

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

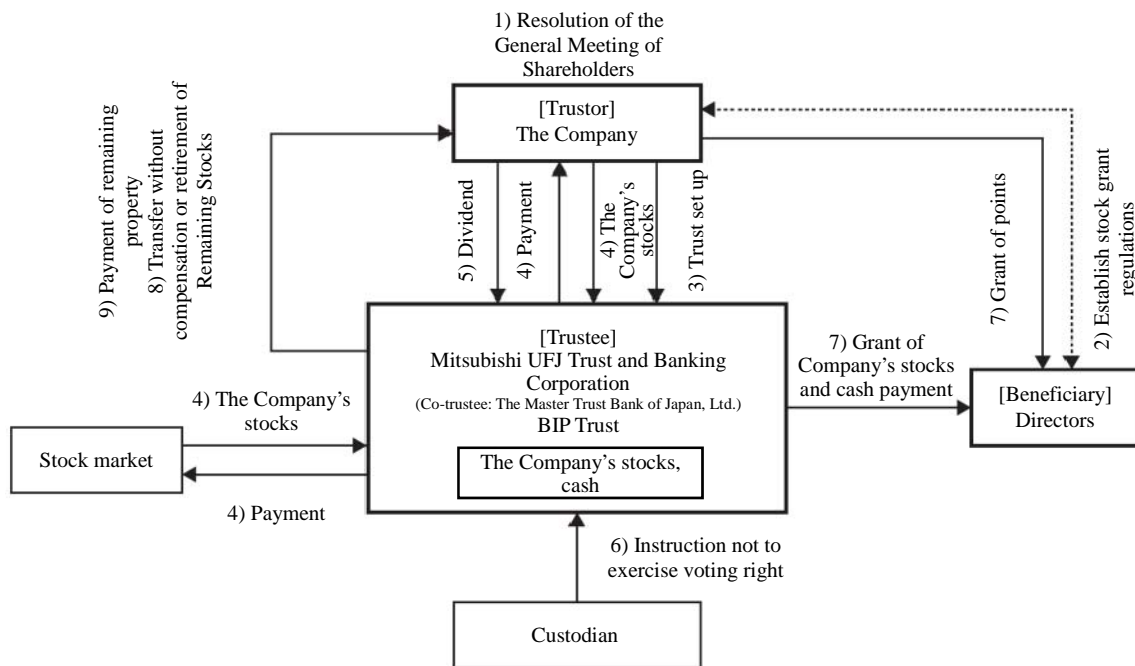
Announcement of the Introduction of Performance-Linked Stock-Based Compensation Plan for Directors

The Company announce that, at its meeting held on May 23, 2016, the Board of Directors passed the resolution to introduce a new Performance-Linked Stock-Based Compensation Plan (hereinafter referred to as the “Plan”) for the Directors (excluding external directors and those who are non-residents in Japan; collectively the “Directors, etc.”) of the Company, and that the Company has decided to submit a proposal for introduction of the Plan, whose detailed contents are provided below, to the 64th Annual General Meeting of Shareholders to be held on June 24, 2016 (hereinafter referred to as the “General Meeting of Shareholders”).

1. Introduction of the Plan

- (1) The Company will introduce the Plan for Directors, etc. with the aim of defining the relationship between remuneration of Directors, etc. and the Company's stock value, and providing an incentive for increasing mid- and long-term business performance and corporate value.
- (2) Introduction of the Plan is subject to the approval of a resolution of directors' remuneration at this General Meeting of Shareholders.
- (3) The Plan will adopt a scheme called the Board Incentive Plan (hereinafter, referred to as “BIP Trust”). BIP Trust refers to an incentive plan for officers with reference to the performance share plan and restricted stock plan in the U.S., under which the BIP Trust purchases Company's stocks and then grants and provides (hereinafter, referred to as “Grant, etc.”) such stocks, as well as cash corresponding to realization value of Company's stocks (hereinafter, referred to as “the Company's Stocks, etc.”) to Directors, etc. according to the performance achieved upon their retirement.
- (4) After introduction of the Plan, the Company's remuneration to Directors, etc. will consist of “basic remuneration,” “bonus,” and “stock-based compensation.” Remuneration of external directors who are independent of the execution of operations shall consist of “basic remuneration” and “bonus.”

