Financial Information

Consolidated Financial Statements and Notes

Contents

Consolidated Balance Sheets

Lion Corporation and Consolidated Subsidiaries
December 31, 2017 and 2016

ASSETS	Millions of yen		Thousands of U.S. dollars [Note 1 (b)]
	2017	2016	**2017**
Current assets:			
Cash and time deposits [Notes 4, 11 and 14]	**¥ 23,781**	¥ 17,879	**$ 210,460**
Short-term investments [Notes 4 and 14]	**69,211**	61,007	**612,488**
Trade notes and accounts receivable [Note 4]	**64,141**	60,293	**567,624**
Inventories [Note 6]	**40,209**	39,726	**355,841**
Deferred income taxes [Note 8]	**3,704**	4,161	**32,785**
Prepaid expenses and other current assets	**2,530**	2,465	**22,396**
Allowance for doubtful accounts [Note 4]	**(84)**	(64)	**(749)**
Total current assets	**203,495**	185,469	**1,800,844**
Property, plant and equipment, at cost:			
Buildings and structures [Note 11]	**75,122**	75,327	**664,802**
Machinery and equipment [Note 11]	**140,142**	143,987	**1,240,197**
Land	**24,195**	23,949	**214,120**
Lease assets	**329**	321	**2,912**
Construction in progress	**7,861**	2,705	**69,567**
Total	**247,650**	246,292	**2,191,598**
Accumulated depreciation	**(166,669)**	(171,890)	**(1,474,952)**
Property, plant and equipment, net	**80,981**	74,402	**716,646**
Intangible assets:			
Trademarks	**40**	1,658	**358**
Other	**1,650**	1,164	**14,605**
Total intangible assets	**1,690**	2,822	**14,963**
Investments and other assets:			
Investment securities [Notes 4 and 5]	**26,914**	19,057	**238,182**
Investments in non-consolidated subsidiaries and affiliates	**5,549**	4,968	**49,115**
Long-term loans receivable	**36**	28	**319**
Net defined benefit assets [Note 9]	**10,302**	7,973	**91,171**
Deferred income taxes [Note 8]	**1,291**	2,581	**11,425**
Other	**1,575**	1,291	**13,944**
Allowance for doubtful accounts	**(84)**	(84)	**(751)**
Investments and other assets, net	**45,584**	35,815	**403,405**
Total assets	**¥331,751**	¥298,510	**$2,935,858**

See accompanying notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of yen 2017	2016	Thousands of U.S. dollars [Note 1 (b)] 2017
Current liabilities:			
Trade notes and accounts payable [Note 4]	**¥ 35,247**	¥ 34,680	**$ 311,922**
Electronically recorded obligations-operating [Note 4]	**19,127**	16,266	**169,272**
Short-term loans payable [Notes 4 and 7]	**3,754**	4,244	**33,229**
Current portion of long-term debt [Note 7]	**348**	324	**3,083**
Accrued expenses and other payables	**50,163**	51,979	**443,928**
Accrued income taxes	**4,528**	4,677	**40,072**
Accrued bonuses for employees	**3,889**	3,792	**34,421**
Other [Note 8]	**10,165**	7,473	**89,963**
Total current liabilities	**127,225**	123,440	**1,125,890**
Long-term liabilities:			
Long-term debt [Notes 4 and 7]	**1,664**	1,809	**14,731**
Accrued retirement benefits for directors	**273**	287	**2,421**
Accrued stock benefits for directors	**155**	—	**1,378**
Net defined benefit liability [Note 9]	**7,280**	10,446	**64,432**
Deferred income taxes [Note 8]	**4,336**	910	**38,374**
Other	**3,800**	3,737	**33,629**
Total long-term liabilities	**17,511**	17,190	**154,965**
Total liabilities	**144,736**	140,630	**1,280,855**
Contingent liabilities [Note 12]			
Net assets:			
Shareholders' equity [Note 10]**:**			
Common stock:			
Authorized: 1,185,600,000 shares at December 31, 2017 and 2016			
Issued and outstanding: 299,115,346 shares at December 31, 2017 and 2016	**34,433**	34,433	**304,723**
Capital surplus	**35,319**	34,508	**312,558**
Retained earnings	**97,944**	82,479	**866,766**
Treasury stock, at cost	**(5,593)**	(4,778)	**(49,497)**
Total shareholders' equity	**162,104**	146,642	**1,434,549**
Accumulated other comprehensive income (loss):			
Unrealized holding gain (loss) on other securities	**12,973**	7,429	**114,811**
Deferred gain (loss) on derivative financial instruments under hedge accounting	**4**	12	**41**
Translation adjustments	**1,901**	445	**16,827**
Remeasurements of defined benefit plans	**(424)**	(5,246)	**(3,755)**
Total accumulated other comprehensive income (loss)	**14,455**	2,640	**127,924**
Stock acquisition rights	**210**	218	**1,864**
Non-controlling interests	**10,245**	8,377	**90,665**
Total net assets	**187,015**	157,879	**1,655,003**
Total liabilities and net assets	**¥331,751**	¥298,510	**$2,935,858**

