

life. love.  
**LION**



**ANNUAL REPORT 2011**  
Year Ended December 31, 2011

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### **About This Annual Report**

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

### **Forward-looking Statements**

This annual report contains “forward-looking statements,” including statements concerning the Company's outlook for fiscal 2012 and beyond; business plans and strategies and their anticipated results; and similar statements concerning anticipated future events and expectations that are not historical facts. The forward-looking statements in this report are subject to numerous external risks and uncertainties, including the effects of economic conditions, market trends, and currency rates, which could cause actual results to differ materially from those expressed in or implied by the statements herein.



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

# New Corporate Message

Every day is full of wonderful moments.  
Birds singing outside your window.  
The clean feel of a freshly washed shirt.  
A blue sky without a cloud in sight.  
The smiling faces of children at play.  
A tasty meal after a hard day's work.  
Some days are special —  
weddings, birthdays, holidays ...  
But even the ordinary days are precious.  
At Lion our business revolves around ordinary days.  
Providing the products people need  
to maintain good lifestyle habits.  
Supporting cleanliness, health and comfort,  
while protecting our global environment.  
This is our mission, one in which we take pride.  
Ever since our founding 120 years ago.  
Inspired by the wonder of everyday life.  
Dedicated to creating a future full of health, hope and happiness.  
For people everywhere around the world.

**life. love.**  
**LION**





## Corporate Philosophy

### Company Motto

Lion Corporation positions “Fulfilling a Spirit of Love” as fundamental to its management, and thus contributes to the enrichment of the happiness and lives of people.

### Management Philosophy

1. We bring together the power of our personnel, the power of our technology and the power of our marketing, as we provide superior products that are helpful in the daily lives of people.
2. We respect the “Spirit of Tenacity and Creativity” that we have maintained since our founding, as we continue developing our business.
3. We deeply appreciate all those who extend their valuable support to us, as we prosper together through sincerity and mutual trust.

Established in 1891, Lion celebrated the 120th anniversary of its founding on October 30, 2011, thanks to everyone’s support. Since its foundation, Lion has conducted business with a strong awareness of the importance of contributing to society based on its motto: “Fulfilling a Spirit of Love.”

We have always worked to play a useful role in the lives of people worldwide and return a portion of our profits to society. Accordingly, we will continue to offer new lifestyle value while communicating with people in an innovative manner.

Three key points have supported Lion’s growth over the past 120 years:

### Key Points of Lion’s 120-Year History

1. Operating in **business fields** focusing on basic human needs = **Longevity**
2. Maintaining a tradition of valuing the spirit of challenge and creativity, we continue to practice forward-thinking management. Companies are living organisms capable of learning. Lion’s corporate culture encourages employees to grow as human beings, and the Company continues to accumulate knowledge. Such efforts lead to continual **innovation. = Growth**
3. Valuing the concept of **existing and prospering together** with our business partners and society (realize a “plus-sum” society) = **Strength**

During 2011, Lion marked the 120th anniversary of the commencement of its operations. It was a challenging year, but we overcame the difficulties and reported a favorable performance. We will now enter the next stage in our development with a new management framework.

In 2011, Lion celebrated the 120th year since the start-up of its activities. We would like to express our sincerest appreciation to everyone who has made our growth and development possible, including our shareholders and all our other stakeholders, through their understanding and support over the years.

In Japan, the Great East Japan Earthquake struck on March 11, 2011, and our operations were adversely affected. In addition, economic conditions continued to be severe in Japan and overseas. However, we overcame these challenges and reported the highest level of operating income in Lion's history for the third consecutive year.

Another development we want to report is that we have prepared a new management vision entitled "Vision 2020," a new corporate statement, and a new corporate slogan—"life.love." "Vision 2020" indicates the kind of company that we would like to become by the year 2020 and sets goals for corporate performance. To attain these goals, we have already begun to implement our New Medium-Term Management Plan "V-1 Plan."

In conclusion, we would like to announce that, as of January 1, 2012, Lion's previous President and Chief Executive Officer Sadayoshi Fujishige became Representative Director, Chairman of the Board, and Chief Executive Officer, and Itsuo Hama became Representative Director, President, and Chief Operating Officer. As CEO, Fujishige will primarily be in overall charge of creating management strategy and Hama as COO will take the lead in implementing management strategy.

We look forward to your continuing support and encouragement.



**Sadayoshi Fujishige**  
Representative Director  
and Chairman



**Itsuo Hama**  
Representative Director  
and President

# Lion is working to attain the goals of its New Management Vision “Vision 2020,” and it aims to be “a company that creates value for lifestyle and spiritual fulfillment.”

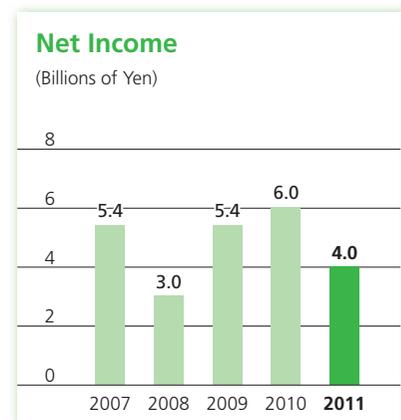
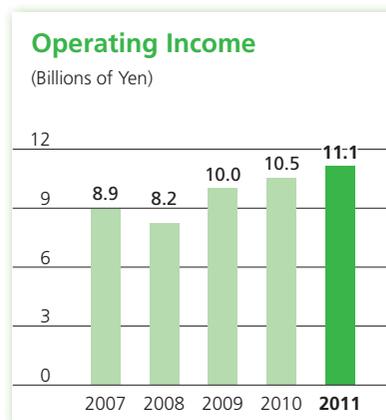
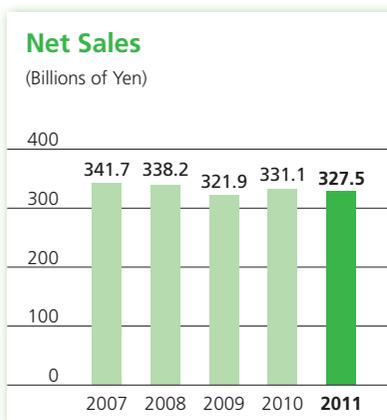
**Q:** Looking back over 2011, despite an uncertain and challenging business environment, Lion reported the third consecutive year of record-setting operating income. What is your appraisal of Lion’s performance during the year?

**A:** To begin, I would once again like to express our deepest condolences to those affected by the Great East Japan Earthquake.

Fiscal 2011 was a challenging year because of the impact of the earthquake disaster on Japan’s economy and industries as well as the sharp appreciation of the yen against other major currencies. Overseas, the effects of the flooding in Thailand and the debt crises in Europe cast a shadow on the operating environment and created additional uncertainties.

Even though we posted robust performance at the beginning of the year, following the earthquake, sales of some mainstay products were adversely affected because of the shortages of raw materials and the damage to distribution chains. Specifically, our loss in terms of sales opportunities was about ¥8 billion. In addition, we reported an extraordinary loss of approximately ¥3 billion due to damage to inventories, facilities, and other assets, and the appreciation of the yen had a negative impact of about ¥3 billion on sales after yen conversion.

Despite these challenges, we continued to work toward fulfilling our three visions for Lion: “Become a leading company in the new comfortable lifestyle support industry,” “Become a leading company in environmental responsiveness,” and “Promote a corporate culture of challenge, creativity, and learning.” We also continued to implement our three





Representative Director and Chairman

**Sadayoshi Fujishige**



reform initiatives, in marketing, sales, and corporate communications. As a consequence, net sales were at approximately the same level as in the previous fiscal year, and we were able to report the highest operating income in Lion's history for the third consecutive fiscal year.

This favorable performance was driven by high-value-added products in our mainstay brand lines. The brand manager system that we introduced in fiscal 2010 was successful in meeting its objectives, and about 60% of our consumer product sales in Japan were accounted for by eight brands with sales of ¥10 billion or more. Also, in new product development, we sought to create additional

value by setting conditions, namely "meet clear targets," "technological innovation," and "give a clear sense of innovation in actual use." One of the results of this approach was the success of an enhanced version of Lion's *TOP NANOX*, which was introduced in September 2011 and became the No. 1 best-selling item in the super-concentrated liquid detergent market. (Result of Lion's research)

In addition, the earthquake disaster also taught us some lessons, and we are currently diversifying our sources of raw materials, strengthening our production and supply systems, and adopting many other measures to hedge against disaster risks.

Overseas, Lion markets laundry detergents as well as oral care products in eight countries and regions in the rest of Asia. In terms of real net sales, which exclude the influence of exchange rate conversions, our sales maintained steady growth of almost 7% over the previous year. In the midst of severe competition, Lion offers products both in the volume sales zone and in the high-value-added product market segments to respond to the needs of Asian markets. Among these markets, Lion laundry detergents hold the No. 2 position on a weighted average basis in the markets where Lion products are sold, and they have the No. 1 share in Malaysia (Result of Lion's research). Also, to respond to further expansion in demand, we are planning to increase production capacity in Thailand, Malaysia, and China by between two and three times the current level. We have also established a new joint venture company in the Philippines. Similarly, looking to further market expansion, Ipposha Oil Industries Co., Ltd., a member of the Lion Group, which manufactures functional industrial chemical products, has set up a subsidiary in Indonesia, and Lion Idemitsu Composites Co., Ltd., which produces plastics that have composite functions, has established a subsidiary in India.

**Q:** In 2011, Lion marked the 120th anniversary of the start-up of its operations. What do you believe has been the wellspring of Lion's history and performance over the years?

**A:** The key reason that Lion has been able to celebrate the 120th anniversary since it began operations has been the support of all its stakeholders. Thanks to these stakeholders, Lion has been able to grow and develop, and I think there are three key points to be made about this.

The first point has been the stability of our business domains, which are focused on basic human needs. First, we expanded our products in the field of daily necessities, and today our product line has widened to include OTC pharmaceuticals and functional food products. That has been the reason for our "longevity" as a company.

The second point is that we have continued to be innovative, developing and launching products that have been the first of their kind in Japan and in the world. Early on, we did not confine our activities to developing products but also began to use advertising as an innovative means to communicate information about our products and to make lifestyle suggestions to our consumers. Also, since Japan's Meiji period, when eight-hour workdays became common, Lion's policy, from the time of its establishment, has been that "our employees are our copartners." With this policy as the base, Lion has developed an innovative corporate culture that motivates its human resources. This has been the reason for our "growth" as a company.

The third point is that we have been able to create a "plus-sum" society that increases mutual benefit. In other words, Lion places emphasis on having its business partners and society "coexist and prosper together." This has been the reason for our "strength" as a company.

**Q:** What considerations led you to adopt your new corporate message and what meanings have you infused into it?

**A:** We prepared a new corporate message, comprising a corporate statement and a corporate slogan and it took effect on January 1, 2012. The new corporate slogan is "life.love."

The underlying base for the corporate message is the value concept, "The secret to happiness is to live fulfilling everyday lives and to cultivate a positive attitude."

From the time that human beings are born, they desire "to be useful to themselves and to society," and each human being has his or her own dreams and aspirations. For people to realize their dreams, they should maintain their physical and spiritual well-being, and, so, it is important to value each day and live it with respect. We might even say that this is the only way to live. Lion's role is to provide support for this kind of daily living.

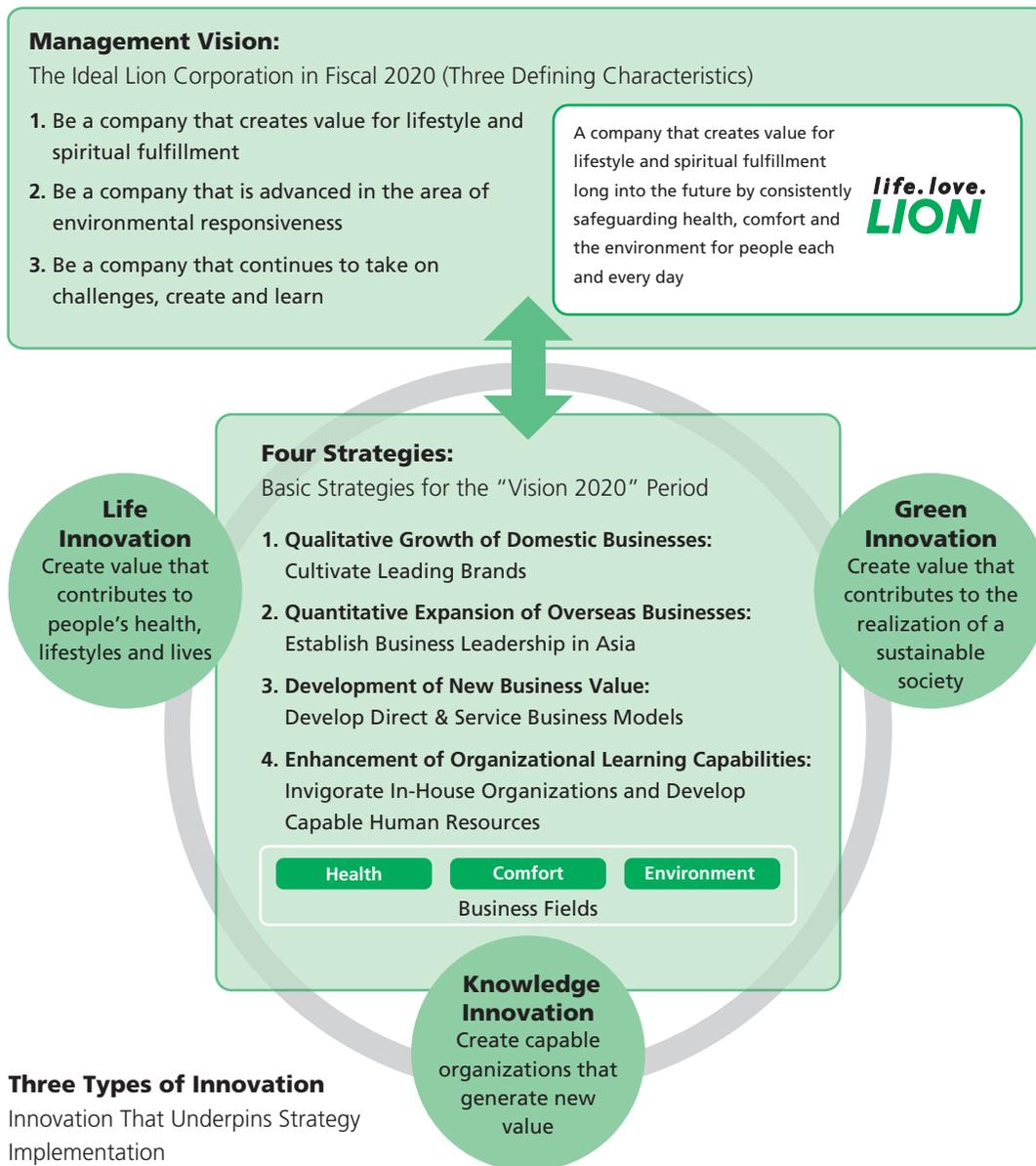
Our corporate slogan of "life.love." is infused with the meaning that "we should value "every day" that comes by in our lives and live it with respect." For 120 years, Lion has observed the lives of human beings, and our slogan is also infused with the meaning that Lion is dedicated to providing support for each and every human being who has a love of today.

**Q: Could you please explain the New Management Vision “Vision 2020” that Lion has adopted?**

**A:** When we drew up “Vision 2020,” we were aware of three social paradigm changes. The first of these is the aspiration for being healthy and comfortable. People want more than just having long lives. They also now want to extend their healthy life expectancy\*, which is the period in a human being’s life span when it is possible for them to live independently. They also want to increase the quality of life and experience comfort and fulfillment, both physically and mentally.

\* Refers to the period in people’s lives when they can care for themselves and do not need nursing assistance.

**Vision 2020**



The second social paradigm change is the growing desire for the pursuit of sustainability. The role of corporations in making the “recycling-oriented society,” the “low-carbon society,” and the “society that maintains a symbiotic relationship with nature” a reality has increased substantially in importance.

The last social paradigm change we had in mind was the transition to a plus-sum society. As I said a few moments ago, since Lion’s founding, it has worked to create a plus-sum society, but this orientation has now spread around the world. People do not want zero-sum competitive conditions where companies fight one another for a small piece of the pie (and, as a result, the net gain for all is zero), but a plus-sum society in which the pie becomes larger and all benefit. Plus-sum conditions can be attained through technological innovation. Creating plus-sum conditions requires finding solutions to social issues, creating new value, and, ultimately, making efforts to increase corporate value.

After taking these paradigm changes into consideration in preparing “Vision 2020,” we developed three management visions: “Be a company that creates value for lifestyle and spiritual fulfillment,” “Be a company that is advanced in the area of environmental responsiveness,” and “Be a company that continues to take on challenges, create, and learn.” In other words, the ideal Lion Corporation in fiscal 2020 would be a “Company that creates value for lifestyle and spiritual fulfillment long into the future by consistently safeguarding health, comfort, and the environment for people each and every day.” For example, the contributions that Lion’s products make to dental health play a very important role in enabling people to eat and to speak. People who can eat and speak properly continue to enhance their physical health, as a matter of course, as well as their mental health. Regardless of their age, they will be full of desire to contribute to society and can have a sense of self-fulfillment. We at Lion want to provide this “value of the heart.”

**Q: What is your corporate road map for implementing the new management visions?**

**A:** We have formulated four strategies for implementing “Vision 2020.”

### 1. Qualitative Growth of Domestic Businesses

The domestic market is mature, and just attaining quantitative growth is difficult. Lion will, therefore, aim for expanding high-value-added businesses, focusing on the oral care and laundry detergent fields. Specifically, we will aim to become the No. 1 brand in terms of market share and account for 70% of the market.

## 2. Quantitative Expansion of Overseas Businesses

We will endeavor to expand our market share in the Asian countries where we have already established a presence and which are expected to show growth in population, economic growth, and rising awareness of the importance of health and hygiene, while also working to enter new markets. Specifically, we will aim for the No. 1 market share in oral care and laundry detergent products.

## 3. Development of New Business Value

As we work to increase product sales through existing wholesaler and retailer channels, we will focus also on direct sales and providing services and information to promote sales. We began direct-to-consumer sales\* of *Nice rim essence Lactoferrin* in 2007. In 2011, the number of persons purchasing products through the direct-to-consumer business exceeded 100,000, and sales had risen to the ¥6 billion level. We plan to continue to expand this business and take more-active initiatives to create value by providing optimal solutions and information to meet the needs of each and every consumer.

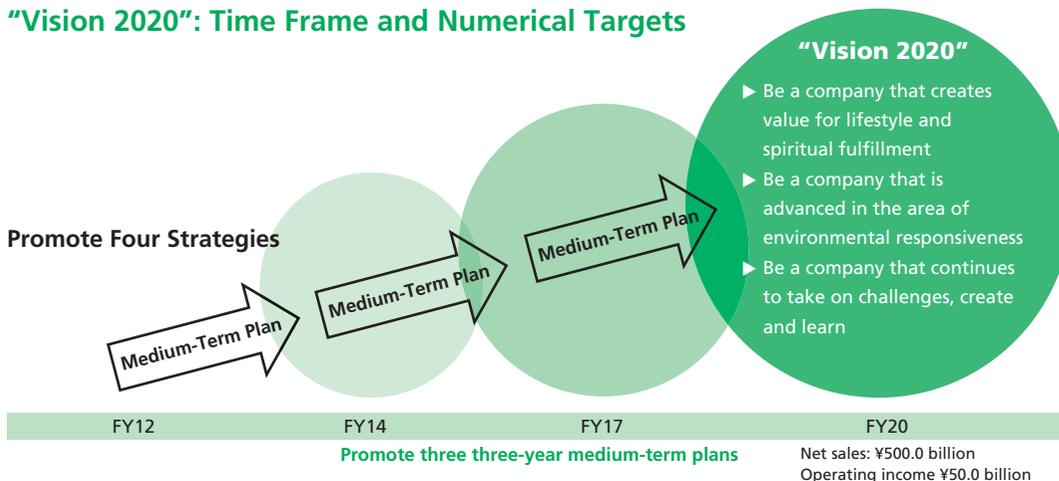
\* Excludes door-to-door sales

## 4. Enhancement of Organizational Learning Capabilities

We will also proceed with measures to revitalize our organization and provide further personnel training to enable us to draw on the strengths of the activities of a diversity of human resources. At the same time, we will make innovations in working-level business processes, such as methods for offering products and handling responses to advertising and publicity activities, with the objective of enhancing our organizational learning capabilities.

