine derivatives for a wide range of industrial applications, and Ipposha Oil Industries Co., Ltd., provides rubber chemicals and other functional industrial chemical products.

With a focus on global environmental issues, we will use our original, highly functional materials and advanced technical capabilities to meet diverse industrial needs.

## Fiscal 2010 Market Environment and Performance

Despite industrial demand recovery, trends in the division's operating environment remained difficult to anticipate owing to yen appreciation, surging raw materials prices, and other factors. To create a highly profitable business structure, the

division strove to maintain stable sales in its mainstay surfactant and oleochemical operations, while also stepping up sales promotion and new product launch measures in the three core businesses of ester derivatives, electro-conductive

carbon black, and industrial cleaners. Also, to improve profitability, we implemented rationalization measures, including cutting distribution costs by streamlining inventories.

In surfactant and oleochemical operations, yen appreciation created challenging conditions for esters and nonionic surfactants exported from Japan, but growth in sales of raw materials for cleaners, cosmetics, and food increased stably. In highly functional plant-based ester derivatives, since developing insulating oil for transformers, we have proactively developed new markets for lubricant oil for metal processing applications and further expanded the scope of product applications.

Within electro-conductive carbon black operations, sales of products for automobile and secondary battery applications were strong both in Japan and overseas, and sales of electro-conductive compounds, especially for precision electronic components, increased substantially.

In industrial cleaners, we actively developed new customers for our cleaner products for the IT/electronics and automobile fields while also developing and launching new products in the new business field of endoscope cleaners.

As a result, the division's sales rose at a double-digit rate compared with the previous fiscal year, and operating income improved.

## Strategies for Fiscal 2011

Anticipating operating conditions in fiscal 2011 will remain difficult because of continuing deflation in Japan, surging raw materials prices, and the appreciation of the yen.

Amid this environment, we will proceed with proactive market development and increase profitability in the five areas listed below, with a focus on the previously mentioned three core businesses as we formulate business strategies with a view to internationalization of our operations.

**Ester Derivatives:** In addition to methyl esters used as fundamental raw materials for chemical products, we are powerfully pushing to expand the markets for such plant-based, high-functional ester derivatives as insulating oil products with outstanding insulation properties and lubricant oil products that offer both low viscosity and high flash points.

**Electro-Conductive Carbon Black:** We are moving ahead with the global development of markets for products related to lithium-ion secondary batteries for automotive applications, for which demand is expected to increase. At the same time, by increasing the functionality of electro-conductive

compounds (supplementing electro-conductive characteristics with additional functions), we are seeking to expand sales in new fields and enhance profitability.

**Industrial Cleaners:** We are striving to expand sales in the automotive and IT/electronics fields as well as the medical equipment field, which we entered during the previous fiscal year. Concurrently, we are endeavoring to develop business in new cleaner fields.

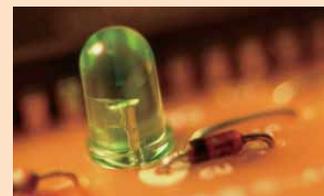
**Surfactants:** We are working to expand the scale of our operations through measures that include those to respond to growth in demand for liquid laundry detergents and, based on additional significant improvements in manufacturing technologies, we are energetically moving forward with efforts to develop new applications.

**Amine Derivatives:** While striving to maintain and expand business in products related to daily-life applications, such as fabric softeners and hair-care products, we are proactively introducing highly functional products for diverse industrial fields and advancing with the development of new markets.

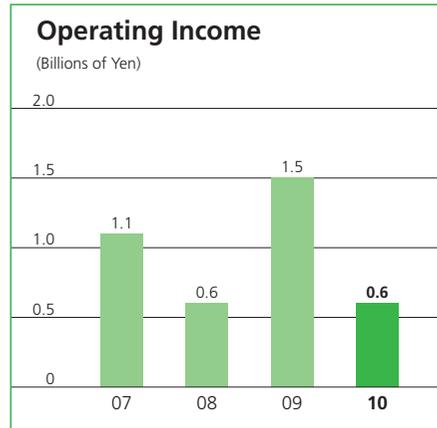
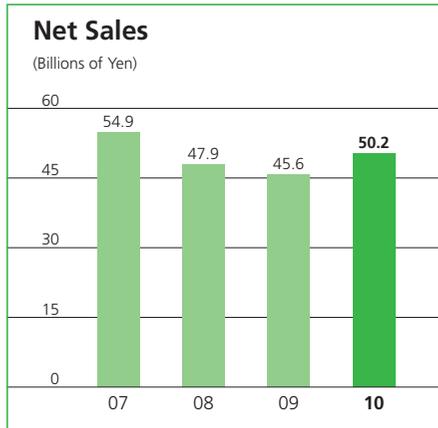
## Product Review

### Aqueous Cleaner for Sapphire Substrates

Sapphire substrates are a kind of semiconductor substrate used for LED applications associated with markets that are expected to show additional growth going forward, and they require extremely sophisticated cleaning. During the manufacture of sapphire substrates, oily substances such as waxes and particles such as abrasives as well as other contaminant substances adhere to the substrates. Ordinarily, the waxes and oils are cleaned off with such solvents as acetone, while the abrasives are removed using the RCA clean system, which employs combinations of such substances as sulfuric acid and hydrofluoric acid. Lion has employed its unique surfactant technologies to develop *SunWash LED-1* aqueous pre-cleaner, which is highly effective in removing waxes and also can greatly improve the RCA clean system's efficiency in removing particle residue. Besides facilitating further improvement in the quality of substrates, *SunWash LED-1* has made it possible to reduce environmental impact associated with emissions of volatile organic compounds (VOCs) and other substances.



# Overseas Operations



Lion's International Division conducts business operations in eight countries and regions in Asia outside Japan, including Thailand, Malaysia and South Korea. The consolidated sales from overseas business during the fiscal year under review were ¥50,210 million (an increase of 9.9% year on year) and operating income amounted to ¥633 million (a decrease of 59.4% year on year).

## Market Environment in 2010 and Business Reports

In the regions of Asia where Lion conducts its business operations, demand for toiletries is growing along with rises in population, the number of households, and incomes as well as the increasing awareness of health and good hygiene. By strengthening high-value-added products, Lion is working to boost profitability as it also strives to increase volume by responding to demand in the high volume, toiletries category. To attain these business objectives, Lion is continuing to grow its businesses through aggressive investments in marketing and to implement measures that will raise its market position and achieve profitability improvement going forward. Specific measures include positioning *TOP* laundry detergent, *Systema* oral care products, and certain other brands as common global brands and strengthening product lineups principally in Southeast Asia. At the same time, Lion is nurturing its original local brands, such as *Pao* laundry detergent in Thailand and the *Ciptadent* oral care brand in Indonesia.

Through these activities, Lion is implementing a brand strategy in both the middle- or higher-priced categories of daily necessities, and sales in overseas operations during the year under review rose year on year. In addition, to enhance profitability, Lion worked to increase efficiency and reduce costs; however, operating income in overseas operations decreased year on year because of more-intense competition at the retail level in South Korea and an increase in advertising and promotional expenditures in connection with strengthening Lion's brands.

## Growth Strategies: Expanding Production in Thailand and Malaysia

Since entering overseas markets in the early 1960s, Lion has conducted its business activities while working to build close ties with local partners. In recent years, especially in Southeast Asia, competition with major global manufacturers has become more intense.

To respond to growing demand and market expansion in Southeast Asia, Lion has built plants in its main markets of Thailand and Malaysia. The Company is planning to invest a total of ¥4,000 million and put these into operation by 2012.

In Thailand, Lion is building a new plant for oral care products, including toothpastes and toothbrushes, and it will place increased emphasis on this product area. In the laundry detergent market, where Lion has attained the No. 1\* market share in Malaysia since 2009, Lion is showing favorable growth in sales due to strong demand for its brands and will therefore strengthen its production capabilities by expanding its plant and upgrading its base for further enhancing its market position.



Lion Corporation (Thailand) Ltd.

By increasing its production capabilities, broadening its product lineup to meet the needs of various regions, and other measures to improve its sales systems, Lion aims to attain the No. 1 market share in the laundry detergent and oral care markets in the countries and regions where it has a presence. Reflecting this, Lion expects to increase its overseas sales contribution to consolidated net sales from about 15% at present to 30% in the years ahead.



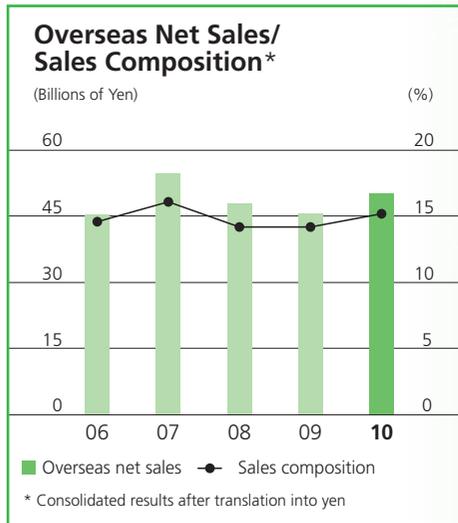
Southern Lion Sdn. Bhd.

Also, Lion Eco Chemicals Sdn. Bhd., Lion's subsidiary in Malaysia, has begun commercial production of surfactant MES (methyl ester sulfonate), a detergent ingredient. MES, which is derived from plant-based materials, has high detergency and is eco-friendly because it is carbon neutral, and Lion has begun sales to detergent manufacturers around the world with the goal of making MES the global standard detergent ingredient.

In Asia, where growth is forecast going forward, Lion will work to increase its production capacity, and, by introducing its technology and implementing marketing activities that respond to local customs and lifestyles, strive to further significantly expand its business in this area.

\* Based on Lion research

# Initiatives by Country and Region



Indexed at 2008=100  
All on a local currency basis  
Total sales growth rate by country  
\*1 Affiliated companies accounted for under the equity method  
\*2 Excluding Lion Eco Chemicals Sdn. Bhd.

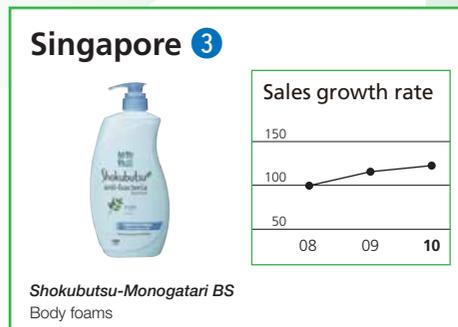
While intense competition with major global manufacturers is continuing, Lion is reporting a favorable performance in each field based on its product mix comprising both high-value-added items and medium-priced daily necessities. Overall growth has reached the double-digit levels.

