



## 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 6 internal directors (1 of whom is a member of the Supervisory Committee) and 4 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 2 members (2 of the 4 outside directors are independent outside directors) in tandem with the transition to a holding company structure. 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.

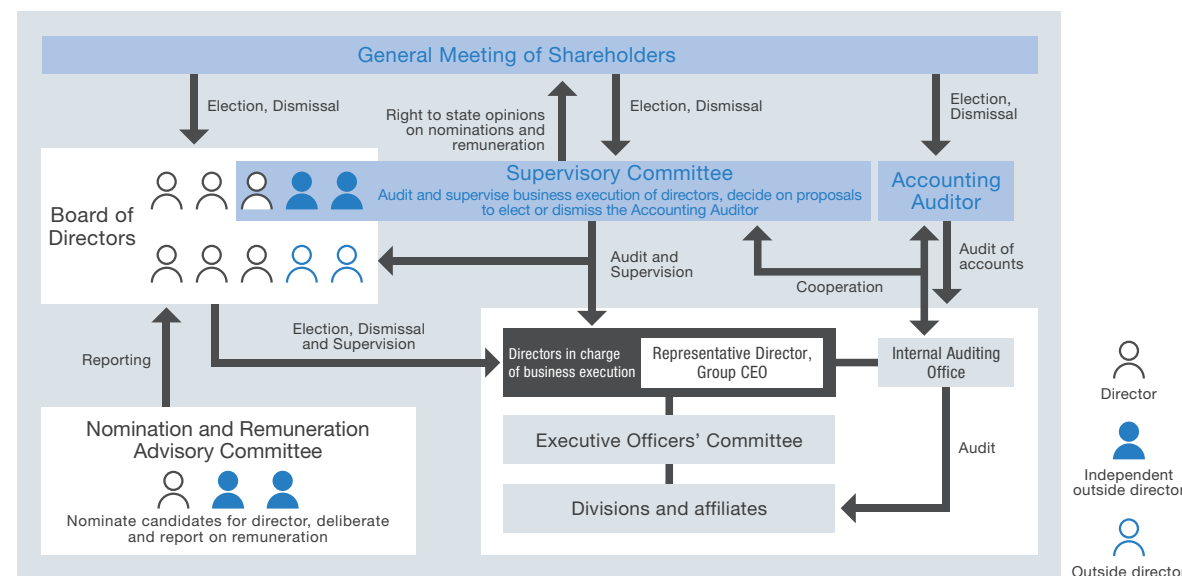
#### Executive Officers' Committee

The Company 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

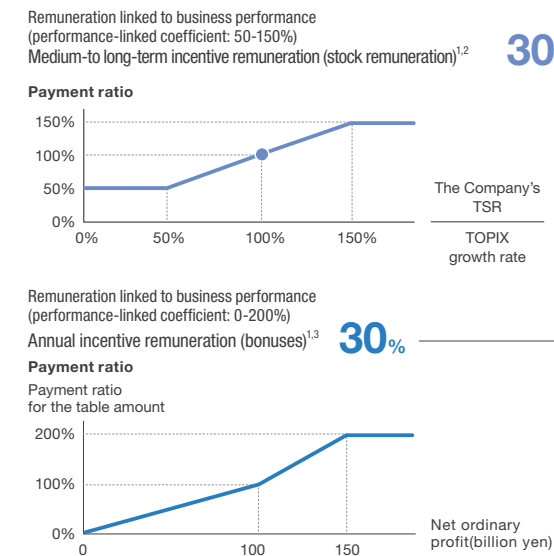


### Executives' Remuneration Plan

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



### Evaluation of Effectiveness of the Board of Directors

#### Method of evaluation

Upon an exchange of opinions on the initiatives executed in FY2019, an anonymous survey was conducted. 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 for free comments on the recognition of issues for each item and ideas for improvement. 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 that the effectiveness of the Board of Directors as a whole is ensured and the Board continually strives to enhance its effectiveness due to the following:

- The Board of Directors comprises an appropriate number of directors and serves as a fair place that allows exchange of active, unrestricted opinions.
- Appointment of a female director enhanced diversity.
- Provision of information to Outside Directors is appropriate.
- The Board of Directors is holding more in-depth discussions on important matters.