Interview with the President

During fiscal 2013, ended December 31, 2013, we achieved recovery because of qualitative growth in domestic businesses by offering higher-value-added products and quantitative expansion of overseas businesses. We are convinced that this improvement in results is only the beginning of a period of growth for Lion Corporation. In fiscal 2014, we are going to continue to enhance the profitability of our business activities in Japan and accelerate the growth of our overseas businesses.

Q Could you please comment on what issues you initially expected to face in fiscal 2013, Lion's performance during the year, and the factors that contributed to the major recovery in profitability in comparison with fiscal 2012?

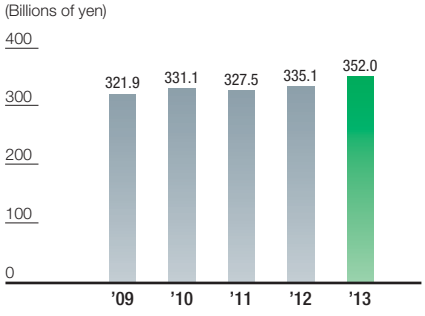
A In Japan, the declining trend in consumer prices began to bottom out, and the economy was on a recovery trend with consumer spending improving and corporate profitability rising. We saw a braking of the decline in prices in the markets where Lion sells its products, but competition continued to be very tough.

Under these market conditions, in Japan, we placed maximum priority on recovering profitability in our consumer products businesses by improving our product mix. We did this by shifting the mix toward high-value-added items, by launching and promoting new innovative products aimed at opening up new market segments, and by furthering sales of goods in the lower price range while maintaining stable prices.

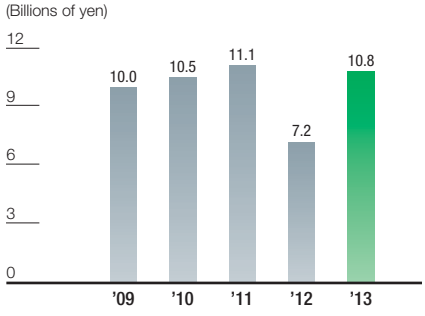
In addition, under the new sales systems we launched in fiscal 2013, at the sales level we exerted firm control over our product mix by strengthening our detailed supervision and management of sales activities. Therefore, we were able to make more-efficient use of marketing expenditures, and our operating income improved and rose substantially above our initial goals.

In our Overseas Business activities, sales in Thailand, which account for a significant percentage of total overseas sales, slowed because of increasing competition in the market and uncertain political conditions. Over the course of the year, however, overseas sales expanded about 30%, led by expansion in sales of Lion Eco Chemicals Sdn. Bhd. (LECO) in Malaysia and favorable performance of oral care products in China. In addition, we entered the Philippine market and, at present, have expanded our activities into nine countries and regions outside Japan. We are also searching for new opportunities for further quantitative growth. Moreover, to respond to future expansion in demand, we raised production capacity during the year. Our total consolidated net sales overseas for fiscal 2013 amounted to ¥76.8 billion, and, for the first time, the sum of overseas sales before eliminations, including companies accounted for by the equity method, rose to more than ¥100 billion. Additionally, the percentage of overseas

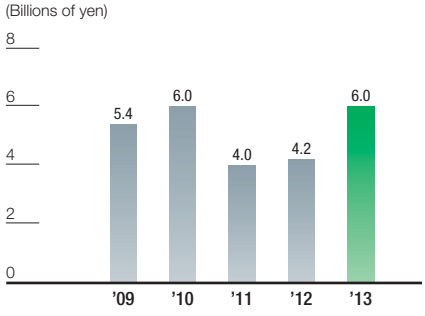
Net Sales



Operating Income



Net Income



sales in Lion's consolidated net sales rose to 21%, compared with 17% in 2012. This brings us within sight of our target under "Vision 2020," our management vision for the year 2020, of increasing overseas sales to 30% of total consolidated sales.

