Management's Discussion and Analysis

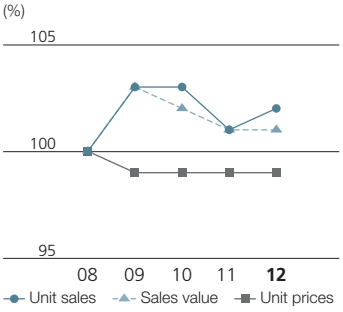
Lion Corporation and Consolidated Subsidiaries

Contents

Lion Corporation's Consolidated Financial Statements and Notes to Consolidated Financial Statements can be accessed at: http:www.lion.co.jp/en/invest

MARKET ENVIRONMENT

Trends in Home Products Market (YOY)*



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

2013 GDP Growth Forecasts for Countries in which Lion Has Operations

	Growth rate (vs. 2012) (%)
Thailand	5.9%
Singapore	3.0
Malaysia	4.7
Indonesia	6.3
Philippines	5.0
South Korea	3.7
China	8.1
Hong Kong	3.5
Taiwan	3.9

Source: Mitsubishi Research Institute forecast
(As of December 2012)

During fiscal 2012, conditions in the Japanese economy remained uncertain as consumer prices continued to decline moderately, while personal consumption and corporate profitability, which had been showing improvement, began to weaken. Near the end of the fiscal year, as a new coalition government came to power, the prospects of changes in the direction of economic policy were welcomed. Along with this, the value of the yen depreciated, and stock prices began to increase, giving rise to expectations of improvement in the real economy.

In the domestic daily necessities industry, which is the focus of the Lion Group's business operations, 2012 was a year characterized by continued intense competition at the retail store level, which created challenging conditions in the business environment.

In the domestic market for daily necessities, Lion has a presence in 42 of these, and, in recent years, retail prices have been on a steady decline of about 1% a year. On the other hand, the unit sales in these markets have expanded between 1% and 3% annually because the number of households in Japan has increased, new high-value-added products have been launched that are cultivating new markets, and, in the market for laundry detergents, the ratio of refills to total sales has risen along with the rising percentage accounted for by liquid detergents.*1 As a result, the sales value in these markets has expanded between approximately 1% and 2% annually, with an increase of 1% reported in 2012. *1

Looking back at market conditions in 2012, during the first half of the year, market prices of laundry detergents, fabric softeners, and bathroom cleaners declined, in reaction to the effects of the Great East Japan Earthquake in 2011. Also, unseasonable weather conditions brought weakness in sales of antiperspirants. During the latter half of the year, although retail prices of household and toilet cleaners increased, retail prices of laundry detergents and certain other items decreased because of competition at the retail store level. As a result, overall sales value in the 42 markets where Lion has a presence showed a slight increase.

An examination of individual markets shows that in the market for laundry detergents, which is a major domestic market for Lion, prices of super-concentrated liquid laundry detergents were virtually level with the previous year, but sales in unit volume terms expanded significantly, resulting in expansion in monetary terms of 29%. On the other hand, reflecting intense retail price competition, prices of conventional liquid laundry detergents and powdered detergents decreased, and, as a consequence, the average retail price of laundry detergents declined to an average of 97% of the previous year's level.

In the oral care products market, sales ranges polarized toward two extremes, with sales of toothpastes selling for ¥500 or more rising 6.3% over the previous year and those with retail prices of ¥100 or less rising 4.6%.*2 As a consequence of bipolarization in the market, sales in the price range where Lion is strong, the economy-priced range from ¥150 to ¥249, decreased 11.1%, and the share of the market accounted for by this sales range shrank in size.*2

In the OTC pharmaceutical market, where Lion has a presence in eight of the market segments, retail prices, unit sales, and sales value have continued to decline for the last three consecutive years. In 2012, retail prices and unit sales were 99% of the previous year's level, and sales value was 98% of the previous year's level.

In overseas markets, steady economic growth continued in the countries where the Group has a business presence, and, as a result of the growing awareness among consumers of cleanliness, the markets for daily necessities expanded. In addition, along with expansion in the middle-income class in these countries, demand for high-value-added products is rising.

