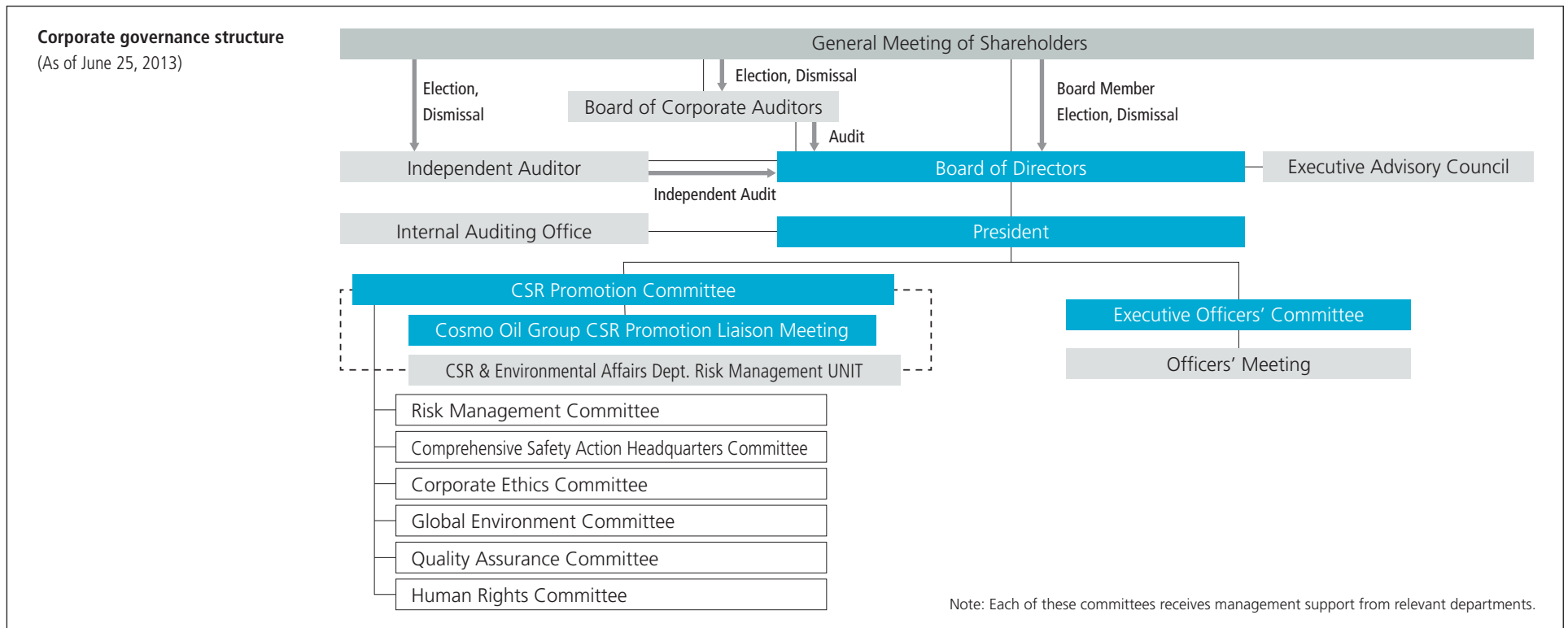


Corporate Governance

BASIC STANCE ON CORPORATE GOVERNANCE

Aiming to satisfy the requirements of investors and all other stakeholders to the utmost, we seek to achieve corporate governance that “manages operations more transparently and efficiently, implements decisions swiftly, and thoroughly scrutinizes risk management and compliance.” We have established the Cosmo Oil Group Management Vision, and the Cosmo Oil Group Code of Conduct, which serve as our guiding principles for achieving our goals.

The Group recognizes that the standards of corporate governance are susceptible to change along with global trends and revisions to corporate legislation. Accordingly, while keeping an eye on these trends, we will continue to examine the best possible system for the Group by drawing on cases of excellent corporate governance systems in other countries.



CORPORATE GOVERNANCE STRUCTURE, MEASURES, AND IMPLEMENTATION STATUS

DIRECTORS AND BOARD OF DIRECTORS

• Board of Directors

The Board of Directors is the Group's top decision-making organ. It is responsible for resolving legal and regulatory issues and items in the Articles of Incorporation. The Board also establishes management policy and supervises directors' execution of business duties.

To enable prompt decision-making on management-related matters, we have set the maximum number of directors at 15.