Consolidated Statements of Income

Lion Corporation and Consolidated Subsidiaries
Years ended December 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars [Note 1 (b)]
	2017	2016	**2017**
Net sales	**¥410,484**	¥395,606	**$3,632,606**
Cost of sales	**171,209**	161,992	**1,515,128**
Gross profit	**239,275**	233,613	**2,117,479**
Selling, general and administrative expenses [Note 13]	**212,068**	209,110	**1,876,711**
Operating income	**27,206**	24,502	**240,768**
Other income:			
Interest and dividend income	**722**	561	**6,393**
Equity in earnings of non-consolidated subsidiary and affiliates	**737**	725	**6,530**
Gain on sales of investment securities	**364**	31	**3,226**
Gain on sales or disposal of fixed assets	**2,070**	—	**18,321**
Other	**1,158**	999	**10,250**
Total other income	**5,053**	2,317	**44,721**
Other expenses:			
Interest expense	**205**	276	**1,815**
Interest on bonds	**—**	9	**—**
Loss on disposal of fixed assets	**317**	542	**2,813**
Impairment loss	**683**	1,114	**6,049**
Loss on liquidation of subsidiaries and associates	**—**	351	**—**
Loss on dissolution of employees' pension fund	**—**	277	**—**
Other	**493**	213	**4,367**
Total other expenses	**1,699**	2,785	**15,043**
Profit before income taxes	**30,560**	24,035	**270,445**
Income taxes:			
Current	**7,603**	7,319	**67,289**
Deferred	**636**	(684)	**5,629**
	8,239	6,634	**72,918**
Profit	**22,320**	17,400	**197,527**
Profit attributable to:			
Non-controlling interests	**(2,493)**	(1,449)	**(22,064)**
Owners of parent	**¥ 19,827**	¥ 15,951	**$ 175,463**

	Yen		U.S. dollars [Note 1 (b)]
Amounts per share:			
Profit attributable to owners of parent: Basic	**¥ 68.23**	¥ 55.13	**$0.60**
Diluted	**68.15**	55.04	**0.60**
Cash dividends applicable to the year	**17.00**	13.00	**0.15**
Net assets	**607.61**	513.76	**5.38**
Weighted-average number of shares of common stock outstanding during the year (in thousands)	**290,581**	289,313	

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Lion Corporation and Consolidated Subsidiaries
Years ended December 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars [Note 1 (b)]
	2017	2016	**2017**
Profit	**¥22,320**	¥17,400	**$197,527**
Other comprehensive income (loss)			
Unrealized holding gain (loss) on other securities	**5,707**	1,270	**50,513**
Deferred gain (loss) on derivative financial instruments under hedge accounting	**(8)**	12	**(71)**
Translation adjustments	**1,651**	(1,548)	**14,619**
Remeasurements of defined benefit plans	**4,822**	(890)	**42,673**
Share of other comprehensive income (loss) of associates accounted for using equity method	**(73)**	47	**(652)**
Total other comprehensive income (loss)	**12,100**	(1,108)	**107,082**
Comprehensive income	**34,420**	16,292	**304,609**
Comprehensive income attributable to:			
Owners of parent	**31,642**	15,216	**280,020**
Non-controlling interests	**2,778**	1,076	**24,589**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Lion Corporation and Consolidated Subsidiaries

Years ended December 31, 2017 and 2016

	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, 2017	299,115,346	¥34,433	¥34,508	¥82,479	¥(4,778)	¥146,642	¥ 7,429	¥12	¥ 445	¥(5,246)	¥218	¥ 8,377	¥157,879
Profit attributable to owners of parent	**—**	**—**	**—**	**19,827**	**—**	**19,827**	**—**	**—**	**—**	**—**	**—**	**—**	**19,827**
Cash dividends	**—**	**—**	**—**	**(4,362)**	**—**	**(4,362)**	**—**	**—**	**—**	**—**	**—**	**—**	**(4,362)**
Treasury stock acquired [Note 10 (a)]	**—**	**—**	**—**	**—**	**(1,118)**	**(1,118)**	**—**	**—**	**—**	**—**	**—**	**—**	**(1,118)**
Treasury stock disposed of [Notes 10 (a), (b)]	**—**	**—**	**784**	**—**	**304**	**1,088**	**—**	**—**	**—**	**—**	**—**	**—**	**1,088**
Purchase of shares of consolidated subsidiaries	**—**	**—**	**26**	**—**	**—**	**26**	**—**	**—**	**—**	**—**	**—**	**—**	**26**
Items other than changes in shareholders' equity, net	**—**	**—**	**—**	**—**	**—**	**—**	**5,544**	**(8)**	**1,456**	**4,822**	**(8)**	**1,867**	**13,674**
Balance at December 31, 2017	**299,115,346**	**¥34,433**	**¥35,319**	**¥97,944**	**¥(5,593)**	**¥162,104**	**¥12,973**	**¥ 4**	**¥1,901**	**¥ (424)**	**¥210**	**¥10,245**	**¥187,015**
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