Note that since September 2012, in spite of changes in the domestic situation in China, the impact on the Group's financial performance was not material.

*1 2012 INTAGE Inc., SRI Survey
*2 According to Lion's classification
*3 Figures are all based on Lion research.

SALES AND OPERATING INCOME

Amid the market conditions previously mentioned, the Group has announced a New Management Vision "Vision 2020" and has begun to implement the first of three three-year medium-term plans, "V-1 Plan (Vision 2020, Part 1)," to make progress toward attaining its vision.

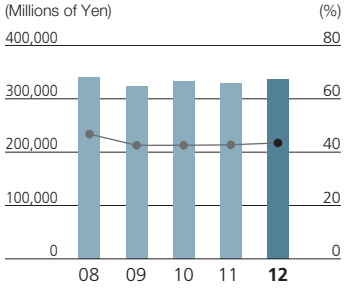
In domestic business activities, the Group has launched new, high-value-added products in its core brand lines within its oral care and fabric care fields as well as conducting active advertising and other marketing activities. Also, in the living care fields, the Group has launched highly original new products that offer consumers suggestions for new lifestyle value.

Moreover, the Group is working to strengthen its product development systems for functional food products (what are sold through direct-to-consumer channels) and expanding marketing investment to secure business growth.

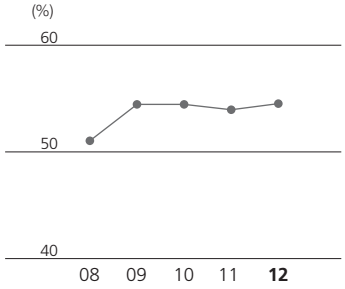
In its overseas business activities, the Group is striving to further nurture its major brands in key fields, such as oral care and laundry detergents, focusing on Thailand and South Korea. Aggressive investments are being made in expanding production capacity in Thailand and Malaysia. Also, the Group has established a joint venture in the Philippines and is making preparations to expand the areas where it conducts business.

As a result of these activities and developments, the Group's 's consolidated net sales in fiscal 2012 were ¥335,171 million, an increase of 2.3% year on year, while operating income decreased 35.4%, to ¥7,213 million. The decline in operating income was due to increases in advertising expenses to cultivate the Company's brands, and to promote its new corporate message. Other factors were increases in sales promotion expenses in domestic business activities, accompanying increasing competition at the retail store level, a decline in sales of certain high-margin items because of unseasonable weather, and other factors.

