



TAMRON

**FY2016
Financial Results**

**February 10, 2017
Tamron Co., Ltd. (Code: 7740)**

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I . FY2016 Financial Results

I -1. FY2016 Summary

【Business Environment】

- Economic situation ⇒ Appreciation of JPY against both USD & EUR (-12JPY/USD & -14JPY/EUR)
In 2nd Half, -16JPY/USD & -18JPY/EUR: more difficult economic environment
- Digital camera market ⇒ Showed two-digit decrease both in quantity & amount due to related parts supply shortage caused by Kumamoto Earthquake

※Prior Year Comparison
(Source: CIPA)

	Quantity-Base	Money-Base
Lens-integrated camera	(44)%	(38)%
Interchangeable lens camera	(11)%	(10)%
Interchangeable lens	(11)%	(15)%

【Company's Results】

- FY16 ⇒ Both sales and profit decreased due to negative impact of appreciation of JPY against USD and EUR, as well as digital camera market decline caused by Kumamoto Earthquake.
- 2nd Half FY16 ⇒ Focused on reduction of manufacturing costs and SGA expenses, resulting in better gross profit and SGA reduction by 13%. (Without the effect of exchange rate fluctuation, operating income stayed the same level in 2nd Half and increased in 4th Qtr.

I -2. FY2016 Financial Results

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(millions of JPY)

	Actual FY15 (a)	Forecast FY16 (b)	Actual FY16 (c)	Inc / Dec		Inc / Dec	
				(c)-(a)	%	(c)-(b)	%
Net Sales	71,946	64,000	59,903	(12,042)	83.3%	(4,096)	93.6%
Operating Income	4,554	3,000	2,361	(2,193)	51.8%	(638)	78.7%
(% Sales)	6.3%	4.7%	3.9%	(2.4)%	–	(0.8)%	–
Ordinary Income	5,140	3,100	2,855	(2,284)	55.6%	(244)	92.1%
(% Sales)	7.1%	4.8%	4.8%	(2.3)%	–	0.0%	–
Net Income	4,048	1,780	1,482	(2,566)	36.6%	(297)	83.3%
(% Sales)	5.6%	2.8%	2.5%	(3.1)%	–	(0.3)%	–
JPY – 1 USD	121.11	108.40	108.79	(12.32)	–	0.39	–
JPY – 1 Euro	134.35	119.80	120.31	(14.04)	–	0.51	–

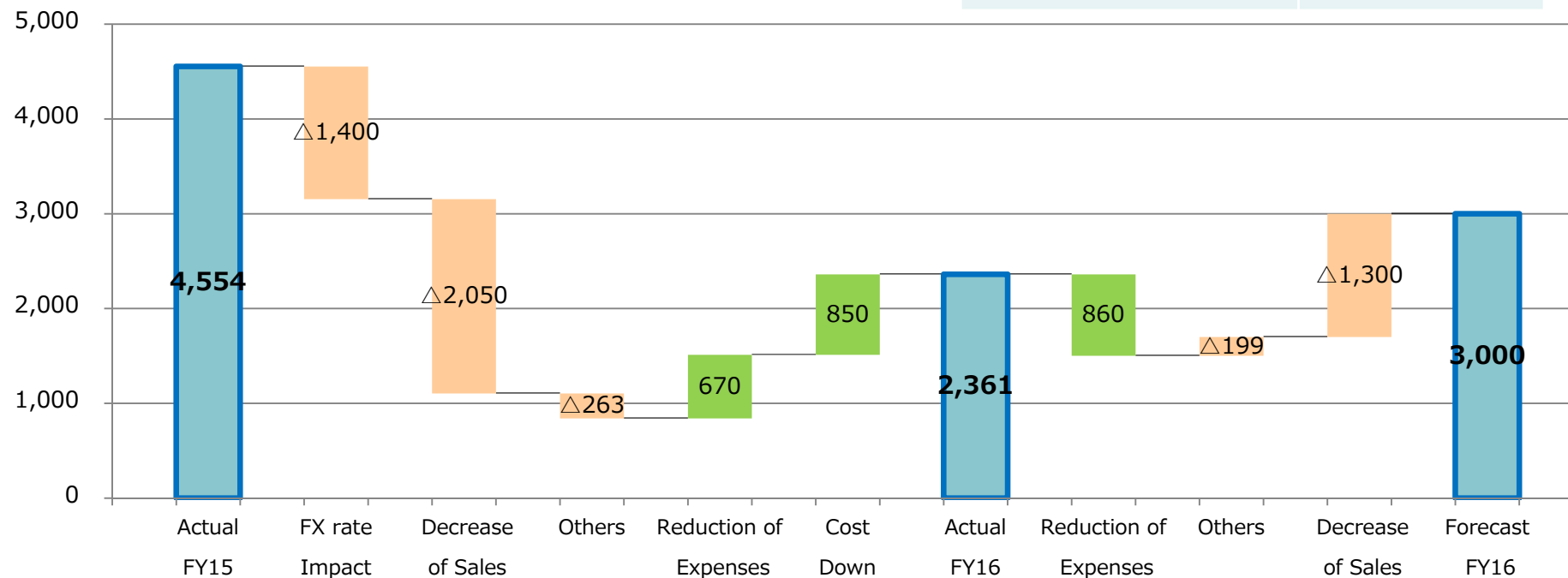
I -3. FY2016 Performance Variation Factors

(millions of JPY)

※ Factors of Decline in Sales (vs. FY15)

Factors	Impact for Sales
FX impact vs. FY15	(5,550)
Others	(6,500)
Total	(12,050)

(millions of JPY)



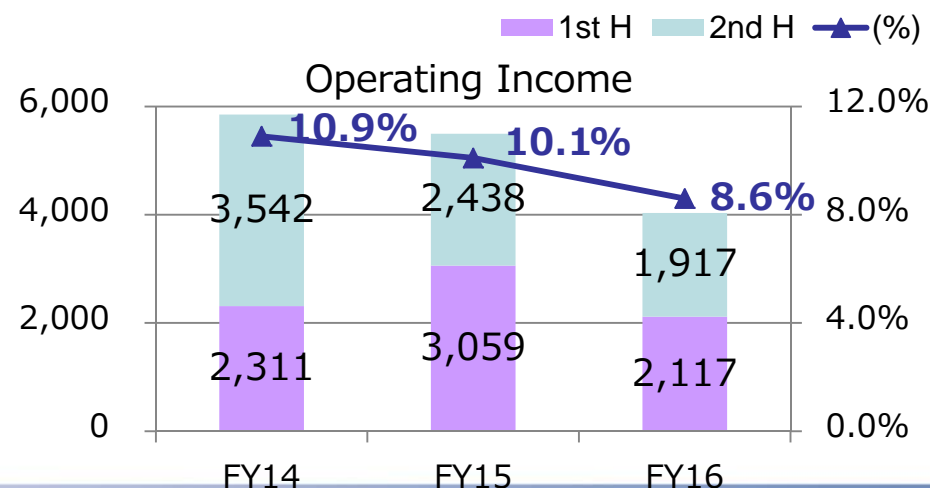
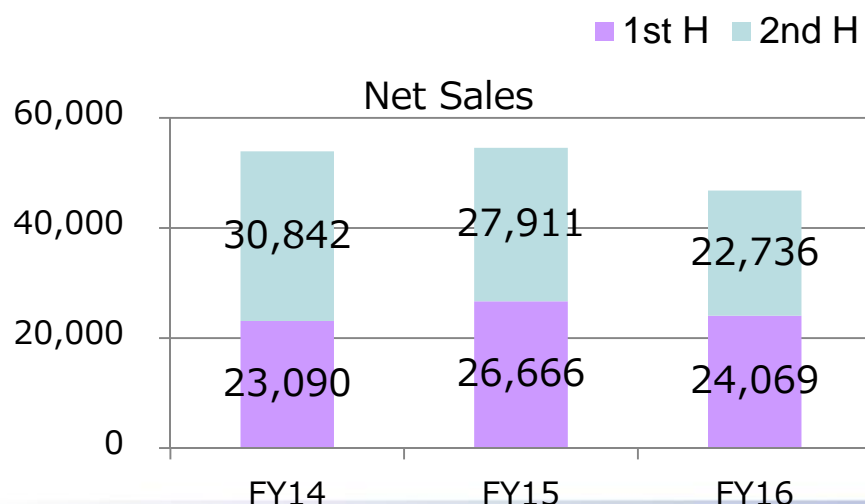
I -4. FY2016 Results by Segment

