Financial Information

Consolidated Financial Statements and Notes

Contents

Consolidated Balance Sheets

Lion Corporation and Consolidated Subsidiaries
December 31, 2014 and 2013

ASSETS	Millions of yen 2014	Millions of yen 2013	Thousands of U.S. dollars [Note 1 (b)] 2014
Current assets:			
Cash and time deposits [Notes 4, 11 and 14]	**¥ 18,008**	¥ 25,559	**$ 149,384**
Short-term investments [Notes 4 and 14]	**24,448**	25,429	**202,811**
Trade notes and accounts receivable [Note 4]	**59,007**	57,246	**489,486**
Inventories [Note 6]	**39,365**	35,086	**326,551**
Deferred income taxes [Note 8]	**3,150**	2,569	**26,137**
Prepaid expenses and other current assets	**2,245**	2,311	**18,630**
Allowance for doubtful accounts [Note 4]	**(51)**	(52)	**(426)**
Total current assets	**146,175**	148,150	**1,212,573**
Property, plant and equipment, at cost:			
Buildings and structures [Note 11]	**76,172**	71,030	**631,878**
Machinery and equipment [Note 11]	**160,507**	148,642	**1,331,461**
Land [Note 11]	**24,344**	18,891	**201,942**
Lease assets	**340**	422	**2,821**
Construction in progress	**3,075**	3,630	**25,509**
Total	**264,439**	242,618	**2,193,611**
Accumulated depreciation	**(185,164)**	(173,628)	**(1,535,997)**
Property, plant and equipment, net	**79,275**	68,989	**657,614**
Intangible assets:			
Trademarks	**7,197**	10,577	**59,706**
Other	**1,909**	2,029	**15,837**
Total intangible assets	**9,106**	12,606	**75,543**
Investments and other assets:			
Investment securities [Notes 4 and 5]	**28,964**	27,411	**240,266**
Investments in non-consolidated subsidiaries and affiliates	**5,474**	5,951	**45,409**
Long-term loans receivable	**23**	14	**194**
Prepaid pension cost [Note 9]	**—**	16,249	**—**
Net defined benefit assets [Note 9]	**11,042**	—	**91,599**
Deferred income taxes [Note 8]	**2,016**	1,455	**16,729**
Other	**1,305**	1,306	**10,833**
Allowance for doubtful accounts	**(31)**	(37)	**(262)**
Investments and other assets, net	**48,794**	52,351	**404,769**
Total assets	**¥283,352**	¥282,098	**$2,350,499**

See accompanying notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of yen 2014	Millions of yen 2013	Thousands of U.S. dollars [Note 1 (b)] 2014
Current liabilities:			
Trade notes and accounts payable [Note 4]	**¥ 46,590**	¥ 49,918	**$ 386,483**
Short-term loans payable [Notes 4 and 7]	**12,602**	9,611	**104,542**
Current portion of long-term debt [Note 7]	**178**	22,546	**1,480**
Accrued expenses and other payables	**45,123**	39,087	**374,314**
Accrued income taxes	**3,336**	3,057	**27,677**
Accrued bonuses for employees	**2,631**	2,176	**21,828**
Other	**5,074**	5,259	**42,097**
Total current liabilities	**115,537**	131,656	**958,419**
Long-term liabilities:			
Bonds with subscription rights to shares	**14,430**	—	**119,703**
Long-term debt [Notes 4 and 7]	**2,563**	359	**21,263**
Accrued retirement benefits [Note 9]	**—**	19,353	**—**
Accrued retirement benefits for directors [Note 9]	**448**	373	**3,716**
Net defined benefit liability [Note 9]	**18,526**	—	**153,686**
Other [Note 8]	**4,412**	6,121	**36,602**
Total long-term liabilities	**40,380**	26,208	**334,971**
Total liabilities	**155,918**	157,865	**1,293,390**
Contingent liabilities (Note 12)			
Net assets:			
Shareholders' equity (Note 10)**:**			
Common stock:			
Authorized: 1,185,600,000 shares at December 31, 2014 and 2013			
Issued and outstanding: 299,115,346 shares at December 31, 2014 and 2013	**34,433**	34,433	**285,639**
Capital surplus	**31,499**	31,499	**261,300**
Retained earnings	**66,095**	61,410	**548,284**
Treasury stock, at cost	**(16,827)**	(16,755)	**(139,593)**
Total shareholders' equity	**115,201**	110,588	**955,630**
Accumulated other comprehensive income (loss):			
Unrealized holding gain (loss) on other securities	**7,912**	6,921	**65,634**
Deferred gain (loss) on derivative financial instruments under hedge accounting	**(0)**	24	**(0)**
Translation adjustments	**3,339**	914	**27,700**
Remeasurements of defined benefit plans	**(5,816)**	—	**(48,252)**
Total accumulated other comprehensive income (loss)	**5,434**	7,860	**45,082**
Stock acquisition rights	**910**	193	**7,550**
Minority interests	**5,888**	5,590	**48,847**
Total net assets	**127,434**	124,232	**1,057,109**
Total liabilities and net assets	**¥283,352**	¥282,098	**$2,350,499**

Consolidated Statements of Income

Lion Corporation and Consolidated Subsidiaries
Years ended December 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars [Note 1 (b)]
	2014	2013	**2014**
Net sales	**¥367,396**	¥352,005	**$3,047,667**
Cost of sales	**160,677**	153,336	**1,332,872**
Gross profit	**206,718**	198,668	**1,714,795**
Selling, general and administrative expenses [Note 13]	**194,312**	187,849	**1,611,882**
Operating income	**12,406**	10,819	**102,913**
Other income:			
Interest and dividend income	**770**	772	**6,390**
Equity in earnings of non-consolidated subsidiaries and affiliates	**843**	696	**7,001**
Gain on sales of investment securities	**—**	1,428	**—**
Gain on selling or disposal of property, plant and equipment	**123**	41	**1,024**
Other	**1,696**	970	**14,072**
Total other income	**3,434**	3,909	**28,486**
Other expenses:			
Interest expense	**621**	726	**5,153**
Interest on bonds	**85**	—	**711**
Loss on devaluation of investment securities	**72**	40	**605**
Loss on disposal of property, plant and equipment	**799**	899	**6,636**
Loss on sales of investment securities	**833**	1,962	**6,917**
Other	**340**	175	**2,827**
Total other expenses	**2,754**	3,803	**22,849**
Income before income taxes and minority interests	**13,085**	10,925	**108,551**
Income taxes:			
Current	**4,495**	4,053	**37,289**
Deferred	**653**	159	**5,425**
	5,149	4,213	**42,714**
Income before minority interests	**7,936**	6,712	**65,837**
Minority interests	**(567)**	(615)	**(4,709)**
Net income	**¥ 7,368**	¥ 6,097	**$ 61,127**

	Yen		U.S. dollars [Note 1 (b)]
	2014	2013	**2014**
Amounts per share:			
Net income: Basic	**¥ 27.47**	¥ 22.72	**$ 0.23**
: Diluted	**26.16**	22.68	**0.22**
Cash dividends applicable to the year	**10.00**	10.00	**0.08**
Net assets	**449.94**	441.59	**3.73**
Weighted-average number of shares of common stock outstanding during the year (in thousands)	**268,191**	268,341	

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Lion Corporation and Consolidated Subsidiaries
Years ended December 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars [Note 1 (b)]
	2014	2013	**2014**
Income before minority interests	**¥ 7,936**	¥ 6,712	**$65,837**
Other comprehensive income (loss)			
Unrealized holding gain (loss) on other securities	**959**	3,214	**7,956**
Deferred gain (loss) on derivative financial instruments under hedge accounting	**(24)**	17	**(201)**
Translation adjustments	**2,841**	3,147	**23,574**
Share of other comprehensive income (loss) of associates accounted for using equity method	**287**	169	**2,389**
Total other comprehensive income (loss)	**4,064**	6,548	**33,718**
Comprehensive income	**12,001**	13,261	**99,555**
(Comprehensive income attributable to)			
Comprehensive income attributable to shareholders' equity	**10,759**	11,970	**89,257**
Comprehensive income attributable to minority interests	**1,241**	1,290	**10,298**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Lion Corporation and Consolidated Subsidiaries
Years ended December 31, 2014 and 2013

