

May 20th, 2019

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
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Announcement of the Continuation of and Partial Revisions to Performance-Linked
Stock-Based Compensation Plan for Directors

The Company announces that, at its Board of Directors meeting held on May 20, 2019, it decided to submit a proposal (hereinafter referred to as the “Proposal”) for the continuation of and partial revisions to the Performance-Linked Stock-Based Compensation Plan (hereinafter referred to as the “Plan”) for the Directors and Executive Officers (excluding External Directors and those who are non-residents of Japan; collectively “Directors, etc.”) of the Company to the 67th Annual General Meeting of Shareholders to be held on June 21, 2019 (hereinafter referred to as the “General Meeting of Shareholders”), as described below. The Plan was introduced in 2016.

1. Continuation of the Plan

- (1) The Company has decided to submit the Proposal to the General Meeting of Shareholders, 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) The Plan stipulates the granting etc. of the Company’s stocks, etc. (hereinafter referred to as the “Grant, etc.”) basically depending on the positions and the performance targets achieved during fiscal years under the Company’s Medium-to-Long Term Management Plan (hereinafter referred to as the “Targeted Period”). The continuation of the Plan is subject to the approval of the partial revisions to the Plan described in 2. below as part of the resolution for Directors’ remuneration at the General Meeting of Shareholders.
- (3) Under the Plan, a scheme called the Board Incentive Plan (hereinafter referred to as the “BIP Trust”) has been adopted. If the continuation of the Plan beyond fiscal 2018 is approved, the period of this Trust will be extended.

2. Partial revisions to the Plan

In connection with the continuation of the Plan, the provisions of the current Plan are partially revised as follows. Regarding the details of the Plan other than those described below, please see the “Announcement of the Introduction of Performance-Linked Stock-Based Compensation Plan for Directors” dated May 23, 2016.

(1) The Plan’s Targeted Period and trust period

The Targeted Period of the newly approved Plan will be two fiscal years (fiscal years ending March 2020 and 2021; hereinafter the “Target Period”), and the trust period after the extension is two fiscal years from September 1, 2019 (scheduled) to August 31, 2021 (scheduled), so that the Plan’s Targeted Period corresponds to the period of the Company’s Medium-to-Long Term Management Plan.

With a change in the trust agreement and additional trust at the end of the trust period, the trust period of the Trust may be extended. In this case, the number of years under the Medium-to-Long Term Management Plan at that time shall exactly be the period of the Plan’s new Targeted Period, and the trust period of the Trust shall be extended for the same period. If there are Company’s stocks (excluding Company’s stocks equivalent to points granted to Directors, etc. if the Grant, etc. has not yet 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.

(2) The number of Company’s stocks subject to the Grant, etc. to Directors, etc.

The number of Company’s stocks provided to Directors, etc. as the Grant, etc. is determined based on the number of points given to them every year.

In June every year during the trust period, “fixed points” are granted for the “fixed portion” depending on the positions of Directors, etc., and “performance base points” are granted for the “performance-linked portion.”

In June immediately after the expiration of the Targeted Period, the “performance-linked points” are basically calculated by multiplying the accumulated number of “performance base points” during the said Period by the performance-linked coefficient reflecting the performance targets achieved under the Medium Term Management Plan during the said period. The performance-linked coefficient is determined based on the performance targets (EPS and ROIC, etc.) achieved in the final fiscal year under the Medium Term Management Plan and shall be within 0% to 200%.

The accumulated numbers of “fixed points” and “performance-linked base points” granted (performance base points if performance-linked points have not yet been calculated) 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.

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

At this General Meeting of Shareholders, we plan to request approval for contribution of up to 800 million yen* to the Trust as remuneration to Directors, etc. for the Target Period. Assuming that the trust period described in Paragraph 2 of (1) above is extended, we also propose that the amount* obtained by multiplying 400 million yen by the number of years during the said Target Period be treated as the upper limit of funds to be contributed to the Trust as remuneration to Directors, etc. for the new Targeted Period after the extension of the trust period. If the resolution is passed, funds to be contributed to the Trust shall be up to these amounts.

