



April 28, 2016

To whom it may concern

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## Notice Regarding Introduction of Performance-linked Stock Compensation Scheme for Directors

NTN Corporation (the “Company”) would like to announce as follows because its Board of Directors has passed a resolution to introduce new performance-linked stock compensation scheme for our directors (hereinafter, such scheme shall be referred to as the “Scheme”; external directors and non-Japan residents shall be excluded from the word “directors”; hereinafter, the same meaning shall apply) at its meeting held on April 28, 2016.

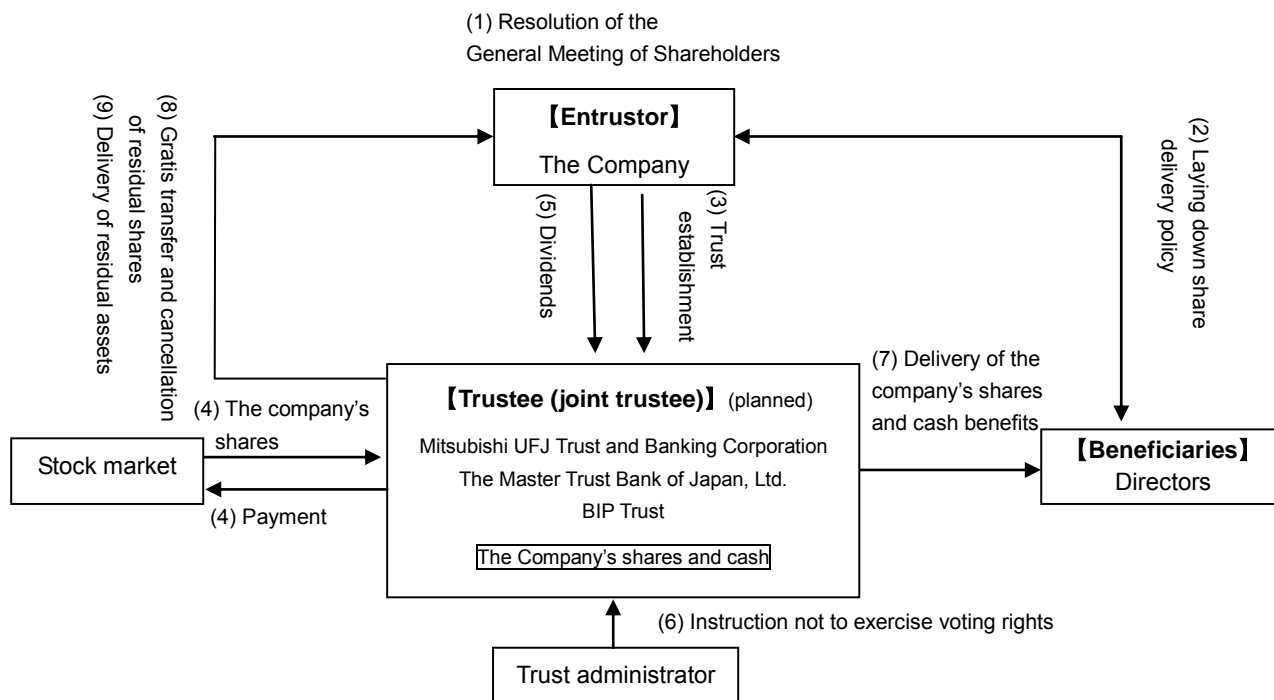
Introduction of the Scheme requires an approval of the 117th term Annual General Meeting of Shareholders scheduled to be held on June 24, 2016 (hereinafter, such meeting shall be referred to as the “General Meeting of Shareholders”).

### 1. Introducing the Scheme

- (1) The Company will introduce the Scheme that will serve as highly transparent and objective director's remuneration plan closely linked with our corporate performance as shown in our medium-term management plan so that our directors will raise their willingness to improve our medium- and long-term corporate performance, contribute to expanding shareholder values and successfully share benefits with our shareholders (\*1).
- (2) Introducing the Scheme for our directors requires the General Meeting of Shareholders to pass the resolution on director's remunerations.
- (3) When introducing the Scheme, the Company will employ a framework called Board Incentive Plan Trust (hereinafter, referred to as “BIP Trust”). BIP Trust is an executive incentive plan modeled on Performance Share and Restricted Stock plans in the United States. BIP Trust will acquire the Company shares as well as cash equivalent to monetary value of the Company shares and deliver/grant them to our directors based on several factors, such as their rank and how much the directors have attained its medium-term management targets.