1) Photographic Products

(millions of JPY)

	Actual FY15 (a)	Forecast FY16 (b)	Actual FY16 (c)	Inc / Dec		FX Impact vs. FY15	Inc / Dec	
				(c)-(a)	%		(c)-(b)	%
Net Sales	54,578	50,200	46,805	(7,772)	85.8%	(4,200)	(3,394)	93.2%
Operating Income	5,498	4,800	4,034	(1,463)	73.4%	(1,050)	(765)	84.1%
(% Sales)	10.1%	9.6%	8.6%	(1.5)%	-	-	(1.0)%	-

- Managed to keep the same level of operating income ratio in 2nd Half even in the difficult economic environment due to negative impact of appreciation of JPY as well as decline in digital camera market.



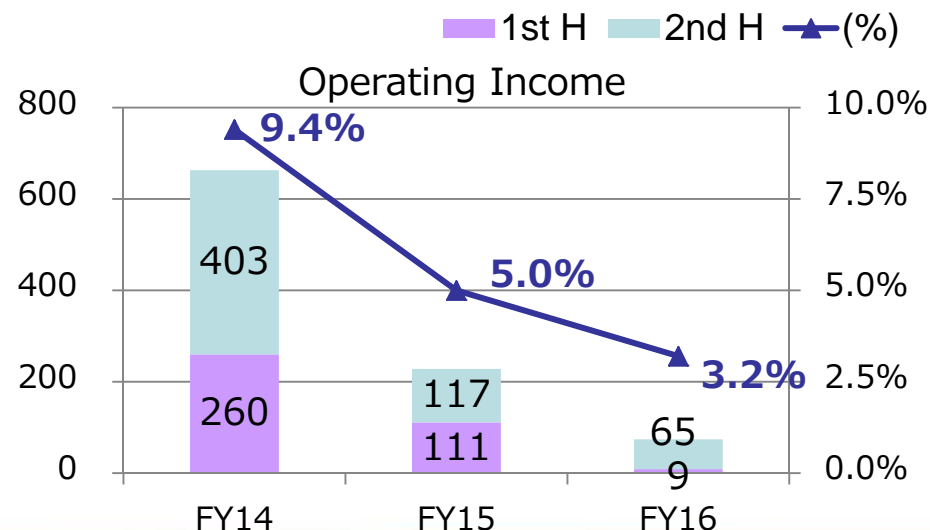
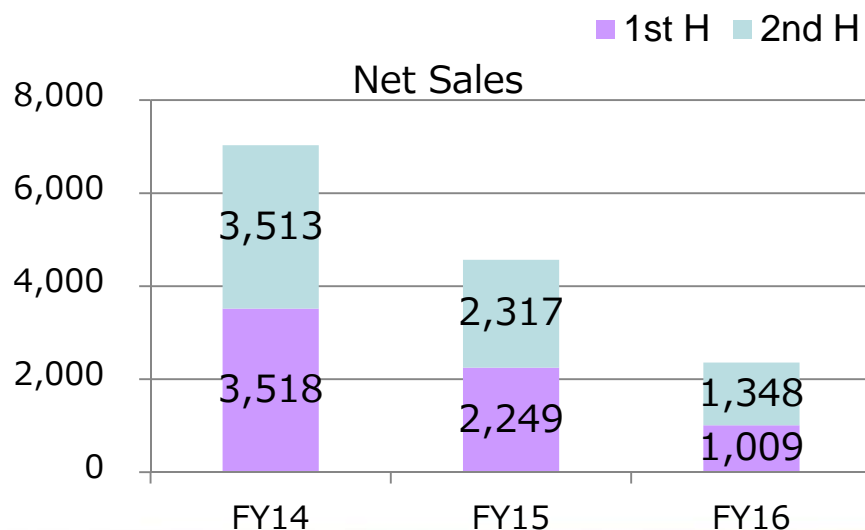
I -4. FY2016 Results by Segment

2) Optical Components

(millions of JPY)

	Actual FY15	Forecast FY16	Actual FY16	Inc / Dec		FX impact vs. FY15	Inc / Dec	
	(a)	(b)	(c)	(c)-(a)	%		(c)-(b)	%
Net Sales	4,567	2,300	2,358	(2,208)	51.6%	(250)	58	102.5%
Operating Income	228	50	75	(153)	32.9%	(50)	25	150.7%
(% Sales)	5.0%	2.2%	3.2%	(1.8)%	-	-	1.0%	-

- Achieved forecast of FY 16 and maintained positive operating income even in the tough market situation caused by continuous shrink of the market and indirect influence of Kumamoto Earthquake.



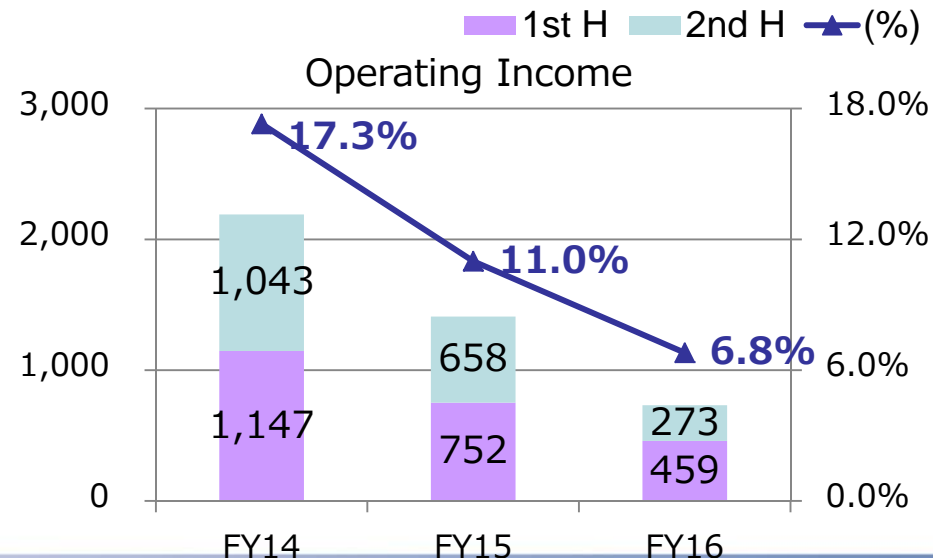
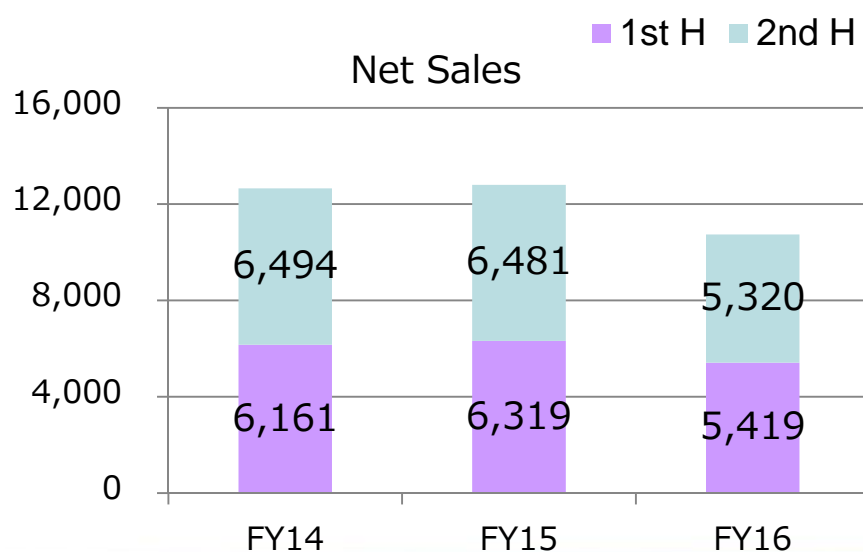
I -4. FY2016 Results by Segment