Q What is your outlook for Lion's performance in fiscal 2014? We are particularly interested in your views of the impact of the increase in Japan's consumption tax, which is scheduled for April 2014. Also, 2014 will be the final year of your "V-1 Plan," but your forecasts have been short of the performance targets. Will this mean that Lion will make changes in its medium-term management plan or its "Vision 2020" longer-term management plan?

A Our targets for fiscal 2014 are ¥360.0 billion in consolidated net sales and ¥12.0 billion in operating income, which will be the highest in Lion's history.

We are expecting to come close to the sales target under our medium-term plan, but operating income will be below the target of ¥20 billion. Although we reported an early recovery in 2013, we will not be able to make up for the shortfall in 2012, which was the first year under our "V-1 Plan."

We intend to set specific revised targets and dates for their attainment next year and thereafter as we monitor developments during the current year. However, we will continue to steadily implement the four strategies (discussed below) contained in "Vision 2020." Our highest priority now is to achieve our targets for 2014 and thereby build a firm foundation for growth.

The first of the strategies we are implementing to realize the goals of "Vision 2020" by the year 2020 is "Qualitative Growth of Domestic Businesses." Last year, to strengthen profitability in Lion's consumer products businesses in the medium-to-long term, we continued to introduce and nurture additional innovative and high-value-added products as we controlled the cost of goods in the lower price range. Also in fiscal 2014, to nurture the high-value-added items we introduced the year before last, we will launch new, high-value-added products in the oral care and OTC pharmaceutical markets.

In the oral care field, to strengthen the value and increase the profitability of our *Clinica* brand, which is our core lineup of oral care products, and increase its profitability, we will upgrade the *Clinica* product lineup to reflect our awareness of preventive dentistry* as a good routine that consumers should acquire in their oral care activities. In the fabric care field, we will implement a number of measures to increase the usage of *TOP NANOX* and *TOP HYGIA* and accelerate the shift toward super-concentrated liquid laundry detergents.

* Preventive dentistry: Preventing dental problems before they emerge through self-care based on professional dental care and guidance from dentists

In the OTC pharmaceutical field, we will launch a number of new products. These will include *BUFFERIN PREMIUM,* a high-value-added new member of the antipyretic analgesic *BUFFERIN* lineup; *HALIX*

HOGRELA, an analgesic and anti-inflammatory poultice; as well as other products.

In fiscal 2014, we will make aggressive use of advertising and other promotional expenditures and work to raise the value of our core brands and enhance their market presence.

The impact of the increase in the consumption tax will take place before and following the tax hike, which is scheduled for April. Over the course of the full year, we are anticipating that demand for consumer goods will remain unaffected, and we believe the tax rise will have only a marginal impact on performance for the full fiscal year. However, we are assuming that there will be a surge in demand in March, prior to the tax rise, and, to capture the full benefits of the demand surge, we will launch time-limited offers and other sales strategies to encourage bulk buying by consumers. Also, after the surge in demand, a reactionary decline in demand is expected to follow the tax hike. To stimulate demand without setting off price wars, we will focus on accelerating the launching of new and high-value-added products as well as products aimed at opening up new market segments.

The second strategy under "Vision 2020" is "Quantitative Expansion of Overseas Businesses." Although there are signs of economic and political instability in the emerging economies, the sales and operating income of Lion's overseas businesses in these areas are forecast to continue to rise above the previous fiscal year, thus bringing an improvement in performance. We will consolidate our position in the Philippine market, which we entered last year, and expand sales of MES manufactured by LECO by stepping up our activities to increase the number of companies using this detergent ingredient.

The third strategy under "Vision 2020" is "Development of New Business Value." In our direct-to-consumer business, in fiscal 2013, we had already reached our target for 2014 of ¥10 billion in sales. Looking ahead, we will work to develop sales of *Fleuria,* a hair care product for women that we launched in June 2013, and other products with the goal of making them the second and third major pillars of our direct-to-consumer business.

