Financial Information

Consolidated Financial Statements and Notes

Contents

Consolidated Balance Sheets

Lion Corporation and Consolidated Subsidiaries
December 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars [Note 1 (b)]
ASSETS	**2016**	2015	**2016**
Current assets:			
Cash and time deposits [Notes 4, 11 and 14]	**¥ 17,879**	¥ 18,584	**$ 153,487**
Short-term investments [Notes 4 and 14]	**61,007**	45,919	**523,715**
Trade notes and accounts receivable [Note 4]	**60,293**	58,655	**517,585**
Inventories [Note 6]	**39,726**	37,554	**341,028**
Deferred income taxes [Note 8]	**4,161**	3,555	**35,723**
Prepaid expenses and other current assets	**2,465**	2,659	**21,161**
Allowance for doubtful accounts [Note 4]	**(64)**	(98)	**(552)**
Total current assets	**185,469**	166,830	**1,592,147**
Property, plant and equipment, at cost:			
Buildings and structures [Note 11]	**75,327**	76,604	**646,641**
Machinery and equipment [Note 11]	**143,987**	157,184	**1,236,054**
Land	**23,949**	24,317	**205,596**
Lease assets	**321**	508	**2,762**
Construction in progress	**2,705**	1,244	**23,228**
Total	**246,292**	259,858	**2,114,281**
Accumulated depreciation	**(171,890)**	(184,798)	**(1,475,578)**
Property, plant and equipment, net	**74,402**	75,060	**638,703**
Intangible assets:			
Trademarks	**1,658**	4,428	**14,238**
Other	**1,164**	1,492	**9,994**
Total intangible assets	**2,822**	5,921	**24,231**
Investments and other assets:			
Investment securities [Notes 4 and 5]	**19,057**	17,262	**163,599**
Investments in non-consolidated subsidiaries and affiliates	**4,968**	3,854	**42,648**
Long-term loans receivable	**28**	30	**246**
Net defined benefit assets [Note 9]	**7,973**	9,235	**68,450**
Deferred income taxes [Note 8]	**2,581**	2,947	**22,158**
Other	**1,291**	1,507	**11,085**
Allowance for doubtful accounts	**(84)**	(215)	**(729)**
Investments and other assets, net	**35,815**	34,622	**307,457**
Total assets	**¥298,510**	¥282,434	**$2,562,538**

See accompanying notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of yen 2016	2015	Thousands of U.S. dollars [Note 1 (b)] 2016
Current liabilities:			
Trade notes and accounts payable [Note 4]	**¥ 50,947**	¥ 49,620	**$ 437,354**
Short-term loans payable [Notes 4 and 7]	**4,244**	9,772	**36,438**
Current portion of long-term debt [Note 7]	**324**	312	**2,789**
Accrued expenses and other payables	**51,979**	47,521	**446,216**
Accrued income taxes	**4,677**	4,614	**40,156**
Accrued bonuses for employees	**3,792**	2,992	**32,558**
Other [Note 8]	**7,473**	6,413	**64,152**
Total current liabilities	**123,440**	121,247	**1,059,662**
Long-term liabilities:			
Bonds with subscription rights to shares	**—**	2,426	**—**
Long-term debt [Notes 4 and 7]	**1,809**	2,297	**15,536**
Accrued retirement benefits for directors	**287**	414	**2,466**
Net defined benefit liability [Note 9]	**10,446**	8,751	**89,679**
Other [Note 8]	**4,647**	4,565	**39,893**
Total long-term liabilities	**17,190**	18,455	**147,574**
Total liabilities	**140,630**	139,703	**1,207,236**
Contingent liabilities [Note 12]			
Net assets:			
Shareholders' equity [Note 10]**:**			
Common stock:			
Authorized: 1,185,600,000 shares at December 31, 2016 and 2015			
Issued and outstanding: 299,115,346 shares at December 31, 2016 and 2015	**34,433**	34,433	**295,594**
Capital surplus	**34,508**	34,029	**296,232**
Retained earnings	**82,479**	69,414	**708,038**
Treasury stock, at cost	**(4,778)**	(6,800)	**(41,024)**
Total shareholders' equity	**146,642**	131,077	**1,258,840**
Accumulated other comprehensive income (loss):			
Unrealized holding gain (loss) on other securities	**7,429**	5,983	**63,776**
Deferred gain (loss) on derivative financial instruments under hedge accounting	**12**	(0)	**109**
Translation adjustments	**445**	1,748	**3,820**
Remeasurements of defined benefit plans	**(5,246)**	(4,356)	**(45,037)**
Total accumulated other comprehensive income (loss)	**2,640**	3,375	**22,668**
Stock acquisition rights	**218**	403	**1,879**
Non-controlling interests	**8,377**	7,873	**71,915**
Total net assets	**157,879**	142,730	**1,355,302**
Total liabilities and net assets	**¥298,510**	¥282,434	**$2,562,538**

Consolidated Statements of Income

Lion Corporation and Consolidated Subsidiaries
Years ended December 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars [Note 1 (b)]
	2016	2015	**2016**
Net sales	**¥395,606**	¥378,659	**$3,396,055**
Cost of sales	**161,992**	162,435	**1,390,617**
Gross profit	**233,613**	216,223	**2,005,438**
Selling, general and administrative expenses [Note 13]	**209,110**	199,848	**1,795,095**
Operating income	**24,502**	16,374	**210,343**
Other income:			
Interest and dividend income	**561**	824	**4,821**
Equity in earnings of non-consolidated subsidiary and affiliates	**725**	752	**6,224**
Gain on sales of investment securities	**31**	210	**272**
Gain on contribution of securities to retirement benefits trust	**—**	6,736	**—**
Gain on selling or disposal of fixed assets	**—**	629	**—**
Other	**999**	1,223	**8,582**
Total other income	**2,317**	10,378	**19,898**
Other expenses:			
Interest expense	**276**	429	**2,375**
Interest on bonds	**9**	119	**78**
Loss on devaluation of investment securities	**—**	15	**—**
Loss on disposal of fixed assets	**542**	1,897	**4,660**
Impairment loss	**1,114**	4,479	**9,571**
Loss on liquidation of subsidiaries and associates	**351**	—	**3,016**
Loss on dissolution of employees' pension fund	**277**	—	**2,381**
Other	**213**	423	**1,830**
Total other expenses	**2,785**	7,365	**23,912**
Profit before income taxes	**24,035**	19,387	**206,330**
Income taxes:			
Current	**7,319**	5,896	**62,833**
Deferred	**(684)**	1,485	**(5,876)**
	6,634	7,382	**56,957**
Profit	**17,400**	12,005	**149,373**
Profit attributable to:			
Non-controlling interests	**(1,449)**	(1,324)	**(12,439)**
Owners of parent	**¥ 15,951**	¥ 10,680	**$ 136,933**