	Millions of yen												
		Shareholders' equity					Accumulated other comprehensive income						
	Number of shares issued and outstanding	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Unrealized holding (loss) gain on other securities	Deferred (loss) gain on derivative financial instruments under hedge accounting	Translation adjustments	Remeasure-ments of defined benefit plans	Stock acquisition rights	Minority interests	Total net assets
Balance at January 1, 2014	299,115,346	¥34,433	¥31,499	¥61,410	¥(16,755)	¥110,588	¥6,921	¥24	¥ 914	¥ —	¥193	¥5,590	¥124,232
Net income	—	—	—	**7,368**	—	**7,368**	—	—	—	—	—	—	**7,368**
Cash dividends	—	—	—	**(2,682)**	—	**(2,682)**	—	—	—	—	—	—	**(2,682)**
Treasury stock acquired [Note 10 (a)]	—	—	—	—	**(82)**	**(82)**	—	—	—	—	—	—	**(82)**
Treasury stock disposed of [Notes 10 (a), (b)]	—	—	**(0)**	**(1)**	**10**	**8**	—	—	—	—	—	—	**8**
Items other than changes in shareholders' equity, net	—	—	—	—	—	—	**990**	**(24)**	**2,424**	**(5,816)**	**716**	**298**	**(1,411)**
Balance at December 31, 2014	**299,115,346**	**¥34,433**	**¥31,499**	**¥66,095**	**¥(16,827)**	**¥115,201**	**¥7,912**	**¥ (0)**	**¥ 3,339**	**¥(5,816)**	**¥910**	**¥5,888**	**¥127,434**
Balance at January 1, 2013	299,115,346	¥34,433	¥31,499	¥57,996	¥(16,656)	¥107,273	¥3,688	¥ 6	¥(1,708)	¥ —	¥129	¥4,772	¥114,163
Net income	—	—	—	6,097	—	6,097	—	—	—	—	—	—	6,097
Cash dividends	—	—	—	(2,683)	—	(2,683)	—	—	—	—	—	—	(2,683)
Treasury stock acquired [Note 10 (a)]	—	—	—	—	(101)	(101)	—	—	—	—	—	—	(101)
Treasury stock disposed of [Notes 10 (a), (b)]	—	—	0	—	2	2	—	—	—	—	—	—	2
Items other than changes in shareholders' equity, net	—	—	—	—	—	—	3,232	17	2,622	—	63	817	6,754
Balance at December 31, 2013	299,115,346	¥34,433	¥31,499	¥61,410	¥(16,755)	¥110,588	¥6,921	¥24	¥ 914	¥ —	¥193	¥5,590	¥124,232

	Thousands of U.S. dollars [Note 1 (b)]												
		Shareholders' equity					Accumulated other comprehensive income						
	Number of shares issued and outstanding	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Unrealized holding (loss) gain on other securities	Deferred (loss) gain on derivative financial instruments under hedge accounting	Translation adjustments	Remeasure-ments of defined benefit plans	Stock acquisition rights	Minority interests	Total net assets
Balance at January 1, 2014	299,115,346	$285,639	$261,302	$509,421	$(138,994)	$917,367	$57,416	$201	$ 7,587	$ —	$1,609	$46,371	$1,030,551
Net income	—	—	—	**61,127**	—	**61,127**	—	—	—	—	—	—	**61,127**
Cash dividends	—	—	—	**(22,250)**	—	**(22,250)**	—	—	—	—	—	—	**(22,250)**
Treasury stock acquired [Note 10 (a)]	—	—	—	—	**(686)**	**(686)**	—	—	—	—	—	—	**(686)**
Treasury stock disposed of [Notes 10 (a), (b)]	—	—	**(1)**	**(14)**	**87**	**72**	—	—	—	—	—	—	**72**
Items other than changes in shareholders' equity, net	—	—	—	—	—	—	**8,218**	**(201)**	**20,113**	**(48,252)**	**5,941**	**2,476**	**(11,706)**
Balance at December 31, 2014	**299,115,346**	**$285,639**	**$261,300**	**$548,284**	**$(139,593)**	**$955,630**	**$65,634**	**$ (0)**	**$27,700**	**$(48,252)**	**$7,550**	**$48,847**	**$1,057,109**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Lion Corporation and Consolidated Subsidiaries
Years ended December 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars [Note 1 (b)]
	2014	2013	2014
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥13,085**	¥10,925	**$108,551**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**10,301**	11,227	**85,451**
Loss on impairment of fixed assets	**833**	1,962	**6,917**
Increase (decrease) in accrued bonuses for employees	**349**	156	**2,900**
Increase (decrease) in accrued retirement benefits	**—**	(378)	**—**
Increase in net defined benefit assets and liability	**(4,789)**	—	**(39,735)**
Interest and dividend income	**(770)**	(772)	**(6,390)**
Interest expense	**621**	726	**5,153**
Interest on bonds	**85**	—	**711**
Loss (gain) on disposal of property, plant and equipment	**676**	858	**5,612**
Loss (gain) on sales of investment securities	**(0)**	(1,428)	**(4)**
Loss on devaluation of investment securities	**72**	40	**605**
Equity in earnings of non-consolidated subsidiaries and affiliates	**(843)**	(696)	**(7,001)**
Gain on bargain purchase	**(97)**	—	**(808)**
Loss (gain) on step acquisitions	**(477)**	—	**(3,965)**
Decrease (increase) in trade notes and accounts receivable	**37**	(4,167)	**308**
Decrease (increase) in inventories	**(2,494)**	(2,207)	**(20,695)**
Increase (decrease) in trade notes and accounts payable	**(5,239)**	8,440	**(43,460)**
Increase (decrease) in accrued expenses and other payables	**3,525**	304	**29,245**
Other, net	**550**	(197)	**4,563**
Subtotal	**15,425**	24,793	**127,960**
Interest and dividends received	**1,386**	1,068	**11,500**
Interest paid	**(775)**	(711)	**(6,434)**
Income taxes paid	**(4,297)**	(2,240)	**(35,650)**
Net cash provided by operating activities	**11,738**	22,910	**97,376**
Cash flows from investing activities:			
Decrease (increase) in time deposits	**(2,133)**	(69)	**(17,701)**
Purchases of property, plant and equipment	**(13,124)**	(14,649)	**(108,871)**
Proceeds from sales of property, plant and equipment	**141**	183	**1,175**
Purchases of intangible assets	**(118)**	(112)	**(980)**
Purchases of investment securities	**(505)**	(1,018)	**(4,196)**
Proceeds from sales of investment securities	**34**	2,802	**287**
Proceeds from redemption of investment securities	**500**	—	**4,148**
Increase in loans receivable	**(5)**	(162)	**(49)**
Collection of loans receivable	**0**	157	**2**
Purchase of shares of subsidiaries resulting in change in scope of consolidation	**(1,418)**	—	**(11,764)**
Purchase of shares of subsidiaries	**(386)**	—	**(3,210)**
Other, net	**177**	49	**1,476**
Net cash used in investing activities	**(16,838)**	(12,819)	**(139,681)**
Cash flows from financing activities:			
Increase in short-term loans payable	**21,232**	18,881	**176,132**
Repayment of short-term loans payable	**(19,160)**	(15,967)	**(158,940)**
Increase in long-term debt	**2,177**	—	**18,067**
Repayment of long-term debt	**(22,466)**	(2,416)	**(186,368)**
Proceed from issuance of bonds	**14,983**	—	**124,292**
Purchases of treasury stock	**(82)**	(101)	**(686)**
Proceeds from disposal of treasury stock	**3**	2	**27**
Cash dividends	**(2,688)**	(2,676)	**(22,304)**
Cash dividends to minority shareholders	**(459)**	(440)	**(3,815)**
Other, net	**(59)**	(52)	**(495)**
Net cash used in financing activities	**(6,520)**	(2,772)	**(54,091)**
Effect of exchange rate changes on cash and cash equivalents	**829**	709	**6,880**
Net increase (decrease) in cash and cash equivalents	**(10,791)**	8,027	**(89,516)**
Cash and cash equivalents at beginning of the year	**48,941**	40,913	**405,983**
Cash and cash equivalents at end of the year [Note 14]	**¥38,150**	¥48,941	**$316,466**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Lion Corporation and Consolidated Subsidiaries, December 31, 2014

Note 1 Basis of Presenting Consolidated Financial Statements

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

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

(b) The Company and its domestic consolidated subsidiaries maintain their accounting records in Japanese yen, and its foreign consolidated subsidiaries maintain their accounting records in the currencies of their respective countries of domicile. The U.S. dollar amounts included in the accompanying consolidated financial statements, solely for the convenience of the reader, represent the arithmetic results of translating yen amounts into U.S. dollar amounts at ¥120.55 = U.S.$1.00, the approximate rate of exchange in effect on December 31, 2014. This translation into U.S. dollars should not be construed as a representation that the yen amounts have been or could be converted into U.S. dollars at the above or any other rate.