In implementing these four strategies, what we call “our three innovations” will be important. The first of these is “Life Innovation.” By making new discoveries in life sciences and homemaking sciences, we will make suggestions that are tailored to people’s health, life stages, lifestyles, and lives for “living today that will lead to value in the future.”

## “Vision 2020”: Time Frame and Numerical Targets



The second will be “Green Innovation.” We will proceed with environmental responses for making sustainability, which is one of the paradigm changes I mentioned behind the formulation of “Vision 2020,” a reality.

The third innovation, which is the one we are emphasizing the most, is “Knowledge Innovation.” We will substantially step up our activities to strengthen the creation of a corporate culture that encourages a strong spirit of challenge and learning from experience. For example, we want each and every employee to take up the challenge of implementing the ideas and themes that they have had in mind and not be afraid of failure. For this purpose, we will set up an R&D fund and a business development fund. If the project does not succeed, then the fund will support the costs involved, but we want to encourage a spirit of accepting meaningful challenges and breaking outside of our shell of conservatism.

**Q:** What are Lion’s quantitative goals under “Vision 2020” and, in conclusion, what message would you like to give to investors?

**A:** Under “Vision 2020,” on a consolidated basis, we are aiming for net sales of ¥500 billion, operating income of ¥50 billion, and an operating income margin of 10% by the year 2020. As the operating environment becomes more challenging, we believe that attaining this 10% margin is particularly important. Another objective of our new vision is to change our business structure by 2020. This will involve implementing major business reforms that will expand the percentage of our consolidated net sales overseas from approximately 16% at present to 30% by 2020 and raise the ratio of functional food products to 10% of net sales.

Our basic policy on the distribution of profits to shareholders is to provide a return to shareholders on a continuing and stable basis. For fiscal 2011, Lion paid a cash dividend of ¥11 per share, including a ¥1 per share dividend to commemorate the 120th anniversary of the Company’s founding.

The Lion Group is a leading company in offering products and services that are useful for meeting many of mankind’s fundamental needs and are closely linked to the desire for living longer, healthy lives. I would like to emphasize that we seek not only to provide economic returns but also to deliver the major benefits of enjoying healthy and comfortable lives to all our stakeholders.

April 2012



Sadayoshi Fujishige  
Representative Director and Chairman

**“As President, I will be aiming to build on my experience in research and development activities and focus on further developing Lion’s businesses with a strong emphasis on strategy and a keen awareness of the importance of continuing to be a top-quality manufacturer.”**

**Q:** Could you summarize your career with Lion thus far and tell us what you would like to accomplish as Lion’s new President and Chief Operating Officer?

**A:** After entering Lion, I was engaged for about 28 years in the development of plant-based detergent ingredients and in R&D related to the development of manufacturing processes for our plants. Then, in 2006, I moved to the business side of Lion’s activities and was placed in charge of marketing and sales. Since then, through 2011, under Sadayoshi Fujishige, then President and Chief Executive Officer, I worked to realize our “three innovations” in marketing, sales, and corporate communications, as well as devoted my efforts to increasing Lion’s corporate value. I also participated in preparing “Vision 2020,” including the development of our new corporate message and the “V-1 Plan.”

Now, as President and Chief Operating Officer, I will work with Chief Executive Officer Fujishige to implement Lion’s corporate strategy. I will also work as a driving force for evolving Lion into a company that can provide spiritual affluence by offering our consumers not only excellence in physical products but also a sense of satisfaction as they use our products.

### ■ Summary of President Itsuo Hama’s Career

Born: March 14, 1954

April 1977: Joined Lion Fat & Oil Co., Ltd. (today’s Lion Corporation)

March 2002: Became General Manager of the Process Development Center of Lion’s Research and Development Headquarters

March 2006: Director of Fabric Care Products Division, Household Products Division, Home Products Business

March 2008: Director, Executive General Manager of Household Products Division

March 2010: Executive Director, Responsible for Health Care Products Division, Household Products Division, Gift and Channel-Specific Products Division, Advertising Department, Behavioral Science Research Institute, Distribution Policy, and Customer Development Department

January 2012: Representative Director, President, Executive Officer, Chief Operating Officer, Responsible for Risk Management (current position)

Concurrent position: Representative, Lion Corporation (Thailand) Ltd.



Representative Director and President

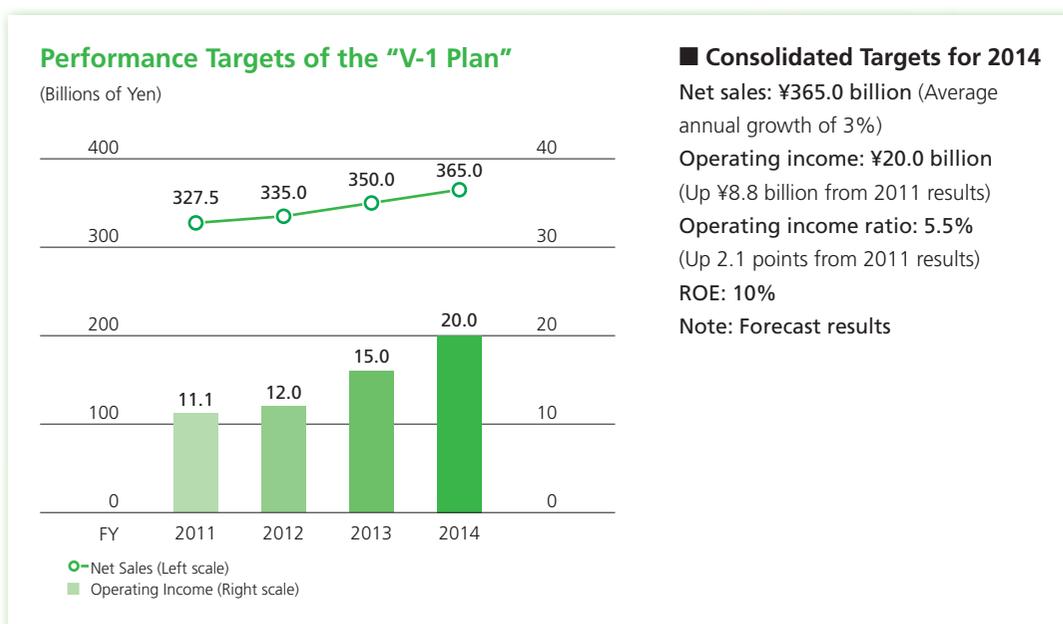
**Itsuo Hama**

### Q: What will be Lion's objectives for performance under its New Medium-Term Management Plan?

**A:** We will be working to attain the goals of our "Vision 2020" plan through the implementation of three three-year plans beginning in 2012. During the first three-year plan, which we have named the "V-1 Plan," we are aiming for net sales of ¥365.0 billion and operating income of ¥20.0 billion in 2014, which will represent a return on net sales of 5.5%.

In the operating environment in 2012, we are forecasting that raw materials prices will remain at high levels and that the yen will remain strong against other major currencies. In the domestic market, the economy is expected to show improvement, led by the emergence of full-scale demand for recovery from the March 11, 2011 earthquake, but we cannot rule out concern about a downturn in the world economy. In general, we are looking for about 1% annual increases in the domestic market for daily necessities and for the OTC pharmaceutical market to either be virtually level or show slight decreases. On the other hand, we are forecasting growth of between 3% and 5% in the principal regions of Asia (outside Japan) where we market our products. However, we are looking for even higher rates of growth in demand for oral care, laundry detergent, and certain other products as the populations of these countries and regions grow and interest in health and sanitation rises.

During 2012, the first year of our "V-1 Plan," we are targeting net sales of ¥335.0 billion and operating income of ¥12.0 billion.



**Q: What measures will Lion be implementing to attain the objectives of the “V-1 Plan”?**

**A:** The basis for our business policies will be the “four strategies” we listed in “Vision 2020,” and we will take specific steps to implement these. There are four main points I would like to emphasize.

**1. Qualitative Growth in Domestic Businesses**

We will place emphasis on oral care products and super-concentrated liquid detergents as well as strongly implement measures to develop high-value-added products and strengthen our brands. We will invest aggressively in advertising to build brand power, and, to work toward drawing on the total power of our marketing and sales capabilities, we will reorganize our health care business and our household business into a single Health and Home Care Business. In addition, we are planning to strengthen our “trade marketer” functions, which are key to the formulation of distribution strategies, to achieve the enhanced implementation of our brand strategy within our sales strategy and sales promotion tactics.

**2. Quantitative Expansion in Overseas Businesses**

We have set a target of gaining the No. 1 market share in oral care products and laundry detergents in the Asian markets. With these objectives in mind, we are expanding our production and supply capacity for oral care products in Thailand and China and for laundry detergents in Malaysia. During 2012, we will establish a new joint venture company, PEERLESS LION CORPORATION, in the Philippines, and it is scheduled to commence business operations during the current year. Also, besides expanding the range of countries and regions where we operate, we will be aggressively entering new product categories as well.

**3. Development of New Business Value**

In our direct-to-consumer sales business,\* we are aiming for annual net sales of ¥10.0 billion by 2014, and we will expand our lineup of functional food products. Moreover, drawing on our strengths in providing information on health and our R&D results as well as our capabilities in one-to-one marketing, we will be working to expand our consumer base and raise the percentage of consumers who become loyal repeat consumers.

\* Excludes door-to-door sales

**4. Enhancement of Organizational Learning Capabilities**

Based on our new corporate message, we are implementing our “life.love. Project” in Japan and in overseas subsidiaries as a symbol of the Lion Group’s activities. We are also encouraging our individual employees to innovate by asking them to set their own themes with the aims of revitalizing the organization, nurturing human resources, and improving communication with customers. The ultimate objective of these activities will be to increase the number of Lion “fans” among our consumers.



**Q:** Looking ahead, what are your plans for R&D activities that will form the basis of Lion's further development?

**A:** I am Lion's first COO with an extensive background in R&D activities. My aim is to increase Lion's market presence through product innovation and the maintenance of top-quality manufacturing standards.

The two aspects that I want to emphasize the most are creating top-quality products and communicating their value to consumers. To deliver these high-quality products, we want to make the evidence for quality and our targets for these products clear and work to deliver products that consumers feel are effective. Over the 120 years since Lion's

establishment, we have accumulated a diversity of knowledge and "seeds" for new products. If we can set a course for drawing on these, I am confident we will not run out of creative ideas.

To communicate product value to consumers, we first want to reconsider the strategic use of media. In addition to the four major media, we should focus on social networking services (SNS) and other media that provide us with communication leverage. We will select the optimal communication media for each product category and work to increase effectiveness.

A second point is that I think we should put more emphasis on lifestyle research than in the past. Even if our goal is to offer "high-value-added products," the manufacturers of these products and consumers who use them have different perspectives on what "high value added" is. We need to know more accurately how consumers use our products in their daily lives and what makes them feel good about products. Then, based on this, we need to offer products that will garner the strong support of consumers and make them think "this is exactly what I need to be comfortable."

On the other hand, in 2013, we will complete a new R&D facility based on our Phase II R&D Center Concept. In addition to providing a new base for consumer research, the Open Innovation Center, which will be located in the annex to the new facility, will be used to encourage interaction and interchange with researchers from other domains. One example of this R&D cross-fertilization has been the application and contribution of our technology for making powdered detergents that dissolve quickly in water to the development of pharmaceutical tablets. The Open Innovation Center is expected to expand synergies of this kind.

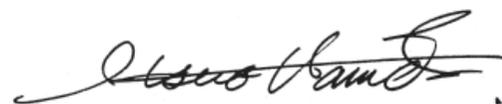
In the domestic market especially, major changes in progress include the declining birthrate and demographic aging of the population as well as the increase in the number of single-person households. The more products are used in our daily lives, the more these changes will provide opportunities for offering new value. Putting this the other way around, we think that, even if markets are mature, they may present greater opportunities for revitalization if we offer new value in our products. At Lion, we always want to be creating products of this kind.

**Q: In closing, what special message would you like to give to investors?**

**A:** Based on its new corporate message and management vision, Lion Corporation will make a new start in 2012. I will be at the helm as President, and I want, most of all, to manage strategically and enhance Lion's capabilities as an organization for implementing corporate strategies. This means I will not waver from the objective of implementing the "four strategies" listed in "Vision 2020," and I intend to strengthen our plan-do-check-action (PDCA) cycle for strategy implementation. If we can make the PDCA cycle an integral part of activities in every workplace, we can make the action guidelines clear for each and every employee. Moreover, as COO, I will insist on implementing the PDCA cycle at the Companywide level and creating a more-powerful organization.

In Japan, this is the Year of the Dragon. This means 2012 is a year for overcoming difficulties and for making progress and growing toward the ideal form we would like the Company to assume in the years ahead. It also means 2012 will be a year when we escape from turmoil and find new directions. We are committed and determined to make 2012 a year when the new Lion makes dramatic leaps forward.

April 2012



Itsuo Hama  
Representative Director and President

## Consumer Products Business



*Dentor Systema*



*Clinica*



*KireiKirei*



*BUFFERIN*



*SMILE*



*TOP*



*SOFLAN*



*CHARMY*



*LOOK*



Functional Food Products

## Industrial Products Business



Palm fatty acid ester-based insulating oil



Industrial cleaners



Electro-conductive carbon black

## Overseas Business



South Korea



China



Taiwan



Hong Kong



Thailand



Malaysia



Singapore



Indonesia

## Consumer Products Business

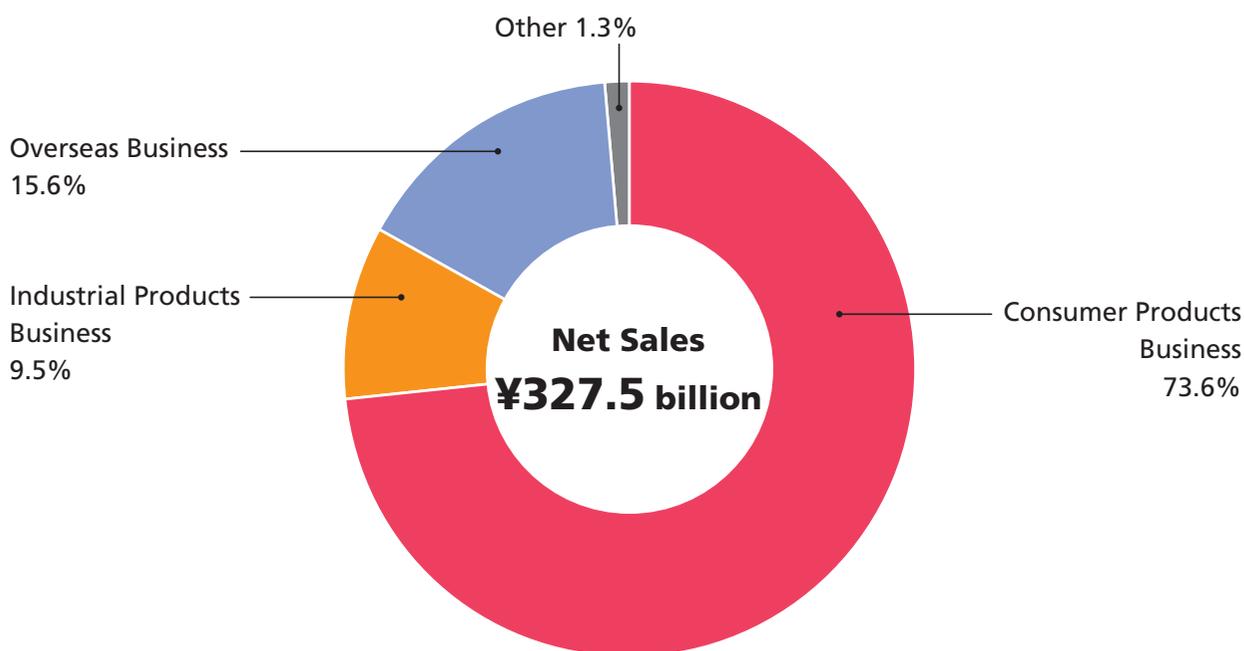
Net Sales **¥262.3 billion\***

We offer a wide range of products and information in Japan, including products such as toothpaste and laundry detergents, that support “total care, from prevention to treatment and comfort.”

## Industrial Products Business

Net Sales **¥52.4 billion\***

The Industrial Products Business comprises Lion’s Chemical Products Business, which handles surfactant and electro-conductive carbon black products, and the Industrial Cleaners Business, which supplies a range of cleaning preparations and hand soaps for use in hotels, restaurants, and other industries.



\* The percentage composition figures were calculated after excluding internal sales within segments and between segments.

## Overseas Business

Net Sales **¥53.7 billion\***

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

## Other

Net Sales **¥26.3 billion\***

Lion subsidiaries located in Japan primarily undertake operations of each Lion Group business. The main products and service are construction contractor business, real estate management, distribution/storage, and temporary staffing services.

\* Sales of business segments include internal sales within and among segments.

## Consumer Products

Oral care:



Toothpastes



Toothbrushes



Mouthwashes

Beauty care:



Shampoos



Head brushes



Liquid hand soaps



Antiperspirants

Pharmaceutical:



Analgesics



Cold medicine



Eyedrops



Tonics



Insecticides

Fabric care:



Laundry detergents



Bleach



Fabric softeners

Living care:



Dishwashing detergents



Household cleaners



Cooking-aid products

Other:



Gift products



Functional food products



Pet supplies

## Consumer Products Operations



Masazumi Kikukawa

Director, Executive Officer, and  
Executive General Manager of  
Health and Home Care Products Division

Net Sales ¥262.3 billion (0.7% down)

Operating Income ¥8.7 billion (9.2% up)

### Market Position of Products in Japan

Lion's major product fields and 2011 market positions in Japan

Toothpastes



**No. 1** ¥75 billion

Toothbrushes



**No. 1** ¥44 billion

Liquid hand soaps



**No. 1** ¥18 billion

Laundry detergents



**No. 3** ¥128 billion

Fabric softeners



**No. 3** ¥69 billion

Dishwashing detergents



**No. 3** ¥45 billion

Market size in Japan Source: 2011 INTAGE Inc., SRI Survey

## Market Environment and Performance in Fiscal 2011

In the domestic markets for daily consumer products where Lion has a presence, unit prices rose temporarily because of the emergence of supply constraints following the Great East Japan Earthquake. However, for the full year, prices continued to decline from the previous year. On the other hand, sales in unit terms rose along with the increase in the number of single-person households and the rising percentage of sales of refills. As a result, overall sales in monetary terms rose about 1% over the prior year\*<sup>1</sup>.

The adverse impact of the earthquake on our operations amounted to about ¥8.0 billion in sales, and most of this was in consumer products operations. Sales, mainly in the oral care and laundry detergents businesses, declined temporarily because of difficulties in procuring necessary raw materials, but, as a result of recovery in materials procurement from the summer, sales showed a rapid recovery. However, the earthquake disaster had a major impact overall, and sales in 2011 were lower than in the previous year.

