

Notification Regarding Introduction of Performance-Linked Stock Compensation System

At a meeting of the board of directors held today, Tamron Co., Ltd. (hereinafter referred to as “the Company”) decided to introduce a performance-linked stock compensation system using a trust (hereinafter referred to as “the System”) for the directors of the Company (excluding external directors; hereinafter referred to as “directors”) and make a proposal on the introduction of the System for the directors to the 71st Ordinary General Meeting of Shareholders (hereinafter referred to as “the General Shareholders’ Meeting”) to be held on March 28, 2018.

1. Purpose of the introduction of the System

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Compensation for directors consists of the base pay and the bonus. With regard to the base pay, a certain monthly compensation for full-time directors should be compensation for the acquisition of treasury stock in order for it to have the nature of long-term performance-based compensation, and the compensation should be appropriated for treasury stock purchase through the directors’ shareholding society.

Recently, the Company decided to review its compensation system for directors and introduce the System while abolishing compensation for the acquisition of treasury stock and the bonus. As a result, the compensation for directors will consist of the base pay, fixed compensation and short-term incentive compensation, which is performance-linked cash compensation in accordance with the performance for a single year, and medium- and long-term incentive compensation, which is performance-linked stock compensation via the System.

The System is designed to clarify the link between the performance of the Company and its share value and directors’ compensation, to enable directors not only to enjoy the benefits of rising share prices but also to bear the risk of falling share prices and share the benefits/risks of share price fluctuations together with the shareholders, thereby helping directors to further enhance their awareness of improving mid- to long-term performance and contributing to increasing corporate value.

(2) Introduction of the System and Director Compensation Limit

The upper limit of compensation for directors, which was approved by a decision made at the 64th Ordinary General Meeting of Shareholders on March 30, 2011, is ¥700 million/year. At the General Shareholders’ Meeting, as a result of the introduction of the System, the Company will ask for approval to change the upper limit to ¥550 million/year (¥30 million for external directors). Moreover, the Company will also ask for approval for a new performance-linked stock compensation to be paid additionally.

The compensation limit of the changed compensation limit and a portion equivalent to stock compensation based on the System combined is equal to the conventional compensation limit.

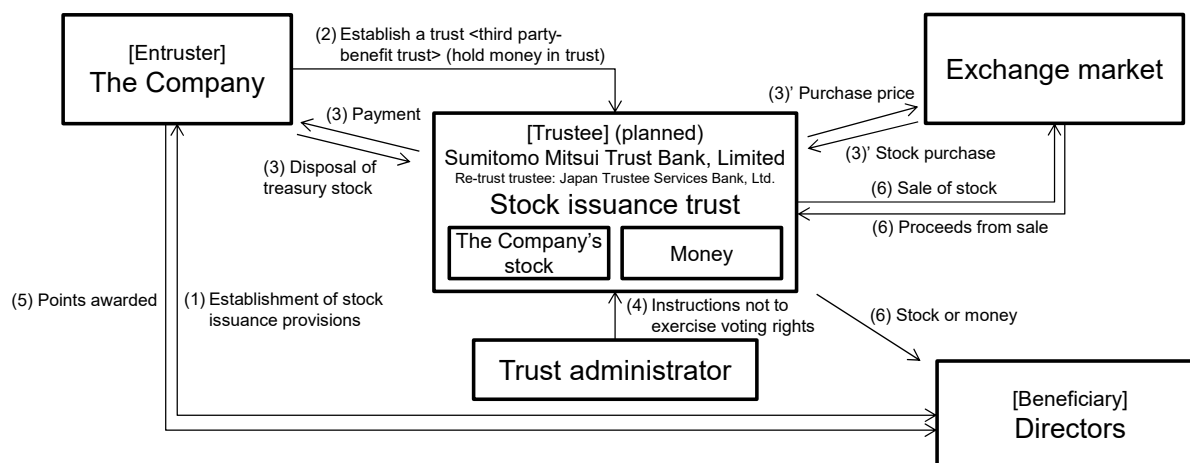
2. Overview of the System

(1) Overview of the structure of the System

The System is a performance-linked stock compensation system for issuing the Company’s stock through a trust, established by the Company’s cash contribution (hereinafter referred to as “the Trust,”), which acquires the Company’s stock and issues it to directors based on points awarded in accordance with titles and performance pursuant to stock issuance provisions determined by the Company’s board of directors. Directors are provided with the Company’s stock upon retirement, in principle.

