

# CORPORATE GOVERNANCE

## BASIC STANCE ON CORPORATE GOVERNANCE

The Cosmo Oil Group seeks to further enhance its corporate governance structure in order to increase transparency and efficiency in its management, provide for quicker execution of operations, and deepen compliance. To enhance our governance structure, we have formulated the Cosmo Oil Group Management Vision, and the Cosmo Oil Group Corporate Ethics Regulations, which clearly express our principles. These do not simply represent a law-abiding spirit, but are proactive measures taken with consideration of safety and the environment. The Cosmo Oil Group, as a member of society, recognizes the importance of fairness and sincerity in its actions, and seeks to maximize the satisfaction of its shareholders, and all stakeholders.

## IMPLEMENTATION OF CORPORATE GOVERNANCE MEASURES

### 1. MANAGEMENT ORGANIZATION AND STRUCTURE REGARDING DECISION MAKING, OPERATIONS AND AUDITING

#### a) Company-with-committees system versus the auditor system

Cosmo Oil has adopted the auditor system.

#### b) Appointment of outside directors and auditors

Cosmo Oil has five auditors, two of whom are outside corporate auditors as defined in Paragraph 1, Article 18 of the Law for Special Exceptions to the Commercial Code Concerning Audit, etc. of Kabushiki-Kaisha.

#### c) Overview of committees

The Cosmo Oil Group, in order to realize its management principles, has established the Corporate Ethics Committee, chaired by the president. The activities of this committee are supported by the Corporate Ethics Office, following the same regulations as it strives to ensure that corporate behavior follows a law-abiding spirit.

The Group has also established the Global Environment Committee, the Comprehensive Safety Action Headquarters, and the Human Rights Committee (directly controlled since April 2004), under the direct control of the Executive Officers' Committee, with the executive in charge of each committee serving as its respective chairperson. This structure is intended to deepen compliance, enhance environmental measures, strengthen safety measures such as prevention of operational and industrial accidents, and address crucial elements regarding human rights. All related divisions and sections assist these committees with their activities, as Cosmo Oil makes a concerted effort with regard to the environment, safety and human rights.

**d) Appointment of support staff for auditors**

Auditors are provided with full-time staff in order to enhance the auditing function.

**e) Operational structure**

The Board of Directors is the supreme body with regard to decision making, operations and auditing. As a support structure for the Board of Directors, and in order to separate and strengthen the auditing of management and operational functions, Cosmo Oil abolished the former Executive Committee, and established the Executive Officers' Committee (effective July 2004).

Also, auditors are organized under the Board of Auditors, and auditing is strengthened by having auditors sit on the Board of Directors, Executive Officers' Committee and other management committees. Cosmo Oil's accounting auditor is KPMG AZSA & Co. Furthermore, as part of its internal structure Cosmo Oil maintains an Internal Auditing Office, which conducts audits of the efficiency and legal compliance of operations, helping to enhance the auditing function with concrete advice and council aimed at improving operations. Advice is also solicited from a number of legal advisors, ensuring strict compliance.

**2. MEASURES DURING FISCAL 2004**

In order to strengthen compliance among employees, a Management Vision Card was distributed to all staff members, and a perception study on corporate ethics conducted as part of the awareness program. In terms of risk management, each department and office conducted a clarification and evaluation of its risks, and Crisis Management Regulations (April 2004) were formulated based on the results. Cosmo Oil considers the recent incident in which customer information from Cosmo The Card was leaked by the system development outsource company to be extremely serious, and will strive to further strengthen its crisis management to regain trust and prevent further incidents, working to ensure good-faith information disclosure.

Also, in April 2004 the Environmental Affairs Office was renamed the CSR & Environmental Affairs Office, strengthening the structure that supports Cosmo Oil in terms of the environment, compliance, safety, human rights and many other areas, as it fulfills its responsibilities as a member of society.