	Yen		U.S. dollars [Note 1 (b)]
Amounts per share:			
Profit attributable to owners of parent: Basic	**¥ 55.13**	¥ 39.35	**$0.47**
: Diluted	**55.04**	36.84	**0.47**
Cash dividends applicable to the year	**13.00**	10.00	**0.11**
Net assets	**513.76**	469.05	**4.41**
Weighted-average number of shares of common stock outstanding during the year (in thousands)	**289,313**	271,398	

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Lion Corporation and Consolidated Subsidiaries
Years ended December 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars [Note 1 (b)]
	2016	2015	**2016**
Profit	**¥17,400**	¥12,005	**$149,373**
Other comprehensive income (loss)			
Unrealized holding gain (loss) on other securities	**1,270**	(1,953)	**10,907**
Deferred gain (loss) on derivative financial instruments under hedge accounting	**12**	(0)	**111**
Translation adjustments	**(1,548)**	(1,500)	**(13,296)**
Remeasurements of defined benefit plans	**(890)**	1,460	**(7,643)**
Share of other comprehensive income (loss) of associates accounted for using equity method	**47**	(532)	**408**
Total other comprehensive income (loss)	**(1,108)**	(2,525)	**(9,512)**
Comprehensive income	**16,292**	9,479	**139,860**
Comprehensive income attributable to:			
Owners of parent	**15,216**	8,622	**130,621**
Non-controlling interests	**1,076**	857	**9,239**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Lion Corporation and Consolidated Subsidiaries
Years ended December 31, 2016 and 2015

		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 gain (loss) on other securities	Deferred gain (loss) on derivative financial instruments under hedge accounting	Translation adjustments	Remeasure-ments of defined benefit plans	Stock acquisition rights	Non-controlling interests	Total net assets
Balance at January 1, 2016	299,115,346	¥34,433	¥34,029	¥69,414	¥ (6,800)	¥131,077	¥5,983	¥ (0)	¥1,748	¥(4,356)	¥403	¥7,873	¥142,730
Profit attributable to owners of parent	—	—	—	**15,951**	—	**15,951**	—	—	—	—	—	—	**15,951**
Cash dividends	—	—	—	**(2,886)**	—	**(2,886)**	—	—	—	—	—	—	**(2,886)**
Treasury stock acquired [Note 10 (a)]	—	—	—	—	**(191)**	**(191)**	—	—	—	—	—	—	**(191)**
Treasury stock disposed of [Notes 10 (a), (b)]	—	—	**478**	—	**2,212**	**2,691**	—	—	—	—	—	—	**2,691**
Items other than changes in shareholders' equity, net	—	—	—	—	—	—	**1,445**	**12**	**(1,303)**	**(890)**	**(184)**	**503**	**(416)**
Balance at December 31, 2016	**299,115,346**	**¥34,433**	**¥34,508**	**¥82,479**	**¥ (4,778)**	**¥146,642**	**¥7,429**	**¥12**	**¥ 445**	**¥(5,246)**	**¥218**	**¥8,377**	**¥157,879**
Balance at January 1, 2015		¥34,433	¥31,499	¥66,095	¥(16,827)	¥115,201	¥7,912	¥ (0)	¥3,339	¥(5,816)	¥910	¥5,888	¥127,434
Cumulative effects of changes in accounting standard	299,115,346			(4,680)		(4,680)							(4,680)
Restated balance		¥34,433	¥31,499	¥61,415	¥(16,827)	¥110,520	¥7,912	¥ (0)	¥3,339	¥(5,816)	¥910	¥5,888	¥122,754
Profit attributable to owners of parent	—	—	—	10,680	—	10,680	—	—	—	—	—	—	10,680
Cash dividends	—	—	—	(2,681)	—	(2,681)	—	—	—	—	—	—	(2,681)
Treasury stock acquired [Note 10 (a)]	—	—	—	—	(141)	(141)	—	—	—	—	—	—	(141)
Treasury stock disposed of [Notes 10 (a), (b)]	—	—	2,529	—	10,169	12,699	—	—	—	—	—	—	12,699
Items other than changes in shareholders' equity, net	—	—	—	—	—	—	(1,928)	(0)	(1,590)	1,460	(506)	1,985	(579)
Balance at December 31, 2015	299,115,346	¥34,433	¥34,029	¥69,414	¥ (6,800)	¥131,077	¥5,983	¥ (0)	¥1,748	¥(4,356)	¥403	¥7,873	¥142,730

