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Notice of Revisions to Director Compensation and Adoption of Performance-based Stock Compensation System

Megmilk Snow Brand announces that at the Board of Directors meeting convened today, we resolved to revise the compensation amounts for directors (excluding directors who are Audit and Supervisory Committee members). Furthermore, we resolved to adopt a performance-based stock compensation system (hereinafter, System) for company directors (excluding directors who are Audit and Supervisory Committee members and outside directors). We will put a motion concerning revisions to directors' compensation and a motion concerning the adoption of the System before the 11th Annual General Meeting of Shareholders (hereinafter, General Meeting of Shareholders) scheduled for June 24, 2020.

Description

1. About revisions to directors' compensation

Existing provisions on director compensation were adopted at the 7th Annual General Meeting of Shareholders convened on June 28, 2016. Those provisions outline that compensation for Megmilk Snow Brand directors (excluding directors who are Audit and Supervisory Committee members) shall be an amount of up to 1 billion yen annually (of which, the compensation for outside directors shall be an amount of up to 50 million yen annually).

We plan to present a motion before the General Meeting of Shareholders outlining a reduction to the existing compensation amount as part of the adoption of a performance-based stock compensation system. If passed, the compensation for Megmilk Snow Brand directors (excluding directors who are Audit and Supervisory Committee members) would be an amount of up to 800 million yen annually (of which, the compensation for outside directors shall be an amount of up to 50 million yen annually).

Furthermore, while we plan to pay a fixed amount base compensation and performance-based compensation within the abovementioned amount to directors (excluding outside directors) who are not Audit and Supervisory Committee members, in light of the purpose of outside directors, to serve a supervisory and advisory role from an objective and independent perspective, compensation paid to outside directors shall be limited to a fixed annual amount.

2. Adoption of System

Previously, compensation to Megmilk Snow Brand directors (excluding directors who are Audit and Supervisory Committee members) was comprised of fixed compensation and profit-linked bonuses. However, moving forward, we will revise our compensation structure to pay the monetary amounts in the form of basic compensation and performance-based compensation up to the revised limits indicated above (1). Additionally, we will adopt a performance-based stock compensation system for directors (excluding directors who are Audit and Supervisory Board Committee and outside directors).

This goal of this System is to further clarify the correlation between directors' compensation and Megmilk Snow Brand performance and stock price, and increase awareness among directors of the importance of contributing to medium- and long-term improvements in performance and corporate value by ensuring that directors share the same benefits and risks associated with fluctuations in our stock price as our shareholders.

Specifically, separate from the compensation outlined above (1), we will pay new performance-based stock compensation (up to a total of 172 million yen for the three fiscal years) to directors in office for the three-year period between the fiscal year ending on March 31, 2021 and the fiscal year ending on March 31, 2023 (hereinafter, Target Period).

The adoption of this System is subject to the approval of the motion concerning revisions to directors' (excluding directors who are Audit and Supervisory Committee members) compensation at the General Meeting of Shareholders.

Furthermore, if the adoption of this System is approved at the General Meeting of Shareholders, we also plan to adopt a performance-based stock compensation system equivalent to this System for executive officers with whom the Company has concluded delegation agreements.

		Compensation amount (up to 1,000 million yen)*1	
		Fixed compensation	Profit-based bonus
Directors who are not Audit and Supervisory Committee members	Internal	○	○
	Outside	○	-

*1: of which, up to 50 million yen is for our outside directors



		Total monetary compensation (up to 800 million yen)*1		Total stock-based compensation (up to 172 million yen)*2
		Base compensation	Performance-based compensation	Performance-based stock compensation system
Directors who are not Audit and Supervisory Committee members	Internal	○	○	○
	Outside	○	-	-