3) Commercial / Industrial-use Optics

(millions of JPY)

	Actual FY15 (a)	Forecast FY16 (b)	Actual FY16 (c)	Inc / Dec		FX impact vs. FY15	Inc / Dec	
				(c)-(a)	%		(c)-(b)	%
Net Sales	12,800	11,500	10,739	(2,061)	83.9%	(1,100)	(760)	93.4%
Operating Income	1,411	800	733	(678)	52.0%	(300)	(66)	91.7%
(% Sales)	11.0%	7.0%	6.8%	(4.2)%	-	-	(0.2)%	-

- With Automotive Camera Lens sales increased and achieved Forecast of FY16, CCTV Lenses sales stagnated, and investment in new business segment increased, both sales and profit decreased.

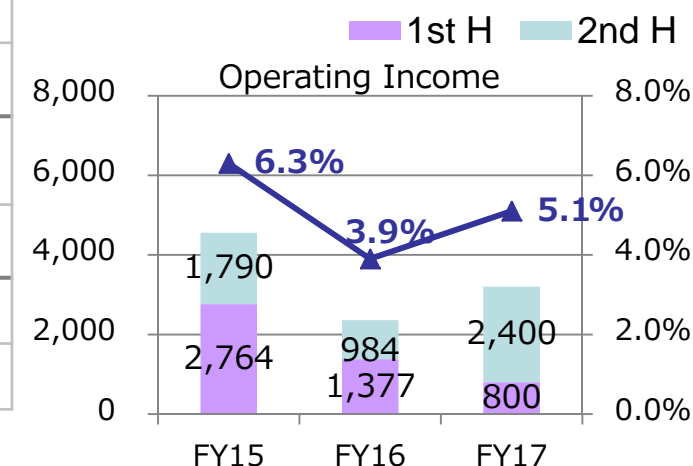
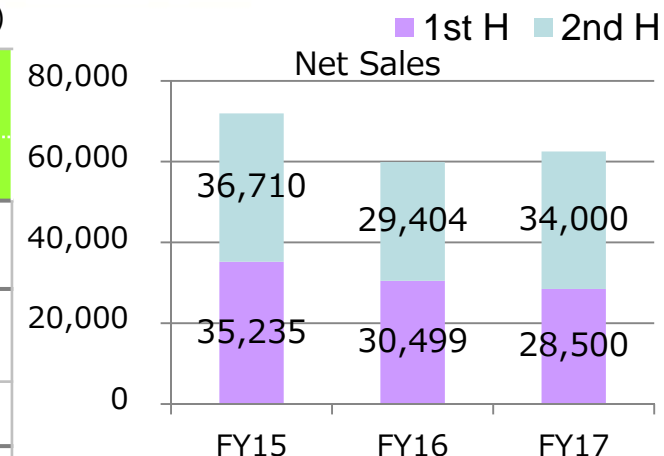


II . FY2017 Financial Forecast

II -1. FY2017 Forecast

(millions of JPY)

	Actual FY16 (a)	Forecast FY17 (b)	Inc / Dec	
			(b)-(a)	%
Net Sales	59,903	62,500	2,596	104.3%
Operating Income	2,361	3,200	838	135.5%
(% Sales)	3.9%	5.1%	1.2%	—
Ordinary Income	2,855	3,200	344	112.0%
(% Sales)	4.8%	5.1%	0.3%	—
Net Income	1,482	2,240	757	151.1%
(% Sales)	2.5%	3.6%	1.1%	—
JPY – 1 USD	108.79	105.00	(3.79)	—
JPY – 1 Euro	120.31	113.00	(7.31)	—



【FY2017 Forecast】

- Based on the assumption of continuation of JPY appreciation as well as slightly decrease in digital camera market.
- Difficult economic environment continues, but forecasting increase in sales and profit: more than 30% increase in operating income.

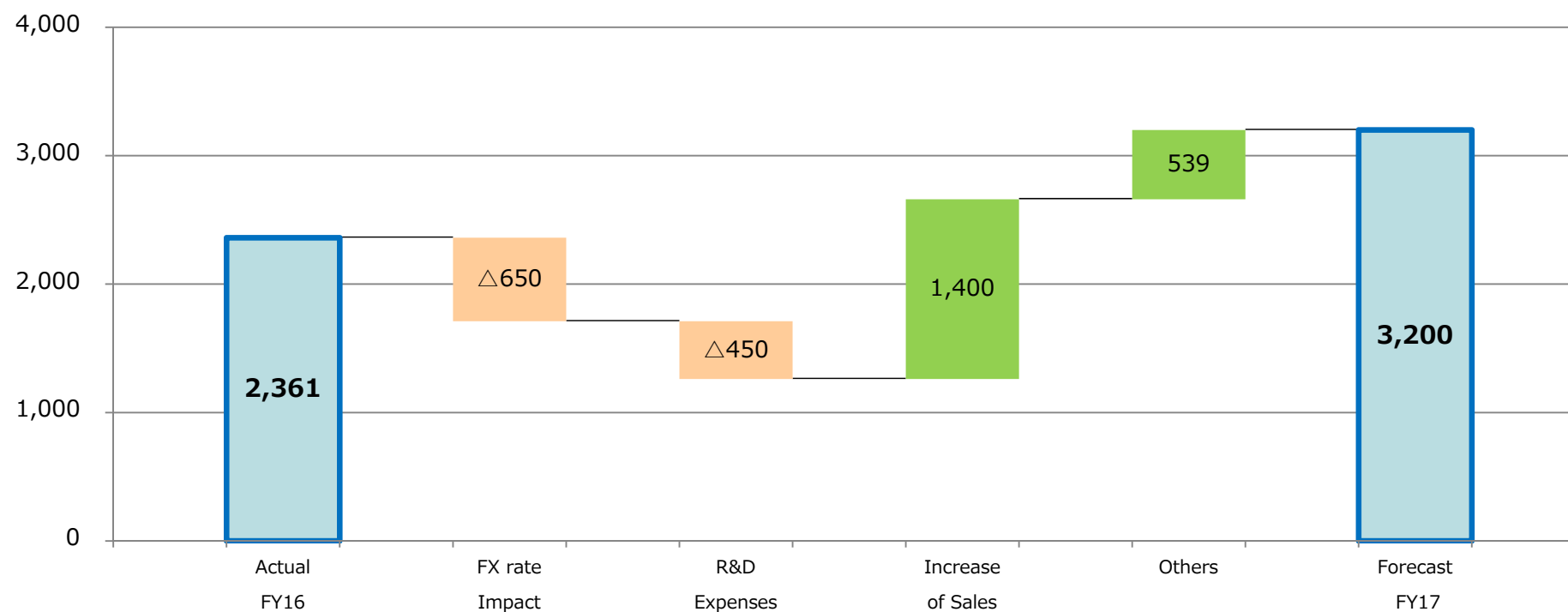
II -2. FY2017 Performance Variation Factors vs.FY2016

