

June 1, 2023

To our shareholders

5-3 Hikarinooka, Yokosuka-shi, Kanagawa

Nifco Inc.

Masaharu Shibao, President & Representative Director

Announcement of the Officer Nomination Policies and the Officer Compensation Policies

Nifco Inc. hereby announces that its Board of Directors resolved at the meeting held on May 18, 2023 to adopt the Officers nomination policy and the Officers' compensation policy for FY2023 and beyond as detailed below.

Officer Nomination Policies

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.

We marked the 51st anniversary of our 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.

1. Required elements for Chief Executive Officer (CEO)

The anticipated candidate profile of CEO of the Company is an individual who can realize and embody Nifco's corporate philosophy (Mission, Vision and Values). Based on the fundamental policy of corporate governance described above, the Company has defined the required elements (responsibilities and authority, main duties, expected results, competency, knowledge and skills, mindset, experience, etc.) for the CEO. The details of the competency and mindset are as follows.

Required elements		Description
Competency	Establishment of vision and strategy	• Gains insight into the future image of the market and users, develops business models and strategies that generate competitive advantages, and determines key indicators and order of priority.
	Construction and reinforcement of the organization	• Constructs an organization and mechanisms suitable for strategies and develops human resources through allocation of management resources and delegation of authority.
	Transformation leadership	• Informs and motivates related persons of the need for change and reform, proactively takes the lead in creating and driving change, and promotes sustainable growth of the company through new business creation.
	Response to changes	• Ascertains the latest information about the business, identifies risks and opportunities sensitively, makes timely decisions on business course adjustments, discontinuance or withdrawal and implements them.
	Ethical standards	• Makes decisions that not only lead to gaining benefits for Nifco but also contribute to society based on corporate social responsibility
Mindset and personality traits	Realization of corporate philosophy	• Has a deep understanding of Nifco's corporate philosophy and corporate culture and embodies them with his/her own judgment and words and actions.
	Learning ability and curiosity	• Respects and listens to diverse opinions and information, has an attitude to consider various ways of thinking and ideas, and creates new perspectives
	Passion and commitment	• Has a passion for and commitment to growth and achievement of goals at all times rather than being satisfied with the status quo and takes various measures to thoroughly get things done
	Breakthrough	• Learns from the history of Nifco, which has continued to provide new surprises to the world, and is persistent in thinking outside the box and beyond frameworks and overcoming difficulties to create new surprises and joy.

	Personality and virtue	<ul style="list-style-type: none"> • Is well trusted by related persons inside and outside the Company who are willing to follow his/her footsteps because of his/her profound broadmindedness underpinned by sincerity, integrity and humanity.
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2. Appointment and dismissal criteria

The Company shall appoint and dismiss senior management officers with an emphasis on their understanding of the business environment and management conditions that are necessary for formulating management strategies and ability to demonstrate strong leadership in promptly and properly executing the management strategies set forth by the Board of Directors as well as their experience, particularly in global business.

The Company shall appoint the CEO in consideration of the advice and recommendations of the Nomination, Compensation, and Governance Committee based on the required elements for a CEO described above.

The Company shall dismiss the CEO based on discussions held promptly by the Committee and the Board of Directors, should any act that raises suspicion of meeting the following criteria for dismissal arise.

- (1) When there has been an act suspected of being wrongful, unjust or a breach of trust.
- (2) When he/she is found to be ineligible as CEO due to misconduct, such as a violation of the Companies Act or related laws and regulations.
- (3) When the qualities of the CEO are in doubt in light of the business environment related to the required elements for a CEO described above.
- (4) When the process of performing his/her duties or the results thereof are insufficient, and it has been judged that it would be inappropriate to keep him/her in the position of CEO.

Each year, the Nomination, Compensation, and Governance Committee shall evaluate the CEO based on the required elements for a CEO described above, his/her performance, as well as other factors, and advise the Board of Directors on his/her reappointment for the following year after confirming the CEO's plans for the coming years and his/her willingness to continue serving as CEO.

3. Successor plan

The CEO successor plan shall be discussed by the Nomination, Compensation, and Governance Committee based on the required elements for a CEO described above. The Board of Directors shall monitor whether the successor plan is appropriately carried out in consideration of the report on the deliberations of the Committee.

4. Term of office

The term of office of Directors who are not Audit & Supervisory Committee Members (including Independent External Directors) shall be one (1) year, and the appropriateness of their reappointment shall be determined annually.

The term of office of Directors who are Audit & Supervisory Committee Members shall be two (2) years, and the appropriateness of their reappointment shall be determined every two years.

5. Decision-making process

In order to enhance the independence, objectivity, and transparency of the details of the appointment and dismissal criteria for Directors and decision-making process for nominations, the Company established the Nomination and Compensation Committee on December 10, 2018, and it is chaired by and a majority of its members are Independent External Directors, as an advisory body of the Board of Directors.