The overview of the structure of the System is as follows:

<Overview of the structure of the System>



- ① The Company establishes stock issuance provisions for directors.
- ② The Company establishes a stock issuance trust (third party-benefit trust) whose beneficiaries are directors who fulfill certain requirements. In doing so, the Company entrusts to a trustee a monetary value equivalent to the stock acquisition fund (provided, however, that it is within the range of the value approved by the Shareholders' Meeting.)
- ③ The trustee collectively acquires the Company's stock corresponding to the expected issuance going forward (by way of the disposal of treasury stock or acquisition from the Exchange Market (including after-hours trading)).
- ④ The Company appoints a trust administrator (a person independent of the Company and the Company's directors) who protects the benefits of the beneficiaries stipulated in the stock issuance provisions and supervises the trustee throughout the trust period. With respect to the Company's stock in the Trust, the trust administrator instructs the trustee not to exercise voting rights. The trustee shall not exercise voting rights throughout the trust period based on these instructions.
- ⑤ Based on the stock issuance provisions, the Company shall award points to directors.
- ⑥ Directors who fulfill the requirements stipulated in the stock issuance provisions and the trust agreement of the Trust shall be provided with the Company's stock by the trustee equivalent to the accumulated points as beneficiaries of the Trust. Moreover, when a certain case stipulated in advance in the stock issuance provisions and the trust agreement applies, part of the Company's stock to be delivered may be sold on the Exchange Market, and money can be delivered.

Sumitomo Mitsui Trust Bank, Ltd, a trustee of the System, shall entrust Japan Trustee Services, Bank, Ltd. with the trust assets (re-trust).

(2) Establishment of a trust

Subject to the approval of the introduction of the System at the General Shareholders' Meeting, the Company shall establish the Trust and hold in trust the funds needed for the Trust to acquire the reasonably expected number of the Company's stock in advance for a certain period of time to issue in accordance with (7) below. The Trust acquires the Company's stock using the money held in trust by the Company as shown in (5) below. Sumitomo Mitsui Trust Bank, Ltd, a trustee of the System, shall entrust Japan Trustee Services, Bank, Ltd. with the trust assets (re-trust).

(3) Trust period

The trust period shall be three years from May 2018 (scheduled) through May 2021 (scheduled). The trust period may be extended as mentioned in (4) below.

(4) Upper limit of money held in the Trust as stock acquisition funds

The Company establishes the Trust by designating directors who fulfill certain requirements as beneficiaries, and holds in trust money with an upper limit of ¥450 million in total during the trust period referred to in (3) above as acquisition funds for the Company's stock that are necessary for

issuing the Company's stock to directors via the System as compensation for directors in office for the three years from the day after the date of the General Shareholders' Meeting to the closing day of the Ordinary General Meeting of Shareholders' in March 2021 (hereinafter referred to as the "applicable period"). The Trust acquires the Company's stock from the Exchange Market (including after-hours trading) using the money held in trust by the Company or in a manner in which it can undertake the disposal of treasury stock of the Company.

Note: In addition to the abovementioned funds for acquiring the Company's stock, the money the Company actually holds in the Trust includes the expected necessary costs such as trust remuneration, administrator remuneration, etc.

Upon the expiration of the trust period (when the trust period is extended and the System continues according to the following procedure, upon the expiration of the trust period after extension), the trust period may be extended every three years by resolution of the board of directors of the Company at all such times (including where the trust period can be extended by transferring the trust assets of the Trust to a trust with the same purpose as the Trust established by the Company; hereinafter the same shall apply), and the System may continue. When the trust period is extended, the Company shall additionally hold in trust money with an upper limit of ¥450 million every time the trust period is extended as additional funds for acquiring the Company's stock that needs to be delivered to the directors. In this case, the applicable period shall be extended in accordance with the continuance of the System and the extension of the trust period. The points awarded in (6) below and the issuance of the Company's stock in (7) below shall continue in the extended trust period.