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※ Factors of Increase in Sales (vs. FY16)

Factors	Impact for Sales (millions of JPY)
FX impact vs. FY16	(1,850)
Others	4,450
Total	2,600

(millions of JPY)



II -3. FY2017 Forecast by Segment

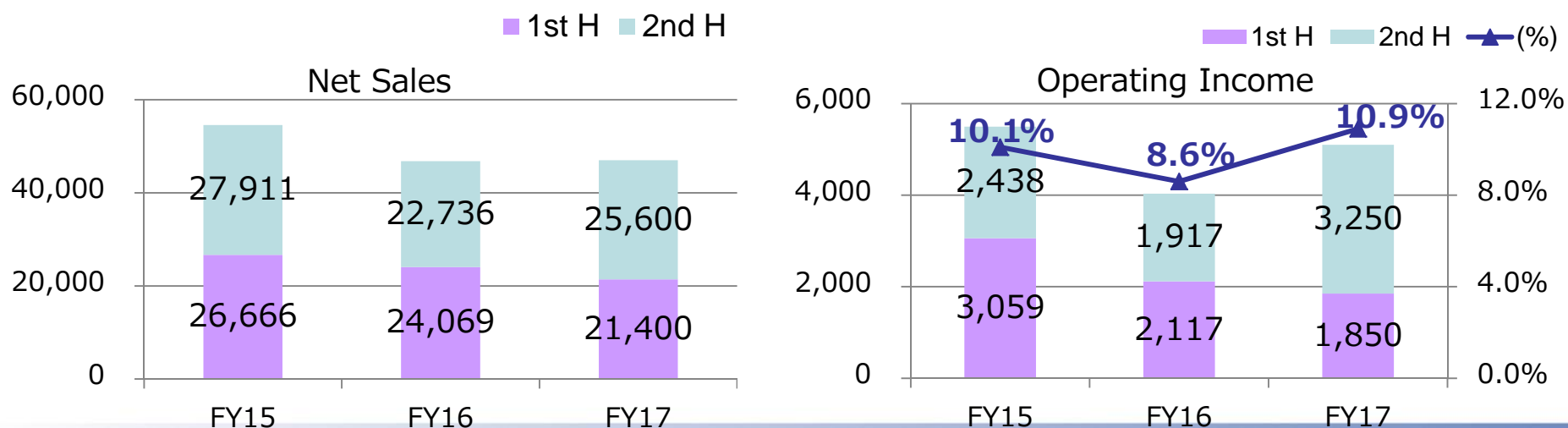
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1) Photographic Products

(millions of JPY)

	Actual FY16 (a)	Forecast FY17 (b)	Inc / Dec	
			(b)-(a)	%
Net Sales	46,805	47,000	194	100.4%
Operating Income	4,034	5,100	1,065	126.4%
(% Sales)	8.6%	10.9%	2.3%	—

- OEM model sales decreases, but aiming to increase in own-branded model sales by launching new models (already announced and launched 3 models), leading more than 20% increase in operating income.



II -3. FY2017 Forecast by Segment

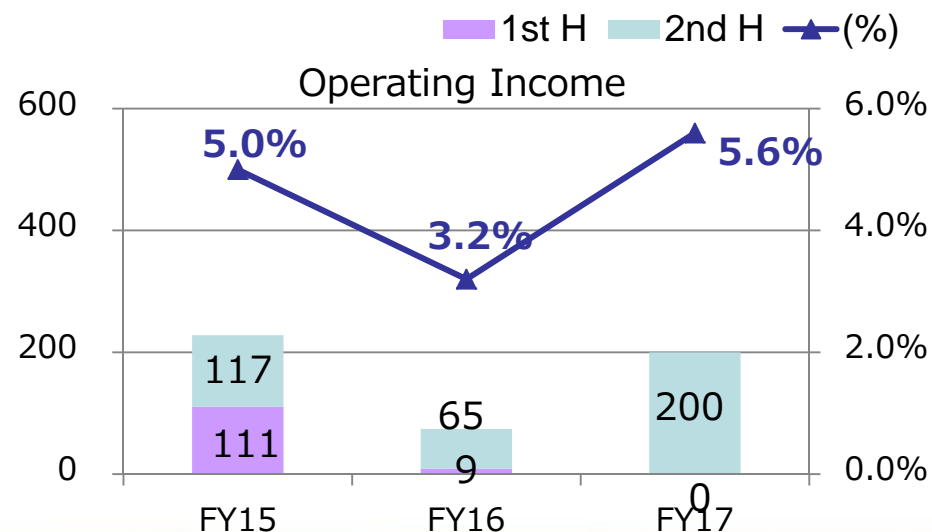
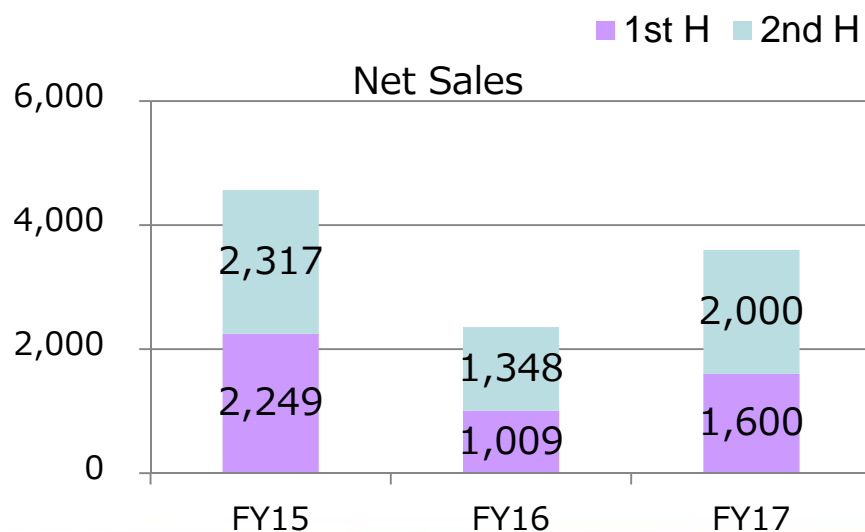
2) Optical Components

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(millions of JPY)

	Actual FY16 (a)	Forecast FY17 (b)	Inc / Dec	
			(b)-(a)	%
Net Sales	2,358	3,600	1,241	152.7%
Operating Income	75	200	124	265.4%
(% Sales)	3.2%	5.6%	2.4%	-

- Expecting DSC and VC sales to decrease, but aiming greater increase in sales and operating income by entering into drone market.