In addition, the Committee was renamed the Nomination, Compensation, and Governance Committee on October 28, 2020, in order to further strengthen the Company's efforts on governance going forward. The Nomination, Compensation, and Governance Committee, in principle, convenes no fewer than four times a year, and deliberates mainly on the Directors' appointment and dismissal criteria and the CEO successor 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 nominations, the Nomination, Compensation, and Governance Committee may seek advice from an external consultant or other experts on the details of the Directors' appointment and dismissal criteria, the CEO successor plan, etc., taking into consideration factors such as external data, the economic environment, industry trends, and management conditions.

6. Engagement policy

The Company shall promptly disclose the details of the Directors' appointment and dismissal criteria, the CEO successor plan, etc. to its shareholders through the Annual Securities Report, Business Report, Corporate Governance Report, Nifco Report or 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.

Officers' Compensation Policy

Fundamental policy of corporate governance

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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.

1. Basic policy for Officers compensation

The Company shall set the following basic policy for compensation for Directors and Executive Officers (hereinafter, referred to as “Officers’ compensation”) based on the basic policy for corporate governance.

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

2. Compensation level

The Company determines the level of Officers’ compensation based on the abovementioned basic policy

for Officers' compensation, taking into account the Company's management environment and after examining and analyzing the compensation 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.

Specifically, the Company considers the appropriate compensation level by referring to the level and so forth at companies included in JPX400 that are with similar operating income and market capitalization and that have introduced share-based compensation systems, as well as by taking into account the amount of dividends paid to shareholders and the maximum annual salary and the pay ratio (the gap between CEO compensation and average employee salary) of employees.

3. Structure of compensation

(1) Compensation composition ratio

The compensation composition ratio of the President & Representative Director is as follows.

It is designed so that a bonus and Stock compensation accounts for more than half of the total compensation.



Compensation for Directors who are not Audit & Supervisory Committee Members, and Executive Officers consists of "Basic compensation," "Officers' bonus" and "Stock compensation." As for Independent External Directors and Directors who are Audit & Supervisory Committee Members, their compensation is "Basic compensation" only.

The remuneration of the Chairman and Director shall be based on the response to important management issues designated by CEO and the Board of Directors and the results thereof.

(2) Overview of each compensation item

① Basic compensation

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

② Officers' bonus (annual incentive)

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, and qualitative assessment is also incorporated in the assessment. The amount of bonus shall vary in principle within 40% to 150% of the base amount.

The assessment ratio of each indicator is as follows.

Indicator	President	Directors	Executive Officers
Consolidated sales	20%	20%	15%
Consolidated operating income	70%	60%	55%
Qualitative assessment	10%	20%	30%

* The target values are based on the consolidated financial indicators to be announced at the beginning of each fiscal year after a resolution of the Board of Directors.

* Qualitative assessment for the President & Representative Director will be conducted by the Nomination, Compensation, and Governance Committee, which is composed mainly of Independent External Directors.

About KPIs

• Consolidated sales

Target values: Consolidated financial indicators to be announced at the beginning of each fiscal year after a resolution of the Board of Directors

Performance-linked coefficient: Varies in the range of **0 to 1.5**

• Consolidated operating income

Target values: Consolidated financial indicators to be announced at the beginning of each fiscal year after a resolution of the Board of Directors

Performance-linked coefficient: Varies in the range of **0 to 1.5**

• Qualitative assessment

Target values: These shall be set individually according to the area that each Director is in charge of, and the Nomination, Compensation, and Governance Committee shall decide on targets and evaluations after consultation.

③ Stock compensation (medium- to long-term incentive)

The Company's shares will be granted to Directors and Executive Officers upon their retirement with the aim of further enhancing their motivation to contribute to improve the Company's business performance and corporate value from a medium- to long-term viewpoint and increase value-sharing with shareholders.

The Stock compensation consists of performance-linked compensation (50%) and non-performance-linked compensation (50%). At the time of delivery of shares, in principle, the equivalent of 30% of the Company

shares to be delivered will be converted into cash and be provided so it can be allocated to tax payment funds.

However, if there is any important fact that the Company has not disclosed yet, the Company will not convert its shares into cash.

For “Stock compensation,” the Company introduced a compensation plan that uses a trust scheme to grant the Company’s Shares, etc. to each eligible person in FY2016. Specifically, eligible persons are granted points each year and receive a grant of the Company’s shares equivalent to the number of accumulated points from the trust upon their retirement. Management of the Company’s shares is entrusted to Mitsubishi UFJ Trust and Banking Corporation. In addition, in order to respond more flexibly to changes in the social environment, the Company will implement a rolling Medium-Term Management Plan from FY2021, in which the Plan will be established every year, and has been undertaking a review of the system to further strengthen incentives for medium- to long-term goals in light of the perspective of shareholders and investors.