2. Plan overview



- 1) The Company will propose a resolution for the remuneration of officers at the General Meeting of Shareholders with regard to introducing the Plan.
- 2) The Company will establish stock grant regulations in the Plan at the Board of Directors.
- 3) The Company will, within the range of approval resolved at the General Meeting of Shareholders in 1), set up a trust that is entrusted with cash by the Company as a resource for remunerating the Company's Directors, etc., and whose beneficiaries are Directors, etc. who meet beneficiary criteria.
- 4) The Trust will follow instructions of the custodian and purchase Company's stocks on the stock market or from the Company (sale of treasury stocks) using funds contributed in 3) as resources. The number of stocks to be purchased by the Trust shall be within the range approved by this General Meeting of Shareholders in 1).
- 5) Dividend shall be paid for Company's stocks held in the Trust as with Company's other stocks.
- 6) During the trust period, Company's stocks held in the Trust shall not include the right to exercise voting rights.
- 7) During the trust period, each year, certain points shall be granted to Directors, etc. according to (1) the performance targets achieved in each fiscal year, including consolidated sales and consolidated operating income, (2) achievement of medium-term business plan targets (ROIC) in the last fiscal year of the medium-term business plan, and (3) their positions. The Grant, etc. of Company's Stocks, etc. shall be executed for Directors, etc. who satisfy certain beneficiary criteria according to Accumulated Points (defined in (5) below; hereinafter, the same shall apply) upon their retirement.
- 8) In the event that there are stocks remaining at the close of the trust period because performance targets cannot be achieved during the trust period, the Trust may be continued by changing the trust agreement and additional trust, or the Trust may transfer such remaining stocks to the Company without compensation and the Company may obtain those stocks without charge, so as to retire them according to a resolution of the Board of Directors.
- 9) Upon termination of the Trust, any property remaining after distribution to beneficiaries will be attributable to the Company within the range of the trust expense reserve which deducts stock acquisition cost from trust funds.

- * In the event that the Trust has no Company's stock as a result of the Grant, etc. of Company's Stocks, etc. to Directors, etc. who meet beneficiary criteria, the Trust shall terminate before the close of the trust period. The Company may entrust additional cash to the Trust as funds to purchase the Company's stocks to the extent approved at this General Meeting of Shareholders.

(1) Overview of the Plan

Subject to three fiscal years from the fiscal year ending 31st March, 2017 until the fiscal year ending 31st March, 2019 (hereinafter, referred to as the "Targeted Period") (*), the Plan will provide the Grant, etc. of Company's Stocks, etc. as officers' remuneration when Directors, etc. retire, according to (1) the performance targets achieved in each fiscal year, including consolidated sales and consolidated operating income, (2) achievement of medium-term business plan targets (ROIC) in the last fiscal year of the medium-term business plan, and (3) their positions.

(*) If the trust period is extended as stated in the second paragraph in (4) below, the respective three fiscal years onward shall become the "Targeted Period."

(2) Procedures for introducing the Plan

At this General Meeting of Shareholders, we propose to limit cash to be contributed to the Trust, the upper limit of points to be granted to Directors, etc. for each Targeted Period (defined in (5) below), and other necessary matters.

If the trust period is extended as stated in the second paragraph in (4) below, the extension shall be determined by a resolution of the Board of Directors to the extent approved at this General Meeting of Shareholders.

(3) Eligible persons under the Plan (Beneficiary criteria)

Subject to meeting the following beneficiary criteria, Directors, etc. are eligible for the Grant, etc. for the number of the Company's Stocks, etc. according to Accumulated Points (defined in (5) below) by taking the procedures to determine beneficiaries upon their retirement.

Beneficiary criteria are as follows:

- 1) Remaining Company's Directors, etc. during the Targeted Period (including those who become new Directors, etc. during the Targeted Period),
- 2) Retiring Directors, etc. (*),
- 3) Not involved in non-compliance issues during his/her service,
- 4) Accumulated Points are determined as defined in (5) below, and
- 5) Other requirements that are necessary for achieving the purpose of stock-based compensation.

(*) In the event that the trust period is extended as stated in the second paragraph in (4) below and if there is any person who serves as Director, etc. under the Plan at the end of the extended trust period, the Trust shall be terminated at that time. The Grant, etc. of the Company's Stocks, etc. shall be executed for such Directors, etc., even though they do not retire.

(4) Trust period

Approximately three years from 22nd August, 2016 (scheduled) to 31st August, 2019 (scheduled)

With a change in the trust agreement and additional trust at the end of the trust period, the trust period of the Trust shall be extended for the same period as the original trust period (three years). If there are Company's stocks (excluding Company's stocks equivalent to points granted to Directors, etc., and which the Grant, etc. has not been completed) and cash as of the last day of the former trust period (hereinafter, referred to as "Remaining Stocks, etc.") in case of additional contribution, the total of Remaining

Stocks, etc. and trust funds to be additionally contributed shall be within the upper limit of trust funds to be approved at this General Meeting of Shareholders.

If the trust agreement is not changed and additional trust is not executed at the end of the trust period, points shall not be granted to Directors, etc. subsequently. However, if there are any Directors, etc. who may meet beneficiary criteria at that time, the trust period of the Trust may be extended up to ten years until such Directors, etc. retire and the Grant, etc. of the Company's Stocks, etc. is completed.

- (5) The number of Company's stocks subject to the Grant, etc. to Directors, etc.

Every June during the trust period, points shall be granted to Directors, etc. according to (1) the performance targets achieved in the fiscal year ended 31st March in that year (i.e. the previous fiscal year; hereinafter, referred to as "Target Fiscal Year"), (2) achievement of medium-term business plan targets (ROIC) in the last fiscal year of the medium-term business plan, and (3) their positions. The number of points to be granted shall be determined within 80% to 120%, assuming the level of the reference performance target to be 100%.