		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 gain (loss) on other securities	Deferred gain (loss) on derivative financial instruments under hedge accounting	Translation adjustments	Remeasure-ments of defined benefit plans	Stock acquisition rights	Non-controlling interests	Total net assets
Balance at January 1, 2016	299,115,346	$295,594	$292,124	$595,883	$(58,375)	$1,125,226	$51,365	$ (3)	$15,012	$(37,394)	$3,466	$67,592	$1,225,264
Profit attributable to owners of parent	—	—	—	**136,933**	—	**136,933**	—	—	—	—	—	—	**136,933**
Cash dividends	—	—	—	**(24,779)**	—	**(24,779)**	—	—	—	—	—	—	**(24,779)**
Treasury stock acquired [Note 10 (a)]	—	—	—	—	**(1,642)**	**(1,642)**	—	—	—	—	—	—	**(1,642)**
Treasury stock disposed of [Notes 10 (a), (b)]	—	—	**4,109**	—	**18,993**	**23,102**	—	—	—	—	—	—	**23,102**
Items other than changes in shareholders' equity, net	—	—	—	—	—	—	**12,411**	**111**	**(11,192)**	**(7,643)**	**(1,587)**	**4,323**	**(3,576)**
Balance at December 31, 2016	**299,115,346**	**$295,594**	**$296,232**	**$708,038**	**$(41,024)**	**$1,258,840**	**$63,776**	**$109**	**$ 3,820**	**$(45,037)**	**$1,879**	**$71,915**	**$1,355,302**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Lion Corporation and Consolidated Subsidiaries
Years ended December 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars [Note 1 (b)]
	2016	2015	**2016**
Cash flows from operating activities:			
Profit before income taxes	**¥24,035**	¥19,387	**$206,330**
Adjustments to reconcile profit before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**10,244**	11,166	**87,940**
Loss on impairment of fixed assets	**1,114**	4,479	**9,571**
Increase (decrease) in accrued bonuses for employees	**832**	339	**7,149**
Increase (decrease) in net defined benefit assets and liabilities	**1,765**	(4,826)	**15,159**
Gain on securities contribution to employees' retirement benefits trust	**—**	(6,736)	**—**
Interest and dividend income	**(561)**	(824)	**(4,821)**
Interest expense	**276**	429	**2,375**
Interest on bonds	**9**	119	**78**
Loss (gain) on disposal of property, plant and equipment	**542**	1,267	**4,660**
Loss (gain) on sales of investment securities	**(31)**	(210)	**(272)**
Loss on devaluation of investment securities	**—**	15	**—**
Equity in earnings of non-consolidated subsidiaries and affiliates	**(725)**	(752)	**(6,224)**
Loss (gain) on step acquisitions	**—**	178	**—**
Decrease (increase) in trade notes and accounts receivable	**(2,456)**	2,302	**(21,086)**
Decrease (increase) in inventories	**(2,968)**	2,078	**(25,484)**
Increase (decrease) in trade notes and accounts payable	**1,769**	2,131	**15,193**
Increase (decrease) in accrued expenses and other payables	**4,527**	2,111	**38,869**
Other, net	**944**	6,867	**8,105**
Subtotal	**39,320**	39,523	**337,543**
Interest and dividends received	**709**	1,073	**6,092**
Interest paid	**(264)**	(436)	**(2,270)**
Income taxes paid	**(7,495)**	(4,620)	**(64,348)**
Net cash provided by operating activities	**32,269**	35,539	**277,018**
Cash flows from investing activities:			
Decrease (increase) in time deposits	**2,099**	1,052	**18,025**
Purchases of property, plant and equipment	**(8,945)**	(9,334)	**(76,789)**
Proceeds from sales of property, plant and equipment	**51**	787	**439**
Purchases of intangible assets	**(260)**	(160)	**(2,233)**
Purchases of investment securities	**(146)**	(144)	**(1,256)**
Proceeds from sales of investment securities	**81**	553	**697**
Increase in loans receivable	**(1)**	(9)	**(14)**
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	**—**	351	**—**
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	**(183)**	—	**(1,571)**
Purchase of shares of subsidiaries and associates	**(483)**	—	**(4,153)**
Other, net	**(57)**	(69)	**(491)**
Net cash used in investing activities	**(7,845)**	(6,974)	**(67,348)**
Cash flows from financing activities:			
Increase in short-term loans payable	**1,517**	6,273	**13,029**
Repayment of short-term loans payable	**(4,794)**	(7,702)	**(41,158)**
Repayment of long-term debt	**(214)**	(116)	**(1,839)**
Purchases of treasury stock	**(191)**	(141)	**(1,642)**
Proceeds from disposal of treasury stock	**0**	0	**2**
Cash dividends	**(2,889)**	(2,660)	**(24,808)**
Cash dividends to non-controlling interests	**(727)**	(634)	**(6,244)**
Other, net	**(137)**	(81)	**(1,184)**
Net cash used in financing activities	**(7,437)**	(5,062)	**(63,844)**
Effect of exchange rate changes on cash and cash equivalents	**(526)**	(374)	**(4,518)**
Net increase (decrease) in cash and cash equivalents	**16,461**	23,128	**141,309**
Cash and cash equivalents at beginning of the year	**61,278**	38,150	**526,043**
Cash and cash equivalents at end of the year [Note 14]	**¥77,739**	¥61,278	**$667,352**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Lion Corporation and Consolidated Subsidiaries, December 31, 2016

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 ¥116.49 = U.S.$1.00, the approximate rate of exchange in effect on December 31, 2016. 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, 2016 were as follows:

Lion Chemical Co., Ltd./Lion Business Service Co., Ltd./
Lion Hygiene Co., Ltd./Lion Trading 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 Daily Necessities Chemicals (Qingdao) Co., Ltd./PT. IPPOSHA INDONESIA/
CJ Lion Corporation/Lion Chemical Industry (Taiwan) Co., Ltd./
Lion Home Products (Taiwan) Co., Ltd./Lion Corporation (Thailand) Ltd./
Lion Service Co., Ltd./Eastern Silicate Co., Ltd./Southern Lion Sdn. Bhd.

There were two non-consolidated subsidiaries at December 31, 2016 and one non-consolidated subsidiary at December 31, 2015. The aggregate total assets, retained earnings, net sales and net income were not significant.

The Company sold all its shares of PEERLESS LION CORPORATION to PEERLESS PRODUCTS MANUFACTURING CORPORATION, its partner in the venture, and dissolved the joint venture contract during the year ended December 31, 2016.