	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, 2017	299,115,346	$304,723	$305,381	$729,906	$(42,291)	$1,297,719	$ 65,746	$112	$ 3,938	$(46,428)	$1,937	$74,136	$1,397,160
Profit attributable to owners of parent	**—**	**—**	**—**	**175,463**	**—**	**175,463**	**—**	**—**	**—**	**—**	**—**	**—**	**175,463**
Cash dividends	**—**	**—**	**—**	**(38,603)**	**—**	**(38,603)**	**—**	**—**	**—**	**—**	**—**	**—**	**(38,603)**
Treasury stock acquired [Note 10 (a)]	**—**	**—**	**—**	**—**	**(9,902)**	**(9,902)**	**—**	**—**	**—**	**—**	**—**	**—**	**(9,902)**
Treasury stock disposed of [Notes 10 (a), (b)]	**—**	**—**	**6,939**	**—**	**2,696**	**9,635**	**—**	**—**	**—**	**—**	**—**	**—**	**9,635**
Purchase of shares of consolidated subsidiaries	**—**	**—**	**237**	**—**	**—**	**237**	**—**	**—**	**—**	**—**	**—**	**—**	**237**
Items other than changes in shareholders' equity, net	**—**	**—**	**—**	**—**	**—**	**—**	**49,065**	**(71)**	**12,889**	**42,673**	**(73)**	**16,530**	**121,013**
Balance at December 31, 2017	**299,115,346**	**$304,723**	**$312,558**	**$866,766**	**$(49,497)**	**$1,434,549**	**$114,811**	**$ 41**	**$16,827**	**$ (3,755)**	**$1,864**	**$90,665**	**$1,655,003**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Lion Corporation and Consolidated Subsidiaries
Years ended December 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars [Note 1 (b)]
	2017	2016	**2017**
Cash flows from operating activities:			
Profit before income taxes	**¥30,560**	¥24,035	**$270,445**
Adjustments to reconcile profit before income taxes and non-controlling interests to net cash provided by operating activities:			
Depreciation and amortization	**9,386**	10,244	**83,066**
Loss on impairment of fixed assets	**683**	1,114	**6,049**
Increase (decrease) in accrued bonuses for employees	**30**	832	**270**
Increase (decrease) in net defined benefit assets and liabilities	**1,483**	1,765	**13,124**
Interest and dividend income	**(722)**	(561)	**(6,393)**
Interest expense	**205**	276	**1,815**
Interest on bonds	**—**	9	**—**
Loss (gain) on disposal of property, plant and equipment	**(1,752)**	542	**(15,509)**
Loss (gain) on sales of investment securities	**(364)**	(31)	**(3,226)**
Equity in earnings of non-consolidated subsidiaries and affiliates	**(737)**	(725)	**(6,530)**
Decrease (increase) in trade notes and accounts receivable	**(2,721)**	(2,456)	**(24,087)**
Decrease (increase) in inventories	**137**	(2,968)	**1,216**
Increase (decrease) in trade notes and accounts payable	**2,847**	1,769	**25,199**
Increase (decrease) in accrued expenses and other payables	**(4,667)**	4,527	**(41,302)**
Other, net	**1,645**	944	**14,565**
Subtotal	**36,013**	39,320	**318,702**
Interest and dividends received	**831**	709	**7,357**
Interest paid	**(192)**	(264)	**(1,700)**
Income taxes paid	**(8,089)**	(7,495)	**(71,592)**
Net cash provided by operating activities	**28,562**	32,269	**252,766**
Cash flows from investing activities:			
Decrease (increase) in time deposits	**(350)**	2,099	**(3,099)**
Purchases of property, plant and equipment	**(10,814)**	(8,945)	**(95,708)**
Proceeds from sales of property, plant and equipment	**2,800**	51	**24,780**
Purchases of intangible assets	**(714)**	(260)	**(6,319)**
Purchases of investment securities	**(247)**	(146)	**(2,193)**
Proceeds from sales of investment securities	**928**	81	**8,212**
Increase in loans receivable	**(5)**	(1)	**(50)**
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	**—**	(183)	**—**
Purchase of shares of subsidiaries and associates	**—**	(483)	**—**
Other, net	**(345)**	(57)	**(3,058)**
Net cash used in investing activities	**(8,750)**	(7,845)	**(77,435)**
Cash flows from financing activities:			
Increase in short-term loans payable	**5,973**	1,517	**52,859**
Repayment of short-term loans payable	**(6,646)**	(4,794)	**(58,815)**
Repayment of long-term debt	**(268)**	(214)	**(2,378)**
Purchases of treasury stock	**(1,118)**	(191)	**(9,902)**
Proceeds from disposal of treasury stock	**1,088**	0	**9,635**
Cash dividends	**(4,359)**	(2,889)	**(38,579)**
Cash dividends to non-controlling interests	**(1,312)**	(727)	**(11,617)**
Other, net	**(110)**	(137)	**(977)**
Net cash used in financing activities	**(6,754)**	(7,437)	**(59,775)**
Effect of exchange rate changes on cash and cash equivalents	**603**	(526)	**5,344**
Net increase (decrease) in cash and cash equivalents	**13,661**	16,461	**120,900**
Cash and cash equivalents at beginning of the year	**77,739**	61,278	**687,963**
Cash and cash equivalents at end of the year [Note 14]	**¥91,401**	¥77,739	**$808,863**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Lion Corporation and Consolidated Subsidiaries, December 31, 2017