Among laundry detergents, Lion's medium-priced *PRO* brand and its *Pao* high-value-added brand, which is sold mainly in urban areas, have been accepted, and Lion is implementing business strategies that match consumer needs. In addition, in the oral care business, Lion has strengthened its brand lineups, which include *Systema* and *Salz*, and is achieving double-digit growth. Looking ahead, Lion will position oral care as the highest priority business and expand its facilities to meet the increase in demand.



Lion has stepped up its advertising and promotional activities for *TOP* laundry detergent, which has attained the No. 1 market share in Malaysia since 2009, to consolidate this leading market position.

In the *TOP* brand line, Lion is applying its technology that led to the development of the *Heya Boshi TOP* series, which is sold in Japan and is suited for drying clothes indoors. By drawing on the deodorizing functions of enzymes, Lion is developing related products that are suited to the needs of consumers who are sensitive to odors, and this has won market appreciation. In addition, *TOP* has been selected by consumer vote and received the Trusted Brand Award sponsored by *Readers Digest* magazine for the past two consecutive years in 2009 and 2010. To respond to growing demand, Lion is expanding its detergent production facilities in Malaysia.



Lion is working to expand sales of *Systema* oral care and *KireiKirei* liquid hand soap products and enhance their brand strength in this market through aggressive advertising and promotional activities. Sales of *Liquid TOP* laundry detergent are also favorable, and, overall, Lion is expanding net sales in Singapore.



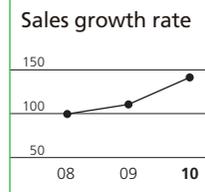
Lion is focusing on oral care business in Indonesia, and its *Ciptadent* brand for the local market is reporting favorable performance. In addition, dishwashing detergent *Mama* has shown double-digit growth and contributed to sales, and, as a whole, sales expanded year on year.



## China 5



Zact  
Toothpastes



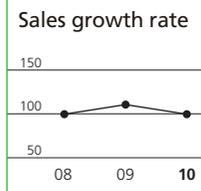
In China, Lion is focusing principally on the oral care business. *Systema* toothbrushes and *Zact* toothpastes for younger people have been strong, and overall sales expanded at double-digit rates.

In 2010, the performance of *Systema* toothbrushes, with their distinctive bristle ends, has been favorable. Lion also conducted a promotional campaign over the Internet for *Zact Cool & Fresh* and successfully expanded sales through generating interest among consumers and raising awareness of its brands. Next, Lion is going to take on the challenge of China's vast market.

## South Korea 6



Dentor Systema  
Oral care products



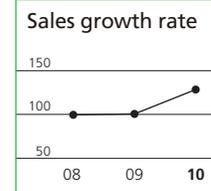
Because of more-intense price competition at the retail level, sales of laundry detergents were below the level of the previous year, but as a result of activities to nurture oral care products and reduce costs, Lion is making progress toward structural reforms that will strengthen its earnings power in this market.

In accord with the government's environmental policies, in the expanding highly concentrated liquid detergent market, Lion is working to further develop its position and increase profitability in the expanding highly concentrated liquid laundry detergent market. Along with putting its activities in the detergent field back on track, Lion is also striving to further develop and build the market position of the *Dentor Systema* series of oral care products that were launched in 2009.

## Taiwan 7



Systema  
Toothbrushes

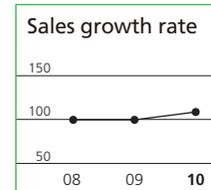


Oral care products, laundry detergents, and chemical products contributed to growth, and sales rose at a double-digit rate.

## Hong Kong 8



TOP  
Laundry detergents



The main contributors to growth in sales in this market were *TOP* laundry detergent and *Systema* oral care products. In addition, sales of drainpipe cleaner expanded substantially, and overall sales in Hong Kong rose at close to a double-digit level.

# Research and Development

Lion's "technological DNA," or, in other words, its core technologies, spans the fields of washing and oral care. With these as a base, we conduct our R&D activities with the key words "health," "comfort," and "the environment," and create products that contribute to the world around us.

Washing technologies are surfactant-related technologies. After many years of research on plant-based oils, in 1991, we succeeded in commencing the commercial production of methyl ester sulfonate (MES), a detergent ingredient we developed originally and adopted it in products. In 2009, we began to supply MES to other detergent manufacturers. A key feature of MES is its high detergency even when used in small amounts. MES is also environmentally friendly because it is carbon neutral, and does not increase the total amount of CO<sub>2</sub> in the atmosphere, and is biodegradable.

Our oral care technologies are applied in the development of toothpastes, toothbrushes, and other related products that contribute to the prevention and treatment of oral diseases. Recent research has made clear that periodontal disease has an influence on systemic diseases, such as heart attacks and diabetes. Therefore, our oral care technologies contribute to overall health and to improving the quality of life.

One of our business themes is "beautiful aging." The aim of this theme is to help people of all ages to lead healthy and comfortable lives, and, as a result, enjoy a healthier and more-meaningful life in their old age. Going forward, we will conduct our R&D activities with this objective of developing products that contribute to beautiful aging.

## Lion's R&D Organization

Our Research and Development Headquarters comprises three divisions engaging in development research, applied research, and research supporting.

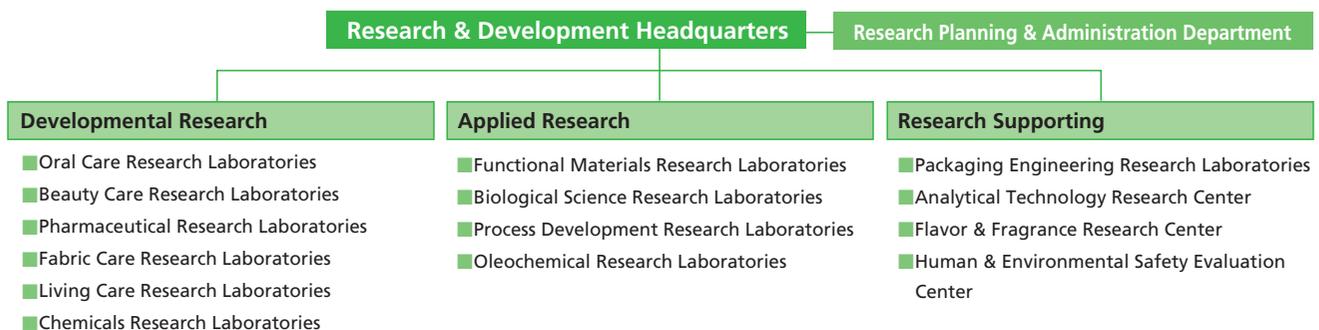
The Development Research Laboratories consists of seven R&D laboratories working in six product categories, such as oral care, fabric care, and pharmaceuticals. These laboratories collaborate closely with Lion's product planning departments.

The Applied Research Laboratories works to discover the buds for new technologies and materials through the use of surface science, life science, and other scientific knowledge. This division makes analyses of various substances in actual use and their intravital mechanism of action, and, based on solid evidence, undertakes research to apply these.

The Research Support Laboratories provides assistance for product development research and applied research by assessing the safety of products vis-à-vis the human body and the natural environment. It also addresses issues through the use of qualitative and quantitative analytic technologies and is responsible for enhancing product value added by developing technologies related to fragrances, tastes, and packaging.

In addition, Lion completed a new research building in 2009 (the Hirai R&D center in Tokyo). This new building was designed according to an open floor plan\* with no partitions to make communication easier among research personnel in different fields and, thereby, accelerate progress in product development.

\* Under an open floor plan, as much as possible, areas on a floor are not partitioned off and the area becomes one spacious room for R&D and experimentation.



## Attaining the Goal of “Comfort” through “Long-Lasting Fragrance” Technology

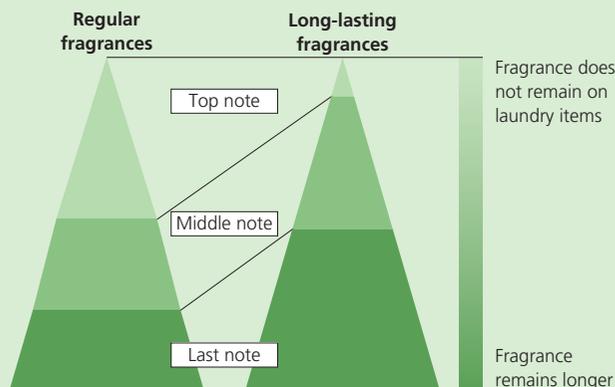
The fabric softener market is expanding year by year. Since 2005, the point that consumers emphasize the most when purchasing softeners is “a good fragrance.” The emphasis placed on this quality even exceeds “softness after drying,” which is the basic function of fabric softeners.\*<sup>1</sup> In addition, the number of consumers who want the fragrance to last as they wear their clothing is increasing.\*<sup>2</sup>

To give clothing a lasting and pleasant fragrance after using softeners, Lion emphasizes three points in its related R&D activities.

### (1) Development of Lasting Fragrances

Fragrances comprise a top note (a light fragrance that is sensed at first), a last note (a fragrance that comes later), and a middle note (a fragrance between the top note and the last note). Fragrances that are long lasting make use of this transition over time and feature the best balance of these fragrance notes.

### Original Technology for Long-Lasting Fragrance-Enhancing Effects



Lion has developed long-lasting fragrances that remain on laundry items longer by increasing the content of last note fragrances.

Based on Lion research

### (2) Ultraminiaturization of Softener Molecules

To make fragrances last longer, it is necessary to have the fragrance ingredients attach themselves to the texture of the fabric surface. Lion has decreased the size of these softener particles to about 150 nanometers to enable the fragrance contained in the softener to penetrate and be absorbed in every thread of the fabric.

### (3) Refining Technology for Softener Ingredients

The raw material for softeners is usually cow fat, but, to create “comfortable fragrances,” we used palm oil as a raw material, and, using our original processing method, we remove impurities and bad-smelling substances to bring forth the proper comfortable essence of the fragrances.

These technologies for long-lasting fragrances are useful not only in softeners but also in laundry detergents.

Looking ahead, as part of our activities to give consumers enhanced “comfort,” which is the key word of our product development, we will proceed aggressively with our R&D in fragrances.

\*1 2010 INTAGE Inc., SRI Survey

\*2 Based on Lion research



# 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 build up 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 other stakeholders surrounding the Company (including consumers, business partners, employees, and others).

Lion's principal corporate governance objectives are to increase management transparency, improve the efficiency of supervision and decision making, and ensure the maintenance of high standards of compliance. By strengthening and improving its corporate governance system, Lion aims to enhance its corporate value.

