

# 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 an audit and 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 six directors (excluding directors who are Audit and Supervisory Committee members) (four men including one independent outside director and two women including one independent outside director) and three directors who are Audit and Supervisory Committee members (two men including one independent outside director and one woman who is an independent outside director). 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 has appointed four independent outside directors. Independent outside directors have immediate access to the necessary information.

### Audit and Supervisory Committee

The Audit and Supervisory Committee is composed of three members in total (one full-time and two part-time members), including 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.

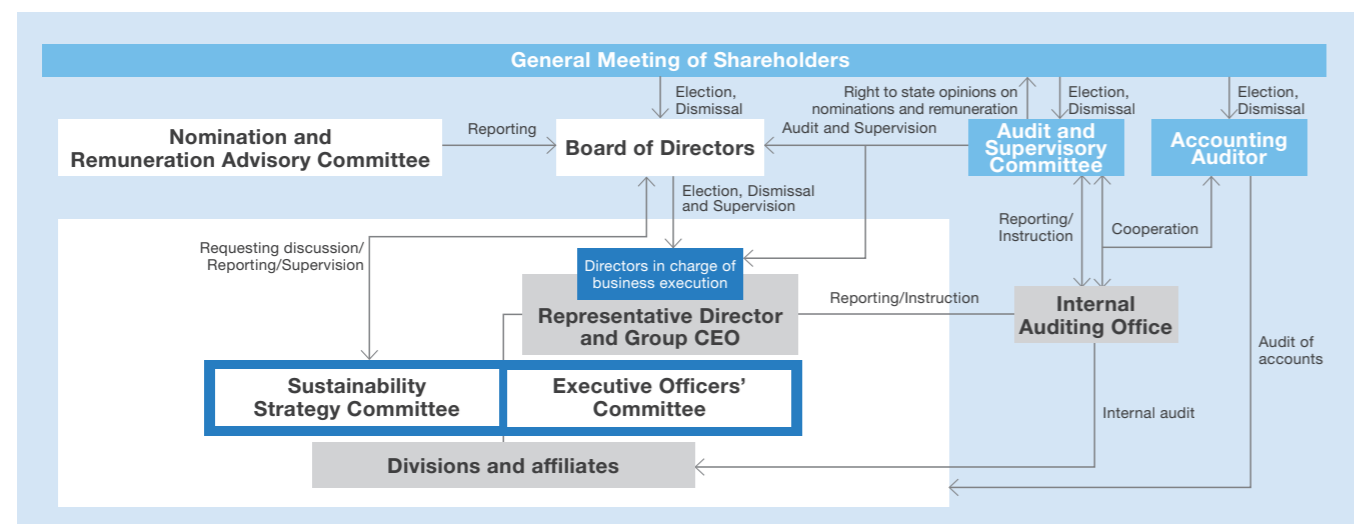
### Executive Officers' Committee

The Executive Officers' Committee comprises major executive officers, including the Chief Executive Officer, and directors that are full-time Audit and Supervisory Committee members, 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 five members in total, namely, one internal director and four 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

The Company has introduced a remuneration plan linked to business performance for its directors (excluding outside directors and directors who are Audit and Supervisory Committee members) and executive officers. Generally, the goal of this plan is to provide them with an incentive to increase medium- to long-term business performance, corporate value and shareholder value, and share the economic interests of the shareholders sustainably, encouraging the directors and executive officers to willingly take on challenges, and ensuring transparency and objectivity in the compensation determination and evaluation processes.