The equity method had been applied, in accounting for the investments in one non-consolidated subsidiary for the years ended December 31, 2016 and 2015, and four affiliates for the years ended December 31, 2016 and 2015, 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 5 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 non-controlling interests. Differences arising from translation are presented as “Translation adjustments” and “Non-controlling 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 moving-average method. 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.

(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 benefit formula 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.

Certain consolidated subsidiaries also provide for retirement allowances to directors based on the estimated amounts.

(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, 2016 and 2015.

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, 2016 and 2015.

(p) Consumption Taxes

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

Note 3 Accounting Changes and Additional Information

(Application of Accounting Standard for Business Combinations and other standards)

The Companies have adopted the Accounting Standard for Business Combinations (Accounting Standards Board of Japan (ASBJ) Statement No. 21, revised on September 13, 2013), Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, revised on September 13, 2013) and Accounting Standard for Business Divestitures (ASBJ Statement No. 7, revised on September 13, 2013) from the fiscal year ended December 31, 2016.

Accordingly, the Companies now record differences arising from changes in equity in consolidated subsidiaries when the Companies retain control in capital surplus while posting business acquisition costs as expenses for the fiscal year in which such costs are incurred. In addition, with regard to business combinations that come into effect from the beginning of the fiscal year ended December 31, 2016, after the allocation of acquisition costs under provisional accounting treatment is finalized, said allocation shall be retrospectively reflected in the consolidated financial statements for the fiscal year in which such business combinations take effect.

Moreover, the adoption of the aforementioned accounting standards led to a change in methods for presenting net income in addition to the relabeling of minority interests as non-controlling interests. To reflect these changes, certain items presented in the consolidated financial statements for the previous fiscal year have been reclassified.

In the consolidated statement of cash flows for the fiscal year ended December 31, 2016, cash flows related to the acquisition or sales of shares of subsidiaries that do not result in a change in the scope of consolidation are recorded under cash flows from financing activities, while cash flows related to expenses incurred in relation to the acquisition of shares of subsidiaries resulting in a change in the scope of consolidation and expenses incurred in relation to the acquisition or sales of shares of subsidiaries that do not result in a change in the scope of consolidation are recorded under cash flows from operating activities.

These standards have been applied prospectively from the beginning of the fiscal year ended December 31, 2016 and subject to the transitional treatment stipulated in Item 4, Paragraph 2, Article 58 of the Accounting Standard for Business Combinations; Item 4, Paragraph 5, Article 44 of the Accounting Standard for Consolidated Financial Statements; and Item 4, Paragraph 4, Article 57 of the Accounting Standard for Business Divestitures.

The aforementioned changes in accounting methods had no impact on the Company's consolidated financial statements for the fiscal year ended December 31, 2016.

(Change in method for valuing inventories)
Previously, the valuation method used by the Company for inventories of merchandise and finished products had mainly been to state them at cost using the first in, first out method.

However, in September 2015, Southern Lion Sdn. Bhd. was made a consolidated subsidiary based on one of the basic strategies of the Vision 2020 management vision, "Quantitative Expansion of Overseas Businesses." As a result of this and other factors, the share of said inventories accounted for by overseas subsidiaries on the consolidated financial statements is rising. In light of this, the Company has reconsidered its valuation method for inventories and determined that it would be best to align its accounting policy with that used at its overseas subsidiaries. Accordingly, from the fiscal year ended December 31, 2016, the Company and some domestic consolidated subsidiaries now state inventories at cost using the moving-average method.

The impact of this change was minor, and it has not been applied retroactively.

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, 2016 and 2015 were as follows.

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

	Millions of yen		
	2016		
	Carrying amount	Fair value	Difference
Assets:			
1. Cash and time deposits	**¥ 17,879**	**¥ 17,879**	**¥ —**
2. Trade notes and accounts receivable	**60,293**		
Allowance for doubtful accounts	**(64)**		
Subtotal	**60,229**	**60,229**	**—**
3. Short-term investments, investment securities and investments in non-consolidated subsidiaries and affiliates			
Other securities	**79,434**	**79,434**	**—**
Investments in non-consolidated subsidiaries and affiliates	**568**	**2,024**	**1,455**
Subtotal	**80,002**	**81,458**	**1,455**
Total assets	**158,111**	**159,567**	**1,455**
Liabilities:			
4. Trade notes and accounts payable	**50,947**	**50,947**	**—**
5. Short-term loans payable	**4,244**	**4,244**	**—**
6. Current portion of long-term loans payable	**260**	**260**	**—**
7. Accrued expenses and other payables	**51,979**	**51,979**	**—**
8. Accrued income taxes	**4,677**	**4,677**	**—**
9. Long-term loans payable	**1,690**	**1,723**	**32**
Total liabilities	**113,800**	**113,832**	**32**
10. Derivative transactions	**¥ 18**	**¥ 18**	**¥ —**

	Millions of yen		
	2015		
	Carrying amount	Fair value	Difference
Assets:			
1. Cash and time deposits	¥ 18,584	¥ 18,584	¥ —
2. Trade notes and accounts receivable	58,655		
Allowance for doubtful accounts	(98)		
Subtotal	58,557	58,557	—
3. Short-term investments, investment securities and investments in non-consolidated subsidiaries and affiliates			
Other securities	62,592	62,592	—
Investments in non-consolidated subsidiaries and affiliates	503	1,572	1,069
Subtotal	63,096	64,165	1,069
Total assets	140,237	141,307	1,069
Liabilities:			
4. Trade notes and accounts payable	49,620	49,620	—
5. Short-term loans payable	9,772	9,772	—
6. Current portion of long-term loans payable	226	226	—
7. Accrued expenses and other payables	47,521	47,521	—
8. Accrued income taxes	4,614	4,614	—
9. Long-term loans payable	2,082	2,132	50
10. Bonds with subscription rights to shares	2,426	2,471	45
Total liabilities	116,264	116,359	95
11. Derivative transactions	¥ (0)	¥ (0)	¥ —