## Approach to Management Supervision and Monitoring Functions

To strengthen its corporate governance, Lion has appointed four independent directors (two external directors and two external auditors), who satisfy the criterion of having no vested interest in the affairs of major business partners or others; they are responsible for the supervision and monitoring of management. These four independent directors and auditors have all been selected for their independence and absence of concerns regarding conflicts of interest with the Company's shareholders.

## 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.

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

executive 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 corporate auditor	External corporate auditor
Name	Mitsuaki Shimaguchi	Hideo Yamada	Kazumi Idogawa	Masahiro Mikami
Board of Directors attendance	Attended 17 of 18 meetings	Attended 18 of 18 meetings	Attended 18 of 18 meetings	Attended 18 of 18 meetings
Board of Auditors attendance	—	—	Attended 14 of 14 meetings	Attended 14 of 14 meetings
Principal activities	Provides informed opinions about overall policies for business management with a view to strengthening the Company's business activities	Provides informed opinions, principally regarding the Group's 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: External auditors Kazumi Idogawa and Masahiro Mikami resigned from their positions at the Annual Meeting of Shareholders held on March 30, 2011. Hideo Doi and Sumiaki Nomura were newly appointed as external auditors.

### Total Compensation of Directors and Corporate Auditors for Fiscal 2010

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	11 (2)	4 (2)	15 (4)
Total compensation	¥399 million (¥22 million)	¥75 million (¥22 million)	¥474 million (¥44 million)

### Management Evaluation Committee

Composed of seven knowledgeable persons from outside the Company, this committee was set up to enable Lion to draw on the evaluations and opinions of the 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 enhance the objectivity and transparency of matters related to executive compensation. It is composed of the two external directors and the two external auditors.

### Corporate Ethics Committee

This committee was formed to promote the implementation of specific measures to instill a lasting awareness of compliance among personnel.

## Internal Control Systems

Based on the Companies Act and the Ordinance for Enforcement of the Companies Act, the Company designed and implemented internal control systems to ensure the proper conduct of operations in the companies of the Lion Group.

The Auditing Office, which reports to the president, conducts audits of departments and subsidiaries based on an annual internal auditing plan. These audits are conducted to verify the “legality, validity, and efficiency” of internal control systems and the status of implementation of compliance measures.

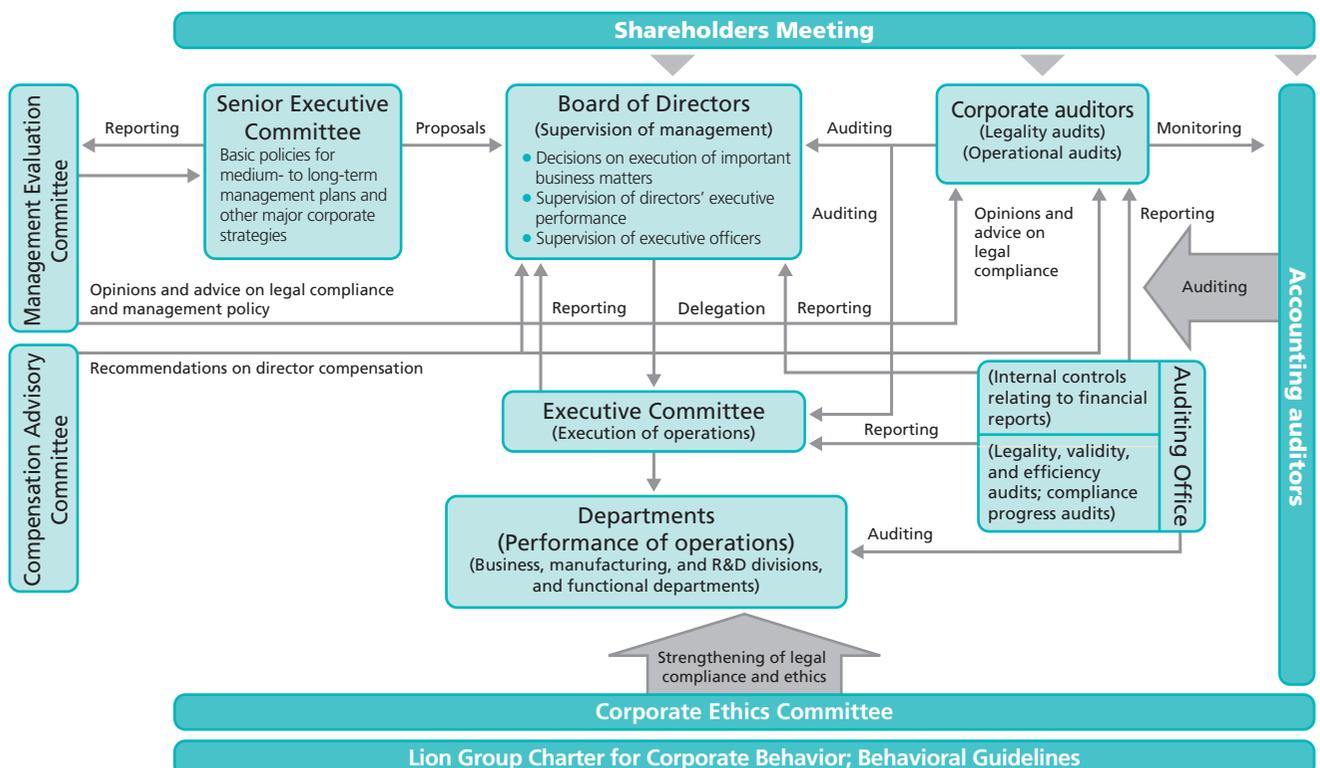
## Advancement of Compliance

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, and this committee is actively engaged in activities 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 their understanding of compliance has been confirmed during training programs.

## 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 with antisocial entities and organizations threatening the order and security of civil society.”

### Model of Corporate Governance System



# Directors, Corporate Auditors, and Executive Officers

As of March 30, 2011



Representative Director and President

**SADAYOSHI FUJISHIGE**

Chairman of the Board and Chief Executive Officer



Representative Director and Senior Executive Director

**KAZUO OBAYASHI**

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



Executive Director

**KEIKICHI SUGIYAMA**

Responsible for Research & Development Headquarters and Intellectual Property



Executive Director

**ITSUO HAMA**

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



Director

**SHUICHI OHTA**

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



Director

**KIYOTAKA ABE**

Responsible for Chemicals Division



Director

**TAKAYASU KASAMATSU**

Responsible for Corporate Ethics, Finance, Secretary, Legal and Pharmaceutical Affairs



Director  
**YUJI WATARI**  
 Responsible for Production Headquarters, Purchasing Headquarters, Logistics Planning & Development and Business Coordination



External Director  
**MITSUAKI SHIMAGUCHI**  
 (Professor of Hosei University Graduate School)



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)



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

Substitute Corporate Auditor  
**FUMIO TAKAHASHI**  
 (Certified Public Accountant)

Executive Officer, Senior  
**KENJIRO KOBAYASHI**  
 Executive General Manager of International Division

Executive Officers  
**KAZUHIRO YOKOYAMA**  
 Executive General Manager of Chemicals Division

**EIJI KUDOU**  
 Executive General Manager of Production Headquarters

**MASAZUMI KIKUKAWA**  
 Executive General Manager of Household Products Division

**TAKEO SAKAKIBARA**  
 Executive General Manager of Health Care Products Division

**HISAAKIRA KARAMATSU**  
 Executive General Manager of Sales, Health Care Products Division

**YASUO SHIMIZU**  
 Executive General Manager of Sales, Household Products Division

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

**TOSHIO KAKUI**  
 Executive General Manager of Research & Development Headquarters

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

**TAKASHI NAKAJIMA**  
 Executive General Manager of Purchasing Headquarters

# Lion's Basic Philosophy for CSR

### Lion and CSR

The wellspring of Lion's CSR activities can be traced to the Company's founding spirit of "working for the benefit of people and society." Today, after marking the 120th anniversary of its founding, this spirit lives on in Lion's Company Motto. We believe it is the responsibility of each and every one of us at Lion to present people with good lifestyle habits and expand their dreams for their daily lives. It is precisely this responsibility that we must fulfill through our CSR activities. Based on this fundamental idea, Lion manages its activities to be a company that is strongly trusted and highly transparent.

Lion also works proactively to promote communication with its stakeholders. These activities include exchanging views with outside experts. Our communication with stakeholders began in 2007 with our meeting to review the *CSR Report*, and, in the following year, this developed into "Stakeholder Dialogue," which has become an opportunity for more active discussion, and are continuing with meetings focused on a specific theme that are held once a year. In 2010, we invited consumers to tour our business locations, introduced our environmental protection and social contribution activities, and listened to their opinions. Lion is working to adapt to the times, and, to become a company that society trusts and counts on, Lion listens to what people are saying and aligns its activities with social changes.



"Stakeholder Dialogue" activities in 2010



### Comfortable Support for People and Substantial Support for the Global Environment

We have three visions for Lion: "Become a leading company in the new comfortable lifestyle support industry," "Become a leading company in environmental responsiveness," and "Promote a corporate culture." We manage our business and our CSR activities to attain these visions.

"Become a leading company in the new comfortable lifestyle support industry" means being a company that makes the idea of "beautiful aging" a reality. In other words, we provide assistance to people that enables them to maintain their physical and mental health and to age beautifully. To this end, we offer people good lifestyle habits appropriate for each stage in life and provide products and services that help them to live fuller and more-satisfying lives each day.

"Become a leading company in environmental responsiveness" implies we are taking initiatives to maintain the cleanliness of the "soil, water, and air."

"Promoting a corporate culture" means we are endeavoring to create a strong corporate culture based on these three guidelines for action: "tackle challenging tasks," "be creative," and "always continue to learn." To create this kind of culture, "revitalizing human resources" is an important element supporting our CSR activities.

As part of our initiatives, we became a participant in the United Nations Global Compact in 2009 and are implementing a wide range of related measures globally under The Ten Principles of the Global Compact, including the areas of "human rights," "labor," "environment," and "anti-corruption."



# The Environment and Lion

## Eco Lion Activities

The “Eco Lion” activities are Lion’s initiatives to promote the protection of the natural environment. These span the full range of interfaces where Lion’s activities may have an impact on the natural environment, from research and development, procurement of raw materials to manufacturing at plants, marketing, logistics, sales, and household usage, followed by final disposal, in the home.

Lion’s stance toward the promotion of Eco Lion activities is set forth clearly in the Environmental Guidance and includes the proactive development of eco-friendly products, reducing the burden on the environment throughout the entire supply chain, and other matters.

