TSE's Request: Improvement Initiatives for Companies Trading Below 1x PBR

- The Tokyo Stock Exchange has requested that publicly traded companies engage in initiatives regarding capital cost and share prices/market capitalization through a transformation of mindsets. In particular, publicly traded companies that are constantly below 1x PBR are strongly requested to disclose the details as well as the progress of their initiatives
- Publicly traded companies need to quickly engage in initiatives for fundamentally improving their enterprise value, and not just react superficially

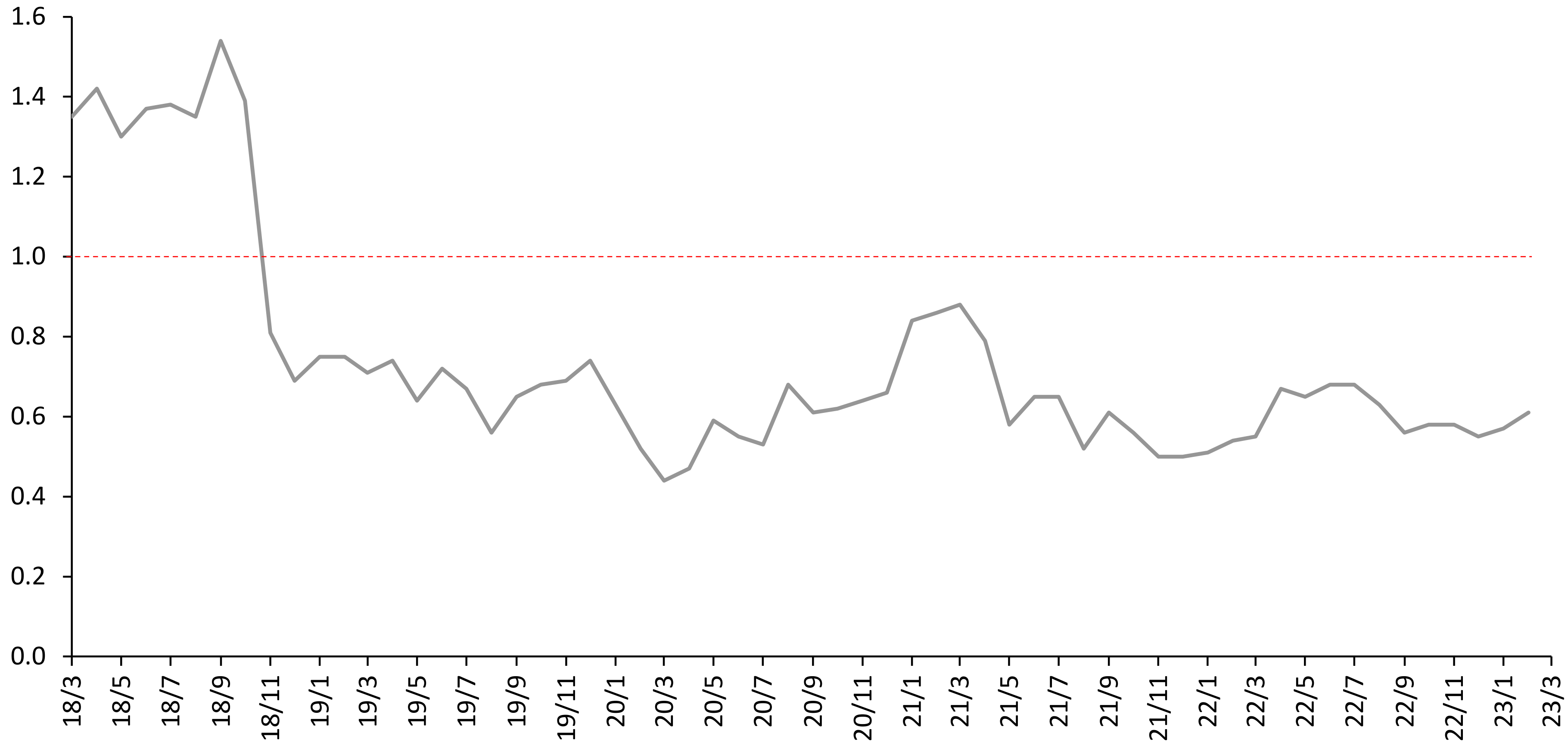
Required Initiatives	Background	Execution Period
• Accurately grasp company's cost of capital and return on capital among management team and board of directors • Discuss the evaluation of share prices and market capital as well as the existing situations for the above, and disclose improvement policies and specific initiatives as necessary	• If PBR is below 1.0x, that means that either return on capital is below the cost of capital, or investors do not expect future growth potential • Such companies should be demanded to disclose improvement policies and specific initiatives, etc. • The need for publicly traded companies to be more mindful of investor evaluations	Spring 2023