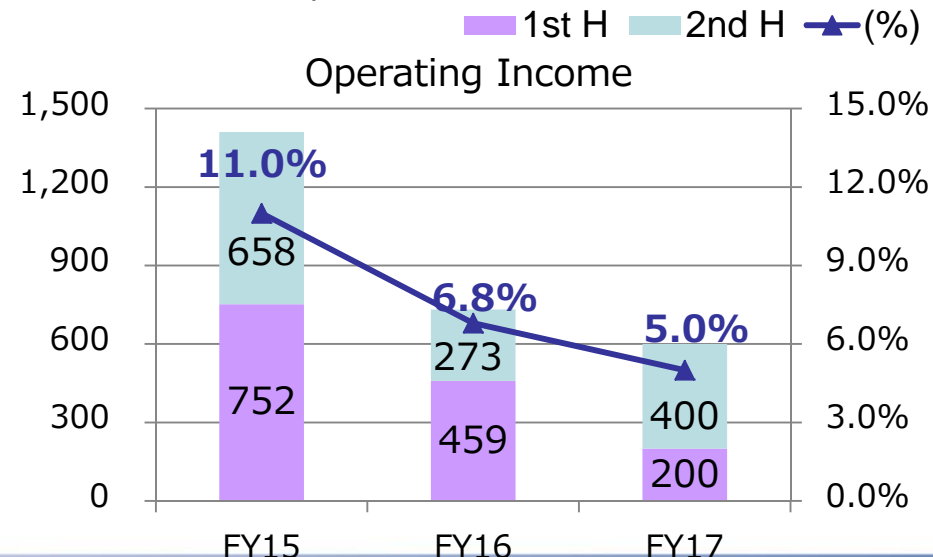
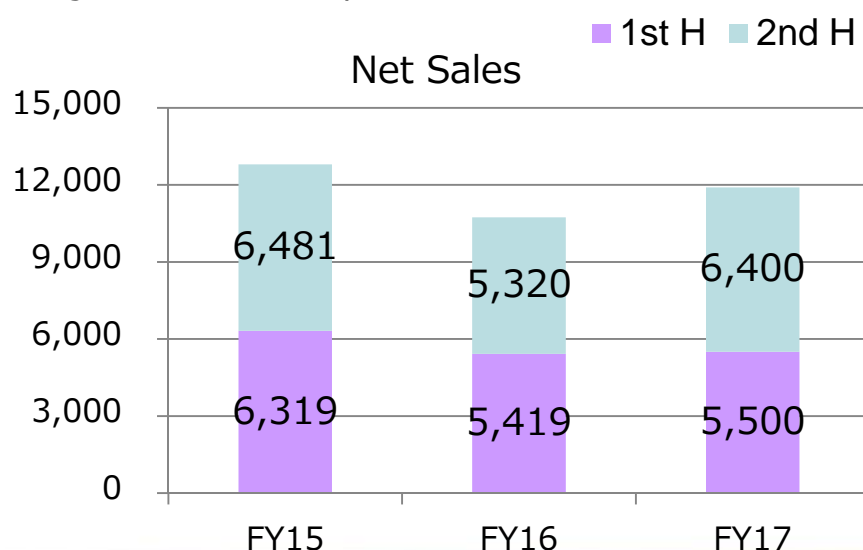
II -3. FY2017 Forecast by Segment

3) Commercial / Industrial-use Optics

(millions of JPY)

	Actual FY16 (a)	Forecast FY17 (b)	Inc / Dec	
			(b)-(a)	%
Net Sales	10,739	11,900	1,160	110.8%
Operating Income	733	600	(133)	81.8%
(% Sales)	6.8%	5.0%	(1.8)%	—

- Operating income decreases due to increase in investment and expenses related to new business development, together with steady sales increase of Automotive Camera Lens and recovery in sales of CCTV Lens.

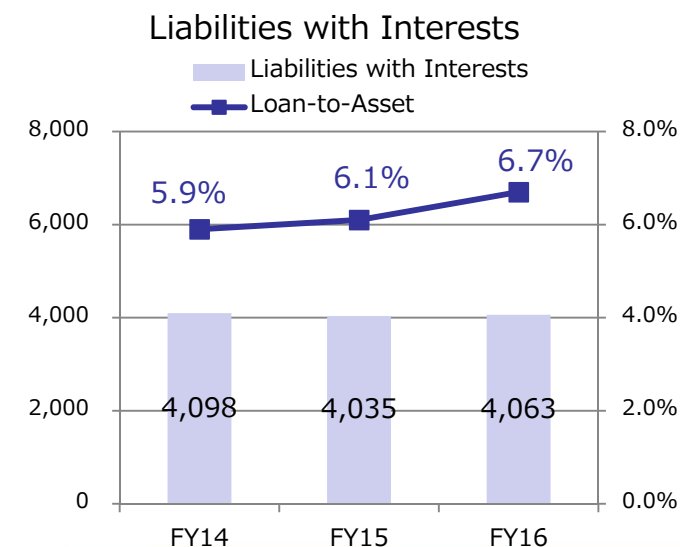
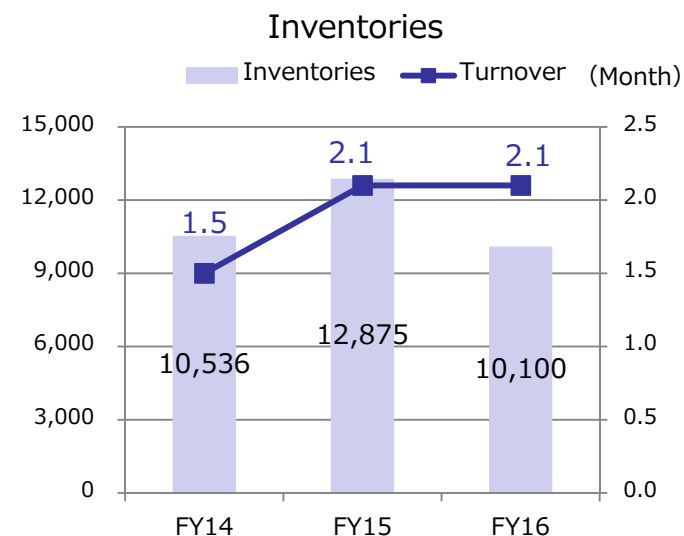