*2 Total for three fiscal years

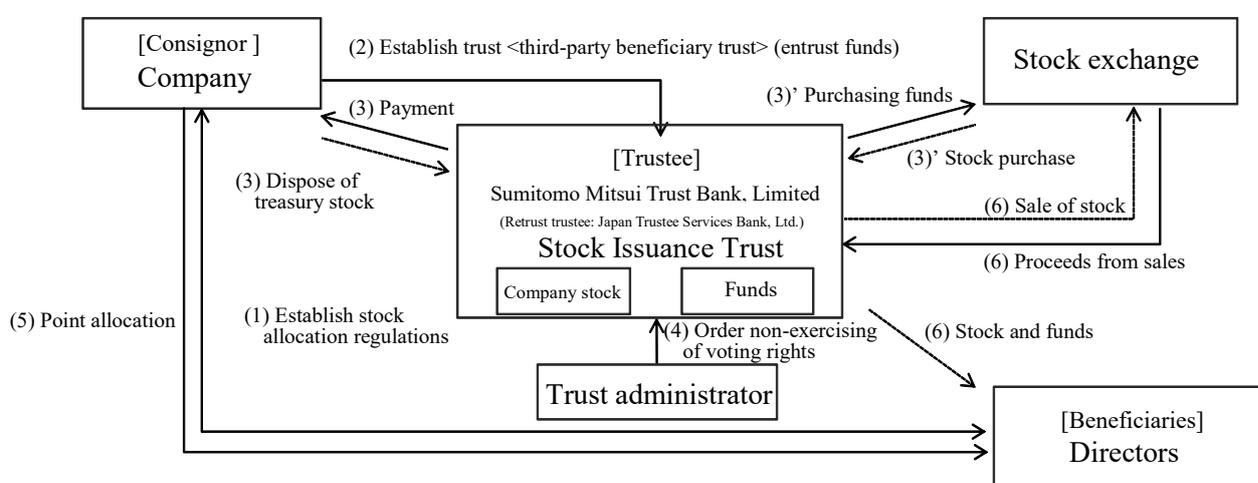
3. System overview

(1) System framework

This System is a stock-based compensation program wherein a trust (hereinafter, Trust) to which the Company makes financial contributions acquires Company stock and through this Trust the Company issues Company stock to directors based on the number of points allocated by the Company to each director. The timing at which directors may receive Company stock shall be the timing of the directors' retirement from their position.

If a performance-based stock-based compensation system equivalent to this System is adopted for Company executive officers as outlined above, Company executive officers will also become beneficiaries of the Trust. Furthermore, the Company will contribute stock acquisition capital to the Trust for stock issued to Company executive officers.

<System framework overview>



- (1) Megmilk Snow Brand will establish stock allocation rules for applicable directors.
- (2) The Company will establish a stock allocation trust (third-party beneficiary trust) with Company directors as beneficiaries. As part of that process, we will entrust with the trustee an amount equivalent to the stock acquisition capital (however, this shall be within the amount approved by the General Meeting of Shareholders).
- (3) The trustee shall conduct the batch stock acquisition for the number of Company stock equivalent to the number of stocks projected for allocation (via the disposal of treasury stock and acquisition from exchange markets (including after-hours trading).)
- (4) The Company shall appoint a trust administrator (a party independent from the Company or Company directors) to protect the interests of beneficiaries applicable to stock allocation regulations and to monitor the trustee throughout the trust period. Furthermore, the trust administrator shall instruct beneficiaries not to exercise the voting rights of Company stock during the trust period. The beneficiaries shall comply with said instructions and not exercise the voting rights of Company stock during the trust period.
- (5) The Company shall allocate points to directors based on stock allocation regulations.
- (6) As Trust beneficiaries, directors fulfilling the conditions outlined in the stock allocation regulations and the parameters outlined in the trust agreement for this Trust shall receive the allocation of Company stock from the trustee based on the number of points allocated. Furthermore, when certain conditions prescribed in the stock allocation regulations or the trust agreement have been fulfilled, the Company shall sell a portion of stock for allocation on the stock market and distribute the proceeds from the gains on sale of stock.

At the end of the Trust period, the Company plans acquire all Trust residual assets free of

compensation and dispose of said assets pursuant a resolution by the Board of Directors.

As prescribed in the stock allocation regulations and trust agreement, of Trust residual assets at the time of the Trust period, we plan to donate a certain amount to a designated public interest promotion group that has no interest-based relationship with Company directors.

Furthermore, the System trustee Sumitomo Mitsui Trust Bank, Limited shall consign the management (retrust) of trust assets to Japan Trustee Services Bank, Ltd.

(2) Trust establishment

Subject to the approval of this System by the General Meeting of Shareholders, the Company shall contribute the capital necessary for the Trust to acquire in advance an amount of Company stock equivalent to a specific period of the Trust in order to cover the number of shares deemed reasonably necessary to conduct the allocation outlined below (6). As prescribed below (5), this Trust shall use capital contributed by the Company to acquire Company stock.

Furthermore, the System trustee Sumitomo Mitsui Trust Bank, Limited shall consign the management (retrust) of trust assets to Japan Trustee Services Bank, Ltd.

(3) Trust period

The trust period shall be the three-year period from August 2020 (planned) to August 2023 (planned). However, as prescribed below (4), the trust period may be extended.

(4) Maximum Trust contributions issued as stock acquisition capital

The Company shall establish a Trust wherein during the Target Period, the Company shall contribute up to a total of 172 million yen as capital for acquiring the Company stock required to allocate Company stock to directors through this System. This amount shall be contributed as compensation to be allocated to directors in their position during the Target Period with directors fulfilling certain requirements to be registered as beneficiaries. The Trust shall use the funds contributed by the Company to acquire Company stock via the disposal of treasury stock conducted by the Company or via an exchange (including after-hours trading).

Note: The funds actually contributed to the Trust shall be the total amount of the abovementioned stock acquisition amount as well as any required expenses, including trust compensation and trust administrator fees.

Furthermore, this Target Period may, via a resolution by the Company Board of Directors, be extended for a prescribed period not to exceed the applicable period by four fiscal years and, subsequently, Trust period may be extended (including the extension of the trust period resulting from the transfer of Trust assets to a trust established by the Company for the same purpose as this Trust, the same to apply below). In such cases, during said extended Target Period, the Company shall contribute up to a total of the amount calculated by multiplying 57.3 million yen by the number of fiscal years of the extended period as additional capital for acquiring the Company stock required to allocate Company stock to directors through this System. Furthermore, the Company shall continue the points allocation and Company stock allocation set forth below (6).