## Environmental Management Structure

To enable all employees to cooperate in responding to environmental issues, Lion has formed an Environmental Action Promotion Committee made up of members from production, purchasing, R&D, sales, and headquarters staff divisions. This committee has reviewed activities throughout the Company from an environmental protection perspective and is responsible for legal compliance and setting voluntary standards and targets. The committee is also responsible for promoting environmental preservation on a Companywide basis, for monitoring the attainment of objectives, and other related issues.

## Lion’s Environmentally Responsive Products

Lion approaches the development of its eco-friendly products from two perspectives, composition (contents) and containers/packaging. Under the Lion Eco Standards, the burden that its products place on the environment over their lifecycle (from the procurement of raw materials to final disposal) is measured and assessed quantitatively. A product that clears one or more of the assessment criteria in each area of evaluation is designated as an “eco product.”

In 2010, Lion revised its Environmental Guidance and reviewed Lion Eco Standards. Indicators that take account of the preservation of the water environment and biodiversity were added, and indicators were changed to make its judgments more specific and easier.

## Superior Properties of MES

One of the evaluation criteria under the Lion Eco Standards is “Plant-based raw materials constitute at least 50% of the product’s organic composition.” Lion was the first company in the world to develop and commercialize the surfactant methyl ester sulfonate (MES), which is plant-based and features both excellent detergency and superior biodegradability. MES is a key ingredient in *TOP* and other Lion laundry detergents.



*TOP Platinum Clear*  
Three-fourths of the detergent ingredients in this product are plant-based (palm), and it contributes to restraining the increase in CO<sub>2</sub> in the atmosphere because of carbon neutrality.

## New Three-Year, Medium-Term Environmental Plan

Following the implementation of the previous three-year, medium-term environmental plan, which was completed in 2009, and verification of the results, in 2010, Lion prepared and launched its current new Three-Year, Medium-Term Environmental Plan.

### (1) Making the Low-Carbon Society a Reality

Under this new environmental plan, Lion has set a goal of reducing CO<sub>2</sub> emissions by more than 30% in comparison with 1990 by the final year of the plan in fiscal 2012. Thereafter, Lion has set the ambitious objective of further lowering CO<sub>2</sub> emissions by more than 40% by 2020, a goal that will exceed the target of a 25% reduction by 2020 set by the Japanese government.

### • CO<sub>2</sub> Emissions Reduction Plan

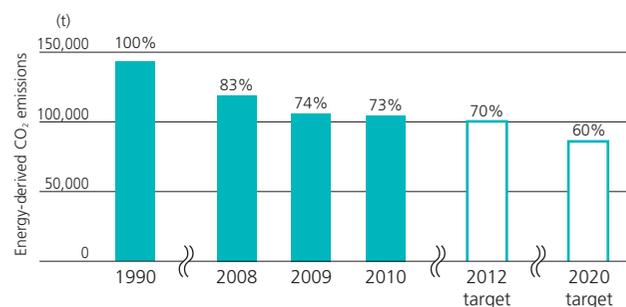
2012 Target:

A reduction  
of more than **30%**  
compared to 1990



2020 Target:

A reduction  
of more than **40%**  
compared to 1990



## (2) Enhancing Lion's Environmental Management Structure

Over the three-year period beginning in 2010, Lion will proceed to put into place a full-scale environmental management system in its overseas operations. Since the expansion of business activities in the rest of Asia is one of Lion's business objectives, it will set environmental targets for overseas business locations, and introduce the PDCA (plan, do, check, action) cycle for the smooth operation of environmental management.

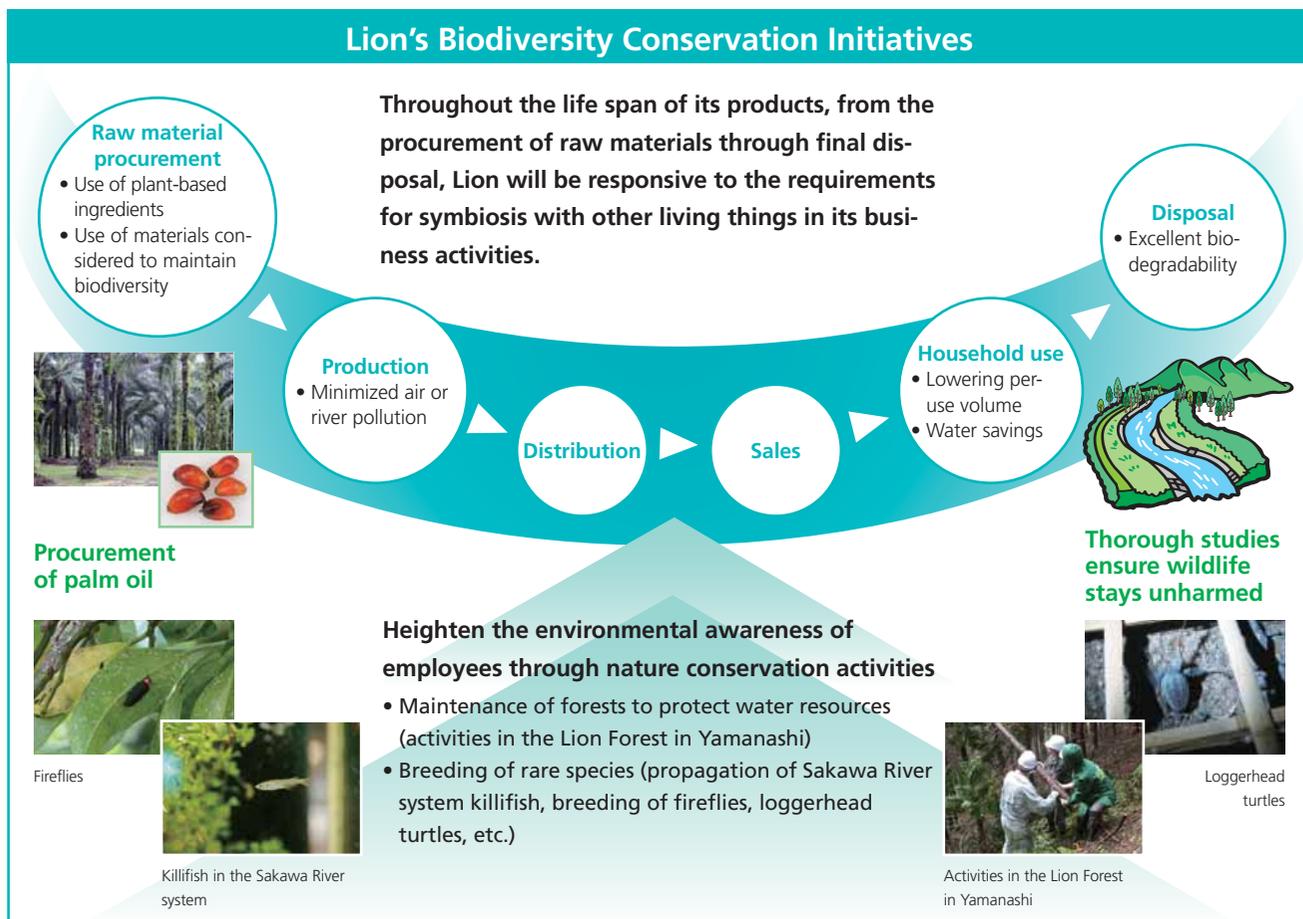
## (3) Improving the Effectiveness of Water Resource Usage and Biodiversity Initiatives

In April 2010, Lion clarified its stance, as a company conducting environmentally responsive business activities, regarding biodiversity and the water environment, and this has been made part of the Company's Environmental Guidance. The revised Lion Eco Standards also incorporate Lion's thinking regarding biodiversity.

In addition, Lion has newly established a target of reducing wastewater emissions by more than 20% in comparison with 2005 and will step up its initiatives for protecting water resources.

Lion provides support to NPOs promoting skywater use. In June 2010, Lion collaborated with the non-profit organization (NPO) People for Rainwater to install and donate a skywater collection tank, nicknamed "Ryogoku Sakasakasa," in the Ryogoku area of Sumida Ward in Tokyo (where Lion's headquarters are located) to Sumida Ward. The tank is intended to be a symbol to convey the importance of harvesting skywater. It has a capacity of about 600 liters, which is sufficient to supply the flower beds in the area with water for approximately four days.

In addition, Lion has instituted the Lion Award, which is presented by the Japan Society on Water Environment and provides assistance to young researchers studying related topics. Lion employees also report on their own research findings and initiatives at conferences related to the water environment.



# Relationships with People in Many Walks of Life

## Relationships with Consumers

In our relationships with consumers, we place strongest emphasis on providing safe, high-quality products. To implement quality assurance activities at all stages, from product planning to product development, manufacturing, sales, and responding to consumers, we have established our quality policy and formed the CS/PL Committee, which is composed of members from the CSR Promotion Department, Customer Center, Planning Department, Production Department, Research and Development Department, and Headquarters Staff divisions. This committee is responsible for the overall coordination of the Company's quality assurance initiatives, including compliance with regulations, setting voluntary standards and objectives. It is also in charge of understanding and responding to issues related to the development of superior products from a quality perspective.

Since Lion also manufactures and sells products that are regulated by Japan's Pharmaceutical Affairs Law, Lion's quality assurance systems are based on that law. In addition, in the event that one of our products causes serious problems, the committee is responsible for creating systems that can deal promptly with the series of tasks arising in such cases, including responding to the persons who have been adversely affected or incurred personal injury or damage, disclosing information to government authorities and consumers, recalling the products, and formulating measures for preventing a recurrence.

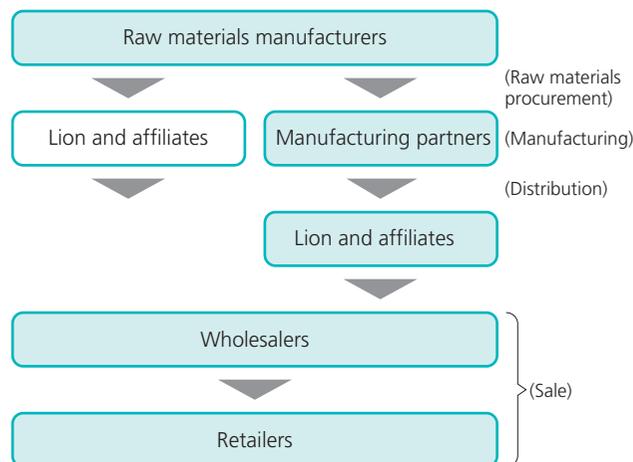
## Relationships with Business Partners

Under its Purchasing Activities Principles, Lion conducts its raw materials and product procurement activities appropriately, and it has developed supply chain management systems. In 2008, to clarify the aspects of procurement related to society and the natural environment, Lion prepared Procurement principles. To ensure that these principles are known to and followed by all related parties, Lion conducts periodic questionnaire surveys of its business partners.