• Appointment and Term

A provision in the Articles of Incorporation stipulates that directors shall be appointed by a method other than accumulative voting.

In order to clarify evaluation and responsibility for fiscal year results, the term of appointment has been shortened to the period from appointment through to the conclusion of the general meeting of shareholders held to finalize matters regarding the fiscal year that ends within a year of a director's appointment.

• Outside Directors

Two of the Board's 10 directors are appointed from outside the Group. Although outside directors do not have dedicated staff, they have immediate access to necessary information via the Corporate Planning Department.

• Separation of Roles of Chairman and President

Under the structure adopted by the Cosmo Oil Group, the Chairman heads meetings of the Board of Directors (except when concurrently president).

• Frequency and Attendance

Regulations governing the Board of Directors stipulate that in principle meetings are to be held once monthly, and that extraordinary meetings are to be held

when necessary. At meetings, directors make decisions on important management-related matters and examine progress on business initiatives and measures for resolving problems.

In fiscal 2012, the Board of Directors met on 12 occasions. In addition to the Fifth Medium-Term Management Plan, major topics regularly covered at these meetings included the status of sales, imports and exports, supply and demand as well as monthly income summaries.

Directors		Attendance Ratio*	
8 Directors		100%	
2 Outside Directors	Mohamed Al Hamli	83%	10 of 12
	Mohamed Al Mehairi	90%	9 of 10

* Attendance ratios are calculated for the period from April 1, 2012 to March 31, 2013.

* Mohamed Al Mehairi was appointed to the position of outside director on June 26, 2012.

• Nominations and Evaluation by the Executive Advisory Council

The Council is responsible for evaluating the performance of directors, determining director remuneration, and deliberating on the selection of directors and auditors nominated for election at general meetings of shareholders. As an organ responsible for clarifying responsibility for management outcomes, the Council has been separated from the Board of Directors to ensure greater fairness and transparency.

	Remuneration
Remuneration Paid to 11 Directors	¥330.0 million
Remuneration Paid to 3 Outside Directors Included in the Above	¥24.0 million

* Included one outside director, who retired upon the completion of the 106th Ordinary General Meeting of Shareholders held on June 26, 2012.

Payments to directors exclude the employee salary portion paid to employees who hold the concurrent position of director.

EXECUTIVE OFFICER SYSTEM

The Company has introduced an executive officer system to separate management oversight and business execution, as well as to facilitate swift responses to changes in the operating environment. To clarify the roles and responsibilities of “Directors” in charge of decision-making and management oversight and those of “Executive Officers” in charge of business execution, the Group began appointing, as necessary, individuals to the executive officer positions of “Chief Executive Officer,” “Senior Managing Executive Officer,” and “Senior Executive Officer.”

• Appointment and Term

The Board of Directors appoints executive officers recommended by the Executive Advisory Council for one-year terms. The executive officers work under the Board of Directors and the president.

Important decision-making, deliberation, and information sharing concerning the execution of business are the responsibilities of the following committees.

• Executive Officers’ Committee

This committee is charged with making decisions and deliberating on basic policies and important matters concerning the execution of business in accordance with basic management policies determined by the Board of Directors. Regulations governing the Committee stipulate that it meets once weekly, and that additional meetings are convened as required. With the president as the chair of the committee, its membership comprises executive officers and auditors nominated by the President.

• Officers’ Meeting

This group was established below the Executive Officers’ Committee to ensure the swift Group-wide implementation of matters decided by the Executive Officers’ Committee. The Officers’ Meeting convenes once monthly.

AUDITORS

• Board of Corporate Auditors

Members of the Board of Corporate Auditors attend Board of Directors’ meetings and Executive Officers’ Committee meetings to monitor the execution of business activities by directors and executive officers. They conduct effective audits in a fair manner by working closely with accounting auditors, internal audit entities, and the auditors of affiliates.

At present, the Board consists of five auditors: three full-time auditors (one who is a full-time outside auditor) and two outside auditors.

• Outside Auditors

Three of the five corporate auditors are outside auditors, one of whom works full time. The full-time outside auditor attends Board of Directors’ meetings and other important committee meetings. The Company’s audit secretariat provides administrative support to all auditors.

Background and Reason for Selection of Outside Auditors

Hirokazu Ando (full-time)

Background

Former executive officer and general manager of the Group Planning Department at Mitsubishi UFJ Financial Group (formerly UFJ Holdings Inc.) Currently, an independent officer of Cosmo Oil.