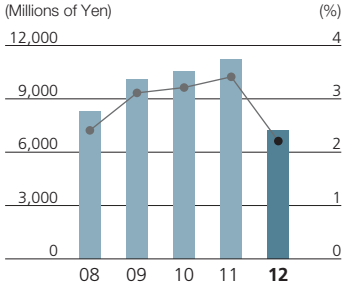
Net Sales and Cost of Sales Ratio



SG&A Expenses to Net Sales



Operating Income and Operating Margin

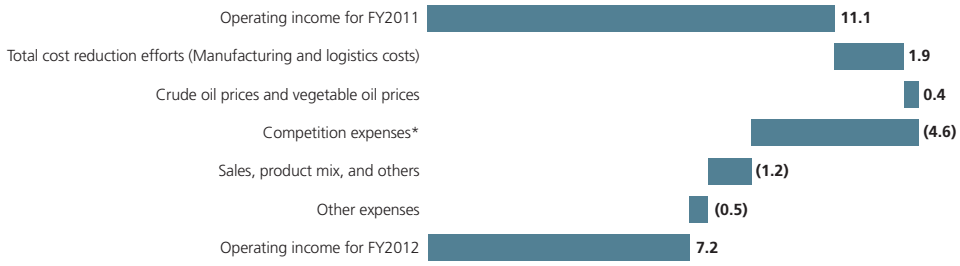


SG&A Expenses Breakdown

	2012		2011		2010	
	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	**¥182,572**	**54.5%**	¥176,684	53.9%	¥180,200	54.4%
Sales incentive expenses	**16,673**	**5.0**	16,706	5.1	16,821	5.1
Sales promotion expenses	**71,229**	**21.3**	69,160	21.1	72,885	22.0
Freight and storage expenses	**15,810**	**4.7**	15,058	4.6	14,981	4.5
Advertising expenses	**24,724**	**7.4**	22,128	6.8	21,702	6.6
Salaries and allowances	**12,999**	**3.9**	12,915	3.9	13,062	3.9
R&D expenses	**8,989**	**2.7**	8,913	2.7	8,910	2.7
Other	**32,146**	**9.6**	31,804	9.7	31,839	9.6

Factors Impacting Operating Income in Fiscal 2012

(Billions of Yen)



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

OPERATING REVIEW BY SEGMENT

The Group's business segments are classified by product and service, based on operating divisions and subsidiaries, and by geographical area. Its four reporting segments are Consumer Products, Industrial Products, Overseas, and Other.

Note: Net sales include internal net sales within and among segments.

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, dishwashing detergents, fabric softeners, household cleaners, bleaches, gift items, functional food products, and pet supplies.

Industrial Products Business

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

Overseas Business

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

Other

The Group's subsidiaries in Japan are primarily engaged in activities related to businesses of the 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					
					Change	
	FY2012	% of segment sales	FY2011	% of segment sales	Amount	%
Net sales	**¥266,042**		¥262,381		¥3,660	1.4%
Operating income	**4,304**	1.6%	8,760	3.3%	(4,455)	(50.9)

Net Sales by Business

	Millions of Yen			
			Change	
	FY2012	FY2011	Amount	%
Oral Care business	**¥52,917**	¥50,836	¥2,080	4.1%
Beauty Care business	**20,374**	22,804	(2,430)	(10.7)
Fabric Care business	**80,596**	79,579	1,016	1.3
Living Care business	**21,851**	23,198	(1,346)	(5.8)
Pharmaceutical business	**37,193**	38,444	(1,250)	(3.3)
Other	**53,108**	47,518	5,590	11.8

Lion's Major Toiletry Products Fields and 2012 Market Positions in Japan

	Billions of Yen Market Size in Japan	Lion's Market Position
Toothpastes	¥ 76	1
Toothbrushes	43	1
Liquid hand soaps	19	1
Laundry detergents	129	3
Fabric softeners	74	3
Dishwashing detergents	45	3

Source: 2012 INTAGE Inc., SRI Survey, on the basis of sales value
Note: Figures for market size presented above are based on retail sales data and do not include sales of gift packages.

Oral Care Business

Japanese consumers are moving toward two biopolar groups: Those who say "when it comes to my health and comfort, I prefer good quality products that are suited to me, even if they are expensive" and those who say "if a product has the bare minimum of functions I need, I prefer inexpensive products." For example, sales of more-expensive toothpastes, with retail prices of ¥500 or more, have been expanding, and they rose to account for about 35% of the market in 2012.* Lion's sales of its more-expensive toothpastes in its *Dent Health* and *Hitect* brand lineups expanded 14% over the previous year in 2012.*

* Result of Lion research

Lion is working to increase the brand value of its *Clinica* and *Dentor Systema* brand lineups that have ¥10 billion or more in annual sales. Lion also launched new products, including *Dentor Systema Toothpaste Sensitive Care,* for consumers who want to avoid suffering from hypersensitivity and periodontal disease, and, in the *platius* brand line, *platius beautiful teeth essence,* a dental rinse. As the No. 1 oral care products manufacturer in Japan, Lion responds to a wide range of consumer needs by offering a brand formation that covers all price ranges.