(\*1) After introducing the Scheme, compensation of our directors will consist of “basic remunerations,” “annual-type incentives (bonuses)” and “medium- and long-term incentives (stock compensation).” Compensation of our external directors who are independent from business operations will be only “basic remunerations.”

## 2. Structure of BIP Trust



- (1) The Company will obtain an approval on director remunerations at the General Meeting of Shareholders in relation to introduction of the Scheme.
- (2) The Company will, at the board of directors meeting, lay down Shares Delivery Policy concerning director remunerations in relation to introduction of the Scheme.
- (3) The Company will entrust money to the extent as approved by the resolution at the General Meeting of Shareholders in (1) above and establish a trust (the "Trust") wherein our directors that meet the beneficiary requirements are beneficiaries.
- (4) The Trustee (of the Trust) will acquire the Company shares from the stock market by spending money entrusted in (3) above in accordance with the instructions of the trust administrator. The number of shares acquired by the Trust shall stay within the limitation as approved at General Meeting of Shareholders in (1) above.
- (5) The Company will pay dividends for the Company shares in the Trust in the same manner as other Company shares.
- (6) Voting rights of the Company shares in the Trust will not be exercised during the trust term.
- (7) During the trust term, the Company will grant certain points to our directors in line with several factors, such as their rank and how much the directors have attained its medium-term management targets. Around July immediately after the end of three consecutive accounting years covered with any medium-term management plan (i.e., around July 2018 is the first timing in this case), the Company will deliver to a director the Company shares equivalent to a certain percentage of their points granted if the director satisfies certain requirements as a beneficiary. As for the Company shares corresponding to the remaining points, the Company will grant cash equivalent to the market value of such Company shares after getting converted into cash in the Trust in accordance with the trust agreement.
- (8) If there are remaining shares at the expiry of the trust term due to non-achievement of performance targets or any other reason during the trust term, the Trust may continue to be used as a type of incentive plan similar to the Scheme by extending the trust agreement and entrusting additional money to the Trust, or the Trust may voluntarily convey said remaining shares to the Company and the Company may acquire them without payment and cancel the remaining shares by a resolution at the Board of Directors.
- (9) Residual assets after distribution to beneficiaries at the time of winding up the Trust will belong to the Company to the extent of allowances for trust expenses, which are calculated as the trust money less share acquisition funds. The portion exceeding the allowances for trust expenses will be donated to

groups that have no vested interest with the Company and Company officers (directors, non-Japan resident directors, external directors and auditors; hereinafter, the same meaning shall apply).

(Note) The Company may continue the Scheme by entrusting additional money to the Trust and acquiring additional Company shares for the Scheme to the extent of the trust money (the sum of share acquisition fund, trust fee and trust expenses) and the maximum number of the Company shares to be delivered (as set forth in 3.(6) below) as approved with a resolution of the General Meeting of Shareholders.

### 3. Details of the Scheme

#### (1) Overview of the Scheme

Paying attentions to relation with the medium-term management plan publicly announced by the Company and setting target at three consecutive accounting years covered with the medium-term management plan (hereinafter, these three years shall be referred to as the "Eligible Period")(\*2), the Scheme will deliver the Company shares, etc. as officers' remuneration at a certain timing after the elapse of the Eligible Period in line with several factors, such as their rank and how much the directors have stained its medium-term business targets. However, because there are two years remaining in the current medium-term management plan, the first period will only cover two accounting years consisting of the accounting year ending on the last day of March 2017 and that ending on the last day of March 2018 in order to align with applicable periods of the current medium-term management plan.

(\*2) If the trust term is extended in line with (4) below, the Eligible Period shall consist three consecutive accounting years covered with the subsequent medium-term management plan.

#### (2) Procedures to introduce the Scheme

The upper limit of the amount to be paid to the Trust, the maximum number of the Company shares to be delivered to directors and some other necessary matters will be resolved by the General Meeting of Shareholders. In addition, if the trust term is extended (see (4) below), the Board of Directors will resolve to extend the trust agreement and entrust additional money to the Trust at the expiry of the trust term to the extent approved by a resolution of the General Meeting of Shareholders.