Ⅲ. Financial Situation

Ⅲ-1. Financial Summary

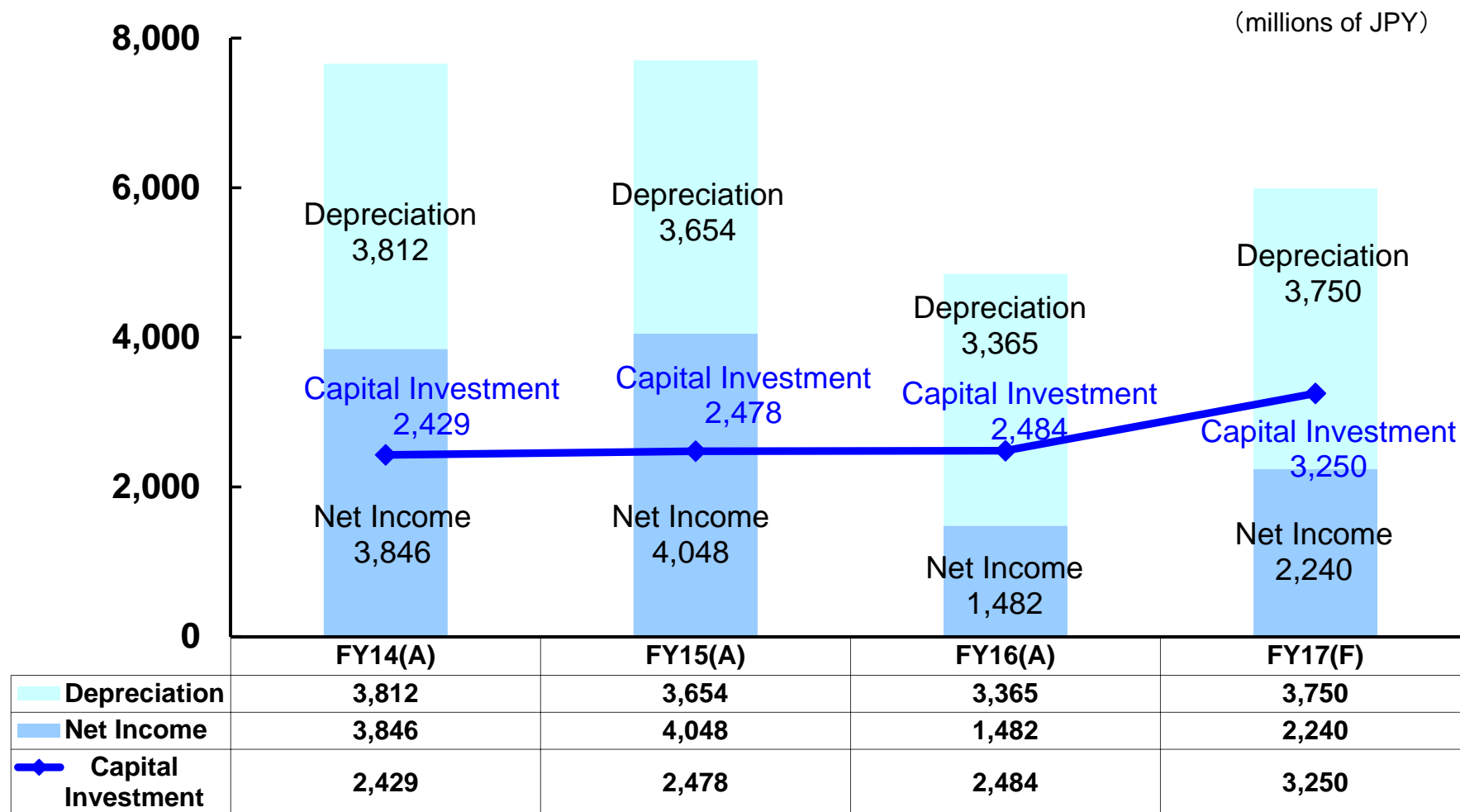
(millions of JPY)

	FY 15 (a)	FY 16 (b)	Change (b)-(a)
Cash and Deposits	14,192	16,030	1,837
Notes and Accounts Receivable	15,804	13,419	(2,385)
Inventories	12,875	10,100	(2,774)
Other Current Assets	2,047	2,039	(8)
Non-Current Assets	21,114	19,320	(1,794)
Total Assets	66,035	60,910	(5,125)
Total Current Liabilities	14,594	11,388	(3,206)
Total Non-Current Liabilities	2,439	2,200	(238)
Total Net Assets	49,001	47,321	(1,680)
Total Liabilities and Net Assets	66,035	60,910	(5,125)
Ratio of Net Assets	74.2%	77.7%	3.5%



Ⅲ-2. Capital Investment & Depreciation

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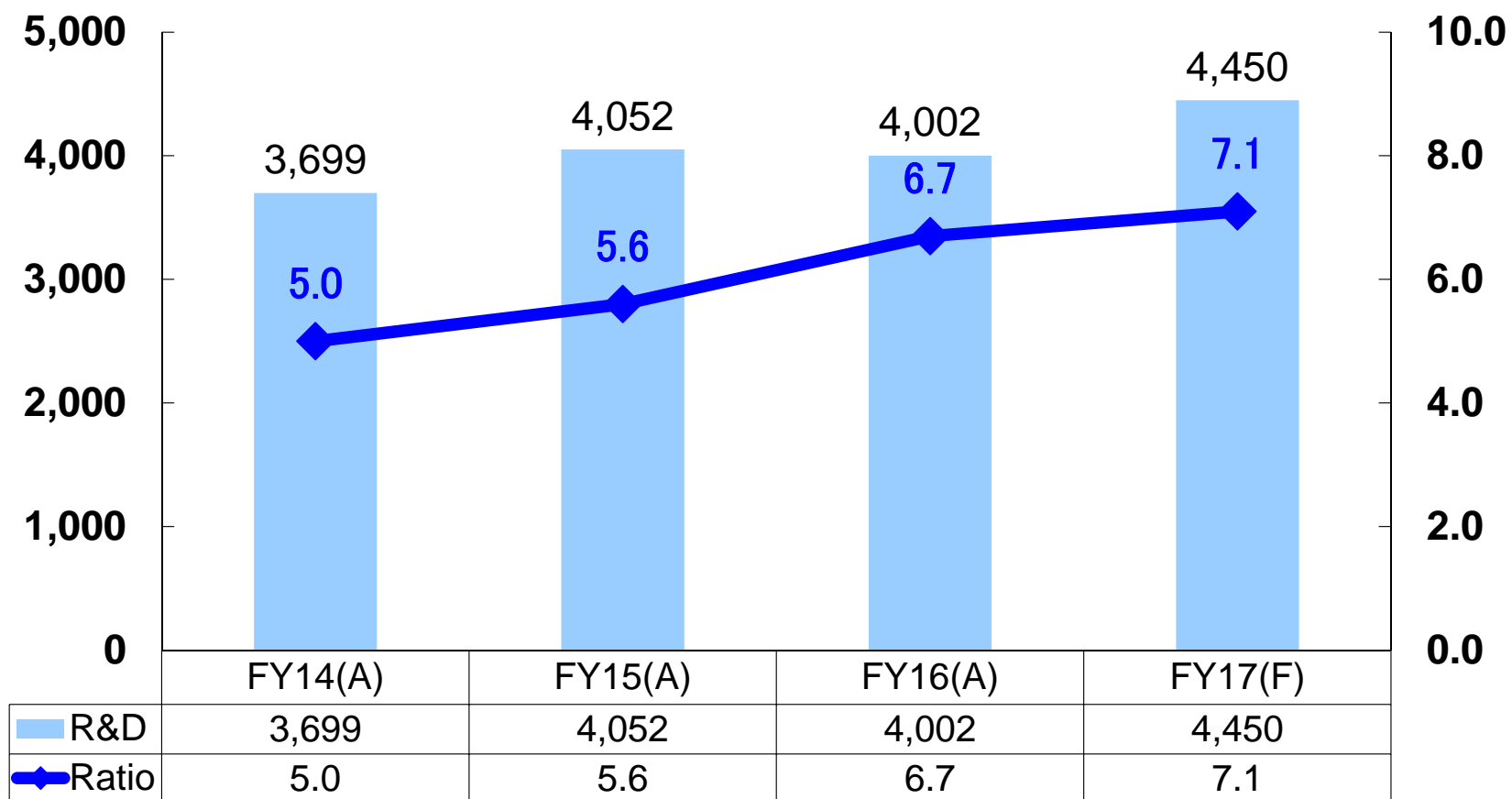


* (A): Actual (F): Forecast

Ⅲ-3. Research & Development Expenses

(millions of JPY)

(%)