Beauty Care Business

Along with epidemics of new influenza strains and norovirus, consumers have become more concerned about disease prevention. Along with this trend among consumers, the demand for hand soaps has expanded as more consumers have adopted the custom of frequent hand washing to prevent disease. *KireiKirei* is now the No. 1 brand among hand soaps in Japan,*1 and sales of *KireiKirei Medicated Foaming Hand Soap* have continued to be favorable. In addition to performing well with their basic functions of killing germs and washing away dirt and grime, Lion has introduced new versions with an improved rinsing function, and these have been well received by consumers. In the hand soap market, foaming products have come to account for more than 60%*2 of the market, and consumers are continuing to shift from the liquid to the foaming types. Compared with liquid types, foaming hand soaps offer improved functions and are positioned as high-value-added, premium-priced products. In addition, another development in the hand soap market is the increase in sales of products that feature fragrances. In response, Lion has increased its lineup of fragrant hand soaps to three, with the aim of satisfying a wider range of consumer needs and tastes and thereby increasing brand value and market share.

*1 2012 INTAGE Inc., SRI Survey
*2 Result of Lion research

Fabric Care Business

Sales of liquid laundry detergents have risen, and they accounted for more than 60%*1 *2 of Japan's detergent market in 2012, thus exceeding the share of the market accounted for by powdered detergents*. In addition, the share of super-concentrated liquid detergents in the overall detergent market climbed above 20%*1 *2 in 2012, in part because of the introduction of *TOP HYGIA*, a super-concentrated liquid laundry detergent, which was launched in July 2012. Sales of *TOP HYGIA* exceeded the planned levels and attracted considerable favorable attention in stores. Since Lion placed emphasis on this detergent's high detergency and superior antibacterial properties, this new product did not cannibalize sales of *TOP NANOX*, and the price of *TOP HYGIA* held firm in retail stores as it maintained its positioning as a high-value-added product. Lion is forecasting that the percentage of the total laundry detergent market accounted for by super-concentrated liquid laundry detergents will rise to 40% in 2015 and is aiming for the No. 1 position.

To increase the market share of improved versions of *TOP NANOX* that were introduced in 2012 and raise the share of both *TOP HYGIA* and *TOP NANOX*, Lion made improvements in store displays and merchandising.

Lion also worked to expand the market for super-concentrated liquid laundry detergents by increasing the number of consumers using super-concentrated detergents on a trial basis.

*1 2012 INTAGE Inc., SRI Survey
*2 According to Lion's classification

Living Care Business

Lion's *LOOK* brand lineup of products, including household cleaners for the bathroom and toilet, proposes new living best practices through housecleaning, while they also assist households in realizing comfortable and pleasant living spaces. *LOOK Mame-Pika Toilet Cleaner,*

which was launched in 2011 and makes it easy to use for a "quick wipe" with toilet paper, has won a favorable reputation among consumers. In addition, in 2012, Lion introduced *LOOK Bath Antimold Fogger,* which uses a "fog," containing silver ions as the delivery agent to kill black mold and its spores throughout the bathroom. This Lion product makes it difficult for mold to begin to grow again, thus making bathroom cleaning much less burdensome. It has now come to be used by many consumers because of the newness of its technology and its laborsaving features, and it has enabled Lion to create a new market segment for products to deal with mold.

In its R&D activities, Lion adopts the theme of focusing on seeking out potential products that are differentiated from others by giving consumers pleasant surprises and favorable impressions. Going forward, Lion will continue its approach of developing products that embody new approaches to make consumer lives more comfortable and pleasant.

Pharmaceutical Business

In the eight market segments of the OTC pharmaceutical business where Lion has a presence, the increase in the number of consumers who go directly to a hospital when they have health issues has brought gradual declines in recent years in the number of OTC products sold and their prices. However, Lion believes that the OTC market will expand in the years ahead because of the aging of Japan's population and rising healthcare costs. Consumer needs are shifting from treatment to prevention, and, as interest rises in disease prevention in people's daily lives, the lifestyle practice of purchasing drugs sold on the retail market is expected to become more common, and it is anticipated that the OTC drug market will recover.