Reason for selection

Mr. Ando has extensive experience in a broad range of industries besides the petroleum industry. He is a former executive officer and general manager of UFJ Holdings Inc. (currently Mitsubishi UFJ Financial Group), one of the Company’s main business partners. A considerable period of time has elapsed since Mr. Ando retired from UFJ Holdings in June 2003, and the business relationship between the Company and UFJ Holdings is not deemed excessive. Consequently, Mr. Ando maintains a position of independence with no conflicts of interest between himself and regular shareholders.

Sakae Kanno

Background

Former executive vice president of The Kansai Electric Power Co., Inc.

Reason for selection

Mr. Kanno has extensive experience in a broad range of industries besides the petroleum industry. Although he has experience as a director and corporate auditor of The Kansai Electric Power Co., Inc., one of the Company's business partners, the business relationship between the Company and The Kansai Electric Power Co., Inc. is not deemed excessive. Consequently, Mr. Kanno maintains a position of independence with no conflicts of interest between himself and regular shareholders.

Yoshitsugu Kondo

Background

Joint Representative of Sano Sogo Law Office (formerly SANOCONDOW LAW OFFICE). Currently, an independent officer of Cosmo Oil.

Reason for selection

As an attorney, Mr. Kondo has expertise in corporate law and possesses ample knowledge of corporate governance. Although Mr. Kondo is a partner attorney at a law office with which Cosmo Oil has a legal advisory contract, the value of this contract is not sufficient to cause pecuniary dependence on the Company. Consequently, Mr. Kondo maintains a position of independence with no conflicts of interest between himself and regular shareholders.

• Meetings and Attendance

In principle, the Board of Corporate Auditors meets once monthly, and at other times as necessary. The Board receives reports from the auditors based on the audit policies, plans, and schedule determined by the Board, and presents proposals to directors as required. The Board convened 12 times during fiscal 2012.

	Attendance Ratio					
	Outside Auditors	Board of Directors (12 times)		Board of Corporate Auditors (12 times)		
Hirokazu Ando	100%	12	of 12	100%	12	of 12
Hajime Miyamoto	89%	8	of 9	89%	8	of 9
Yoshitsugu Kondo	100%	12	of 12	100%	12	of 12

* Attendance ratios are calculated for the period from April 1, 2012 to March 31, 2013.

* Outside auditor Hajime Miyamoto passed away on January 30, 2013.

Corporate Auditor Remuneration (Fiscal 2012)

	Remuneration
Remuneration Paid to 6 Auditors	¥90.0 million
Remuneration Paid to 3 Outside Auditors Included in the Above	¥41.0 million

* Included one corporate auditor, who retired upon the completion of the 106th Ordinary General Meeting of Shareholders held on June 26, 2012 and one outside auditor, who passed away on January 30, 2013.

INTERNAL AUDITING SYSTEM

The Company's Internal Auditing Office, which is under the direct supervision of the president, has 11 full-time staff members. The Office conducts audits of the Company and Group subsidiaries in accordance with the annual internal auditing plan formulated by the Executive Officers' Committee. In addition to making specific suggestions for improving business efficiency, the Internal Auditing Office submits audit reports to senior management, the Executive Officers' Committee, and corporate auditors.

ACCOUNTING AUDITS

In the fiscal year ended March 31, 2013, the Group's accounts were audited independently by KPMG AZSA LLC in accordance with Japan's Corporation Law and the Financial Instruments and Exchange Law. Designated limited liability and certified public accountants Masahiko Kobayashi, Naoto Yokoi, and Koji Yoshida were assigned by KPMG AZSA LLC to audit the Company's accounts. 12 additional certified public accountants and 18 assistants also participated in the audit.

Independent Audit Company Remuneration

	Remuneration
Remuneration Payable to the Independent Audit Company for Work Undertaken in Connection with the Fiscal Year under Review	¥120.0 million
Total Amount of Monies and Other Financial Benefits Payable by the Company and Its Subsidiaries	¥211.0 million

* A breakdown and clear classification of the amount payable in connection with audits in accordance with Japan's Companies Act and remuneration for audits in accordance with Japan's Financial Instruments and Exchange Act with respect to the audit agreement concluded between the Company and Independent Auditor have not been provided. Taking into consideration the practical difficulties in providing such a breakdown and classification, the amount of remuneration payable in connection with the fiscal year under review is provided as a sum total.