Source: Materials from TSE's "Follow-up conference regarding the revisiting of market segmentations (市場区分の見直しに関するフォローアップ会議)"

Historical PBR of Cosmo

- Cosmo, whose PBR has lagged under 1x continuously since the autumn of 2018, needs to immediately devise and execute a plan to improve PBR to above 1x
- Cosmo's New Medium-Term Management Plan, which will be disclosed prior to the release of detailed guidance by the TSE, needs to include a roadmap for improving PBR above 1x as well as the management team's commitment

Historical PBR for the Past 5 Years



Source: QUICK

Initiatives that We Believe Are Necessary to Achieve PBR Above 1x

For Cosmo to achieve a valuation above 1x PBR, the Medium-Term Management Plan must include [1] large-scale shareholder returns, and [2] an unlocking of value for the renewable energy business through a spin-off

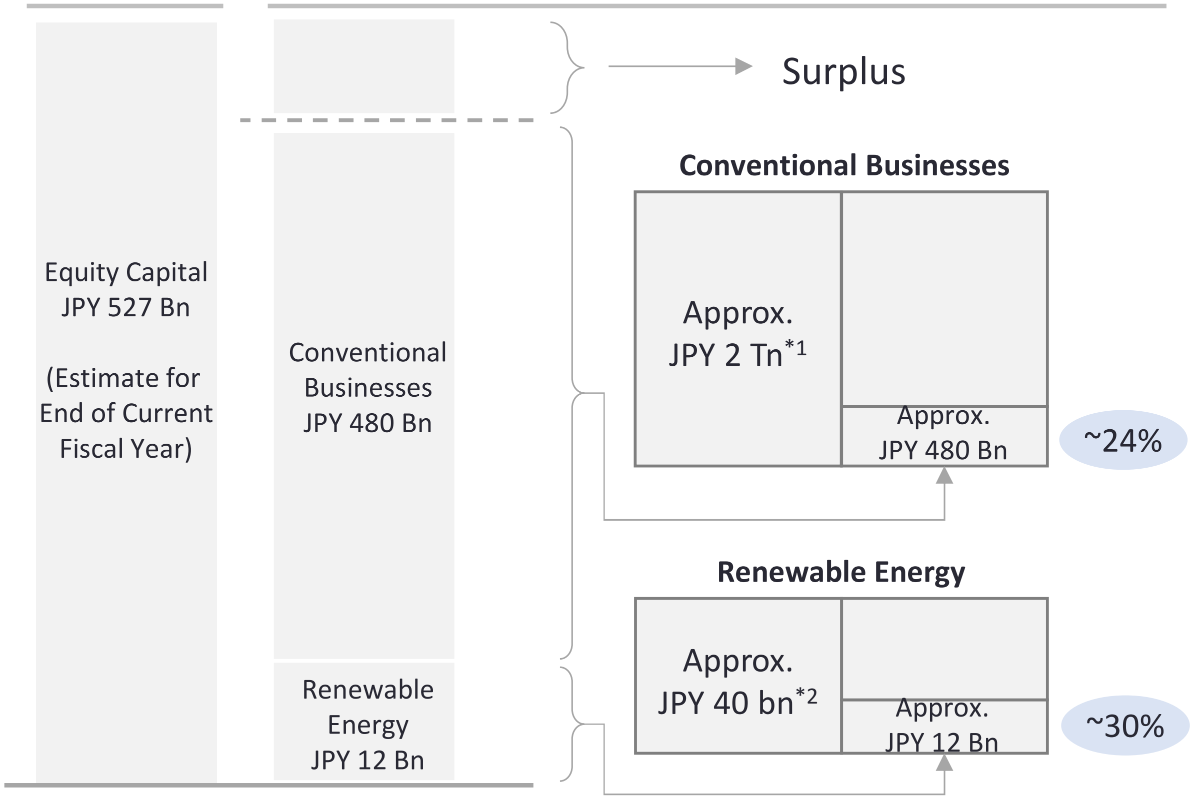
	Our Understanding	Our Proposal
[1] Large-Scale Shareholder Returns	• Maximum expected net loss is approximately 150 billion yen even if oil prices fall to half and the yen appreciates rapidly in the foreign exchange market • Even if reserves for environmental issues are considered, the maximum target for equity capital should be approximately 500 billion yen at most, which is 100 billion more than the prior target of 400 billion yen • Excess equity capital hurts capital efficiency and leads to the deterioration of shareholder value	**All capital in excess of 500 billion yen to be returned to shareholders**
[2] Spin-Off of Renewable Energy Business	• Cosmo does not disclose any investment profitability criteria for the renewable energy business, and investors are unable to make adequate evaluations of the business • The business is being evaluated at a discount, as a part of Cosmo's low overall valuation of 3x PER	**Spin-off of renewable energy business as an independent, publicly traded entity**