Even when the Target Period will not be extended via the measures set forth above, if at the

expiration of the trust period there are points that have already been allocated but directors who have not yet retired, then the Trust shall be extended until said director retires and the allocation of Company stock has concluded.

(5) Method of acquiring Company stock via the Trust

Acquisition of Company stock via the Trust shall be up to the aforementioned (4) maximum stock acquisition amount and we plan to acquire Company stock via the disposal of treasury stock conducted by the Company or via an exchange. Details on acquisition methods shall be determined and disclosed after the General Meeting of Shareholders.

Furthermore, during the trust period, in the event that a change in the number of directors results in the possibility of an insufficient number of shares corresponding to the number of points allocated to directors during the trust period, the Company shall make additional contributions to the Trust, within the maximum trust funding outlined above (4) and acquire additional shares.

(6) Method of calculating Company stock allocated to directors and maximum amount

1. Method of allocating points to directors

In accordance with stock allocation regulations set forth by the Company Board of Directors, the Company shall allocate to directors points corresponding to their respective roles and level of performance goal achievement. This allocation shall be conducted on the point allocation date set forth in the stock allocation regulations for the trust period.

However, the total number of points to be allocated to directors shall not exceed 23,800 points per fiscal year.

Details on point allocation methods will be determined by the Board of Directors in line with the provisions set forth above but we plan to outline the following types of provisions.

In accordance with stock allocation regulations set forth by the Company Board of Directors, the Company shall allocate to directors stock points calculated by multiplying a base allocation amount prescribed for each role by a linked coefficient to be determined based on the policies of the Company Medium-term Management Plan, and then dividing that number by the per-share book value of Company stock retained by the Trust.

The linked coefficient shall be comprised of a 70:30 split with 70% consisting of three performance-based factors and 30% representing non-performance-based factors. Performance-based factors will be subject to a weighted evaluation of each core performance index prescribed in the Medium-term Management Plan, and shall be the sum of linked coefficients within a range of 0 to 150% based on the level of achievement for Medium-term Management Plan goals. For the initial three fiscal years of the Target Period, we plan to use performance benchmarks that promote improvements in income and capital efficiency as well as financial stability. These benchmarks include EDITDA (30), ROE (20), and equity ratio (20).

Furthermore, we will include information on performance benchmarks, evaluation weight, and points allocated to directors in our fiscal report.

2. Allocation of Company stock based on number of points allocated

Directors follow the procedures described below in 3. to receive the allocation of Company stock based on the number of points allocated via the system outlined above in 1.

Furthermore, one point is equivalent to one share of Company stock. However, in the event of conditions resulting in the judgment that it is practical to adjust Company shares via stock split, stock merger, etc., we will make practical adjustments to said split ratio, merger ratio, etc.

3. Allocation of stock to directors

The allocation of Company stock to directors as outlined above in 2. shall be conducted through the Trust via prescribed beneficiary confirmation procedures conducted by each director upon his/her retirement.

However, a certain percentage of Company stock may be allocated as a cash payment instead of Company stock after the Trust sells a certain amount of stock to convert into cash for the Company as tax withholdings or other tax capital. When Company stock retained by the Trust is converted to cash, including when Company stock retained by the Trust is used to purchase stock as part of a public offering, cash amounts may be allocated instead of Company stock.

(7) Exercising voting rights

In accordance with instructions by a trust administrator who is independent of the Company and Company officers, no voting rights related to Company stock retained by the Trust may be exercised. This policy is designed to ensure neutrality towards Company operations during the exercising of voting rights related to Company stock retained by the Trust.

(8) Handling of dividends

Dividends from Company stock retained by the Trust shall be received by the Trust and applied towards funds to acquire Company stock and trust compensation to the Trustee.

(9) Handling of Company stock and cash amounts upon trust expiration

At the end of the Trust period, the Company plans to acquire all Trust residual assets free of compensation and dispose of said assets pursuant a resolution by the Board of Directors.

As prescribed in the stock allocation regulations and trust agreement, of Trust residual assets at the time of the Trust period, we plan to donate a certain amount to a designated public interest promotion group that has no interest-based relationship with Company directors.

(Reference) Summary of Trust Agreement

Consignor	Company
Trustee	Sumitomo Mitsui Trust Bank, Limited (Retrust trustee: Japan Trustee Services Bank, Ltd.)
Beneficiaries	Company directors and executive officers fulfilling beneficiary requirements
Trust administrator	Planning to select a party who is independent of the Company and Company officers
Exercising voting rights	No exercising of voting rights related to Company stock retained by the Trust during the trust period.
Type of trust	Non-monetary trust <third-party beneficiary trust>
Trust agreement date	August 2020 (planned)
Trust period	August 2020 to August 2023 (planned)
Trust purpose	To allocate Company stock to beneficiaries based on stock allocation regulations.

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