For example, in marketing the *Sucrate Ichoyaku* series, one of Lion's gastrointestinal medicines, the emphasis is on communicating that, even though it is commonly thought that such medicines should be taken after meals, *Sucrate Ichoyaku* has superior effectiveness in alleviating gastritis and upset stomach caused by stress as well as other factors and for stomachaches, the results of overindulgence, and heartburn and can be taken when the stomach is empty. Through this new marketing pitch, Lion is working to rejuvenate the market for gastrointestinal remedies and expand its market share. In addition, Lion has launched an improved version of its *Stoppa EX Antidiarrheal* (an anti-diarrhetic preparation). Lion is also strengthening its lineup of products such as the *Sucrate Ichoyaku* and *Stoppa* brands to deal with various symptoms of gastrointestinal distress. These products have received the support of consumers because of their effectiveness.

Other

Functional food products and other items, which are sold through the direct-to-consumer channels, include mainstay product *Nice rim essence Lactoferrin,* which showed favorable performance in fiscal 2012. In addition, Lion newly launched *Tomatosu+Milk Peptide Seikatsu,* which is tomato vinegar powder, and *Milk Peptide,** which are nutrients extracted from milk, in tablet form, which makes it easier for consumers to take. As a result, overall sales increased substantially compared with the corresponding period of the previous fiscal year.

In the field of pet supplies, sales of *Pet Kirei Nioi Wo Toru Suna,* a deodorant cat litter product, held firm, and overall sales were above the previous year.

* *Milk Peptide MKP* developed by Morinaga Milk Industry Co., Ltd.

Industrial Products Operations

	Millions of Yen					
		% of segment sales		% of segment sales	Change	
	FY2012		FY2011		Amount	%
Net sales	**¥49,784**		¥52,410		¥(2,626)	(5.0)%
Operating income	**360**	0.7%	429	0.8%	(68)	(16.0)

Industrial Products Business

This business handles surfactants derived from oil and fats, electro-conductive carbon, detergents for institutional use, and other products.

Sales in the surfactants category held strong because of steady demand for this business's products used in the civil engineering construction industry for upgrading building foundations, However, demand for other uses was stagnant and conditions became more competitive. As a consequence, sales were below the level of the previous year.

In the electro-conductive carbon field, sales to overseas customers recovered in the second half of 2012, but, as a result of weak conditions in the domestic electric machinery and semiconductor sectors, overall sales were below the level of the previous year.

Sales in the detergents for institutional-use business rose above the previous year because demand for hand soaps held firm and sales of alcohol for disinfectant use in institutional kitchens held strong.

As a result, sales in the Industrial Products Business declined 5.0% from the previous year, and operating income decreased 16.0%.

Overseas Business

	Millions of Yen					
		% of segment sales		% of segment sales	Change	
	FY2012		FY2011		Amount	%
Net sales	**¥59,173**		¥53,757		¥5,416	10.1%
Operating income	**1,462**	2.5%	790	1.5%	672	85.0

The Group conducts its Overseas Business primarily in Thailand, South Korea, China, and certain other countries. Overseas sales were up 10.1% year on year (while real net sales, which exclude the influence of exchange rate conversions, increased 10.9%). Operating income of this segment increased a substantial 85.0% because of an increase in sales and improvements in competition cost efficiency, including sales promotional expenditures.

Other

	Millions of Yen					
		% of segment sales		% of segment sales	Change	
	FY2012		FY2011		Amount	%
Net sales	**¥29,798**		¥26,384		¥3,414	12.9%
Operating income	**971**	3.3%	771	2.9%	199	25.9

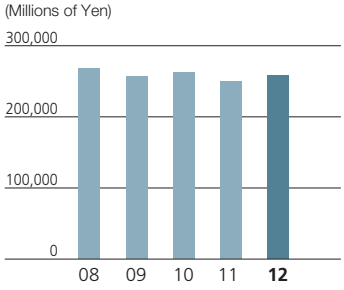
Among other business activities, revenues from the construction business were favorable, and, for the segment as a whole, sales rose 12.9%, to ¥29,798 million, and segment operating income was up 25.9%, to ¥971 million.

