



Roundtable Talk of Outside Directors

Aggressive Management and Defensive Governance

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Theme 1 Roles that outside directors are required to play

Takayama: While measures to address social issues, including responses to climate change and other SDGs, are attracting attention, I feel that expectations of outside directors have been growing. I understand that, for the Group to remain sustainable amid rapid moves towards decarbonization, an important task is to change the portfolio of our energy business. Outside directors are required to fulfill the so-called aggressive function by helping the executive team take proactive initiatives to control risks appropriately and contribute to improving corporate value. I also think that making it possible to fulfill accountability to institutional investors and other stakeholders, so as to manage the company in a fair, highly transparent manner, is an important role for outside directors.

Asai: A textbook definition of the role that outside directors are required to play is to supervise the execution of business. I think it is to evaluate management by examining whether an achievement was appropriate or not in light of the management strategy or plan. On the other hand, just as Ms. Takayama used the word "aggressive" just now, I feel that we also have the duty to provide support to ensure efficient, fair management while the management team members work to make innovative changes happen constantly. Maintaining a balance between the execution and supervision of business is important for long-term improvement of corporate value. And I think that outside directors should serve as a monitoring board that builds and maintains a better relationship with the executive team through explanations from each internal department and individual consultations with

them. The last year has seen significant changes in the Group's management environment, including the COVID-19 pandemic that has yet to come to an end, Russian invasion of Ukraine, and the dissolution of the capital relationship with MIC. In these circumstances, we will continue to give appropriate advice to the management team by understanding prevailing trends.

Inoue: Although what I will say overlaps what you have both said, I think the role of outside directors is to achieve sustainable growth of the company and improvement of its corporate value through three activities of (1) showing the broad direction of corporate strategy, etc., (2) supporting appropriate risk taking, and (3) supervising directors and others in a highly effective manner. It is also important to take ESG measures, respond to COVID-19, geopolitical risks, and suchlike, and give consideration to opinions of minority shareholders and other stakeholders. At present, the economic society is experiencing a period of great change, including rising resource prices. I therefore believe that advice from outside directors based on their careers, experience, and expertise, in addition to the vast experience we have accumulated internally, will be useful. In my case, I have limited knowledge about corporate management. However, I think that my experience as a lawyer and government official enables me to help identify problems by recognizing facts from documents and reports and to consider various issues from legal and international perspectives and in light of the relationship between companies and the government, for example.

Kurita: I was appointed at the General Meeting of Shareholders that was held on June 23, 2022. Because I worked for the

Ministry of Land, Infrastructure, Transport and Tourism until then, I have no experience in corporate management. I was given a role as an outside director, so I intend to fulfill my responsibility while learning. I believe that, in a sense, my role is to express my frank opinions by thinking from the standpoint of a person who was in a completely different world from the world of corporate management. Regarding the outside directors' monitoring function that you mentioned earlier today, I think I can leverage my experience. Efficiency is required of people engaged in corporate management because they must fulfill shareholders' expectations while producing profits. On the other hand, in the world where I worked for a long time, we were required to have the fairness that Ms. Takayama mentioned. I hope to skillfully maintain a balance between these two elements in contributing to determining what the company should be like.

Theme 2 Growth and challenges in corporate governance

Takayama: The Cosmo Energy Group became a company with an audit and supervisory committee structure in 2015, when it transitioned to a holding company structure. I am in my fourth year as an outside director, and I feel that the governance structure has been enhanced and growing more effective with each year by properly implementing the PDCA for evaluation of effectiveness of the Board of Directors, the Nomination and Remuneration Advisory Committee, and the audit and Supervisory Committee. At the Board of Directors, which is at the center, discussions are becoming livelier, with an increasing number of agenda items submitted based on

medium- to long-term strategies and perspectives. I feel that, moving forward, we will need to delegate the authority regarding deliberations on individual proposals and decisions on businesses to execute to the executive team, taking advantage of the fact that we are a company with an Audit and supervisory committee structure. When the Group transitioned to a holding company structure, there was strong centrifugal force, with which core operating companies continued to improve performance autonomously while maintaining independence. Conversely, at present, unifying force is working under the holding company structure. This is my understanding. To mobilize employees under the Cosmo brand and strengthen the Group governance system, control of each operating company is strengthened and auditing function is also enhanced, through two lines in the Three Lines Model*. I want to support the Group in its pursuit of an appropriate balance between centrifugal force and unifying force and help it develop into its ideal form.