Under these circumstances, we worked to launch and nurture high-value-added products that offer the benefits of "health," "comfort," and "environment-friendliness." In the oral care business, sales of our core brands, including *Dentor Systema* toothbrushes and *Dent Health* and *Hitect* high-value-added toothpastes, expanded. In our beauty care business, sales of our fully renewed lineup of *Ban* antiperspirant items and, in our pharmaceutical business, sales of the *Smile 40EX* series of eyedrop products for middle-age and senior generations were favorable. In addition, in the fabric care business, sales of *Kaori to Deodorant no SOFLAN Aroma Rich*, a fabric softener with a long-lasting fragrance, continued to grow at a high rate. In the living care business, we newly introduced *LOOK Mame-Pika Toilet Cleaner*, which is an effective and easy-to-use toilet cleaner.

In the laundry detergent market, as the percentage of liquid detergents sold is rising, in September, we introduced an enhanced version of our super-concentrated liquid detergent *TOP NANOX*. Following its launch, sales of this product expanded, and it became the No. 1\*<sup>2</sup> best-selling detergent item in its category.

Income of this segment increased over the previous year because of a number of factors. These included improvements in the product mix as a result of a higher percentage of high-value-added products, restraints on expenditures for sales promotion activities because of the decline in bargain

sales due to the earthquake, and efforts to reduce expenditures, including lowering manufacturing and logistics costs.

## Implementing Lion's Basic Strategy: "V-1 Plan"

In our consumer products operations, we are implementing our "V-1 Plan," which has two strategic objectives: "Achieving qualitative growth in domestic businesses" and "Developing new business value."

By "Achieving qualitative growth," we mean the launching of new high-value-added products in growth fields, such as oral care and liquid laundry detergents. Along with this, we will increase our investments in advertising and focus them more sharply to substantially strengthen our mainstay brands. To attain these objectives, beginning in 2012, we have reorganized our health care and household businesses into one "Health and Home Care Business." The goal of this realignment is to combine all the strengths we have in these businesses to enhance our total marketing and operating capabilities as well as focus these on increasing the sophistication of our brand management and improving merchandising at the store level.

In the oral care, beauty care, and pharmaceutical businesses, we will aim to become an integral part of the daily lives of our consumers and offer products that bring greater cleanliness, health, and comfort to their daily lives. To accomplish this, we are working toward integrated, comprehensive communication with our consumers at all levels of the consumer interface, from media advertising to in-store promotions, with the aim of giving them ideas and suggestions for improving the quality of their daily lives.

In the fabric care and living care businesses, we will aggressively launch new products in growth fields, strengthen our brands by making continuing investments in advertising and promotion, and work to raise our presence in the market.

By "Developing new business value," we mean taking initiatives to create and nurture new functional food products in our direct-to-consumer sales business\*<sup>3</sup> as a second major support following lactoferrin. We will also proceed with the consideration of products in new fields and work to bring the annual sales in our direct-to-consumer sales business up to the ¥10 billion level by 2014.

\*1 2011 INTAGE Inc., SRI Survey

\*2 Result of Lion's research

\*3 Excludes door-to-door sales

## Oral Care Business

### Market Environment and Performance in Fiscal 2011

In the domestic oral care field, sales of high-value-added toothpaste priced at ¥500 or more are expanding because of the growing trend toward self-medication, the demographic aging of the population, and the rising awareness of the importance of oral care. Also, along with the increase in the number of units sold of mouthwashes and other dental products, growth in the market remained strong during the year.

Lion, as the No. 1 oral care product company in Japan\*, is working to develop and nurture growth of high-value-added products that respond to consumer needs. After the earthquake, difficulties arose in procuring materials for toothpaste and toothbrushes and sales declined temporarily, but, in July and subsequent months, sales made a strong recovery and contributed to overall growth in sales of this business. In particular, sales of the *Dentor Systema* brand series, which contributes to the prevention of periodontal disease, are continuing to expand rapidly and have recorded annual average growth of 16% since they were launched in 1997.

In the toothpaste category, sales of our enhanced mainstay product *Dentor Systema EX* and newly added products in the *Hitect* brand line featuring a milder flavor and taste were strong during the year. However, as a result of the earthquake, sales of toothpaste overall were about the same as during the previous year. In the toothbrush category, sales of a new type of brush with “*Shikkari-Kegoshi* (Core-Sheath Bristles) Type” in the *Dentor Systema* lineup and sales of *Lion Kodomo Toothbrush* featuring designs with well-known characters to appeal to children were both favorable. In the mouthwash category, sales of *Dentor Systema Haguki Plus*

(the gums) *Dental Rinse*, which remains on the gums longer to keep them healthy, were also favorable.

### Strategy in Fiscal 2012

The oral care business is expected to recover from the effects in 2011 that followed the earthquake. In 2012, we will strengthen our position as the No. 1 company\* in the oral care field by aggressively developing our key brands.

In the toothpaste category, in the market for medium-priced teeth whitening preparations, we newly launched *Clinica Enamel Pearl* in the *Clinica* brand line with the objectives of securing a wider consumer base and stimulating new growth in the medium-priced teeth whitening toothpaste market. In addition, in the toothbrush category, to further expand our market share and respond to consumer needs for removing plaque from all parts of the teeth to the maximum extent possible, we newly launched *Clinica Flat Cut* and *Clinica 3D Cut*, which feature improvements in the taper of the bristles and the shape of the toothbrush handle. Also, in the *Dentor Systema* lineup of products that offer preventive care for periodontal disease—which has expanded steadily since its introduction in 1997—we newly introduced *Dentor Systema Haguki Plus Toothbrush Soft Type*. This new toothbrush has softer bristles and responds to the expansion in the number of persons concerned about the deterioration of the condition of their gums as they grow older. We will work to introduce new products in the expanding markets for our two major brands in this business, *Dentor Systema* and *Clinica*, and strive to further develop their brand power.

\* 2011 INTAGE Inc., SRI Survey

### TOPIC

In recent years, women in their 20s and 30s, who have experienced change and development as they have passed through stages of life, from employment to marriage, pregnancy and childbirth, child rearing, and becoming friends with other mothers who have children of similar ages and interests, have shown an increasing awareness and desire of always maintaining teeth that are healthy and beautiful, like those of children, and seem to shine naturally. Our research has shown that women in this age-group want “to cultivate healthy and beautiful teeth.”\* Moreover, as a result of this desire, the market for medium-priced teeth whitening preparations has expanded since 2009.\*

To respond to this evolving need and expand its base of new consumers, in February, Lion launched *Clinica Enamel Pearl* toothpaste in its *Clinica* brand line, which thoroughly dislodges plaque while it also increases the density of the enamel on the tooth surface.

\* Result of Lion's research



Yuki Inoshita  
Oral Care Business Department

## Beauty Care Business

### Market Environment and Performance in Fiscal 2011

In the beauty care products market, the market for anti-perspirants and deodorants grew in size, reflecting electric power conservation measures and the hot weather during the summer. Also, because of the effects of the norovirus epidemic, incidents of food poisoning, and other factors, demand for hand soaps and disinfectants rose. Moreover, the market for shampoo showed a slight rise, as a result of the increase in personal care products and the growing diversity of consumer needs. However, sales of hair treatments and men's hair preparations decreased from the previous year. As a consequence, the market as a whole showed a slight decline year on year.

Within the beauty care business, Lion is focusing especially on hand soaps and antiperspirants and deodorants. Our *KireiKirei* brand lineup of hand soaps is the No. 1 brand in Japan in this category\*. During the year, activities included launching one-liter refills, introducing products with a new orange mixed fragrance (as limited edition items), strengthening the brand lineup in response to consumer needs, and implementing other measures to raise brand value. In the *Ban* antiperspirants and deodorant brand line, which has a long history of sales, we shifted the focus of appeal to consumers from fragrance to odor prevention and changed the package design from pastel colors to a stylish black. Sales of sheet-type deodorants, powder sprays, and roll-on types were favorable and exceeded the rate of growth in the market. However, sales of shampoo products were below the level of the previous year because of more-intense competition. As a result, overall sales in this business showed a slight increase over the previous year.

### Strategy in Fiscal 2012

We have positioned skin cleansing and scalp and hair cleansing as a business domain within this business, and are continuing to strengthen our key brands in this field.

In the *KireiKirei* brand lineup, we are continuing activities to heighten the awareness of health and sanitation in kindergartens as well as primary schools and are positioning this brand line to encourage consumers to enjoy "washing their hands, gargling, and using disinfectants" as a regular part of their daily routine to maintain their health. In the hand soap field, as the No. 1 brand\* in the domestic market, we are offering a diversity of products and implementing promotional activities with a wide range of themes. We are also striving to expand the market by encouraging consumers to use such peripheral materials as gargle preparations, disinfectants, and wet sheet products for different uses.

In the market for preparations combining shampoo and conditioner, we made enhancements in our existing *Soft in 1* products. We have added functions and value by offering not only preparations for quick hair cleansing but also products that make quick hair style in the morning possible. We are also stepping up our approach to new target consumer segments and working to expand the number of new users.

The *Ban* brand lineup will soon pass the 50-year mark since its launch, and we are endeavoring to further raise its market position by product improvements through implementing a full-scale renewal in 2011 and working to enhance the consumer awareness and acceptance of nano-ion style *Ban* products.

\* 2011 INTAGE Inc., SRI Survey, on the basis of sales value.

### TOPIC

Research on women's usage of deodorants has indicated that they have a range of usage patterns suited to their lifestyles\*. These include "using deodorants several times during the day," "using several types of deodorants," "using deodorants when away from home," and "using deodorants throughout the year." In 2012, we will take *Ban* to the next stage in development through the launching of nano-ion style *Ban*, which will enable consumers to use *Ban* products for odor control suited to their lifestyles "anytime and anywhere." Nano-ion anti-bacterial ingredients adhere to the skin and have a continuing, odor suppression effect, and we have developed and launched improved versions of *Ban Deodorant Roll On*, which comes in easy-to-carry plastic bottles, and *Ban Refresh Shower Sheet*, which can wipe away perspiration and odor and leave the skin with a fresh feeling.

\* Result of Lion's research



Mari Konishi  
Beauty Care Business Department

## Pharmaceutical Business

### Market Environment and Performance in Fiscal 2011

In Japan's pharmaceutical field, although sales in the OTC pharmaceutical market have shown a decreasing trend, there is also a shift in progress toward more purchases of "Rx-to-OTC" medicines\*, and the markets for new preparations for relief from fever and pain have expanded considerably, while demand for eyedrops for airborne pollen has grown. In combination cold medicines, competition is becoming more intense as market participants have placed emphasis on TV commercials. Sales of health tonics and insecticides were below the levels of the previous year, and the overall markets where Lion is a participant decreased in size. In response to these trends, Lion has stepped up its marketing investments, focusing on advertisements for antipyretic analgesic (fever and pain relief) preparations and combination cold medicines. We have worked to renew and upgrade our *Smile Contact* series of eyedrops for persons wearing contact lenses and added the *Smile 40* series made for the middle-age and senior generations. Through these initiatives, we are endeavoring to increase the value of our core brands.

Sales of antipyretic analgesic products held firm in 2011 and rose above the previous year. Among combination cold medicines, sales of *BUFFERIN "Kaze (Cold)" EX* were influenced by more-intense competition, and sales of these products were below 2010. In eyedrop business, newly introduced "cool-type" and the *Smile 40* series for middle-age and senior generations were favorable, giving a substantial boost to sales of these products. Sales of insecticides were below 2010. Overall sales in pharmaceutical business decreased from the previous year because of the impact of market shrinkage and greater competition.

### Strategy in Fiscal 2012

Lion will implement measures to strengthen its base in this business, focusing on the *BUFFERIN* and *Smile* brand lines, while taking extensive measures to nurture new products and overseas business activities, while shifting to growth businesses.

In the *BUFFERIN* brand line, Lion introduced *BUFFERIN Luna i*, which adopts its patented "Quick Melt Process" that makes the key ingredient ibuprofen dissolve and go to work quickly to provide relief for headaches and menstrual pain. Another new product, *BUFFERIN Luna J*, which has been created especially for relieving menstrual pains among primary and junior high school girls, was introduced in 2012. In combination cold medicines, we are continuing to develop *BUFFERIN "Kaze (Cold)" EX* by drawing on synergies with antipyretic analgesic preparations, and will continue to strengthen the position of the *BUFFERIN* brand. Within the *Smile* brand lineup, we launched *Smile Contact AL—W*, which has been created for contact lens users who experience itching and other unpleasant sensations and contains the two ingredients that restrain itching and provide relief from inflammation. These product launchings are aimed at raising our position in the contact lens eyedrop field and helping to stimulate growth in the market.

Also, in our *PAIR* brand line, which is targeted at persons in their 20s and 30s who suffer from acne, we are introducing new medicines for oral and external use and are aiming to restart growth in this area. We will continue to nurture and maintain the profitability of *Guronsan* health tonic, *Varsan* insecticide, and *Stoppa* anti-diarrhetic.

\* Former prescription (Rx) medicines that are now sold without a prescription at drugstore counters.

### TOPIC

Women account for about 70% of users of antipyretic analgesics. Among women in their 20s in particular, about 70% reply that they take these medicines for relief from both headaches and menstrual pains. Lion's research indicates that among the number of fever and pain relief pills taken monthly, the number who suffer from headaches is greater than the number experiencing menstrual pain\*. Based on these results, we are introducing *BUFFERIN Luna i* to meet the needs of women in their 20s for their expressed needs of "quick relief," "gentle on the stomach," and "contains no ingredients to induce sleepiness." We are aiming to establish a brand image for this new offering in the *BUFFERIN* brand lineup as "a fever and pain reliever for women in their 20s" that is effective for menstrual pain, headaches, and the discomfort of menstrual pain. We are working to add more female customers in their 20s, who take a high percentage of medicines for relief from fever and periodic pain.

\* Results of Lion's research. Respondents indicate that their dosage for relief from menstrual pain and headaches is two tablets.



Yoko Hayakawa  
Pharmaceutical Business Department

## Fabric Care Business

### Market Environment and Performance in Fiscal 2011

In Japan's fabric care field, within the laundry detergent market, the percentage of sales accounted for by liquid detergents is expanding and rose to 56% in 2011.\*<sup>1</sup> Manufacturers introduced new super-concentrated liquid detergents, and these rose to account for 16% of the laundry detergent market\*<sup>1</sup>. Fabric softeners with high-value-added features, such as fragrances, including long-lasting scents, and deodorizers, have risen to close to 80%\*<sup>2</sup> of that market.

Lion made investments, principally in its super-concentrated liquid detergent *TOP NANOX*, with the goal of raising its presence in the liquid laundry detergent market. Among fabric softeners containing long-lasting fragrances, which are a growth sector, we launched new products and implemented measures to further develop our brands and increase profitability.

The liquid detergent segment is continuing to expand, and Lion introduced an enhanced version of *TOP NANOX* in September 2011. Sales of this product expanded over the previous year, and it became the No. 1\*<sup>3</sup> detergent item in its category. However, other laundry detergents were adversely impacted by the effects of the earthquake, and overall detergent sales decreased from the previous year. In the fabric softener business, we introduced *Juliette*, a newcomer with a floral fragrance, to the *Kaori to Deodorant no SOFLAN Aroma Rich* softener lineup, which boasts longer-lasting fragrances than previous products. Overall softener sales expanded substantially over the previous year. However, fabric care business sales in total showed a significant drop from the prior year because of the effects of the earthquake.

### Strategy in Fiscal 2012

Lion will aim to capture the No. 1 spot among manufacturers in the super-concentrated liquid detergent field by launching *Kaori Tsuzuku* (Long-Lasting Fragrance) *TOP plus*, a new laundry detergent with a long-lasting scent, and an improved version of *TOP NANOX* offering improved and powerful "new nano-washing" detergency. Among powder detergents, which still account for about 40%\*<sup>1</sup> of the detergent market, we will launch three new products that feature improved dissolvability because of the incorporation of sodium bicarbonate. We have made improvements in existing products, including raising the detergency power of *TOP Platinum Clear* through increasing the enzyme content, strengthened the antibacterial power of *Heyaboshi TOP*, and made improvements in the fragrance of *BLUE DIA*. These activities include developing products that meet the needs of a wider range of laundry scenes, such as the use of washing machines that have a larger capacity and require less water, and reduce electric power consumption. We are also striving to increase consumer satisfaction among consumers loyal to powder detergents. Also, in the fabric softener market, we will launch new products that will raise the antibacterial potency of *Kaori to Deodorant no SOFLAN*—which has already won the No. 1 ranking\*<sup>3</sup> as the brand with the best image for "good fragrance"—by 50% and offer a major increase in deodorizing power. *Kaori to Deodorant no SOFLAN*, with its appealing "deodorizing power and fragrance," and *Kaori to Deodorant no SOFLAN Aroma Rich*, with its attractive long-lasting fragrances, are expected to drive growth in the fabric softener market.

\*1 2011 INTAGE Inc., SRI Survey

\*2 According to Lion's classification

\*3 Result of Lion's research

### TOPIC

As the fabric softener market expanded at about 5%\*<sup>1</sup> over the previous year in 2011, sales of softeners with long-lasting fragrances\*<sup>2</sup> expanded 52%\*<sup>1</sup>, thus propelling market expansion. Also, our research has given us the result that almost 40% of respondents want "the fragrance to last from the time of washing up to the time the garments are worn." *Kaori to Deodorant no SOFLAN Aroma Rich* is highly evaluated because of its "good fragrance" and "long-lasting fragrance." The *Aroma Rich* brand is reinforcing the special qualities of these softeners and is persuading people that "fragrances" are something to enjoy.

\*1 2011 INTAGE Inc., SRI Survey

\*2 According to Lion's classification



Chiaki Nakanishi  
Fabric Care Business Department

## Living Care Business

### Market Environment and Performance in Fiscal 2011

The market for living care products sustained its expansionary trend, with increases above the previous year in both unit sales and prices. Growth was led by the toilet cleaner market where a large number of new products were launched.

Lion expanded its lineup of dishwashing detergent products and, in the household cleaner category, introduced new items that suggest lifestyle improvements that meet consumers' needs.

In the dishwashing detergent category, sales of the newly improved *CHARMY Crysta* series of automatic dishwasher detergents were favorable. However, overall sales in this product category were approximately the same as in the previous year because of weaker sales growth of *CHARMY Awa no Chikara (Power of Suds)*. In the household cleaner category, sales showed a major rise as performance of *Ofuro no LOOK* (bath cleaner) was robust, and customer response to the newly launched *LOOK Mame-Pika Toilet Cleaner*, which makes it easy to use for a "quick wipe" with toilet paper, was strong. In the cooking product category, newly improved *REED Healthy Cooking Paper* was affected by intense competition, and sales were below the level of the previous year.

As a result of these various factors, net sales of this business overall were approximately the same as in the previous year.

### Strategy in Fiscal 2012

The market for living care products, such as dishwashing detergents and household cleaners, has been positioned as "mature," but, as a result of the introduction of new *LOOK Mame-Pika Toilet Cleaner* in 2011, sales in the market for toilet cleaners showed a major rise of 16%\* over the previous year. Therefore, it is possible to expand markets by offering new benefits that are adapted to consumer behavior, such as enhanced functions, greater convenience, and fun in use.

In the dishwashing detergent category, since sales of gel-type automatic dishwasher detergents are expanding at 8% a year\*, we are working to further nurture *CHARMY Crysta Gel* in the market because consumers can experience its strong cleaning power, are satisfied with its performance, and become repeat purchasers. Currently, gel-type automatic dishwasher detergents still account for just 21% of the dishwashing detergent market,\* but further expansion is anticipated. In addition, in the toilet cleaner category, we launched an improved *Toile no LOOK*, which has improved viscosity to adhere to the "under the rim" portion of toilet bowls to facilitate detergency as well as a long-neck bottle for applying the cleaner "deep under the rim." This enhanced product features improved cleaning power to remove uric acid deposits, which are one kind of stain that consumers are particularly concerned about. Through the introduction of this new product, Lion intends to strengthen its position in the bottle-type toilet cleaners market.

In 2012, we will also launch more new products with superior, differentiated features and continue to strengthen the value of the Lion brand.