	Thousands of U.S. dollars		
	2016		
	Carrying amount	Fair value	Difference
Assets:			
1. Cash and time deposits	**$ 153,487**	**$ 153,487**	**$ —**
2. Trade notes and accounts receivable	**517,585**		
Allowance for doubtful accounts	**(552)**		
Subtotal	**517,033**	**517,033**	**—**
3. Short-term investments, investment securities and investments in non-consolidated subsidiaries and affiliates			
Other securities	**681,897**	**681,897**	**—**
Investments in non-consolidated subsidiaries and affiliates	**4,877**	**17,375**	**12,498**
Subtotal	**686,774**	**699,272**	**12,498**
Total assets	**1,357,295**	**1,369,793**	**12,498**
Liabilities:			
4. Trade notes and accounts payable	**437,354**	**437,354**	**—**
5. Short-term loans payable	**36,438**	**36,438**	**—**
6. Current portion of long-term loans payable	**2,233**	**2,233**	**—**
7. Accrued expenses and other payables	**446,216**	**446,216**	**—**
8. Accrued income taxes	**40,156**	**40,156**	**—**
9. Long-term loans payable	**14,516**	**14,793**	**277**
Total liabilities	**976,913**	**977,190**	**277**
10. Derivative transactions	**$ 155**	**$ 155**	**$ —**

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, 7. Accrued expenses and other payables, and 8. Accrued income taxes

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.

9. 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 have 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.

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 “9. Long-term loans payable” above.

The carrying amounts of financial instruments whose fair values are extremely difficult to determine at December 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Investments in non-consolidated subsidiaries and affiliates	**¥4,399**	¥3,351	**$37,771**
Non-marketable equity securities	**580**	588	**4,984**
Investments in limited partnerships funds	**50**	—	**433**

At December 31, 2016 and 2015, the redemption schedule for financial instruments was as follows:

	Millions of yen		
	2016		
	Due in one year or less	Due after one year through five years	Due after five years through ten years
Cash and time deposits	**¥ 17,879**	**¥—**	**¥—**
Trade notes and accounts receivable	**60,293**	**—**	**—**
Short-term investments and investment securities			
Negotiable deposits	**61,007**	**—**	**—**
Total	**¥139,180**	**¥—**	**¥—**

	Millions of yen		
	2015		
	Due in one year or less	Due after one year through five years	Due after five years through ten years
Cash and time deposits	¥ 18,584	¥—	¥—
Trade notes and accounts receivable	58,655	—	—
Short-term investments and investment securities			
Negotiable deposits	45,919	—	—
Total	¥123,159	¥—	¥—

	Thousands of U.S. dollars		
	2016		
	Due in one year or less	Due after one year through five years	Due after five years through ten years
Cash and time deposits	**$ 153,487**	**$—**	**$—**
Trade notes and accounts receivable	**517,585**	**—**	**—**
Short-term investments and investment securities			
Negotiable deposits	**523,715**	**—**	**—**
Total	**$1,194,787**	**$—**	**$—**

Note 5 Investment Securities

The acquisition cost and related fair value of other securities at December 31, 2016 and 2015 were as follows:

	Millions of yen			
	2016			
	Acquisition cost	Fair value	Unrealized gains	Unrealized losses
Other securities:				
Marketable equity securities	**¥8,249**	**¥18,426**	**¥10,255**	**¥78**
Total	**¥8,249**	**¥18,426**	**¥10,255**	**¥78**

	Millions of yen			
	2015			
	Acquisition cost	Fair value	Unrealized gains	Unrealized losses
Other securities:				
Marketable equity securities	¥8,284	¥16,673	¥8,628	¥240
Total	¥8,284	¥16,673	¥8,628	¥240

	Thousands of U.S. dollars			
	2016			
	Acquisition cost	Fair value	Unrealized gains	Unrealized losses
Other securities:				
Marketable equity securities	**$70,814**	**$158,182**	**$88,039**	**$671**
Total	**$70,814**	**$158,182**	**$88,039**	**$671**

Note 6
Inventories

Inventories at December 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Merchandise and finished products	**¥26,120**	¥24,233	**$224,229**
Work in process	**2,863**	3,169	**24,581**
Raw materials and supplies	**10,742**	10,151	**92,218**
Total	**¥39,726**	¥37,554	**$341,028**

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 2.51% and 2.72% at December 31, 2016 and 2015, respectively.

Long-term debt at December 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Long-term loans payable	**¥1,951**	¥2,308	**$16,749**
Less: Current portion from banks at average interest rates of 3.01% and 2.14% at December 31, 2016 and 2015, respectively	**(260)**	(226)	**(2,233)**
Long-term loans payable less current portion from banks at average interest rates of 3.49% and 3.58% at December 31, 2016 and 2015, respectively	**1,690**	2,082	**14,516**
Lease obligation	**183**	302	**1,575**
Less: Current portion of lease obligations	**(64)**	(86)	**(555)**
Long-term debt less current portion of lease obligations	**118**	215	**1,020**
Total long-term debt	**¥1,809**	¥2,297	**$15,536**

At December 31, 2016, the redemption schedule for long-term loans payable was as follows:

	Millions of yen	Thousands of U.S. dollars
2017	¥260	$2,233
2018	260	2,233
2019	260	2,233
2020	260	2,233
2021 and thereafter	910	7,816

