

# Summary of Consolidated Financial Statements for the Year Ended December 31, 2017 [Japanese Standard]

February 9, 2018

Company name: Lion Corporation  
Listed stock exchanges: Tokyo Stock Exchange  
Code: 4912  
URL: <http://www.lion.co.jp/>

Representative: Itsuo Hama, Representative Director, President Executive Officer  
Contact: Yoshiaki Kamao, Director of Finance Department  
Telephone: +81-3-3621-6211

Annual meeting of shareholders: March 29, 2018 (planned)  
Start date for payment of year-end dividend: March 1, 2018 (planned)  
Scheduled date of filing of financial report: March 30, 2018 (planned)  
Supplementary materials prepared for quarterly results: Yes  
Quarterly results information meeting held: Yes (for investors and analysts, etc.)

Figures in this and subsequent tables are rounded down to the nearest million.

## 1. Consolidated Results for the Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)

### (1) Consolidated Results (cumulative total)

(Percentage figures denote year-on-year change)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal 2017	410,484	3.8	27,206	11.0	29,126	10.8	19,827	24.3
Fiscal 2016	395,606	4.5	24,502	49.6	26,290	45.3	15,951	49.4

Note: Comprehensive income: December 31, 2017: ¥34,420 million (111.3%)  
December 31, 2016: ¥16,292 million (71.9%)

	EPS	Diluted EPS	Return on equity	Ratio of ordinary income to total assets	Ratio of operating income to net sales
	Yen	Yen	%	%	%
Fiscal 2017	68.23	68.15	12.2	9.2	6.6
Fiscal 2016	55.13	55.04	11.2	9.1	6.2

Note: Equity in earnings of affiliates: ¥737 million in FY2017 and ¥725 million in FY2016.

### (2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity to total assets	Net assets per share
	Millions of yen	Millions of yen	%	Yen
Fiscal 2017	331,751	187,015	53.2	607.61
Fiscal 2016	298,510	157,879	50.0	513.76

Note: Shareholders' equity: December 31, 2017: ¥176,559 million  
December 31, 2016: ¥149,282 million

### (3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Fiscal 2017	28,562	(8,750)	(6,754)	91,401
Fiscal 2016	32,269	(7,845)	(7,437)	77,739

### 2. Dividend

Record Date	Cash dividends per share / Yen					Total dividend paid (annual)	Payout ratio (consolidated)	Dividend/ Net assets (consolidated)
	First Quarter	Second Quarter	Third Quarter	Year-End	Annual	Millions of yen	%	%
Fiscal 2016	—	5.00	—	8.00	13.00	3,777	23.6	2.6
Fiscal 2017	—	7.00	—	10.00	17.00	4,948	24.9	3.0
Fiscal 2018(plan)	—	10.00	—	10.00	20.00		23.2	

Note: The payout ratio (consolidated) for fiscal 2018 (plan) is based on the EPS calculated using IFRS as stated below in the Forecast of Consolidated Financial Results for the Fiscal Year Ending December 31, 2018.

### 3. Forecast of Consolidated Financial Results for the Fiscal Year Ending December 31, 2018 (January 1, 2018 – December 31, 2018)

	Net sales		Operating income		Profit attributable to owners of parent		EPS
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Interim 2018	167,000	2.5	15,000	20.6	12,500	42.5	43.02
Fiscal 2018	355,000	3.5	33,000	8.3	25,000	20.2	86.03

Reference: Core operating income: Interim 2018: ¥11,000 million  
Fiscal 2018: ¥29,000 million

Notes: 1. Because the Lion Group is voluntarily applying International Financial Reporting Standards (IFRS) in its accounting from the first quarter of fiscal 2018 onward, the calculation of financial forecasts was made using IFRS while the calculation of the percentage change from figures recorded for the corresponding period of the previous year used that previous year's figures recalculated applying IFRS.

2. Core operating income: An earnings indicator the Company uses to measure regular business performance by subtracting selling, general and administrative expenses from gross revenues.

### 4. Notes

(1) Significant Change in Scope of Consolidation during Period: No

(2) Changes in accounting principles, procedures and presentation methods in connection with the preparation of quarterly consolidated financial statements:

- a. Changes associated with revision in accounting standards: No
- b. Other changes: No
- c. Changes in accounting estimates: No
- d. Restatement: No

(3) Number of outstanding shares (common stock)

- a. Number of outstanding shares on balance sheet dates (including treasury stocks):  
As of December 31, 2017: 299,115,346 shares  
As of December 31, 2016: 299,115,346 shares

- b. Number of treasury stocks on balance sheet date:
  - As of December 31, 2017: 8,535,633 shares
  - As of December 31, 2016: 8,551,212 shares
- c. Average shares outstanding over period (cumulative; consolidated)
  - As of December 31, 2017: 290,581,351 shares
  - As of December 31, 2016: 289,313,916 shares

Note: The treasury shares remaining in the executive compensation Board Incentive Plan (BIP) trust are recorded as treasury shares under shareholders' equity. The number of treasury stocks on balance sheet date includes 502,200 such shares, and the average shares outstanding over the period (cumulative; consolidated) excludes 292,950 such shares.

**\*Note on Audit Process**

This earnings report is out of the scope of the external auditor's review procedure.

Appropriate use of business forecast; other special items

The forecasts and projected operating results contained in this report are based on information available at the time of preparation, and thus involve inherent risks and uncertainties. Accordingly, readers are cautioned that actual results may differ materially from those projected as a result of a variety of factors.

For more details, refer to "I. Analysis of Business Performance and Financial Status" on page 2-10.

Contents

I. Analysis of Business Performance and Financial Status-----	2
1. Analysis of Business Performance -----	2
2. Analysis of Financial Status -----	8
3. Basic Policy on the Distribution of Earnings and Cash Dividends -----	9
4. Business Risks -----	10
II. Corporate Group -----	11
III. Management Policies -----	16
1. Basic Management Policies -----	16
2. Performance Targets -----	16
3. Medium and Long-term Management Strategies -----	16
4. Management Issues -----	16
IV. Basic Approach Regarding the Selection of Accounting Standards-----	17
V. Consolidated Financial Reporting Statements -----	18
1. Consolidated Balance Sheets -----	18
2. Consolidated Statements of Income and Consolidated Statements of Comprehensive Income -----	20
3. Consolidated Statement of Changes in Shareholders' Equity -----	22
4. Consolidated Statements of Cash Flows -----	24
5. Notes Concerning Consolidated Quarterly Financial Statements	
(Notes Regarding Assumption of a Going Concern)-----	26
(Basis of Presentation of Consolidated Financial Statements)-----	26
(Additional Information)-----	28
(Changes in Method of Presentation)-----	29
(Notes to Consolidated Statements of Income)-----	29
(Segment Information) -----	30
(Tax Effect Accounting) -----	36
(Retirement Benefits) -----	37
(Per Share Information) -----	41
(Important Subsequent Events) -----	42
VI. Other Information -----	43

< Qualitative Information and Financial Statements >

I. Analysis of Business Performance and Financial Status

1. Analysis of Business Performance

(1) Performance Overview of the Consolidated Fiscal Year under Review (January 1, 2017 – December 31, 2017)

1) Overall Performance

During fiscal 2017 (January 1, 2017–December 31, 2017), the Japanese economy as a whole gradually recovered, backed by a recovery in personal consumption amid continued improvement in employment and corporate profits.

The market in the Lion Group's main business domain, the domestic toiletries industry, was steady, as unit prices continued to rise and sales volumes decreased.

In this environment, the Lion Group advanced initiatives under its medium-term management plan, Vision 2020 Part-2 (V-2 Plan).” The V-2 Plan positions strengthening profitability as the Company's highest priority goal and centers on four strategies: (1) Qualitative Growth of Domestic Businesses; (2) Quantitative Expansion of Overseas Businesses; (3) Development of New Business Value; and (4) Enhancement of Organizational Learning Capabilities.

In its domestic operations, Lion introduced such new high-value-added products as toothpastes, toothbrush, mouthwashes, antiperspirants, and fabric softeners and worked to cultivate markets for these products through aggressive marketing.

In its overseas operations, the Group sought to cultivate markets for its key brands as part of efforts to expand its business, focusing mainly on the personal care field, including oral care and beauty care products.

Consequently, consolidated results for the period under review are as follows:

Net sales amounted to ¥410,484 million, a year-on-year increase of 3.8% (or an increase of 2.5% in terms of real net sales, which exclude the influence of exchange rate conversions). The Company recorded operating income of ¥27,206 million, up 11.0% compared with the previous fiscal year, and ordinary income of ¥29,126 million, up 10.8% year on year. Profit attributable to owners of parent stood at ¥19,827 million, up 24.3% million compared with the previous fiscal year.

<Consolidated Results>

(Millions of yen)

	FY2017	Ratio to net sales	FY2016	Ratio to net sales	Increase/decrease	Change
Net sales	410,484		395,606		14,878	3.8%
Operating income	27,206	6.6%	24,502	6.2%	2,703	11.0%
Ordinary income	29,126	7.1%	26,290	6.6%	2,836	10.8%
Profit attributable to owners of parent	19,827	4.8%	15,951	4.0%	3,875	24.3%

## 2) Results by Business Segment

(Millions of yen)

	Net sales				Segment income (Operating income)			
	FY2017	FY2016	Increase/ decrease	Change	FY2017	FY2016	Increase/ decrease	Change
Consumer Products	290,893	287,028	3,865	1.3%	18,934	15,817	3,117	19.7%
Industrial Products	55,763	54,330	1,433	2.6%	2,316	2,560	(243)	(9.5%)
Overseas	120,091	110,933	9,157	8.3%	4,413	4,566	(152)	(3.3%)
Other	30,565	26,867	3,698	13.8%	1,336	915	421	46.1%
Subtotal	497,314	479,159	18,154	3.8%	27,001	23,859	3,142	13.2%
Adjustment	(86,830)	(83,553)	(3,276)	—	205	643	(438)	(68.1%)
Total	410,484	395,606	14,878	3.8%	27,206	24,502	2,703	11.0%

## 3) Overview by Business Segment

### <Consumer Products Business>

The Consumer Products Business segment is divided into the Oral Care Products, Beauty Care Products, Fabric Care Products, Living Care Products, Pharmaceutical Products and Other Products businesses. Segment net sales increased 1.3% compared with the previous fiscal year. Segment income increased 19.7% due to an expansion in sales of high-value-added products despite rising raw material costs.