[1] Large-Scale Shareholder Returns

Setting Company Standards Based on Equity Capital Levels for Each Business Segment

The only business that requires growth capital is the renewable energy business, but the level of PER for this industry is at about 25x, and it is irrational to use Cosmo equity capital for this business when Cosmo is being valued at 3x PER. Now that the business structure has been established to a certain extent, there is the need to take the business public and procure outside capital

Current Distribution of Capital to Each Business (Estimated)



Policy Going Forward

Current and future surplus to be proactively utilized for shareholder returns

Focus on efficiency within and between businesses, rather than aim for large-scale growth.
Basic policy for equipment scale is maintaining the status quo

- Small increases can be considered when necessary, such as for environmental issues or strategic investments

Already adequate levels as seed money. The business is at a scale where it should scale utilizing outside capital, through a public listing etc.

Even when maintaining a surplus over Cosmo's existing target of 400 billion yen to take into account potential needs for environmental issues, approximately 500 billion yen is the maximum, and the current level already exceed that

Note：*1 Based on Cosmo's expected equity capital of JPY 527 Bn and equity ratio of 26.2% at the end of the current FY *2 Based on business segment assets information

[1] Large-Scale Shareholder Returns

Equity Capital Above and Beyond JPY 500 Bn is Unnecessary

500 billion yen of equity capital is more than adequate as equity capital, including buffers for risk, even when considering the worst possible scenario currently fathomable for market change. Any further additions to equity capital requires a rational story

Worst Possible Scenario Currently Fathomable

Rapid fall in oil prices
- If Dubai Crude prices fall to one half of current levels
- \$93/B *1 ⇒ \$46/B (-\$47)

Rapid appreciation of yen
- If the current devaluation o yen rapidly turns to appreciation
- JPY135/\$ *1 ⇒ JPY100/\$ (-JPY35)

Estimates for Generated Losses

Impact on petroleum business (mainly on inventory)
- -192 billion yen from current FY
  - ✓ Oil sensitivity 2.8bn yen x -47 ≒ -132 bn yen
  - ✓ Forex sensitivity 1.7bn yen × -35 ≒ -60 bn yen
  - ✓ The two sensitivities should be multiplied to be precise, but the above sum is more conservative
- If stable levels of ordinary income is assumed to be 50-60 billion yen, the maximum ordinary loss is -150 billion yen

Impact on oil development business
- Sensitivity is not disclosed, but since ordinary income was positive even when prices were \$30/B in the past, profits are assumed to be zero

Other
- Assumed zero profits

Resulting maximum net loss is 150 billion yen
When compared to historical equity capital levels,
even when taking a conservative stance, the remaining
350 billion yen should be enough for business operations