INTERNAL CONTROL SYSTEM: COMPLIANCE AND RISK MANAGEMENT

INTERNAL CONTROL SYSTEM FUNDAMENTALS

Cosmo Oil has established systems to ensure effective risk management, internal auditing, and auditing by corporate auditors. The Cosmo Oil Group CSR Promotion Committee, which is under the direct supervision of the president, manages the Group's CSR initiatives and internal controls. The Committee also shares information concerning CSR management with affiliates.

• Financial Reporting System

Since April 2008, it has been mandatory for all corporations in Japan to comply with new standards for the evaluation and auditing of internal controls over financial reporting in accordance with Japan's Financial Instruments and Exchange Law. An evaluation of internal controls relating to the reliability of financial reporting as required by the Law found that as of March 31, 2013, the internal control systems of the Company and its subsidiaries were "effective." An evaluation by the Company's independent auditor found its internal controls were appropriate.

• Corporate Ethics Training

The Cosmo Oil Group conducts annual corporate ethics training for Group employees with the objective of maintaining a high level of awareness of corporate ethics. In addition to providing training tailored to job levels, Group company presidents lead training sessions following specific themes at each affiliated company.

In fiscal 2012, President Morikawa gave a keynote address to all business segments entitled Top Commitment, and discussed recent initiatives in corporate ethics. The Group also concentrated on raising awareness of information management among all of the employees through training sessions on information security and the appropriate use of information systems. Ethics training sessions were held for sales staff concerning the Antimonopoly Act and the Act Concerning the Maintenance of Quality of Gasoline, etc. In addition, ethics training sessions specifically designed for engineers were held again this year following the theme "creating safety" with the aim of raising awareness of safety issues. The total number of participants in fiscal 2012 was 3,798.

• **Corporate Ethics Consultation Helpline Overview and Case Record**

The Cosmo Oil Group has set up internal and external helplines for consultation or reporting of legal or ethical problems concerning Group operations. Internal consultation is available through the Corporate Ethics Consultation helpline located in the Corporate Ethics Promotion Office and a consultation helpline for matters related to sexual or power harassment located in the Personnel Department. A helpline has also been established to enable direct consultation with external experts to ensure anonymity and avoid any adverse repercussions for the person seeking consultation. In fiscal 2012, nine consultation cases were recorded.

• **Risk Management Measures and Business Continuity Plan Revisions**

The Cosmo Oil Group has established the Risk Management Committee under the CSR Promotion Committee charged with companywide; 1) risk examination and 2) categorization, 3) countermeasures consideration and 4) implementation, and 5) a monitoring and evaluation cycle implementation. Recent risk issues encompass cyberterrorism, mental health, and new strains of influenza as well as earthquakes. The committee responds to and considers those risks together with related committees and departments to ensure that nothing is overlooked.

Regarding the business continuity plan (BCP) in the case of an earthquake, we conducted a comprehensive review of our response to the Great East Japan Earthquake and made revisions to the Group's Tokyo Earthquake BCP Manual. We also have a Tokai, East Nankai, and Nankai Earthquake BCP Manual.

In addition, the Company conducted comprehensive BCP drills on March 5, 2013, one based on a scenario of damage caused by an earthquake in the Tokai, East Nankai, and Nankai region and another on an earthquake in the Tokyo metropolitan area. BCP drills will be an ongoing part of our risk management activities as we seek to further strengthen our preparedness framework for a major disaster.

INITIATIVES AIMED AT REINFORCING CORPORATE GOVERNANCE

• **Share Acquisition Guidelines**

In June 2006, the Cosmo Oil Group established share acquisition guidelines as an internal standard for executives who own Company shares to encourage continued long-term increases in corporate value. The Group does not grant stock options to directors.

• **Basic Policy on Large-Scale Share Acquisition**

At the present time, the Cosmo Oil Group does not have a specific policy in place for handling shareholders with multiple voting rights that would enable them to control resolutions on the Group's financial and business policies. Nor has the Company introduced measures for defending such attempts to gain control. However, we plan to examine whether such measures are required in order to maintain and enhance shareholder value. We will do this by considering changes to laws and regulations, changes in the operating environment, the wishes of shareholders, and cases of the introduction of such measures by other companies.

• **Ordinary General Meeting of Shareholders**

In Japan, there is a tendency for companies to hold their annual general shareholder meetings around the same time. In order to encourage as many Cosmo Oil shareholders as possible to attend our meetings, the Group schedules its annual meeting so that it does not clash with the majority of other meetings. In addition to introducing a system enabling shareholders to exercise their voting rights via the Internet, institutional investors are able to exercise their rights promptly and accurately using our institutional investor electronic proxy voting platform.