(Millions of yen)

	FY2017	Ratio to net sales	FY2016	Ratio to net sales	Increase/ decrease	Change
Net sales	290,893		287,028		3,865	1.3%
Segment income	18,934	6.5%	15,817	5.5%	3,117	19.7%

Note: Net sales include internal net sales within and among segments, which amounted to ¥26,077 million in FY2017 and ¥25,722 million in FY2016.

### [Net Sales by Products Segment]

(Millions of yen)

	FY2017	FY2016	Increase/ decrease	Change
Oral Care Products	68,277	63,596	4,680	7.4%
Beauty Care Products	24,548	22,333	2,215	9.9%
Fabric Care Products	79,547	80,240	(692)	(0.9%)
Living Care Products	20,789	20,763	26	0.1%
Pharmaceutical Products	39,022	40,958	(1,936)	(4.7%)
Other Products	58,708	59,135	427	0.7%

### Oral Care Products

In toothpastes, Lion introduced new a flavor of *CLINICA Kid's Gel Toothpaste*, which is marketed as a preventive dentistry option that can be used from age zero. Sales of this toothpaste were steady. *NONIO Toothpaste*, a new brand designed to fight bad breath, received favorable consumer reviews, and overall

sales increased year on year.

In toothbrushes, a new compact version was added to the lineup of *Between Zeitaku Care Toothbrushes*, and sales of this line were favorable. *CLINICA Kid's Toothbrushes*, designed to meet children's needs at each growth stage in order to help with everything from establishing good brushing habits to properly caring for permanent teeth, saw sales grow to three times the level recorded in the same period of the previous fiscal year. Overall sales increased year on year.

In mouthwashes, sales of *SYSTEMA Haguki (the Gums) Plus Dental Rinse* were steady. *NONIO Mouthwash*, which has a long-lasting suppressant effect on bacterial growth and prevents bad breath, received favorable consumer reviews, and overall sales substantially increased year on year.

### **Beauty Care Products**

In hand soaps, sales of *KireiKirei Medicated Foaming Hand Soap* were firm, and overall sales increased year on year.

In body washes, the *hadakara Body Soap* series, which includes a new fragrance and a new product offering that leaves skin both moisturized and smooth, were steady, and overall sales increased significantly year on year.

In antiperspirants and deodorants, we launched the new *Ban Sweat-Blocking Stick Premium Label*, which goes on smooth and dry and effectively controls underarm sweat. However, overall sales decreased slightly year on year.

### **Fabric Care Products**

In fabric softeners, *Kaori to Deodorant no SOFLAN (SOFLAN with Fragrance and Deodorant) Premium Deodorizer Plus*, which effectively eliminates sweat and body odor from clothing, received favorable consumer reviews. Overall sales were up year on year.

In laundry detergents, sales of *TOP HYGIA*, a super-concentrated liquid laundry detergent featuring a newly developed and even more effective 'premium antibacterial formula', were strong. However, sales of powder detergents fell year on year, reflecting continued market contraction, and overall sales were down year on year.

### **Living Care Products**

In dishwashing detergents, sales of *CHARMY Crysta* detergents for dishwashers were favorable, and Lion added a new quick-drying version to its *CHARMY Magica* series, which saw firm sales. Overall sales were up year on year.

In household cleaners, sales of bathroom fungicide *LOOK Bath Antimold Fogger* were favorable. However, sales of bath cleaners decreased year on year, and overall sales edged down year on year.

### **Pharmaceutical Products**

In antipyretic analgesics, sales of *BUFFERIN PREMIUM* were strong, and overall sales rose year on year.

In eye drops, sales of *Smile 40EX* decreased year on year. Overall sales were down year on year amid intensifying competition.

### **Other Products**

In direct-to-consumer sales products, sales of *Nice rim essence Lactoferrin* were steady, but overall

sales edged down year on year..

In pet supplies, sales of *Nioi wo Toru Suna (Deodorizing Cat Litter)* were firm, and those of oral care products were strong. Overall sales were up year on year.

#### <Industrial Products Business>

The Industrial Products Business segment includes the Automotive, Electrical and Electronics, and Detergents for Institutional Use Products fields. These businesses handle products that include anti-sticking agents for tires, electro-conductive carbon for secondary batteries, and detergents for institutional and kitchen use, respectively. Segment net sales increased 2.6% compared with the previous fiscal year. Segment income decreased 9.5%.

(Millions of yen)

	FY2017	Ratio to net sales	FY2016	Ratio to net sales	Increase/decrease	Change
Net sales	55,763		54,330		1,433	2.6%
Segment income	2,316	4.2%	2,560	4.7%	(243)	(9.5%)

Note: Net sales include internal net sales within and among segments, which amounted to ¥22,441 million in FY2017 and ¥22,934 million in FY2016.

In Automotive, sales of anti-sticking agents for tires were firm, and overall sales grew year on year.

In the Electrical and Electronics, sales of electro-conductive compounds for semiconductor carrier materials were favorable, and overall sales increased year on year.

In the Detergents for Institutional Use Products, sales of alcohol sanitizers for kitchens were favorable, and overall sales increased year on year.

In addition, we launched sales of vegetable washing systems that use micro bubble ozone technology aimed at food processing plants.

#### <Overseas Business>

The Overseas Business segment comprises business operations located in Southeast Asia, including Thailand and Malaysia, and Northeast Asia, including South Korea and China. Segment net sales increased 8.3% year on year (or in terms of real net sales, which exclude the influence of exchange rate conversions, increased 3.4%). Segment income decreased 3.3% year on year, due in part to rising raw material costs and an increase in competition-related expenses aimed at improving market position.

(Millions of yen)

	FY2017	Ratio to net sales	FY2016	Ratio to net sales	Increase/decrease	Change
Net sales	120,091		110,933		9,157	8.3%
Segment income	4,413	3.7%	4,566	4.1%	(152)	(3.3%)

Note: Net sales include internal net sales within and among segments, which amounted to ¥11,842 million in FY2017 and ¥11,648 million in FY2016.

#### [Sales by Region]

	FY2017	FY2016	Increase/decrease	Change
Southeast Asia	83,251	75,544	7,707	10.2%
Northeast Asia	36,839	35,389	1,450	4.1%



(Sales by Region)

In Southeast Asia, overall sales were up 10.2% year on year.

In Thailand, sales of *SYSTEMA toothpaste and Shokubutsu-Monogatari body wash* were favorable.

Overall sales after yen conversions were up year on year.

In Malaysia, sales of *TOP* laundry detergent were favorable. Overall sales after yen conversions were up year on year.

In Northeast Asia, overall sales were up 4.1% year on year.

In South Korea, sales of *KireiKirei hand soap* were favorable. Overall sales after yen conversions grew substantially year on year.

In China, sales of *SYSTEMA toothbrushes* were firm, and sales through our e-commerce channel were favorable. Overall sales after yen conversions were up significantly year on year.

<Other>

(Millions of yen)

	FY2017	Ratio to net sales	FY2016	Ratio to net sales	Increase/decrease	Change
Net sales	30,565		26,867		3,698	13.8%
Segment income	1,336	4.4%	915	3.4%	421	46.1%

Note: Net sales include internal net sales within and among segments, which amounted to ¥26,469 million in FY2017 and ¥23,247 million in FY2016.

**(2) Forecast of Consolidated Financial Results for the Fiscal Year Ending December 2018**

From the first quarter of the fiscal year ending December 31, 2018, Lion will begin applying the International Financial Reporting Standards (IFRS).

<Consolidated>

(Millions of yen)

	FY2018 forecast	FY2017	Increase/decrease	Change
Net sales	355,000	343,099	11,900	3.5%
Core operating income	29,000	28,793	206	0.7%
Operating income	33,000	30,465	2,534	8.3%
Profit attributable to owners of parent	25,000	20,794	4,205	20.2%
EPS (yen)	86.03	71.56	14.47	20.2%

Notes: 1. 2017 IFRS results are estimates and have not been audited.

2. Core operating income: An earnings indicator the Company uses to measure regular business performance by subtracting selling, general and administrative expenses from gross revenues.

During fiscal 2018 (the year ending December 31, 2018), although gradual continued recovery is forecast for the Japanese economy, the outlook going forward is expected to remain unclear, reflecting shifts in raw material prices and currency exchange rates, geopolitical risks and other factors.

In the domestic toiletries industry, the Lion Group's main business domain, despite anticipated expansion in the market for high-value-added products, competition is expected to remain fierce. And

although the market is expected to expand in Asia, where the Group is currently expanding its businesses, Lion forecasts an increasingly harsh environment.

Amid these circumstances, the Lion Group will continue to aim to improve corporate value as its steadily implements strategies outlined in the three-year LIVE Plan starting from 2018 under the new vision of “Becoming an advanced daily healthcare company.”

In the Consumer Products Business segment, the Lion Group will cultivate markets for high-value-added products in its mainstay businesses, working to improve its market position and strengthen profitability while planning to enter growing categories, such as products for dentures. The Group will also work to expand production capacity, especially for the oral care field, and make its production system more efficient.

In the Industrial Products Business segment, Lion will focus management resources on key areas, such as automotive and electrical/electronic products, to reinforce its business foundation. Furthermore, Lion will continue efforts to acquire new customers, particularly to cultivate new customers in its vegetable washing system business.

With regard to the Overseas Business segment, the Lion Group will continue its aggressive marketing activities, primarily in the area of personal care, seeking to expand its business and strengthen its e-commerce business. In addition, the Group will establish a new venture in the plant-derived surfactant business in Malaysia as it works to expand its business globally.

As a result of the above, consolidated results forecasts for fiscal 2018 are as follows: net sales of ¥355,000 million (3.5% year on year), core operating income of ¥29,000 million (up 0.7% year on year), operating income of ¥33,000 million (up 8.3% year on year) and profit attributable to owners of parent of ¥25,000 million (up 20.2% year on year).

Furthermore, from the first quarter of fiscal 2018, Lion will begin applying the International Financial Reporting Standards (IFRS). Therefore, changes between values for fiscal 2017 and fiscal 2018 are calculated using estimates of the fiscal 2017 results recalculated according to IFRS.