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

Note 2 Summary of Significant Accounting Policies

(a) Principles of Consolidation

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

The consolidated subsidiaries for the year ended December 31, 2014 were as follows:

Lion Chemical Co., Ltd./Lion Business Service Co., Ltd./
Lion Hygiene Co., Ltd./Lion Trading Co., Ltd./
Ipposha Oil Industries Co., Ltd./Lion Packaging Co., Ltd./
Lion Engineering Co., Ltd./Lion Field Marketing Co., Ltd./
Lion Logistics Service Company, Ltd./Lion Cordial Support Co., Ltd./
Issua Co., Ltd./Lion Dental Products Co., Ltd./LION SPECIALTY CHEMICALS Co., Ltd./
Lion Eco Chemicals Sdn. Bhd./Lion Corporation (Singapore) Pte. Ltd./
Lion Corporation (Hong Kong) Ltd./Lion Advertising Ltd./
Lion (China) Home Products & Technology Co., Ltd./
Lion Daily Necessities Chemicals (Qingdao) Co., Ltd./PT. IPPOSHA INDONESIA/
CJ Lion Corporation/Lion Chemical Industry (Taiwan) Co., Ltd./
Lion Corporation (Thailand) Ltd./PEERLESS LION CORPORATION/
Lion Service Co., Ltd./Eastern Silicate Co., Ltd.

There was one non-consolidated subsidiary at December 31, 2014 and 2013. The aggregate total assets, retained earnings, net sales and net income were not significant.

LION SPECIALTY CHEMICALS Co., Ltd., former LION AKZO Company, Ltd. which had been an affiliate for by the equity method, was newly included in the scope of consolidation from the consolidated fiscal year ended December 31, 2014.

The equity method had been applied, in accounting for the investments in one non-consolidated subsidiary for the years ended December 31, 2014 and 2013, and five affiliates for the year ended December 31, 2014 and seven affiliates for the year ended 2013, respectively.

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

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

(b) Foreign Currency Translation

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

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

(c) Derivatives and Hedge Accounting

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

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

(i) All derivatives are recognized as either assets or liabilities and measured at fair value, and gain/loss on the derivative transactions is recognized in the accompanying consolidated statements of income;

(ii) Because of the high correlation of their effectiveness, gain/loss on derivatives positions which qualify as hedges is deferred until the maturity of each underlying hedged transaction;

(iii) The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differences paid or received under the swap agreements are recognized and included in interest expense or income; and

(iv) The foreign currency swaps which qualify for hedge accounting and meet specific hedge accounting criteria are stated at the contracted rate.

(d) Cash Equivalents

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

(e) Securities

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

(i) Held-to-maturity debt securities are stated at amortized cost.

(ii) (a) Other securities (marketable) are stated at fair value, with any unrealized holding gain or loss, net of the applicable taxes, presented as a separate component of net assets.

(b) Other securities (non-marketable) are stated at cost by the moving-average method.

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

(f) Inventories

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

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

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

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

(j) Research and Development Expenses
Research and development expenses are charged to income as incurred.

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

(l) Accrued Bonuses for Employees
The Company and its consolidated subsidiaries provide accrued bonuses for employees based on the estimated amounts.

(m) Accrued Retirement Benefits
In calculating accrued retirement benefits, the estimated retirement benefits were attributed to periods on a straight-line basis up to the end of the current year.

Prior service cost is being amortized as incurred by the straight-line method over periods (5 years), which are shorter than the average remaining years of service of the employees.

Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over the average remaining years of service of the employees.

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

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

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

Diluted net income per share is computed based on the net income available for distribution to the shareholders and the weighted-average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the exercise of stock options for the years ended December 31, 2014 and 2013.

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

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

Net assets per share are computed by dividing net assets excluding minority interests and stock acquisition rights by the number of shares of outstanding common stock at December 31, 2014 and 2013.

(p) Consumption Taxes

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

Note 3 Accounting Changes and Additional Information

(Change in Depreciation Method of Property, Plant and Equipment)

Until the year ended December 31, 2013, the depreciation of property, plant and equipment (except for lease assets) had been calculated using the declining-balance method. However, from the fiscal year ended December 31, 2014, this has been changed to the straight-line method.

The Lion Group is implementing four strategies in line with its management vision, Vision 2020, announced in 2011: (1) Qualitative Growth of Domestic Businesses; (2) Quantitative Expansion of Overseas Businesses; (3) Development of New Business Value; and (4) Enhancement of Organizational Learning Capabilities. Accordingly, under the current medium-term management plan, Vision 2020 Part-1 (V-1 Plan), the Group is pursuing qualitative growth of domestic businesses through three basic strategies: (1) Develop mainstay brands to secure higher market positions in principal business fields; (2) Foster high-value-added product categories and improve efficiency to bolster the earnings base; and (3) Strengthen R&D and production technologies while stepping up consumer research.

As part of these efforts, phase II construction of a new R&D center was completed in 2013, and the center began full operations in 2014. Lion has taken this occasion to reconsider the depreciation method employed in order to best reflect actual usage of property, plant and equipment. Accordingly, and with comprehensive consideration given to the changes in its domestic businesses as explained below, the Company has determined that it can more appropriately distribute costs throughout the period of use by changing the depreciation method employed to the straight-line method. This change has the added benefit of aligning the Company's domestic accounting methods with those used by overseas affiliates and is expected to contribute to the Group's overall performance and results management.

(1) In the fabric care market, demand for high-value-added liquid products, such as fabric softeners with long-lasting fragrance and liquid laundry detergents, is rising, and Lion is adjusting and streamlining its manufacturing facilities accordingly. The wear and tear on manufacturing facilities for these liquid products is more evenly distributed than that seen in facilities manufacturing conventional products, and these facilities are expected to be in regular steady use each period, reflecting stable consumer demand.

(2) As a result of strengthening R&D and production technologies and stepped-up consumer research, the portion of property, plant and equipment accounted for by R&D-related facilities is increasing. These R&D facilities are expected to operate at a steady pace each period.

As a result of this change in the depreciation method, compared with the previous method, operating income, ordinary income and income before income taxes for the year ended December 31, 2014 each increased by ¥1,138 million (U.S.$9,441 thousand).

(Accounting Standard for Retirement Benefits)

From the fiscal year ended December 31, 2014, the Group has adopted the Accounting Standard for Retirement Benefits (Accounting Standards Board of Japan (ASBJ), Statement No. 26, issued on May 17, 2012; Hereinafter, "Retirement Benefit Accounting Standard") and the Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, issued on May 17, 2012; Hereinafter, the "Guidance"), excluding the provisions stipulated in the main clause of Article 35 of the Retirement Benefit Accounting

Standard and in the main clause of Article 67 of the Guidance. Accordingly, the difference between retirement benefit obligation and plan assets for each benefit plan is recognized as either a liability or assets for retirement benefits, which account for the unrecognized actuarial difference and unrecognized prior service cost.

The adoption of the Retirement Benefit Accounting Standard and the Guidance is subject to the transitional treatment stipulated by Article 37 of the Retirement Benefit Accounting Standard. Accordingly, the impact of the above-mentioned revision was included in remeasurements of defined benefit plans under accumulated other comprehensive income for the year ended December 31, 2014.