Asai: First, I would like to review the growth. In April 2021, the Sustainability Strategy Committee was established. In FY2021, this committee met eight times in total and had fulfilling discussions about many ESG agenda items, including identification of material issues and information disclosure in line with the TCFD recommendations. The Nomination and Remuneration Advisory Committee, which I chair, also met eight times. Its achievements included increasing the ratio of independent outside directors and introducing ESG assessments to executive officers. In addition, a meeting body consisting only of outside directors (Executive Session) also met. I feel that these moves represent significant growth. On the other hand, a task for the future is to further clarify the



Developing into its ideal form with an appropriate balance between centrifugal force and unifying force

Independent Outside Director, Audit and Supervisory Committee Member

Yasuko Takayama

roles of the supervisory team and executive team. I think that we need to shift from the Japanese-style advisory model to the monitoring model as the global standard.

Inoue: I was appointed as an outside director in June 2021, so it is difficult for me to evaluate corporate governance comprehensively in comparison with what it was like previously. However, I have the impression that sound corporate governance is functioning thanks to a corporate climate that permits internal and external officers, employees, and other people to engage in free discussions. As Mr. Asai told us earlier today, it is noteworthy that the Sustainability Strategy Committee was established as a meeting body overseeing activities related to sustainability, which is extremely important for an energy company, and internal control. Regarding tasks for the future, there has been an increasing number of matters to watch out for amid major changes taking place in the world, such as information security, cybersecurity, and economic security. I think that we need to continue discussions about management structure and risk items for risk management.

Kurita: When I took up the position of outside director, I listened to people from departments in the core operating companies of the Cosmo Energy Group. What I felt then was their strong awareness of ESG and sustainability. I think they have been making considerable efforts, feeling responsible to clarify the position of the company in society all the more because it is an energy company that deals in oil. Attending a meeting of the Board of Directors, I was surprised that discussions were more animated than I had expected, which is related to what Ms. Inoue said earlier today. I had the impression that each member was deeply aware of his or her role and made remarks with responsibility, completely unlike a perfunctory process of just determining things.

*Three Lines Model: A model developed by dividing a company's risk management and control activities largely into three lines (roles), which was published by the Institute of Internal Auditors (IIA)

Theme 3 Progress in the Sixth Consolidated Medium-Term Management Plan "Oil & New"

Takayama With respect to the field of "Oil" in "Oil & New," profitability has been improved mainly in the Petroleum

Business, resulting in greater earnings power. As a result, the Group's financial situation has become sound, and it achieved its management goals such as net worth and net D/E ratio earlier than planned. I view this as a great achievement. In the field of "New," the Renewable Energy Business is in progress, with a focus on the wind power generation business. I would therefore like to continue monitoring it so that the business portfolio can be changed as soon as possible. During the period of the Sixth Consolidated Medium-Term Management Plan, changes took place in society at a speed that could not be imagined in 2017, when the plan was formulated. Reflecting this, the Cosmo Energy Group made the 2050 Carbon Net Zero Declaration in May 2021 in response to the 2050 Carbon Neutral Declaration that was published by the Japanese government in October 2020. The Group created a roadmap for achieving net zero carbon emissions and disclosed it in May 2022. The Group has also identified four material issues for sustainable value creation. I understand that it is important whether it can solve the issues by appropriately distributing management resources, such as people, goods, and money, in a period that includes the period for the Seventh Consolidated Medium-Term Management Plan.

Asai: Under the Sixth Consolidated Medium-Term Management Plan, the Group was able to improve its financial situation by gaining earnings strength and improving profitability in a difficult business environment. Above all, the high operating rate of refineries and the growing sales volume achieved in the Petroleum Business are not seen among other companies in the industry. This demonstrates that the Group has been making the capital investments needed to ensure safety and achieving a considerably high level of risk prediction and crisis management since the Great East Japan Earthquake. In addition, the fact that the Group has secured supply to Kygnus Sekiyu is an absolute advantage. As a result, the Group announced a dividend increase and share repurchases in May as shareholder return measures for 2022. I believe that it has reached a level that is comparable to other companies. I expect the Group to be able to further strengthen its relationship with stakeholders under the Seventh Consolidated Medium-Term Management Plan.

The Group achieved its management goals at the end of

FY2021 and gained earnings strength. This will permit it to carefully consider our strategy this year toward the Seventh Consolidated Medium-Term Management Plan. I believe that the overall Group will be able to shift to an aggressive approach under the Seventh Consolidated Medium-Term Management Plan. As an outside director, I would like to help the Group create a robust management plan in both financial and non-financial aspects, while further strengthening branding and DX. **Inoue:** I also give the Group high marks for achieving its management goals under the Sixth Consolidated Medium-Term Management Plan before the final fiscal year. While this is attributable in part to the environment, including the rising crude oil prices, I believe that this achievement also resulted from the Group's efforts to advance structural reform and address ESG issues amid social changes caused by the COVID-19 pandemic. I hope that, under the Seventh Consolidated Medium-Term Management Plan that will start in FY2023, the Group will pursue aggressive management and develop its energy business as a foundation of people's lives, building on a strong financial footing. In my previous position, I was involved in agriculture, forestry, and fisheries. I deeply understood from this experience that it is important to use oil as a power source in agriculture and fisheries. I think that while giving consideration to environmental issues is essential, it is important to support people's lives while valuing the Group's presence related to oil.