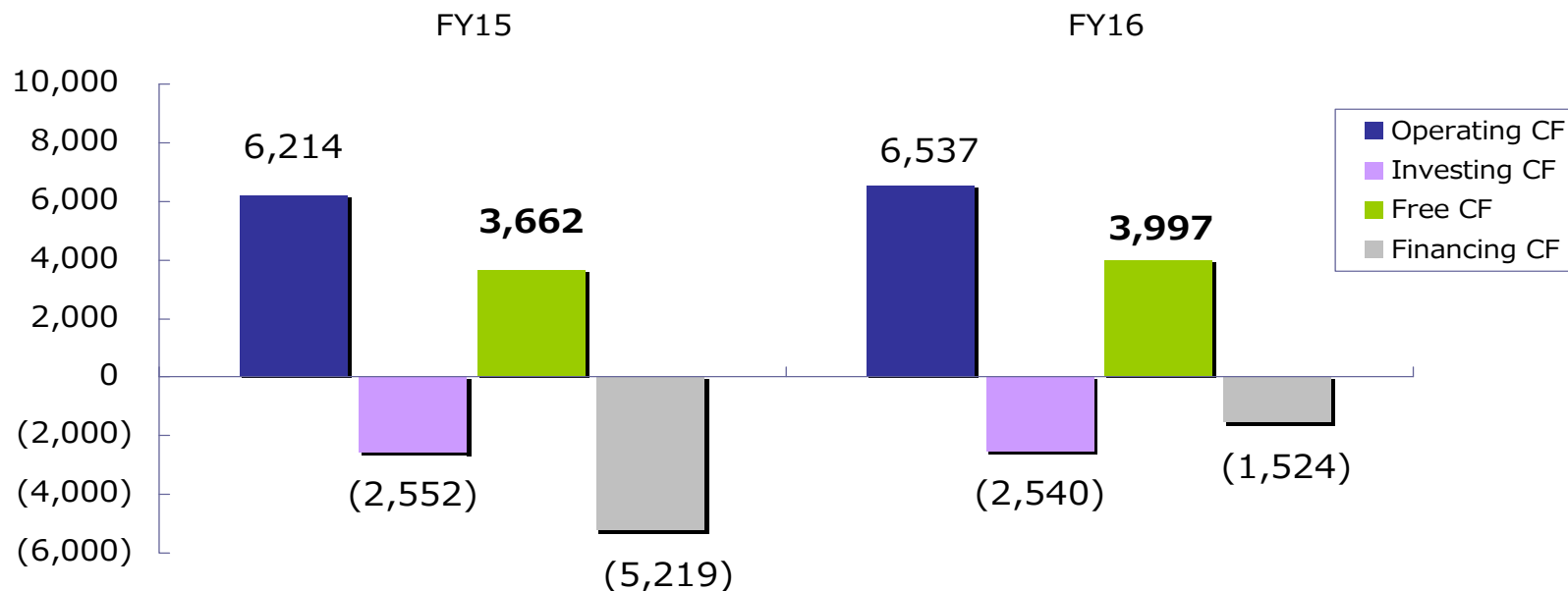
* R&D Cost/Net Sales Ratio

* (A): Actual (F): Forecast

Ⅲ-4. Cash Flow Situation

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(millions of JPY)



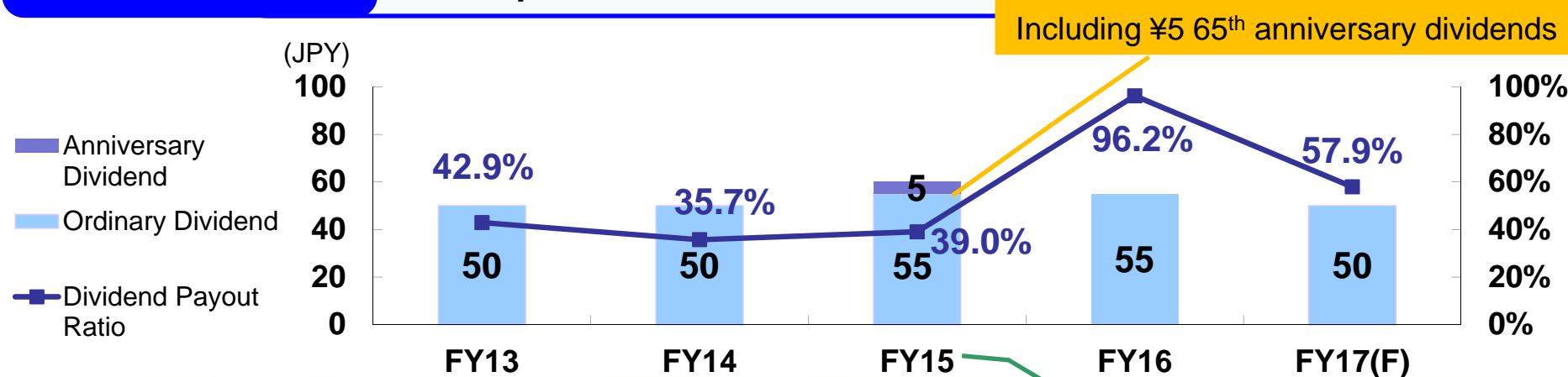
	FY15	FY16
Cash Flow from Operating Activities	6,214	6,537
Cash Flow from Investing Activities	(2,552)	(2,540)
Free Cash Flow	3,662	3,997
Cash Flow from Financing Activities	(5,219)	(1,524)
Cash and Cash Equivalents at the End of Period	14,192	16,030
Liquidity (Months)	2.37	3.21

Ⅲ-5. Cash Dividends Outlook

	(JPY)				
	FY13	FY14	FY15	FY16	FY17(F)
Interim	20.00	20.00	25.00	25.00	25.00
Year-End	30.00	30.00	35.00	30.00	25.00
Annual	50.00	50.00	60.00	55.00	50.00
Dividends Payout Ratio (Consolidated)	42.9%	35.7%	39.0%	96.2%	57.9%

