

G Strengthening Corporate Governance Structure

Corporate Governance

Basic governance structure and business execution system

The Cosmo Energy Group transitioned to a holding company structure in October 2015 and became a company with a supervisory committee structure to increase the ratio of outside directors and strengthen the audit and supervisory functions of the Board of Directors. With the aim of clearly separating management oversight and business execution, the Company has adopted an executive officer system. As a result, some authority has been transferred to executive officers to enable the Company to respond promptly to changes in the business environment and carry out swift decision-making.

Board of Directors

The Board of Directors is composed of 10 members in total, and comprises 5 internal directors (1 of whom is a member of the Supervisory Committee) and 5 outside directors (2 of whom are members of the Supervisory Committee). It decides important matters such as the basic management policy and supervises the execution of business duties. To enhance the supervisory function of the Board of Directors and realize fair and highly transparent management, the Company increased the number of outside directors by 1 member (with 3 of the 5 outside directors being independent outside directors). Outside directors have immediate access to the necessary information.

Supervisory Committee

The Supervisory Committee is composed of three members in total, that is, one internal director and two independent outside directors, and uses the internal control system to audit and supervise the business execution of directors as well as the state of execution of other business duties in general that are related to the management of the Group. The Chairperson is an independent outside director.

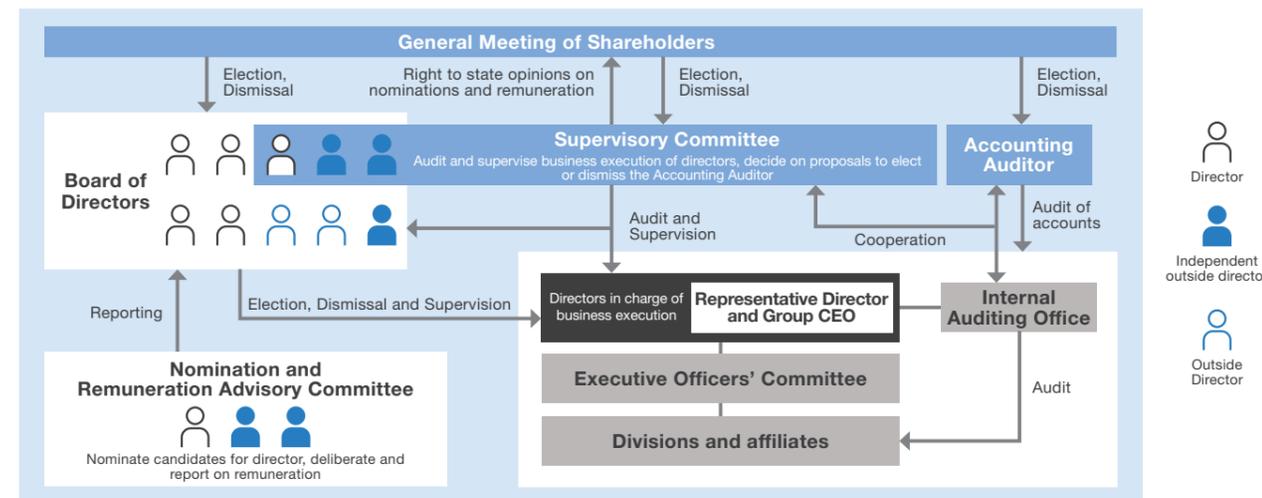
Executive Officers' Committee

The Cosmo Energy Group has adopted the executive officers' system to clarify the roles and responsibilities of Directors in charge of decision-making and management oversight, and Executive Officers in charge of business execution. The Executive Officers' Committee comprises major executive officers, including the Chief Executive Officer, and directors that are members of the Supervisory Committee, and functions as an advisory body to the President. The committee makes decisions concerning the execution of business in accordance with management policies determined by the Board of Directors.

Nomination and Remuneration Advisory Committee

The Company has established the Nomination and Remuneration Advisory Committee, which is an advisory body to the Board of Directors, to ensure transparency and objectivity in the selection of director candidates and the compensation determination process. The committee comprises three members in total, namely, one internal director and two independent outside directors, and deliberates on the nomination and remuneration of executive officers. The Chairperson is an independent outside director.

Corporate Governance Structure



Executives' remuneration plan

In FY2018 the Company introduced a new remuneration plan linked to business performance, with the purpose of enhancing medium-term business performance, increasing corporate value, and sharing profits with shareholders. It applies to directors (excluding outside directors and directors who are Supervisory Committee members) and executive officers. This plan consists of annual incentive remuneration (bonuses) linked to consolidated performance indices for each fiscal year, and medium- to long-term incentive remuneration (stock remuneration) linked to the ratio of the Company's Total Shareholder Return (TSR) to the Tokyo Stock Price Index (TOPIX) growth rate as well as to the consolidated net debt-to-equity ratio of three consecutive fiscal years starting from the fiscal year. As the performance-linked