At this General Meeting of Shareholders, we plan to request approval for the upper limit of points to be granted to Directors, etc. for each fiscal year as 160,000 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.

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

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

The Trust plans to purchase the Company's stocks initially in the stock market to the extent of trust funds and within the range of the Number of Stocks Obtained in (3) above.

In the event that the number of stocks in the Trust is not sufficient for the number of stocks corresponding to 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 (3) above.

(Reference 1)

[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 to be changed in July 2019) |
| 8) Trust period | 22 nd August, 2016 to 31 st August, 2019
(Scheduled to be extended to 31 st August, 2021 due to the changes to the trust agreement in July 2019) |
| 9) Start date of the Plan | 22 nd August, 2016 |
| 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 | 800 million yen (scheduled) (including trust fee and expenses) |
| 13) How to acquire stocks | Acquire stocks in the stock market |
| 14) Stock acquisition date | 31 st July 2019 to 30th August 2019 (scheduled) |
| 15) Holder of a vested right | The Company |
| 16) 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. |

(Reference 2)

Directors' Remuneration Policy

1. Fundamental policy of corporate governance

At the Company, we desire to always be of service to all stakeholders including our employees, customers, shareholders, investors, users, business partners and local communities.

The Company marked the 51st anniversary of its foundation in 2018, and formulated the following new corporate philosophy with a commitment to a new stage of growth.

[Mission] ~ Social mission/Reason for existing ~

Nifco generates ideas and cultivates technology to turn your expectations into excitement.

[Vision] ~ The way we should be to embody our Mission ~

Driving change with growing inventiveness

[Values] ~ Words embodying the uniqueness of Nifco ~

-This is Nifco-

Be proactive and break through

Communicate and collaborate

Challenge and innovate

Under the new corporate philosophy, we will keep on pursuing innovative business development, upholding the corporate message, "WOWING THE WORLD," toward becoming a company that meets the expectations of stakeholders and continues to be trusted widely by society.

We consider it necessary as a corporation to respond to the drastically changing social and economic environment flexibly and appropriately by strictly enforcing compliance and implementing appropriate risk management. At the same time, we believe it important to thoroughly disseminate and practice such principles.

Based on this fundamental policy mentioned above, we endeavor to implement corporate governance to the fullest extent as a priority issue, and to promote reinforcement of Group management.

2. Basic policy for Directors' remuneration

The Company shall set the following basic policy for remuneration for Directors, Statutory Auditors, and Executive Officers (hereinafter, referred to as "Directors' remuneration") based on the basic policy for corporate governance.

- (1) Directors' remuneration shall be designed to contribute to our Mission: "Nifco generates ideas and cultivates technology to turn your expectations into excitement."
- (2) Directors' remuneration shall be designed as an independent, objective, and transparent remuneration plan that is held accountable to our stakeholders, including employees, customers, and shareholders.
- (3) Directors' remuneration shall be designed to be attractive to our employees.

3. Remuneration level

The Company determines the level of Directors' remuneration based on the above-mentioned basic policy for Directors' remuneration, taking into account the Company's management environment and after examining and analyzing the remuneration levels of industry peers and major companies of the same size as the Company as the peer group each year, using an external database, etc.

4. Structure of remuneration

(1) Directors (excluding External Directors) and Executive Officers

The Company's Remuneration to the Directors (excluding External Directors) consists of "basic remuneration" according to their positions and "performance-linked remuneration" whereby the amount of compensation varies according to company business performance and other factors, in order to raise their motivation to achieve the management targets from a short-, medium- and long-term viewpoint, as well as sustainable enhancement of corporate value.

The "performance-linked remuneration" consists of "bonus" and "stock-based compensation." For "stock-based compensation," the Company introduced a compensation plan that uses a trust scheme to grant the Company's stocks, etc. to each eligible person in FY2016. Specifically, eligible persons are granted points each year and receive a grant of the Company's stocks equivalent to the number of accumulated points from the trust upon their retirement. Management of the Company's stocks is entrusted to Mitsubishi UFJ Trust and Banking Corporation.

1) Overview of the remuneration items

[Basic remuneration]

Basic remuneration is paid as a monthly fixed remuneration with the amount determined based on positions according to the job responsibility involved as responsibility-based remuneration to secure excellent human resources.