\* 2011 INTAGE Inc., SRI Survey

### TOPIC

In 2011, Lion's toilet cleaners showed expansion of 47% over the previous year, well above the 16%\* expansion in the market as a whole. During 2012, we are proposing two products especially for cleaning the toilet room—"Toile no LOOK" and "LOOK Mame-Pika Toilet Cleaner"—that offer consumers fun and satisfaction as they clean. For the toilet bowl, "Toile no LOOK" does a potent job in cleaning the "under the rim" portion, where yellowish discolorations and odors frequently lurk. For space surrounding the bowl, "LOOK Mame-Pika" makes it easy to do a "quick wipe" with toilet paper to remove dirt and grime. With these two products, we are aiming to further stimulate market growth.

\* 2011 INTAGE Inc., SRI Survey



Hironobu Yokote  
Living Care Business Department

## Other Products

The Other Products Business segment includes the goods-on-order business, which markets novelty items for corporations and gift items, such as combination sets of detergents for sale during the summer and winter gift-giving seasons in Japan. It also includes the functional food products business, which markets its products through direct-to-consumer sales channels,\* and the pet supplies business relevant to pet products and pet treats.

### Market Environment and Performance in Fiscal 2011

In the novelty items for corporations business, we launched a “Novelty Item Website for Corporations” and worked to further develop our customer base efficiently, but demand decreased as a result of the effects of the Great East Japan Earthquake. Sales of gift items were stagnant because our product supply capabilities during the summer gift-giving period were impaired by the effects of the earthquake.

In the direct-to-consumer sales business, we increased the number of customers purchasing *Nice rim essence Lactoferrin*, which provides support for regular and refreshing health habits, on a continuing basis. Sales of the product rose steadily as a result. Also, sales of *Tomato Su Seikatsu*, which is a specified health maintenance food product for persons with hypertension issues, and other health food products rose, and this business as a whole showed double-digit growth. In addition, sales of a new supplement, which was introduced in May 2011, got off to a favorable start. The product is recommended for middle-aged and older people concerned with their sugar intake. As a consequence, overall sales in this business topped ¥6.0 billion.

In the pet supplies business, despite the fact that the number of dogs and cats kept as pets in Japan remained at about the same level as in the previous year, sales of cat litter held strong, as a whole, and sales in this business expanded over the previous year.

### Strategy in Fiscal 2012

We will endeavor to expand the volume of novelty items that we sell to existing customers and proceed with the development of new customers for these products. In the goods-on-order business, in view of the trend in recent years toward unseasonably hot weather in the summer, we will strengthen our lineup of *Hiepita Sheets*, which lower body temperature when applied to the skin, and other products. Moreover, in

the gifts business, we are expanding our lineup of combination packages to include the launching of a *TOP NANOX* gift box with an expanded range of products and are working to expand sales in the liquid detergent gift market, where growth is continuing.

In the direct-to-consumer sales business, we are continuing to make marketing investments—focusing especially on TV, newspaper, and Internet advertisements—and striving to expand the number of customers for *Nice rim essence Lactoferrin*, *Tomato Su Seikatsu*, and other products. Also, to make way for expanding our customer base in the years ahead, we are scheduled to make investments in call centers and related systems.

In the field of pet products, we are introducing a new dog sanitary sheet, which features Snoopy, the well-known cartoon character, on the package, and we will be working to raise our presence in this market. In parallel with this, we are strengthening and working to further develop our *Pet Kiss* lineup of oral care food products for dogs. We will also endeavor to develop new markets, including the launching of products for the direct-to-consumer and veterinary hospital channels, that will not be sold in existing retail stores.

\* Excluding door-to-door sales

### DIRECT-TO-CONSUMER SALES REACH ¥6.0 BILLION—AIMING FOR ¥10 BILLION IN 2014

We entered the direct-to-consumer sales business for functional food and other products in 2007, and in 2011 sales exceeded ¥6.0 billion. The number of customers who purchase these items on a regular basis has exceeded 100,000 (as of December 2011), which represents an increase of about 1.8 times the number at the end of the previous year. As a result of the introduction of a new product in May 2011, together with previously launched *Nice rim essence Lactoferrin* and *Tomato Su Seikatsu*, Lion has now completed its lineup of products to help support the health of middle-aged and older people. In our New Medium-Term Management Plan, which we began to implement this year, we are targeting sales of ¥10 billion in 2014, including both existing products and new business fields we will develop.

## Industrial Products Business

Net Sales ¥52.4 billion (4.0% up)

Operating Income ¥0.4 billion (38.7% down)

### Chemical Products Business

#### Market Environment and Performance in Fiscal 2011

In the Chemical Products Business, we are working to expand the sales and income of existing products and by developing new products, principally in our three core fields (ester derivatives, electro-conductive carbon black, and industrial cleaners). However, performance in 2011 was approximately level with the previous year due to reduced production among its customers owing to the effects of the Great East Japan Earthquake and the flooding in Thailand as well as the stagnation in exports caused by the appreciation of the yen. In the core field of ester derivative products, we have proceeded with work on the development of new, high-value-added products, including plant-based insulating oils. In electro-conductive carbon black and industrial cleaners, sales of electro-conductive carbon black to overseas customers for rechargeable battery applications were strong, but, as a result of the natural disasters, sales to the automobile and IT/electronics fields were below the previous year.

#### Strategy in Fiscal 2012

Although there will be demand in 2012 related to the recovery from the disasters, uncertain economic conditions are

expected to persist due to high raw materials prices, the appreciation of the yen, and other factors. Amid this operating environment, we will focus resources on our three core fields (ester derivatives, electro-conductive carbon black, and industrial cleaners) as well as work to increase sales and income by the aggressive development of new products and additional customers. In addition, we will formulate a medium-term business plan to promote the development of our international operations. In the core field of ester derivatives products, we will continue to actively develop the markets for high-value-added, plant-based ester derivatives, including insulating oils that have superior insulation properties. In the core field of electro-conductive carbon black products, we will continue with work on developing rechargeable battery applications for automobile use, where explosive growth in demand is forecast on a global basis, as well as on promoting significantly higher-performance conductive compounds for use in automobiles and electronic components. Similarly, in the core field of industrial cleaners, activities will continue to cultivate new customers in the automobile, IT/electronics, and precision medical machinery fields.

## Detergents for Institutional-Use Business (Lion Hygiene Co., Ltd.)

Lion Hygiene manufactures and sells cleaning products, including various types of detergents for industrial use, bacteria-removing bleaches, hand soaps, and finger disinfectants. The principal customers for these products are hotels, restaurants, hospitals, nursing care centers, schools, government agencies, corporations, food processing plants, linen supply plants, and cleaning establishments.

Lion Hygiene also conducts on-site examinations for possible infectious substances on food processing equipment and machinery at the request of industrial food preparation centers, plants, and other locations. Lion Hygiene also provides comprehensive hygiene management services with the aim of helping its customers “to create clean, safe, and sanitary environments” by presenting proposals for improvement based on scientific data and preparing manuals.

### Review of Fiscal 2011

In 2011, rates of utilization at hotels and restaurant chains declined because of the effects of the Great East Japan Earthquake, and the markets for detergents and rinses used in dishwashing equipment as well as hotel linens were stagnant. In addition, along with a spreading trend toward

conserving, on expenditures for professional cleaning, related demand has decreased, and this has led to a decline in sales of detergents to cleaning establishments. On the other hand, as a result of major food poisoning incidents, the awareness of sanitation, mainly at restaurants and elsewhere, increased, and sales of hand soaps, finger cleansers, and cleaning alcohol were brisk. As a result, overall sales of this business increased.

### Strategy in Fiscal 2012

In 2012, the outlook is for the impact of the earthquake disaster on hotels and restaurant chains to recede. In addition, in part because of demand for recovery from the earthquake, recovery in institutional dishwashing detergents and hotel linens is expected. Moreover, as the awareness of sanitation takes stronger hold in people’s consciousness, demand for hand soaps and finger cleansers is expected to hold firm.

Amid these conditions, in the hand soap field, this business will focus on expanding sales of high-value-added, foam-type hand soaps and establishing their position in the market. In addition, this business will work to expand sales of detergents for industrial dishwashers by developing new customers.

### ■ ESTABLISHMENT OF A JOINT COMPANY IN INDONESIA WITH IPPOSHA OIL INDUSTRIES CO., LTD.

Lion’s wholly owned subsidiary Ipposha Oil Industries manufactures and sells functional industrial chemical products. To expand this company’s business scale in the rapidly expanding Southeast Asian markets, in July 2011, it invested jointly with Lion to establish a new company in Indonesia to manufacture rubber non-adhesive additives used in the manufacture of tires.

### ■ ESTABLISHMENT OF LION IDEMITSU COMPOSITES CO., LTD., SUBSIDIARY IN INDIA

Lion Idemitsu Composites, which is a joint venture between Lion and Idemitsu Corporation, is accounted for under the equity method by Lion and manufactures and sells plastics that have composite functions, including resistance to fire and heat. In December 2011, Lion Idemitsu Composites established a subsidiary in India, where rapid growth in the production of automobiles and electric appliances is forecast.

## Overseas Business



Kenjiro Kobayashi

Director, Executive Officer, and  
Executive General Manager of  
International Division

Net Sales ¥53.7 billion (1.5% up)

Operating Income ¥0.7 billion (28.2% up)

### Products for Overseas Markets

#### Oral Care



#### Beauty Care



#### Fabric Care



#### Living Care



Lion conducts business operations in eight countries and regions in Asia outside Japan, including Thailand, South Korea, and Malaysia.

### Market Environment and Performance in Fiscal 2011

The policy of this business segment is to provide products in the oral care and laundry detergent fields that contribute to the health and cleanliness of consumers and support the extension of their healthy life expectancy. In 2011, we conducted aggressive marketing activities in each country where Lion operates and endeavored to further nurture our brands. To respond to growth in demand going forward, we proceeded with the construction of new production facilities and began work on expansion of supply capacity. Moreover, in preparation for future business expansion overseas, Lion worked to strengthen the competitiveness and to widen the view for the personnel working in Japan.

Lion has positioned its laundry detergent *TOP*, oral care products *Systema*, body soap *Shokubutsu-Monogatari*, and hand soap *KireiKirei* as global brands, and activities are under way to expand the lineup of products in these brand lines. In addition, we are engaged in developing brands for local markets, including *Pao* laundry detergent in Thailand, *Beat* laundry detergent in South Korea, and *Ciptadent* toothpaste in Indonesia, by implementing the brand strategy of selling into both the high- and medium-priced segments. As a result of these various activities, sales of overseas business showed expansion over the previous year.

Although prices of raw materials increased significantly, operating income of this segment rose over the previous year, as we proceeded with reductions in costs through improvements in production processes and other means and increased the efficiency of expenditures for sales promotion activities.

### Strategy in Fiscal 2012 and the “V-1 Plan”

To attain the objectives of Lion’s New Management Vision “Vision 2020,” we are implementing a medium-term management plan with a basic strategy of attaining quantitative growth in overseas business through aggressive product launches.

From 2012 through 2014, the term covered by the New Medium-Term Management Plan “V-1 Plan,” we are scheduled to complete new oral care product manufacturing facilities in Thailand and China and additional production capacity for laundry detergents in Malaysia. As a result of strengthening and upgrading our production and supply capabilities to meet expanding demand, we are aiming for the No. 1 market shares in Asia in oral care and laundry detergent categories. In addition, we are expanding our capabilities for product development, technological support, and product planning through closer collaboration between our operations in Japan and the other countries of Asia. These initiatives have the aims of proceeding with the aggressive development of oral care products and laundry detergents in the region and raising our presence in the markets for these products.

Along with these initiatives, we made the decision to enter the Philippines and establishing a joint venture with PEERLESS PRODUCTS MANUFACTURING CORPORATION, a local manufacturer of detergents. The Philippines is an attractive market for two reasons in particular. The birthrate there is high, even among Asian countries, and the forecast is for 24.98 births per 1,000 persons in 2012.\*<sup>1</sup> In addition, the economic growth rate makes the market attractive, with 3.8% real GDP expansion forecast.\*<sup>2</sup> Supported by these background factors, the toiletry market in the Philippines is expected to show robust expansion in the years ahead. Having good distribution is an important success factor in the Philippines, where a key geographic feature is that the country is made up of more than 7,000 islands. The strong distribution network of our joint venture partner will be a major competitive strength for expanding our business activities in the Philippines.

Looking toward future overseas business development, to strengthen our income base, we will strive to enter countries where we do not have a presence now as well as expand our product lineup and enter new product fields in those countries where we are already a market participant. In addition, to further develop our chemical products business overseas, we will endeavor to expand our business base in the rest of Asia, where growth is forecast in the years ahead.

Regional Reports: Thailand



Pao  
Laundry detergents



Lion's sales in Thailand are the largest of any of its overseas markets. Since its entry into the market in 1957, Lion has expanded its product offerings to include laundry detergents, oral care items, body soap, dishwashing detergents, baby care items, and other products, and sales in Thailand account for 50% or more of consolidated overseas sales. Also, about 70% of our sales in Thailand are accounted for by products in the household field, including fabric care and living care items. Going forward, however, following the expansion of production capacity for our oral care products, we are planning to further expand sales in the personal care field, including oral care and beauty care products.

In 2011, the operating environment in markets where Lion is a participant was influenced by the floods in Thailand, which led to temporary increases in prices of food products and other daily necessities, which, in turn, resulted in restraints on consumption. However, after the floods subsided, conditions returned to normal and market conditions became favorable, in part because of the rising consumer interest in health and sanitation.

Lion's sales of laundry detergents in 2011 expanded, as a result of the launching of an improved version of high-value-added Pao and super-concentrated liquid detergents, which are sold primarily in the Bangkok area. In the oral care field, conditions in the toothpaste market were difficult because of increased competition, but sales of Systema brand toothbrushes increased significantly along with a new series of TV commercials. In the beauty care field, sales of Shokubutsu-Monogatari body soap posted a major increase, because of the effectiveness of focusing our resources more sharply on certain items and securing new users. In our sales activities, we formed a new organizational unit to visit retail stores and worked to substantially strengthen our outlets and raise our presence in the market. During 2012, we will continue our sales expansion activities by price zone and geographic area as well as proceed with our sales strategy of nurturing our core brands and launching highly differentiated products, with the goal of improving our sales and income performance.



Laundry detergent sales area



Systema



Shokubutsu-Monogatari



Sriracha Factory (illustration)

## Regional Reports: South Korea

*Power Beat*  
Concentrated  
laundry detergent



*Ai-kekute*  
Liquid hand soap

In South Korea, Lion acquired the household chemical (daily necessities) business of the No. 3 laundry detergent manufacturer, CJ Co., Ltd., in 2004 and established CJ Lion Corporation. Since then, we have worked to expand our position in laundry detergents, oral care items, dishwashing detergents, hand soap, and other fields.

During 2010, competition within retail channels became more intense and had an adverse effect, mainly on our laundry detergent business, but, in 2011, price competition subsided, and sales of laundry detergents expanded over the previous year. Especially in the liquid detergent market, which is a growth segment, our in-store sampling and demonstration campaign for *Power Beat* liquid detergent had a positive impact, and sales growth was favorable, exceeding the rate of expansion in the market as a whole. In May 2011, we launched *Power Beat for 1/2 Drum Washers*, a concentrated powder detergent containing plant-based surfactant methyl ester sulfonate (MES), which has high detergency power, manufactured by our consolidated subsidiary Lion Eco

Chemicals Sdn. Bhd. in Malaysia. In the oral care field, we focused on high-value-added products, including *Systema Sonic Vibration Assist Toothbrush*, an electric toothbrush, and *Systema Night Protect*, a night-care toothpaste. Also, in the beauty care field, sales of hand soap *Ai-kekute* (sold under the brand name *KireiKirei* in Japan), which is marketed with the theme of instilling good hand cleansing habits, were quite favorable.

Looking ahead, we have positioned improving the profitability of our existing business operations in South Korea as well as nurturing and strengthening our oral care *Systema* brand as core themes. We will aim to further develop the market for super-concentrated laundry detergents in the expanding liquid detergent market and make further investments in strengthening our marketing activities for the *Systema* series of oral care products that we launched in 2009 and, thereby, raising our presence in the market.

\*1 Source: CIA, The World Factbook

\*2 Forecast prepared by Mitsubishi Research Institute, as of February 2012



*Beat Drum*



*Systema Sonic*  
*Vibration Assist Toothbrush*



CSR activities-nursery  
home visit

## Other Regional Reports

All figures are on a local currency basis.

\*1 Company accounted for under the equity method

\*2 Result of Lion's research

### Malaysia \*1 ①



TOP  
Laundry detergents



New drying tower for powder detergent

Lion secured the No. 1 position in the laundry detergent market in Malaysia in 2009 and has held that position since then\*<sup>2</sup>. In 2011, the launching of an improved version of body soap *Shokubutsu-Monogatari* and related promotional activities were effective and resulted in robust sales growth. In 2012, we will complete new facilities for manufacturing laundry detergents that will approximately double our production capacity in Malaysia.

### Singapore ②



*Shokubutsu-Monogatari BS*  
Body foams



*KireiKirei*  
Liquid hand soaps



Sales rose over the previous year's level due to activities to nurture and strengthen the position of *Systema* toothpaste and toothbrushes, the launching of an improved version of *Shokubutsu-Monogatari* and accompanying promotional activities, and the expansion of the lineup of products sold under the *KireiKirei* brand.

## Indonesia \*1 ③



Mama  
Dishwashing detergents



Ciptadent  
Toothpastes

The market for low-priced items is shrinking, but the medium-priced segment is expanding. In the oral care field, sales continued to be firm as we launched an improved version of *Ciptadent*, our local brand in the Indonesian market and strengthened our sales promotion activities.

## China ④



Zact  
Toothpastes



Systema  
Toothbrushes

In the oral care field, in-store promotions and coordinated TV commercials focused on major urban areas were successful and resulted in an increased awareness of our brands. In December 2011, we began the marketing of *TOP* liquid laundry detergent.

## Taiwan ⑤



Systema  
Toothbrushes



Shokubutsu-Monogatari  
Body soap



Lanpao  
Laundry detergent

In the oral care field, sales of *Systema* toothbrushes were favorable in part because of the positive effect of TV commercials. Overall, sales in 2011 were above the level of the previous year.

## Hong Kong ⑥



TOP



TOP NANOX

Laundry detergents

Sales expanded over the prior year, with double-digit growth in the oral care, fabric care, and living care fields.

# Research and Development

## Lion's Core Technologies and Basic R&D Themes

As Lion aims to attain its objectives under "Vision 2020," technological innovations and the development of new products will be indispensable. Our "technological DNA," or, in other words, our core technologies, spans the fields of washing and oral care. In addition, these technologies will form the base for realizing the three "innovations" mentioned in "Vision 2020:" namely, "Life Innovation," "Green Innovation," and "Knowledge Innovation."

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

Our oral care technologies are applied in the development of toothpastes, toothbrushes, and other related products that contribute to the prevention and treatment of oral diseases. Recent research has made clear that periodontal disease has an influence on systemic diseases, such as heart attacks and diabetes. Therefore, through our oral care technologies, we are contributing to extending people's healthy life expectancy.

As part of our Medium-Term Management Plan "V-1 Plan," which covers the period from 2012 through 2014, we are working to strengthen our direct-to-consumer marketing. In the coming years, we will significantly increase our investment of resources in the development of functional food products, which are mainstay items in our direct-to-consumer marketing initiatives, and endeavor to support consumers with products that are effective in improving health and enhancing the quality of life.

## Lion's R&D Organization

Our Research and Development Headquarters comprises the following three divisions.