In addition, Lion follows fair transaction practices with raw materials suppliers and business partners contracted to manufacture products. Similarly, through joint deliveries of its products together with those of companies in the same industry, Lion works to cut logistics costs, improve the quality of logistics, and address environmental issues. Also, based on the philosophy of coexistence and co-prosperity with wholesalers

and retail businesses, Lion engages in proactive communication and finds solutions to management issues.

### • Efforts in Supply Chain Management



### • Quality Assurance System



## Relationships with Society through Oral Health Activities

### ■ Basic Approach to Social Contribution Activities

The three key words for Lion's business themes (namely "health," "comfort," and "the environment") are the foundation for the Company's social contribution activities.

Since its founding, Lion has promoted and provided information and helped to educate people about oral care. These activities are directly linked to Lion's business activities, and Lion has been especially active in promoting oral care.

### ■ Lion's Oral Health Care Promotion Activities

Lion's business philosophy is to "provide benefits to society using profits from business activities," and it has promoted and provided education on proper oral care. In 1964, Lion established the Lion Foundation for Dental Health (LDH) to conduct research and educational activities related to oral care. In collaboration with the dental association, universities, government authorities, and other parties, this foundation has been on the front lines, contributing to society through oral health in the four areas of oral health, research, examination and treatment, and communication. In 2010, the LDH was designated as a Public Interest Incorporated Foundation.

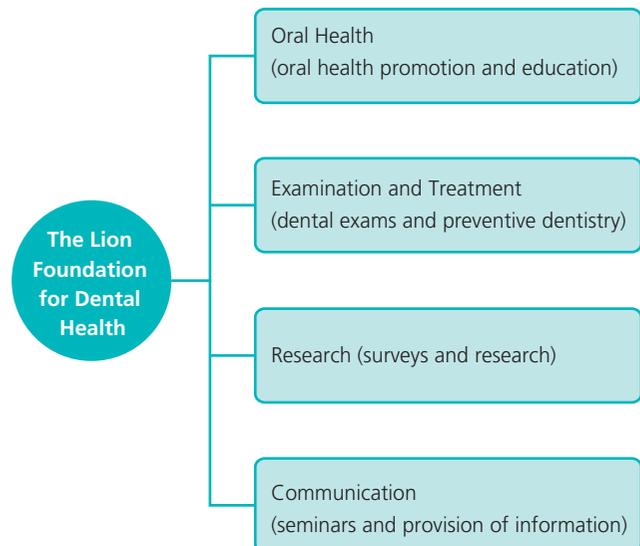
### ■ Enhancing the Quality of Life

The basis for the activities of the LDH is the concept of the "Ken-Ko-Bi." This concept becomes a reality when the three elements of "oral health," "communication," and "oral beauty" come together and function in combination. The LDH endeavors to maintain and enhance these three elements to create not only oral health but also good physical and mental health and strives to improve the quality of people's lives.

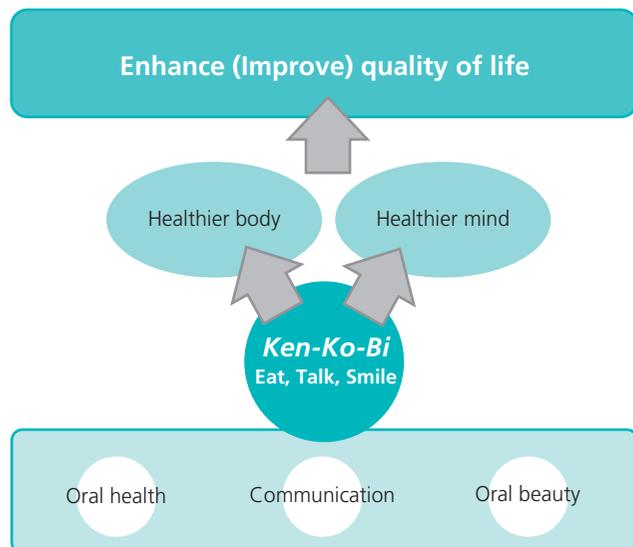
Lion has close to 80 years of history of "Oral Health Activities at Schools" on behalf of children. Through these activities, Lion has compiled a major record of accomplishments in preventing cavities and contributing to other aspects of oral health.

Founded on the concept of the "Ken-Ko-Bi," the LDH has implemented oral health activities for consumers in all stages of their lives from infants to the elderly.

### ● Four LDH Activity Areas



### ● LDH's "Ken-Ko-Bi" Concept



## Relationships with Employees

### ■ Promoting Workplace Diversity

Lion implements a comprehensive personnel evaluation to ensure that childbirth and childcare do not have an effect on advancement and promotion, and, in Lion, the percentage of female managers is trending upward. In addition, the number of physically challenged persons had exceeded 1.8% of our workforce as of June 2010.

### ■ Supporting the Development of the Next Generation

Along with the decline in Japan's birthrate and the demographic aging of the population, preparing and grooming the next generation has become a key issue. Based on Japan's Act on Advancement of Measures to Support Raising Next

Generation Children, Lion has prepared and attained the objectives of its action plan for nurturing the next generation. Since 2007, Lion has received official recognition from Japan's Ministry of Health, Labour and Welfare as a "company proactively supporting a balance between work and childcare." Subsequently, Lion has extended the time frame for working reduced hours in order to care for children to the end of the child's first year of elementary school as well as promoted the use of flextime arrangements to provide greater flexibility in employee work styles.

The number of female employees who take advantage of childcare leave has been high and has reached 100%. Husbands taking leave to assist in childcare are also increasing steadily, and the number of employees remaining with the Company as they raise children is rising.

## Relief Assistance to Areas Impacted by the Great East Japan Earthquake

The Lion Group and its employees made donations of relief funds and materials totaling ¥100 million to provide support for those affected by the Great East Japan Earthquake of March 2011. The relief funds were provided to the Japan Red Cross, and the materials needed by those in the stricken areas of Miyagi, Iwate, and Fukushima prefectures were supplied to the disaster relief headquarters of the respective prefectures. Principal items and the number supplied were as follows.

### Provided Relief Supplies List by April 2011

Figures are approximates.

Hand soaps	5,000	Toothbrushes	40,000
Foaming hand sanitizer	10,000	Mouthwashes	12,000
Otefuki wet sheets	4,000	Antipyretic analgesics	5,000
Gargle	10,000	Eyedrops	11,000
Two-in-one conditioning shampoos	10,000	Children's cold syrup	25,000
Soaps	2,000	Tonics	36,000
Laundry detergents	7,000	Cold medicine	22,000
Toothpastes	30,000		

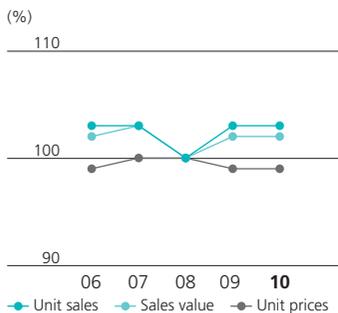
For further information on Lion's CSR activities, please refer to our *CSR Report 2010*, at [http://www.lion.co.jp/en/csr/html/soc\\_csrf.htm](http://www.lion.co.jp/en/csr/html/soc_csrf.htm)

# Management's Discussion and Analysis

Lion Corporation and Consolidated Subsidiaries

## MARKET ENVIRONMENT

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



\* INTAGE Inc., SRI Survey  
44 markets in which Lion operates

### 2011 GDP Growth Forecasts for Countries in which Lion Has Operations

	Growth rate (vs. 2010) (%)
Thailand	4.2%
Singapore	5.2
Malaysia	4.6
Indonesia	6.0
South Korea	4.2
China	9.0
Hong Kong	4.0
Taiwan	4.2

Source: Mitsubishi Research Institute forecast (As of February 2011)

During fiscal 2010, there were signs of recovery in the Japanese economy, including improvement in corporate profitability and a movement toward improvement in consumer spending. However, the moderate decline in consumer prices continued, and, in the latter half of the fiscal year, signs of weakness in the recovery trend appeared, including slower growth in exports owing to the appreciation of the yen.

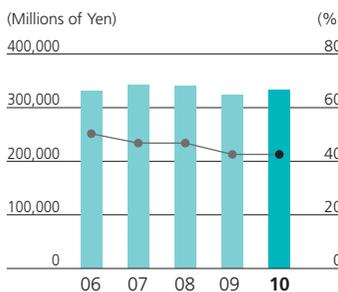
In recent years, manufacturers have become more active in launching of high-value-added products, differentiated by sensory features (such as fragrance and design), in addition to their basic functions. In particular, fragrances of laundry detergents, fabric softeners, body soaps, and other products have become an important factor in product development.

Consumers make their decisions regarding which products (brands) to purchase in retail stores, and creating in-store sales areas coordinated with advertising in various media has become more important. Going forward, along with the declines in the birth-rate and the overall population in Japan, in addition to the domestic market, overseas markets, especially the high-growth markets of Asia, are receiving increased attention.

During fiscal 2010, the business environment was challenging as intense in-store competition continued in the domestic daily necessity goods industry and in the over-the-counter (OTC) pharmaceutical industry, which are the business domain where the Lion Group conducts its activities. Nevertheless, in the 44 domestic markets for household goods in which Lion is a participant, the markets where demand was influenced by the exceptionally hot summer weather, such as laundry detergents, expanded from the month of July onward. Market growth was led by super-concentrated liquid detergents in compact containers. On the other hand, demand for cleansing products, such as hand soaps, which was stimulated in the previous fiscal year by the arrival of the new H1N1 influenza virus, dropped substantially during the fiscal year under review as a reaction to the passing of the influenza epidemic.

## NET SALES AND OPERATING INCOME

### Net Sales and Cost of Sales Ratio



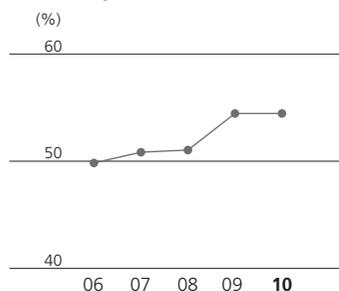
Amid these business conditions, the Lion Group worked to increase its corporate value, strengthen its foundations for growth, enhance the stability of its earnings base, and took initiatives to be a leading company in environmental responsiveness.

To strengthen Lion's foundations for growth during the fiscal year, Lion worked to increase its brand value and took initiatives to further develop and strengthen its mainstay brands in Japan and overseas. In Japan, Lion invested and conducted aggressive marketing activities, including the launching of new, high-value-added products in growth markets, including super-concentrated liquid detergents, and made a full-scale entry into the combination cold medicine market. Overseas, Lion worked to expand sales by implementing a product development strategy focusing on high-value-added brands common to various countries and original brands designed to meet the needs of individual local markets.