[Bonus]

Bonus is paid to provide an incentive to contribute to improving company performance for a single fiscal year with the aim of providing an incentive to increase the Group's consolidated business performance.

Consolidated sales and consolidated operating income are used as management indicators for bonus assessment to strengthen the earnings capabilities of the Company's core businesses. For a bonus for certain positions, qualitative assessment is incorporated in the assessment. The amount of bonus shall vary within at most 40% to 180% of the base amount.

[Stock-based compensation]

The Company's stocks will be granted to Directors and Executive Officers upon their retirement with the aim of further enhancing their motivation to contribute to improving the Company's business performance and corporate value from a medium- to long-term viewpoint and increase value-sharing with shareholders. In the event that the Board of Directors determines that a Director or an Executive Officer has committed serious

inappropriate acts during their terms of office, the Board of Directors may restrict the payment or claim the return of stock-based compensation after going through deliberation by the Nominating and Remuneration Committee.

The stock-based compensation consists of performance-linked compensation (50%) and non-performance-linked compensation (50%).

- Performance-linked compensation

The amount of performance-linked compensation shall be determined, in principle, according to factors including the degree of achievement of Medium Term Management Plan targets (EPS and ROIC, etc.) and vary within 0% to 200%.

The Company plans to review the above-mentioned performance targets, etc. after the close of the Medium Term Management Plan based on a new Medium Term Management Plan.

- Non-performance-linked compensation

Non-performance-linked compensation shall be paid as stock-based compensation to grant a fixed number of stocks in order to further enhance the link with shareholder value.

2) Remuneration composition ratio

The composition ratio of base amount of basic remuneration, bonus (annual incentive), and stock-based compensation (medium-to-long term incentive) for the President & Representative Director is set at 50%:20%:30%.

With an eye to achieving medium-to-long term and sustainable growth, the Company plans to review the remuneration composition ratio to increase the composition ratio of incentive remuneration centering on stock-based compensation.

(2) External Directors

Remuneration for External Directors, who fulfill the management supervisory function from an independent standpoint, consists only of basic remuneration, which is fixed remuneration, and does not include a bonus, which varies according to business performance, and stock-related remuneration such as stock-based compensation.

(3) Statutory Auditors

Remuneration, etc. for Statutory Auditors consists only of basic remuneration, which is fixed remuneration. The amount of basic remuneration of each Statutory Auditor shall be determined by deliberation of Statutory Auditors taking comprehensively into account factors such as the content, volume, level of difficulty, and degree of responsibility of duties of each Statutory Auditor. In light of duties, etc. of Statutory Auditors, remuneration for Statutory Auditors does not include a bonus and stock-related remuneration such as stock-based compensation.

5. Guidelines for holding own stocks

The Company will promote holding of its own stocks by Directors and Executive Officers in order to further raise their motivation to improve the Company's business performance and increase its stock price from the viewpoint of shareholders.

6. Decision-making process

In order to enhance the independence, objectivity, and transparency of the details of the Directors' remuneration plan, the Company established the Nomination and Remuneration Committee, which is chaired by and whose majority members are independent external directors, as an advisory body of the Board of Directors on December 10, 2018. The Nomination and Remuneration Committee, in principle, convenes four times a year, and deliberates on the basic policy and the details of the Directors' remuneration plan and provides advice and recommendations to the Board of Directors.

In order to adopt an objective viewpoint and specialized knowledge from outside the Company regarding the Directors' remuneration plan, the Company shall examine the remuneration level and the remuneration plan, etc. taking into consideration factors such as external data, economic environment, industry trends, and management conditions, based on advice from an external remuneration consultant appointed by the Nomination and Remuneration Committee.

7. Engagement Policy

The Company shall promptly disclose the details of the Directors' remuneration plan to its shareholders through the Annual Securities Report, Business Report, Corporate Governance Report, and the corporate website, etc. that will be prepared and disclosed in accordance with various laws and regulations. In addition, the Company will actively promote engagement with institutional investors.

When disclosing information, the Company shall pay due consideration to fair disclosure.