(Preconditions for the Estimated Figures in Outlook for Fiscal 2018)

Lion adopted the following foreign exchange rates in the calculation of the aforementioned estimated figures:

¥112 = US\$1.00

¥3.5 = 1.00 baht

## 2. Analysis of Financial Status

### (1) Status of Assets, Liabilities, Net Assets

#### <Consolidated Financial Status >

	FY2017	FY2016	Increase/ decrease
Total assets (millions of yen)	331,751	298,510	33,241
Net assets (millions of yen)	187,015	157,879	29,136
Shareholders' equity to total assets <sup>*1</sup> (%)	53.2	50.0	3.2
Net assets per share <sup>*2</sup> (yen)	607.61	513.76	93.85

\*1 Shareholders' equity to total assets

= (Net assets – Subscription rights to shares and non-controlling interests) / Total assets

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

Total assets rose ¥33,241 million compared with the previous consolidated fiscal year-end to ¥331,751 million. This is primarily attributable to an increase in securities. Net assets increased ¥29,136 million to ¥187,015 million. Shareholders' equity to total assets stood at 53.2%

### (2) Status of Cash Flows

#### <Consolidated Cash Flows>

(Millions of yen)

	FY2017	FY2016	Increase/ decrease
Net cash provided by (used in) operating activities	28,562	32,269	(3,707)
Net cash provided by (used in) investment activities	(8,750)	(7,845)	(904)
Net cash provided by (used in) financing activities	(6,754)	(7,437)	682
Effect of exchange rate change on cash and cash equivalents	603	(526)	1,130
Net increase (decrease) in cash and cash equivalents	13,661	16,461	(2,799)
Cash and cash equivalents at end of period	91,401	77,739	13,661

Net cash provided by operating activities totaled ¥28,562 million, due mainly to income before income taxes.

Net cash used in investing activities totaled ¥8,750 million, due in part to the purchase of property, plant and equipment.

Net cash used in financing activities totaled ¥6,754 million. Major components of this outflow included cash dividends paid.

As a result of the above, cash and cash equivalents as of December 31, 2017 increased ¥13,661 million compared with the consolidated fiscal year ended December 31, 2016, to ¥91,401 million.

### (3) Forecast of Fiscal 2018 Consolidated Cash Flows

In cash flows from operating activities, Lion projects income before income taxes of approximately ¥35,000 million. Depreciation is estimated to total about ¥9,000 million.

In cash flows from investment activities, Lion plans to undertake capital expenditures of around ¥19,000 million during fiscal 2018.

The cash flows from financing activities are expected to yield an outflow of about ¥6,000 million mainly due to cash dividends paid and the repayment of loans payable.

Based on these projections, Lion estimates that cash and cash equivalents at the end of fiscal 2018 will be up approximately ¥19,000 million year on year.

#### (4) Changes in cash flow indicators

	FY2013	FY2014	FY2015	FY2016	FY2017
Shareholders' equity to total assets (%)	42.0	42.6	47.6	50.0	53.2
Shareholders' equity to total assets on a market value basis (%)	55.8	59.6	116.1	186.9	187.0
Debt redemption (years)	1.6	1.5	0.4	0.3	0.3
Interest coverage ratio	32.2	15.1	81.3	122.0	148.7

(Notes)

Shareholders' equity to total assets

= (Net assets – Subscription rights to shares and non-controlling interests) / Total assets

Shareholders' equity to total assets on a market value basis: Value of shares / Total assets

Debt redemption (years): Interest-bearing liabilities / Cash flows from operating activities

Interest coverage ratio: Cash flows from operating activities / Interest payment

\* All the indicators are based on consolidated financial data.

\* "Value of shares" is calculated on the basis of the "closing stock price as of the end of the term" multiplied by "the number of outstanding stocks as of the end of the term" (after the deduction of treasury stocks).

\* "Cash flows from operating activities" are those in the consolidated cash flow data.

"Interest-bearing liabilities" means all liabilities that are bearing interest among the liabilities in the consolidated balance sheet. For the amount of interest paid, figures in the consolidated cash flow data are used.

### 3. Basic Policy on the Distribution of Earnings and Cash Dividends

Lion considers returning profits to shareholders on a continuous and stable basis by increasing its consolidated earnings capacity to be one of its most important management issues. To this end, the Company strives to ensure the payment of continuous and stable cash dividends, aiming for a consolidated payout ratio of 30%, and bases the acquisition of treasury stock on comprehensive reviews to ensure that it maintains levels of internal reserves required to secure medium- and long-term growth. Lion allocates internal reserves to research and development, capital investment in production facilities and the acquisition of external resources, aiming to reinforce the Company's growth potential and to develop a sustainable business foundation.

Taking into consideration the Company's cash dividend payment record, as well as its dividend payout ratio target, Lion's Board of Directors resolved to pay an interim dividend of ¥7 per share (payment date: September 5, 2017) and a year-end dividend of ¥10 per share (payment date: March 1, 2018) for fiscal 2017.

With regard to dividends to be paid in fiscal 2018, in accordance with its basic policy on the distribution of earnings and cash dividends, Lion plans to pay an interim dividend of ¥10 per share and a year-end dividend of ¥10 per share, for a total annual dividend of ¥20 per share.

#### 4. Business Risks

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

Forward-looking statements are based on decisions made by the Lion Group as of February 9, 2018.

Business risks are not limited to the items listed below.

(1) Product quality and value

The Lion Group plans, develops, produces, and sells products under management based on international quality standards while strictly following related laws and regulations, such as the Pharmaceutical and Medical Device Act, to provide worry-free, safe, convenient, and environmentally conscious products to consumers. In addition, we use consumers' opinions received through our Consumer Service Office to improve our products and packaging as well as respective displays and text.

In the event of an unforeseen and serious problem with product quality, however, the affected product and all products made by the Lion Group may lose their perceived value. This may adversely affect the Lion Group's management performance and financial status.

(2) Changes in raw material prices

The Lion Group's products use petrochemical and vegetable oils and fats as basic materials. Since these materials are easily affected by international market prices, we have measures in place to reduce costs and diversify the range of materials used. However, an increase in raw material prices may adversely affect the Lion Group's management performance and financial status.

(3) Exchange rate fluctuations

The Lion Group translates into yen the financial statements of overseas subsidiaries when preparing consolidated financial statements. For items denominated in foreign currency, their yen values may be affected by prevailing foreign exchange rates when translated into yen. The Lion Group has taken steps to minimize the risk of an increase in raw material costs by hedging against exchange rate fluctuations. However, short-, medium-, and long-term changes in foreign exchange rates may adversely affect the Lion Group's management performance and financial status.

(4) Major lawsuits

As of December 31, 2017, Lion is not involved in any lawsuits that may have significant impact on its business. However, if the Lion Group were to be sued and found liable for significant damages, these could adversely affect the Lion Group's management performance and financial status.

(5) Earthquakes and other natural disasters

In the product manufacturing process, the Lion Group has put in place safety measures against earthquakes and other natural disasters. In the event of a major disaster, however, our production equipment may be damaged, or a suspension of raw materials procurement or distribution activities may cause business activities to cease, adversely affecting the Lion Group's management performance and financial status.

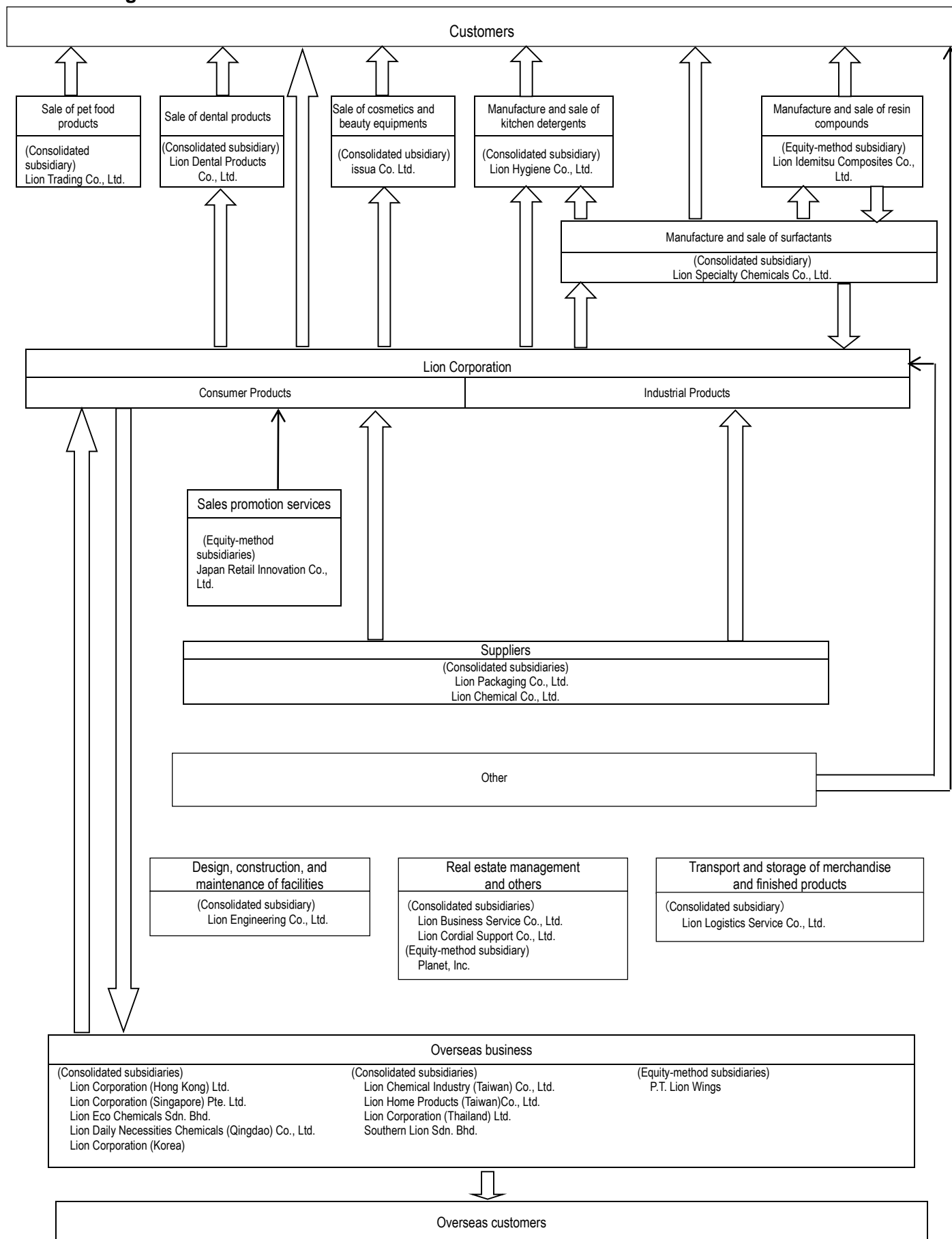
## II. Corporate Group

The Lion Group consists of Lion Corporation, 26 subsidiaries (including 24 consolidated subsidiaries, one non-consolidated equity-method company and one non-consolidated subsidiary that is not accounted for by the equity method), and 10 affiliates (including 4 equity-method affiliates). Principal business activities consist of the manufacture and sale of consumer products, industrial products and overseas. Other business activities involve distribution related to the above business activities and other services.