As a result, the Group recorded assets for retirement benefits of ¥11,042 million (U.S.$91,599 thousand) and liability for retirement benefits of ¥18,526 million (U.S.$153,686 thousand) at December 31, 2014. In addition, accumulated other comprehensive income decreased by ¥5,816 million (U.S.$48,252 thousand) and net assets per share decreased by ¥21.69 (U.S.$0.18).

Note 4 Financial Instruments

1. Status of Financial Instruments

(a) Policy on Financial Instruments

The Companies use short-term deposits, investments in securities and others for fund management. The Companies mainly use bank loans and commercial paper and others to procure funds for working capital and capital investments. The Companies primarily use derivatives to hedge the risks of fluctuation in foreign exchange rates related to receivables and payables and interest rates of loans, but do not engage in speculative transactions.

(b) Nature and Extent of Risks and Risk Management Related to Financial Instruments

Trade notes and accounts receivable are operating receivables subject to the credit risks of customers. In order to reduce such risks, the Companies go through the examination and authorization process before the inception of business with new customers. Guarantee deposits and collateral are obtained, if necessary. In addition, the Companies monitor and ensure proper control on the outstanding balances and due date by each customer.

Investments in securities are mainly composed of the equity securities of the companies that have business relationships with the Lion Group. They are subject to the risks of fluctuation in market prices. In order to reduce such risks, the Companies regularly monitor market prices and financial conditions. Trade notes and accounts payable are operating liabilities due within one year.

The Companies mainly use short-term loans and long-term loans to raise funds for business transactions.

The portion of the loans with floating rates is subject to the risks of fluctuation in interest rates. In order to hedge such risks and fix the amount of interest expense, the Companies use interest rate swaps. The portion of the loans in foreign currencies is subject to the risks of fluctuation in exchange rates. In order to hedge such risks, currency swaps are used.

In accordance with internal administrative rules, the Companies' use of derivatives is limited to the range of actual amounts considered necessary.

(c) Supplemental Information on Fair Values of Financial Instruments

The fair values of financial instruments are based on market prices. If a market price is not available, then a rational valuation is used instead.

Such price evaluation includes variable factors, and the results may differ if different assumptions are used in the valuation.

2. Fair Value of Financial Instruments

The carrying amounts, fair values and any difference at December 31, 2014 and 2013 were as follows.

Financial instruments whose fair values are extremely difficult to determine were not included in the table below.

	Millions of yen		
	2014		
	Carrying amount	Fair value	Difference
Assets:			
1. Cash and time deposits	**¥ 18,008**	**¥ 18,008**	**¥ —**
2. Trade notes and accounts receivable	**59,007**		
Allowance for doubtful accounts	**(51)**		
Subtotal	**58,956**	**58,956**	**—**
3. Short-term investments, investment securities and investments in non-consolidated subsidiaries and affiliates			
Other securities	**52,608**	**52,608**	**—**
Investments in non-consolidated subsidiaries and affiliates	**446**	**1,258**	**811**
Subtotal	**53,055**	**53,866**	**811**
Total assets	**130,019**	**130,831**	**811**
Liabilities:			
4. Trade notes and accounts payable	**46,590**	**46,590**	**—**
5. Short-term loans payable	**12,602**	**12,602**	**—**
6. Current portion of long-term loans payable	**116**	**116**	**—**
7. Accrued expenses and other payables	**45,123**	**45,123**	**—**
8. Long-term loans payable	**2,448**	**2,553**	**104**
9. Bonds with subscription rights to shares	**14,430**	**14,773**	**342**
Total liabilities	**121,311**	**121,759**	**447**
10. Derivative transactions	**¥ (142)**	**¥ (142)**	**¥ —**

	Millions of yen		
	2013		
	Carrying amount	Fair value	Difference
Assets:			
1. Cash and time deposits	¥ 25,559	¥ 25,559	¥ —
2. Trade notes and accounts receivable	57,246		
Allowance for doubtful accounts	(52)		
Subtotal	57,193	57,193	—
3. Short-term investments, investment securities and investments in non-consolidated subsidiaries and affiliates			
Other securities	51,306	51,306	—
Investments in non-consolidated subsidiaries and affiliates	416	1,224	807
Subtotal	51,722	52,530	807
Total assets	134,475	135,283	807
Liabilities:			
4. Trade notes and accounts payable	49,918	49,918	—
5. Short-term loans payable	9,611	9,611	—
6. Current portion of long-term loans payable	22,466	22,466	—
7. Long-term loans payable	204	203	(0)
Total liabilities	82,200	82,199	(0)
8. Derivative transactions	¥ 38	¥ 38	¥ —

	Thousands of U.S. dollars		
	2014		
	Carrying amount	Fair value	Difference
Assets:			
1. Cash and time deposits	$ 149,384	$ 149,384	$ —
2. Trade notes and accounts receivable	489,486		
Allowance for doubtful accounts	(426)		
Subtotal	489,060	489,060	—
3. Short-term investments, investment securities and investments in non-consolidated subsidiaries and affiliates			
Other securities	436,403	436,403	—
Investments in non-consolidated subsidiaries and affiliates	3,705	10,438	6,733
Subtotal	440,108	446,841	6,733
Total assets	1,078,552	1,085,285	6,733
Liabilities:			
4. Trade notes and accounts payable	386,483	386,483	—
5. Short-term loans payable	104,542	104,542	—
6. Current portion of long-term loans payable	968	968	—
7. Accrued expenses and other payables	374,314	374,314	—
8. Long-term loans payable	20,309	21,178	870
9. Bonds with subscription rights to shares	119,703	122,548	2,845
Total liabilities	1,006,318	1,010,033	3,715
10. Derivative transactions	$ (1,181)	$ (1,181)	$ —

Measurement of fair values of financial assets and liabilities.

Assets:

1. Cash and time deposits, 2. Trade notes and accounts receivable

All of these are settled within a short term, and their fair value and carrying value are nearly equal. Thus, the carrying value is listed as fair value in the table above.

3. Short-term investments, investment securities and investments in non-consolidated subsidiaries and affiliates

Fair values of marketable securities are based on market prices at stock exchanges.

Fair values of bonds are based on market prices at stock exchanges or quoted prices of financial institutions.

Commercial paper and negotiable deposits are settled within a short term, and the fair value and carrying value are nearly equal.

Thus, the carrying value is listed as the fair value in the table above.

Liabilities:

4. Trade notes and accounts payable, 5. Short-term loans payable, 6. Current portion of long-term loans payable, and 7. Accrued expenses and other payables

All of these are settled within a short term, and their fair value and carrying value are nearly equal. Thus, carrying value is listed as fair value in the table above.

8. Long-term loans payable

Fair values of long-term loans payable with fixed rates are measured based on the expected total amount of the principal and interest discounted using the assumed rate to be applied for similar new loans payable.

For some long-term loans payable with floating rates or denominated in foreign currencies, interest rate swaps or currency swaps, which meet specific matching criteria or specific hedge accounting criteria, are used.
The fair values of such long-term loans payable that has been hedged by these swaps are measured based on each of the expected total amount of the principal and interest discounted using the reasonably assumed rate to be applied for similar new loans payable.

9. Bonds with subscription rights to shares
Fair value of bonds with subscription rights to shares is determined by discounting the principal by the remaining period and credit risk rate.

10. Derivative transactions
Fair values of derivative transactions are based on quoted prices from financial institutions.
Some derivative transactions that meet specific matching criteria for interest rate swaps or specific hedge accounting criteria for currency swaps are handled together with the related long-term loans payable. A description about the fair values of such derivative transactions is included in “8. Long-term loans payable” above.