#### (3) Eligibility under the Scheme

If any Company director satisfies the following beneficiary requirements and goes through the predetermined beneficiary determination procedures, the Company director will get delivered from the Trust the number of Company shares equivalent to his/her Shares Granting Points (as defined in (5) below).

- 1) He/she is in office as director during the Eligible Period (including any person starting to serve as new director in the Eligible Period) (\*3) (\*4) (\*5);
- 2) He/she is not an external director;
- 3) He/she resides in Japan;
- 4) He/she is given Share Granting Points as set forth in (5) below;
- 5) He/she has not left office due to his/her own convenience, dismissal, etc., or has not conducted certain illegal activities during his/her time in office; and
- 6) He/she satisfies other requirements deemed necessary to attain the purpose of the Scheme.

(\*3) If a director resigns, the director will, without delay after taking necessary procedures, get delivered 50% of the Company shares equivalent to his/her Share Granting Points accumulated until the time of his/her resignation (fractional shares shall be rounded down). As for remaining shares, the director will get delivered cash equivalent to market value of such remaining Company shares after getting converted into cash.

(\*4) If a director becomes a non-Japan resident, the director will receive from the Trust the cash equivalent to market value of the Company shares after getting converted into cash as accumulated until such timing.

(\*5) If a director passes away during his/her time in office as a director, the successor of such director will, without delay after taking predetermined procedures, receive from the Trust cash equivalent to market value of the number of the Company shares based on his/her Share Granting Points as accumulated until his/her death.

(4) Trust term

Trust term for the Trust will be for three years. However, the first trust term shall be for appropriately two years from August 1, 2016 (planned) until the last day of August 2018 (planned). At the expiry of the trust term, the Company may continue the Trust by extending the trust agreement or putting additional money to the Trust. In this case, the trust term will be extended for additional three years. If extended trust term is terminated, then the Company may further extend it in some cases. In these cases, the Company will entrust additional money to the Trust to the extent of upper limit of trust money as approved at the General Meeting of Shareholders for each extended trust term and will continue giving our directors their Share Granting Points for further extended trust terms.

However, in cases where such additional entrustment is made and there are remaining Company shares (excluding the Company shares not delivered to directors corresponding to their Share Granting Points) and cash (hereinafter, collectively referred to as the "Remaining Company Shares") in the trust assets at the time of amending the trust agreement, the sum of the Remaining Company Shares and the additional contribution of trust money shall stay within the upper limit of trust money as approved by the resolution at the General Meeting of Shareholders.

(5) Share Granting Points granted to directors

On June 1 every year in the trust term, and in line with some factors such as director's rank and how much the directors have attained performance target of its medium-term management plan in the accounting year ending on the last day of March in the said year (hereinafter, such accounting year shall be referred to as "Evaluated Accounting Year"), the Company will give our directors certain Share Granting Points. The Share Granting Points will be determined in line with director's rank and his/her performance in the Evaluated Accounting Year and will be granted every year in the trust term (\*6). One point shall be equivalent to one Company's share (\*7).

(\*6) Performance target of each Evaluated Accounting Year means applicable performance target as set forth in medium-term management plan.

(\*7) If it is fair to adjust Share Granting Points due to some factors, such as share split or reverse share split, in the trust term, then appropriate adjustment will be made in accordance with the relevant share split ratio, reverse share split ratio, etc.

(6) Upper limit of trust money contributed to the Trust and maximum number of the Company shares delivered from the Trust

The following table shows the upper limit of trust money contributed to the Trust by the Company as well as the maximum number of the Company shares delivered to our directors.

	For two accounting years (the first trust term)	For three accounting years
Upper limit of trust money contributed to the Trust (*8)	230 million yen	345 million yen
Maximum number of the Company shares delivered to our directors	1,100 thousand shares	1,650 thousand shares

(\*8) Equivalent to the sum of the Trust's share acquisition funds, trust fees and trust expenses during the trust term.

The Company sets such trust money upper limit based on possible Company shares that will be necessary to get delivered if the directors attain the maximum corporate performance as set forth in the medium-term management plan. The maximum number of the Company shares delivered is determined with reference to the most recent stock prices and some other factors, while paying due attentions to the upper limit of the aforementioned trust money.