This remuneration system consists of basic remuneration that is fixed remuneration, annual incentive remuneration, and medium- to long-term incentive remuneration. The annual incentive remuneration (bonuses) is based on a performance evaluation conducted using the percent of the target consolidated ordinary income (excluding the impact of inventory valuation) of ¥100 billion that is achieved each fiscal year, the evaluation of initiatives for achieving ESG targets,

and the evaluation of the performance of individuals based on the perspective of nominating management members. For the medium- to long-term incentive remuneration, the performance-linked coefficient is determined based on the ratio of the Company's Total Shareholder Return (TSR) to the Tokyo Stock Price Index (TOPIX) growth rate and consolidated net debt-to-equity ratio, so that the incentive scheme reflects 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 all indicators are fully achieved): medium- to long-term incentive remuneration (when stock price conditions are fully achieved).

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

### Revision of the annual incentive plan

The Nomination and Remuneration Advisory Committee continues to discuss the remuneration plans that would be desirable for the Cosmo Energy Group and its shareholders. In FY2022, the Company revised the annual incentive plan to be able to continue to forge ahead to achieve sustainable growth, a goal set in the Cosmo Energy Group Management Vision, amid the significant changes in the business environment. As a result of the revision, the following evaluation categories were added. The ratio for the annual incentive plan in FY2022 has been set as follows. The portion linked to consolidated ordinary income excluding the impact of inventory valuation constitutes 80%, the portion linked to the evaluation of initiatives for achieving ESG targets is 10%, and the portion linked to the evaluation of the performance of individuals constitutes 10%.

### Evaluation of initiatives for achieving ESG targets

The evaluation of initiatives for achieving ESG targets is reflected in remuneration to encourage directors and executive officers to address the material issues identified in FY2021 with a sense of urgency and sincerity in the promotion of sustainable management. Indicators for the evaluation of initiatives for achieving ESG targets will continue to be discussed as an important issue regarding executives' remuneration plans in light of the next consolidated medium-term management plan starting in FY2023 and other factors.

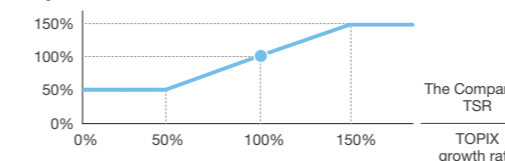
### Evaluation of the performance of individuals based on the perspective of nominating management members

Taking advantage of the characteristics of the Company's Nomination and Remuneration Advisory Committee, which deliberates on the nomination and remuneration of executives, the Company ensures the evaluations of individual directors and executive officers based on performance evaluations and multilateral evaluations from the perspective of nominating management members are reflected in their remuneration. Comprehensive qualitative evaluations are conducted with the goal of enabling the contributions of individuals, which are not seen in the performance figures of the Company as a whole to be reflected in their remuneration.

### Executives' Remuneration Plan

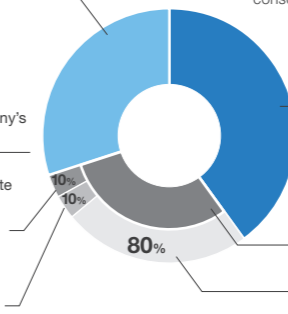
Remuneration linked to business performance (performance-linked coefficient: 50-150%)  
 Medium-to long-term incentive remuneration (stock remuneration)<sup>1,2</sup>

Payment ratio



Linked to the evaluation of individuals  
 Remuneration linked to business performance (performance-linked coefficient: 0-200%)  
 Linked to ESG evaluation  
 Remuneration linked to business performance (performance-linked coefficient: 0-200%)

30%



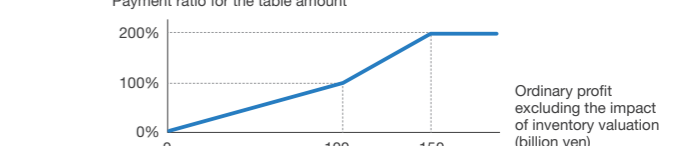
1 Remuneration linked to business performance is not applicable to directors who are outside directors or Audit and Supervisory Committee members.  
 2 Linked to the ratio of the Company's TSR to the TOPIX growth rate as well as to the consolidated net debt-to-equity ratio for FY2020-FY2022