The carrying amounts of financial instruments whose fair values are extremely difficult to determine at December 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Investments in non-consolidated subsidiaries and affiliates	**¥5,027**	¥5,534	**$41,704**
Non-marketable equity securities	**804**	1,034	**6,674**
Subordinated debentures	**—**	500	**—**

At December 31, 2014 and 2013, the redemption schedule for financial instruments was as follows:

	Millions of yen		
	2014		
	Due in one year or less	Due after one year through five years	Due after five years through ten years
Cash and time deposits	**¥ 18,008**	**¥—**	**¥—**
Trade notes and accounts receivable	**59,007**	**—**	**—**
Short-term investments and investment securities			
Negotiable deposits	**24,448**	**—**	**—**
Total	**¥101,464**	**¥—**	**¥—**

	Millions of yen		
	2013		
	Due in one year or less	Due after one year through five years	Due after five years through ten years
Cash and time deposits	¥ 25,559	¥—	¥ —
Trade notes and accounts receivable	57,246	—	—
Short-term investments and investment securities			
(1) Held-to-maturity debt securities			
Subordinated debentures	—	—	500
(2) Other securities			
Negotiable deposits	22,429	—	—
National bonds	2,999	—	—
Total	¥108,234	¥—	¥500

	Thousands of U.S. dollars		
	2014		
	Due in one year or less	Due after one year through five years	Due after five years through ten years
Cash and time deposits	**$149,384**	**$—**	**$—**
Trade notes and accounts receivable	**489,486**	**—**	**—**
Short-term investments and investment securities			
Negotiable deposits	**202,811**	**—**	**—**
Total	**$841,681**	**$—**	**$—**

Note 5
Investment Securities

The acquisition cost and related fair value of other securities at December 31, 2014 and 2013 were as follows:

	Millions of yen			
	2014			
	Acquisition cost	Fair value	Unrealized gains	Unrealized losses
Other securities:				
Marketable equity securities	**¥16,300**	**¥28,159**	**¥12,142**	**¥283**
Total	**¥16,300**	**¥28,159**	**¥12,142**	**¥283**

	Millions of yen			
	2013			
	Acquisition cost	Fair value	Unrealized gains	Unrealized losses
Other securities:				
Marketable equity securities	¥15,605	¥25,877	¥10,514	¥243
Other	2,999	2,999	—	0
Total	¥18,605	¥28,877	¥10,514	¥243

	Thousands of U.S. dollars			
	2014			
	Acquisition cost	Fair value	Unrealized gains	Unrealized losses
Other securities:				
Marketable equity securities	**$135,216**	**$233,592**	**$100,725**	**$2,349**
Total	**$135,216**	**$233,592**	**$100,725**	**$2,349**

Note 6
Inventories

Inventories at December 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Merchandise and finished products	**¥25,270**	¥23,005	**$209,626**
Work in process	**4,605**	3,278	**38,204**
Raw materials and supplies	**9,489**	8,802	**78,721**
Total	**¥39,365**	¥35,086	**$326,551**

Note 7
Short-Term Loans Payable and Long-Term Debt

Short-term loans payable represents notes principally issued to banks with the maturity of 365 days from the issuance date at average interest rates of 2.57% and 2.56% at December 31, 2014 and 2013, respectively.

Long-term debt at December 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Long-term loans payable	**¥2,564**	¥22,670	**$21,276**
Less: Current portion from banks at average interest rates of 2.30% and 4.05% at December 31, 2014 and 2013, respectively	**(116)**	(22,466)	**(968)**
Long-term loans payable less current portion from banks at average interest rates of 3.05% and 0.34% at December 31, 2014 and 2013, respectively	**2,448**	204	**20,309**
Lease obligations	**176**	235	**1,467**
Less: Current portion of lease obligations	**(61)**	(80)	**(512)**
Long-term debt less current portion of lease obligations	**115**	154	**955**
Total long-term debt	**¥2,563**	¥ 359	**$21,263**

At December 31, 2014, the redemption schedule for long-term loans payable was as follows:

	Millions of yen	Thousands of U.S. dollars
2015	¥ 116	$ 968
2016	235	1,950
2017	295	2,448
2018	295	2,448
2019 and thereafter	1,622	13,463

Note 8
Deferred Income Taxes

The significant components of deferred tax assets and liabilities at December 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Deferred tax assets:			
Allowance for doubtful accounts	**¥ 43**	¥ 63	**$ 360**
Accrued retirement benefits	**—**	6,127	**—**
Assets and liability for retirement benefits	**8,504**	—	**70,546**
Loss on impairment of fixed assets	**2,396**	2,239	**19,878**
Accrued enterprise taxes	**351**	303	**2,919**
Unrealized intercompany profit	**512**	455	**4,252**
Other	**5,221**	4,933	**43,312**
Less valuation allowance	**(3,198)**	(3,349)	**(26,529)**
Total deferred tax assets	**13,831**	10,773	**114,740**
Deferred tax liabilities:			
Special tax-purpose reserve	**(1,385)**	(1,421)	**(11,494)**
Gain on contribution of securities to pension trust	**(3,304)**	(3,304)	**(27,414)**
Unrecognized holding gain on other securities	**(3,783)**	(3,159)	**(31,382)**
Other	**(1,049)**	(653)	**(8,703)**
Total deferred tax liabilities	**(9,522)**	(8,539)	**(78,994)**
Net deferred tax assets	**¥ 4,309**	¥ 2,233	**$35,745**

Deferred tax liabilities included in non-current liabilities were ¥858 million at December 31, 2014 and in non-current liabilities ¥1,791 million at December 31, 2013.

A reconciliation of the differences between the statutory tax rate and the effective tax rate for the years ended December 31, 2014 and 2013 have not been disclosed because those differences were less than 5/100 of the statutory tax rate.

The "Act for Partial Amendment of the Income Tax Act, etc." was promulgated on March 31, 2014 and, as a result, the Company is no longer subject to the Special Reconstruction Corporation Tax effective for fiscal years beginning on or after April 1, 2014.

As a result, the effective statutory tax rate used to measure the Company's deferred tax assets and liabilities was changed from 38.0% to 35.6% for the temporary differences expected to be realized or settled from fiscal years beginning January 1, 2015. The effect of the announced reduction of the effective statutory tax rate was to decrease deferred tax assets after offsetting deferred tax liabilities by ¥239 million (U.S.$1,986 thousand) and increase deferred income tax by ¥239 million (U.S.$1,986 thousand).

Note 9 Retirement Benefit Plans

Fiscal 2014 (January 1, 2014 to December 31, 2014)

1. Summary of Retirement Benefit Plans

The Company and certain of its consolidated subsidiaries adopted funded or unfunded defined benefit plans and contribution plans, in order to allocate for employee's retirement benefits. The Company and certain of its consolidated subsidiaries may pay additional retirement allowances when employees retire.

The main fund is the Company's "Lion Pension Fund". The Company and 13 consolidated subsidiaries have the lump-sum severance indemnity plans.

In addition, the Company has retirement benefit trusts.

Some consolidated subsidiaries calculate the liability for retirement benefits and retirement benefit expense by using the simplified method.

2. Defined Benefit Plans

(1) Retirement Benefit Obligation

	Millions of yen	Thousands of U.S. dollars
	2014	**2014**
Retirement benefit obligation carrying amount	**¥62,356**	**$517,264**
Service cost	**1,717**	**14,248**
Interest cost	**1,177**	**9,767**
Actuarial gain	**4,604**	**38,195**
Retirement benefit paid	**(4,320)**	**(35,837)**
Retirement benefit obligation at end of the year	**¥65,535**	**$543,637**

Including a system which applied the simplified method.

(2) Plan Assets

	Millions of yen	Thousands of U.S. dollars
	2014	**2014**
Plan assets carrying amount	**¥50,927**	**$422,463**
Expected return on plan assets	**954**	**7,921**
Actuarial loss	**2,332**	**19,349**
Contributions by the Company	**6,629**	**54,990**
Retirement benefits paid	**(2,793)**	**(23,172)**
Plan assets at end of the year	**¥58,050**	**$481,551**

Including a system which applied the simplified method.