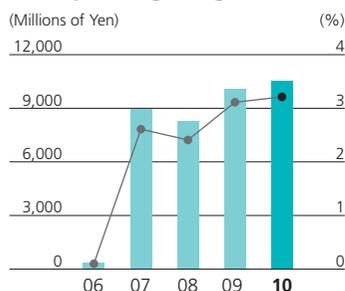
To enhance the stability of its earnings base, Lion worked to increase earnings power by taking cost reduction initiatives on a Groupwide basis, including cutting manufacturing costs and improving the efficiency of logistics.

As a result of these measures, Lion reported consolidated net sales of ¥331.1 billion (an increase of 2.8% year on year) and operating income of ¥10.5 billion (a gain of 4.6% over the previous fiscal year).

### SG&A Expenses to Net Sales



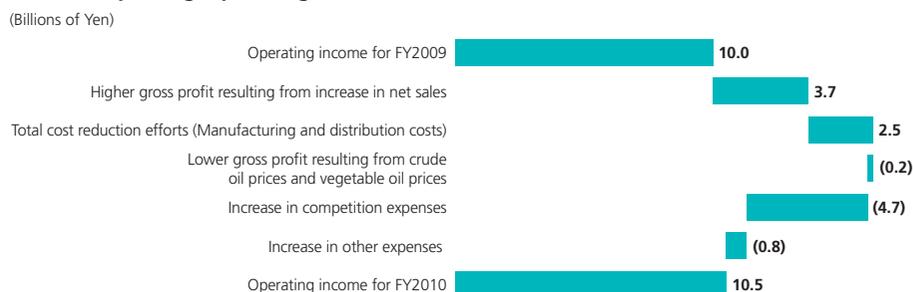
### Operating Income and Operating Margin



### SG&A Expenses Breakdown

	2010		2009		2008	
	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	¥180,200	54.4%	¥175,290	54.4%	¥172,435	51.0%
Sales incentive expenses	16,821	5.1	16,658	5.2	16,850	5.0
Sales promotion expenses	72,885	22.0	71,148	22.1	68,090	20.1
Freight and storage expenses	14,981	4.5	15,168	4.7	16,347	4.8
Advertising expenses	21,702	6.6	18,838	5.9	19,831	5.9
Salaries and allowances	13,062	3.9	13,236	4.1	14,077	4.2
R&D expenses	8,910	2.7	9,057	2.8	8,522	2.5
Other	31,839	9.6	31,185	9.7	28,716	8.5

### Factors Impacting Operating Income in Fiscal 2010



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

## OPERATING REVIEW BY SEGMENT

### Health Care Products

	Millions of Yen				
	FY2010	% of segment sales	FY2009	% of segment sales	Change Amount %
Net sales	¥133,660		¥136,833		¥(3,173) (2.3)%
Operating income	6,462	4.8%	8,806	6.4%	(2,343) (26.6)

In the Health Care Products segment, which comprises Oral Care business, Beauty Care business, and Pharmaceutical business, sales amounted to ¥133,660 million (a decrease of 2.3% year on year), and operating income was ¥6,462 million (a decline of 26.6% from the prior year). This sales decrease was due to a reactionary decline following the passing of the epidemic in 2009 caused by the new H1N1 influenza virus and the shrinkage of the OTC market.

### Net Sales by Business

	Millions of Yen			
	FY2010	FY2009	Change Amount	%
Oral Care business	¥58,925	¥55,449	¥3,475	6.3%
Beauty Care business	34,331	39,243	(4,912)	(12.5)
Pharmaceutical business	40,403	42,140	(1,737)	(4.1)

## Lion's Major Health Care Products Fields and 2010 Market Positions in Japan

	Billions of Yen Market Size in Japan	Lion's Market Position
Toothpastes	¥73	1
Toothbrushes	43	1
Liquid hand soaps	18	1
Analgesics	44	1
Eyedrops	61	3

Source: 2010 INTAGE Inc., SRI/SDI Survey

### Oral Care Business

In Oral Care business, Lion launched *platus*, a new toothpaste brand, and emphasized the further development of its mainstay brands *Dentor Systema*, *Clinica*, and *Dent Health*.

In the toothpaste business, sales of the mainstay brand *Dentor Systema* reported considerable growth over the previous fiscal year, and sales of high-function *Dent Health*, for the prevention of periodontal disease, were favorable. In addition, the newly launched, high-value-added *platus creamy up paste*, with medicated whitening ingredients, met with a favorable response from consumers. As a result, overall sales expanded.

In the toothbrush business, overall sales also rose year on year, as mainstay toothbrush brands *Dentor Systema* and *Clinica* expanded substantially over the previous fiscal year, and sales of *Kodomo Haburashi* (toothbrushes for children), for which Lion introduced a new identity character, were favorable.

In mouthwashes, as a result of solid sales of *Dentor Systema EX Dental Rinse* and a favorable market response to the newly launched *Dentor Systema Haguki Plus* (the gums) *Dental Rinse*, a milky-type dental rinse that remains on the gums longer, overall sales recorded a significant gain year on year.

Among dental products for dental clinics, sales of mainstay product *DENT.EX Inter-Dental Brushes*, for cleaning between the teeth, showed a considerable gain over the previous year, and sales of dental products as a whole expanded.

Overseas, sales of *Systema* toothbrushes held firm in Thailand and China, and total overseas sales in Oral Care business increased significantly.

As a result, sales of the Oral Care business were ¥58,925 million (an increase of 6.3% year on year).

### Beauty Care Business

In Beauty Care business, Lion implemented further measures focused on cultivating the *KireiKirei* brand series and expanded the lineup of *Ban* antiperspirant and deodorant products.

In shampoo and conditioners, Lion launched a new product, *Soft-In-One Shampoo Silkie*, formulated for repairing damaged hair, but as a result of increased competition, overall sales in this category were below the previous year.

Among hand soaps, Lion launched *KireiKirei Medicated Foaming Hand Sanitizer Portable*, which enables users to clean their hands easily without using water, even when they are away from home, but following the passing of the new H1N1 influenza epidemic, overall sales in this category dropped below the level of the previous fiscal year.

In antiperspirants and deodorants, sales of *Ban Refresh Shower Sheet* for wiping away perspiration held firm, but sales of mainstay powder spray products were adversely affected by competition, and overall sales in this category decreased.

In functional foods, sales of *Nicelim Essence Lactoferrin*—a supplement that effectively delivers milk-derived lactoferrin to the intestines (sold through mail-order services)—were strong, and overall sales showed a major increase year on year.

Overseas, sales in Thailand of *Shokubutsu-Monogatari* body soap reported major expansion, and overall overseas sales in Beauty Care business reported significant growth.

As a consequence, net sales for this business stood at ¥34,331 million, a 12.5% decrease year on year.

### Pharmaceutical Business

In Pharmaceutical business, in the midst of shrinkage in the size of the market for OTC pharmaceuticals, Lion took steps to further strengthen its mainstay *Smile* and *Varsan* brands and launched combination cold medicines in the *BUFFERIN* brand line. Among preparations for relief from fever and pain, sales of *BUFFERIN PLUS S* and *BUFFERIN Luna* held firm, but *BUFFERIN A* sales were adversely influenced by more-intense competition, and overall sales declined year on year. Also in the *BUFFERIN* brand line, Lion launched *BUFFERIN Kaze (Cold) EX*, a combination cold medicine, and, as a result of aggressive marketing activities, it won a high appraisal from consumers.

In eyedrops, Lion launched *Smile 40EX GOLD*, which displays superior effectiveness in providing relief for tired eyes and blurred vision, but overall sales decreased, as sales of the *Smile Contact* series were adversely affected by the shrinkage in the size of the market.

Among tonics and nutrients, sales of health drinks containing vitamins decreased from the level of the previous fiscal year as *Guronsan* and *New Guromont* health tonic drinks were affected by intensified competition.

In insecticides, Lion launched a new product, *Mizu de Hajimeru Varsan ProEX*, which is the most effective in the *Varsan* series and was well received by consumers. However, because of the shrinkage in the overall market, sales were below those of the previous fiscal year.

As a consequence, net sales for this business were ¥40,403 million, a decline of 4.1% year on year.

### Household Products

	Millions of Yen					
	FY2010	% of segment sales	FY2009	% of segment sales	Change	
					Amount	%
Net sales	¥165,699		¥160,217		¥5,481	3.4%
Operating income	4,487	2.7%	2,476	1.5%	2,010	81.2

Lion's Household Products segment is divided into Fabric Care business and Living Care business. Performance of liquid laundry detergents and fabric softeners was robust, and, as a result, net sales of the segment amounted to ¥165,699 million (a 3.4% increase over the previous fiscal year), and operating income leapt to ¥4,487 million (an 81.2% rise year on year) because of reductions in manufacturing costs and distribution expenses.

## Net Sales by Business

	Millions of Yen			
	FY2010	FY2009	Change Amount	Change %
Fabric Care business	¥120,488	¥113,926	¥6,562	5.8%
Living Care business	45,210	46,290	(1,080)	(2.3)

## Lion's Major Household Product Fields and 2010 Market Positions in Japan

	Billions of Yen Market Size in Japan	Lion's Market Position
Laundry detergents	¥126	3
Fabric softeners	66	3
Dishwashing detergents	45	3

Source: 2010 INTAGE Inc., SRI Survey

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

### Fabric Care Business

In Fabric Care business, Lion worked to cultivate its mainstay brands. These initiatives included expanding the lineup of detergents, such as super-concentrated liquid detergents *TOP NANOX* and *Super-Concentrated Kaori Tsuzuku* (Long-Lasting Fragrance) *TOP* as well as the lineup of softeners, such as *Kaori to Detergent no SOFLAN* (SOFLAN with Fragrance and Deodorant).

The liquid detergent market segment of the laundry detergent market is expanding, and Lion's *TOP NANOX*, a super-concentrated liquid detergent with plant-based high detergency ingredients that can dissolve odor-causing skin oils and grime at the nano-level, and *Super-Concentrated Kaori Tsuzuku* (Long-Lasting Fragrance) *TOP* with fabric softeners have been well received by consumers. In addition, sales of an improved version of *ACRON*, a detergent for gentle washing of fine apparel, have held strong. As a consequence, overall detergent sales were substantially above the level of the previous fiscal year.

In bleaches, new product *Sterilizing & Antibacterial Bright W*, which can be used for washing clothes in leftover bathwater and fully eliminates troublesome odors and germs, has won the acclaim of consumers. As a result, overall bleach sales rose significantly year on year.