The relationship between group business activities and business segments is shown below, which is based on the categorization used for business segments.

Business segment	Main activities	Main companies	
Consumer Products Business	Manufacture and sale of domestic commodities, OTC drugs and functional food products in Japan	Domestic affiliates	Lion Corporation Lion Dental Products Co., Ltd. Lion Trading Co., Ltd. Lion Packaging Co., Ltd. issua Co. Ltd. Japan Retail Innovation Co., Ltd.
Industrial Products Business	Manufacture and sale of chemical raw materials, industrial products and other items in Japan and overseas	Domestic affiliates	Lion Corporation Lion Chemical Co., Ltd. Lion Hygiene Co., Ltd. Lion Specialty Chemicals Co., Ltd. Lion Idemitsu Composites Co., Ltd.
Overseas Business	Manufacture and sale of commodities and chemical raw materials overseas	Overseas affiliates	Lion Corporation (Hong Kong) Ltd. Lion Corporation (Singapore) Pte. Ltd. Lion Advertising Ltd. Lion Eco Chemicals Sdn. Bhd. 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 Company Limited Southern Lion Sdn. Bhd. P.T. Lion Wings
Other	Transport and storage of merchandise and finished products; design, construction, and maintenance of storage facilities; real estate management; Human resources services, etc.	Domestic affiliates	Lion Engineering Co., Ltd. Lion Cordial Support Co., Ltd. Lion Business Service Co., Ltd. Lion Logistics Service Company, Ltd. Planet, Inc.

### Business Organization Chart



Note: The thick arrows represent transactions of merchandise, finished products, and raw materials. The line arrows represent provision of services, etc.

**Subsidiaries and Affiliates**

**Consolidated Subsidiaries**

Name	Location	Capitalization	Business	Voting shares held by Lion	Nature of business relationship				
					Shared positions		Financial support	Business dealings	Lease of facilities, etc.
					Lion officers	Lion employees			
Lion Engineering Co., Ltd.	Sumida-ku, Tokyo	Millions of yen 100	Other	% 100.0	1	8	None	Design, construction, and maintenance of facilities	Lease of part of office space
*1 Lion Chemical Co., Ltd.	Sumida-ku, Tokyo	7,800	Industrial products	100.0	3	9	Loans	Purchase of raw materials and merchandises	Rental of part of office space and land
Lion Cordial Support Co., Ltd.	Sumida-ku, Tokyo	20	Other	100.0	—	4	None	Human resources services	Lease of office space
Lion Dental Products Co., Ltd.	Sumida-ku, Tokyo	10	Consumer products	100.0	1	8	None	Sale of merchandises and finished products	Lease of office space
Lion Trading Co., Ltd.	Sumida-ku, Tokyo	240	Consumer products	100.0	1	8	None	—	Lease of part of office space
Lion Specialty Chemicals Co., Ltd.	Sumida-ku, Tokyo	400	Industrial products	100.0	3	9	Loans	Sale of merchandises and finished products and purchase of raw materials and merchandises	Lease of part of office space
Lion Hygiene Co., Ltd.	Sumida-ku, Tokyo	300	Industrial products	100.0	1	8	None	Sales and purchase of merchandises	Lease of part of office and warehouse space
Lion Packaging Co., Ltd.	Ichihara-shi, Chiba	180	Consumer products	100.0	—	7	None	Purchase of materials and merchandises	Rental of part of office space and lease of part of land
Lion Business Service Co., Ltd.	Sumida-ku, Tokyo	490	Other	100.0	—	4	None	Rental, dealing, and brokerage of real estate, and insuring	Rental of part of office space and land
Lion Logistics Service Company, Ltd.	Sumida-ku, Tokyo	40	Other	100.0	2	6	None	Transport and storage of merchandises and finished products	Lease of part of office space
issua Company, Ltd.	Minato-ku, Tokyo	20	Consumer products	100.0	1	5	None	Sale of merchandises and finished products	—



Lion Corporation (Code 4912): Consolidated Financial Statements  
for the Year Ended December 31, 2017

Name	Location	Capitalization	Business	Voting shares held by Lion	Nature of business relationship				
					Shared positions		Financial support	Business dealings	Lease of facilities, etc.
					Lion officers	Lion employees			
Lion Corporation (Hong Kong) Ltd.	China (Hong Kong)	Thousands of HK\$ 12,000	Overseas business	100.0	—	3	None	Sale of merchandises and finished products	—
Lion Corporation (Singapore) Pte. Ltd.	Singapore	Thousands of S\$ 9,000	Overseas business	100.0	—	3	None	Sale of merchandises and finished products	—
Lion Advertising Ltd.	China (Hong Kong)	Thousands of HK\$ 100	Overseas business	*2 100.0 (100.0)	—	2	None	—	—
*1 Lion Eco Chemicals Sdn. Bhd.	Malaysia	Thousands of M\$ 287,000	Overseas business	100.0	1	5	None	Purchase of raw materials	—
Lion Daily Necessities Chemicals (Qingdao) Co., Ltd.	China	Thousands of US\$ 39,065	Overseas business	100.0	1	4	None	Sale of merchandises and finished products and purchase of merchandises	—
PT. IPPOSHA INDONESIA	Indonesia	Thousands of US\$ 750	Overseas business	*3 100.0 (90.0)	—	4	None	—	—
Lion Corporation (Korea)	South Korea	Thousands of won 9,976,250	Overseas business	100.0	1	4	None	Sale of merchandises and finished products and purchase of merchandises	—
Lion Chemical Industry (Taiwan) Co., Ltd.	Taiwan	Thousands of NT\$ 218,150	Overseas business	53.8	—	4	None	—	—
Lion Home Products (Taiwan) Co., Ltd.	Taiwan	Thousands of NT\$ 530,000	Overseas business	100.0	—	5	None	Sale of merchandises and finished products	—
Lion Corporation (Thailand) Ltd.	Thailand	Thousands of baht 300,000	Overseas business	51.0	3	7	None	Sale of merchandises and finished products and purchase of merchandises	—
Lion Service Co., Ltd.	Thailand	Thousands of baht 7,000	Other businesses	*4 49.0 (49.0)	—	—	None	—	—
Eastern Silicate Company Limited	Thailand	Thousands of baht 500	Other businesses	*4 99.9 (99.9)	—	2	None	—	—
Southern Lion Sdn. Bhd.	Malaysia	Thousands of M\$ 22,000	Overseas business	50.0	—	3	None	Sale of merchandises and finished products and purchase of merchandises	—

Equity-method affiliates

Name	Location	Capitalization	Business	Voting shares held by Lion	Nature of business relationship				
					Shared positions		Financial support	Business dealings	Lease of facilities, etc.
					Lion officers	Lion employees			
Lion Idemitsu Composites Co., Ltd.	Taito-ku, Tokyo	100	Industrial products	50.0	2	3	None	Purchase of special synthetic resin compounds	—
Planet, Inc.	Minato-ku, Tokyo	436	Other	16.1	1	—	None	Utilization of VANs	—
Japan Retail Innovation Co., Ltd.	Minato-ku, Tokyo	100	Consumer products	20.0	—	1	None	Sales promotion activities	—
P.T. Lion Wings	Indonesia	Millions of rupiah 64,062	Overseas business	48.0	—	4	None	Sale of merchandises and finished products	—

\*1. Lion Chemical Co., Ltd., Lion Packaging Co., Ltd., Lion Eco Chemicals Sdn. Bhd., and Lion Daily Necessities Chemicals (Qingdao) Co., are specified subsidiary.

\*2. The voting shares of Lion Advertising Ltd. are held by Lion Corporation (Hong Kong) Ltd.

\*3. 90% of PT. IPPOSHA INDONESIA's voting shares are held by Lion Specialty Chemicals Co., Ltd.

\*4. The voting shares of Lion Service Co., Ltd. and Eastern Silicate Company Limited are held by Lion Corporation (Thailand) Ltd.

5. The figure in parentheses in the "Voting shares held by Lion" column is the percentage of total voting shares held indirectly by Lion Corporation.

6. In addition to the companies listed above, there is one small-scale, non-consolidated equity-method company.

### III. Management Policies

#### 1. Basic Management Policies

The Lion Group positions “Fulfilling a Spirit of Love” as fundamental to its management, and thus contributes to the enrichment of the happiness and lives of people. Based on this motto, the Lion Group provides customers with superior products and services that are useful in securing the healthy, clean and comfortable lifestyles of people. The Group fully recognizes its mission to make an active contribution to society through such efforts.

The Lion Group takes continual steps to further improve its corporate value. To this end, the Group provides products and services that place the utmost priority on customer satisfaction based on an accurate understanding of the changes taking place in peoples’ values and the social role companies are required to play. At the same time, Lion promotes environmental preservation activities and enhances its corporate governance systems in order to remain a highly trustworthy company that meets the expectations of stakeholders, including shareholders, customers, business partners, local communities/society and employees.

#### 2. Performance Targets

Through the thorough selection and concentration of investment in management initiatives, efforts to reform its business structure and reinforce its earnings structure, and aggressive acquisitions and the development of new businesses, Lion is striving to increase its corporate value with the goal of reaching a consolidated ROE of 12%.

#### 3. Medium and Long-term Management Strategies

In order to continue to create new value, consistently meet the needs of society and customers and sustainably increase its corporate value, the Lion Group believes that it must clarify the orientation of its businesses and accelerate efforts aimed at innovation. To this end, we have established a new vision for 2030 and a medium-term management plan to help realize that vision.

【 “New Management Vision for 2030”  
“Becoming an advanced daily healthcare company”

【New Medium-Term Management Plan (2018–2020)】  
LION Value Evolution Plan (LIVE Plan)

Under the theme of evolving into a leading advanced daily healthcare company, we will advance long-term, future-oriented growth initiatives and framework-building efforts in and outside Japan while further accelerating improvements to management efficiency to reinforce the earnings structure.

【Framework to Achieve the Vision】

1. Expand and Evolve Our Business Domains through New Value Creation
2. Accelerate Growth in Overseas Businesses through Glocalization
3. Reinforce Our Management Base through Business Structure Reform
4. Create Dynamism to Foster Innovative Change

#### 4. Management Issues

To achieve the goals of its new vision, the Lion Group recognizes that it must steadily implement the strategies of the LIVE Plan and see them through to fruition.