However, even where the point-awarding as mentioned above does not continue, when there is a director who has not been provided with all the Company's stock equivalent to the points already awarded, although points were awarded upon the expiration of the trust period, the trust period of the Trust may be extended until the director is provided with the unissued Company's stock and the delivery of the Company's stock is complete.

(5) Acquisition method of the Company's stock via the Trust

The initial acquisition method of the Company's stock through the Trust is expected to be acquisition from the Exchange Market or by disposal of treasury stock by the Company within the limit of the stock acquisition funds mentioned in (4) above. The Company shall decide on the details of the acquisition method and disclose them after a resolution of the General Shareholders' Meeting.

If there is a possibility that the number of the Company's shares in the Trust falls short of the number of shares that corresponds to the number of points awarded to directors during the trust period due to an increase in the number of directors, among other reasons, during the trust period, additional money may be held in trust in the Trust, and the Company's stock may be acquired additionally within the range of the limit of the trust money mentioned in (4) above.

(6) Calculation method of points awarded to individual directors

The Company shall award points (*) in accordance with titles and performance to individual directors on a point-awarding day stipulated in the stock issuance provisions during the trust period based on the stock issuance provisions determined by the board of directors of the Company, provided that the upper limit of the total number of points awarded to directors is 240,000 points during the trust period.

*: Points in accordance with performance are set based on the level of the achievement of the performance targets in each fiscal year and mid-term management plan during the applicable period.

(7) Issuance of the Company's stock to individual directors

Directors shall be provided with the Company's stock based on the number of points awarded stated in (6) above according to the procedure described below.

One point equals one share of the Company's stock. When an event that is considered to be reasonable for adjusting the number of the Company shares to be issued including stock split/reverse stock split occurs, a reasonable adjustment shall be made in accordance with the split ratio/reverse split ratio.

The Company's stock shall be delivered to individual directors from the Trust when a certain procedure for determining a beneficiary is undertaken by individual directors at the time of retirement. However, in order for the Company to collect funds for the payment of taxes including withholding income tax, a certain ratio of the Company's stock shall be sold and converted into money within the Trust, and then the money shall be delivered instead of the Company's stock. Moreover, when the Company's stock within the Trust is converted into money such as settlement by a tender offer, money may be delivered instead of the Company's stock.

(8) Exercise of voting rights

The voting rights of the Company's stock within the Trust shall not be exercised uniformly based on the instructions of a trust administrator who is independent from the Company and the Company directors. Regarding the exercise of voting rights of the Company's stock within the Trust, this method will allow the Company to ensure the neutrality of the management of the Company.

(9) Handling of dividends

Dividends related to the Company's stock within the Trust shall be received by the Trust, and they shall be appropriated for the acquisition price of the Company's stock or trust compensation for a beneficiary related to the Trust.

(10) Handling at the conclusion of the Trust

The Company's stock, among the residual assets of the Trust at the conclusion of the Trust, is expected to be retired in its entirety by resolution of the board of directors after the Company has acquired it all free of charge. Of the residual assets of the Trust at the conclusion of the Trust, a certain amount of money is expected to be contributed to a specified public interest corporation with no relationship of interests with directors by stipulating such in the stock issuance provisions and the trust agreement.

(Reference: Overview of the Trust)

- ① Name: Stock issuance trust for directors
- ② Entruster: The Company
- ③ Trustee: Sumitomo Mitsui Trust Bank, Ltd.
(Re-trust trustee: Japan Trustee Services Bank, Ltd.)
- ④ Beneficiary: A director of the Company who fulfills the requirements for a beneficiary
- ⑤ Trust administrator: Expected to select a third party who has no relationship of interests with the Company and the Company directors
- ⑥ Type of trust: nonmonetary trust (third party-benefit trust)
- ⑦ Entry date of trust agreement: May 2018 (scheduled)
- ⑧ Date money is held in trust: May 2018 (Scheduled)
- ⑨ Trust period: May 2018 (scheduled) - May 2021 (scheduled)
- ⑩ Purpose of trust: To issue the Company's stock to beneficiaries based on stock issuance provisions