Note 8
Deferred Income Taxes

The significant components of deferred tax assets and liabilities at December 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Deferred tax assets:			
Allowance for doubtful accounts	**¥ 13**	¥ 23	**$ 114**
Assets and liabilities for retirement benefits	**9,995**	9,844	**85,805**
Loss on impairment of fixed assets	**2,768**	3,078	**23,768**
Accrued enterprise taxes	**379**	384	**3,262**
Unrealized intercompany profit	**544**	553	**4,674**
Other	**5,391**	5,291	**46,279**
Less valuation allowance	**(3,152)**	(3,805)	**(27,058)**
Total deferred tax assets	**15,940**	15,370	**136,842**
Deferred tax liabilities:			
Special tax-purpose reserve	**(1,128)**	(1,212)	**(9,686)**
Gain on contribution of securities to pension trust	**(4,868)**	(5,174)	**(41,791)**
Unrealized holding gain on other securities	**(2,794)**	(2,369)	**(23,990)**
Other	**(1,333)**	(1,157)	**(11,448)**
Total deferred tax liabilities	**(10,124)**	(9,913)	**(86,915)**
Net deferred tax assets	**¥ 5,815**	¥ 5,456	**$ 49,927**

Net amounts of deferred income tax are included in the category of the consolidated balance sheet listed below for the years ended December 31, 2016 and 2015:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Current assets - Deferred income tax	**¥4,161**	¥3,555	**$35,723**
Non-current assets - Deferred income tax	**2,581**	2,947	**22,158**
Current liabilities - Other	**16**	15	**141**
Long-term liabilities - Other	**910**	1,031	**7,813**

A reconciliation of the difference between the statutory tax rate and the effective tax rate for the years ended December 31, 2016 and 2015 was as follows:

	2016	2015
Statutory tax rate:	**33.1%**	35.6%
Permanent differences, net	**0.4**	0.1
Effect of tax rate reduction	**1.8**	2.1
Loss on impairment of investment securities and other unscheduled items	**(0.4)**	(0.2)
Loss on step acquisitions	**—**	0.3
Foreign tax rate difference	**(3.0)**	(0.8)
Tax credit for research and development costs and other	**(2.8)**	(2.3)
Other	**(1.5)**	3.3
Effective tax rate	**27.6%**	38.1%

The “Act for Partial Amendment of the Income Tax Act, etc.” and the “Act for Partial Amendment of the Local Tax Act, etc.” were enacted on March 29, 2016. Moreover, the “Act for Partial Amendment of the Consumption Tax Act, etc. for the Drastic Reform of the Taxation System for Ensuring Stable Financial Resources for Social Security” and the “Act for Partial Amendment of the Local Tax Act and Local Allocation Tax Act for the Drastic Reform of the Taxation System for Ensuring Stable Financial Resources for Social Security” were enacted on November 18, 2016.

As a result, the effective statutory tax rate used to measure the Company's deferred tax assets and liabilities was changed from 32.3% to 30.9% for the temporary differences expected to be realized or settled in the years beginning January 1, 2017 to December 31, 2018 and to 30.6% for the temporary differences expected to be realized or settled in the year beginning January 1, 2019 and thereafter.

As a result of this tax rate change, deferred tax assets (net of deferred tax liabilities) decreased by ¥282 million (U.S.$2,429 thousand), deferred income tax increased by ¥305 million (U.S.$2,625 thousand), unrealized holding gain on other securities increased by ¥151 million (U.S.$1,300 thousand), and remeasurements of defined benefit plans increased by ¥128 million (U.S.$1,103 thousand) as of and for the year ended December 31, 2016.

Note 9
Retirement Benefit Plans

Retirement benefit plans at December 31, 2016 and 2015 were as follows:

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 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 12 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
	2016	2015	**2016**
Retirement benefit obligation at beginning of period	**¥70,892**	¥65,535	**$608,574**
Cumulative effects of changes in accounting policies	**—**	7,267	**—**
Retirement benefit obligation carrying amount	**70,892**	72,803	**608,574**
Service cost	**2,079**	2,077	**17,850**
Interest cost	**401**	405	**3,445**
Actuarial gain	**2,279**	(526)	**19,564**
Retirement benefit paid	**(4,092)**	(3,867)	**(35,134)**
Loss on dissolution of employees' pension fund	**164**	—	**1,411**
Retirement benefit obligation at end of the year	**¥71,724**	¥70,892	**$615,710**

Including a system which applied the simplified method.

(2) Plan Assets

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Plan assets' carrying amount	**¥71,377**	¥58,050	**$612,736**
Expected return on plan assets	**1,305**	1,031	**11,206**
Actuarial loss	**(108)**	827	**(934)**
Contributions by the Company	**467**	15,255	**4,010**
Retirement benefits paid	**(3,790)**	(3,788)	**(32,537)**
Plan assets at end of the year	**¥69,251**	¥71,377	**$594,481**

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
	2016	2015	2016
Funded retirement benefit obligation	¥69,520	¥68,654	$596,797
Plan assets	(69,251)	(71,377)	(594,481)
	269	(2,723)	2,316
Unfunded retirement benefit obligation	2,204	2,238	18,913
Net liability and assets for retirement benefits in the balance sheet	2,473	(484)	21,229
Liability for retirement benefits	10,446	8,751	89,679
Assets for retirement benefits	(7,973)	(9,235)	(68,450)
Net liability and assets for retirement benefits in the balance sheet	¥ 2,473	¥ (484)	$ 21,229

Including a system which applied the simplified method.

(4) Components of Retirement Benefit Expense

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Service cost	¥2,079	¥2,077	$17,850
Interest cost	401	405	3,445
Expected return on plan assets	(1,305)	(1,031)	(11,206)
Amortization of actuarial loss	1,263	1,245	10,849
Amortization of prior service cost	(1)	(1)	(11)
Retirement benefit expense	¥2,437	¥2,695	$20,927

1. Including a system which applied the simplified method.
2. Other than the retirement benefit expense listed above, loss on dissolution of employees' pension fund of ¥277 million (U.S.$2,381 thousand) is calculated as other expense for the year ended December 31, 2016.