Fixed remuneration  
 Basic remuneration 40%

Remuneration linked to business performance  
 Annual incentive remuneration (bonuses)<sup>2</sup> 30%

Linked to consolidated ordinary income (excluding the impact of inventory valuation)<sup>1</sup> (Performance-linked coefficient: 0% to 200%)

Payment ratio  
 Payment ratio for the table amount



# G Strengthening Corporate Governance Structure

## Evaluation of effectiveness of the Board of Directors

### Method of evaluation

All members of the Board of Directors answered an anonymous questionnaire. Some of the questions asked in FY2021 differed from those in FY2020, reflecting factors including the actions that have been taken based on the results of the FY2020 evaluation of the Board of Directors' effectiveness. Furthermore, new questions concerning the Nomination and Remuneration Advisory Committee, an advisory body to the Board of Directors, were added. Specifically, directors were asked to score for quantitative evaluation such aspects as the composition, roles and operation of the Board of Directors, the Board's efforts with respect to the Corporate Governance Code, the new initiatives pursued during the fiscal year and the effectiveness of the Board of Directors, as well as the composition, roles and operation of the Nomination and Remuneration Advisory Committee. The questionnaire also included many free comment sections for directors to provide their thoughts on each of these aspects, including the perceived challenges and suggestions on the means of improvement.

The Secretariat of the Board of Directors and the Nomination and Remuneration Advisory Committee compiled and analyzed the responses to the questionnaire all the directors had submitted. The Board of Directors and the Nomination and Remuneration Advisory Committee then evaluated the results and discussed their approach to future initiatives.

### Overview of the evaluation results

Based on the analysis and evaluation of the questionnaire results, we have concluded that the effectiveness of the Company's Board of Directors is generally ensured and that the Board is continuously striving to improve its effectiveness as demonstrated by the following findings:

- The Board of Directors consists of an appropriate number of directors, its composition is more diverse than in the past and it serves as a venue for the free and open exchange of opinions.
- Amid the accelerating social trend toward decarbonization, the Board of Directors was able to deepen its discussions from a medium- to long-term perspective. It also successfully enhanced its monitoring function by conducting more rigorous reviews of the Medium-Term Management Plan and of investments.
- In addition to the above, the Board of Directors made improvements by hearing reports to the Board of Directors from the Nomination and Remuneration Advisory Committee on the status of its activities and by expanding the scope of coverage of the effectiveness evaluation of the Board of Directors, which were issues in the FY2020 evaluation of the effectiveness of the Board of Directors.

### Future issues and our policies on pursuing initiatives

The following initiatives will be pursued to further enhance the effectiveness of the Board of Directors.

- 1 Continuously consider the Board of Directors' authority and the agenda items for discussion that would be in line with the Purposes of the Board of Directors.
- 2 Consider systems to enable independent outside directors to further exercise their functions.

Our policies in pursuing these initiatives are described below.

#### 1 Continuously consider the Board of Directors' authority and the agenda items for discussion that would be in line with the Purposes of the Board of Directors.

In FY2020, our Board of Directors redefined its purposes. To align with those purposes, in FY2021, the Board held more discussions on sustainability and on the direction that we should take over the long term. Furthermore, the Board implemented initiatives including hearing reports from the presidents of our core operating companies on such topics as their management issues and deliberating on them. In FY2022, we will be formulating our seventh Medium-Term Management Plan starting from FY2023, and therefore, more extensive discussions by the Board of Directors on the formulation of the Medium-Term Management Plan are planned. In addition, to further strengthen the Board's supervisory function, a review of its authority will also be discussed.

#### Purposes of the Board of Directors

- The Board of Directors shall strive for the Group's sustainable growth and enhancement of corporate value over the medium to long term.
- The Board of Directors shall endeavor to comply with laws and regulations and permeate corporate ethics. On the premise of these, it shall emphasize on decision on a major direction of the Company, engagement with stakeholders (including information disclosure) and supervision of execution, for speedy business management.

