

Company Name	Nifco Inc.
Head Office	5-3 Hikarinooka, Yokosuka-shi, Kanagawa
Company Code	7988 (1 <sup>st</sup> Board TSE)
Rep. Director	President & Representative Director Toshiyuki Yamamoto
Contact Person	Executive Managing Officer, Chief Financial Officer, Junji Honda (TEL 03-5476-4853)

Notice Concerning the Introduction of ESOP Trust for Granting Stock (Details) and Disposal of Treasury Shares through Third-Party Allotment

Nifco Inc. (hereinafter referred to as the “Company”) announces that a resolution to introduce an incentive plan for the employees of the Company, the Employee Stock Ownership Plan (ESOP) Trust for granting stock (hereinafter referred to as the “Plan”), was passed at the Board of Directors meeting held on May 11<sup>th</sup>, 2018. Details of the ESOP Trust including the time of its creation, period, etc. were determined at the Board of Directors meeting held on July 31<sup>st</sup>, 2018. The details are outlined below.

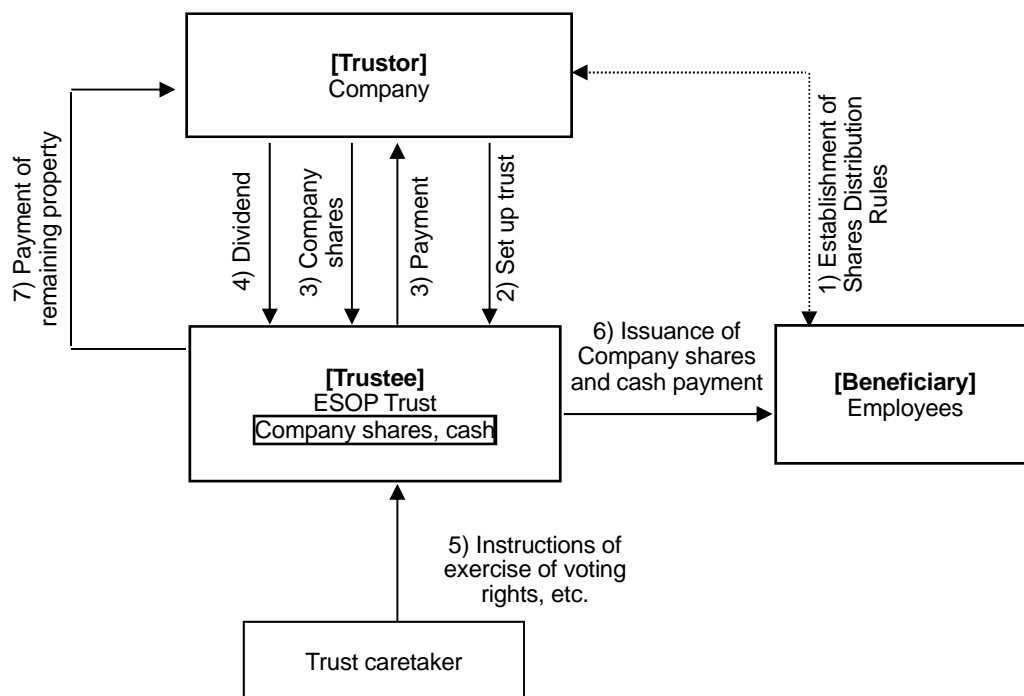
1. Introduction of the Plan

- (1) The Company will introduce the Plan in an effort to give and foster the sense of belonging and taking part in management of the Company among its employees, and encourage them or raise their morale to improve performance and increase the price of the Company shares in the long term, as well as for the purpose of achieving medium- to long-term improvement in its corporate value.
- (2) The Plan will adopt a scheme called the ESOP (Employee Stock Ownership Plan) Trust for granting stock (hereinafter referred to as the “ESOP Trust”). The ESOP Trust is an incentive plan for employees based on the ESOP in the United States, in which the shares of the Company acquired through the ESOP Trust are delivered to senior/executive-level employees who meet certain requirements and employees who make a significant contribution to the Company, in accordance with predefined the Company Shares Distribution Rules. There are no costs to be imposed on employees as the funds for the shares of the Company acquired through the Trust will be all contributed by the Company.
- (3) The introduction of the ESOP Trust is expected to motivate share-price-conscious employees to work harder and keep their morale high through economic benefits that they can receive as a result of the rising price of the Company shares. The intentions of employees, as beneficiary candidates, can be reflected through the exercise of voting rights associated with the Company shares that belong to trust assets under the ESOP Trust. Thus, it is effective as a plan to enhance corporate value that encourages employees to participate in management.

### **[Details of trust agreement]**

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|---|---|
| 1) Type of trust                          | Money trust, an individually operated designated trust of money other than money trust (third party benefit trust)  |
| 2) Purpose of trust                       | Provision of incentives to employees of the Company   |
| 3) Trustor                                | The Company   |
| 4) Trustee                                | Mitsubishi UFJ Trust and Banking Corporation<br>(Co-trustee, The Master Trust Bank of Japan, Ltd.)  |
| 5) Beneficiary                            | Employees who meet beneficiary requirements   |
| 6) Trust caretaker                        | A third party who is an expert practitioner with no interest in the Company   |
| 7) Date of trust agreement                | August 27, 2018 (scheduled)   |
| 8) Trust period                           | August 27, 2018 – August 31, 2022 (scheduled)   |
| 9) Effective date                         | October 1, 2018 (scheduled)   |
| 10) Exercise of voting rights             | A trustee exercises voting rights to the shares of the Company in accordance with an order from a trust caretaker which reflects the exercise of voting rights by beneficiary candidates.                 |
| 11) Class of shares to be acquired        | Common shares of the Company  |
| 12) Total amount of shares to be acquired | 150 million yen (including trust fee and expenses)  |
| 13) Method of acquiring shares            | Acquisition through third-party allotment of the treasury shares of the Company   |
| 14) Holder of vested rights               | Company   |
| 15) Remaining property                    | The remaining property that the Company is eligible to receive as a holder of vested rights shall be to the extent of the trust expense reserve after deducting share acquisition costs from trust funds. |