(5) Remeasurement of Defined Benefit Plans Included in Other Comprehensive Income (Loss)

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Prior service cost	¥ (1)	¥ (1)	$ (10)
Actuarial loss	(1,124)	2,599	(9,649)
Total	¥(1,125)	¥2,598	$(9,659)

(6) Remeasurements of Defined Benefit Plans Included in Accumulated Other Comprehensive Income (Loss)

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unrecognized prior service cost	¥ (1)	¥ (2)	$ (11)
Unrecognized actuarial loss	7,560	6,436	64,906
Total	¥7,559	¥6,434	$64,895

(7) Plan Assets
(a) Components of plan assets

	2016	2015
Bonds	**39%**	38%
Stocks	**44**	43
Other	**17**	19
Total	**100%**	100%

The total plan assets at the end of the year include a 35% retirement benefit trust that was set for the defined benefit plan and the lump-sum severance idemnity plan for the years ended December 31, 2016 and 2015, respectively.

(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.

(8) Actuarial Assumptions

	2016	2015
Discount rates	**0.3%**	0.6%
Expected rates of return on plan assets	**2.0**	2.0

3. Defined Contribution Plan
The contribution to the defined contribution plan of the Company and consolidated subsidiaries was ¥170 million (U.S.$1,462 thousand) and ¥181 million for the years ended December 31, 2016 and 2015, respectively.

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 122 thousand shares of common stock during the year ended December 31, 2016 at an aggregate cost of ¥191 million (U.S.$1,642 thousand) and 140 thousand shares of common stock during the year ended December 31, 2015 at an aggregate cost of ¥141 million.

In addition, at the request of shareholders who own odd lot shares of common stock, the Company sold 4 hundred shares of its common stock during the year ended December 31, 2016 and 1 thousand shares of its common stock during the year ended December 31, 2015.

Moreover, at the request of bondholders to exercise bonds with subscription rights to shares of common stock, the Company converted the bonds into 3,720 thousand shares of its common stock during the year ended December 31, 2016 and 18,601 thousand shares of its common stock during the year ended December 31, 2015.

(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 391 thousand shares of its common stock as of December 31, 2016 and 651 thousand shares of its common stock as of December 31, 2015. 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 319 thousand shares of its common stock during the year ended December 31, 2016, and 69 thousand shares of its common stock during the year ended December 31, 2015.

(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, 2017 for the payment of cash dividends of ¥8.00 (U.S.$0.07) per share, aggregating to ¥2,324 million (U.S.$19,955 thousand), which has not been reflected in the accompanying consolidated financial statements for the year ended December 31, 2016.

Note 11 Pledged Assets

The assets pledged as collateral for short-term loans payable and trade notes and accounts payable at December 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Cash and time deposits	**¥ 47**	¥ 49	**$ 410**
Buildings and structures	**1,403**	1,491	**12,049**
Machinery and equipment	**676**	613	**5,805**
Total	**¥2,127**	¥2,154	**$18,264**

Note 12 Contingent Liabilities

Contingent liabilities at December 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
As guarantors of indebtedness of certain affiliates and employees	**¥2,738**	¥3,018	**$23,507**
Total	**¥2,738**	¥3,018	**$23,507**

Note 13 Research and Development Expenses

Research and development expenses, all of which have been included in selling, general and administrative expenses, amounted to ¥10,084 million (U.S.$86,572 thousand) and ¥9,808 million for the years ended December 31, 2016 and 2015, 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, 2016 and 2015 was summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Cash and time deposits	**¥17,879**	¥18,584	**$153,487**
Short-term investments	**61,007**	45,919	**523,715**
Time deposits with maturities greater than three months and other	**(1,147)**	(3,224)	**(9,850)**
Cash and cash equivalents at end of the year	**¥77,739**	¥61,278	**$667,352**

2. Significant non-cash transaction

At the request of bondholders to exercise bonds with subscription rights to shares of common stock, bonds with subscription rights to shares decreased by ¥2,435 million (U.S.$20,909 thousand), stock acquisition rights decreased by ¥109 million (U.S.$938 thousand), treasury stock decreased by ¥2,037 million (U.S.$17,491 thousand), and capital surplus increased by ¥507 million (U.S.$4,356 thousand) for the fiscal year ended December 31, 2016.

At the request of bondholders to exercise bonds with subscription rights to shares of common stock, bonds with subscription rights to shares decreased by ¥12,123 million, stock acquisition rights decreased by ¥546 million, treasury stock decreased by ¥10,131 million, and capital surplus increased by ¥2,538 million for the fiscal year ended December 31, 2015.

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, 2016 and 2015 were as follows:

	Millions of yen						
	2016						
	Reportable segments						
	Consumer Products Business	Industrial Products Business	Overseas Business	Other Business	Total	Adjustments*2	Consolidated total*3
Net sales							
Sales to external customers	**¥261,305**	**¥31,395**	**¥ 99,285**	**¥ 3,619**	**¥395,606**	**¥ —**	**¥395,606**
Intersegment sales*1	**25,722**	**22,934**	**11,648**	**23,247**	**83,553**	**(83,553)**	**—**
Total	**287,028**	**54,330**	**110,933**	**26,867**	**479,159**	**(83,553)**	**395,606**
Segment income	**15,817**	**2,560**	**4,566**	**915**	**23,859**	**643**	**24,502**
Segment assets	**107,456**	**44,315**	**68,649**	**20,001**	**240,423**	**58,086**	**298,510**
Other							
Depreciation and amortization	**6,967**	**953**	**1,800**	**147**	**9,870**	**374**	**10,244**
Investment in equity method affiliates	**2,478**	**—**	**82**	**2,414**	**4,975**	**(14)**	**4,961**
Increase in property, plant and equipment and intangible assets	**4,864**	**1,187**	**2,793**	**116**	**8,961**	**445**	**9,407**

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

*2. (1) Adjustments to segment income totaling ¥643 million were composed mainly of eliminations of internal transactions.