NET INCOME

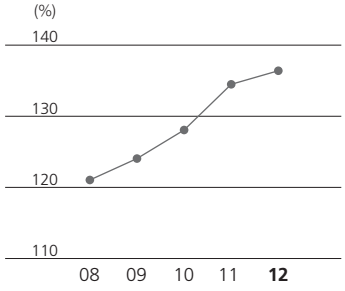
During fiscal 2012, consolidated operating income decreased 35.4% due to a deterioration in the product mix in the Consumer Products Business in Japan and an increase in sales promotion expenses. Consolidated net income rose to ¥4,235 million (an increase of 3.9%), because of the absence during the fiscal year under review of the extraordinary losses in connection with the Great East Japan Earthquake that were reported in the previous fiscal year. Net return on shareholders' equity (ROE) for fiscal 2012 was 4%, virtually level with the previous year, as retained earnings showed a slight increase. Net income per share was ¥15.77, about the same as in fiscal 2011.

FINANCIAL POSITION

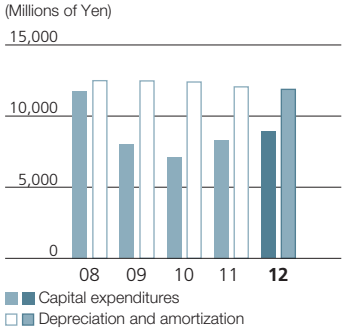
Total Assets



Current Ratio



Capital Expenditures and Depreciation and Amortization



Consolidated Financial Status

	FY2012	FY2011	Change
Total assets (millions of yen)	**¥257,595**	¥249,272	¥8,322
Total net assets (millions of yen)	**114,163**	105,252	8,911
Shareholders' equity to total assets*1 (%)	**42.4%**	40.9%	1.5 points
Net assets per share*2 (yen)	**407.08**	380.11	26.96

*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 ¥257,595 million, ¥8,322 million higher than at the end of the previous fiscal year.

Total consolidated liabilities at the end of the fiscal year were ¥143,431 million, ¥589 million lower than at the end of the previous fiscal year. This was due to declines in long-term loans payable, notes and accounts payable—trade, and other factors. Current liabilities amounted to ¥96,142 million, ¥1,539 million higher than at the end of the previous fiscal year, and the current ratio at year-end was 136.3%.

Total consolidated shareholders' equity rose ¥1,238 million, to ¥107,273 million, as a result of an increase in retained earnings. Net assets increased ¥8,911 million, to ¥114,163 million, and the ratio of shareholders' equity to total assets at fiscal year-end was 42.4%.

CASH FLOWS

Consolidated Cash Flows

	Millions of Yen		
	FY2012	FY2011	Change
Net cash provided by (used in) operating activities	**¥18,762**	¥11,134	¥7,628
Net cash provided by (used in) investing activities	**(9,172)**	(8,051)	(1,120)
Net cash provided by (used in) financing activities	**(4,923)**	(11,897)	6,974
Effect of exchange rate changes on cash and cash equivalents	**602**	(127)	729
Net increase (decrease) in cash and cash equivalents	**5,273**	(8,942)	14,215
Cash and cash equivalents at end of the period	**40,913**	35,640	5,273

Net cash provided by operating activities totaled ¥18,762 million, due to a decline in notes and accounts receivable—trade and other factors.

Net cash used in investing activities amounted to ¥9,172 million, as a result of expenditures for tangible and intangible fixed assets.

Net cash used in financing activities totaled ¥4,923 million, as a result of cash dividends paid, the repayment of long-term loans payable, and other factors.

As a consequence, cash and cash equivalents at the end of fiscal 2012 totaled ¥40,913 million, ¥5,273 million higher than at the end of the previous fiscal year.