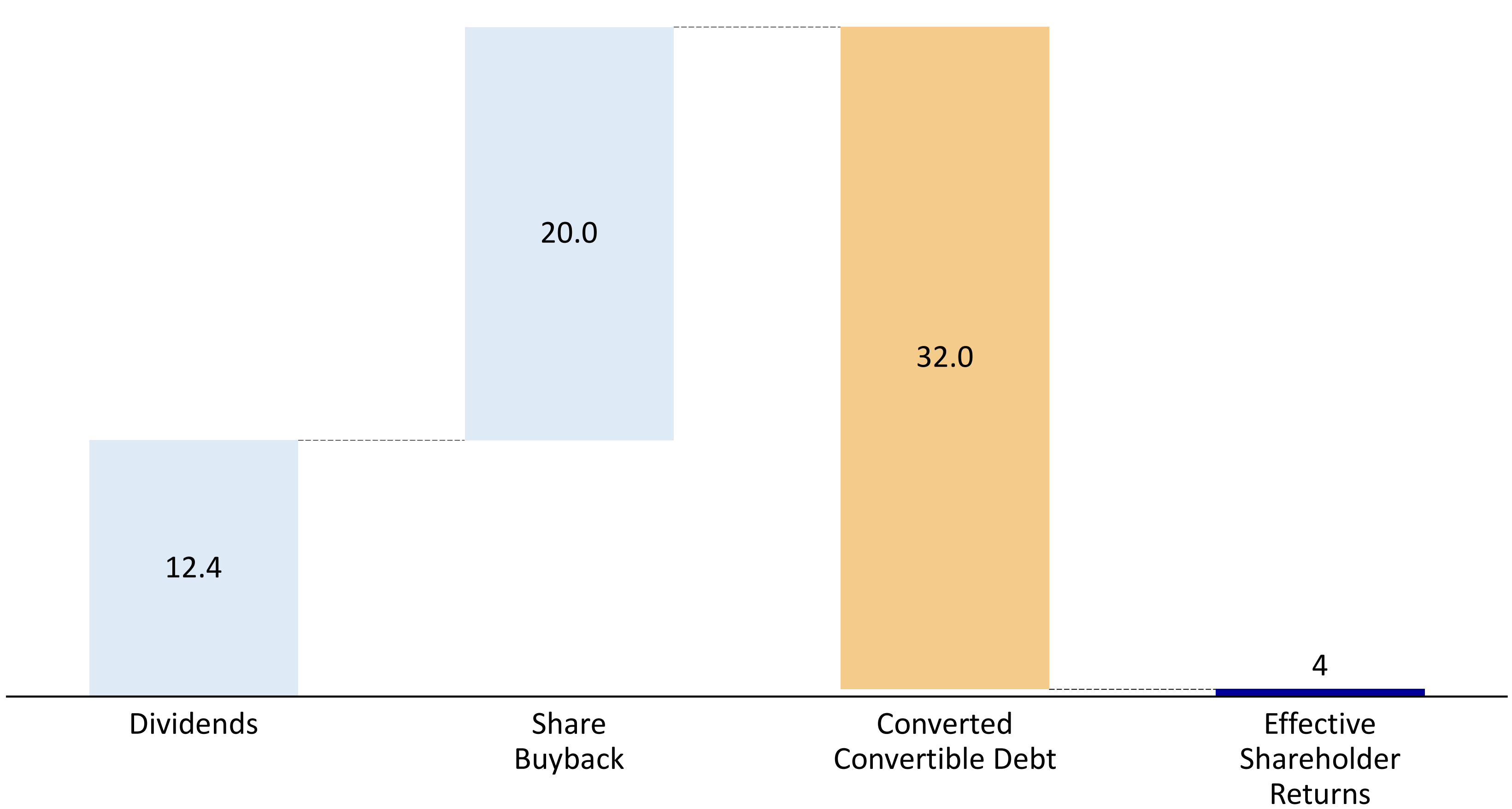
Source: *1 Cosmo assumptions for current FY (Q3 earnings announcements)

