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Head Office	5-3 Hikarinooka, Yokosuka-shi, Kanagawa
Company Code	7988 (1st Board TSE)
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Announcement of the Continuation of and Partial Revision to the Performance-Linked Stock-Based Compensation Plan for Directors

The Performance-Linked Stock-Based Compensation Plan for Directors and Executive Officers (excluding External Directors and those who are non-residents of Japan; hereinafter referred to as “Directors etc.”) was introduced in FY2016 (hereinafter referred to as the “Plan”). The Company announces that at its Board of Directors’ meeting held on May 20, 2021, it decided to submit a proposal (hereinafter referred to as the “Proposal”) for the continuation of the Plan including partial revision, such as changes in eligible people for the Plan, in line with Notification of the transition to Company with an Audit & Supervisory Committee, announced on February 3, 2021, to the 69th General Meeting of Shareholders scheduled for June 24, 2021 (hereinafter referred to as the “General Meeting of Shareholders”). Details are as below.

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 “Granting, etc.”) basically depending on the positions and the performance targets achieved during fiscal years under the Company’s Medium- to Long-Term Management Plan of the three consecutive fiscal years that start with the fiscal year (hereinafter referred to as the Target Period”) to which the grant date of performance basic points belong. The Continuation of the Plan is subject to the approval of the partial revision to the Plan described in 2. below as part of the resolutions for Directors’ remuneration at the General Meeting of Shareholders.

- (3) Under the Plan, a scheme called the Board Incentive Plan Trust (hereinafter referred to as the “BIP Trust”) has been adopted. If the continuation of the Plan beyond fiscal 2021 is approved, the period of this Trust will be extended with partial revision to the Plan.

2. Partial revision to the Plan

In connection with the continuation of the Plan, the provisions of the current Plan will be 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 and the “Announcement of the Continuation of and Partial Revision to the Performance-Linked Stock-Based Compensation Plan for Directors” dated May 20, 2019.

(1) Trust period of the Plan

The trust period after the extension of the Plan will be about three years from September 2021 (scheduled) to August 2024 (scheduled).

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 that case, the Company will contribute funds as the source of compensation within the scope approved by the General Meeting of Shareholders for each extended trust period, and continue granting points during the extended trust periods. If there are Company’s stocks (excluding Company’s stocks equivalent to points granted to the eligible people of the Plan in (2) below if the Granting, 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 to be approved at the General Meeting of Shareholders.

If the trust agreement is not changed and an additional trust is not executed at the end of the trust period, points shall not be granted subsequently. However, if there are any eligible people of the Plan in (2) below who may meet beneficiary criteria at that time, the trust period of the Trust may be extended up to ten years until such people retire and the Granting, etc. of the Company’s stocks, etc. is completed.

(2) Eligible people for the Plan

Following the Notification of the transition to Company with an Audit & Supervisory Committee, announced on February 3, 2021, the eligible people for the Plan shall be Directors and Executive Officers who are not Audit and Supervisory Committee members (excluding External Directors and those who are non-residents of Japan; hereinafter referred to as the Eligible People for the Plan). The Eligible People for the Plan prior to and after the change shall be as per the table below.

Current Eligible People for the Plan	Eligible People for the Plan after the change
<ul style="list-style-type: none"> - Directors - Executive Officers (excluding External Directors and those who are non-residents of Japan)	<ul style="list-style-type: none"> - Directors who are not Audit and Supervisory Committee members - Executive Officers (excluding External Directors and those who are non-residents of Japan)

(3) Number of the Company's stocks subject to the Granting, etc. under the Plan

The number of Company's stocks provided to the Eligible People for the Plan as the Granting, etc. is determined based on the number of points given to them every year.

In principle, in June every year during the trust period, the Eligible People for the Plan shall be given "fixed points" depending on their positions and "performance base points," which vary depending on the performance set for each position.

In June immediately after the end of the said period, in principle, performance-linked points are calculated by multiplying performance base points by the performance-linked coefficient reflecting the performance targets achieved under the Medium- to Long-Term Management Plan during the said period. The performance-linked coefficient is determined based on the performance targets (cash flow from operating activities, ROIC, TSR, etc.) achieved in the said period and shall be between 0% and 200%.

The accumulated numbers of "fixed points" and "performance-linked points" granted (performance base points if performance-linked points have not yet been calculated) are calculated upon the retirement of the Eligible People for the Plan, and the Granting, etc. shall be executed according to accumulated points in principle.

(4) Upper limit of trust funds to be contributed to the Trust and the upper limit of points to be granted to the Eligible People for the Plan

The upper limit of funds that the Company can contribute to the Trust in each trust period (about three years) shall be 1,200 million yen*. 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 compensation to the Eligible People for the Plan for the new Target 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 the General Meeting of Shareholders, we plan to request approval for the upper limit of points to be granted to the Eligible People for the Plan for each year as 160,000 points. If the resolution is passed, the number of stocks the Eligible People for the Plan can receive as the Granting, etc. from the Trust (hereinafter referred to as the "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 via the Trust and trust fee and expenses during the

trust period.

(5) Method of purchasing the Company's stocks via the Trust

The Trust plans to purchase the Company's stocks initially in the stock market or from the Company (disposal of treasury stocks) to the extent of trust funds and within the range of the Number of Stocks Obtained in (4) 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 Eligible Person for the Plan, the Company may contribute additional funds to the Trust to purchase additional stocks of the Company, up to the trust funds approved by the General Meeting of Shareholders and within the range of the Number of Stocks Obtained in (4) above.

(Reference (1))

Details of trust agreement

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 Eligible People for the Plan
3) Trustor	The Company
4) Trustee	Mitsubishi UFJ Trust and Banking Corporation (Co-trustee The Master Trust Bank of Japan, Ltd)
5) Beneficiary	Any Eligible People for the Plan who meet beneficiary criteria
6) Custodian	Third party who has no interest in the Company (certified public accountant)
7) Trust agreement date	August 22, 2016 (scheduled to change to August 2021)
8) Trust period	August 22, 2016 to August 31, 2019 (Scheduled to be extended to August 31, 2024 due to changes to the trust agreement in August 2021)
9) Start date of the Plan	August 22, 2016
10) Exercise of voting rights	Voting rights shall not be exercised
11) Class of stocks to be acquired	Common stocks of the Company
12) Upper limit of trust funds	1,200 million yen (scheduled) (including trust fee, trust expenses and the portion to grant to subsidiaries)
13) Method of acquiring stocks	Acquire stocks in the stock market or from the Company (disposal of treasury stocks)
14) Holder of vested right	The Company
15) Remaining property	Remaining property that 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.