- The first is our Development Research Laboratories, which consists of seven R&D laboratories working in six product categories, such as oral care, fabric care, and pharmaceuticals. These laboratories engage in the mutual interchange of technology to realize synergies and accelerate the pace of R&D, as they also collaborate closely with Lion's product planning departments.
- The Applied Research Laboratories works to discover the buds for new technologies and materials through the use of surface science, life science, and other scientific knowledge. This division makes analyses of various substances in actual use and their intravital mechanism of action, and, based on solid evidence, undertakes research to apply these.
- The Research Supporting Laboratories provides assistance to the two previously mentioned research divisions by making assessments of the safety of products vis-à-vis the human body and the natural environment. It also addresses issues through the use of advanced qualitative as well as quantitative analytic technologies and is responsible for enhancing product value added by developing technologies related to fragrance, tastes, and packaging.
- In addition, we are currently implementing Phase II of our R&D center redevelopment plan and are scheduled to open a new R&D center in 2013 with the aims of increasing our knowledge of R&D and production technology and strengthening our consumer research.



## Three Awards Received from Leading Academic Associations in Japan for Life Science Technology Developed through Lactoferrin Research

Lactoferrin is a multifunctional protein found in breast milk, mainly of mammals, which has antibacterial properties and works to strengthen the immune system. In the case of human beings also, lactoferrin has come to be known as a substance that protects babies from a wide range of diseases.

Lion Corporation has conducted research on the effects of lactoferrin as a functional food, and worked to expand the range of its functions. In 2006, we confirmed in tests on animals that lactoferrin has the effect of deactivating lipopolysaccharide (LPS), a toxic substance related to the production of periodontal bacteria and the spreading of periodontal disease. In addition, as we proceeded with our research in the field of oral care, one of our research workers discovered accidentally that lactoferrin administered to laboratory mice had the effect of reducing their visceral fat. Following this discovery, as a result of consideration of cultured cells, it became clear that lactoferrin has a significant effect in restraining the accumulation of visceral fat. This happened just as interest in the health of middle-aged and older people was rising in Japan.

We proceeded with our research on lactoferrin to investigate the reduction in visceral fat, which has a close connection with the health of middle-aged and older people, but we found that there was a problem with the oral administration of this substance. We found that lactoferrin was decomposed by gastric acid and digestive enzymes in the stomach and was not able to work its positive effects in the intestines.

We concluded that it was necessary to have technology that would enable the lactoferrin to pass through to the intestines. We, therefore, concluded a strategic alliance with a pharmaceutical venture business and succeeded in developing a drug coating material that does not dissolve in the stomach but passes through to and then dissolves in the intestines. We then confirmed the effectiveness of lactoferrin through tests on human beings, and verified scientifically that it reduced the areas of visceral fat and waist sizes of human beings through external clinical tests.\*

We subsequently continued to compile and strengthen the body of evidence of lactoferrin's effectiveness through collaboration with external research institutes. Using the latest analysis technologies, including nutrigenomics, which analyzes the effect on gene expressions resulting from specific substances, such as food ingredients, and other technologies, we made further analyses of the effectiveness mechanism.

The research results on lactoferrin have obtained high evaluations in academic circles in Japan and overseas, and they won three awards during the fiscal year from leading academic associations.

Notes: \* Double-blind comparison tests on 30 adult males aged 30 to 62 with body mass indexes (BMI) of 25 or higher.

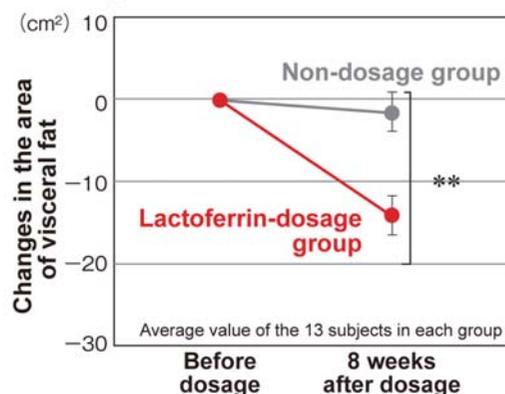
\*\* The three awards were: The 2011 (55th) Award for Excellence in Oil & Fat Technology, presented by the Foundation, Oil & Fat Industry Kaikan; The 16th Momofuku Ando Award for Excellence, presented at the 2011 Creative Meeting; and The 2012 Bioscience, Biotechnology, and Agrochemistry Award, presented by the Japan Society for Bioscience, Biotechnology, and Agrochemistry

### C.T. images of the changes in areas of visceral fat (example of remarkable effect)



After an eight-week dose, visceral fat areas in the abdomen decreased an average of 12.8cm<sup>2</sup>, with an average reduction in waist circumference of 3.4cm, and an average weight loss of 2.5kg.

### Changes in the area of visceral fat



## Lion's Basic Philosophy for CSR

### Lion and CSR

The wellspring of Lion's CSR activities can be traced to the Company's founding spirit of "working for the benefit of people and society." Today, even after marking the 120th anniversary of the start-up of its operations, this spirit lives on in Lion's Company Motto. We believe it is the Company's social responsibility for each and every one of its employees to contribute to a healthy, comfortable, and sustainable livelihood for people through Lion's business activities. Based on this fundamental idea, Lion manages its activities to be a company that is strongly trusted and highly transparent.

Lion also works proactively to promote communication with its stakeholders. Our communication with stakeholders began in 2007 with our meeting to review the *CSR Report* and exchange views with outside experts. In the following year, this developed into our "Stakeholder Dialogue," which has become an opportunity for more active discussion. In 2010, we invited consumers to our Hirai Office to tour the premises and introduced our environmental protection as well as social contribution activities and listened to their opinions. In 2011, we also heard the opinions of our employees regarding the same matters and continue our dialogues with our stakeholders. Lion is working to adapt to the times, and, to become a company that society trusts and counts on, the Company listens to what people are saying and aligns its activities with social changes.

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

Marking the 120th anniversary of the commencement of Lion's business activities on October 30, 2011, we prepared a New Management Vision entitled "Vision 2020," which covers the period from 2011 through 2020. Under "Vision 2020," we have three visions for Lion: "Be a company that creates value for lifestyle and spiritual fulfillment," "Be a company that is advanced in the area of environmental responsiveness," and "Be a company that continues to take on challenges, create, and learn." By 2020, we want to be a company that creates value for lifestyle and spiritual fulfillment long into the future by consistently safeguarding health, comfort, and the environment for people each and every day.

To realize this vision, we have formulated "Four Strategies." The first is to pursue qualitative growth of our domestic businesses. The second is to realize quantitative expansion of overseas businesses. The third is to develop new business value, and the fourth is to enhance our learning capabilities as an organization. We will take the initiatives in the "Three Innovations" to implement these strategies: Life Innovation, Green Innovation, and Knowledge Innovation.

Also in 2009, we became a participant in the United Nations Global Compact and are implementing a wide range of related measures under The Ten Principles of the Global Compact, including the areas of "human rights," "labor," "environment," and "anticorruption".

### Looking Forward

In November 2010, ISO26000 was issued. This is the first set of standards for social responsibility. Lion has pursued its CSR activities thus far and intends to continue these in the years to come.

Our way of thinking regarding CSR matches the principles of ISO26000. Therefore, we have adopted the ISO26000 as a checklist. Specifically, in light of the seven core subjects of ISO26000 (corporate governance, human rights, labor practices, environment, fair operating practices, consumer issues, and participation in the community as well as community development), we are taking stock of Lion's activities and will move forward with an understanding of the current status of our CSR activities and aim to make improvements in them.



# Relationships with People in Many Walks of Life

## Relationships with Consumers

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

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

## Relationships with Business Partners

Under its Purchasing Activities Principles, Lion conducts its raw materials and product procurement activities appropriately,

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

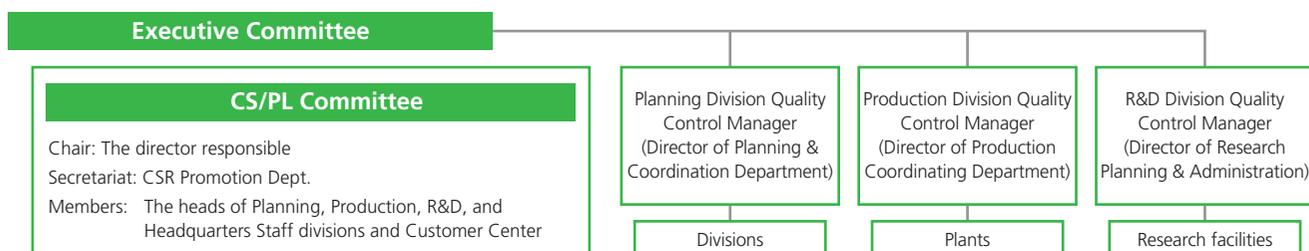
In addition, Lion follows fair transaction practices with raw materials suppliers and business partners contracted to manufacture products. Similarly, through joint deliveries of its products together with those of companies in the same industry, Lion works to cut logistics costs, improve the quality of logistics, and address environmental issues. Also, based on the philosophy of coexistence and coprosperity, Lion works to create closer working relationships with wholesalers and retail businesses through proactive communication and finding solutions to common management issues.

## Relationships with Shareholders and Investors

### Feeding Back the Voice of the Market to Lion Management

Lion has formulated its "IR Information Disclosure Guidelines" to ensure information is disclosed proactively and properly to shareholders and investors in a manner that is fair, accurate, and timely. In addition, to make sure that the content of meetings with domestic and overseas institutional investors and the results of questionnaires collected from participants in events for individual investors are used to make improvements in business activities, this information is reported periodically to the CEO and COO. For overseas investors, Lion is working to enhance its English-language webpage and participates actively in overseas investor meetings and events.

### • Quality Assurance System



## Relationships with Employees

### Approach to Utilization of Human Resources

Lion's founder used to say "Employees are partners in the Company." This idea is reflected in the Lion Group Charter for Corporate Behavior, which refers to respect for "human rights" and respect for the "diversity, individuality, and personality of employees." Lion puts this way of thinking into practice and encourages each and every employee to further develop their abilities and skills, maintain their mental and physical health, eliminate all forms of unfair discrimination, ensure that all employees are treated fairly, as well as create a sense of fulfillment and accomplishment in work activities.

### Nurturing and Drawing on a Diversity of Human Resources

To encourage the permeation of a corporate culture that respects diversity, we believe it is important to have both a top-down proclamation from the CEO as well as a bottom-up groundswell that involves employees. Particularly as regards the re-employment of personnel after retirement and the creation of a workplace where temporary staff can play an active role, beginning in 2010, Lion formed its Diverse Human Resource Promotion Committee. In addition, Lion is actively expanding the number of physically challenged persons it employs. (In 2011, the number of such persons had exceeded 1.8% of the workforce.)

On the other hand, in the training and nurturing of human resources, in addition to basic training programs, for highly motivated employees, we have introduced the "elective training" and the "self-development" programs.

### Promoting Good Labor-Management Relations

Lion places a high value on building relationships of trust between labor and management and encourages reporting on management conditions between management and labor as well as periodic exchanges of opinion regarding the workplace. Beginning in 2009, agreement was reached regarding proactive cooperation between management and labor on the matter of the work-life balance.

In addition, Lion and its workers' union operate under a union shop agreement and endeavor to maintain as well as improve good relationships between management and labor.

## Relationships with Society

### Contributions to Society through Our Main Businesses

Oral hygiene is one of our main businesses, and our activities to distribute information and enhance people's understanding of this topic are a mainstay of our CSR activities.

Since Lion's establishment, it has developed one product after another that contribute to promoting oral health. At the same time, Lion has placed emphasis on making information available and helping people to have a better understanding of oral hygiene. This has led the Japanese people to make brushing their teeth an integral part of their daily routine, and Lion has continued to transmit correct information and understanding of oral hygiene in Japan. Over its history, Lion has offered new value appropriate to the changing life customs of the Japanese people. Lion's history has also been one of contributing to improvement of people's health.

### Awareness of New Missions

As a bearer of information and knowledge of oral hygiene in Japan, for many years, Lion has played a role in making tooth brushing a regular part of the daily lives of children and has had a part in lowering the incidence of tooth decay. In recent years, it has become clear that there is a link between periodontal disease on the one hand and diabetes, arteriosclerosis, and other diseases that affect the body as a whole on the other. Oral health, along with health of the body, is linked to spiritual health because healthy mouths enable people to have healthy smiles, healthy eating habits, and a positive outlook on life. We believe that one of the new missions for Lion is to offer spiritual value of this kind.

On the other hand, turning to the rest of Asia, there are still many areas where tooth brushing has not become a part of people's daily routine. Based on Japan's experience and accomplishments, Lion is aiming to be the No. 1 company in the whole of Asia in the field of oral care and is, therefore, devoting its resources to the spread of information and promoting the better understanding of oral hygiene.

### The Aim of the Lion Foundation for Dental Health (LDH)

Lion established the Lion Foundation for Dental Health (LDH) in 1964. Its principal objectives are to conduct oral health activities as a not-for-profit organization, including research

and educational activities, and it has been designated as a Public Interest Incorporated Foundation.

At present, LDH devotes its resources to maintaining and improving oral health on behalf of people in all life stages from infants to the elderly. As a result of these activities, particularly in recent years in Japan, where the “8020 Movement” (the movement to encourage people to have at least 20 remaining teeth even at the age of 80) and the relationship between periodontal disease and the health of the body as a whole have come to be better understood, people have become more aware of the importance of “maintaining oral health.”

Going forward, LDH will work to further heighten awareness of how oral health contributes to mental and physical health by conducting activities related to the concept “A healthy mind and body begin with a clean and healthy mouth.”

In addition, LDH is aiming to extend its activities around the globe. Working with Lion as it continues to develop its business operations internationally, LDH intends to make contributions to people’s oral health abroad, especially in the rest of Asia.

### **Assistance Provided by the Lion Group Following the Earthquake**

Following the Great East Japan Earthquake, the Lion Group provided a total of the equivalent of ¥350 million in relief donations as well as our products to those affected by the disaster, including toothpaste, laundry detergents, hand disinfectants, and other items.

Moreover, employees of the Lion Group also used the Company’s volunteer vacation systems on their own initiative to participate in the activities of various support groups. These included taking part in the volunteer assistance activities of the Disaster Volunteer Activity Support Project Council (which has its secretariat in the Japan Keidanren (Japan Federation of Economic Organizations) and was active from May through August of 2011) and the GC-JN Great East Japan Earthquake Collective Action for Recovery, sponsored by the Global Compact Japan Network (which began activities in November 2011 that are still in progress). In addition, after September 2011, Lion instigated the “Make Tohoku Well and Active Again” support project and has been engaging in the

four activities listed below, mainly conducted on behalf of children in the Tohoku region of Japan and aiming to contribute to recovery in the affected regions.

#### • **Lion Dental Health Activities**

LDH sponsored lectures by its dental hygienists who provided advice on the importance of oral health and ways to care for the mouth, both of which are very important for building a healthy body.



Kamaishi-shi, Iwate

#### • **Joint Support for the *KireiKirei* “Nationwide Visiting Team to Encourage Enjoyment of Books” Campaign (initiated with Kodansha Ltd.)**

This campaign involved readings from picture books, paper puppetry shows, and handing out Lion’s *KireiKirei Medicated Gargle*, *Clinica Toothpaste for Kids*, and other items with the aim of encouraging children to make oral cleanliness a regular part of their daily routine.

#### • **“Chase Away Germs” Rally in Tohoku**

To encourage kindergarten children to make a habit of washing their hands, gargling, and brushing their teeth, this rally campaign involved the distribution of “Rally Kits” for keeping a record of daily cleanliness activities. The rally also included lectures on tooth brushing given by LDH dental hygienists.

#### • **Support Activities for Ishinomaki City in Miyagi Prefecture (an area closely tied with Lion founder and first president, Tomijiro Kobayashi)**

In these activities, Lion employees visited nurseries and kindergartens in the stricken areas to acquaint children with the importance of washing and keeping their hands clean, to make flower planters to give to people living in temporary homes, and to engage in other activities suited to the needs of the regions, with the goal of continuing to provide support to maintain mental and physical health.

## The Environment and Lion

### “Eco Lion” Activities

The “Eco Lion” activities are Lion’s initiatives to promote the protection of the natural environment. There are five main types of “Eco Lion” initiatives that cover all aspects of Company activities: “Considering the environment from a product-oriented perspective,” “Reducing greenhouse gas emissions,” “Effectively using and recycling resources,” “Appropriately handling chemical substances,” and “Fostering environmental awareness within the Lion Group.” Lion’s stance toward the promotion of “Eco Lion” activities is set forth clearly in the Environmental Guidelines.

In addition, Lion has established an Environmental Action Promotion Committee to encourage all employees to cooperate in responding to environmental issues. The member of the Lion Board of Directors in charge of CSR acts as chairperson of this committee, and it comprises managers of related departments. The “Eco Lion” activities are managed by the committee from a total perspective using the PDCA (plan, do, check, action) cycle.

### Transition to Plant-Based Materials

Lion has been aggressively involved in the development and adoption of plant-based surfactants that feature both excellent detergency and superior biodegradability as well as contributed to preventing global warming and protecting the water environment. Lion was the first company in the world to develop and commercialize the surfactant methyl ester sulfonate (MES) and use it in powder detergents as well as to include methyl ester ethoxylate (MEE), which can be used in small quantities and features high detergency, in liquid laundry detergents. In addition, Lion has built a factory in Malaysia (Lion Eco Chemicals Sdn. Bhd.), which is supplying MES to the world’s detergent manufacturers.

### Lion Eco Standards

Lion approaches the development of its eco-friendly products from two perspectives: composition (contents) and containers/packaging. Under the Lion Eco Standards, the impact that its products have on the natural environment over their

lifecycle (from the procurement of raw materials to final disposal) is measured and assessed quantitatively. A product that clears one or more of the assessment criteria in each area of evaluation is designated as an “eco-friendly product.”

As of 2011, eco products accounted for 66% of Lion’s product lineup and for 82% of its total net sales.

### Strengthening Efforts to Make Effective Use of Water Resources and Biodiversity

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

In addition, Lion has newly established a target of reducing wastewater emissions by the year 2012 by more than 20% in comparison with 2005 and will step up its initiatives for protecting water resources.

### Lion Forest in Yamanashi

Lion established the “Lion Forest in Yamanashi” in 2006 with the objectives of stimulating sustainable forest management, protecting water resources through the healthy development of forests (which preserve water resources), and raising environment awareness among employees. Under this project, employee volunteers take the initiative in cleaning up the forestlands and promoting use of timber cut from the forest. Beginning in 2010, Lion began to survey the bio-organisms in the Lion Forest in Yamanashi from the perspective of biodiversity.



Chairman Sadayoshi Fujishige (President until 2011) and volunteers at the start of Phase II activities at the Lion Forest in Yamanashi

## Promotion of Skywater Harvesting

Because of the nature of its business, which is closely linked to “washing,” Lion has deep relationships with water resources and regards protecting the water environment as part of its social mission. Lion gives full consideration to this mission in its products, as a matter of course, and its business locations in Japan and overseas make active use of rainwater. In 2011, Lion sponsored a “Amekatsu Idea Contest 2011,” with the goal of having children, who will be responsible for the future, realize the importance of water through skywater harvesting. Primary and middle-school pupils from all parts of Japan took part in the contest, which involved observing rainwater and thinking of ideas for its use. A total of 6,099 entries were submitted in four divisions: Written compositions and essays, posters and paintings, reports on free-thinking research, and slogans. Those entries judged to be excellent were awarded prizes.

## Making the Low-Carbon Society a Reality

Lion has set ambitious targets for reducing CO<sub>2</sub> emissions, and the goal for 2012 is to cut emissions by more than 30% in comparison with 1990. Thereafter, Lion plans to make further reductions of more than 40% by 2020. In fact, Lion was successful in reducing emissions by 35% by 2011.

## Lion's Thoroughgoing Power Conservation Efforts as an Eco First Company following the Earthquake

There were dangers of power shortages in 2011 following the Great East Japan Earthquake. As a designated Eco First Company\*<sup>1</sup>, Lion issued its “Promises Regarding Eco First Summer 2011 Power Conservation,” which was addressed to Japan's Minister of the Environment and implemented measures to cut its peak power consumption from July through September in the service areas of Tokyo Electric Power (TEPCO) and Tohoku Electric Power companies by more than 15%. As a result, Lion reduced its power consumption during summer 2011 by more than 28%, a substantially larger figure than its goal.