Kurita: The Sixth Consolidated Medium-Term Management Plan had a slogan, "Oil & New." I was in a world that dealt with things such as social capital and infrastructure. Both "Oil" and "New" constitute part of the infrastructure that is important for society. What will the Group be like in 2030 and 2050? I think that the Group, which has gained earnings strength, is free to chart its own vision for future. In this sense, the period for the next Seventh Consolidated Medium-Term Management Plan, which was prepared from a long-term perspective as a plan for several years included in the long term, will be an extremely important period in the process of achieving the Group's vision. I would like to join discussions with an awareness of the challenges.

Theme 4 Initiatives to address ESG issues, mainly including response to the climate change

Takayama: Mr. Kurita told us earlier today about a "strong awareness of ESG and sustainability." In 2001, the Group established an organization named the Environmental Office. Its first manager was President Kiriya, and it was at that time that the Group established its Management Vision, "In striving for harmony and symbiosis between our planet, man and society, we aim for sustainable growth towards a future of limitless possibilities." The Group began to have strong awareness of environmental problems more than 20 years ago. I understand that the Group is forward looking on this point. The point that I evaluate most highly regarding the Group's initiatives on ESG issues is the fact that it has open discussions by involving management team members from Group companies, as well as people from departments in charge of driving initiatives, and reaches a firm consensus. I think this is a great advantage because the level of effectiveness differs greatly depending on the presence or absence of consensus. However, I feel that there are still many issues to address in the domain of "S," including human resources, human rights, and diversity. I therefore think it is important to enhance initiatives in terms of quality in the future. In addition, information disclosure is a major theme of ESG at present, and the way in which information should be disclosed is being debated, both in Japan and overseas. However, I think we don't have to be confused by superficial changes. You cannot disclose information without content. Therefore, as an outside director, I would like to watch how each ESG issue is addressed, giving support as necessary.

Asai: I was surprised to learn that the company signed the UN Global Compact as early as in 2006, when the SDGs had yet to be entrenched in Japanese society. We can say that the company is extremely pioneering, from a historical perspective as well, in that it has been addressing the Ten Principles of the UN Global Compact including those on the environment and human rights. Climate change countermeasures are the most

An internal consensus has been reached on ESG issues.

Independent Outside Director,
Audit and Supervisory Committee Member

Keiichi Asai



important issue for the Group. In the roadmap disclosed in May 2022, the Group set targets of reducing CO₂ emissions by 30% by 2030 and to zero by 2050. The Sustainability Strategy Committee identifies risks and opportunities after scenario analysis, and the vision, issues, and opportunities have been made clear in the process. An internal consensus has been achieved on ESG issues. I think this point has profound significance and I think the Group deserves high marks for it. Regarding “S” that Ms. Takayama pointed out earlier today, discussions are taking place about employees’ wellness management. I think it is good that the Group intends to treat ESG issues exhaustively to develop the infrastructure. I believe that the Group has been a step ahead of other companies in the industry. I also feel that its employees have high awareness of ESG. I see the Group as a pioneering oil company.

Inoue: Regarding environmental measures, I highly evaluate the leadership of President Kiriya, who intends to shift from the fossil fuel business, which will shrink in the future, to the Renewable Energy Business with a focus on wind power generation. I feel that the corporate climate of having free discussions by involving employees, internal directors, and outside directors has been an advantage.

Shifting my perspective to a somewhat distant place, the Ukrainian crisis has led to heated debates over the treatment of nuclear power and fossil fuels in EU nations, which have been playing the leading role in addressing environmental issues. The usefulness and convenience of oil may attract increased attention from the viewpoint of stability of energy supply. I personally think that environmentally friendly technologies, of the kind the Group has accumulated, can contribute to relations with developing nations that need oil to achieve economic development. Emissions trading and carbon credits are being discussed in Japan, and I think that measures being taken by the Group with an awareness of the issues will be helpful in future development.

Kurita: When I saw President Kiriya last year, I learned that Cosmo Eco Power has been working on wind power generation since the early 2000s. I thought that the company was highly motivated about ESG issues. In addition, the Ministry of Land, Infrastructure, Transport and Tourism, where I used to work, is responsible for disaster prevention and mitigation, and its

affiliated agencies include the Japan Meteorological Agency and Japan Coast Guard. It is a crisis management organization that will not be respected if its personnel do not act in the event of an emergency. As may be related to employees’ wellness management that Mr. Asai mentioned earlier, I feel that, to maintain stable energy supply at all times, it is necessary to consider the health management of each employee from a management perspective and to act strategically in the medium to long run with an awareness of the issues.