(2) Adjustments to segment assets included eliminations of internal transactions of ¥(77,961) million and Company assets not allocated to reportable segments of ¥136,048 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						
	2015						
	Reportable segments						
	Consumer Products Business	Industrial Products Business	Overseas Business	Other Business	Total	Adjustments*2	Consolidated total*3
Net sales							
Sales to external customers	¥247,978	¥30,805	¥ 93,903	¥ 5,972	¥378,659	¥ —	¥378,659
Intersegment sales*1	25,508	25,298	8,174	23,194	82,176	(82,176)	—
Total	273,486	56,104	102,077	29,166	460,835	(82,176)	378,659
Segment income	10,108	1,612	2,983	956	15,660	714	16,374
Segment assets	105,018	42,913	68,005	21,218	237,156	45,277	282,434
Other							
Depreciation and amortization	7,334	1,178	2,097	151	10,762	404	11,166
Investment in equity method affiliates	1,319	—	88	2,388	3,796	51	3,847
Increase in property, plant and equipment and intangible assets	5,037	1,337	1,994	128	8,497	303	8,801

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

*2. (1) Adjustments to segment income totaling ¥714 million were composed mainly of eliminations of internal transactions.

(2) Adjustments to segment assets included eliminations of internal transactions of ¥(75,249) million and Company assets not allocated to reportable segments of ¥120,527 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						
	2016						
	Reportable segments						
	Consumer Products Business	Industrial Products Business	Overseas Business	Other Business	Total	Adjustments*2	Consolidated total*3
Net sales							
Sales to external customers	**$2,243,156**	**$269,516**	**$852,309**	**$ 31,074**	**$3,396,055**	**$ —**	**$3,396,055**
Intersegment sales*1	**220,816**	**196,882**	**99,994**	**199,567**	**717,259**	**(717,259)**	**—**
Total	**2,463,972**	**466,398**	**952,303**	**230,641**	**4,113,314**	**(717,259)**	**3,396,055**
Segment income	**135,781**	**21,983**	**39,198**	**7,855**	**204,818**	**5,525**	**210,343**
Segment assets	**922,451**	**380,425**	**589,316**	**171,704**	**2,063,896**	**498,642**	**2,562,538**
Other							
Depreciation and amortization	**59,814**	**8,188**	**15,459**	**1,267**	**84,729**	**3,211**	**87,940**
Investment in equity method affiliates	**21,277**	**—**	**710**	**20,725**	**42,713**	**(121)**	**42,592**
Increase in property, plant and equipment and intangible assets	**41,760**	**10,190**	**23,982**	**998**	**76,930**	**3,826**	**80,756**

Notes: *1. Internal transactions are included within the reportable segments.
*2. (1) Adjustments to segment income totaling U.S.$5,525 thousand were composed mainly of eliminations of internal transactions.
(2) Adjustments to segment assets included eliminations of internal transactions of U.S.$(669,255) thousand and Company assets not allocated to reportable segments of U.S.$1,167,897 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, 2016 and 2015

Geographic Information

(1) Sales

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Japan	**¥294,039**	¥281,517	**$2,524,158**
Asia	**99,174**	95,617	**851,353**
Thailand	**47,511**	49,674	**407,861**
Other	**2,393**	1,524	**20,544**
Consolidated	**¥395,606**	¥378,659	**$3,396,055**

Note 1: 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
	2016	2015	**2016**
Japan	**¥52,590**	¥51,964	**$451,463**
Asia	**21,811**	23,095	**187,240**
Thailand	**8,407**	7,936	**72,171**
Consolidated	**¥74,402**	¥75,060	**$638,703**

Information on Impairment Loss on Fixed Assets by Reportable Segment

Years ended December 31, 2016 and 2015

	Millions of yen						
	2016						
	Reportable segments						
	Consumer Products Business	Industrial Products Business	Overseas Business	Other Business	Total	Adjustments	Consolidated total
Impairment loss	**¥112**	**¥0**	**¥611**	**¥470**	**¥1,195**	**¥(80)**	**¥1,114**

Note 1: The amount included in "Other Business" is related to the real estate management business.

	Millions of yen						
	2015						
	Reportable segments						
	Consumer Products Business	Industrial Products Business	Overseas Business	Other Business	Total	Adjustments	Consolidated total
Impairment loss	¥467	¥28	¥3,860	¥—	¥4,356	¥123	¥4,479

	Thousands of U.S. dollars						
	2016						
	Reportable segments						
	Consumer Products Business	Industrial Products Business	Overseas Business	Other Business	Total	Adjustments	Consolidated total
Impairment loss	**$969**	**$1**	**$5,251**	**$4,039**	**$10,260**	**$(689)**	**$9,571**

Information on Amortization of Goodwill and Remaining Balance by Reportable Segment

As of and for the years ended December 31, 2016 and 2015

	Millions of yen						
	2016						
	Reportable segments						
	Consumer Products Business	Industrial Products Business	Overseas Business	Other Business	Total	Adjustments	Consolidated total
Amortization for the year	**¥—**	**¥ 81**	**¥—**	**¥—**	**¥ 81**	**¥—**	**¥ 81**
Balance at the end of year	**—**	**182**	**—**	**—**	**182**	**—**	**182**

	Millions of yen						
	2015						
	Reportable segments						
	Consumer Products Business	Industrial Products Business	Overseas Business	Other Business	Total	Adjustments	Consolidated total
Amortization for the year	¥—	¥ 81	¥—	¥—	¥ 81	¥—	¥ 81
Balance at the end of year	—	263	—	—	263	—	263

	Thousands of U.S. dollars						
	2016						
	Reportable segments						
	Consumer Products Business	Industrial Products Business	Overseas Business	Other Business	Total	Adjustments	Consolidated total
Amortization for the year	**$—**	**$ 697**	**$—**	**$—**	**$ 697**	**$—**	**$ 697**
Balance at the end of year	**—**	**1,568**	**—**	**—**	**1,568**	**—**	**1,568**

Note 16 Subsequent Event

(a) Dividend Declaration

On February 10, 2017, 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 (¥8.00 (U.S.$0.07) per share)	**¥2,324**	**$19,955**

Independent Auditor's Report

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Building a better working world

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, 2016, 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, 2016, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

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 29, 2017