Interview with the President

Representative Director and President
Itsuo Hama

In view of the deterioration in performance in fiscal 2012, Lion placed priority on improving the quality of its earnings in Japan and accelerated the growth of its overseas operations and direct-to-consumer business.

Q: What is your appraisal of Lion's performance in fiscal 2012, ended December 31, 2012?

A: During fiscal 2012, as the Japanese economy continued to stagnate, consumer spending showed no signs of an upward trend. The level of demand in Lion's principal markets for daily necessities and over-the-counter (OTC) pharmaceuticals was generally about the same as in the previous fiscal year.

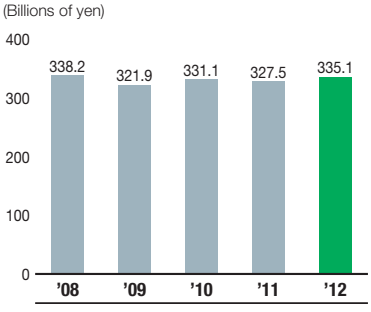
Amid this business environment, we adopted our New Management Vision "Vision 2020" and implemented four strategies to attain its objectives as we focused on attaining the goals of the initial year of our first three-year "V-1 Plan (fiscal 2012–fiscal 2014)."

As a consequence, although we attained our target for net sales, regrettably, during the period, we were obliged to make a downward adjustment in our projections for operating income, and, thus, operating income fell below the previous fiscal year.

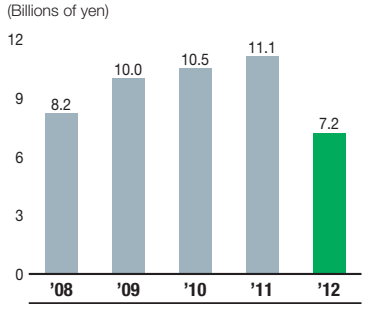
One of our four strategies under "Vision 2020" is "qualitative growth of domestic businesses." To implement this strategy in our Consumer Products Business, we reorganized our sales structure and worked to nurture high-value-added products with the aim of strengthening profitability in the medium-to-long term.

I think we were able to achieve the desired results in our high-value-added product groups, mainly the new products that we launched. On the other hand, our performance was influenced by increased competition in existing and general products, principally in our mainstay toothpaste, laundry detergents, fabric softeners, and certain other businesses. Therefore, we experienced an overall deterioration in our product mix, which led to an increase in our cost of goods sold ratio and a rise in our marketing and sales promotion expenditures. Unseasonable weather also adversely influenced results for the fiscal year, bringing weakness in performance of our antiperspirant, insecticide, and certain other businesses. In addition, conditions in the OTC pharmaceutical market were stagnant. All of these factors together with increased competition resulted in a decline in the percentage of high margin products.

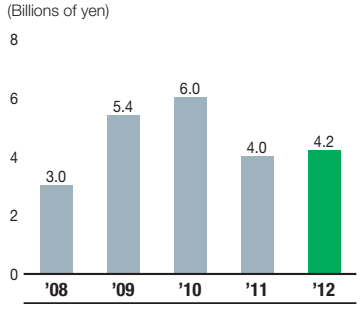
Net Sales



Operating Income



Net Income



In the area of advertising expenditures, we made inputs of additional resources for investments in strengthening our brand building and communications activities to strengthen and further nurture our brands as well as develop our direct-to-consumer business.

In part because of these forward-looking investments, operating income in our Consumer Products Business decreased substantially, but we proceeded to strengthen our detailed management of our product mix, and there were signs of recovery in profitability in the fourth quarter.

Our second strategy under "Vision 2020" is "quantitative expansion of overseas businesses." During the fiscal year, sales and operating income in our Overseas Business grew at double-digit rates, along with economic growth and expansion in the middle-income classes in the Asian countries overseas where we have operations.

Our third strategy is "development of new business value." To implement this strategy, we focused on our direct-to-consumer business. In fiscal 2012, the cumulative number of customers for this business reached one million, and 140,000 persons had become purchasers of Lion products on a regular basis. Sales in this business expanded about 60%, and we are ahead of schedule in closing in on our target of ¥10.0 billion in 2014.

The fourth of our "Vision 2020" strategies is "enhancement of organizational learning capabilities." To realize this objective, we focused on making improvements in our various related systems and human resource development, with the aims of rejuvenating and strengthening the capabilities of the Lion organization.

Although issues remain regarding profitability in domestic consumer goods businesses, my feeling is that, overall, we made steady progress during the fiscal year in implementing these strategies under our "V-1 Plan."

Q: In view of performance in fiscal 2012, are you planning to revise your "V-1 Plan?"

A: I am keenly aware that we are behind in progress toward reaching our target of ¥20 billion in operating income for the final year of our three-year plan (fiscal 2014). However, as I have just indicated, we are making progress toward implementing our four business strategies.

Therefore, I believe, first, that we must make solid progress and give maximum priority to achieving recovery in profitability in our domestic businesses and attain our objectives of ¥342.0 billion in net sales and ¥10.0 billion in operating income in fiscal 2013. In particular, we must identify what must be done to achieve recovery in income in our domestic business operations, and, after the timely reconsideration of our policies, we will make announcements regarding specific goals under the medium-term plan and the years for attaining them.

Q: Could you describe some of the issues you face in fiscal 2013 and the specific actions you are taking?

A: I think the keys to success in fiscal 2013 are "raising profitability in Consumer Products

Business" and "strengthening our Industrial Products Business."