Theme 5 Stakeholder Engagement

Takayama: At the company I worked for, I was engaged for many years in communications with diverse stakeholders, including general consumers, business partners, government, shareholders, and employees. Society has shifted from its previous shareholder centrism to a stakeholder-oriented approach. I feel daily that how to maintain a balance between the interests of stakeholders is extremely important. We were appointed with a mandate from shareholders and institutional investors, so we should value opportunities for dialogue with those people. This is because these opportunities are beneficial, allowing us to have first-hand knowledge of how investors view the company and what they expect of the management team. They are valuable opportunities for us to confirm our standpoints based on this knowledge and think about from what perspective we should make recommendations to internal people. I would like to continue participating in opportunities for dialogue as much as possible and listen proactively to the voices of investors. I think that outside directors play two major roles in engaging with stakeholders. One concerns outside-in communication. We have a duty to seriously take into account investors’ expectations and concerns about management and reflect them in supervising management and in making decisions. The other concerns inside-out communication. We have a duty to explain the internal management and governance statuses to investors in a way that is both careful and easy to understand. I would like to stand between the executive team and investors and serve as a mediator or interpreter, thus fulfilling my responsibility to strengthen the relationship of trust between the company and its stakeholders.

People in an organization become even more important because we are in an era of rapid change.

Independent Outside Director
Ryuko Inoue

By knowing the direction of the company, each employee will come to work with confidence.

Independent Outside Director
Takuya Kurita



Asai: We have many stakeholders, including shareholders, customers, directors, employees, and local communities. It is difficult, both physically and in terms of time, to engage in a deep dialogue with all of these stakeholders. Ultimately, it is important to start investor relations and stakeholder relations activities from the viewpoint of what shareholders demand and how the company should take advantage of that demand. Personally, I hope to hold talks with not only investors but also with analysts. I think this is important because analysts point out what neither executive team members nor supervisors may be able to see. It is medium- to long-term shareholders who have the strongest demands for improvement in corporate governance. They are important partners of the company. Ms. Takayama described our roles as “outside-in and inside-out communications.” I think that the perspective of our potential partners, including major institutional investors, is also important. I would like to know, for instance, what they expect of the Group and what we should do to partner with them. In terms of requests from shareholders, the medium- to long-term improvement of corporate value and sustainable growth are essential.

Inoue: As Mr. Asai said, what I think we should be careful about is how to listen to them, not to mention the importance of strategic dialogues with different stakeholders. Both people and organizations tend to listen only to what they want to hear. Fortunately, the Group has dialogues based on facts and data, such as by finding facts using external specialists, conducting questionnaires, and observing the moves made by other companies. I feel that these efforts serve as a deterrent to listening only to what we want to hear. I think it is important to engage with stakeholders proactively based on facts and data in this way.

Theme 6 The Seventh Consolidated Medium-Term Management Plan that will start in FY2023

Takayama: I sense that it is extremely difficult to create a medium- to long-term vision in the face of so many uncertainties, with changes in the world speeding up and slowing down and moving forward and backward. I think what is most important in this environment is to do what we should

do in a careful manner. The central theme of the Seventh Consolidated Medium-Term Management Plan is the integration of non-financial and financial aspects. I hope that we can disclose information, including the series of processes of developing and implementing plans by linking these two aspects effectively, in a way that is easy to understand.

Asai: Under the Sixth Consolidated Medium-Term Management Plan, the focus of discussion was what to do about the growth driver of “New” in “Oil & New.” One of the key points of the Seventh Consolidated Medium-Term Management Plan is to what extent the Group can actually monetize the wind power generation business, which was positioned as the growth driver. I hope that unique measures with selling power, as seen in the Petroleum Business, will be developed. What should the Group actually do to generate profits from oil and renewable energy, as two mainstay businesses in the period of transition to decarbonization? How can the Group satisfy all stakeholders by generating profits on a par with those from oil while pursuing its social mission and purpose? I think that the Group is very much in the process of metamorphosing from a cocoon to a butterfly.

Inoue: I expect that the Japanese and global economies will remain difficult. What is important in these circumstances is how to continue improving corporate value and how to achieve sustainable growth. I think that people in an organization will be even more important than before, because we are in an era of rapid change. I am very keen to focus on this point.

Kurita: I think that, to maintain stable energy supply in the medium and long run, the Group needs to clarify its vision, including its corporate philosophy. The government office that I belonged to had many people involved with the Group, and it is a vertically long organization. As Ms. Takayama and Mr. Asai mentioned earlier, there are two aspects; that is, making the Consolidated Medium-Term Management Plan public and announcing it internally to employees. Knowing the direction of the company, they will feel proud of it and each one of them will come to work with confidence. I felt that the Seventh Consolidated Medium-Term Management Plan will also work in this way.