Specific measures implemented to reduce electric power consumption were as follows:

- The business locations of the Lion Group (including plants, R&D centers, and offices) within the TEPCO service area worked on a staggered shift basis.
- Operation of a portion of equipment at Lion's Chiba Plant was suspended during the daytime hours, and the plant switched over to an LNG-powered cogeneration (power generation and heat recycling) system.
- A number of the electric light bulbs in all Lion offices were removed from their sockets. Also, all air-conditioning system thermometers were set at 28°C and operating times were shortened.
- All offices switched over to “cool biz” clothing\*<sup>2</sup> on May 1, earlier than scheduled, and all lights were turned off during the lunch hour.
- Lion also participated in the “daytime and nighttime light down” program proposed by the Ministry of the Environment.\*<sup>3</sup>

\*1 Companies that have outstanding records in environmental responsiveness are designated as “Eco First” companies by Japan's Ministry of the Environment.

\*2 The “cool biz” movement is promoted by the Ministry of the Environment with the aim of conserving energy during the summers by having company employees wear lighter clothing. Normally, this movement takes place between June and September.

\*3 This program has been promoted by the Ministry of the Environment since 2003, and involves encouraging companies and others that light up their buildings, grounds, or other facilities at night to cut back on power usage for this purpose. Households are also encouraged to reduce power consumption. In normal years, the cutbacks in power usage were for only two specified days during the summer, but in 2011, power usage was cut back from June 22 through August 31.

## Reduction in CO<sub>2</sub> Emissions at Lion Offices the Largest in History (April to September)

Lion has implemented a number of power conservation measures since 2005, such as setting all air-conditioning system thermometers at 28°C, eliminating overtime on certain days, and turning off all lights in rooms that are not in use. In 2011, we required the strict observance of these measures and applied them also to all facilities mentioned in Lion's “Promises Regarding Eco First Summer 2011 Power Conservation.” As a result, CO<sub>2</sub> emissions at Lion offices (all offices of the Lion Group, with the exception of a portion of manufacturing facilities) during the period from April through September 2011 were reduced to 2,199 tons from the same period of the previous year, which represented a decrease of 380 tons from 2,579 tons in the prior year. This was the largest reduction from the same period of the prior year, since carbon emission measures were instituted in 2005.

# Corporate Governance

## Corporate Mission and Basic Approach to Corporate Governance

The mission of corporations is to use the funds that investors have placed with them effectively and generate business results. Ultimately, these Company results belong to the shareholders who invested their funds. However, in the medium-to-long term, to generate results that shareholders expect and continue to build on the assets that have been placed with Lion, it must, first and foremost, value its consumers who use the Company's products as well as the many stakeholders surrounding the Company (including principal customers, business partners, employees, and others).

Lion regards increasing management transparency, strengthening supervisory functions, accelerating the speed of management decision making, and ensuring the maintenance of high standards of compliance as its most-important corporate governance issues. By strengthening and improving its corporate governance system, Lion aims to increase its corporate value.

## Approach to Management Supervision and Monitoring Functions

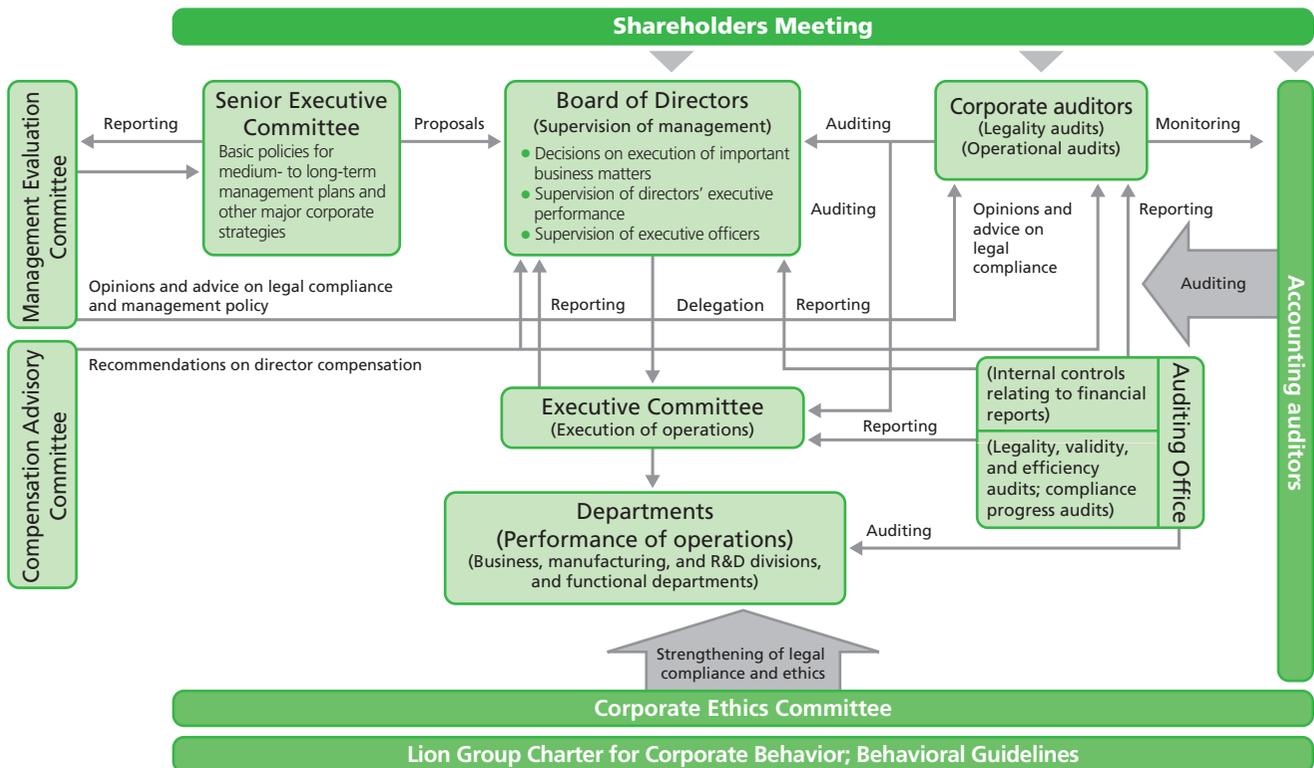
To strengthen both its management decision-making functions and its business execution functions, Lion has adopted the executive officer system, and the supervision of management is conducted through a corporate auditor system.

To provide for stronger corporate governance, Lion has already taken steps from previous years to improve its management supervision and monitoring functions by installing four independent members of management (two external directors and two external auditors) who satisfy the criterion of having no vested interests in the Company, any of its major business partners, or others. These four independent directors and auditors have all been selected for their independence and absence of concern regarding conflicts of interest with the Company's shareholders.

## The Board of Directors and Executive Committee

The Board of Directors has 10 members. It holds regular meetings once a month and other meetings as necessary. The Board's responsibilities include making decisions on key management matters and supervising the conduct of duties by the directors and the executive officers.

### Model of Corporate Governance System



In addition, to implement policies directly related to the conduct of business activities, Lion has formed an Executive Committee, which discusses and gives consideration to a wide range of management issues. This committee includes the Representative Director and President, who is the chief operating officer of the Company, directors with the rank of Senior Executive Director or lower (excluding external directors and auditors), Executive Officers and others who are Executive General Managers, and the Standing Auditors.

## Board of Corporate Auditors

The Board of Corporate Auditors exchanges opinions from the perspective of risk management and coordinates the activities of its members regarding the audit reports submitted by the independent auditing firm (including reports on internal control, which are prepared as part of the auditing process), audit reports submitted by the Auditing Office, which is in charge of internal auditing (including the results of evaluations of the design and operation of internal controls related to financial reporting pursuant to the stipulations of Japan's Financial Instruments and Exchange Law), and other matters.

## Activities of External Directors and External Corporate Auditors

Position	External director	External director	External auditor	External auditor
Name	Mitsuaki Shimaguchi	Hideo Yamada	Hideo Doi	Sumiaki Nomura
Board of Directors attendance	Attended 17 of 17 meetings	Attended 17 of 17 meetings	Attended 13 of 13 meetings	Attended 13 of 13 meetings
Board of Auditors attendance	—	—	Attended 9 of 9 meetings	Attended 9 of 9 meetings
Principal activities	Provides informed opinions about overall policies for business management with a view to ensuring proper and appropriate decision making	Provides informed opinions, principally regarding the Group's risk management and compliance systems	Provides informed opinions with a view to ensuring appropriateness of management, primarily in relation to finance and accounting	Provides informed opinions with a view to ensuring appropriateness of management, primarily in relation to tax matters

Note: Since external auditors Hideo Doi and Sumiaki Nomura resigned from their positions at the Annual Meeting of Shareholders held on March 30, 2011, the number of meetings of the Board of Directors and the Board of Auditors they attended during the period after their resignations and the number of meetings of the Board of Directors attended by Mitsuaki Shimaguchi and Hideo Yamada are recorded in the table above.

## Total Compensation of Directors and Corporate Auditors for Fiscal 2011

Category	Directors (of whom external directors)	Corporate auditors (of whom external corporate auditors)	Total (of whom external directors or external corporate auditors)
Number of directors/corporate auditors	12 (2)	8 (4)	20 (6)
Total compensation	¥373 million (¥22 million)	¥75 million (¥22 million)	¥448 million (¥44 million)

## Management Evaluation Committee

Composed of seven knowledgeable persons from outside the Company, this committee meets twice each year and was set up to enable Lion to draw on the evaluations and opinions of its members and reflect these in Company management. Matters addressed by this committee include the corporate governance system, the direction of business and product development, the approach to corporate social responsibility (CSR), and other matters.

## Compensation Advisory Committee

This committee was formed to increase the objectivity and transparency of matters related to executive compensation. It is composed of the two external directors and the two external auditors.

## Risk Management

Lion is building up a management framework for dealing with all the major risks that it may confront in the conduct of its business activities. Discussions regarding risk management focus on issues that may have a major impact on management, particularly lowering the risks resulting from accidents or disasters and the prevention of product-related problems and the establishment of initial response plans.

We are also proceeding with discussions regarding ways to ensure business continuity following a large-scale disaster, including strengthening the structure of office buildings and plants to withstand major seismic shocks, making alternative arrangements for the execution of headquarters functions, and arranging for backup production at other plants following disasters.

When the Great East Japan Earthquake struck in March 2011, based on the Company's *Earthquake Response Manual*, a disaster management task force headed by the president was set up at Lion's Tokyo headquarters. After initially working to confirm employee safety and the status of facilities, business partners, etc. that were affected by the earthquake, the task force set about formulating and implementing recovery plans for damaged plants. In parallel with this, the task force executed a pre-determined business continuity plan to ensure the delivery of products as quickly as possible.

### Information Security

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Lion has established a number of guidelines and regulations to prevent information leaks. These include a basic policy on information management, information management regulations, privacy regulations, information security regulations, and guidelines for the management of information technology and equipment. In addition, employees undergo e-learning programs each year to prevent the leakage of information.

### Internal Control Systems

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Based on Japan's Companies Act and the Ordinance for Enforcement of the Companies Act, the Company has designed and implemented internal control systems to ensure the proper conduct of operations in the companies of the Lion Group. The Auditing Office (with a staff of 10 at present) conducts audits of departments and subsidiaries based on an annual internal auditing plan and reports the results to the president. These audits are conducted to verify the "legality, validity, and efficiency" of internal control systems as well as the status of the implementation of compliance measures.

### Advancement of Compliance

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With the Lion Group Charter for Corporate Behavior as a basis, the Lion Group has formed its Corporate Ethics Committee, which is chaired by the director in charge of corporate ethics. This committee is actively engaged in programs to instill an awareness of compliance among personnel. All persons employed in the Lion Group have received a booklet containing the Lion Group Charter for Corporate Behavior, and it is made available publicly on the

Company's website. Moreover, in line with an annual program of compliance-related activities, the Company conducts training by employee level that includes surveys of employee awareness, e-learning, lectures by speakers invited from outside the Company, and various other related activities, while also providing periodic training at the workplace level.

### Corporate Ethics Committee

This committee was formed to promote the implementation of specific measures to instill a lasting awareness of corporate ethics.

### Basic Approach to and Current Status of Activities to Eliminate Antisocial Forces

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The Lion Group Charter for Corporate Behavior, which is the basis for the Group's compliance systems, states the basic policy in this area as follows, "We shall reject all contacts and confront antisocial entities and organizations threatening the order and security of civil society."

### Contact for Employee Consultation and Internal Reporting

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An internal reporting system, the AL Heart Hotline,\* has been set up as a point of contact for consultations when employees have discovered instances of non-compliance that cannot or should not be reported through normal channels. Information on the existence and significance of this hotline has been made available throughout the Company. In 2011, there were seven instances of consultation or reporting, but no cases of grave misconduct were found.

\* All-Lion (AL) Heart Hotline

### Compliance Awareness Surveys

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All Lion Group employees are asked every year to complete a compliance awareness survey. Findings are reported to management, and feedback is provided to individual divisions to communicate issues within the same workplace or company. This contributes to the maintenance and strengthening of compliance systems. The fiscal 2010 survey (conducted in March 2011) was administered to about 4,000 employees and 94% responded. Responses included opinions on a range of issues, including issues related to the work environments. The Company will conduct a similar survey in 2012.

## Message from External Board Members



### MITSUAKI SHIMAGUCHI

#### External Member of the Board of Directors

April 1987: Professor of the Graduate School of Business Administration, Keio University

March 2006: External Director of Lion Corporation (current position)

April 2007: Professor Emeritus of Keio University (current position)

September 2007: Chairman of the Board, Japan Marketing Association (current position)

Companies that cannot reflect the values of society are short-lived. Fortunately, Lion Corporation has attained excellence in performance for more than a century. I think the role of external directors is not to be content with the present, but to reflect the values of consumers, shareholders, employees, and society as a whole in Lion's value as a corporation and to contribute to its continued development. Although there may be times when I may be resented, I would like to contribute to Lion's innovative increases in value and its sustained growth.

Today's excellent companies are required not only to show high economic results, but also, at the same time, to show human kindness as organizations. Lion's philosophy of "Fulfilling a Spirit of Love," which it has nurtured throughout its long history, and the implementation of this philosophy are superior conditions that should be mentioned in particular. However, kindness to human beings, which is a reflection of love, should not be understood as being soft in the performance of work activities. As Chairman Fujishige has said, "being both kind to human beings and strict when it comes to work" is an issue today and will be a condition for making further leaps forward in development.



### HIDEO YAMADA

#### External Member of the Board of Directors

April 1984: Mr. Yamaha registered as an attorney at law (Daini Tokyo Bar Association)

April 1992: Established the Hideo Yamaha Law Office (currently, the Yamada Ozaki Law Office) (current position)

April 2001: Vice Chairman of the Daini Tokyo Bar Association

March 2006: External director of Lion Corporation (current position)

I believe Lion Corporation selected me as an external director because of its expectations regarding my years of practical experience in the legal profession and my experience as external director of other companies. Drawing on this experience, when I have the slightest doubt about any points, I ask questions with the aims of increasing transparency and objectivity of management. To do this, I think it is important to listen carefully during briefings prior to directors' meetings, read the related documents, and form my own opinions. I believe that external directors should be both stern monitors and good advisors.

Lion's corporate culture still retains many of the good qualities that are now being lost in other companies in Japan. Lion is gentle and kind to people and to society, places high value on human relationships, and has many other commendable qualities, while having no compliance issues to address. What is necessary is not to be afraid of failure and to have unflagging determination as well as powerful persistence in realizing objectives. When people are both gentle and strong, they are undefeatable.

# Directors, Corporate Auditors, and Executive Officers

As of March 29, 2012



Representative Director and  
Chairman of the Board of Directors  
**SADAYOSHI FUJISHIGE**  
Chief Executive Officer



Representative Director and President  
**ITSUO HAMA**  
Chief Operating Officer  
Responsible for Risk Management



Director, Executive Officer  
**TAKAYASU KASAMATSU**  
Responsible for Corporate Ethics, Secretary, Finance,  
Personnel, General Affairs, Corporate Communication  
Center, Consumer Service Center, Legal and  
Pharmaceutical Affairs



Director, Executive Officer  
**YUJI WATARI**  
Responsible for Production Headquarters, Purchasing  
Headquarters, System, Quality Assurance Department,  
Logistics Planning & Development and Business  
Coordination



Director, Executive Officer  
**MASAZUMI KIKUKAWA**  
Responsible for Health and Home Care Division, Gift and  
Channel-Specific Products Division, Executive General  
Manager of Health and Home Care Products Division  
Responsible for Advertising, Distribution Policy  
Department and Behavioral Science Research



Director, Executive Officer  
**KENJIRO KOBAYASHI**  
Responsible for General Overseas Matters and  
Executive General Manager of International Division



Director, Executive Officer  
**YASUO SHIMIZU**  
Executive General Manager of Health and Home Care  
Products Sales Division



Director, Executive Officer  
**TOSHIO KAKUI**  
Responsible for Chemicals Division, Executive General  
Manager of Research & Development Headquarters  
Responsible for Intellectual Property



External Director  
**MITSUAKI SHIMAGUCHI**  
 (Professor Emeritus of Keio University)



External Director  
**HIDEO YAMADA**  
 (Attorney at Law)



Standing Corporate Auditor  
**SHINJIRO IWAHORI**



Standing Corporate Auditor  
**SHOZO HANADA**



External Corporate Auditor  
**HIDEO DOI**  
 (Certified Public Accountant)



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

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

Executive Officers  
**TAKEO SAKAKIBARA**  
 President of Lion Trading Co., Ltd.

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

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

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

**ATSUSHI SEKI**  
 Executive General Manager of Chemicals Division

**FUMIHIRO MIKUCHI**  
 Executive General Manager of Production Headquarters

# Eleven-Year Financial Summary

Lion Corporation and Consolidated Subsidiaries

	2011	2010	2009
<b>Income statement data:</b>			
Net sales	¥327,500	¥331,100	¥321,947
Cost of sales	139,646	140,400	136,619
Gross profit	187,854	190,700	185,327
Selling, general and administrative expenses	176,684	180,200	175,290
Operating income	11,169	10,500	10,036
Income (loss) before income taxes and minority interests	7,780	10,925	9,694
Net income (loss)	4,077	6,041	5,465

## Balance sheet data:

Total liabilities and net assets	¥249,272	¥260,939	¥256,220
Property, plant and equipment, net	58,503	60,668	62,846
Total long-term liabilities	49,417	52,483	58,688
Total liabilities	144,020	155,179	152,595
Total net assets* <sup>1</sup>	105,252	105,760	103,624
Total shareholders' equity	—	—	—

## Other selected data:

Capital expenditures* <sup>2</sup>	¥ 8,368	¥ 7,081	¥ 7,969
R&D expenses	8,913	8,910	9,057
Depreciation and amortization* <sup>2</sup>	12,009	12,349	12,425
Number of employees	5,973	5,972	5,750

## Common share data (yen):

Net income (loss) per share – basic* <sup>3</sup>	¥ 15.18	¥ 22.41	¥ 20.22
Net income per share – diluted	15.16	22.37	20.19
Dividends paid per share	11.00	10.00	10.00
Net assets per share* <sup>4</sup>	380.11	382.18	371.50
Common stock (number of shares outstanding)	299,115,346	299,115,346	299,115,346

## Financial ratios (% , times):

As a percent of net sales:			
Gross profit	57.4%	57.6%	57.6%
Selling, general and administrative expenses	53.9	54.4	54.4
Operating income	3.4	3.2	3.1
Income (loss) before income taxes and minority interests	2.4	3.3	3.0
Net income (loss)	1.2	1.8	1.7
Return on equity	4.0	6.0	5.5
Current ratio	134.5	128.0	123.8
Debt-to-equity ratio	141.1	151.2	152.0
Inventory turnover	11.3x	12.5x	12.5x

\*1 Figures under "Total net assets" are newly provided to conform to Japanese accounting regulation revisions. The fiscal 2005 figures have also been restated to reflect this change.