Among fabric softeners, *Kaori to Deodorant no SOFLAN* (SOFLAN with Fragrance and Deodorant) *Aroma Rich*, with a longer-lasting fragrance than the existing series, has been well received by consumers, and, even in the midst of more-intense competition, overall sales held firm.

Overseas, sales of laundry detergents were strong in Thailand, where Lion has been aggressive in launching new products, and total overseas sales rose substantially year on year.

As a result, net sales of Fabric Care business amounted to ¥120,488 million (an increase of 5.8% year on year).

### Living Care Business

In Living Care business, Lion bolstered the product lineup of its mainstay *CHARMY* brand dishwashing detergents and took measures to further develop *LOOK* brand household disinfectants and the *REED* series of cooking-aid products.

Among dishwashing detergents, favorable sales were reported for the new product *CHARMY Awa no Chikara (Power of Suds) Hand Premium*, which features strong cleaning action with gentleness to the hands, and other products, such as *CHARMY Crysta* automatic dishwasher detergent. However, because of more-intense competition, overall sales were up only slightly over the previous fiscal year.

In household cleaners, sales of *Toire no LOOK* toilet cleaner held firm, but sales of *Ofuro no LOOK* bath cleaner were affected by stronger competition. As a consequence, household cleaner sales were below the level of the previous fiscal year.

Among cooking-aid products, overall sales were down year on year because of the adverse impact of the shrinkage of the market on sales of *REED Healthy-Cooking Paper*.

Overseas, growth of dishwashing detergents in Thailand and South Korea was weak, and total sales were below the level of the previous fiscal year.

As a result of these various factors, sales of Living Care business amounted to ¥45,210 million (a decrease of 2.3% year on year).

### Chemical Products

	Millions of Yen					
	FY2010	% of segment sales	FY2009	% of segment sales	Change	
					Amount	%
Net sales	<b>¥25,065</b>		¥22,127		¥2,937	13.3%
Operating income (loss)	<b>(988)</b>	—%	(1,328)	—%	340	—

In the Chemical Products segment, net sales were up 13.3%, to ¥25,065 million, and an operating loss of ¥988 million was reported, compared with an operating loss of ¥1,328 million in the previous fiscal year.

Along with the recovery in industrial demand, this segment took initiatives to increase profitability, including nurturing highly functional products and reducing costs.

Among activators derived from oils and fats, sales of materials in Japan for use in detergents and food additives held strong, and sales of materials overseas for use in cosmetics were favorable. As a result, overall sales in this category increased.

Sales of electro-conductive carbon for use in automobile components, secondary batteries, and electronic components were brisk. Overall sales in this category rose considerably year on year.

### Other Businesses

	Millions of Yen					
	FY2010	% of segment sales	FY2009	% of segment sales	Change	
					Amount	%
Net sales	<b>¥6,676</b>		¥2,768		¥3,907	141.1%
Operating income	<b>574</b>	8.6%	95	3.4%	479	503.3

Sales of Other Businesses amounted to ¥6,676 million (an increase of 141.1% over the previous year) as revenues of the construction contracting business were favorable.

Operating income was ¥574 million (a gain of 503.3% year on year).

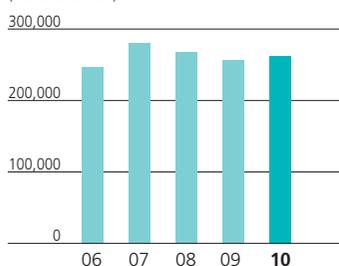
## NET INCOME

During the fiscal year under review, capital expenditures amounted to ¥7,081 million and were allocated mainly to making improvements in domestic production facilities. Also, as a result of the sale of investment securities, income before income taxes and minority interests rose ¥1,230 million, to ¥10,925 million. Net income amounted to ¥6,041 million (an increase of 10.5% over the prior fiscal year). Owing to the increase in net income, return on equity (ROE) increased 0.5 percentage point, to 6.0%. Net income per share was ¥22.41, compared with ¥20.22 in the previous fiscal year.

## FINANCIAL POSITION

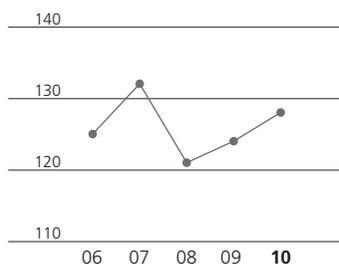
### Total Assets

(Millions of Yen)



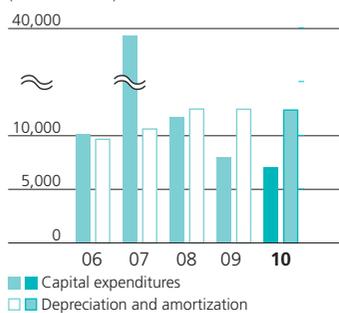
### Current Ratio

(%)



### Capital Expenditures and Depreciation and Amortization

(Millions of Yen)



## Consolidated Financial Status

	FY2010	FY2009	Change
Total assets (millions of yen)	<b>¥260,939</b>	¥256,220	¥4,718
Total net assets (millions of yen)	<b>105,760</b>	103,624	2,135
Total shareholders' equity to total assets*1 (%)	<b>39.3%</b>	39.2%	0.1 point
Net assets per share*2 (yen)	<b>382.18</b>	371.50	10.68

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

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

Total assets at the end of the fiscal year amounted to ¥260,939 million, ¥4,718 million higher than at the end of the previous fiscal year. This was due to increases in short-term investments and inventories as well as other factors.

Total liabilities at the end of the fiscal year were ¥155,179 million, ¥2,583 million higher than at the end of the previous fiscal year. This increase was due to increases in notes payable–trade and accounts payable–trade and other factors. Current liabilities amounted to ¥102,696 million, ¥8,788 million higher than at the end of the previous fiscal year, and the current ratio at year-end was 127.9%.

Total shareholders' equity rose ¥2,507 million, to ¥104,689 million, due to higher retained earnings. Total net assets increased ¥2,135 million, to ¥105,760 million. The ratio of shareholders' equity to total assets at fiscal year-end was 39.3%, or about the same level as at the end of the previous fiscal year.

## CASH FLOWS

### Consolidated Cash Flows

	Millions of Yen		
	FY2010	FY2009	Change
Net cash provided by operating activities	<b>¥25,518</b>	¥ 24,978	¥ 539
Net cash provided by (used in) investing activities	<b>(5,310)</b>	(13,669)	8,359
Net cash provided by (used in) financing activities	<b>(8,293)</b>	(11,658)	3,364
Effect of exchange rate changes on cash and cash equivalents	<b>(146)</b>	63	(209)
Net increase (decrease) in cash and cash equivalents	<b>11,769</b>	(285)	12,055
Cash and cash equivalents at end of the year	<b>44,582</b>	32,812	11,769

Net cash provided by operating activities totaled ¥25,518 million. Major components were increases in income before income taxes and minority interests, trade notes and accounts payable, accounts payable–other, and accrued expenses and other payables.

Net cash used in investing activities totaled ¥5,310 million. Major components were purchases of property, plant and equipment and purchases of investment securities.

Net cash used in financing activities totaled ¥8,293 million. A major component was repayment of long-term loans payable.

As a result, cash and cash equivalents at the end of fiscal 2010 totaled ¥44,582 million, ¥11,769 million higher than at the end of the previous fiscal year.

## OUTLOOK FOR FISCAL 2010

	Millions of Yen			
	FY2011	FY2010	Change	
			Amount	%
Net sales	<b>¥340,000</b>	¥331,100	¥8,899	2.7%
Operating income	<b>11,000</b>	10,500	499	4.8
Net income	<b>6,500</b>	6,041	458	7.6

Difficult operating conditions are forecast to continue for the Lion Group because of the weakness in consumer spending and more-intense sales competition at the store level. In this challenging operating environment, to further increase its corporate value, the Lion Group will implement initiatives to strengthen its brands by introducing new products in its key businesses in Japan and overseas and by conducting aggressive marketing activities.

In Health Care Products operations, Lion will launch new products in its mainstay brand lines, which include toothpastes, toothbrushes, and antiperspirants and deodorants as well as conduct aggressive advertising and promotional activities. In addition, Lion will work to further strengthen its position in combination cold medicines, which were launched in the prior year, and work to strengthen its mainstay brands.

In Household Products operations, Lion will proceed to further develop its position in the liquid laundry detergent field, which is a growth area, and to further nurture the development of its household cleaners by launching high-value-added products.

In Chemical Products operations, Lion will work to expand sales in its mainstay fields, which include highly functional oil-based surfactants and electro-conductive carbon products.

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

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

After taking into consideration the Company's cash dividend payment record, as well as its dividend payout ratio target, Lion's Board of Directors resolved to pay an interim dividend of ¥5 per share (paid on September 3, 2010) and a year-end dividend of ¥5 per share (paid on March 4, 2011).

For dividends in fiscal 2011, Lion plans to maintain both the interim and the regular year-end dividends at ¥5 per share. To mark the 120th anniversary of the Company's establishment in October 2011, Lion plans to add a commemorative dividend of ¥1 per share to the final dividend, thus bringing the total dividends for the full year to ¥11 per share.

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## **BUSINESS RISK INFORMATION**

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

Forward-looking statements are based on judgments made by the Lion Group as of February 10, 2011. 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 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 responsive products to consumers. In addition, the Company makes full use of consumers' opinions received through its Consumer Service Office to improve its products, packaging, as well as respective displays and text.

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 financial statements. The value of items denominated in foreign currencies may, therefore, be affected by prevailing foreign exchange rates. 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

As of December 31, 2010, 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 Group's management performance and financial position.

### (5) Earthquakes and other natural disasters

In its product manufacturing processes, 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 facilities are damaged, or business activities are interrupted, this may adversely affect the Group's management performance and financial position.

Note: For further related information, please refer to page 21 (Interview with the President).