[1] Large-Scale Shareholder Returns

Shareholder Returns for Current Fiscal Year is Effectively Close to Zero

- Although a total of 20 billion yen in share buybacks were conducted during the current fiscal year, the conversion of a total of 32 billion yen of convertible debt brings down the effective shareholder return amount to almost zero
- Considering the fact that there is no need of reinforcing capital currently, an immediate share buyback equal to the amount of converted convertible debt should be conducted in order to avoid the deterioration of shareholder value through dilution

Effective Shareholder Returns (JPY BN)



Source: Cosmo IR Materials Note: Dividend amount based on average number of shared during period (excluding treasury shares) from 3Q announcements

Shareholder Returns During the Recent 2 Fiscal Years at Merely 4%

Net income attributable to parent company shareholders over the most recent 2 fiscal years, including the current year, are over 200 billion yen. However, shareholder return ratios, after deducting the amount for exercised convertible debt rights, are at merely 4%

Shareholder Returns for the Most Recent 2 Fiscal Years

Total Shareholder Returns	**JPY 8.8 bn*1**	=	**4%**
Net Income Attributable to Parent Company Shareholders	**JPY 206.9 bn*2**		

Source: Cosmo IR Materials *Notes:* *1 Deducted converted convertible debut during FYE March 2022 from total dividends and share buybacks during FYE March 2022 and March 2022
*2 Total of net income attributable to parent company shareholders for FYE March 2022 and March 2023 (FYE March 2023 figures based on Cosmo estimates)

Cosmo's Accountability Regarding Its Renewable Energy Business

- Cosmo's renewable energy business is not receiving an appropriate valuation from the markets and is being left in that state, as Cosmo has failed to fulfill its accountability regarding the business
- Since no change can be expected as long as the renewable business stays under the umbrella of Cosmo Group, it should aim for the maximization of shareholder value as an independent, publicly traded entity

Status Quo

The business is hard to evaluate as a standalone business, as there are no disclosures regarding items that investors require for evaluation, such as target returns, or investment profitability thresholds

Shareholder equity is being used without accountability, hidden behind the parent company and its larger existing businesses

The 7th Medium-Term Management Plan cannot be evaluated unless it states target returns, investment criteria, and profitability thresholds for the renewable energy business. *1

Analyst

Ideal State

Necessary equity capital and capital cost standards are defined for each business, and decisions are being made based on clearly stated investment profitability thresholds

Target returns and investment profitability thresholds are disclosed for each business segment, and investors can evaluate each business adequately

Returns above capital costs are being generated, and value ins being created. Analyses on results as well as next actions are being clearly disclosed to shareholders

*1 Comment during Cosmo's Q3 FYE March 2023 earnings announcement meeting

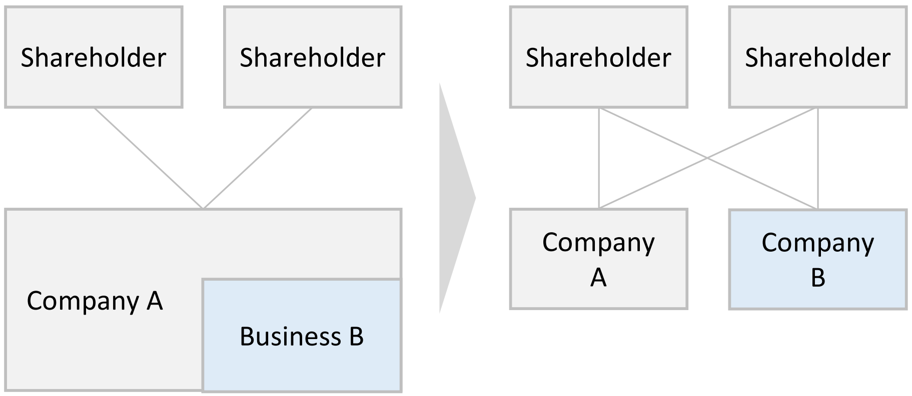
[2] Spin-Off of Renewable Energy Business
Spin-Off Program Overview（1/2）

- When conducting a spin-off (taking a business from an existing company and creating a new company), taxation on share sales proceeds and dividends can be deferred at the time of the spin-off if the spin-off can be classified as a qualified corporate reorganization.
- Incorporation-type company splits are used for business units, and dividends in kind are used for subsidiaries