One point shall equal one Company stock. In the event that Company's stocks increase or decrease due to a stock split or a consolidation of stock, and an adjustment of points is determined to be fair, the Company shall adjust the number of Company's stocks per point according to ratio of the stock split or the consolidation of stock.

The accumulated number of points (hereinafter, "Accumulated Points") are calculated upon the retirement of Directors, etc. and the Grant, etc. of the Company's Stocks, etc. shall be executed according to Accumulated Points.

- (6) The upper limit of trust funds to be contributed to the Trust and the upper limit of points to be granted to Directors, etc.

Trust funds to be contributed by the Company to the Trust during the trust period shall be up to 400 million yen (*).

At this General Meeting of Shareholders, we plan to propose approval of the upper limit of points to be granted to Directors, etc. for each Targeted Period as 101,000 points. If the resolution is passed, the number of stocks Directors, etc. are eligible to receive as the Grant, etc. from the Trust (hereinafter, referred to as "Number of Stocks Obtained") shall be up to the number of stocks equivalent to such points (101,000 shares).

* It is the sum of funds to purchase stocks by the Trust and trust fee and expenses during the trust period.

- (7) Method of purchasing the Company's stocks by the Trust

The Trust plans to purchase the Company's stocks initially on the stock market or from the Company (sale of treasury stocks) to the extent of trust funds and within the range of the Number of Stocks Obtained in the (6) above.

In the event that the number of stocks in the Trust is not sufficient for the number of stocks corresponding to Accumulated Points established for each Director, etc., the Company may contribute additional funds to the Trust to purchase additional stocks of the Company, up to the trust funds approved by this General Meeting of Shareholders and within the range of the Number of Stocks Obtained in (6) above.

- (8) Method and Timing of the Grant, etc. of Company's Stocks, etc. to Directors, etc.

Upon retirement, Directors, etc. who meet the beneficiary criteria in (3) above shall be eligible for the Grant, etc. of Company's Stocks, etc. that are equivalent to 70% of Accumulated Points (fractional shares are rounded down), and receive cash equivalent to realization value of Company's stocks remaining that are realized by the Trust. If a Director, etc. dies during the trust period, all Company stocks corresponding to Accumulated Points granted as of that date shall be realized in the Trust and paid to the heir of the Director, etc. in the form of cash equivalent to realization value.

(9) Exercise of voting rights on the Company's stocks in the Trust

The Company's stocks held in the Trust shall not include the right to exercise voting rights during the trust period, in order to ensure the neutrality of the management.

(10) Treatment of dividend of retained earnings of Company's stocks held in the Trust

Dividend of retained earnings of Company's stocks held in the Trust shall be received by the Trust to be appropriated for its trust fee and expenses. If there is any dividend remaining at the close of the Trust after using dividends for trust fee and expenses, such dividend shall be paid to Directors, etc. who meet given beneficiary criteria and become beneficiaries of the Trust based on the trust agreement at the close of the Trust.

(11) Treatment at the close of the trust

In the event that there are stocks remaining at the close of the trust period because performance targets cannot be achieved, the Trust may transfer such remaining stocks to the Company without compensation as shareholder returns, and the Company plans to retire these stocks according to a resolution of the Board of Directors.

(Reference)

[Details of trust agreement]

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| 1) Type of trust | Money held in trust other than specified individually managed money in trust (third-party-benefit trust) |
| 2) Objectives of trust | Granting of incentives to Company's Directors, etc. |
| 3) Trustor | The Company |
| 4) Trustee | Mitsubishi UFJ Trust and Banking Corporation
(Co-trustee: The Master Trust Bank of Japan, Ltd.) |
| 5) Beneficiary | Any Directors, etc. who meet beneficiary criteria |
| 6) Custodian | Third party who has no interest in the Company (certified public accountant) |
| 7) Trust agreement date | 22 nd August, 2016 (scheduled) |
| 8) Trust period | From 22 nd August, 2016 (scheduled) to 31 st August, 2019 (scheduled) |
| 9) Start date of the Plan | 22 nd August, 2016 (scheduled) |
| 10) Exercise of voting right | Voting right shall not be exercised. |
| 11) Class of stock to be acquired | The Company's common stock |
| 12) The upper limit of trust funds | 400 million yen (scheduled) (including trust fee and expenses) |
| 13) Holder of a vested right | The Company |
| 14) Remaining property | Remaining property for which the Company is eligible to receive as a holder of a vested right shall be within the range of the trust expense reserve derived by deducting stock acquisition cost from trust funds. |

[Details of trust and shareholder affairs]

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| 1) Trust affairs | Mitsubishi UFJ Trust and Banking Corporation will act as trustee of BIP Trust to handle trust affairs. |
| 2) Shareholder affairs | Mitsubishi UFJ Morgan Stanley Securities, Co., Ltd. will deliver the Company's stocks to beneficiaries under a transfer agency agreement. |