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/inv0301htm>

## Major Subsidiaries and Affiliates

As of March 30, 2011

### Domestic

#### CONSOLIDATED SUBSIDIARIES

Company	Capital	Voting shares	Business outline
<a href="#">Lion Chemical Co., Ltd.</a>	¥7,800 million	100.0%	Manufacture and marketing of surfactants, detergents, and raw materials for diverse industrial products
<a href="#">Lion Business Service Co., Ltd.</a>	¥490 million	100.0%	Real estate rental, dealing, and brokerage; and management of employee welfare facilities
<a href="#">Lion Hygiene Co., Ltd.</a> <a href="http://www.lionhygiene.co.jp">www.lionhygiene.co.jp</a>	¥300 million	100.0%	Manufacture and marketing of institutional-use kitchen cleaners, etc.
<a href="#">Lion Trading Co., Ltd.</a> <a href="http://www.lion-shoji.co.jp">www.lion-shoji.co.jp</a>	¥240 million	100.0%	Marketing of pet supplies
<a href="#">Lion Packaging Co., Ltd.</a>	¥180 million	100.0%	Manufacture and marketing of household products and insecticide, etc.
<a href="#">Lion Engineering Co., Ltd.</a> <a href="http://www.lion-eng.co.jp">www.lion-eng.co.jp</a>	¥100 million	100.0%	Construction contracting
<a href="#">Lion Field Marketing Co., Ltd.</a>	¥50 million	100.0%	Sales promotion related activities
<a href="#">Lion Logistics Service Company, Ltd.</a>	¥40 million	100.0%	Shipping and warehousing
<a href="#">Lion Cordial Support Co., Ltd.</a> <a href="http://www.lion-cordial-s.co.jp">www.lion-cordial-s.co.jp</a>	¥20 million	100.0%	Human resources services
<a href="#">Lion Dental Products Co., Ltd.</a> <a href="http://www.lion-dent.com">www.lion-dent.com</a>	¥10 million	100.0%	Marketing of oral care products for dentists
<a href="#">Ipposha Oil Industries Co., Ltd.</a> <a href="http://www.ipposha.com">www.ipposha.com</a>	¥200 million	100.0%	Manufacture and marketing of surfactants, etc.

#### EQUITY-METHOD AFFILIATES

Company	Capital	Voting shares	Business outline
<a href="#">Lion Akzo Co., Ltd.</a> <a href="http://www.lionakzo.co.jp">www.lionakzo.co.jp</a>	¥1,000 million	50.0%	Manufacture and marketing of fatty acid nitrogen derivatives, etc.
<a href="#">Ketjen Black International Company</a>	¥50 million	66.6% (held by Lion Akzo Co., Ltd.)	Manufacture and marketing of carbon black
<a href="#">Lion Idemitsu Composites Co., Ltd.</a> <a href="http://www.ilcc.co.jp">www.ilcc.co.jp</a>	¥100 million	50.0%	Manufacture and marketing of special compound resins

#### PUBLIC INTEREST INCORPORATED FOUNDATION

Name	Activity outline
<a href="#">The Lion Foundation for Dental Health</a> <a href="http://www.lion-dent-health.or.jp">www.lion-dent-health.or.jp</a>	Activities to promote good oral care habits

## Overseas



### CONSOLIDATED SUBSIDIARIES

Location	Company	Capital	Voting shares
Taiwan	<b>Lion Chemical Industry (Taiwan) Co., Ltd.</b> 50, Cheng Tai Rd., Sec. 3, Wu Ku Hsiang, Taipei Hsien, Taiwan Tel: +886-2-2291-1140~3 www.lion-corp.com.tw/lioncorp/index1.php	NT\$218,150 thousand	53.8%
Hong Kong	<b>Lion Corporation (Hong Kong) Ltd.</b> Room 2101, 21st Floor, 101 King's Rd., North Point, Hong Kong Tel: +852-2571-5022	HK\$12,000 thousand	100.0%
Thailand	<b>Lion Corporation (Thailand) Ltd.</b> 666 Rama 3 Rd., Bangpongpan, Yannawa, Bangkok 10120, Thailand Tel: +66-2-294-0191 www.lion.co.th	BT300,000 thousand	51.0%
Malaysia	<b>Lion Eco Chemicals Sdn. Bhd.</b> PLO116, Jalan Rumbia 1, Tanjung Langsat Industrial Complex 81700 Pasir Gudang, Johor, Malaysia Tel: +60-7-255-1224	M\$90,000 thousand	100.0%
Singapore	<b>Lion Corporation (Singapore) Pte. Ltd.</b> 221 Kallang Bahru, Lion Building, Singapore 339349 Tel: +65-6296-6122 www.lioncorp.com.sg	S\$9,000 thousand	100.0%
China	<b>Lion Daily Necessities Chemicals (Qingdao) Co., Ltd.</b> No. 336 Taihangshan Rd., Qingdao Economic and Technical Development Zone, Qingdao City, People's Republic of China #266555 Tel: +86-532-8689-7122/5858 www.chinalion.cn	¥723 million	95.0%
South Korea	<b>CJ Lion Corporation</b> 11th Floor, Chungjeong Tower, 464, Chungjeong-ro 3-ga, Seodaemun-gu, Seoul, Republic of Korea 120-723 Tel: +82-2-6363-1114 www.cjlion.net	₩5,000,000 thousand	81.0%

### EQUITY-METHOD AFFILIATES

Location	Company	Capital	Voting shares
Malaysia	<b>Southern Lion Sdn. Bhd.</b> 3, Jalan Firma 2, Tebrau Industrial Estate, 81100 Johor Bahru, Johor, Malaysia Tel: +60-7-354-6042 www.southernlion.com.my	M\$22,000 thousand	50.0%
Indonesia	<b>P.T. Lion Wings</b> Jalan Inspeksi, Cakung Drain Timur No. 1, Jakarta Timur 13910, Indonesia Tel: +62-21-4682-6566 www.lionwings.com	Rp64,062 million	48.0%

# Investor Information

As of December 31, 2010

## Head office

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

## Established

October 30, 1891

## Number of employees

5,972 (consolidated)  
2,456 (non-consolidated)

## Paid-in capital

¥34,433,728,970

## Common stock

Issued and outstanding: 299,115,346 shares

## Number of shareholders

47,559

## Stock exchange listing

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

## Independent auditors

Ernst & Young ShinNihon LLC

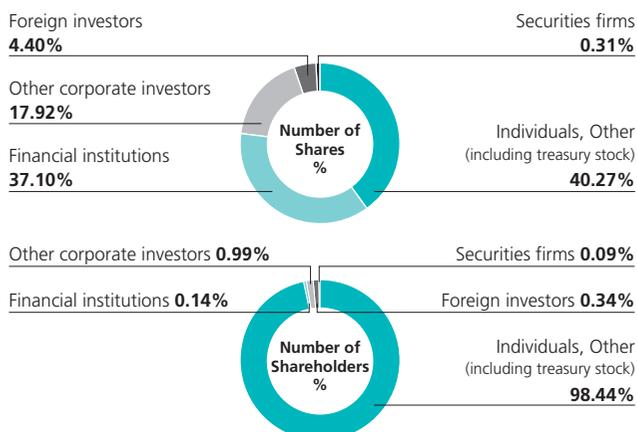
## Transfer agent

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

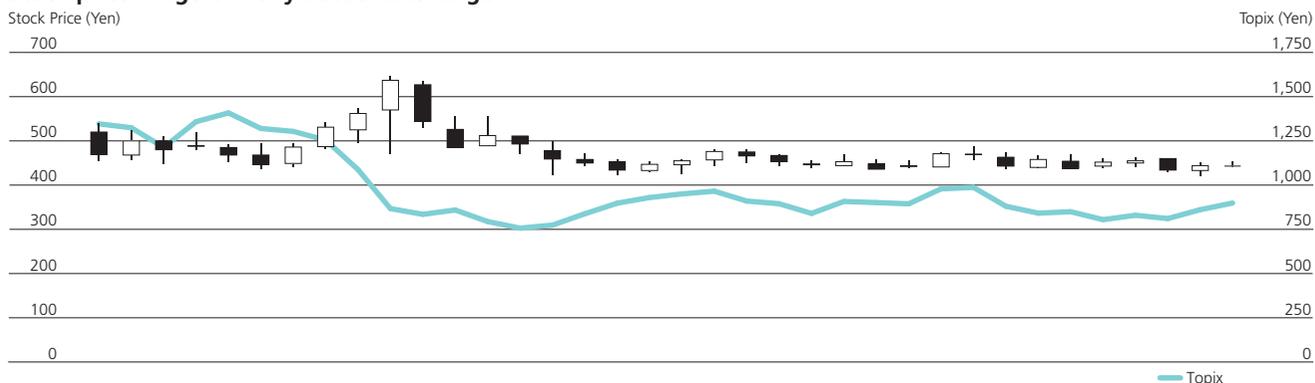


## Principal shareholders

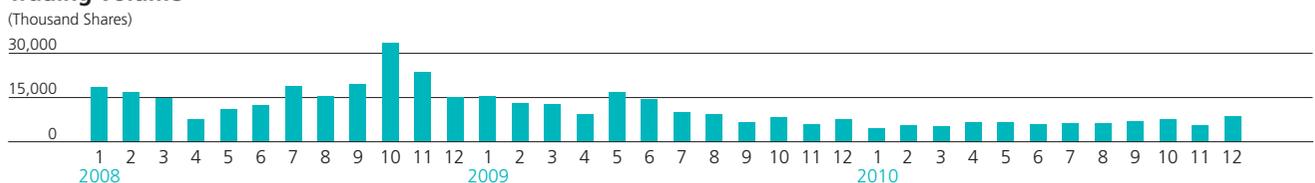
Shareholders	Number of shares owned (Thousands of shares)	Shareholding ratio (%)
Trust & Custody Services Bank, Ltd., as trustee for Mizuho Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.	14,518	5.40
Japan Trustee Services Bank, Ltd. (Trust Account)	12,111	4.51
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	12,109	4.51
Tokio Marine & Nichido Fire Insurance Co., Ltd.	6,443	2.40
Mitsubishi UFJ Trust and Banking Corporation	6,257	2.33
Mizuho Trust & Banking Co., Ltd.	6,189	2.30
Sompo Japan Insurance Inc.	5,799	2.16
Mizuho Corporate Bank, Ltd.	5,446	2.02
The Master Trust Bank of Japan (Trust Account)	5,107	1.90
Meiji Yasuda Life Insurance Company	4,957	1.84

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 (268,467,996) used in calculating the shareholding ratios. The shareholding ratios are rounded down to the nearest one-hundredth of a percent (two decimal places).

## Stock price range on Tokyo Stock Exchange



## Trading volume



## IR Guide

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

### Corporate website: [www.lion.co.jp/en/](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 of about 120 years, 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/inv0301htm>)



### 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.

from Good Morning to Good Night  
More Dreams for Your Life

# LION



In order to achieve "a 6% reduction in greenhouse gas emissions" which is the goal of the Kyoto Protocol, it is essential to realize "3.9% CO<sub>2</sub> absorption" by forests in Japan. This annual report was printed utilizing red pine trees in the "Lion Forest in Yamanashi" as papermaking stock, contributing to the increased CO<sub>2</sub> absorption by forests in Japan.



Printed in Japan