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 ¥113.00 = U.S.$1.00, the approximate rate of exchange in effect on December 31, 2017. 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, 2017 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 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/
Lion Corporation (Korea) / 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, 2017 and 2016, respectively. The aggregate total assets, retained earnings, net sales and net income were not significant.

The liquidation of Lion Field Marketing Co., Ltd. was completed and it was excluded from the scope of consolidation during the year ended December 31, 2017.

CJ Lion Corporation has changed its name to Lion Corporation (Korea) during the year ended December 31, 2017.

The equity method was applied to four affiliates for the years ended December 31, 2017 and 2016, 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 earnings per share is computed by dividing profit 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 earnings per share is computed based on the profit 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, 2017 and 2016.

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 non-controlling interests and stock acquisition rights by the number of shares of outstanding common stock at December 31, 2017 and 2016.

(p) Consumption Taxes

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

Note 3 Additional Information

(Adoption of Implementation Guidance on Recoverability of Deferred Tax Assets)

The Company and its domestic consolidated subsidiaries have adopted the Revised Implementation Guidance on Recoverability of Deferred Tax Assets (Accounting Standards Board of Japan Guidance No. 26, issued on March 28, 2016) from the beginning of the fiscal year ended December 31, 2017.

(Performance-Linked Stock-Based Compensation System)

The Company conducts transactions involving the issuance of its shares to directors (excluding external directors) and executive officers (collectively “directors and executive officers”) through a trust.

1) Overview of the transactions

The Company has adopted a performance-linked stock-based compensation system (“the System”) for directors and executive officers with the aim of motivating directors and executive officers to contribute to the Company’s performance and increase corporate value over the medium-to-long term.

The System employs a compensation structure referred to as a board incentive plan trust (“BIP trust”). A BIP trust is an executive incentive plan based on performance share plans and restricted stock plans used in the United States. This BIP trust grants shares of the Company it has acquired and cash in the amount of the converted value of such shares to directors and executive officers after their retirement according to their degree of achievement of performance targets and other factors.

To ensure neutrality toward corporate management, no voting rights may be exercised for the Company’s shares held in the trust during the trust period.

2) Company shares remaining in the trust

Company shares remaining in the trust are recorded as treasury stock under net assets based on their carrying amount in the BIP trust (less ancillary expenses). The carrying amount and the number of shares of said treasury stock at December 31, 2017 were ¥1,069 million (U.S.$9,466 thousand) and 502,200 shares, respectively.

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, 2017 and 2016 were as follows.

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

	Millions of yen		
	2017		
	Carrying amount	Fair value	Difference
Assets:			
1. Cash and time deposits	**¥ 23,781**	**¥ 23,781**	**¥ —**
2. Trade notes and accounts receivable	**64,141**		
Allowance for doubtful accounts	**(84)**		
Subtotal	**64,056**	**64,056**	**—**
3. Short-term investments, investment securities and investments in non-consolidated subsidiaries and affiliates			
Other securities	**95,272**	**95,272**	**—**
Investments in non-consolidated subsidiaries and affiliates	**593**	**2,160**	**1,567**
Subtotal	**95,865**	**97,432**	**1,567**
Total assets	**183,704**	**185,271**	**1,567**
Liabilities:			
4. Trade notes and accounts payable	**35,247**	**35,247**	**—**
5. Electronically recorded obligations-operating	**19,127**	**19,127**	**—**
6. Short-term loans payable	**3,754**	**3,754**	**—**
7. Current portion of long-term loans payable	**285**	**285**	**—**
8. Accrued expenses and other payables	**50,163**	**50,163**	**—**
9. Accrued income taxes	**4,528**	**4,528**	**—**
10. Long-term loans payable	**1,569**	**1,565**	**(4)**
Total liabilities	**114,676**	**114,672**	**(4)**
11. Derivative transactions	**¥ 6**	**¥ 6**	**¥ —**

	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	34,680	34,680	—
5. Electronically recorded obligations-operating	16,266	16,266	—
6. Short-term loans payable	4,244	4,244	—
7. Current portion of long-term loans payable	260	260	—
8. Accrued expenses and other payables	51,979	51,979	—
9. Accrued income taxes	4,677	4,677	—
10. Long-term loans payable	1,690	1,723	32
Total liabilities	113,800	113,832	32
11. Derivative transactions	¥ 18	¥ 18	¥ —