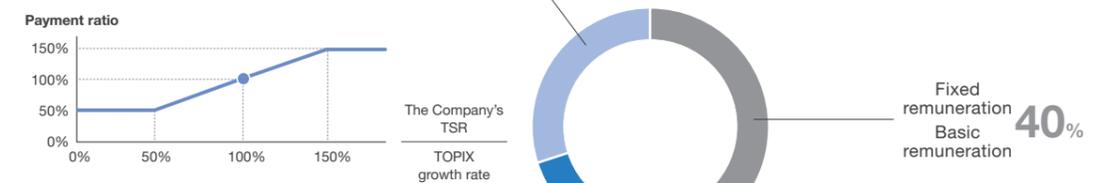
coefficient is determined for both, the scheme is to reflect the outcome of the management's efforts. Regarding the remuneration system, a ratio of 4:3:3 has been established for basic remuneration: Annual incentive remuneration (when consolidated ordinary income excluding the impact of inventory valuation reaches ¥100 billion), and medium- to long-term incentive remuneration (when stock price conditions are fully achieved).

The stock remuneration plan is an incentive plan that uses a trust system. It creates management motivation based on awareness of increasing corporate value in the long term as directors and executive officers share changes in shareholder value with shareholders.

Executives' Remuneration Plan

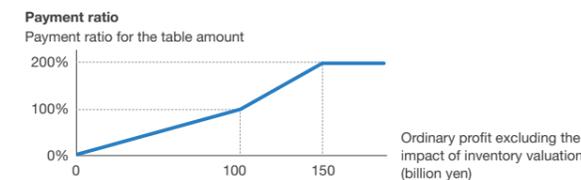
Remuneration linked to business performance (performance-linked coefficient: 50-150%)

Medium-to long-term incentive remuneration (stock remuneration)^{1,2}



Remuneration linked to business performance (performance-linked coefficient: 0-200%)

Annual incentive remuneration (bonuses)^{1,3}



- 1 Remuneration linked to business performance is not applicable to directors who are outside directors or Supervisory Committee members.
- 2 Linked to the ratio of the Company's TSR to the TOPIX growth rate as well as to the consolidated net debt-to-equity ratio for FY2019-FY2021
- 3 Linked to consolidated ordinary income excluding the impact of inventory valuation for each fiscal year



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Evaluation of effectiveness of the Board of Directors

Method of evaluation

An anonymous questionnaire survey of all directors was conducted. Some of the questionnaire items from the previous year's survey were used again to enable year-on-year measurement, and questions about new initiatives in this fiscal year were added. Specifically, the questionnaire comprises the numerical evaluation of 33 items concerning the composition, role, and management of the Board of Directors, the handling of the Corporate Governance Code, the effectiveness of the Board, and other items. A large space is also provided to enable directors to freely comment on perceived issues for each item, ideas for improvement, and others. In FY2020, the questionnaire included an additional numerical evaluation of four items and a field for them to comment freely, which were related to Board of Directors' meetings held as web conferences as a measure to prevent COVID-19 infection.

The answers obtained from all directors were aggregated and analyzed by the Secretariat of the Board of Directors and the Board discussed the results and the policy for future initiatives.

Summary of evaluation results

The Board of Directors analyzed and evaluated the effectiveness of the Board of Directors as a whole, and determined that the Board's effectiveness was ensured and that it continually strives to enhance its effectiveness based on the following points:

- The Board of Directors comprises an appropriate number of directors and enables the exchange of active, unrestricted opinions.
- The Board of Directors has discussions in line with medium- to long-term plans and policies and has enhanced its review of medium-term management plans and investments.
- Sustainable management was encouraged.
- Meetings were held online as a measure to prevent COVID-19 infection.

Future tasks and policies

The following initiatives will be taken to further improve the effectiveness of the Board of Directors.

- 1 **Redefining the purposes and roles of the Board of Directors**
- 2 **Considering measures to increase the diversity of the Board of Directors**
- 3 **Considering how information related to the Nomination and Remuneration Advisory Committee should be reported to the Board of Directors**
- 4 **Continuing to evaluate the effectiveness of the Board of Directors and improving the evaluation methods**

Policies regarding these tasks are as follows.

1 Redefining the purposes and roles of the Board of Directors

The Board of Directors of the Company changed the institutional design of the Company to a company with a supervisory committee structure in FY2015. Since then, the Board of Directors has operated while attaching importance to this supervisory function. However, discussion about the ideal form of the Board of Directors has continued. In the discussion, the following were advocated: the Board of Directors should more deeply discuss matters from a medium- to long-term perspective in response to the acceleration of decarbonization and the growing importance of information disclosure; stakeholder engagement should be increased; and the supervisory function should be strengthened by delegating more authority regarding the execution of business. As a result, the purposes of the Board of Directors were redefined as follows. Moving forward, the purposes will be reflected in the consideration of the agenda of the Board of Directors and other matters.

Purposes of the Board of Directors

- The Board of Directors shall work to achieve the sustainable growth of the Cosmo Energy Group and improve its medium- to long-term corporate value.
- The Board of Directors shall work to ensure laws, regulations and corporate ethics are observed. Based on these efforts, it shall strive to ensure agile management by focusing on determining the major direction of the Company, stakeholder engagement (including information disclosure), and supervising the execution of business.

