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January 27, 2023

City Index 11 Co., Ltd.

Our Thoughts on the 7th Consolidated Medium-Term Management Plan of Cosmo Energy Holdings Co., Ltd.

Our company and our joint shareholders have made various proposals for improving shareholder value to Cosmo Energy Holdings Co., Ltd. (“Cosmo”). We have also sent a memorandum of questions to Cosmo dated January 23, 2023 (“Questions for Cosmo, dated January 23” as can be found on our website), and have received a response from Cosmo on January 26. The response stated that they will refrain from answering questions individually, as there is the risk of communicating undisclosed material information, etc. Cosmo plans to release its 7th Consolidated Medium-Term Management Plan (“Medium-Term Plan”) in March 2023; we will be demanding to Cosmo that they sincerely consider the 3 points listed below, and state their policies in the Medium-Term Plan as well as make commitments to shareholders on these points, for the objective of realizing mid- to long-term improvement in Cosmo shareholder value.

Related to this point, we are uncomfortable with the fact that Cosmo was very critical that we “demanded the implementation of a share buyback” in its press release dated January 24. Over the periods of the past 3 medium-term plans (approximately 13 years), Cosmo’s equity capital target has not significantly surpassed 400 billion yen. However, Cosmo’s equity capital has recently increased significantly due to rising oil prices, improved profitability of oil refining and sales (we believe that this is largely due to the merger of Idemitsu and Showa Shell rather than the efforts of Cosmo), and the conversion of convertible bonds into equity shares. Fundamentally, in order to improve ROE, it is important for publicly traded companies to both “increase profits” through their businesses and also reduce equity through appropriate capital policies. Conducting share buybacks as much as possible when PBR is under 1x will lead to significant improvements in earnings per share (EPS) and book value per share (BPS). In the least, Cosmo should immediately conduct share buybacks for the approximately 32 billion yen of equity that have been converted from convertible bonds without waiting for the announcement of the Mid-Term Plan, given that its shares are currently being traded at a low price.

We plan to determine our future course of action after viewing Cosmo’s Medium-Term Plan, but if we decide that the Medium-Term Plan does not adequately contribute to the improvement of Cosmo shareholder value, we intend to ask the shareholders at the ordinary general shareholders’ meeting scheduled in June 2023 whether the following 3 points shall be executed.

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(1) Renewable Energy

Cosmo plans to expand its onshore/offshore wind power generation to 1.5 million kilowatts and generate 20 billion yen in ordinary income by 2030. However, considering Cosmo's current technology level and business size, we believe that there is the possibility of Cosmo not being able to win selection competitions as it plans to, such as in the case of Yurihonjo City of Akita Prefecture in December 2021, and we believe that Cosmo may find difficulty in repeatedly being selected as operator in a highly competitive environment, or in being able to keep investing in its renewable energy business until it expands to 1.5 million kilowatts.

We have been fundamentally in agreement with Cosmo investing in its renewable energy business, but given that the market PER average for the renewable energy industry is approximately 25x, while Cosmo's PER is approximately 3x, we have been suggesting that Cosmo conduct an IPO of the renewable energy business as a subsidiary after a certain level of business structure has been established, in order to procure and leverage outside capital and scale the business.

Regarding this point, we believe that Cosmo can distribute a portion of the shares in its renewable energy business subsidiary to Cosmo shareholders as dividends in kind. Through this method, we believe that Cosmo will be able to save taxes related to the sale of shares in its renewable energy subsidiary after taking it public. Additionally, both Cosmo and Cosmo shareholders will be able to generate proceeds by selling portions of their ownership in the renewable energy subsidiary by making these shares available for sale when said subsidiary goes public in the coming years. Furthermore, we believe that said subsidiary will be able to improve its enterprise value as a group company of Cosmo even after it becomes a publicly traded company.

Also, recently in Japan, there are cases in which tax incentives for spin-offs are being utilized.

One such case is Koshidaka Holdings spinning off its consolidated subsidiary, Curves HOLDINGS, by distributing its shares as dividends in kind to Koshidaka shareholders in March 2020. MELCO HOLDINGS also announced on January 23, 2023, that it will distribute all the shares of its consolidated subsidiary, Shimadaya Corporation, to MELCO shareholders as dividends in kind, which would make it the second of such cases when completed. Under the spin-off tax incentives, taxation on sales proceeds and dividends can be deferred at the time of the spin-off, which is the act of taking a certain business of a company and creating a new and independent company, if the spin-off can be classified as a qualified corporate reorganization.

Keeping the above in mind, we request that Cosmo clearly states a capital policy for the renewable energy business that aims at mid- to long-term growth as well as improvements in enterprise value, which is currently being left at low valuation levels.

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(2) Shareholder Returns

Over the periods of the past 3 medium-term plans (approximately 13 years), Cosmo's equity capital target has not significantly surpassed 400 billion yen. Additionally, as stated in our memorandum "Our Thoughts on the Introduction of Response Policies to Large-scale Purchase Actions, etc. by Cosmo Energy Holdings Co., Ltd." disclosed on January 12, 2023, we believe that an equity capital amount of 400 billion yen provides an adequate buffer for risks.

Additionally, as stated in our memorandum "Our Thoughts on Cosmo Energy Holdings Co., Ltd. and our Dialogue with the Company" disclosed on January 20, 2023 (the "January 20 Release"), we have been asking Cosmo, who had established a target equity capital amount of 400 billion yen, for a logical quantitative reasoning on how much equity capital is necessary as a risk buffer. However, as of today, we have not been able to receive a clear response on this point.

Going forward, we believe that the only significant amount of capital needed for growth is for the area of renewable energy. Even if additional buffers are put in place and certain levels of capital are set aside for environment-related measures on top of the current equity capital target of 400 billion yen, we believe that the maximum target for equity capital shall be approximately 500 billion yen.

Therefore, we demand to Cosmo that they set a cap on their equity capital target at 500 billion yen in the Medium-Term Plans, and that they also set a policy that 100% of the amount of net income that exceeds 500 billion yen in equity capital shall be distributed to shareholders.

(3) Reduction of Refineries

Domestic demand for petroleum products in Japan is expected to continuously fall going forward, and the fall is being accelerated by the Carbon Neutrality Declaration, etc. Currently, there are 21 refineries in Japan with a total refining capacity of approximately 3 million barrels per day (BD). It is expected that these will be reduced by 6 refineries and 1 million BD by 2030, and that only 5 refineries or so will remain nationwide by 2050. Given this situation, competitors in the industry also hold excess refining capacities, and it is said that they are faced with the need for a restructuring of their refineries, including the reduction of refining capacities and/or closures of refineries.

The situation is no different for Cosmo. We believe that it is essential for Cosmo to begin undergoing a fundamental restructuring while profits are still stable, in order for Japan to maintain a stable supply of energy over the mid- to long-term.

Therefore, we demand to Cosmo that it conducts a thorough analysis to determine which refineries have

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competitive edges, that it clarifies directions and milestones in the Medium-Term Plan with details on closures of refineries or consolidation of refineries with those owned by competitors, and that it makes a commitment to its shareholders.

As we have stated in the January 20 Release, we believe that the fundamental value of Cosmo is at about 1x PBR, given that Cosmo has become capable of consistently generating 100 billion yen in ordinary income and 50 billion yen in net income annually, and that the value of its renewable energy is not being reflected on the Company's net assets. We further believe that this value can be realized through Cosmo's commitment to shareholders regarding the aforementioned 3 points.

As a major shareholder in Cosmo, we intend to continue constructive dialogue regarding initiatives for the improvement of shareholder value at Cosmo.