(1) Expand and Evolve Our Business Domains through New Value Creation

Creating new combinations of various technologies and services, we will create new business value that

realizes “healthy minds and bodies for all”.

(2) Accelerate Growth in Overseas Businesses through Glocalization

Focusing on growing markets in Asia, we will integrate globalization and localization approaches to create unique competitive advantages and thereby expand the scale of our businesses and the areas in which we operate.

(3) Reinforce Our Management Base through Business Structure Reform

By improving management infrastructure and revising the business portfolio to stay ahead of changes in the environment, we will reinforce our management base to enable sustainable business growth.

(4) Create Dynamism to Foster Innovative Change

We aim to foster corporate strength that will win out over global competition by promoting diversity and openness in our human resources, organizations and corporate culture.

With the rise of social issues in Japan and overseas related to healthcare, such as extending healthy life expectancies and improving quality of life (QOL), as a familiar presence in people's everyday life the Lion Group's role will likely continue to grow.

By vigorously promoting the aforementioned strategies, the Lion Group will create shared value with society through its businesses. Simultaneously, the Group will make broad-ranging contributions to the realization of a sustainable society and thereby enhance its corporate value.

**IV. Basic Approach Regarding the Selection of Accounting Standards**

The Lion Group had voluntarily adopted International Financial Reporting Standards (IFRS) from the first quarter of fiscal 2018 in order to improve the international comparability of Lion Group financial statements and reinforce Group business management.

## V. Consolidated Financial Reporting Statements

### 1. Consolidated Balance Sheets

(Millions of yen)

	Fiscal Year Ended December 31, 2016	Fiscal Year Ended December 31, 2017
<b>Assets</b>		
Current assets		
Cash and deposits	17,879	23,781
Notes and accounts receivable-trade	60,293	64,141
Short-term investments securities	61,007	69,211
Merchandise and finished goods	26,120	26,317
Work in process	2,863	3,523
Raw materials and supplies	10,742	10,368
Deferred tax assets	4,161	3,704
Other	2,465	2,530
Allowance for doubtful accounts	(64)	(84)
Total current assets	185,469	203,495
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	75,327	75,122
Accumulated depreciation	(50,551)	(50,452)
Buildings and structures, net	24,776	24,670
Machinery, equipment and vehicles	120,119	115,790
Accumulated depreciation	(100,987)	(95,743)
Machinery, equipment and vehicles, net	19,132	20,046
Land	23,949	24,195
Lease assets	321	329
Accumulated depreciation	(141)	(171)
Lease assets, net	180	157
Construction in progress	2,705	7,861
Other	23,868	24,351
Accumulated depreciation	(20,210)	(20,301)
Other, net	3,657	4,050
Total property, plant and equipment	74,402	80,981
Intangible assets		
Goodwill	182	101
Right of trademark	1,658	40
Other	981	1,548
Total intangible assets	2,822	1,690
Investments and other assets		
Investment securities	24,025	32,464
Long-term loans receivable	28	36
Net defined benefit asset	7,973	10,302
Deferred tax assets	2,581	1,291
Other	1,291	1,575
Allowance for doubtful accounts	(84)	(84)
Total Investments and other assets	35,815	45,584
Total noncurrent assets	113,040	128,256
Total assets	298,510	331,751

(Millions of yen)

	Fiscal Year Ended December 31, 2016	Fiscal Year Ended December 31, 2017
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable-trade	34,680	35,247
Electronically recorded obligations-operating	16,266	19,127
Short-term loans payable	4,244	3,754
Current portion of long-term loans payable	260	285
Accounts payable-other and accrued expenses	51,979	50,163
Income taxes payable	4,677	4,528
Provision for bonuses	3,792	3,889
Provision for sales returns	382	382
Provision for sales promotion expenses	2,974	3,964
Provision for directors' bonuses	387	289
Other	3,793	5,591
Total current liabilities	123,440	127,225
Noncurrent liabilities		
Long-term loans payable	1,690	1,569
Deferred tax liabilities	910	4,336
Provision for directors' retirement benefits	287	273
Provision for directors' stock benefits	-	155
Net defined benefit liability	10,446	7,280
Asset retirement obligation	337	375
Other	3,518	3,519
Total noncurrent liabilities	17,190	17,511
Total liabilities	140,630	144,736
<b>Net assets</b>		
Shareholders' equity		
Capital stock	34,433	34,433
Capital surplus	34,508	35,319
Retained earnings	82,479	97,944
Treasury stock	(4,778)	(5,593)
Total shareholders' equity	146,642	162,104
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	7,429	12,973
Deferred gains or losses on hedges	12	4
Foreign currency translation adjustment	445	1,901
Remeasurements of defined benefit plans	(5,246)	(424)
Total accumulated other comprehensive income	2,640	14,455
Subscription rights to shares	218	210
Non-controlling interests	8,377	10,245
Total net assets	157,879	187,015
Total liabilities and net assets	298,510	331,751

## 2. Consolidated Statements of Income and Consolidated Statement of Comprehensive Income

### Consolidated Statements of Income

(Millions of yen)

	Fiscal Year Ended December 31, 2016 (Jan. 1 to Dec. 31)	Fiscal Year Ended December 31, 2017 (Jan. 1 to Dec. 31)
Net sales	395,606	410,484
Cost of sales	161,992	171,209
Gross profit	233,613	239,275
Selling, general and administrative expenses	*1 *2 209,110	*1 *2 212,068
Operating income	24,502	27,206
Non-operating income		
Interest income	149	142
Dividends income	412	579
Equity in earnings of affiliates	725	737
Royalty income	225	274
Foreign exchange gains	200	86
Other	573	796
Total non-operating income	2,286	2,618
Non-operating expenses		
Interest expenses	276	205
Interest on bonds	9	-
Loss on disposal of inventories	100	264
Other	112	228
Total non-operating expenses	498	698
Ordinary income	26,290	29,126
Extraordinary income		
Gain on disposal of noncurrent assets	-	2,070
Gain on sales of investment securities	31	364
Total extraordinary income	31	2,434
Extraordinary loss		
Loss on disposal of noncurrent assets	542	317
Impairment loss	1,114	683
Loss on liquidation of subsidiaries and associates	351	-
Loss on dissolution of employees' pension fund	277	-
Total extraordinary losses	2,286	1,001
Income before income taxes	24,035	30,560
Income taxes-current	7,319	7,603
Income taxes-deferred	(684)	636
Total income taxes	6,634	8,239
Profit	17,400	22,320
Profit attributable to non-controlling interests	1,449	2,493
Profit attributable to owners of parent	15,951	19,827

**Consolidated Statement of Comprehensive Income**

(Millions of yen)

	Fiscal Year Ended December 31, 2016 (Jan. 1 to Dec. 31)	Fiscal Year Ended December 31, 2017 (Jan. 1 to Dec. 31)
Income before minority interests	17,400	22,320
Other comprehensive income		
Valuation difference on available-for-sale securities	1,270	5,707
Deferred gains or losses on hedges	12	(8)
Foreign currency translation adjustment	(1,548)	1,651
Remeasurements of defined benefit plans, net of tax	(890)	4,822
Share of other comprehensive income of associates accounted for using equity method	47	(73)
Total other comprehensive income	(1,108)	12,100
Comprehensive income	16,292	34,420
Comprehensive income attributable to:		
Comprehensive income attributable to owner of the parent	15,216	31,642
Comprehensive income attributable to non-controlling interests	1,076	2,778



### 3. Consolidated Statement of Changes in Shareholders' Equity

Consolidated Results for the Year Ended December 31, 2016 (January 1 to December 31, 2016)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the start of current period	34,433	34,029	69,414	(6,800)	131,077
Changes of items during the period					
Dividends from surplus			(2,886)		(2,886)
Profit attributable to owners of parent			15,951		15,951
Purchase of treasury stock				(191)	(191)
Disposal of treasury stock		478		2,212	2,691
Purchase of shares of consolidated subsidiaries					-
Net changes of items other than shareholders' equity					
Total changes of items during the period	-	478	13,064	2,021	15,564
Balance at the end of current period	34,433	34,508	82,479	(4,778)	146,642

	Accumulated other comprehensive income					Subscription rights to shares	Minority interests	Net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Accumulated other comprehensive income			
Balance at the start of current period	5,983	(0)	1,748	(4,356)	3,375	403	7,873	142,730
Changes of items during the period								
Dividends from surplus								(2,886)
Profit attributable to owners of parent								15,951
Purchase of treasury stock								(191)
Disposal of treasury stock								2,691
Purchase of shares of consolidated subsidiaries								-
Net changes of items other than shareholders' equity	1,445	12	(1,303)	(890)	(735)	(184)	503	(416)
Total changes of items during the period	1,445	12	(1,303)	(890)	(735)	(184)	503	15,148
Balance at the end of current period	7,429	12	445	(5,246)	2,640	218	8,377	157,879

Consolidated Results for the Year Ended December 31, 2017 (January 1 to December 31, 2017)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the start of current period	34,433	34,508	82,479	(4,778)	146,642
Changes of items during the period					
Dividends from surplus			(4,362)		(4,362)
Profit attributable to owners of parent			19,827		19,827
Purchase of treasury stock				(1,118)	(1,118)
Disposal of treasury stock		784		304	1,088
Purchase of shares of consolidated subsidiaries		26			26
Net changes of items other than shareholders' equity					
Total changes of items during the period	-	810	15,465	(814)	15,461
Balance at the end of current period	34,433	35,319	97,944	(5,593)	162,104

	Accumulated other comprehensive income					Subscription rights to shares	Minority interests	Net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Accumulated other comprehensive income			
Balance at the start of current period	7,429	12	445	(5,246)	2,640	218	8,377	157,879
Changes of items during the period								
Dividends from surplus								(4,362)
Profit attributable to owners of parent								19,827
Purchase of treasury stock								(1,118)
Disposal of treasury stock								1,088
Purchase of shares of consolidated subsidiaries								26
Net changes of items other than shareholders' equity	5,544	(8)	1,456	4,822	11,814	(8)	1,867	13,674
Total changes of items during the period	5,544	(8)	1,456	4,822	11,814	(8)	1,867	29,136
Balance at the end of current period	12,973	4	1,901	(424)	14,455	210	10,245	187,015