Structure Samples

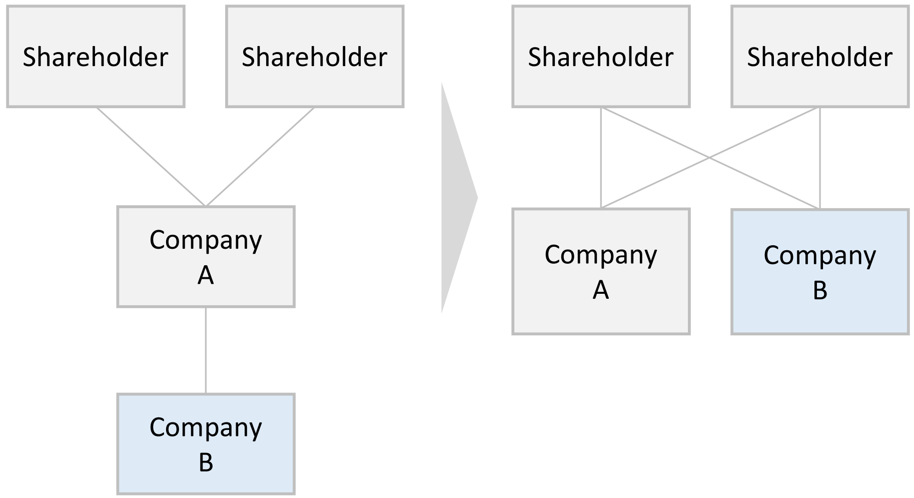
Incorporation-Type Company Split (Business Unit)

- Company A allots Company B shares to its shareholders simultaneously with the company split



Dividends in Kind (100% Subsidiary)

- Company A allots Company B shares to its shareholders



Cosmo Eco Power, the main structural unit of Cosmo's renewable energy business, is a 100% subsidiary of Cosmo and can be spun off via dividends in kind

[2] Spin-Off of Renewable Energy Business
Spin-Off Program Overview（2/2）

As the benefits of spin-offs, improved enterprise value through the independence of management, capital, and public listings can be expected. The renewable energy business should pursue faster growth and increased value through independent capital raising and management

Benefits of Spin-Offs

Independence of Management	• The company that is spun off can focus solely on its own businesses • Quick and flexible decision-making is possible for investment strategies and capital raising • Higher motivation for management and employees
Independence of Capital	• Can execute growth investments, such as capital raising specific for its business or large-scale M&A • Provides ability to conduct business with competitors of the company that spun the entity off, increasing freedom of management
Independent Public Listing	• Elimination of conglomerate discounts • Ability to attract investors that are only interested in individual businesses, enabling the design of optimal capital structures that match the characteristics of each business

Spin-Off Examples

Spin-Off of Curves Holdings by Koshidaka Holdings

Koshidaka

Curves
The power to amaze yourself

Pursued benefits:

- Focusing of scattered managerial resources, enabling the growth of branches by each company individually
- Enhanced corporate governance at Curves as an independent publicly listed company
- Increased recognition for Curves as a publicly traded company, leading to easier hiring and higher motivation

Source: Handbook on Utilizing Spin-Offs (「スピンオフ」の活用に関する手引) (METI)

[2] Spin-Off of Renewable Energy Business

Unlocking Value Through A Spin-Off

Through a spin-off of the renewable energy business, the business can ideally aim for a valuation of approximately 250 billion yen as opposed to the current valuation of 6 billion yen

Approx.
6 billion yen

Ordinary Income JPY 3 bn[*1] × Tax (1-30%) × PER 3x

40x

Approx.
245 billion yen

Ordinary Income JPY 140 bn[*2] × Tax (1-30%) × PER 25x[*3]

Source: *1 Cosmo business segment plans for FYE March 2023 *2 Profit margins after 2030 (our estimates based on Cosmo's plan of 20 billion yen, taking into account the status quo of the business, including lost business for the Yurihonjo City project, etc.) *3 Referred valuation levels of Japanese publicly traded companies that engage in the renewable energy business