In the Consumer Products Business, we are strengthening our activities to conduct detailed supervision and management of sales activities by product and to provide proposals suited to individual stores, with the objectives of improving our product mix and making more-efficient use of sales promotion expenses. In addition, we will make further progress in nurturing high-value-added products, an activity we are already engaged in; devote further resources to launching new products in our core brand lines, such as *Clinica* oral care products; and take further initiatives in strengthening our brands.

Developing products that make dramatic changes in the structure of markets and building major brands are duties that national brand manufacturers must perform.

On the other hand, in the Industrial Products Business, although domestic demand in the chemical business is stagnant as a result of the weakness in the economy, we will take up the challenge of winning in global markets by drawing on our one-of-a-kind technologies. Our key competitive weapon in this endeavor will be our electro-conductive carbon black. Moreover, thus far, our detergents for institutional use have been marketed mainly to restaurants, but, in view of the expansion of needs for health supervision, we will focus more attention on marketing to medical and nursing care establishments.

Q: Are you anticipating that performance in overseas operations and the direct-to-consumer business will be favorable in 2013?

A: We will strive to maintain double-digit growth in Overseas Business in fiscal 2013 and work aggressively to attain the No. 1 market shares in the Asian markets for oral care and laundry detergent products.

Under Vision 2020, our plan is to increase the share of overseas sales to 30% (compared with 17% in fiscal 2012). One of the factors supporting us in reaching this goal will be winning and maintaining the support of the middle-income classes in these countries, because they have an interest in global brands that offer high-value-added products. At the same time, with Lion's history of 55 years of operating in the countries of Asia as a background, we will work to provide products to the "traditional trade" who are the proprietors of variety and other retail stores and strive to expand sales of our local brands (general products for local markets). Along with this, we will respond to the growth in demand, accompanying economic expansion in Asia and the rising awareness of consumer products and lifestyles, and proceed with expansion in production capacity.

Also, in the Philippines, where we have recently begun to establish a presence, our joint venture, PEERLESS LION, began operations in fiscal 2013. At present, we are conducting business operations in nine countries and regions in Asia, including the Philippines, but we have also formed task forces to further expand our coverage

to additional countries in Asia and we are stepping up our search for business opportunities.

In the direct-to-consumer business, we are making specific preparations for establishing second or third mainstay products to complement the highly successful *Nice rim essence Lactoferrin*.

Q: The market in Japan is on a shrinking trend. What are your plans for the medium-to-long term?

A: We are examining possibilities from various perspectives because the domestic market is undergoing change even apart from the trend toward a decline in the population. For example, while the principal type of laundry detergent was formerly powdered types, liquid detergents now occupy center stage. In addition, the number of single-person households is rising, and accounted for more than 30% of all households in the 2010 national census. Even in the domestic market, which is considered saturated by some, we are developing products that will respond to signs of change in the market, and, by making new lifestyle proposals to consumers, we believe we will identify opportunities to strengthen our business foundation. I think this is an excellent example of "qualitative growth."

To make this happen, we must first clarify "evidence and targets" to pursue the development of products that give consumers a clear sense of their value when they use them. In July 2013, we will complete a new R&D facility in Tokyo, and it will be a meeting place for researchers from different professional disciplines and from many countries. Moreover, this facility will be a base for consumption and lifestyle studies, and we are planning to expand our research activities into latent needs.

Also, along with the trends toward a declining birthrate and the aging of the population, it is becoming increasingly important to communicate information on changes in Japan's living environment and lifestyles. We will strive to transmit information, not just through the mass media but also through many other interfaces, as we also take initiatives to expand the scope of our communications activities to identify consumer needs.

Q: What indicators of management performance do you emphasize the most? What is your policy regarding returning profits to shareholders?

A: Among the various performance indicators, we place emphasis on our operating income ratio and ROE, as measured by the return on shareholders' equity. Our targets under the "V-1 Plan" for fiscal 2014 are 5.5% for operating income, versus 2.2% in fiscal 2012, and 10% for ROE, compared with 4.0% in fiscal 2012.

Regarding our policies for returning profits to shareholders, we believe that the payment of stable dividends on a continuing basis is of key importance. For fiscal 2012, we paid a dividend of ¥10 per share. We believe we should reward shareholders not only by increasing corporate value and paying dividends but also focusing on making timely and expanding disclosure of corporate information.

We have deep roots in business domains that satisfy people's basic needs for health and comfort. We, therefore, believe that we should return benefits not only to shareholders but also to all our stakeholder groups by providing them with major value in the form of healthy and comfortable lifestyles.

Q: In conclusion, could you please describe your management philosophy?

A: At Lion, our view of an ideal company is "a presence, engaging in *monozukuri* (manufacturing) activities that offer new value to all people in Japan and overseas." I should not forget our original purposes and always keep in mind to make simple judgments regarding whether Lion is actually living up to its ideals in all ways. I am confident that Lion is not a company where top management just gives directions to subordinates, but an organization where the driving force for creativity and originality comes spontaneously from the workplace. It is also an organization where everyone has curiosity and a culture that aggressively tackles new challenges. I want us to continue to value and maintain these aspects of our corporate culture.

My role is to see that Lion grows into a leading company in the Asian daily necessities and OTC pharmaceutical markets and a company where all employees can realize their dreams and feel a sense of pride. Going even beyond this, I want to work even harder to make more and more "Lion fans" among consumers and other stakeholders.

April 2013

Itsuo Hama
Representative Director and President