#### 2 Consider systems to enable independent outside directors to further exercise their functions.

Following the FY2022 General Meeting of Shareholders, plans call for four of the nine members of the Board of Directors to be independent outside directors. As a means of enabling independent outside directors to further exercise their functions, consideration will be given to creating such systems as those that would increase opportunities for directors to exchange information amongst themselves as well as with the management team.

## Evaluation of the Nomination and Remuneration Advisory Committee

Evaluation through questionnaires and internal analysis confirm our Nomination and Remuneration Advisory Committee to be effective as detailed below:

- The Committee is appropriately structured in terms of number of members, proportion of outside members and diversity, and allows for free and open exchange of opinions.
- The Committee takes into account information provided by consultants and recent trends both inside and outside the company when holding discussions.
- Nominations and remuneration are both determined through appropriate processes.

Furthermore, the key achievements made by the Committee are as detailed below.

- Changes to the composition of directors have been made so that more than one-third of the board members are now independent outside directors.
- ESG and individual targets have been added to the remuneration KPI's for executive officers, in order to further deepen the mindset of sustainable management.
- The structure of the Nomination and Remuneration Advisory Committee have been enhanced to further improve the objectiveness and transparency.

The Committee is committed to further raise its effectiveness and the company's governance in the areas of director nomination and remuneration.

## 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 re-source 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 FY2021

In FY2021, the Nomination and Remuneration Advisory Committee met eight times and mainly deliberated the following agenda items.

	Matters deliberated/evaluated (regarding nomination)	Matters deliberated/evaluated (regarding remuneration)
May 12, 2021	<ul style="list-style-type: none"> <li>• Reports on the latest environment pertaining to the roles and functioning of the Board of Directors</li> </ul>	<ul style="list-style-type: none"> <li>• Consideration of the revision of the FY2021 executives' remuneration plan</li> <li>• Confirmation of the content of remuneration disclosures</li> </ul>
June 14, 2021	<ul style="list-style-type: none"> <li>• Confirmation of the need to change human resource requirements</li> <li>• Confirmation of the content of executive officers' targets</li> </ul>	<ul style="list-style-type: none"> <li>• Consideration of the revision of the remuneration plan</li> <li>• Determination of the amount of stock remuneration</li> </ul>
June 24, 2021	<ul style="list-style-type: none"> <li>• Election of members and chairperson of the Nomination and Remuneration Advisory Committee</li> </ul>	
July 29, 2021	<ul style="list-style-type: none"> <li>• Consideration of the future composition of directors</li> </ul>	
October 14, 2021	<ul style="list-style-type: none"> <li>• Confirmation of the current process related to successor nomination, etc.</li> </ul>	
December 22, 2021	<ul style="list-style-type: none"> <li>• Performance evaluation of the executive officers of Cosmo Energy Holdings and the three core operating companies</li> <li>• Confirmation of the results of multilateral evaluations of executive officers</li> </ul>	<ul style="list-style-type: none"> <li>• Reports on the environment surrounding management remuneration</li> <li>• Examination of the appropriateness of the current remuneration policy</li> </ul>
January 19, 2022	<ul style="list-style-type: none"> <li>• Appointment of Executives of Cosmo Energy Holdings and the three core operating companies</li> </ul>	<ul style="list-style-type: none"> <li>• Deliberation of the revision of the remuneration plan</li> </ul>
March 23, 2022	<ul style="list-style-type: none"> <li>• Creation of FY2022 skills matrix</li> <li>• Revision of the rules of the Nomination and Remuneration Advisory Committee and election of its members</li> <li>• Confirmation of activities in the next fiscal year</li> </ul>	<ul style="list-style-type: none"> <li>• Deliberation of the revision of the remuneration plan</li> <li>• Confirmation of activities in the next fiscal year</li> </ul>