(Reference 1) Scheme of ESOP Trust



- 1) To introduce the Plan, the Company establishes the Company Shares Distribution Rules.
  - 2) The Company sets up an ESOP Trust account with cash, and the beneficiary is employees who meet beneficiary requirements.
  - 3) The ESOP Trust acquires the Company shares in the number that is expected to be issued for a beneficiary within the trust period either from the Company or in the stock market, in accordance with the trust caretaker's orders, with cash contributed to the Trust as in 2) above as a source of funds.
  - 4) The ESOP Trust receives the distributed dividends as a shareholder of the Company.
  - 5) In relation to the Company shares under the ESOP Trust, the trust caretaker gives orders to exercise rights as a shareholder such as voting rights throughout the trust period, and the ESOP Trust exercises rights as a shareholder accordingly.
  - 6) In accordance with the Company Shares Distribution Rules, the Company shares are issued to employees who meet certain requirements. (Or the Company shares under the Trust are translated into cash and paid out to beneficiaries in some cases.)
  - 7) The remaining property after the distribution to the beneficiary when the ESOP Trust is settled/cleared belongs to the Company as a holder of vested rights to a certain extent.
- \* In the event that there are no Company shares outstanding in the Trust as a result of the delivery of the Company shares to employees who meet beneficiary requirements, the Trust terminates before the trust period ends. The Company may entrust additional cash to the ESOP Trust as funds to purchase the Company shares.

(Reference 2) Details of trust and shareholder affairs

- 1) Trust affairs Mitsubishi UFJ Trust and Banking Corporation and the Master Trust Bank of Japan, Ltd. act as a trustee of the ESOP Trust to handle trust affairs.
  - 2) Shareholder affairs Mitsubishi UFJ Morgan Stanley Securities, Co., Ltd. delivers the Company shares to beneficiaries under a transfer agency agreement.
2. The disposal of treasury shares

(1) Outline of the disposal

1) Date of the disposal	August 29, 2018
2) Class and number of shares to be disposed of	41,200 common shares
3) Disposal price	¥3,372 per share
4) Total amount of the disposal	¥138,926,400
5) Allottees	The Master Trust Bank of Japan, Ltd. (ESOP trust account)
6) Other	The disposal of treasury shares is subject to the coming into force of the notification under the Financial Instruments and Exchange Act.

(2) Purpose of and reason for the disposal

Due to the introduction of the ESOP Trust, the Company will dispose of its treasury shares through third-party allotment to the co-trustee, the Master Trust Bank of Japan, Ltd. (ESOP Trust account), under the ESOP Trust agreement which was executed between the Company and Mitsubishi UFJ Trust and Banking Corporation.

The number of shares to be disposed of is the number of shares expected to be issued to employees during the trust period in accordance with the Company Shares Distribution Rules, and the extent of dilution after such disposal will be 0.04% of the total number of shares issued as of April 1, 2018, 107,508,954 shares (third decimal place is rounded up or down; the ratio to total voting rights as of April 1, 2018 (1,042,522) will be 0.04%).

(3) Basis of calculation for disposal price and details thereof

To eliminate any arbitrariness given recent share price fluctuations, the disposal price is set as the average closing price of the Company shares at the Tokyo Stock Exchange (hereinafter referred to as the "TSE") for a period of one month prior to the resolution of the Board of Directors concerning the disposal (from July 2, 2018 to July 30, 2018), ¥3,372 (amount less than 1 yen is rounded down). The average closing price of the Company shares for a period of one month prior to the resolution of the Board of Directors is adopted because the Company believes that the leveled value of average share price over a certain period is more objective and reasonable as a calculation base than the price at a specific point of time, since the impact of temporary volatility in the share price, etc. can be eliminated.

In addition, the disposal price is equal to 99.91% of the closing price of the Company shares on the day preceding the day of the resolution of the Board of Directors (July 30, 2018), ¥3,375 (deviation: -0.09%), 91.81% of the average closing price for a period of 3 months prior to the day of the resolution of the Board of Directors (from May 1, 2018 to July 30, 2018), ¥3,673 (amount less than 1 yen is rounded down, deviation: -8.19%), or 90.94% of the average closing price for a period of 6 months prior to the day of the resolution of the Board of Directors (from January 31, 2018 to July 30, 2018), ¥3,708 (amount less than 1 yen is rounded down, deviation: -9.06%). The Company thus judges that the disposal price is not particularly favorable. With regard to the above disposal price, all the four corporate auditors of the Company (including two external corporate auditors) have expressed their opinion that the price does not constitute a favorable price and thus is legitimate.

(4) Procedures under the Code of Corporate Conduct of the TSE

It is not necessary to obtain an opinion from an independent third party or to take any procedure to confirm the intent of shareholders as set forth in Article 432 of the Securities Listing Regulations of the TSE, because: (a) the dilution ratio after the disposal is less than 25%; and (b) it does not involve any change in controlling shareholders.