FY2021	FY2022	FY2023	FY2024	FY2025
● PS ①		→ Performance evaluation ①		
	● PS ②		→ Performance evaluation ②	
		● PS ③		→ Performance evaluation ③

* PS: Performance-linked compensation equivalent to performance shares

《Performance-linked compensation》

The amount of performance-linked compensation shall be determined, according to factors including the degree of achievement of Medium-Term Management Plan targets (Operating Cash Flow, ROIC and TSR, etc.) and vary within 0% to 200%. Also, incorporating ESG indicators into the future rolling Medium-Term Management Plan has been under consideration.

The above indicators, etc. will be reviewed in a timely and appropriate manner every time when the rolling Medium-Term Management Plan is formulated.

The assessment ratio of each indicator is as follows.

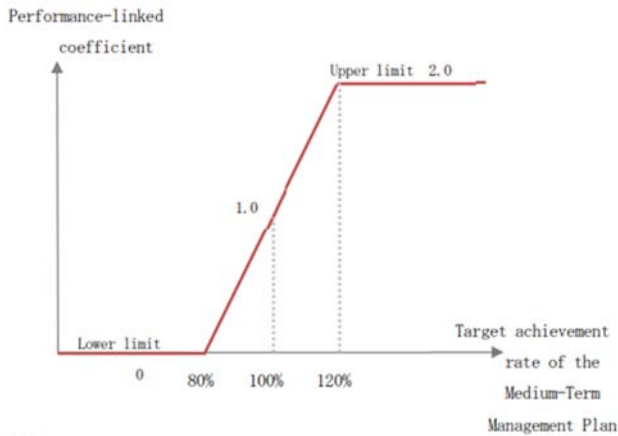
Indicator	Assessment ratio
Operating Cash Flow	50%
ROIC	40%
TSR	10%

About KPIs

• Operating Cash Flow

Target values: Cumulative total value for the period of the targeted rolling Medium-Term Management Plan (for three years in principle).

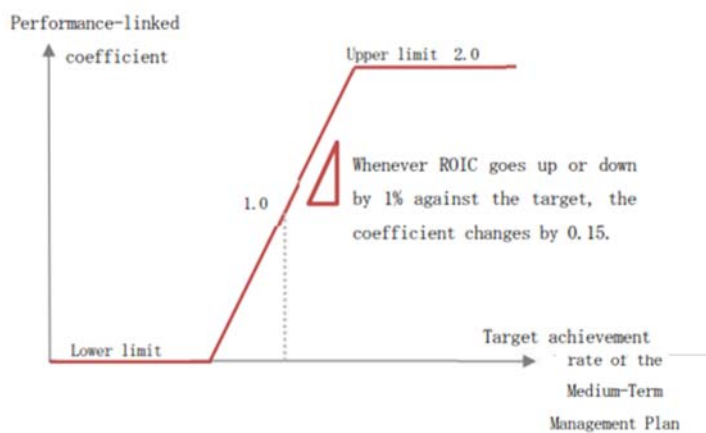
Performance-linked coefficient: Varies in the range of **0 to 2.0**



• ROIC

Target values: Value after the period of the targeted rolling Medium-Term Management Plan (after three years in principle).

Performance-linked coefficient: Varies in the range of **0 to 2.0**



• TSR

Compared against: TOPIX including dividends Targeted time (index at the end of March 2021, index at the end of March 2024)

Performance-linked coefficient: Varies in the range of **0 to 2.0**

vs.TOPIX (incl. dividends)	Performance-linked coefficient
150% and above	2.0
120% and above	1.5
100% and above	1.0
80% and above	0.5
Less than 80%	0

«Non-Performance-linked compensation»

Non-performance-linked compensation shall be paid as Stock compensation to grant a fixed number of shares in order to further enhance the link with shareholder value for a medium to long term.

(3) Forfeiture of compensation (Malus and clawback provision)

In the event that the Board of Directors resolves to implement a correction of financial results due to a serious accounting error or misconduct or determines that there were serious, inappropriate acts during their terms of office, the Board of Directors may restrict the payment or claim the return of bonuses and Stock compensation after going through deliberation by the Nomination, Compensation, and Governance Committee.

4. Guidelines for holding own shares

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

5. Decision-making process

In order to enhance the independence, objectivity, and transparency of the details of the Officers' compensation plan, the Company established the Nomination and Compensation 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. In addition, the Committee was renamed as the Nomination, Compensation, and Governance Committee on October 28, 2020, in order to further strengthen our efforts on governance going forward. The Nomination, Compensation, and Governance Committee, in principle, convenes no fewer than four times a year, deliberates the amount of compensation by individual and qualitative assessment, 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 Officers' compensation plan, the Company shall examine the compensation level and the compensation plan, etc. taking into consideration factors such as external data, economic environment, industry trends,

and management conditions, based on advice from an external consultant appointed by the Nomination, Compensation and Governance Committee.

6. Engagement Policy

The Company shall promptly disclose the details of the Officers' compensation plan to its shareholders through the Annual Securities Report, Business Report, Corporate Governance Report, Nifco Report or 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. The Company also takes into consideration the amount of dividends paid to shareholders, the level of salaries paid to employees and so forth in determining the amount of Officers' compensation.

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