

April 26, 2018

Company name: Morinaga Milk Industry Co., Ltd.
5-33-1 Shiba, Minato-ku, Tokyo
Representative: Michio Miyahara, President &
Representative Director
(Code: 2264 First Section of the Tokyo Stock Exchange)

Notice Regarding Introduction of Restricted Stock Compensation Plan

Morinaga Milk Industry Co., Ltd. (hereafter, “the Company”) hereby announces that the Board of Directors, at its meeting held on April 26, 2018, resolved to introduce a Restricted Stock Compensation Plan (hereafter, the “Plan”) in a revision of the executive compensation scheme and to submit a proposal regarding introduction of the Plan to the 95th Annual General Meeting of Shareholders scheduled to be held on June 28, 2018 (hereafter, the “General Meeting of Shareholders”). The details are as follows.

1. Purpose of and other matters concerning the introduction of the Plan

(1) Purpose of the introduction of the Plan

The Plan to be introduced is a compensation plan under which restricted shares are allotted to the Directors of the Company (excluding External Directors), the aim of which is to promote the sharing of merits and risks of stock price fluctuations between the Directors and the shareholders, and to provide the Directors with greater incentive than in the past to contribute to the rise of the Company’s stock price and enhancement of its corporate value. The Plan takes into account the 2016 tax reform that included the adoption of tax treatment regarding the timing of the imposition of income tax on a company's directors, etc. and corporate tax deductibility of expenses relating to services rendered by directors, etc. applicable to instances where shares with certain restrictions attached, such as a transfer restriction for a certain period, are allotted as compensation for services rendered by a company's directors, etc.

(2) Conditions to the introduction of the Plan

Because the Plan involves provision of monetary compensation receivables as compensation to the Directors of the Company (excluding External Directors) for allotment of restricted shares, the introduction of the Plan is conditional upon the shareholders approving payment of such compensation at the General Meeting of Shareholders. It is to be noted that at the 80th Annual General Meeting of Shareholders held on June 27, 2003, the shareholders approved compensation, etc. for the Directors of the Company in the amount not exceeding 36 million yen (excluding the portion of employee’s salary for Directors who currently serve as employees). At the forthcoming General Meeting of Shareholders, the Company plans to seek approval of the shareholders to additionally set an amount for monetary compensation receivables not exceeding 120 million yen per year as compensation, etc. relating to the restricted stock, separately from the aforementioned directors compensation, etc., by comprehensively taking into consideration various factors such as the Directors’ contribution to the Company.

2. Outline of the Plan

(1) Allotment and payment of the restricted stock

Pursuant to the resolution of the Board of Directors, the Company shall grant to the Directors of the Company (excluding External Directors) monetary compensation receivables in the amount not exceeding the annual amount set forth above as compensation relating to the restricted stock. Each Director (excluding External Director) shall receive an allotment of restricted shares by making an in-kind contribution of all such monetary compensation receivables.

The paid-in amount of the restricted stock shall be the amount determined by the Board of Directors within the scope that is not particularly favorable to the Directors who subscribe to such shares, and will be based on the closing price of the Company's common stock on the Tokyo Stock Exchange on the business day preceding the day of the relevant resolution of the Board of Directors of the Company relating to the issuance or disposal of such stock (or, the closing price on the transaction day immediately prior thereto if no transaction is made on such business day).

The aforementioned monetary compensation claims shall be paid on condition that the Directors of the Company agree to the aforementioned in-kind contribution and have concluded the Restricted Stock Allotment Agreement, the provisions of which include items set out hereunder in (3).

(2) Total number of restricted shares

The number of restricted shares to be allotted each fiscal year shall not exceed 15,000 shares, being the total number of restricted shares to be allotted to the Directors of the Company (excluding External Directors).

However if, after the date of the resolution of the subject matter, a stock split (including gratis allotment of the Company's common shares), a stock consolidation, or any other event should take place with respect to the shares of the Company's common stock which would require an adjustment of the total number of restricted shares to be allotted according to the relevant ratio, such total number of restricted shares may be adjusted within a reasonable range.

(3) Details of Restricted Stock Allotment Agreement

In the allotment of restricted shares, a restricted stock allocation agreement shall be executed between the Company and the respective Directors receiving such allotment, the provisions of which include the following.

(i) Transfer restrictions

Directors receiving allotment of restricted shares shall be prohibited from transferring to a third party, creating a pledge, creating a security interest, making an inter vivos gift, making a bequest, or otherwise disposing of such allotted shares for a period extending from twenty to thirty years that will be determined by the Board of Directors of the Company (hereafter, the "transfer restriction period").

(ii) Acquisition of restricted shares at no cost

In the event a Director of the Company who received allotment of restricted shares retires between the date of the commencement of the transfer restriction period and the date preceding the first subsequent General Meeting of Shareholders of the Company, the Company shall as a matter of course acquire at no cost the restricted shares allotted to said Director (hereafter, the "allotted shares") except where there is a reason which the Board of Directors of the Company deems to be justifiable.

Further, the Company shall automatically acquire at no cost any part of the allotted shares with respect to which transfer restriction is not removed at the time of the expiration of the transfer

restriction period as defined in (i) above, pursuant to the provisions in (iii) below regarding circumstances for the removal of transfer restriction.

(iii) Removal of transfer restriction

On condition that a Director of the Company who received allotment of restricted shares has remained in continuous service during the period from the start of the transfer restriction period to the date of the first subsequent General Meeting of Shareholders of the Company, the Company shall remove transfer restriction at the expiration of the transfer restriction period.

However, in the event that said Director retired prior to the expiration of the transfer restriction period for a reason which the Board of Directors of the Company deems to be justifiable, a reasonable adjustment shall be made as necessary to the number of allotted shares subject to removal of transfer restriction and the timing of the transfer restriction removal.

(iv) Treatment in the event of organizational restructuring, etc.

If, during the transfer restriction period, a merger agreement in which the Company is the absorbed company, a share exchange agreement or a share transfer plan in which the Company becomes a wholly-owned subsidiary, or other organizational restructuring, etc. is approved by the General Meeting of Shareholders of the Company (or by the Board of Directors of the Company where such organizational restructuring, etc. does not require the approval of the General Meeting of Shareholders of the Company), the Company will, by resolution of its Board of Directors and ahead of the effective date of such organizational restructuring, etc., remove transfer restriction on the allotted shares, the number of which will be determined rationally by taking into the account the period from the start of the restriction period to the date of the approval of such organizational restructuring, etc.

In this case, the Company shall automatically acquire at no cost the allotted shares with respect to which transfer restriction has yet to be removed at the point in time immediately following the removal of the transfer restriction period pursuant to the foregoing provisions.