(7) Method for acquiring the Company's shares by the Trust

The Trust plans to acquire the Company shares for the first time from the stock market to the extent of the upper limit of the trust money as set forth in (6) above.

If an increase in the Company's directors or other possible factor has resulted in a possible shortage of the Company shares in the Trust that our directors will receive in line with their Share Granting Points in the trust term, then the Company may entrust additional cash to the Trust and additionally acquire the Company shares to the extent of the upper limit of trust money as approved by the General Meeting of Shareholders in (6) above.

(8) Method and timing of delivery of the Company shares, etc. to directors

As set forth in (5) above, the Company will give eligible directors their Share Granting Points based on several factors, such as their rank and how much the directors have attained performance targets as set forth in the medium-term management plan, in each accounting year in the Eligible Period. Around July immediately after the end of the Eligible Period (i.e., around July 2018 is the first timing in this case), the Trust will deliver to a director the Company shares equivalent to 50% of his/her Share Granting Points accumulated. As for remaining Company shares, the director will get delivered cash equivalent to market value of such remaining Company shares after getting converted into cash in the Trust.

(9) Exercising voting rights related to the Company shares in the Trust

Voting rights related to the Company shares in the Trust (i.e., the Company shares before getting delivered to directors in line with (8) above) will not be exercised during the trust term, in order to ensure neutrality of the Company's corporate management.

(10) Treatment of dividends on surplus related to the Company shares in the Trust

The Trust will receive dividends on surplus related to the Company shares in the Trust and spend them to cover its trust fees and trust expenses. Any residue emerging at the end of the Trust will be donated to groups that have no vested interest with the Company and Company officers. If the Company continues using the Trust as set forth in (11) below, such residual fund will be spent as share acquisition fund.

(11) Treatment at the end of the trust term

If there are residual shares at the end of the trust term due to non-attainment of business performance targets during the Eligible Period, the Company may continue to use the Trust as a similar incentive plan to the Scheme by amending the trust agreement and entrusting additional money to the Trust. If the Trust is terminated due to expiry of the trust term, the Trust will, aiming at improved return to our shareholders, transfer said remaining shares to the Company without compensation and the Company will cancel said shares by a resolution at the Board of Directors.

(Reference)

[Trust Agreement Contents]

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| (1) Type of Trust:                     | An individually operated designated trust of cash other than cash trust (third party benefit trust)  |
| (2) Purpose of Trust:                  | To grant incentives to our directors   |
| (3) Entrustor:                         | The Company  |
| (4) Trustee:                           | Mitsubishi UFJ Trust and Banking Corporation<br>(Joint trustee: The Master Trust Bank of Japan, Ltd.)  |
| (5) Beneficiaries:                     | Directors that satisfy beneficiary requirements  |
| (6) Trust administrator:               | A third person who has no vested interest with the Company<br>(Certified public accountant)  |
| (7) Date of trust agreement (planned): | August 1, 2016   |
| (8) Trust term (planned):              | From August 1, 2016 to the last day of August 2018<br>(The Company will start granting points on June 1, 2017)   |
| (9) Start of the Scheme (planned):     | September 1, 2016  |
| (10) Exercise of voting rights:        | No voting rights will be exercised   |
| (11) Type of acquired shares:          | The Company's ordinary shares  |
| (12) Upper limit of trust money:       | 230 million yen (planned) (including trust fees and trust expenses)  |
| (13) Timing to acquire shares:         | From August 4, 2016 to September 23, 2016  |
| (14) Method of share acquisition:      | To be acquired from the stock market   |
| (15) Vested rights holder:             | The Company  |
| (16) Residual properties:              | Residual properties that the Company is entitled to receiving as the holder of vested rights, will stay within the extent of allowances for trust expenses, which are calculated as trust money less share acquisition fund. |

[Administrative tasks related to the trusts and shares]

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| (1) Administrative tasks related to the trust:  | Mitsubishi UFJ Trust and Banking Corporation and The Master Trust Bank of Japan, Ltd. are to handle trust-related administrative tasks as trustees of BIP Trust.   |
| (2) Administrative tasks related to the shares: | Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. is to handle administrative tasks related to delivering the Company's shares to beneficiaries based on an administrative tasks entrustment agreement. |

End