	Thousands of U.S. dollars		
	2017		
	Carrying amount	Fair value	Difference
Assets:			
1. Cash and time deposits	**$ 210,460**	**$ 210,460**	**$ —**
2. Trade notes and accounts receivable	**567,624**		
Allowance for doubtful accounts	**(749)**		
Subtotal	**566,875**	**566,875**	**—**
3. Short-term investments, investment securities and investments in non-consolidated subsidiaries and affiliates			
Other securities	**843,119**	**843,119**	**—**
Investments in non-consolidated subsidiaries and affiliates	**5,252**	**19,120**	**13,868**
Subtotal	**848,371**	**862,239**	**13,868**
Total assets	**1,625,706**	**1,639,574**	**13,868**
Liabilities:			
4. Trade notes and accounts payable	**311,922**	**311,922**	**—**
5. Electronically recorded obligations-operating	**169,272**	**169,272**	**—**
6. Short-term loans payable	**33,229**	**33,229**	**—**
7. Current portion of long-term loans payable	**2,526**	**2,526**	**—**
8. Accrued expenses and other payables	**443,928**	**443,928**	**—**
9. Accrued income taxes	**40,072**	**40,072**	**—**
10. Long-term loans payable	**13,892**	**13,851**	**(41)**
Total liabilities	**1,014,841**	**1,014,800**	**(41)**
11. Derivative transactions	**$ 59**	**$ 59**	**$ —**

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. Electronically recorded obligations-operating, 6. Short-term loans payable, 7. Current portion of long-term loans payable, 8. Accrued expenses and other payables, and 9. 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.

10. 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.

11. Derivative transactions
Fair values of derivative transactions are based on quoted prices from financial institutions.

The carrying amounts of financial instruments whose fair values are extremely difficult to determine at December 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Investments in non-consolidated subsidiaries and affiliates	**¥4,956**	¥4,399	**$43,863**
Non-marketable equity securities	**574**	580	**5,084**
Investments in limited partnerships funds	**208**	50	**1,849**
Convertible bonds	**69**	—	**619**

At December 31, 2017 and 2016, the redemption schedule for financial instruments was as follows:

	Millions of yen		
	2017		
	Due in one year or less	Due after one year through five years	Due after five years through ten years
Cash and time deposits	**¥ 23,781**	**¥—**	**¥—**
Trade notes and accounts receivable	**64,056**	**—**	**—**
Short-term investments and investment securities			
Negotiable deposits	**63,211**	**—**	**—**
Commercial paper	**5,999**	**—**	**—**
Total	**¥157,050**	**¥—**	**¥—**

	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	¥—	¥—

	Thousands of U.S. dollars		
	2017		
	Due in one year or less	Due after one year through five years	Due after five years through ten years
Cash and time deposits	**$ 210,460**	**$—**	**$—**
Trade notes and accounts receivable	**566,875**	**—**	**—**
Short-term investments and investment securities			
Negotiable deposits	**559,392**	**—**	**—**
Commercial paper	**53,096**	**—**	**—**
Total	**$1,389,823**	**$—**	**$—**

Note 5
Investment Securities

The acquisition cost and related fair value of other securities at December 31, 2017 and 2016 were as follows:

	Millions of yen			
	2017			
	Acquisition cost	Fair value	Unrealized gains	Unrealized losses
Other securities:				
Marketable equity securities	**¥7,760**	**¥26,061**	**¥18,322**	**¥21**
Total	**¥7,760**	**¥26,061**	**¥18,322**	**¥21**

	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

	Thousands of U.S. dollars			
	2017			
	Acquisition cost	Fair value	Unrealized gains	Unrealized losses
Other securities:				
Marketable equity securities	**$68,678**	**$230,631**	**$162,146**	**$193**
Total	**$68,678**	**$230,631**	**$162,146**	**$193**

Note 6 Inventories

Inventories at December 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Merchandise and finished products	**¥26,317**	¥26,120	**$232,898**
Work in process	**3,523**	2,863	**31,181**
Raw materials and supplies	**10,368**	10,742	**91,761**
Total	**¥40,209**	¥39,726	**$355,841**

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 2.46% and 2.51% at December 31, 2017 and 2016, respectively.

Long-term debt at December 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Long-term loans payable	**¥1,855**	¥1,951	**$16,418**
Less: Current portion from banks at average interest rates of 3.78% and 3.01% at December 31, 2017 and 2016, respectively	**(285)**	(260)	**(2,526)**
Long-term loans payable less current portion from banks at average interest rates of 3.78% and 3.49% at December 31, 2017 and 2016, respectively	**1,569**	1,690	**13,892**
Lease obligation	**157**	183	**1,396**
Less: Current portion of lease obligations	**(62)**	(64)	**(557)**
Long-term debt less current portion of lease obligations	**94**	118	**839**
Total long-term debt	**¥1,664**	¥1,809	**$14,731**

At December 31, 2017, the redemption schedule for long-term loans payable was as follows:

	Millions of yen	Thousands of U.S. dollars
2018	¥285	$2,526
2019	285	2,526
2020	285	2,526
2021	285	2,526
2022 and thereafter	713	6,314