\*2 Includes the effects of intangible assets.

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

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

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

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

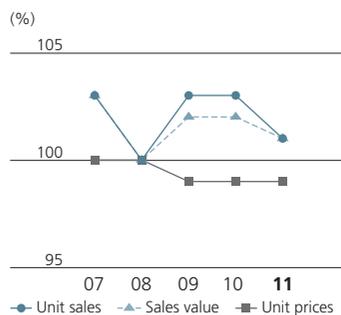
2008	2007	2006	2005	2004	2003	2002	2001*5
¥338,236	¥341,717	¥330,380	¥331,798	¥309,514	¥308,545	¥308,572	¥308,512
157,523	159,200	165,570	163,153	149,150	148,971	153,780	156,522
180,712	182,517	164,810	168,644	160,363	159,574	154,792	151,989
172,435	173,611	164,467	162,577	154,341	149,708	146,393	145,712
8,277	8,905	343	6,066	6,021	9,865	8,398	6,276
6,088	9,564	13,020	8,737	(5,017)	13,985	10,477	(25,464)
3,040	5,423	5,540	5,473	(4,723)	10,946	5,847	(13,856)
¥267,438	¥279,147	¥246,327	¥249,303	¥235,405	¥249,199	¥250,210	¥243,405
63,473	64,345	65,606	68,570	68,641	69,262	73,225	78,275
65,758	75,522	42,818	36,008	35,955	32,190	43,389	41,090
166,864	171,607	141,193	137,411	132,167	135,654	141,079	133,638
100,574	107,540	105,133	111,892	—	—	—	—
—	—	—	109,103	101,021	112,105	107,871	108,587
¥11,717	¥39,282	¥10,149	¥11,794	¥23,266	¥7,290	¥6,697	¥7,558
8,522	8,745	7,922	8,506	7,844	7,835	8,030	8,845
12,444	10,590	9,634	9,754	14,352	7,853	8,698	9,420
5,774	5,761	5,771	6,024	5,721	5,594	5,483	5,620
¥ 11.23	¥ 20.06	¥ 19.60	¥ 19.10	¥ (16.66)	¥ 36.81	¥ 18.91	¥ (44.32)
11.22	20.02	19.52	19.05	—	36.75	—	—
10.00	10.00	10.00	9.00	8.00	8.00	8.00	8.00
362.02	382.80	376.76	384.60	356.90	385.83	358.26	351.47
299,115,346	299,115,346	299,115,346	313,515,346	313,515,346	313,515,346	313,515,346	314,289,346
53.4%	53.4%	49.9%	50.8%	51.8%	51.7%	50.2%	49.3%
51.0	50.8	49.8	49.0	49.8	48.5	47.5	47.3
2.4	2.6	0.1	1.8	2.0	3.2	2.7	2.0
1.8	2.8	3.9	2.6	(1.6)	4.5	3.4	(8.3)
0.9	1.6	1.7	1.7	(1.5)	3.5	1.9	(4.5)
3.0	5.3	5.3	5.2	(4.4)	10.0	5.4	(11.7)
120.7	132.2	125.0	116.1	117.5	134.3	138.6	133.7
170.5	165.7	138.7	125.9	130.8	121.0	130.8	123.1
12.5x	12.6x	12.3x	12.7x	13.1x	14.6x	14.5x	13.2x

# Management's Discussion and Analysis

Lion Corporation and Consolidated Subsidiaries

## MARKET ENVIRONMENT

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



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

### 2012 GDP Growth Forecasts for Countries in which Lion Has Operations

	Growth rate (vs. 2011) (%)
Thailand	3.0%
Singapore	4.4
Malaysia	3.8
Indonesia	5.5
Philippines*	3.7
South Korea	3.3
China	8.4
Hong Kong	3.3
Taiwan	3.4

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

\* Lion will enter the Philippine market in 2012.

During fiscal 2011, as consumer prices continued to decline gradually, trends toward recovery emerged in personal consumption and production activities. However, uncertainties remained because of the effects of the Great East Japan Earthquake and declines in corporate profitability resulting from the appreciation of the yen and slowdowns in overseas economies.

The Lion Group, which focuses on businesses related to the toiletries industry in Japan, faced a severe operating environment because of intense in-store competition and the effects of increases in raw materials prices.

In the markets for daily necessities in Japan (the 42 markets in which Lion is a participant), unit prices have been level or shown slight declines in recent years. Nevertheless, sales volume in unit terms has risen because of the increase in the number of households and rising sales of products in refill containers accompanying the increase in the ratio of liquid detergents sold in the market for laundry detergents. As a result, in value terms, the market has expanded between 1% and 2% annually.

Although the unit prices in the market for daily necessities as a whole have been level or declined slightly, there are certain markets where unit prices have increased because of the launching of higher-value-added products. In the toothpaste market, the percentage of medium- to high-priced items selling for ¥500 or more is rising. These items accounted for 25% of the toothpaste market in 2007 but had risen to 34% in 2011, and the unit price in fiscal 2011 increased 3% over the prior year.\* In addition, the unit price in the hand soap market, where the trend is toward foaming types, rose 4%\* over the previous year. Similarly, the unit price of toilet cleaner products, where Lion launched a new product that offers greater effectiveness and ease of use, increased 5%.\* In addition, in the laundry detergent market, the percentage of super-concentrated liquid detergents, fabric softeners with long-lasting fragrances, and other high-value-added products is increasing.

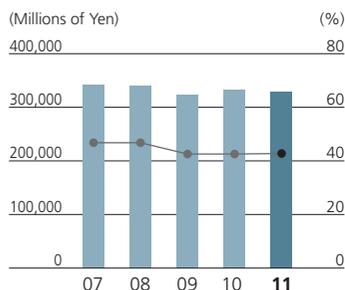
Prices in Japan's daily necessities market in 2011 rose temporarily following the Great East Japan Earthquake in March, but there was a decrease in the volume of sales. However, for the full year, unit prices showed a slight decline and unit volume rose, leading to a continuation of the trend that had prevailed through 2010 of slight increases in the amount of sales.

Overseas, in Thailand, which accounts for a high percentage of Lion's sales in its overseas business, economic growth slackened because of the effects of the flooding in that country, but relatively favorable market conditions prevailed in the market for daily necessities, especially for personal hygiene items. On the other hand, in South Korea, market conditions were about the same as in the previous year.

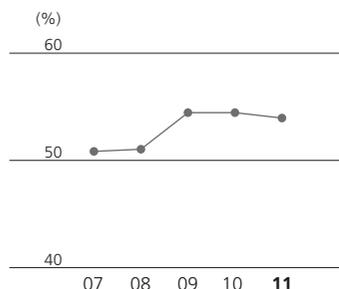
\* INTAGE Inc., SRI Survey

## NET SALES AND OPERATING INCOME

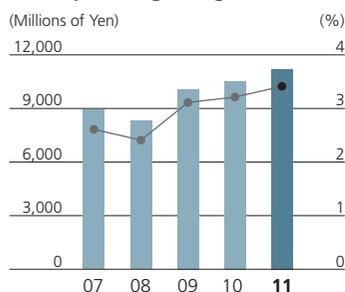
### Net Sales and Cost of Sales Ratio



### SG&A Expenses to Net Sales



### Operating Income and Operating Margin



Amid these business conditions, the Lion Group implemented activities aimed at increasing its corporate value and strengthening its foundations for growth.

In Japan and overseas, Lion focused on increasing the value of its mainstay brands. In the domestic market, Lion launched new products in its mainstay fields of toothbrushes, antiperspirants and deodorants, fabric softeners, and other product areas. In addition, new products were launched in the household cleaner business that are aimed at proposing new lifestyles. Overseas, Lion worked to expand sales, principally in the oral care and laundry detergent fields, by implementing a product cultivation strategy combining the promotion of brands common to various countries and original brands designed to meet the needs of individual local markets. Moreover, in China, where economic growth is continuing, Lion established a new company to expand its production capacity there and made the decision to newly enter the Philippine market. In addition, Lion implemented measures to increase its profitability by continuing Groupwide activities aimed at total cost control, including reductions in manufacturing costs.

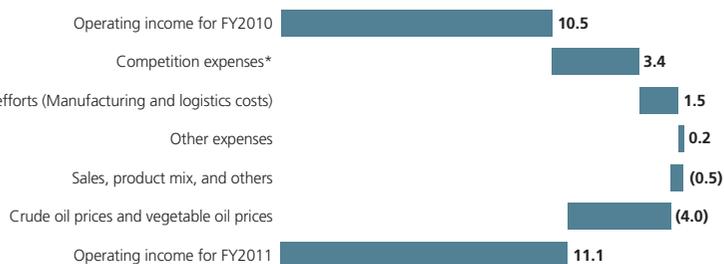
As a result, Lion reported consolidated net sales of ¥327,500 million (a decrease of 1.1% year on year) and operating income of ¥11,169 million (an increase of 6.4% over the previous fiscal year). The rise in operating income resulted from expansion in sales of high-value-added products, more-efficient use of expenditures to streamline the cost of competing, and other measures, which more than offset the rise in raw materials prices.

### SG&A Expenses Breakdown

	2011		2010		2009	
	Amount (Millions of yen)	% of net sales	Amount (Millions of yen)	% of net sales	Amount (Millions of yen)	% of net sales
Selling, general and administrative expenses	¥176,684	53.9%	¥180,200	54.4%	¥175,290	54.4%
Sales incentive expenses	16,706	5.1	16,821	5.1	16,658	5.2
Sales promotion expenses	69,160	21.1	72,885	22.0	71,148	22.1
Freight and storage expenses	15,058	4.6	14,981	4.5	15,168	4.7
Advertising expenses	22,128	6.8	21,702	6.6	18,838	5.9
Salaries and allowances	12,915	3.9	13,062	3.9	13,236	4.1
R&D expenses	8,913	2.7	8,910	2.7	9,057	2.8
Other	31,804	9.7	31,839	9.6	31,185	9.7

### Factors Impacting Operating Income in Fiscal 2011

(Billions of Yen)



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

## OPERATING REVIEW BY SEGMENT

Lion's business segments are classified by product and service, based on operating divisions and subsidiaries, and by geographical area. Reporting segments are Consumer Products, Industrial Products, Overseas, and Other.

Reporting segments are as follows:

### Consumer Products Business

Lion manufactures and sells daily necessities, over-the-counter (OTC) pharmaceuticals, functional food products, and other products mainly in Japan. Principal products include toothpaste, toothbrushes, hand soaps, antipyretic analgesics (for fever and pain relief), eyedrops, tonics and nutrients, insecticides, laundry detergents, bleaches, fabric softeners, dishwashing detergents, household cleaners, gift items, functional food products, etc., and pet supplies.

### Industrial Products Business

Lion manufactures and sells chemical intermediate materials in Japan and overseas, products for institutional use, such as industrial cleaners, and other items. Principal products include activators derived from oil and fats, electro-conductive carbon, industrial cleaners, detergents for institutional use, and other items.

### Overseas Business

Lion's overseas subsidiaries and affiliates are primarily engaged in manufacturing and selling daily necessities.

### Other Businesses

Lion's subsidiaries in Japan are primarily engaged in activities related to businesses of the Lion Group. Principal products and services include construction, management of real estate, transportation and storage, human resources services, and other activities.

### Consumer Products Business

	Millions of Yen					
	FY2011	% of segment sales	FY2010	% of segment sales	Change Amount	Change %
Net sales	<b>¥262,381</b>		¥264,172		¥(1,791)	(0.7)%
Operating income	<b>8,760</b>	3.3%	8,019	3.0%	740	9.2

This segment includes Oral Care Products, Beauty Care Products, Pharmaceutical Products, Fabric Care Products, Living Care Products, and Other Products. Overall sales of this segment in 2011 decreased 0.7% from the previous year. Segment income was adversely affected by increases in raw materials prices, but these were offset by the cultivation of high-value-added products and the increased efficiency of expenditures for sales promotion activities, and, thus, operating income rose 9.2% year on year.

## Net Sales by Business

	Millions of Yen			
	FY2011	FY2010	Change Amount	Change %
Oral Care business	<b>¥50,836</b>	¥49,081	¥1,755	3.6%
Beauty Care business	<b>22,804</b>	22,467	337	1.5
Pharmaceutical business	<b>38,444</b>	40,004	(1,560)	(3.9)
Fabric Care business	<b>79,579</b>	83,479	(3,899)	(4.7)
Living Care business	<b>23,198</b>	23,287	(89)	(0.4)
Other business	<b>47,518</b>	45,852	1,665	3.6

## Lion's Major Toiletry Products Fields and 2011 Market Positions in Japan

	Billions of Yen Market Size in Japan	Lion's Market Position
Toothpastes	¥ 75	1
Toothbrushes	44	1
Liquid hand soaps	18	1
Laundry detergents	128	3
Fabric softeners	69	3
Dishwashing detergents	45	3

Source: 2010 INTAGE Inc., SRI Survey

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

### Oral Care Products

Toothpaste products were adversely affected by the earthquake, but sales of new-and-improved *Dentor Systema EX* were steady, and sales of mild-flavored *Hitect* toothpaste were favorable. As a result, toothpaste sales performance was approximately the same as in the previous year.

Sales of toothbrushes exceeded those of the previous year as Lion launched a new product, *Shikkari Kegoshi Type*, in the *Dentor Systema* line and newly added *INAZUMA ELEVEN GO*, featuring characters popular with primary school students, to the *Lion Kodomo Toothbrush* lineup.

### Beauty Care Products

Sales of shampoos and conditioners were below the level of the previous year as performance of *Soft in 1 Shampoo*, containing a conditioner, was weak.

Sales of hand soap showed a marked increase over the previous year as performance of *KireiKirei Medicated Foaming Hand Soap* was favorable.

Antiperspirants and deodorants showed a major increase in sales over the prior year, and consumers responded favorably to the launching of new nano-ion based products in the *Ban* series, which are highly effective in controlling perspiration odor.

### Pharmaceutical Products

Sales of *BUFFERIN A*, Lion's mainstay antipyretic analgesic preparation, held firm, and overall sales rose over the previous year.

In combination cold medicines, because of the shrinkage in the market and increased competition, overall sales of *BUFFERIN "Kaze (Cold)" EX* declined from the prior year.

Sales of eyedrops overall rose markedly above the previous year because of the strong performance of the mainstay *Smile 40EX* series along with the addition of “cool type” eyedrop products to the *Smile* series.

Lion launched an improved version of *Varsan* insecticides, *Varsan Machibuse Spray*, but because of increased competition in this product field, overall sales were below the prior year.

#### Fabric Care Products

Among laundry detergents, the market for liquid detergents is continuing to expand. Lion launched a new-and-improved *TOP NANOX*, which dissolves sebum, which are the cause of yellowing and odors on clothing, down to the nano-level. This improved product and *TOP Clear Liquid* reported favorable performances, but, because of the effects of the earthquake, overall sales decreased from the previous year.

Sales of bleaches were below the level of the previous year. Although performance of *Sterilizing & Antibacterial Bright W* was favorable, sales of *Temanashi Bright* were relatively weak, thus reducing overall sales.

Among fabric softeners, Lion newly added *Julliette*, with a sweet floral aroma, to the *Kaori to Deodorant no SOFLAN* (SOFLAN with Fragrance and Deodorant) *Aroma Rich* series, and this series has been well received by consumers. As a result, overall sales exceeded those of the previous year.

#### Living Care Products

The improved versions of the *CHARMY Crysta* series of automatic dishwasher detergents were favorably received by consumers, but sales of the *CHARMY Awa no Chikara* (Power of Suds) series weakened, resulting in an overall sales performance at about the same level as in the previous year.

Among household cleaners, sales of *Ofuro no LOOK* (bath cleaner) held firm, and the new product *LOOK Mame-Pika Toilet Cleaner*, which makes it easy to use for a “quick wipe” with toilet paper, was well received by consumers. As a result, overall sales in the household cleaner category showed significant expansion over the previous year.

#### Other Products

Sales of functional food product *Nice rim essence Lactoferrin* continued to be favorable, and Lion products for middle-aged and older consumers who are concerned about their sugar intake have been well received. As a result, overall sales of functional food products rose significantly over the previous year. Also, among pet supplies, sales of *Nioi wo Toru Suna* cat litter were favorable, and overall sales in this category expanded substantially over the previous year.

#### Industrial Products Operations

	Millions of Yen					
	FY2011	% of segment sales	FY2010	% of segment sales	Change	
					Amount	%
Net sales	<b>¥52,410</b>		¥50,392		¥2,017	4.0%
Operating income	<b>429</b>	0.8%	700	1.4%	(270)	(38.7)

### Lion's Major Household Product Fields and 2011 Market Positions in Japan

Products of this segment include surfactant agents for detergents, electro-conductive carbon, and industrial cleaners and other products. Overall sales in this segment rose 4.0% year on year. As a consequence of increases in raw materials prices and other factors, operating income decreased 38.7% from the previous year.

In the activators derived from oil and fats business, sales of these products for use in raw materials for detergents and food additive purposes in Japan were favorable, but sales of detergents to overseas customers were adversely affected by the appreciation of the yen. As a result, overall sales were level with the previous year.

Sales in the electro-conductive carbon business were below the previous year because of the impact of the earthquake and the flooding in Thailand, which had an adverse effect on the automobile and electronic components industries, which are the main customers for products of this business.

In the detergents for institutional-use business, sales of hand soap held firm, and sales of new-and-improved alcohol hand sanitizers were also strong. As a result, sales in the business rose year on year.

### Overseas Business

	Millions of Yen					
	FY2011	% of segment sales	FY2010	% of segment sales	Change	
					Amount	%
Net sales	<b>¥53,757</b>		¥52,975		¥781	1.5%
Operating income	<b>790</b>	1.5%	616	1.2%	173	28.2

Lion conducts its overseas business primarily in Thailand, South Korea, and China. Sales in this segment rose 1.5% year on year; however, excluding the effects of changes in foreign currency exchange rates, sales in real terms rose 6.8%. Operating income climbed 28.2% despite the adverse impact of increases in raw materials prices, because of cost reductions and the more-efficient use of expenditures for sales promotion activities.

### Other Businesses

	Millions of Yen					
	FY2011	% of segment sales	FY2010	% of segment sales	Change	
					Amount	%
Net sales	<b>¥26,384</b>		¥28,388		¥(2,004)	(7.1)%
Operating income	<b>771</b>	2.9%	955	3.4%	(184)	(19.3)

Among other business activities, orders received in the construction contractor business decreased, and total sales of Other Businesses amounted to ¥26,384 million (a decrease of 7.1% year on year). Operating income of this segment was ¥771 million (a decline of 19.3% year on year).

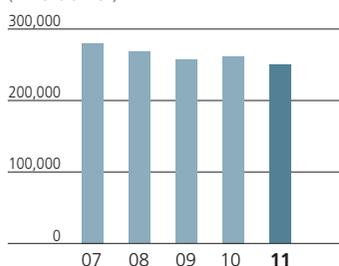
## NET INCOME

During the fiscal year under review, despite the effects of increases in the prices of crude oil and vegetable oils, consolidated operating income expanded 6.4% due to a number of factors. These included the more-efficient use of expenditures for sales promotion activities, overall cost reductions, as well as strengthening activities for new products and high-value-added products. Consolidated net income decreased to ¥4,077 million (a decrease of 32.5%), as the Company reported extraordinary losses of ¥2,971 million in connection with the earthquake disaster. Return on equity (ROE) declined two percentage points, to 4.0%, because of the decrease in net income. Net income per share decreased to ¥15.18, compared with ¥22.41 in the prior year.

