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January 12, 2023

City Index 11 Co., Ltd.

Our Thoughts on the Introduction of Response Policies to Large-scale Purchase Actions, etc. by Cosmo Energy Holdings Co., Ltd.

To whom it may concern:

Yesterday, Cosmo Energy Holdings Co., Ltd. ("Cosmo") made a timely disclosure titled "Notice Concerning the Introduction of the Company's Basic Policies for the Control of the Company Based on the Fact that City Index Eleventh Co., Ltd. and Other Parties Carry Out Large-scale Purchase Actions, etc. of the Company's Share Certificates, etc. and Response Policies to Large-scale Purchase Actions, etc. of the Company's Share Certificates, etc." (the "Press Release" hereunder, and the response policy stated in the Press Release shall be referred to as the "Defense Mechanism" hereunder).

Our company and our joint shareholders believe that publicly traded shares should fundamentally be free to be bought or sold, and therefore are against this Defense Mechanism that is for the purpose of self-protection for the management team. Additionally, we believe that the management team at Cosmo should be focused more on the improvement of shareholder value rather than implementing takeover defense mechanisms, as the share price of Cosmo is undervalued and remaining at levels significantly below 1x PBR.

To date, we have been making various proposals to Cosmo regarding the improving shareholder value. In particular, regarding the 60 billion yen of the zero coupon convertible bonds due 2022 ("Convertible Bonds"), we have been proposing the buyback of its entirety given the favorable business results, as the increase in shares outstanding resulting from the conversion of the Convertible Bonds will not contribute to increased shareholder value. However, only a portion of the Convertible Bonds have been bought back and approximately 32 billion yen of the Convertible Bonds have been converted to equity shares, which we find regrettable.

Cosmo plans to release its 7th Medium Term Management Plan ("New Management Plan") in March 2023, and we will decide our next course of action based on whether the New Management Plan adequately contributes to the improvement of shareholder value.

We believe that the New Management Plan should state the following goals; please also refer to "Our Proposal Regarding the Medium Term Management Plan (dated December 9, 2022) that we made to Cosmo early last December, on our website.

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(1) Target Equity Capital of 500 billion yen

The first time that Cosmo mentioned its target equity capital of 400 billion yen was on its 5th Medium Term Management Plan (released March 2013), and at that timing, Cosmo was in an extraordinary situation when it had to be cautious of damages in financial stability due to the East Japan Earthquake. However, on its 6th Medium Term Management Plan, when Cosmo was past the above crisis, Cosmo maintained its equity capital target, and for approximately 13 years, the equity capital has never been significantly over 400 billion yen. Even when considering the worst-case scenario for Cosmo in the current environment, such as a rapid fall in oil prices, we believe that 400 billion yen is an adequate level including buffers for risk. Specifically, if a rapid fall in oil prices (an approximate $50 fall in Dubai crude oil prices) is combined with a rapid appreciation of the yen against the dollar (a 40 yen appreciation against the dollar) the estimated maximum net loss would be approximately 150 billion yen, and we believe that Cosmo's business can be maintained if it still has 250 billion yen in equity capital, considering its historical equity capital levels. Cosmo has mentioned to us in past conversations that they would like to increase its equity capital due to potential deteriorations in market conditions, but given that it has held 400 billion yen as the target equity capital in the past, we think that Cosmo needs to be held accountable in its responsibility to explain to shareholders how much Cosmo thinks the risk buffer in equity capital should be, in conjunction with the calculations that the target amount is based on.

Going forward, we believe that the only capital needed for growth is for the area of renewable energy, but the profits that can be generated from the renewable energy business is significantly lower than the petroleum business, and as mentioned in (2) below for the renewable energy business, after a certain level of investments have been made into the business, we believe that it should rely on outside capital through subsidiary IPOs, etc. Therefore, even if additional buffers are put in place and certain levels of capital are set aside for environment-related measures, we believe that the maximum target for equity capital shall be approximately 500 billion yen. We are strongly against the idea of Cosmo unnecessarily placing a higher target on equity capital in its New Management Plan, from the standpoint of increasing ROE and maximizing shareholder value.

(2) Public Listing of Renewable Energy Business

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. The market PER average for the renewable energy industry is approximately 25x, while Cosmo's PER is approximately 3x. Given Cosmo's current valuation of 3x, the more Cosmo invests in renewable energy with its own capital, shareholder value is damaged due to the fact that the earnings from Cosmo's renewable energy business will be valued at Cosmo's valuation levels of 3x. Therefore, we believe that there is a need to 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. The New Management Plan needs to state a clear direction regarding this point.

(3) Urgent Share Buyback for the Approximate 32 Billion Yen of Equity Converted from Convertible Bonds

As mentioned above, we have been proposing the buyback of the entirety of the Convertible Bonds given the favorable business results, as the increase in shares outstanding resulting from the conversion of the Convertible Bonds will not contribute to increased shareholder value, but only a portion of the Convertible Bonds have been bought back and approximately 32 billion yen of the Convertible Bonds have been converted to equity shares. This is clearly an unnecessary increase in equity capital, and we believe that this capital should be utilized for an urgent share buyback.