(3) Retirement Benefit Obligation, Plan Assets and Liability and Assets for Retirement Benefits

	Millions of yen	Thousands of U.S. dollars
	2014	**2014**
Funded retirement benefit obligation	**¥ 63,324**	**$525,299**
Plan assets	**(58,050)**	**(481,551)**
	5,273	**43,748**
Unfunded retirement benefit obligation	**2,210**	**18,339**
Net liability and assets for retirement benefits in the balance sheet	**7,484**	**62,086**
Liability for retirement benefits	**18,526**	**153,686**
Assets for retirement benefits	**(11,042)**	**(91,599)**
Net liability and assets for retirement benefits in the balance sheet	**¥ 7,484**	**$ 62,086**

Including a system which applied the simplified method.

(4) The Components of Retirement Benefit Expense

	Millions of yen	Thousands of U.S. dollars
	2014	**2014**
Service cost	**¥1,717**	**$14,248**
Interest cost	**1,177**	**9,767**
Expected return on plan assets	**(954)**	**(7,921)**
Amortization of actuarial loss	**1,316**	**10,919**
Amortization of prior service cost	**16**	**135**
Retirement benefit expense	**¥3,272**	**$27,148**

Including a system which applied the simplified method.

(5) Remeasurement of Defined Benefit Plans

	Millions of yen	Thousands of U.S. dollars
	2014	**2014**
Unrecognized prior service cost	**¥ (3)**	**$ (31)**
Unrecognized actuarial difference	**9,036**	**74,957**
Total	**¥9,032**	**$74,926**

(6) Plan Assets

(a) The components of plan assets	**2014**
Bonds	**55%**
Stocks	**32%**
Other	**13%**
Total	**100%**

The total plan assets at the end of the year includes 18% retirement benefit trust that was set for the defined benefit plan and the lump-sum severance indemnity plan.

(b) Method for estimation of expected rates of return on plan assets

In determining the long-term expected rates of return on plan assets, the Company and its consolidated subsidiaries consider the current and projected asset allocations, as well as current and future long-term rates of return for the various categories of plan assets.

(7) Actuarial Assumptions

	2014
Discount rates	**1.2%**
Expected rates of return on plan assets	**2.0%**

3. Defined Contribution Plan

The contribution to the defined contribution plan of the Company and consolidated subsidiaries was ¥168 million (U.S.$1,400 thousand).

Fiscal 2013 (January 1, 2013 to December 31, 2013)

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

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the accompanying consolidated balance sheet at December 31, 2013 for the Company's and its consolidated subsidiaries' defined benefit pension plans:

	Millions of yen	Thousands of U.S. dollars
	2013	2013
Projected benefit obligation	¥(62,356)	$(591,671)
Fair value of pension plan assets	50,927	483,233
Funded status	(11,428)	(108,438)
Unrecognized actuarial gain/loss	8,311	78,865
Unrecognized prior service cost	12	119
Accrued employees' retirement benefits, net	(3,104)	(29,454)
Prepaid pension cost	16,249	154,186
Accrued employees' retirement benefits	¥(19,353)	$(183,641)

Retirement allowances to directors, included in "Accrued retirement benefits" in the accompanying consolidated balance sheet, was ¥373 million (U.S.$3,545 thousand) at December 31, 2013.

The components of net periodic retirement benefit expenses for the year ended December 31, 2013 was as follows:

	Millions of yen	Thousands of U.S. dollars
	2013	2013
Service cost	¥1,672	$15,866
Interest cost	1,207	11,460
Expected return on pension plan assets	(892)	(8,466)
Amortization of actuarial gain/loss	1,708	16,213
Amortization of prior service cost	68	652
Contributions made to defined contribution pension plans	143	1,365
Net periodic retirement benefit expenses	¥3,908	$37,090

The assumptions used in accounting for the above plans for the year ended December 31, 2013 was set forth as follows:

	2013
Discount rate	2.0%
Expected rates of return on pension plan assets	2.0%
Recognition period for actuarial gain/loss	Mainly 16 years
Amortization period for prior service cost	5 years

Note 10
Net Assets

(a) Treasury Stock

In order to meet the requests of shareholders who own odd lot shares of common stock, the Company repurchased 138 thousand shares of common stock during the year ended December 31, 2014 at an aggregate cost of ¥82 million (U.S.$686 thousand) and 174 thousand shares of common stock during the year ended December 31, 2013 at an aggregate cost of ¥101 million.

In addition, at the request of shareholders who own odd lot shares of common stock, the Company sold 5 thousand shares of its common stock for a total of ¥3 million (U.S.$27 thousand) during the year ended December 31, 2014 and 5 thousand shares of its common stock for a total of ¥2 million during the year ended December 31, 2013.

(b) Stock Option Plans

Directors and certain eligible employees of the Company were granted stock options as a retirement benefit for the purchase of an aggregate of 612 thousand shares of its common stock as of December 31, 2014. The stock options may be exercised within 10 days after each director and certain eligible employees retire.

As a result of the exercise of these stock options, the Company sold 13 thousand shares of its common stock in total of ¥7 million during the year ended December 31, 2014, and the Company did not sell any of its common stock during the year ended December 31, 2013.

(c) Legal Reserve

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

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

The Company's Board of Directors approved a resolution at a meeting held on February 10, 2015 for the payment of cash dividends of ¥5.00 (U.S.$0.04) per share, aggregating to ¥1,340 million (U.S.$11,120 thousand), which has not been reflected in the accompanying consolidated financial statements for the year ended December 31, 2014.

Note 11
Pledged Assets

The assets pledged as collateral for short-term loans payable and trade notes and accounts payable at December 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Cash and time deposits	**¥ 55**	¥ 88	**$ 464**
Land	**32**	30	**269**
Buildings and structures	**1,590**	1,365	**13,190**
Machinery and equipment	**600**	535	**4,982**
Total	**¥2,278**	¥2,020	**$18,905**

Note 12
Contingent Liabilities

Contingent liabilities at December 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
As guarantors of indebtedness of certain non-consolidated subsidiaries, affiliates and employees	**¥3,016**	¥3,065	**$25,026**
Total	**¥3,016**	¥3,065	**$25,026**

Note 13
Research and Development Expenses

Research and development expenses, all of which have been included in selling, general and administrative expenses, amounted to ¥9,439 million (U.S.$78,306 thousand) and ¥9,618 million for the years ended December 31, 2014 and 2013, respectively.

Note 14
Consolidated Statements of Cash Flows

1. A reconciliation between the balance of cash and time deposits reflected in the accompanying consolidated balance sheets and that of cash and cash equivalents in the accompanying consolidated statements of cash flows at December 31, 2014 and 2013 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Cash and time deposits	**¥18,008**	¥25,559	**$149,384**
Short-term investments	**24,448**	25,429	**202,811**
Time deposits with maturities greater than three months and other	**(4,306)**	(2,047)	**(35,728)**
Cash and cash equivalents at end of the year	**¥38,150**	¥48,941	**$316,466**

2. Breakdown of assets and liabilities of LION SPECIALTY CHEMICALS Co., Ltd., which was newly included in the scope of consolidation due to acquisition of shares, were as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	**2014**
Current assets	**¥3,383**	**$28,068**
Non-current assets	**1,400**	**11,621**
Goodwill	**405**	**3,367**
Current liabilities	**(2,159)**	**(17,910)**
Long-term liabilities	**(1)**	**(11)**
Total	**3,030**	**25,135**
Equity in (earnings) losses	**(1,087)**	**(9,017)**
Loss (gain) on step acquisitions	**(477)**	**(3,965)**
Cash and cash equivalents	**(46)**	**(389)**
Purchase of investments in subsidiaries resulting in change in scope of consolidation	**¥1,418**	**$11,764**

Note 15 Segment Information

1. Overview of Reportable Segments

The Company's reportable segments are components for which separate financial information is available, and whose operating results are reviewed regularly by the Board of Directors in order to determine the allocation of resources and assess segment performance.

The Company classifies business divisions by product category. Each division undertakes business activities in line with the comprehensive strategy planned for each category. The Company's subsidiaries in Japan are engaged in business activities based on the characteristics of their respective products and services.

The Company's subsidiaries located overseas are independent management units and they are engaged in business activities based on the characteristics of their respective regions.