Note 8
Deferred Income Taxes

The significant components of deferred tax assets and liabilities at December 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Deferred tax assets:			
Allowance for doubtful accounts	**¥ 14**	¥ 13	**$ 124**
Assets and liabilities for retirement benefits	**8,020**	9,995	**70,978**
Loss on impairment of fixed assets	**2,573**	2,768	**22,777**
Accrued enterprise taxes	**373**	379	**3,304**
Unrealized intercompany profit	**561**	544	**4,966**
Other	**5,229**	5,391	**46,279**
Less valuation allowance	**(3,407)**	(3,152)	**(30,155)**
Total deferred tax assets	**13,364**	15,940	**118,273**
Deferred tax liabilities:			
Special tax-purpose reserve	**(1,108)**	(1,128)	**(9,810)**
Gain on contribution of securities to pension trust	**(4,848)**	(4,868)	**(42,903)**
Unrealized holding gain on other securities	**(5,124)**	(2,794)	**(45,353)**
Other	**(1,624)**	(1,333)	**(14,372)**
Total deferred tax liabilities	**(12,705)**	(10,124)	**(112,438)**
Net deferred tax assets	**¥ 659**	¥ 5,815	**$ 5,835**

Net deferred income taxes are included in the following account categories in the consolidated balance sheets at December 31, 2017 and 2016:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Current assets - Deferred income taxes	**¥3,704**	¥4,161	**$32,785**
Non-current assets - Deferred income taxes	**1,291**	2,581	**11,425**
Current liabilities - Other	**—**	16	**—**
Long-term liabilities - Deferred income taxes	**4,336**	910	**38,374**

A reconciliation of the difference between the statutory tax rate and the effective tax rate for the years ended December 31, 2017 and 2016 was as follows:

	2017	2016
Statutory tax rate:	**30.9%**	33.1%
Permanent differences, net	**(0.7)**	0.4
Effect of tax rate reduction	**0.1**	1.8
Loss on impairment of investment securities and other unscheduled items	**1.1**	(0.4)
Foreign tax rate difference	**(2.7)**	(3.0)
Tax credit for research and development costs and other	**(2.4)**	(2.8)
Other	**0.7**	(1.5)
Effective tax rate	**27.0%**	27.6%

Note 9
Retirement Benefit Plans

Retirement benefit plans at December 31, 2017 and 2016 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
	2017	2016	**2017**
Retirement benefit obligation at beginning of year	**¥71,724**	¥70,892	**$634,726**
Service cost	**2,216**	2,079	**19,612**
Interest cost	**203**	401	**1,798**
Prior service cost	**263**	—	**2,335**
Actuarial loss (gain)	**(312)**	2,279	**(2,764)**
Retirement benefit paid	**(3,970)**	(4,092)	**(35,135)**
Loss on dissolution of employees' pension fund	**—**	164	**—**
Retirement benefit obligation at end of year	**¥70,124**	¥71,724	**$620,572**

Including a system which applied the simplified method.

(2) Plan Assets

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Plan assets at beginning of year	**¥69,251**	¥71,377	**$612,842**
Expected return on plan assets	**1,298**	1,305	**11,487**
Actuarial gain (loss)	**5,588**	(108)	**49,453**
Contributions by the Company	**550**	467	**4,874**
Retirement benefits paid	**(3,541)**	(3,790)	**(31,344)**
Plan assets at end of year	**¥73,146**	¥69,251	**$647,312**

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
	2017	2016	**2017**
Funded retirement benefit obligation	**¥67,428**	¥69,520	**$596,714**
Plan assets	**(73,146)**	(69,251)	**(647,312)**
	(5,718)	269	**(50,598)**
Unfunded retirement benefit obligation	**2,697**	2,204	**23,858**
Net liability and assets for retirement benefits in the balance sheet	**(3,021)**	2,473	**(26,740)**
Liability for retirement benefits	**7,280**	10,446	**64,432**
Assets for retirement benefits	**(10,302)**	(7,973)	**(91,171)**
Net liability and assets for retirement benefits in the balance sheet	**¥ (3,021)**	¥ 2,473	**$ (26,740)**

Including a system which applied the simplified method.

(4) Components of Retirement Benefit Expense

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Service cost	**¥2,216**	¥2,079	**$19,612**
Interest cost	**203**	401	**1,798**
Expected return on plan assets	**(1,298)**	(1,305)	**(11,487)**
Amortization of actuarial loss	**1,048**	1,263	**9,281**
Amortization of prior service cost	**262**	(1)	**2,324**
Retirement benefit expense	**¥2,432**	¥2,437	**$21,528**

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 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
	2017	2016	**2017**
Prior service cost	**¥ (1)**	¥ (1)	**$ (11)**
Actuarial loss	**6,949**	(1,124)	**61,499**
Total	**¥6,948**	¥(1,125)	**$61,487**

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Unrecognized prior service cost	**¥ —**	¥ (1)	**$ —**
Unrecognized actuarial loss	**611**	7,560	**5,412**
Total	**¥611**	¥7,559	**$5,412**