#### 4. Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal year Ended December 31, 2016 (Jan. 1 to Dec. 31)	Fiscal year Ended December 31, 2017 (Jan. 1 to Dec. 31)
<b>Net cash provided by (used in) operating activities</b>		
Income before income taxes and minority interests	24,035	30,560
Depreciation and amortization	10,244	9,386
Impairment loss	1,114	683
Increase (decrease) in provision for bonuses	832	30
Increase (decrease) in net defined benefit liability	1,765	1,483
Interest and dividends income	(561)	(722)
Interest expenses	276	205
Interest on bonds	9	-
Loss (gain) on disposal of noncurrent assets	542	(1,752)
Loss (gain) on sales of investment securities	(31)	(364)
Equity in (earnings) losses of affiliates	(725)	(737)
Decrease (increase) in notes and accounts receivable-trade	(2,456)	(2,721)
Decrease (increase) in inventories	(2,968)	137
Increase (decrease) in notes and accounts payable-trade	1,769	2,847
Increase (decrease) in accounts payable-other and accrued expenses	4,527	(4,667)
Increase (decrease) in other current liabilities	850	1,531
Decrease (increase) in other current assets	(456)	185
Other, net	549	(71)
Subtotal	39,320	36,013
Interest and dividends income received	709	831
Interest expenses paid	(264)	(192)
Income taxes paid	(7,495)	(8,089)
Net cash provided by (used in) operating activities	32,269	28,562
<b>Net cash provided by (used in) investment activities</b>		
Decrease (increase) in time deposits	2,099	(350)
Purchases of property, plant and equipment	(8,945)	(10,814)
Proceeds from sales of property, plant and equipment	51	2,800
Purchase of intangible assets	(260)	(714)
Purchase of investment securities	(146)	(247)
Proceeds from sales of investment securities	81	928
Payments of loans receivable	(1)	(5)
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	(57)	(345)
Net cash provided by (used in) investment activities	(7,845)	(8,750)

(Millions of yen)

	Fiscal year Ended December 31, 2016 (Jan. 1 to Dec. 31)	Fiscal year Ended December 31, 2017 (Jan. 1 to Dec. 31)
<b>Net cash provided by (used in) financing activities</b>		
Increase in short-term loans payable	1,517	5,973
Decrease in short-term loans payable	(4,794)	(6,646)
Repayment of long-term loans payable	(214)	(268)
Purchase of treasury stock	(191)	(1,118)
Proceeds from disposal of treasury stock	0	1,088
Cash dividends paid	(2,889)	(4,359)
Dividends paid to non-controlling interests	(727)	(1,312)
Other, net	(137)	(110)
Net cash provided by (used in) financing activities	(7,437)	(6,754)
<b>Effect of exchange rate change on cash and cash equivalents</b>	(526)	603
<b>Net increase (decrease) in cash and cash equivalents</b>	16,461	13,661
<b>Cash and cash equivalents at beginning of period</b>	61,278	77,739
<b>Cash and cash equivalents at end of period</b>	77,739	91,401

## 5. Notes Concerning Consolidated Financial Statements

(Notes Regarding Assumption of a Going Concern)

None.

(Basis of Presentation of Consolidated Financial Statements)

(1) Scope of consolidation

1) The Lion Group has 24 consolidated subsidiaries.

The names of the consolidated subsidiaries are provided under "II. Corporate Group" and are therefore omitted here.

During the fiscal year under review, the liquidation of Lion Field Marketing Co., Ltd. was completed; it is therefore excluded from the scope of consolidation. In addition, CJ Lion Corporation was renamed LION CORPORATION (KOREA).

2) The Lion Group has two non-consolidated subsidiaries.

Thai Silicate Chemicals Co., Ltd. and one other company are excluded from the scope of consolidation, as they are small in scale and their total assets, net sales, profit attributable to owners of parent (amounts corresponding to equity), retained earnings (amounts corresponding to equity) and other results have only a minor impact on the consolidated financial statements.

(2) Application of equity method

1) The Lion Group has one non-consolidated subsidiary to which the equity method is applied.

Name of non-consolidated subsidiary

Thai Silicate Chemicals Co., Ltd.

2) The Lion Group has four affiliates to which the equity method is applied.

Name of principal company

Lion Idemitsu Composites Co., Ltd.

3) Names of principal non-consolidated subsidiaries and affiliates to which the equity method is not applied

Lion Idemitsu Composites (Hong Kong) Limited

Reasons the equity method is not applied

The impact of the profit attributable to owners of parent (amounts corresponding to equity) and other results of the companies to which the equity method is not applied is minor and immaterial as a whole. Said companies are therefore excluded from the scope application of the equity method.

4) For companies to which the equity method is applied that have a closing date other than the consolidated closing date, the equity method is applied based on the financial statements for said companies' fiscal years.

(3) Accounting period of the consolidated subsidiaries

The consolidated subsidiaries have a closing date of December 31 (the consolidated closing date).

(4) Accounting policies

1) Significant asset valuation standards and methods

a) Marketable securities

i. Held-to-maturity securities... Amortized cost method (straight-line method)

ii. Other marketable securities

Marketable securities with a market value

Stated at market value based on market prices and other factors at the closing date (any unrealized gains or losses are included directly in net assets; the cost of securities sold is stated using the moving-average method)

Marketable securities without a market value

Primarily stated at cost using the moving-average method

- b) Derivatives..... Stated at market value
- c) Inventories  
Primarily stated at cost using the moving-average method (balance sheet amounts are written down to reflect any decreased profitability)
- 2) Main depreciable assets and methods of depreciation and amortization
  - a) Property, plant and equipment (excluding leased assets)  
Depreciation of property, plant and equipment is computed by the straight-line method in principle.  
Useful lives of assets are principally as follows.

Building and structures	3 to 50 years
Machinery and equipment	8, 9 or 20 years
  - b) Intangible assets (excluding leased assets)  
Amortization of intangible assets is computed by the straight-line method. Costs of software for internal use are primarily amortized using the straight-line method over the period for which said software can be used internally (5 years).
  - c) Leased assets  
Leased assets related to finance leases that do not transfer ownership  
Depreciation of leased assets is computed by the straight-line method with the lease period as the useful life, assuming zero as the residual value.
- 3) Principal accounting standards for allowances and provisions
  - a) Allowance for doubtful accounts  
The Company and its domestic consolidated subsidiaries calculate allowances for ordinary receivables based on historical rates of default. For certain receivables, such as those where recovery is doubtful, the likelihood of recovery is considered on an individual basis, and an allowance based on an estimate of the irrecoverable amount is provided. Overseas consolidated subsidiaries primarily provide allowances equivalent to estimated irrecoverable amounts for specific receivables.
  - b) Provision for bonuses  
Provision for bonuses is an amount corresponding to the estimated amount to be paid to employees by the Company.
  - c) Provision for sales returns  
The estimated amount of loss due to returns is provided in anticipation of the return of merchandise and finished goods after the end of the fiscal year under review.
  - d) Provision for sales promotion expenses  
The estimated amounts of sales rebates, etc., to be paid to distributors and retailers in connection with sales made in the fiscal year under review is provided in order to provide for such payments.
  - e) Provision for directors' bonuses  
Provision for directors' bonuses is an amount corresponding to the estimated amount to be paid to directors by the Company.
  - f) Provision for directors' retirement benefits  
Provision for the retirement benefits of the directors of certain consolidated subsidiaries is an amount corresponding to the estimated amount of said payments.
  - g) Provision for directors' stock benefits  
Provision for directors' stock benefits is an amount corresponding to the estimated value of Company stock to be paid or issued to directors (excluding external directors) and executive officers based on the Company's rules on the payment and issue of stock, etc.
- 4) Retirement benefit accounting methods
  - a) Allocation of estimated retirement benefits  
In calculating the defined benefit obligations, the benefit formula method is used to allocate the estimated retirement benefit to the periods of service by eligible employees as of the end of the consolidated fiscal year under review.

b) Method of amortizing actuarial gain or loss and prior service cost

Prior service cost is amortized from the consolidated fiscal year in which it is incurred using the straight-line method over a period not exceeding the estimated average remaining service years of employees at the time of incurrence.

Actuarial gain or loss is amortized from the consolidated fiscal year following the year in which the gain or loss is recognized using the straight-line method over the average remaining service years of the employees at the time of recognition.

- 5) Principal standards for translating foreign currency denominated assets and liabilities into yen  
Foreign currency denominated receivables and payables are translated into yen at the spot exchange rates on the consolidated closing date, and any differences arising from such translations are recorded as income or loss. The assets and liabilities of overseas subsidiaries are translated into yen at the spot exchange rates on the consolidated closing date, their income and expenses are translated into yen at the average rates during the period under review, and any differences arising from such translation are included in "Foreign currency translation adjustment" and "Non-controlling interests" under "Net assets."

6) Principal hedge accounting methods

a) Hedge accounting methods

The Company mainly uses deferred hedge accounting. The designation method is applied for forward currency contracts and currency swaps that meet the requirements for the designation method, and exceptional accounting is applied for interest rate swaps that meet the requirements for exceptional accounting.

b) Hedging instruments and hedged items

Hedging instruments	Hedged items
Forward exchange contracts	Forecasted foreign currency transactions

c) Hedging policy

Based mainly on an internal management system, the Company's Finance Department and the relevant management departments of its subsidiaries hedge the risks of exchange rate fluctuations and interest rate fluctuations.

7) Method and period of goodwill amortization

Items of goodwill that can be reasonably estimated are amortized using the straight-line method over the period of said estimate (five years). Immaterial items are amortized when they arise.

8) Cash and cash equivalents in the Consolidated Statements of Cash Flows

Cash and cash equivalents in the Consolidated Statements of Cash Flows include cash on hand, demand deposits and highly liquid short-term investments with negligible risk of fluctuation in value and maturities of less than three months.

9) Accounting methods for consumption taxes, etc.

The Company uses the tax-excluded method.

(Additional Information)

**Adoption of Implementation Guidance on Recoverability of Deferred Tax Assets**

Lion has adopted the Implementation Guidance on Recoverability of Deferred Tax Assets (Accounting Standards Board of Japan Guidance No. 26, issued on March 28, 2016) from the consolidated fiscal year under review.

**Performance-Linked Stock-Based Compensation System**

Lion 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

Lion has adopted a performance-linked stock-based compensation system ("the System") for directors and executive officers with the aim of motivating them 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 the neutrality of corporate management, no voting rights may be exercised for Company 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 the end of the consolidated fiscal year under review were ¥1,069 million and 502,200 shares, respectively.

(Changes in Method of Presentation)

**Consolidated Balance Sheets**

“Electronically recorded obligations—operating,” which was included in “Notes and accounts receivable—trade” under “Current liabilities” in the previous consolidated fiscal year, is presented separately in the consolidated fiscal year under review, since its amount has become material. The consolidated financial statements for the previous consolidated fiscal year have been restated to reflect this change in presentation.