The fourth strategy under "Vision 2020" is "Enhancement of Organizational Learning Capabilities." Our initiatives in this area include introducing a new personnel management system and conducting programs and other activities to develop personnel with skills for contributing to the development of Lion's activities around the world. Along with these activities, we are moving ahead with a number of business reform projects to strengthen the Lion organization.

Q At present, Lion is implementing its "Eco Vision 2020," which was announced in June 2013, on a Company-wide basis. What are its objectives?

A Lion has implemented environmental activities, an important part of its corporate activities, and takes them into account in product development and in the growth of its business operations.

One of the objectives that Lion has set forth in its "Vision 2020" is "to become an environmentally advanced company." In June 2013, Lion issued its "Eco Vision 2020," which targets proactive goals for environmental responsiveness and contributing to the creation of a sustainable society. These targets are "Realizing a Low Carbon Society," "Realizing a Sound Material-Cycle Society," and "Harmony with Nature."

Lion aims to attain these targets by developing eco-friendly products that meet goals for reducing emissions of greenhouse gases and the volume of water used.

To achieve harmony with nature, we worked to obtain approval from the Roundtable on Sustainable Palm Oil (RSPO), which enabled the procurement of vegetable oils and contributes to the preservation of biodiversity as well as the implementation of other activities for biodiversity preservation.

Q Market analysts have given your overseas strategy high marks. What aspects of your strategy do you think have been effective? In view of your current overseas presence, what measures do you think will be essential for Lion to adopt to reach your goal of ¥150 billion in annual sales overseas by 2020?

A Lion is securing rapid growth in Asia because it has built strong partnerships with local companies. Lion's division of labor with partners has been the best approach, with Lion providing production and marketing know-how, technology, brands, and other skills and the local partner taking charge of distribution. The winning strategy for responding to the bipolarization of consumption will be to position brands from Japan as high-value-added global brands. On the other hand, we should position local brands that have already established a presence in their respective markets in the lower price range.

Looking ahead, to reach our goal for overseas sales, first, we must promote the sharing of information between Japan and other countries, introduce products

that meet the needs of various countries and markets before our competitors, and nurture the development of major brands. Second, we must enter new product categories and establish presences in countries where we have no business activities at present. After entering the Philippines last year, we began operations in the Philippines and are now considering entry into other countries in Southeast Asia.

Q To significantly improve Lion's performance, it is thought that launching additional high-value-added products in Japan will be essential. Could you please share with us your thoughts on your basic R&D strategy going forward?

A Japan's population has already begun to decline but, from various perspectives, there are signs of major changes in people's lifestyles and preferences. If we can identify these signs of change, we believe that there will be ample opportunities for growth as we propose new ideas and products for more-affluent living, develop high-value-added products, and launch items that are aimed at opening up new market segments.

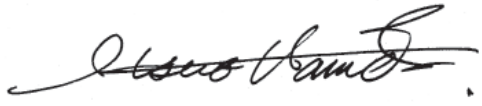
To achieve this kind of growth, we must first collect evidence and clarify the target markets, and then seek to develop products that give consumers a distinctive sense of satisfaction when they use them. To facilitate product development, Lion opened new R&D facilities in Tokyo in July 2013. These facilities are now providing an environment for collaboration between Japanese and overseas researchers from differing professional fields.

Q In conclusion, would you please state your policy for providing a return to shareholders?

A I think providing stable and continuing dividends is the basis of and important for providing returns to shareholders. We declared an annual dividend of ¥10 per share for fiscal 2013. On behalf of our shareholders, we are focusing on raising Lion's corporate value through improving performance, paying dividends as a matter of course, and continuing to enhance our information disclosure.

Lion's business domains are deeply rooted in the basic human needs for health, comfort, and the environment. Looking ahead, as we continue to conduct eco-friendly business activities, we want to continue to provide major value to consumers through supporting healthy and comfortable lifestyles not only for our shareholders but also for all our stakeholders.

April 2014



Itsuo Hama
Representative Director and President