2 Considering measures to increase the diversity of the Board of Directors

The Board of Directors has been growing more diverse every year. As of the closure of the FY2021 General Meeting of Shareholders, five of the ten directors are outside directors and two of the directors are women. The optimal composition of the Board of Directors will continue to be considered.

3 Considering how information related to the Nomination and Remuneration Advisory Committee should be reported to the Board of Directors

The Board of Directors of the Company has established the Nomination and Remuneration Advisory Committee, where issues related to nomination and remuneration are discussed. We will consider the reporting of the committee's activities to the Board of Directors from FY2021 onward.

4 Continuing evaluation of the effectiveness of the Board of Directors and improving evaluation methods

We will consider expanding the scope of the evaluation of the effectiveness of the Board of Directors to continue identifying measures for improving effectiveness. The Supervisory Committee deliberated and confirmed the appropriateness of the above.

Election and dismissal of CEO

In electing a president, the active president selects a candidate from among multiple candidates based on information from a multilateral human resource evaluation, including the evaluation of their conformity to the Group's human resource requirements, and the results of performance evaluations conducted every fiscal year. Then, the president submits a proposal to the Nomination and Remuneration Advisory Committee. The Nomination and Remuneration Advisory Committee checks the appropriateness of the president's proposal and submits their recommendation to the Board of Directors.

In addition, every fiscal year, the Nomination and Remuneration Advisory Committee deliberates on the necessity of submitting a proposal regarding the dismissal of the president for discussion at the Board of Directors, in light of human resource requirements, performance standards, and other criteria. If the committee, following deliberation, believes it is necessary to submit such a proposal to the Board of Directors, the Board of Directors decides whether to dismiss the president based on the recommendation of the Nomination and Remuneration Advisory Committee.

Policy and procedure for succession planning

Regarding succession planning, the Cosmo Energy Group positions the development of successors to the president as one of the most important strategies supporting the Group's sustainable growth. The basic policy is to ensure the

transparency and objectiveness of candidate selection and develop successors who possess the capabilities and qualities that are appropriate for the president of the Group through appropriate job assignment, the provision of opportunities to receive external training and other initiatives.

In the successor development period, successor candidates are subject to multilateral human resource evaluations, including the evaluation of their conformity to the Group's human resource requirements, as well as annual performance evaluations. At the same time, support for their future development is provided in a well-planned manner by considering and assigning job assignments based on how each candidate has developed, providing them with opportunities to receive external training and other initiatives. The Nomination and Remuneration Advisory Committee is provided with information about multilateral human resource evaluations and the results of the annual performance evaluations and continues to evaluate the appropriateness of the successor candidates and the succession plan.

In the selection of the final successor candidate, a person with the capabilities and qualities that are sufficient and appropriate for the Group's president is selected by the president from among multiple candidates, and the president submits the proposal to the Nomination and Remuneration Advisory Committee. The Nomination and Remuneration Advisory Committee deliberates on the appropriateness of the content of the president's proposal and submits their recommendation to the Board of Directors.

Activities of the Nomination and Remuneration Advisory Committee in FY2020

In FY2020, the Nomination and Remuneration Advisory Committee met seven times and mainly deliberated the following agenda items.

	Matters deliberated/evaluated (regarding nomination)	Matters deliberated/evaluated (regarding remuneration)
May 7, 2020	<ul style="list-style-type: none"> • Roles of the Board of Directors • Reports on the latest environment pertaining to the functioning of our management system • Creation of FY2020 skills matrix 	<ul style="list-style-type: none"> • Review of remuneration of executive officers in FY2019 • Finalization of executive remuneration plan for FY2020 • Confirmation of the content of remuneration disclosures
June 16, 2020	<ul style="list-style-type: none"> • Confirmation of the need to change human resource requirements • Confirmation of the content of executive officers' targets 	<ul style="list-style-type: none"> • Summary of issues and clarification of issues to be considered in FY2020
August 13, 2020	<ul style="list-style-type: none"> • Consideration of the future composition of directors 	
October 9, 2020	<ul style="list-style-type: none"> • Confirmation of the current process related to successor nomination, etc. 	
December 18, 2020	<ul style="list-style-type: none"> • Performance evaluation of the executive officers of Cosmo Energy Holdings and the three core operating companies • Confirmation of the results of multilateral evaluations of executive officers 	<ul style="list-style-type: none"> • Reports on the environment surrounding management remuneration • Examination of the appropriateness of the current remuneration policy • Confirmation of the content of the remuneration plan and the handling of issues to be considered
January 21, 2021	<ul style="list-style-type: none"> • Appointment of Executives of Cosmo Energy Holdings and the three core operating companies • Consideration of the proposal to disclose the nomination system 	<ul style="list-style-type: none"> • Consideration of remuneration for outside directors
March 24, 2021	<ul style="list-style-type: none"> • Creation of FY2021 skills matrix • FY2020 evaluation of effectiveness 	<ul style="list-style-type: none"> • Considering the reflection of individual evaluations in remuneration • Consideration of malus and claw back clauses • FY2020 evaluation of effectiveness