As a result, the amount of ¥50,947 million, which had been presented as “Notes and accounts receivable—trade” under “Current liabilities” in the consolidated balance sheets as of December 31, 2016, has been restated as “Notes and accounts receivable—trade” of ¥34,680 million and “Electronically recorded obligations—operating” of ¥16,266 million.

“Deferred tax liabilities,” which was included in “Other” under “Noncurrent liabilities” in the previous consolidated fiscal year, is presented separately in the consolidated fiscal year under review, since its amount has become material. The consolidated financial statements for the previous consolidated fiscal year have been restated to reflect this change in presentation.

As a result, the amount of ¥4,428 million, which had been presented as “Other” under “Noncurrent liabilities” in the consolidated balance sheets as of December 31, 2016, has been restated as “Deferred tax liabilities” of ¥910 million and “Other” of ¥3,518 million.

(Notes to Consolidated Statements of Income)

\*1 The main components of selling, general and administrative expenses and their respective values are as follows.

	Fiscal 2016 (Jan. 1 to Dec. 31, 2016)	Fiscal 2017 (Jan. 1 to Dec. 31, 2017)
Sales commissions	8,623	9,012
Promotion expenses	90,107	90,797
Transportation and warehousing expenses	17,829	18,653
Advertising expenses	30,976	29,968
Salaries and allowances	14,721	15,034
R&D expenses	10,084	10,474

\*2 **Previous fiscal year**

R&D expenses included in general and administrative expenses total ¥10,084 million. There are no R&D expenses included in manufacturing expenses.

**Fiscal year under review**

R&D expenses included in general and administrative expenses total ¥10,474 million. There are no R&D expenses included in manufacturing expenses.



(Segment Information)

1) Overview of Reportable Segments

The reportable segments of Lion Corporation comprise those entities for which obtaining separate financial reports is possible and that are subject to regular review by the Board of Directors, which decides upon the distribution of management resources to said segments.

Lion Corporation positions segments distinguished by their products within each business division. Each segment proposes comprehensive product strategies while pursuing business expansion. Affiliated companies in Japan undertake business activities that are in line with the characteristics of their respective products and services.

Affiliated companies located overseas are independent management units that conduct business activities that conform to the characteristics of the regions in which they operate.

The three reportable segments (distinguished by products, services and regions) that therefore comprise Lion Corporation's operations are: Consumer Products Business, Industrial Products Business and Overseas Business.

The company's reportable segments are as follows.

a) Consumer Products Business

The Consumer Products Business engages in the manufacture and sale of commodities, OTC drugs and functional food products primarily 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

The Industrial Products Business engages primarily in the 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

The Overseas Business engages mainly in the manufacture and sale of commodities by affiliated overseas businesses.

d) Other Business

Lion subsidiaries located in Japan primarily undertake operations of each Lion Group business.

Main products and services: construction contractor business, real estate management, distribution/storage and temporary staffing services.

2) Methods for Calculating Net Sales, Profits, Losses, Assets, Liabilities and Other Monetary Items for Each Reportable Segment

Profit figures for each reportable segment are based on operating income.

Intersegment transaction and transfer prices are, in principle, established based on negotiations reflecting market prices, total supplier costs and the company's asking price.

3) Information Regarding Net Sales, Profits, Losses, Assets, Liabilities and Other Monetary Items for  
Each Reportable Segment

Consolidated Results for the Year Ended December 31, 2016 (January 1 to December 31, 2016)

(Millions of yen)

	Reportable segments			Other	Total	Adjustment <sup>2</sup>	Consolidated total <sup>3</sup>
	Consumer Products Business	Industrial Products Business	Overseas Business				
Net sales							
Sales to external customers	261,305	31,395	99,285	3,619	395,606	-	395,606
Intersegment sales <sup>*1</sup>	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 monetary items							
Depreciation	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
Increases 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 reportable segments.

2. (1) Segment income adjustments totaling ¥643 million are composed mainly of internal transaction eliminations.

(2) Segment asset adjustments include internal transaction eliminations resulting in a ¥77,961 million deduction and a ¥136,048 million addition that reflects Company assets not allocated to reportable segments.

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 those involving Company assets and internal transaction eliminations.

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

Consolidated Results for the Year Ended December 31, 2017 (January 1 to December 31, 2017)  
(Millions of yen)

	Reportable segments			Other	Total	Adjustment <sup>2</sup>	Consolidated total <sup>3</sup>
	Consumer Products Business	Industrial Products Business	Overseas Business				
Net sales							
Sales to external customers	264,816	33,322	108,248	4,096	410,484	-	410,484
Intersegment sales <sup>1</sup>	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 monetary items							
Depreciation	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
Increases 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 reportable segments.

2. (1) Segment income adjustments totaling ¥205 million are composed mainly of internal transaction eliminations.

(2) Segment asset adjustments include internal transaction eliminations resulting in a ¥81,640 million deduction and a ¥87,482 million addition that reflects Company assets not allocated to reportable segments.

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 those involving Company assets and internal transaction eliminations.

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

## Related Information

Fiscal 2016 (January 1 to December 31, 2016)

### 1. Information by product and service category

(Millions of yen)

	Health care	Household	Chemicals	Other	Total
Sales to external customers	178,814	188,216	24,487	4,087	395,606

### 2. Information by region

#### (1) Sales

(Millions of yen)

Japan	Asia		Other	Total
		Thailand		
294,039	99,174	47,511	2,393	395,606

Note: Sales are classified by country/region based on customer location.

#### (2) Property, plant and equipment

(Millions of yen)

Japan	Asia		Total
		Thailand	
52,590	21,811	8,407	74,402

### 3. Information on major customers

(Millions of yen)

Customer name	Net sales	Related segments
PALTAC Corporation	90,479	Consumer Products, Industrial Products
Arata Corporation	51,707	Consumer Products, Industrial Products

Fiscal 2017 (January 1 to December 31, 2017)

### 1. Information by product and service category

(Millions of yen)

	Health care	Household	Chemicals	Other	Total
Sales to external customers	191,985	188,411	25,411	4,676	410,484

2. Information by region

(1) Sales

(Millions of yen)

Japan	Asia		Other	Total
		Thailand		
299,638	108,316	53,457	2,530	410,484

Note: Sales are classified by country/region based on customer location.

(2) Property, plant and equipment

(Millions of yen)

Japan	Asia		Total
		Thailand	
56,467	24,513	10,241	80,981

3. Information on major customers

(Millions of yen)

Customer name	Net sales	Related segments		
PALTAC Corporation	90,725	Consumer Products	Products,	Industrial Products
Arata Corporation	52,423	Consumer Products	Products,	Industrial Products

**Information on impairment loss on noncurrent assets by reportable segment**

Fiscal 2016 (January 1 to December 31, 2016)

(Millions of yen)

	Reportable segments			Other	Total	Adjustment	Total
	Consumer Products Business	Industrial Products Business	Overseas Business				
Impairment loss	112	0	611	470	1,195	(80)	1,114

Note: The amount given for "Other" is that related to the real estate management business.

Fiscal 2017 (January 1 to December 31, 2017)

(Millions of yen)

	Reportable segments			Other	Total	Adjustment	Total
	Consumer Products Business	Industrial Products Business	Overseas Business				
Impairment loss	473	177	—	27	678	4	683

Note: The amount given for "Other" is that related to the transportation and warehousing business.

**Information on amortization of goodwill and unamortized balance of goodwill by reportable segment**

Fiscal 2016 (January 1 to December 31, 2016)

(Millions of yen)

	Reportable segments			Other	Total	Adjustment	Total
	Consumer Products Business	Industrial Products Business	Overseas Business				
Amortization of goodwill during the year	—	81	—	—	81	—	81
Balance at end of the year	—	182	—	—	182	—	182

Fiscal 2017 (January 1 to December 31, 2017)

(Millions of yen)

	Reportable segments			Other	Total	Adjustment	Total
	Consumer Products Business	Industrial Products Business	Overseas Business				
Amortization of goodwill during the year	—	81	—	—	81	—	81
Balance at end of the year	—	101	—	—	101	—	101

**Information on gain on negative goodwill by reportable segment**

Not applicable.

(Tax Effect Accounting)

1. The major components of deferred tax assets and liabilities are as follows.

	(Millions of yen)	
	Fiscal 2016 (As of Dec. 31, 2016)	Fiscal 2017 (As of Dec. 31, 2017)
Deferred tax assets		
Allowance for doubtful accounts	13	14
Provision for sales returns	117	101
Provision for sales promotion expenses	1,054	1,329
Net defined benefit asset and liability	9,995	8,020
Impairment loss	2,768	2,573
Accrued enterprise and office taxes	379	373
Unrealized profit on inventories and non-current assets	544	561
Other	4,219	3,798
Subtotal	19,092	16,772
Valuation allowance	(3,152)	(3,407)
Total deferred tax assets	15,940	13,364
Deferred tax liabilities		
Reserves under the Special Taxation Measures Law	(1,128)	(1,108)
Gain on contribution of securities to retirement benefit trust	(4,868)	(4,848)
Temporary differences due to distribution of retained earnings at overseas affiliates	(1,049)	(1,315)
Asset retirement obligation	(5)	(13)
Valuation difference on available-for-sale securities	(2,794)	(5,124)
Other	(278)	(294)
Total deferred tax liabilities	(10,124)	(12,705)
Net deferred tax assets	5,815	659

Note: Net deferred tax assets and liabilities as of the end of fiscal 2016 and 2017 are included in the following items of the consolidated balance sheets.

	(Millions of yen)	
	Fiscal 2016 (As of Dec. 31, 2016)	Fiscal 2017 (As of Dec. 31, 2017)
Current assets—deferred tax assets	4,161	3,704
Noncurrent assets—deferred tax assets	2,581	1,291
Current liabilities—other	16	—
Noncurrent liabilities—deferred tax liabilities	910	4,336

2. Reconciliation of the statutory tax rate and the effective tax rate after application of tax effect accounting

	Fiscal 2016 (As of Dec. 31, 2016)	Fiscal 2017 (As of Dec. 31, 2017)
Statutory tax rate	33.1%	30.9%
(Adjustments)		
Entertainment expenses and other non-deductable items	0.5%	0.5%
Dividend income and other items not recognizable as income for tax purposes	(0.1%)	(1.2%)
Reduction of year-end deferred tax assets due to tax rate change	1.8%	0.1%
Per capita inhabitants' tax	0.3%	0.2%
Loss on valuation of securities and other non-schedulable items	(0.4%)	1.1%
Differences in tax rates applicable to foreign subsidiaries	(3.0%)	(2.7%)
Experiment and research expenses and other special deductions	(2.8%)	(2.4%)
Other	(1.8%)	0.5%
Effective tax rate after application of tax effect accounting	27.6%	27.0%

(Retirement Benefits)

1. Overview of retirement benefit plans

The Company and certain consolidated subsidiaries maintain funded and unfunded defined benefit and defined contribution retirement plans to pay employee retirement benefits. In addition, employees are sometimes awarded extra retirement payments upon their retirement or separation.