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

	2017	2016
Bonds	**23%**	39%
Stocks	**50%**	44%
Other	**27%**	17%
Total	**100%**	100%

The total plan assets include 38% and 35% held in a retirement benefit trust set for the defined benefit plan and the lump-sum severance idemnity plan at December 31, 2017 and 2016, 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

	2017	2016
Discount rates	**0.4%**	0.3%
Expected rates of return on plan assets	**2.0%**	2.0%

3. Defined Contribution Plan
The contributions to the defined contribution plan of the Company and consolidated subsidiaries were ¥195 million (U.S.$1,726 thousand) and ¥170 million for the years ended December 31, 2017 and 2016, 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 24 thousand shares of common stock during the year ended December 31, 2017 at an aggregate cost of ¥49 million (U.S.$436 thousand) and 122 thousand shares of common stock during the year ended December 31, 2016 at an aggregate cost of ¥191 million.

At the request of shareholders who own odd lot shares of common stock, the Company sold 3 hundred shares of its common stock during the year ended December 31, 2017 and 4 hundred shares of common stock during the year ended December 31, 2016.

The Company sold 502 thousand shares of common stock to the BIP trust during the year ended December 31, 2017. The BIP trust purchased 502 thousand shares of common stock at an aggregate cost of ¥1,069 million (U.S.$9,466 thousand) which is recorded as treasury stock.

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.

(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 39 thousand shares of its common stock as of December 31, 2017 and 391 thousand shares of its common stock as of December 31, 2016. 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 39 thousand shares of its common stock during the year ended December 31, 2017, and 319 thousand shares of its common stock during the year ended December 31, 2016.

(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 9, 2017 for the payment of cash dividends of ¥10.00 (U.S.$0.09) per share, aggregating to ¥2,910 million (U.S.$25,759 thousand), which has not been reflected in the accompanying consolidated financial statements for the year ended December 31, 2017.

Note 11 Pledged Assets

The assets pledged as collateral for short-term loans payable, trade notes, and accounts payable at December 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Cash and time deposits	**¥ —**	¥ 47	**$ —**
Buildings and structures	**1,590**	1,403	**14,075**
Machinery and equipment	**882**	676	**7,813**
Total	**¥2,473**	¥2,127	**$21,888**

Note 12 Contingent Liabilities

Contingent liabilities at December 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
As guarantors of indebtedness of certain affiliates and employees	**¥2,473**	¥2,738	**$21,889**
Total	**¥2,473**	¥2,738	**$21,889**

Note 13 Research and Development Expenses

Research and development expenses, all of which have been included in selling, general and administrative expenses, amounted to ¥10,474 million (U.S.$92,696 thousand) and ¥10,084 million for the years ended December 31, 2017 and 2016, 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, 2017 and 2016 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Cash and time deposits	**¥23,781**	¥17,879	**$210,460**
Short-term investments	**69,211**	61,007	**612,488**
Time deposits with maturities greater than three months and other	**(1,591)**	(1,147)	**(14,085)**
Cash and cash equivalents at end of the year	**¥91,401**	¥77,739	**$808,863**

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, stock acquisition rights decreased by ¥109 million, treasury stock decreased by ¥2,037 million, and capital surplus increased by ¥507 million for the fiscal year ended December 31, 2016.

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, 2017 and 2016 were as follows:

	Millions of yen						
	2017						
	Reportable segments						
	Consumer Products Business	Industrial Products Business	Overseas Business	Other Business	Total	Adjustments*2	Consolidated total*3
Net sales							
Sales to external customers	**¥264,816**	**¥33,322**	**¥108,248**	**¥ 4,096**	**¥410,484**	**¥ —**	**¥410,484**
Intersegment sales*1	**26,077**	**22,441**	**11,842**	**26,469**	**86,830**	**(86,830)**	**—**
Total	**290,893**	**55,763**	**120,091**	**30,565**	**497,314**	**(86,830)**	**410,484**
Segment income	**18,934**	**2,316**	**4,413**	**1,336**	**27,001**	**205**	**27,206**
Segment assets	**179,357**	**46,330**	**75,789**	**24,432**	**325,909**	**5,842**	**331,751**
Other							
Depreciation and amortization	**6,091**	**987**	**1,904**	**122**	**9,105**	**280**	**9,386**
Investment in equity method affiliates	**2,924**	**—**	**84**	**2,506**	**5,516**	**27**	**5,543**
Increase in property, plant and equipment and intangible assets	**9,305**	**1,475**	**3,324**	**23**	**14,128**	**763**	**14,892**

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

*2. (1) Adjustments to segment income totaling ¥205 million were composed mainly of eliminations of internal transactions.

(2) Adjustments to segment assets included eliminations of internal transactions of ¥(81,640) million and Company assets not allocated to reportable segments of ¥87,482 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						
	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.