OUTLOOK FOR FISCAL 2013

	Millions of Yen			
			Change	
	FY2013	FY2012	Amount	%
Net sales	**¥342,000**	¥335,171	¥6,828	2.0%
Operating income	**10,000**	7,213	2,786	38.6
Net income	**6,000**	4,235	1,764	41.6

In fiscal 2013, although the Japanese economy is expected to show moderate improvement because of the implementation of government economic policy initiatives and changes in foreign currency rates, our understanding is that uncertainties about future conditions will continue, as concerns about instabilities in the world economy will persist.

In the domestic toiletries and OTC drugs industries—the Group's main business domains—the stagnation in consumer spending and growing competition at the retail store level as well as other factors are forecast to continue to create a severe business environment.

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

In the Consumer Products Business in Japan, to strengthen profitability, in its core brand lines, the Group will launch new, high-value-added products in the toothpaste, toothbrush, antiperspirant, laundry detergent, and other businesses, while making efficient investments in its marketing activities. In addition, the Group will expand its lineup of products sold through the direct-to-consumer channel and implement other measures aimed at expanding the scope of its business activities. As a result of these initiatives, the outlook is for sales to exceed the level in fiscal 2012.

In the Industrial Products Business, the Group will work to prioritize and strengthen its activities related to high-function products, including electro-conductive carbon and activators derived from the oil and fats fields. In the industrial cleaners and detergents for institutional-use fields, the Group will focus on continuing to develop new customers. As a consequence of these initiatives, the outlook is for sales to exceed the level in fiscal 2012.

In its Overseas Business, the Group will continue to 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, the Group will aim to begin operations at the joint venture company it established in the Philippines in fiscal 2012 as quickly as possible. Due to these initiatives, the outlook is for sales to exceed the level in fiscal 2012.

Because of the previously mentioned factors, in fiscal 2013, the Group is forecasting consolidated net sales of ¥342.0 billion (an increase of 2.0%) and operating income of ¥10.0 billion (an increase of 38.6%). Ordinary income is forecast to be ¥11.0 billion (an increase of 28.4%), and the outlook is for net income of ¥6.0 billion (an increase of 41.6%).

The outlook for cash flows in fiscal 2013 is as follows: Among operating cash flows, income before income taxes is forecast to be about ¥10.0 billion, and depreciation and amortization are forecast to amount to ¥12.0 billion. Among cash used in investing activities items, capital expenditures are scheduled to be ¥14.0 billion. Net cash used in financing activities is forecast to be approximately ¥5.0 billion, including cash dividend payments and the repayment of loans payable.

As a consequence, cash and cash equivalents at the end of fiscal 2013 are forecast to be approximately ¥3.0 billion higher than at the end of fiscal 2012.

Note: These forecasts assume the following foreign exchange rates: ¥85 = US$1 and ¥2.7 = 1 Thai baht.
* Forecasts for fiscal 2013 are as of February 12, 2013.

BASIC POLICY ON THE DISTRIBUTION OF EARNINGS AND CASH DIVIDENDS

The Group considers the return of profits to shareholders, on a continuing basis, as its consolidated earning capacity rises, to be its most-important management issue. As it continues to pay stable dividends, the Group will give comprehensive consideration to, and is considering making, purchases of its own shares from the market, while at the same time giving due attention 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 with the objectives of strengthening corporate earnings capacity and preparing the business base for sustained growth.

After taking into consideration Lion's record of cash dividend payments from retained earnings, as well as its dividend payout ratio, Lion's Board of Directors resolved to pay an interim dividend of ¥5 per share (paid on September 5, 2012) and a year-end dividend of ¥5 per share (paid on March 5, 2013).

For dividends in fiscal 2013, under its basic dividend policy, Lion plans to pay interim and year-end dividends of ¥5 per share, thus bringing the total dividends for the full year to ¥10 per share.

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 12, 2013. 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, after products have been launched, the Company makes full use of consumers' opinions received through its Customer Service Office to improve its products, packaging, labeling, and other aspects of its products.

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 oil 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 position.

3. Exchange rate fluctuations

The Lion Group translates into yen the figures in the financial statements of overseas subsidiaries when preparing its consolidated 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 position.

4. Major lawsuits

In fiscal 2012, 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 position.

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 position.

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