The main retirement benefit plan in which the Company participates is the LION PENSION FUND. Furthermore, the Company and 12 other companies maintain lump-sum retirement benefit payment plans.

The Company has established a retirement benefit trust.

The defined-benefit corporate pension and lump-sum retirement payment plans of certain domestic consolidated subsidiaries calculate net defined benefit liability and retirement benefit expenses using the simplified method.



## 2. Defined benefit plans

### (1) Reconciliation of the defined benefit obligations at the beginning and the end of the fiscal year

(Millions of yen)

	Fiscal 2016 (Jan. 1 to Dec. 31, 2016)	Fiscal 2017 (Jan. 1 to Dec. 31, 2017)
Balance of defined benefit obligations at beginning of the year	70,892	71,724
Service cost	2,079	2,216
Interest cost	401	203
Actuarial difference	2,279	(312)
Prior service cost	—	263
Retirement benefits paid	(4,092)	(3,970)
Loss on dissolution of pension funds	164	—
Balance of defined benefit obligations at end of the year	71,724	70,124

Note: Includes plans to which the simplified method is applied.

### (2) Reconciliation of the plan assets at the beginning and the end of the fiscal year

(Millions of yen)

	Fiscal 2016 (Jan. 1 to Dec. 31, 2016)	Fiscal 2017 (Jan. 1 to Dec. 31, 2017)
Balance of plan assets at beginning of the year	71,377	69,251
Expected return on plan assets	1,305	1,298
Actuarial difference	(108)	5,588
Contribution from employer	467	550
Retirement benefits paid	(3,790)	(3,541)
Balance of plan assets at end of the year	69,251	73,146

Note: Includes plans to which the simplified method is applied.

### (3) Reconciliation of balances of defined benefit obligations and plan assets at the end of the fiscal year and the net defined benefit liability and net defined benefit asset values recorded on the balance sheets

(Millions of yen)

	Fiscal 2016 (As of Dec. 31, 2016)	Fiscal 2017 (As of Dec. 31, 2017)
Defined benefit obligations of funded plans	69,520	67,428
Plan assets	(69,251)	(73,146)
	269	(5,718)
Defined benefit obligations of unfunded plans	2,204	2,697
Net liability and asset recorded on the balance sheets	2,473	(3,021)
Net defined benefit liability	10,446	7,280
Net defined benefit asset	(7,973)	(10,302)
Net liability and asset recorded on the balance sheets	2,473	(3,021)

Note: Includes plans to which the simplified method is applied.

(4) Retirement benefit expenses

(Millions of yen)

	Fiscal 2016 (Jan. 1 to Dec. 31, 2016)	Fiscal 2017 (Jan. 1 to Dec. 31, 2017)
Service cost	2,079	2,216
Interest cost	401	203
Expected return on plan assets	(1,305)	(1,298)
Amortization of actuarial difference	1,263	1,048
Amortization of prior service cost	(1)	262
Retirement benefit expenses of defined benefit plans	2,437	2,432

Notes: 1. Includes plans to which the simplified method is applied.

2. In addition to the above retirement benefit expenses, in fiscal 2016, the Company recorded a ¥277 million loss on dissolution of pension funds under extraordinary loss.

(5) Remeasurements of defined benefit plans in other comprehensive income

The components of remeasurements of defined benefit plans (before tax effect) are as follows.

(Millions of yen)

	Fiscal 2016 (Jan. 1 to Dec. 31, 2016)	Fiscal 2017 (Jan. 1 to Dec. 31, 2017)
Prior service cost	(1)	(1)
Actuarial difference	(1,124)	6,949
Total	(1,125)	6,948

(6) Remeasurements of defined benefit plans in accumulated other comprehensive income

The components of remeasurements of defined benefit plans (before tax effect) are as follows.

(Millions of yen)

	Fiscal 2016 (As of Dec. 31, 2016)	Fiscal 2017 (As of Dec. 31, 2017)
Unrecognized prior service cost	(1)	—
Unrecognized actuarial difference	7,560	611
Total	7,559	611

(7) Plan assets

1) Main components of plan assets

The percentage composition by asset class of total plan assets is as follows.

	Fiscal 2016 (As of Dec. 31, 2016)	Fiscal 2017 (As of Dec. 31, 2017)
Bonds	39%	23%
Equity securities	44%	50%
Other	17%	27%
Total	100%	100%

Note: 35% of the total plan assets in fiscal 2016 and 38% of plan assets in fiscal 2017 are held in the retirement benefit trust for corporate pension and lump-sum retirement payment plans.

2) Method for determining the long-term expected rate of return on plan assets

The current and expected allocation of plan assets as well as the current and expected long-term rates of return for the various assets that constitute the plan assets are considered when determining the long-term expected rate of return on plan assets.

(8) Actuarial assumptions

Principal actuarial assumptions

	Fiscal 2016 (Jan. 1 to Dec. 31, 2016)	Fiscal 2017 (Jan. 1 to Dec. 31, 2017)
Discount rate	0.3%	0.4%
Long-term expected rate of return on plan assets	2.0%	2.0%

3. Defined contribution plans

The amounts contributed to the defined contribution plans of consolidated subsidiaries are ¥170 million for fiscal 2016 and ¥195 million for fiscal 2017.

(Per Share Information)

	FY2016 (January 1 to December 31, 2016)	FY2017 (January 1 to December 31, 2017)
Net assets per share	513.76 Yen	607.61 Yen
EPS	55.13 Yen	68.23 Yen
Diluted EPS	55.04 Yen	68.15 Yen

Notes: 1. The Company's shares remaining in the executive compensation BIP trust are included in treasury stock under shareholder's equity. In the calculation of EPS and net assets per share, treasury stock (including shares remaining in the BIP trust) is excluded from the calculation of the average number of outstanding shares during the period and the number of outstanding share at the end of the period.

The average number of shares of treasury stock held by the trust for the period, which was thus excluded from the calculation of EPS, was 292,950 shares. The number of shares of treasury stock held by the trust at the end of the period, which was thus excluded from the calculation of net assets per share, was 502,200 shares.

2. Basis for Calculations

Item	Fiscal Year Ended December 31, 2016	Fiscal Year Ended December 31, 2017
Total amount of net assets in Consolidated Financial Reporting Statements (Millions of yen)	157,879	187,015
Amount of net assets related to common stock (Millions of yen)	149,282	176,559
Principal breakdown of balances (Millions of yen)		
Subscription rights	218	210
Minority interest	8,377	10,245
Number of outstanding shares of common stock (Thousands of shares)	299,115	299,115
Numbers of shares of treasury stock as common stock (Thousands of shares)	8,551	8,535
Number of shares of common stock that are calculated based on the amount of net assets per share (Thousands of shares)	290,564	290,579

3. Net income per share (EPS) and diluted net income per share (diluted EPS)

	FY2016 (January 1 to December 31, 2016)	FY2017 (January 1 to December 31, 2017)
EPS		
Net income (millions of yen)	15,951	19,827
Amount not belong to common stockholders (millions of Yen)	—	—
Net Income concerning common stock (millions of Yen)	15,951	19,827
Average number of outstanding shares during the period (thousands of shares)	289,313	290,581
Diluted EPS		
Net income adjustment (millions of Yen)	—	—
Of which, interest on bonds (thousands of shares)	—	—
Increase in number of common stocks (thousands of shares)	454	348
Of which, stock options (thousands of shares)	(454)	(348)
Of which, bonds with subscription rights to shares (thousands of shares)	—	—
Summary of residual shares not included in diluted EPS due to lack of dilution effect.	—	—

(Important Subsequent Events)

Consolidated Results for the Year Ended December 31, 2017 (January 1 to December 31, 2017)

None

## VI. Other information

### Personnel Changes

#### 1. Change of Representative

There is no change.

#### 2. Change of Other Personnel

Appointment: Candidate for Director

Name	Position
Yugo Kume	Executive Officer

(To be appointed at the Annual General Meeting of Shareholders on March 29, 2018)

Retiring: Director

Name	Position
Yuji Watari	Representative Director, Senior Managing Executive Officer

(To retire as of the end of the Annual General Meeting of Shareholders on March 29, 2018)

The following management team is scheduled to assume office upon the approval of a proposal to amend the Articles of Incorporation at the Company's March 29, 2018 Annual General Meeting of Shareholders and will attend the immediately following Board of Directors meeting.

#### (1) Director

Name	Position
Itsuo Hama	Representative Director President Executive Officer Chairman of the Board Chief Executive Officer
Masazumi Kikukawa	Representative Director Senior Managing Executive Officer
Kenjiro Kobayashi	Director, Senior Executive Officer
Toshio Kakui	Director, Senior Executive Officer
Takeo Sakakibara	Director, Senior Executive Officer
Yugo Kume	Director, Executive Officer
Hideo Yamada	External Director Attorney at Law
Kazunari Uchida	External Director University professor
Takashi Shiraishi	External Director University professor

The notification of the nomination of Mr. Hideo Yamada, Mr. Kazunari Uchida and Mr. Takashi Shiraishi as independent directors has been sent to the Tokyo Stock Exchange.

#### (2) Corporate Auditor

Name	Position
Yasutaro Nakagawa	Standing Corporate Auditor

Junko Nishiyama	Standing Corporate Auditor
Noboru Kojima	External Corporate Auditor Certified Public Accountant, Certified Tax Accountant
Hideo Higashi	External Corporate Auditor Certified Tax Accountant

The notification of the nomination of Mr. Noboru Kojima and Mr. Hideo Higashi as independent directors has been sent to the Tokyo Stock Exchange.

(3) Substitute Corporate Auditor

Name	Position
Takao Yamaguchi	Substitute Corporate Auditor (Certified Public Accountant, Certified Tax Accountant)

(4) Executive Officer (Excluding interlocking directors)

Name
Fumitomo Noritake
Tomomichi Okano
Hiroyuki Chiba
Ryuji Nakazawa
Masaharu Mikuni
Hitoshi Suzuki
Shinichiro Hiraoka
Jiro Nagasawa
Kengo Fukuda
Yasutsugu Shimizu
Takashi Nagai