## FINANCIAL POSITION

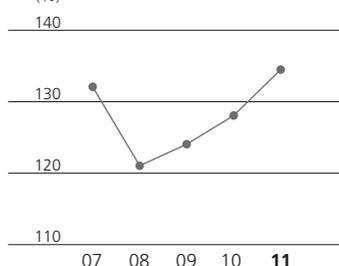
### Total Assets

(Millions of Yen)



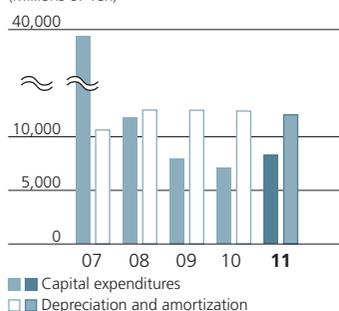
### Current Ratio

(%)



### Capital Expenditures and Depreciation and Amortization

(Millions of Yen)



## Consolidated Financial Status

	FY2011	FY2010	Change
Total assets (millions of yen)	<b>¥249,272</b>	¥260,939	¥(11,666)
Total net assets (millions of yen)	<b>105,252</b>	105,760	(507)
Shareholders' equity to total assets*1 (%)	<b>40.9%</b>	39.3%	1.6 points
Net assets per share*2 (yen)	<b>380.11</b>	382.18	(2.06)

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

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

Total consolidated assets at the end of the fiscal year amounted to ¥249,272 million, ¥11,666 million lower than at the end of the previous fiscal year.

Total consolidated liabilities at the end of the fiscal year were ¥144,020 million, ¥11,159 million lower than at the end of the previous fiscal year. This was due to declines in long-term loans payable, short-term loans payable, notes and accounts payable—trade, and other factors. Current liabilities amounted to ¥94,603 million, ¥8,093 million lower than at the end of the previous fiscal year, and the current ratio at year-end was 134.5%.

Total consolidated shareholders' equity rose ¥1,346 million, to ¥106,035 million, because of an increase in retained earnings. Net assets decreased ¥507 million, to ¥105,252 million, and the ratio of shareholders' equity to total assets at fiscal year-end was 40.9%.

## CASH FLOWS

### Consolidated Cash Flows

	Millions of Yen		
	FY2011	FY2010	Change
Net cash provided by (used in) operating activities	<b>¥11,134</b>	¥25,518	¥(14,384)
Net cash provided by (used in) investing activities	<b>(8,051)</b>	(5,310)	(2,741)
Net cash provided by (used in) financing activities	<b>(11,897)</b>	(8,293)	(3,603)
Effect of exchange rate changes on cash and cash equivalents	<b>(127)</b>	(146)	19
Net increase (decrease) in cash and cash equivalents	<b>(8,942)</b>	11,769	(20,711)
Cash and cash equivalents at end of the period	<b>35,640</b>	44,582	(8,942)

Net cash provided by operating activities totaled ¥11,134 million. Although notes and accounts receivable—trade and inventories increased, they were offset by income before income taxes, depreciation and amortization, and other factors.

Net cash used in investing activities totaled ¥8,051 million, as a result of purchase of property, plant and equipment, purchase of intangible assets, and other factors.

Net cash used in financing activities totaled ¥11,897 million, as a result of cash dividends paid, repayment of long-term loans payable, and other factors.

As a result, cash and cash equivalents at the end of fiscal 2011 totaled ¥35,640 million, ¥8,942 million lower than at the end of the previous fiscal year.

## OUTLOOK FOR FISCAL 2012

	Millions of Yen			
	FY2012	FY2011	Change	
			Amount	%
Net sales	<b>¥335,000</b>	¥327,500	¥7,499	2.3%
Operating income	<b>12,000</b>	11,169	830	7.4
Net income	<b>7,000</b>	4,077	2,922	71.7

The outlook for the Japanese economy in 2012 is for improvement in conditions along with the full-scale emergence of demand related to recovery following the 2011 earthquake. On the other hand, our understanding is that uncertainty about future conditions will continue as the yen remains at historically high levels and concerns about a global recession continue.

In the domestic toiletries and OTC pharmaceutical industries where Lion conducts its main business activities, severe operating conditions are forecast to continue as consumption will be stagnant and in-store competition will become more intense.

Amid this operating environment, the Lion Group will steadily implement its “Vision 2020 Part 1 (V-1 Plan)” to increase its corporate value.

In the Consumer Products Business, Lion has realigned and integrated its health care and household businesses under a new organization and will launch new products in its mainstay brand lines in the toothpaste, antiperspirant and deodorants, and laundry detergent fields. In parallel with this, by focusing its sales and advertising activities, Lion will work to substantially strengthen the nurturing of its brands. In addition, in the direct-to-consumer sales channel, where growth will continue, Lion will strengthen its product development capabilities and aim to further expand its business activities. Through these initiatives, the outlook is for overall sales of this segment to increase over the previous year.

In the Industrial Products Business, Lion will work to prioritize and strengthen its activities related to high-function products in the electro-conductive carbon and activators derived from oil and fats fields. It will also strive to expand these activities by developing highly differentiated products in the industrial cleaner and detergents for institutional-use fields and strengthening its distribution network for these products. Through these initiatives, the outlook is for overall sales of this segment to increase over the previous year.

In its Overseas Business, Lion will strengthen its marketing activities, focusing especially on oral care and laundry detergent products and work to expand its business activities. In parallel with these activities, Lion will aim to begin operations in the Philippines as quickly as possible. Through these initiatives, the outlook is for overall sales of this segment to increase over the previous year.

The outlook for cash flows in 2012 is as follows. Among operating cash flows, income before income taxes is forecast to be about ¥11.0 billion, and depreciation and amortization will amount to approximately ¥12.0 billion. Cash used in investing activities will amount to about ¥12.0 billion, with a major portion being used for purchases of property, plant and equipment. Net cash used in financing activities is forecast to amount to approximately ¥6.0 billion, with a major portion being used for the payment of cash dividends and the repayment of loans payable.

As a result, cash and cash equivalents at the end of fiscal 2012 are forecast to be approximately ¥5.0 billion higher than at the end of fiscal 2011.

As a result of the previously mentioned factors, in fiscal 2012, Lion is forecasting consolidated net sales of ¥335,000 million (an increase of 2.3%), and operating income will be ¥12,000 million (an increase of 7.4%). Ordinary income is forecast to be ¥13,000 million (an increase of 6.7%), and the outlook is for net income of ¥7,000 million (an increase of 71.7%).

Note: These forecasts assume the following foreign currency exchange rates: ¥78 = US\$1, ¥2.5 = 1 Thai baht.  
\* Forecasts for 2012 are as of February 10, 2012.

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

Lion considers the return of profits to shareholders, on a continuing and stable basis, as its consolidated earnings capacity rises, to be its most-important management issue. As it continues to pay stable dividends, Lion will give comprehensive consideration to purchases of its own shares from the market and to the accumulation of retained earnings to finance medium- to long-term growth. Retained earnings will also be allocated to research and development as well as to investment in production facilities and the acquisition of external resources to strengthen corporate earnings capacity and prepare the business base for sustained growth.

After taking into consideration the Company's cash dividend payment record, as well as its dividend payout ratio target, Lion's Board of Directors resolved to pay an interim dividend of ¥5 per share (paid on September 6, 2011) and a year-end dividend of ¥6 per share, including a dividend of ¥1 per share to commemorate the 120th anniversary of the Company's founding (paid on March 5, 2012).

For dividends in fiscal 2012, under its basic dividend policy, Lion plans to pay interim and year-end dividends of ¥5 per share each, thus bringing the total dividends for the full year to ¥10 per share.

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## BUSINESS RISK INFORMATION

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

Forward-looking statements are based on judgments made by the Lion Group as of February 10, 2012. Business risks are not limited to the items listed below.

### 1. Perceptions of product quality and value

The Lion Group plans, develops, produces, and sells products following management practices that are based on international quality standards while strictly following related laws and regulations, such as Japan's Pharmaceutical Affairs Law, to provide worry-free, safe, convenient, and environmentally conscious products to consumers. In addition, the Company makes full use of consumers' opinions received through its Consumer Service Office to improve its products, packaging, as well as respective displays and text.

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

### 2. Changes in raw materials prices

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

### 3. Exchange rate fluctuations

The Lion Group translated into yen the figures in the financial statements of overseas subsidiaries when preparing its financial statements. The value of items denominated in foreign currencies may, therefore, be affected by foreign exchange rates when they are converted to yen. The Lion Group takes steps to minimize the risk of increases in raw materials costs by hedging against exchange rate fluctuations. However, short-, medium- and long-term changes in foreign exchange rates may adversely affect the Lion Group's management performance and financial status.

### 4. Major lawsuits

In fiscal 2011, Lion was not involved in any lawsuits that might have a significant impact on its business. However, if the Lion Group is found to be liable to pay significant damages in a future lawsuit, this may adversely affect the Lion Group's management performance and financial status.

### 5. Earthquakes and other natural disasters

In its manufacturing facilities, the Lion Group implements safety measures against earthquakes and other natural disasters. In the event of a major disaster, however, if the Group's production activities are interrupted because of damage to facilities and/or issues related to raw materials procurement and logistics, this may adversely affect the Lion Group's management performance and financial status.

Detailed financial information on Lion Corporation can be accessed at

<http://www.lion.co.jp/en/invest> and

<http://www.lion.co.jp/en/invest/html/inv0301f.htm>

# Major Subsidiaries and Affiliates

As of March 29, 2012

## Domestic

### CONSOLIDATED SUBSIDIARIES

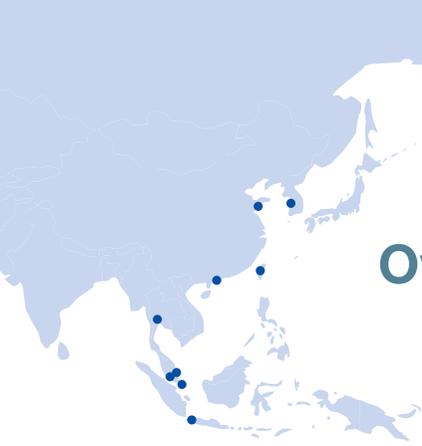
Company	Capital	Voting shares	Business outline
Lion Engineering Co., Ltd. www.lion-eng.co.jp	¥100 million	100.0%	Construction contracting
Lion Chemical Co., Ltd.	¥7,800 million	100.0%	Manufacture and marketing of surfactants, detergents, and raw materials for diverse industrial products
Lion Cordial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

### EQUITY-METHOD AFFILIATES

Company	Capital	Voting shares	Business outline
Lion Akzo Co., Ltd. www.lionakzo.co.jp	¥1,000 million	50.0%	Manufacture and marketing of fatty acid nitrogen derivatives, etc.
Lion Idemitsu Composites Co., Ltd. www.ilcc.co.jp	¥100 million	50.0%	Manufacture and marketing of special compound resins

### PUBLIC INTEREST INCORPORATED FOUNDATION

Name	Activity outline
The Lion Foundation for Dental Health www.lion-dent-health.or.jp	Activities to promote good oral care habits



## Overseas

### CONSOLIDATED SUBSIDIARIES

Location	Company	Capital	Voting shares
Hong Kong	<b>Lion Corporation (Hong Kong) Ltd.</b> Room 2101, 21F., 101 King's Rd., North Point, Hong Kong Tel: +852-2571-5022	HK\$12,000 thousand	100.0%
Singapore	<b>Lion Corporation (Singapore) Pte. Ltd.</b> 221 Kallang Bahru, Lion Building, Singapore 339349 Tel: +65-6296-6122 www.lioncorp.com.sg	S\$9,000 thousand	100.0%
Malaysia	<b>Lion Eco Chemicals Sdn. Bhd.</b> PLO116, Jalan Rumbia 1, Tanjung Langsat Industrial Complex, 81700 Pasir Gudang, Johor, Malaysia Tel: +60-7-255-1224	M\$177,000 thousand	100.0%
China	<b>Lion Daily Necessities Chemicals (Qingdao) Co., Ltd.</b> No. 336 Taihangshan Road, Qingdao Economic and Technical Development Zone, Qingdao City, China #266555 Tel: +86-532-8689-7122/5858 www.chinalion.cn	¥723 million	100.0%
South Korea	<b>CJ Lion Corporation</b> 11th Floor, Chungjeong Tower, 464, Chungjeong-ro 3-ga, Seodaemun-gu, Seoul, Korea 120-723 Tel: +82-2-6363-1114 www.cjlion.net	₩5,000,000 thousand	81.0%
Taiwan	<b>Lion Chemical Industry (Taiwan) Co., Ltd.</b> 50, Sec. 3, Chengtai Rd., Wugu Dist., New Taipei City 24843, Taiwan Tel: +886-2-2291-1140~3 www.lion-corp.com.tw/lioncorp/index1.php	NT\$218,150 thousand	53.8%
Thailand	<b>Lion Corporation (Thailand) Ltd.</b> 666 Rama 3 Rd., Bangpompang, Yannawa, Bangkok 10120, Thailand Tel: +66-2-294-0191 www.lion.co.th	฿300,000 thousand	51.0%

### EQUITY-METHOD AFFILIATES

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

# Investor Information

As of December 31, 2011

## Head office

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

## Established

October 30, 1891

## Number of employees

5,973 (consolidated)  
2,439 (non-consolidated)

## Paid-in capital

¥34,433,728,970

## Common stock

Issued and outstanding: 299,115,346 shares

## Number of shareholders

46,795

## Stock exchange listing

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

## Independent auditors

Ernst & Young ShinNihon LLC

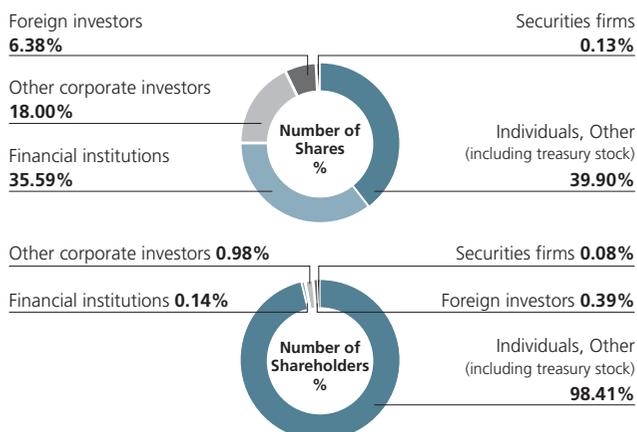
## Transfer agent

Mitsubishi UFJ Trust and Banking Corporation

## Annual meeting of shareholders

The annual meeting of shareholders of Lion Corporation is normally held in March each year in Tokyo, Japan.

## Composition of shareholders



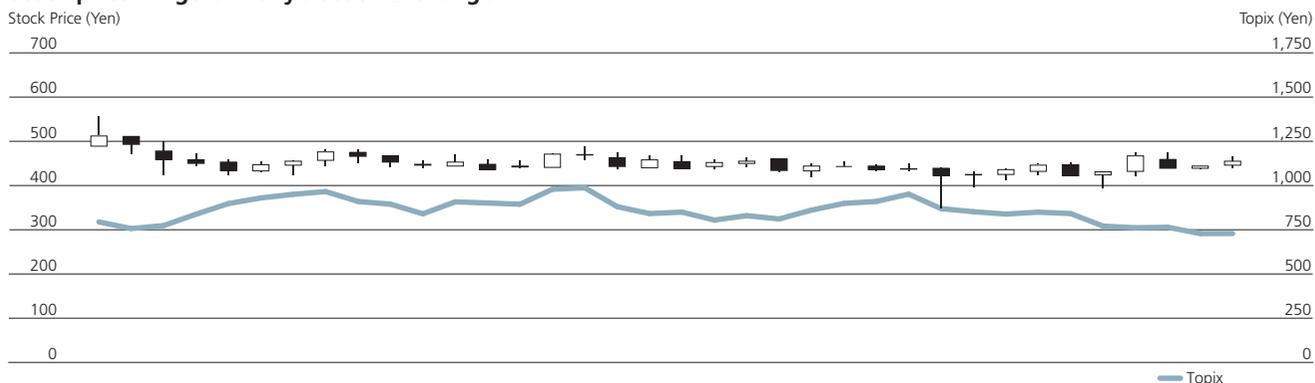
## Principal shareholders

Shareholders	Number of shares owned (Thousands of shares)	Shareholding ratio (%)
Trust & Custody Services Bank, Ltd., as trustee for Mizuho Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.	14,500	5.40
Japan Trustee Services Bank, Ltd. (Trust Account)	14,114	5.25
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	12,109	4.51
Tokio Marine & Nichido Fire Insurance Co., Ltd.	6,443	2.40
Mitsubishi UFJ Trust and Banking Corporation	6,257	2.33
Mizuho Corporate Bank, Ltd.	5,446	2.02
The Master Trust Bank of Japan (Trust Account)	5,346	1.99
Meiji Yasuda Life Insurance Company	4,957	1.84
Lion Employee Stock Ownership Plan	4,265	1.58
Mitsubishi Corporation	4,232	1.57

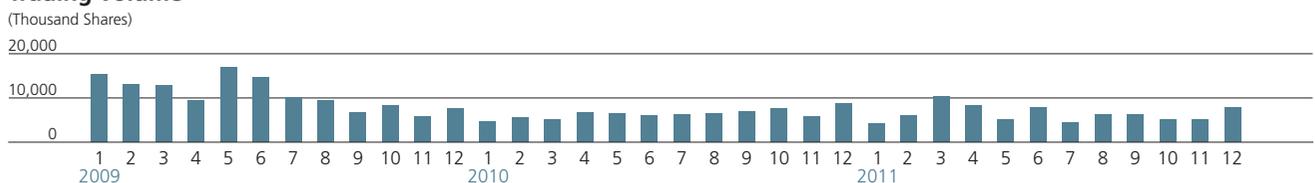
1 Figures for the number of shares owned are rounded down to the nearest thousand shares.

2 The number of shares of treasury stock is subtracted from the total number of shares issued to determine the number of shares (268,469,414) used in calculating the shareholding ratios. The shareholding ratios are rounded down to the nearest one-hundredth of a percent (two decimal places).

## Stock price range on Tokyo Stock Exchange



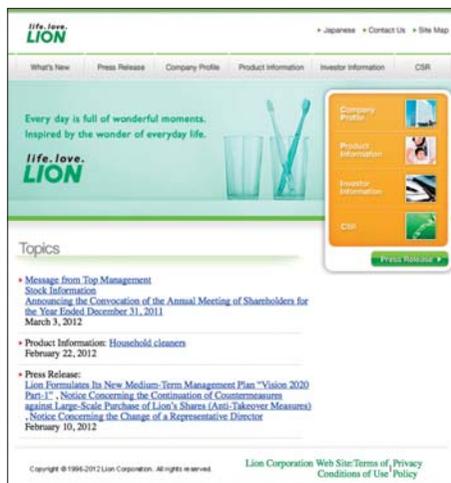
## Trading volume



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

## Corporate website: [www.lion.co.jp/en/](http://www.lion.co.jp/en/)

This website offers important management and financial information, as well as timely press releases on a wide range of topics, such as new products. In addition, the website provides a variety of information to ensure a better understanding of Lion and its history of about 120 years, such as detailed product information that could not be included in the annual report.



## Investor information website: [www.lion.co.jp/en/invest/](http://www.lion.co.jp/en/invest/)

This website provides not only the timely release of important management decisions and financial information but also historical financial data. Moreover, the website also provides a full range of qualitative information, such as messages from the president. Requests for printed versions of annual reports can also be made through this website. (To access the detailed financial statements, go to <http://www.lion.co.jp/en/invest/html/inv0301htm>)



## CSR website: [www.lion.co.jp/en/csr/](http://www.lion.co.jp/en/csr/)

Lion's annual CSR report provides detailed information about the Company's CSR activities, which have an extremely important position in Lion's corporate activities. An abridged translation of that report is provided on this website. Also, the website outlines the history of Lion's CSR activities, which began at a very early stage after the Company's founding.

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**LION**



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