Therefore, the Company and its consolidated subsidiaries are made up of the following three reportable segments distinguished by products, services and regions:

Consumer Products Business, Industrial Products Business and Overseas Business

The Company's reportable segments:

(a) Consumer Products Business

Manufacture and sale of commodities, OTC drugs and functional food products in Japan

Main products: toothpaste, toothbrushes, hand soaps, analgesics, eyedrop solutions, health tonic drinks, insecticides, laundry detergents, dishwashing detergents, fabric softeners, household cleaners, bleaches and pet supplies

(b) Industrial Products Business

Manufacture and sale of chemical raw materials, industrial products and other items in Japan and overseas

Main products: activators, electro-conductive carbon and industrial cleaners

(c) Overseas Business

Manufacture and sale of commodities by the Company's subsidiaries located overseas

(d) Other Business

The Company's subsidiaries located in Japan conducting operations to support the reportable segments

Main products and services: construction contractor business, real estate management, transportation and storage and temporary staffing services

2. Methods of Calculating Net Sales, Income (Loss), Assets, Liabilities and Other Items for Reportable Segments

Reportable segment income is stated on an operating income basis.

The prices of inter-segment transactions and transfers are principally determined by price negotiations based on market prices, total supplier costs and Company notification of preferred prices.

3. Information on Net Sales, Income (Loss), Assets, Liabilities and Other Items for Reportable Segments

Segment information for the years ended December 31, 2014 and 2013 were as follows:

	Millions of yen						
	2014						
	Reportable segments						
	Consumer Products Business	Industrial Products Business	Overseas Business	Other Business	Total	Adjustments*2	Consolidated total*3
Net sales							
Sales to external customers	**¥249,313**	**¥31,455**	**¥81,774**	**¥ 4,853**	**¥367,396**	**¥ —**	**¥367,396**
Intersegment sales*1	**25,114**	**28,338**	**4,427**	**23,829**	**81,709**	**(81,709)**	**—**
Total	**274,427**	**59,793**	**86,202**	**28,682**	**449,106**	**(81,709)**	**367,396**
Segment income	**8,516**	**1,759**	**1,147**	**597**	**12,021**	**384**	**12,406**
Segment assets	**110,061**	**47,282**	**65,812**	**21,326**	**244,482**	**38,869**	**283,352**
Other							
Depreciation and amortization	**7,222**	**986**	**1,578**	**144**	**9,932**	**368**	**10,301**
Investment in equity method affiliates	**3,215**	**—**	**139**	**2,188**	**5,544**	**(77)**	**5,466**
Increase in property, plant and equipment and intangible assets	**4,765**	**1,203**	**6,786**	**153**	**12,908**	**646**	**13,555**

*1. Internal transactions are included within the reportable segments.

*2. (1) Adjustments to segment income totaling ¥384 million were composed mainly of eliminations of internal transactions.

(2) Adjustments to segment assets included eliminations of internal transactions of ¥(79,790) million and Company assets not allocated to reportable segments of ¥118,660 million.

Company assets are composed mainly of financial assets (including cash and deposits, short-term investment securities and investment securities) and administration assets, both of which are not attributable to reportable segments.

(3) Depreciation and amortization adjustments are composed of Company assets not allocated to reportable segments and eliminations of internal transactions.

*3. Segment income is adjusted based on operating income in the consolidated income statements.

	Millions of yen						
	2013						
	Reportable segments						
	Consumer Products Business	Industrial Products Business	Overseas Business	Other Business	Total	Adjustments*2	Consolidated total*3
Net sales							
Sales to external customers	¥242,707	¥31,236	¥72,656	¥ 5,404	¥352,005	¥ —	¥352,005
Intersegment sales*1	22,499	20,394	4,208	23,318	70,421	(70,421)	—
Total	265,207	51,630	76,865	28,723	422,427	(70,421)	352,005
Segment income	7,289	778	1,435	1,016	10,519	300	10,819
Segment assets	110,188	40,605	51,391	20,740	222,926	59,172	282,098
Other							
Depreciation and amortization	8,361	1,167	1,187	217	10,934	292	11,227
Investment in equity method affiliates	3,351	629	117	1,992	6,090	(145)	5,944
Increase in property, plant and equipment and intangible assets	6,084	1,069	6,513	104	13,772	(63)	13,709

*1. Internal transactions are included within the reportable segments.

*2. (1) Adjustments to segment income totaling ¥300 million were composed mainly of eliminations of internal transactions.

(2) Adjustments to segment assets included eliminations of internal transactions of ¥(66,399) million and Company assets not allocated to reportable segments of ¥125,572 million.

Company assets are composed mainly of financial assets (including cash and deposits, short-term investment securities and investment securities) and administration assets, both of which are not attributable to reportable segments.

(3) Depreciation and amortization adjustments are composed of Company assets not allocated to reportable segments and eliminations of internal transactions.

*3. Segment income is adjusted based on operating income in the consolidated income statements.

	Thousands of U.S. dollars						
	2014						
	Reportable segments						
	Consumer Products Business	Industrial Products Business	Overseas Business	Other Business	Total	Adjustments*2	Consolidated total*3
Net sales							
Sales to external customers	**$2,068,130**	**$260,932**	**$678,346**	**$ 40,259**	**$3,047,667**	**$ —**	**$3,047,667**
Intersegment sales*1	**208,330**	**235,075**	**36,730**	**197,674**	**677,808**	**(677,808)**	**—**
Total	**2,276,460**	**496,007**	**715,075**	**237,933**	**3,725,475**	**(677,808)**	**3,047,667**
Segment income	**70,651**	**14,594**	**9,522**	**4,959**	**99,725**	**3,188**	**102,913**
Segment assets	**912,992**	**392,223**	**545,936**	**176,910**	**2,028,062**	**322,437**	**2,350,499**
Other							
Depreciation and amortization	**59,917**	**8,183**	**13,096**	**1,201**	**82,397**	**3,054**	**85,451**
Investment in equity method affiliates	**26,675**	**—**	**1,161**	**18,154**	**45,990**	**(642)**	**45,348**
Increase in property, plant and equipment and intangible assets	**39,534**	**9,981**	**56,298**	**1,270**	**107,082**	**5,364**	**112,446**

*1. Internal transactions are included within the reportable segments.
*2. (1) Adjustments to segment income totaling U.S.$3,188 thousand were composed mainly of eliminations of internal transactions.
(2) Adjustments to segment assets included eliminations of internal transactions of U.S.$(661,887) thousand and Company assets not allocated to reportable segments of U.S.$984,325 thousand.
Company assets are composed mainly of financial assets (including cash and deposits, short-term investment securities and investment securities) and administration assets, both of which are not attributable to reportable segments.
(3) Depreciation and amortization adjustments are composed of Company assets not allocated to reportable segments and eliminations of internal transactions.
*3. Segment income is adjusted based on operating income in the consolidated income statements.

Related Information

As of and for the years ended December 31, 2014 and 2013

Geographic Information

(1) Sales

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Japan	**¥282,707**	¥277,320	**$2,345,144**
Asia	**82,610**	72,960	**685,278**
Thailand	**43,610**	39,896	**361,759**
Other	**2,079**	1,724	**17,246**
Consolidated	**¥367,396**	¥352,005	**$3,047,667**

Note: Sales to external customers, classified by country or geographic region based on customer location.