	Thousands of U.S. dollars						
	2017						
	Reportable segments						
	Consumer Products Business	Industrial Products Business	Overseas Business	Other Business	Total	Adjustments*2	Consolidated total*3
Net sales							
Sales to external customers	**$2,343,511**	**$294,887**	**$ 957,955**	**$ 36,254**	**$3,632,606**	**$ —**	**$3,632,606**
Intersegment sales*1	**230,772**	**198,598**	**104,799**	**234,241**	**768,409**	**(768,409)**	**—**
Total	**2,574,282**	**493,485**	**1,062,754**	**270,495**	**4,401,016**	**(768,409)**	**3,632,606**
Segment income	**167,559**	**20,503**	**39,060**	**11,827**	**238,949**	**1,818**	**240,768**
Segment assets	**1,587,231**	**410,008**	**670,704**	**216,214**	**2,884,158**	**51,700**	**2,935,858**
Other							
Depreciation and amortization	**53,908**	**8,737**	**16,850**	**1,086**	**80,580**	**2,485**	**83,066**
Investment in equity method affiliates	**25,882**	**—**	**750**	**22,182**	**48,815**	**239**	**49,054**
Increase in property, plant and equipment and intangible assets	**82,349**	**13,054**	**29,421**	**208**	**125,032**	**6,756**	**131,788**

Notes: *1. Internal transactions are included within the reportable segments.
*2. (1) Adjustments to segment income totaling U.S.$1,818 thousand were composed mainly of eliminations of internal transactions.
(2) Adjustments to segment assets included eliminations of internal transactions of U.S.$(722,481) thousand and Company assets not allocated to reportable segments of U.S.$774,180 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, 2017 and 2016

Geographic Information

(1) Sales

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Japan	**¥299,638**	¥294,039	**$2,651,668**
Asia	**53,457**	99,174	**473,078**
Thailand	**54,858**	47,511	**485,471**
Other	**2,530**	2,393	**22,390**
Consolidated	**¥410,484**	¥395,606	**$3,632,606**

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
	2017	2016	**2017**
Japan	**¥56,467**	¥52,590	**$499,714**
Asia	**24,513**	21,811	**216,932**
Thailand	**10,241**	8,407	**90,636**
Consolidated	**¥80,981**	¥74,402	**$716,646**

Information on Impairment Loss on Fixed Assets by Reportable Segment

Years ended December 31, 2017 and 2016

	Millions of yen						
	2017						
	Reportable segments						
	Consumer Products Business	Industrial Products Business	Overseas Business	Other Business	Total	Adjustments	Consolidated total
Impairment loss	**¥473**	**¥177**	**¥—**	**¥27**	**¥678**	**¥4**	**¥683**

Note: The amount included in “Other Business” is related to the transportation and storage business.

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

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

	Thousands of U.S. dollars						
	2017						
	Reportable segments						
	Consumer Products Business	Industrial Products Business	Overseas Business	Other Business	Total	Adjustments	Consolidated total
Impairment loss	**$4,193**	**$1,570**	**$—**	**$245**	**$6,008**	**$40**	**$6,049**

Information on Amortization of Goodwill and Remaining Balance by Reportable Segment

As of and for the years ended December 31, 2017 and 2016

	Millions of yen						
	2017						
	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	**—**	**101**	**—**	**—**	**101**	**—**	**101**

	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

	Thousands of U.S. dollars						
	2017						
	Reportable segments						
	Consumer Products Business	Industrial Products Business	Overseas Business	Other Business	Total	Adjustments	Consolidated total
Amortization for the year	**$—**	**$718**	**$—**	**$—**	**$718**	**$—**	**$718**
Balance at the end of year	**—**	**898**	**—**	**—**	**898**	**—**	**898**

Note 16 Subsequent Event

(a) Transfer of Significant Assets

On December 28, 2017, Lion Chemical Industry (Taiwan) Co., Ltd., a wholly owned subsidiary of the Company, entered into an agreement with Hotai Leasing Corporation to transfer land and buildings, and the transfer was completed on February 14, 2018.

1. Reason for the transfer

Lion Chemical Industry (Taiwan) Co., Ltd. decided to transfer manufacturing plants in order to concentrate their resources on sales and marketing in Taiwan business.

2. Name of the other side to the agreement

Hotai Leasing Corporation

3. Details of the fixed assets transferred

Type	Land 10,413.89m^2
	Buildings 6,373.49m^2
Location	New Taipei City, Taiwan
Use prior to transfer	Manufacturing plant
Transfer price	NTD$1,380 million (¥5,050 million)* (U.S.$44,690 million)
	* Converted based on the rate on February 28, 2018

4. Schedule of the transfer

Date of agreement	December 28, 2017
Date of transfer	February 14, 2018

5. Impact on the consolidated financial statements of relevant event

The expected gain on disposal of fixed assets of ¥4,263 million (U.S.$37,726 million) will be recognized on the fiscal year ending December 31, 2018, due to the completion of the transfer.

(b) Dividend Declaration

On February 9, 2018, 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 (¥10.00 (U.S.$0.09) per share)	**¥2,910**	**$25,759**

Independent Auditor's Report

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

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

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, 2017, 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, 2017, 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 26, 2018