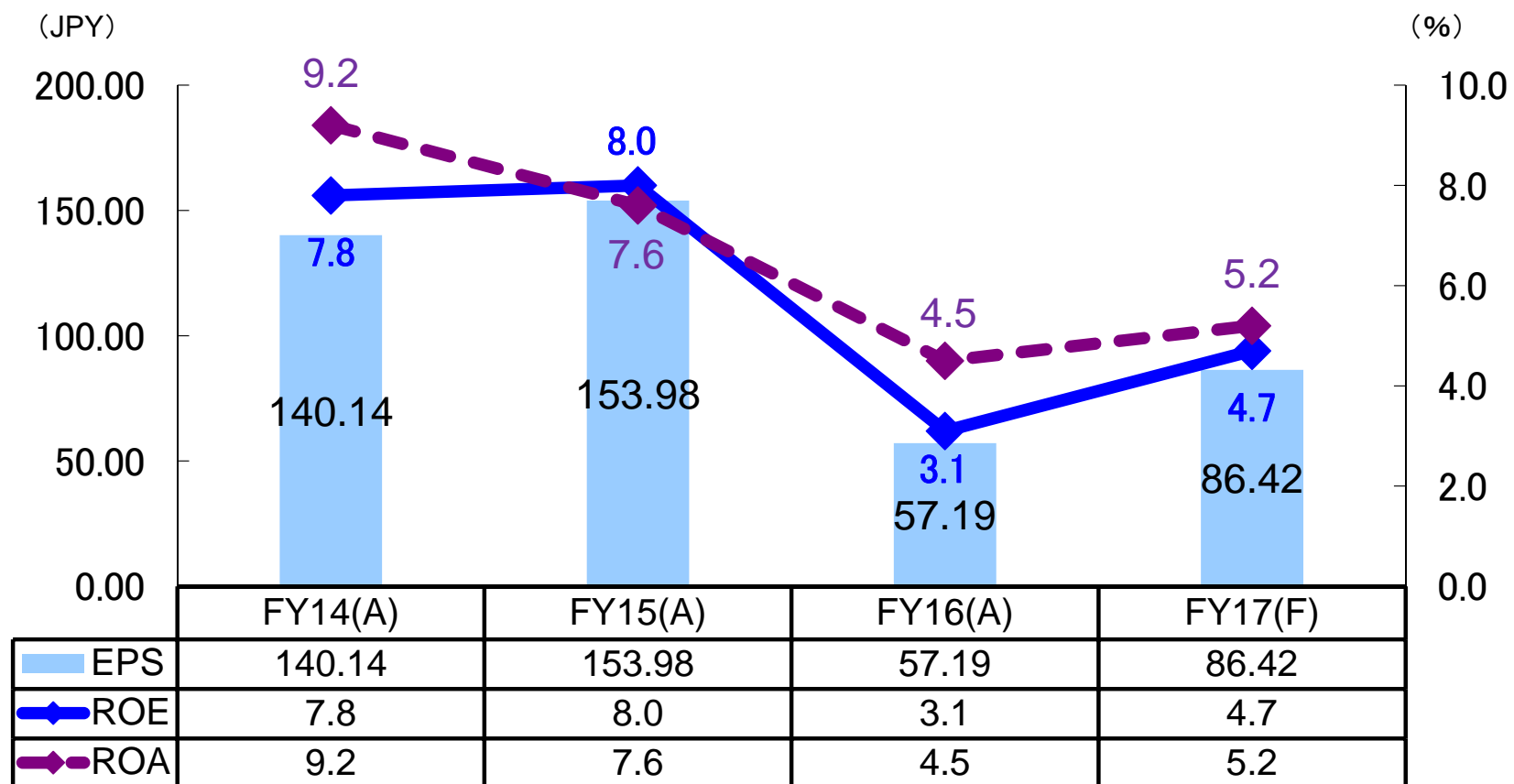
Dividend Policy

- Dividend Payout Ratio Target: 35% (Consolidated)
- Keep Stable Dividend



III-6. Reference Data

1) Key Performance Index



❖ ROE = Net Income / Net Assets (Average for FY)

❖ ROA = Ordinary Income / Total Assets (Average for FY)

❖ (A): Actual (F): Forecast

III-6. Reference Data

2) Impact of Foreign Exchange Rate Fluctuations

Actual FY2016

(JPY)

(million of JPY)

	Exchange Rate		Impact	
	Actual FY15	Actual FY16	Net Sales	Operating Income
USD	121.11	108.79	(3,400)	(200)
Euro	134.35	120.31	(1,350)	(1,150)
Others	-	-	(800)	(50)
Total	-	-	(5,550)	(1,400)

(Impact on FY2015 Actual performance)

Forecast FY2017

(JPY)

(million of JPY)

	Exchange Rate	Impact of ¥1 appreciation	
	Assumption FY17	Net Sales	Operating Income
USD	105.00	(290)	-
Euro	113.00	(100)	(90)

IV. Mid-Term Strategy

Shiro Ajisaka, President & CEO

IV-1. Agendas for Transformation

<u>Agenda</u>	<u>Direction</u>	<u>Action Plan</u>
Reinforce Sales & Marketing	<ul style="list-style-type: none"> • Enhance Marketing Functions • Proposal-Based Sales Activities 	<ul style="list-style-type: none"> • Enhance proposal-based sales activities • Create pull-demands and increase repeat customer rate
Customer Values	<ul style="list-style-type: none"> • Innovative & Exciting Product Planning 	<ul style="list-style-type: none"> • Reinforce functions of Product Planning Dept. (from product planning to launch) • Establish mechanism to feed market needs to product planning
Globalization of Sales, Production, & R&D	<ul style="list-style-type: none"> • Re-Organize Sales Network • Re-Organize Manufacturing Process 	<ul style="list-style-type: none"> • Expand territories covered by US subsidiary • Realignment of sales network in Asia • Initiate R&D for CCTV Lens in China factory • Optimize use of 3 factories (JPN/CHN/VNM)
Re-Building of R&D Process	<ul style="list-style-type: none"> • R&D Investment in Future Business • Shorten R&D L/T 	<ul style="list-style-type: none"> • Start full-scale operation of Opto-Science R&D Center • Increase efficiency in R&D process
New Business Development	<ul style="list-style-type: none"> • Operational & Capital Partnership with External Organization 	<ul style="list-style-type: none"> • Build partnership with external organization • Selection and concentration of resources • Leverage alliances and M&A
Corporate Management	<ul style="list-style-type: none"> • Organizational & HR System Restructuring • Enhance Corp. Governance 	<ul style="list-style-type: none"> • Flatter & slimmer organization structure (integration of Imaging Products Biz. Unit) • Review HR evaluation system • Build suitable corporate governance system • Efforts to improve productivity in each dept.

IV- 2. Mid-Term Management Goals

Improve Profitability through Well-Balanced Business Portfolio

(Reduce Ratio of Digital Camera Lens: 80% of Total Sales in FY2016 ⇒ 60% in FY2019)

Mid-Term Management Goal toward FY2019

Net Sales	¥76.0 billion
Operating Income	¥7.0 billion
(% Sales)	9.2%
R O E	10% or more

Assumed exchange rate: US\$1=105JPY, €1=113JPY

IV-3. Business Strategy

	Sales Target	Business Strategy
Photographic Products	<p>¥53.0 billion (69.7%) <small>*Composition Ratio</small></p>	<p>Improve profitability as core business ⇒ Enhance business foundation</p> <ul style="list-style-type: none"> • Timely launch of new products with innovative & exciting features. • Leverage sales activities in emerging markets. • Strengthen sales activities in countries with lower market shares. • Enhance proposal-based sales approaches for OEM business. <p>FY19 sales: ¥35.0billion</p>

Launched in 2016

Launched in Feb. 2016



Macro

90mm F/2.8 VC USD (F017)

Launched in Mar. 2016



Fixed Focal

85mm F/1.8 VC USD (F016)

Launched in Sep. 2016



Ultra Tele Zoom

150-600mm F5-6.3 VC USD G2 (A022)

FY2017~: Increase New Model Launch

Vigorous efforts to bring more new products by improving R&D efficiency & shortening R&D L/T

FY2017

Launched In Feb. 2017



Tele Zoom

SP 70-300mm VC USD (A030)

Launched In Feb. 2017



Large-Aperture Tele Zoom

SP 70-200mm F/2.8 VC USD G2(A025)

Launched In Feb. 2017






Ultra Wide Zoom

10-24mm VC HLD (B023)

More new models to come in FY2017

IV-3. Business Strategy

	Sales Target	Business Strategy
Optical Components	<p>¥4.0 billion (5.3%) <small>*Composition Ratio</small></p>	<p>Reallocation of R&D resources ⇒ Explore new business fields</p> <ul style="list-style-type: none"> • Enter into drone market→ FY19 sales:3.3 billion (R&D tie-up and partnership with a market leader) • Increase efficiency of investment in existing business segments • Promoting LWIR Lens business overseas <div style="text-align: right;">  <p>Entry to drone market</p> </div>
Commercial/Industrial-use Optics	<p>¥19.0 billion (25.0%) <small>*Composition Ratio</small></p>	<p>Investment in new business ⇒ For develop future core business</p> <ul style="list-style-type: none"> • Initiate R&D in China to recapture CCTV Lens business • Grow Automotive Camera Lens sales to match its market growth → FY19 sales: 3.3 billion • Expand camera module business (compact/Ultra-sensitive camera module, etc.) by integrating core optics technologies and ones of new fields • Explore & launch new businesses through cooperation with external partners (including M&A) <div style="display: flex; justify-content: space-around; align-items: flex-end;"> <div style="text-align: center;">  <p>Surveillance camera lenses</p> </div> <div style="text-align: center;">  <p>Automotive camera lenses</p> </div> </div>

1. The purpose of this material is to provide information on the “FY2016 Financial Results” and future business strategies. It is NOT an offer or a solicitation of an offer to buy or sell securities.
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