(2) Tangible assets

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Japan	**¥52,113**	¥49,739	**$432,300**
Asia	**27,161**	19,250	**225,315**
Thailand	**8,607**	7,224	**71,401**
Consolidated	**¥79,275**	¥68,989	**$657,614**

Information on Impairment Loss on Fixed Assets by Reportable Segment

Years ended December 31, 2014 and 2013

	Millions of yen						
	2014						
	Reportable segments						
	Consumer Products Business	Industrial Products Business	Overseas Business	Other Business	Total	Adjustments	Consolidated total
Impairment loss	**¥88**	**¥379**	**¥12**	**¥100**	**¥580**	**¥253**	**¥833**

	Millions of yen						
	2013						
	Reportable segments						
	Consumer Products Business	Industrial Products Business	Overseas Business	Other Business	Total	Adjustments	Consolidated total
Impairment loss	¥1,163	¥41	¥7	¥—	¥1,212	¥750	¥1,962

	Thousands of U.S. dollars						
	2014						
	Reportable segments						
	Consumer Products Business	Industrial Products Business	Overseas Business	Other Business	Total	Adjustments	Consolidated total
Impairment loss	**$735**	**$3,144**	**$100**	**$833**	**$4,812**	**$2,105**	**$6,917**

Information on Amortization of Goodwill and Remaining Balance by Reportable Segment

As of and for the years ended December 31, 2014 and 2013

	Millions of yen						
	2014						
	Reportable segments						
	Consumer Products Business	Industrial Products Business	Overseas Business	Other Business	Total	Adjustments	Consolidated total
Amortization for the year	**¥—**	**¥ 60**	**¥128**	**¥—**	**¥189**	**¥—**	**¥189**
Balance at the end of year	**—**	**345**	**—**	**—**	**345**	**—**	**345**

	Millions of yen						
	2013						
	Reportable segments						
	Consumer Products Business	Industrial Products Business	Overseas Business	Other Business	Total	Adjustments	Consolidated total
Amortization for the year	¥—	¥—	¥128	¥—	¥128	¥—	¥128
Balance at the end of year	—	—	128	—	128	—	128

	Thousands of U.S. dollars						
	2014						
	Reportable segments						
	Consumer Products Business	Industrial Products Business	Overseas Business	Other Business	Total	Adjustments	Consolidated total
Amortization for the year	**$—**	**$ 505**	**$1,064**	**$—**	**$1,569**	**$—**	**$1,569**
Balance at the end of year	**—**	**2,862**	**—**	**—**	**2,862**	**—**	**2,862**

Note 16
Business Combinations

At the Board of Directors' meeting held on January 31, 2014, the Company resolved to acquire all shares of LION AKZO COMPANY, Ltd., a joint venture between the Company and Akzo Nobel N.Y., and completed the share purchase as of March 19, 2014. As a result, LION AKZO COMPANY, Ltd. changed from being an equity-method affiliate to a consolidated subsidiary.

1. Outline of the Acquisition

(a) Name and Business of Acquired Company

Name of Acquired Company: LION AKZO COMPANY, Ltd.

Business: Sales and production of industrial goods

(b) Reason for Business Combination

By making LION AKZO COMPANY, Ltd., which is strategically important to the consumer products and industrial products businesses, the Company's wholly owned subsidiary, the Company will enhance the efficiency of management resources.

(c) Date of Business Combination

March 19, 2014

(d) Method for Business Combination

Transfer of shares in exchange for cash

(e) Name of Acquired Company after Business Combination

LION SPECIALTY CHEMICALS Co., Ltd. (From April 1, 2014)

(f) Voting Right Ratio

Voting right ratio before the date of business combination: 50%

Voting right ratio additionally gained on the date of business combination: 50%

Voting right ratio after the acquisition: 100%

(g) Basis of Determining the Acquirer

The Company acquired the shares in exchange for cash.

2. Impact on Consolidated Business Performance

Operating results from April 1, 2014 to December 31, 2014 were consolidated in the current period. Operating results until March 31, 2014 were consolidated as equity in net income of affiliates.

3. Cost of the Acquisition

	Millions of yen	Thousands of U.S. dollars
Purchase consideration	**¥2,930**	**$24,305**
Acquisition cost	**¥2,930**	**$24,305**

4. Difference Between the Acquisition Cost of the Acquired Company and the Total of Each Acquisition Transaction Amount

Gain on step acquisitions: ¥477 million (U.S.$3,965 thousand)

5. Goodwill Recognition, Reason for Recognition and Amortization Method and Period

(a) Recognized amount: ¥405 million (U.S.$3,367 thousand)

(b) Reason for recognition: Due to future excess earning potential from enhancing the efficiency of management resources

(c) Amortization method and period: Straight-line method over 5 years

6. Breakdown of Assets Acquired and Liabilities Assumed on the Date of Business Combination

	Millions of yen	Thousands of U.S. dollars
Current assets	**¥3,383**	**$28,068**
Non-current assets	**1,400**	**11,621**
Total assets	**¥4,784**	**$39,689**
Current liabilities	**¥2,159**	**$17,910**
Long-term liabilities	**1**	**11**
Total liabilities	**¥2,160**	**$17,921**

7. Estimated Impact on the Consolidated Results for Fiscal 2014 Assuming the Business Combination Had Been Completed as of the Beginning of Fiscal 2014.
The amount of the impact on the accompanying consolidated financial statements is negligible. This amount is unaudited.

Note 17 Subsequent Event

a) Transaction under Common Control

At the Board of Directors' meeting held on February 10, 2015, the Company resolved to transfer the Company's chemical business to the Company's consolidated subsidiary, Ipposha Oil Industries Co., Ltd., via a corporate split and to merge the Company's consolidated subsidiary, LION SPECIALTY CHEMICALS Co., Ltd., with Ipposha Oil Industries Co., Ltd. via an absorption-type merger.

1. Overview of the Transaction
(1) Summary of the Absorption-Type Split (Simplified Split)
1) Name and Description of the Business Involved
Name of the Business: The Company's Industrial Products Business
Description of the Business: R&D and sales of the Company's chemical products

2) Date of Business Combination
July 1, 2015 (planned)

3) Legal Form of Business Combination
A simplified absorption-type split, with the Company as the split company, and Ipposha Oil Industries Co., Ltd. as the successor company of the split-off portion.

4) Name of the Company after the Business Combination
LION SPECIALTY CHEMICALS Co., Ltd. (Trade name will be changed from "Ipposha Oil Industries Co., Ltd." as of July 1, 2015.)

(2) Summary of the Absorption-Type Merger
1) Names of the Companies Involved in the Merger and Description of Business
Name of the Surviving Company: Ipposha Oil Industries Co., Ltd.
Description of the Business: Production and sales of industrial chemicals, household chemicals, and food additives
Name of the Absorbed Company: LION SPECIALTY CHEMICALS Co., Ltd.
Description of the Business: Acquisition, production, and sales of industrial chemicals

2) Date of Business Combination
July 1, 2015 (planned)

3) Legal Form of Business Combination

An absorption-type merger, with Ipposha Oil Industries Co., Ltd. as the surviving company, and LION SPECIALTY CHEMICALS Co., Ltd. as the absorbed company.

4) Name of the Company after the Business Combination

LION SPECIALTY CHEMICALS Co., Ltd. (Trade name will be changed from "Ipposha Oil Industries Co., Ltd." as of July 1, 2015.)

2. Purpose of the Transaction

By undertaking the internal Group reorganization of the chemical business operations at the Company, Ipposha Oil Industries Co., Ltd., and LION SPECIALTY CHEMICALS Co., Ltd., the Company aims to enhance functionality and concentrate management resources by unifying operations, thereby achieving greater efficiency.

3. Overview of the Accounting Treatment

The merger will be conducted as a transaction under common control in accordance with "Accounting Standard for Business Combinations" (ASBJ Statement No. 21 issued on December 26, 2008), and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10 issued on December 26, 2008).

(b) Dividend Declaration

On February 10, 2015, the following distribution of retained earnings was approved at a meeting of the Company's Board of Directors:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends (¥5.00 (U.S.$0.04) per share)	**¥1,340**	**$11,120**

Independent Auditor's Report

EY
Building a better working world

Ernst & Young ShinNihon LLC
Hibiya Kokusai Bldg.
2-2-3 Uchisaiwai-cho, Chiyoda-ku
Tokyo, Japan 100-0011

Tel: +81 3 3503 1100
Fax: +81 3 3503 1197
www.shinnihon.or.jp

Independent Auditor's Report

The Board of Directors
Lion Corporation

We have audited the accompanying consolidated financial statements of Lion Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheet as at December 31, 2014, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lion Corporation and its consolidated subsidiaries as at December 31, 2014, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Emphasis of Matter

We draw attention to Note 3 Accounting Changes and Additional Information, which describes that the Company and its consolidated subsidiaries in Japan have changed their accounting method for the depreciation of property, plant and equipment from the declining-balance method to the straight-line method from the year ended December 31, 2014. Our opinion is not qualified in respect of this matter.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1(b).

Ernst & Young ShinNihon LLC

March 27, 2015