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February 22, 2023

City Index 11 Co., Ltd.

**Our Thoughts Regarding the 7<sup>th</sup> Medium-Term Management Plan of Cosmo Energy Holdings Co., Ltd.**

**Scheduled for Release on March 23**

Cosmo Energy Holdings Co., Ltd. (“Cosmo”) is scheduled to announce their 7<sup>th</sup> Medium-Term Management Plan (“New Medium-Term Management Plan”) on March 23, 2023. We strongly hope that the New Medium-Term Management Plan is welcomed by the shareholders, and that Cosmo achieves share prices that are above 1x PBR. The Tokyo Stock Exchange requests that publicly traded companies engage in initiatives regarding cost of capital and share prices/market capitalization through a transformation of mindsets. In particular, publicly traded companies that are constantly below 1x PBR need to immediately engage in initiatives for fundamentally improving their enterprise value. In order for Cosmo to realize mid- to long-term shareholder value improvement and achieve share prices above 1x PBR, we believe that [1] appropriate capital policies and [2] the spin-off of the renewable energy business are necessary.

[1] Large-scale shareholder returns (attachment p4 – p7)

Cosmo has conducted share buybacks during this fiscal year, but since a total of 32 billion yen of convertible debt have been converted to equity, the number of shares outstanding have increased, and the realistic value of shareholder returns for the fiscal year are essentially close to zero. Net income attributable to parent company shareholders over the fiscal years ending March 2022 and March 2023 amount to 206.9 billion yen, whereas shareholder returns totaled 8.8 billion yen, making the total shareholder return ratio merely 4%.

When considering Cosmo’s financial/capital strategy going forward, we believe that the key elements are (1) appropriate equity levels for the petroleum business, which has high volatility, and (2) expansion of the renewable energy business. Regarding (1), the petroleum business, the maximum expected net loss for Cosmo is approximately 150 billion yen, even in the face of a potential rapid fall in oil prices and a potential rapid appreciation of the yen in the foreign exchange markets. As such, we do not believe that Cosmo needs to increase its capital above the current levels for the reason of inventory appraisal losses in the petroleum business.

Regarding (2), the expansion of the renewable energy business, we believe that there is enough seed money, as explained in [2] hereunder. We believe that the business is at a phase where it should scale utilizing outside capital, through a public listing, etc. We believe that the maximum target for Cosmo’s equity capital should be approximately 500 billion yen, even when considering reserves for environmental issues, etc., and we request that excess capital above those levels be returned to shareholders.

[2] Spin- off of the renewable energy business (attachment p8 – p11)

At the 3<sup>rd</sup> quarter earnings announcement meeting held on February 10, there were a lot of questions regarding the

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renewable energy business. Cosmo does not disclose target returns, investment criteria, or profitability thresholds regarding the renewable energy business, failing to deliver on adequate accountability. For this reason, Cosmo's renewable business is left undervalued, without being valued appropriately by the markets.

As long as the renewable energy business is under the umbrella of Cosmo Group, the business will only be valued using the discounted PER of Cosmo. We believe that the renewable energy business should aim for maximum shareholder value as an independent, publicly traded entity. Further, we believe that a spin-off (taking a business from an existing company and creating a new company, and assigning the shares of the new independent company to the shareholders of the existing company) would be an option that can be considered as a method to achieve this. When conducting a spin-off, taxation on 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. The valuation of Cosmo's renewable energy business would be approximately 6 billion yen as it is currently being valued using Cosmo's PER, but if Cosmo conducts a spin-off of the renewable energy business, we believe that it can aim for a valuation of approximately 245 billion yen, as it would ideally be valued at approximately 25x PER.

We are of the belief that Cosmo's management team will sincerely listen to its shareholders, including our proposals, and commit to growth strategies and shareholder return policies for achieving the goals of improving enterprise and shareholder value through the New Medium-Term Management Plan in a way that is agreeable for all stakeholders. However, if we find the announced New Medium-Term Management Plan to be inadequate for the improvement of enterprise and shareholder value of Cosmo, we will be asking the shareholders' opinions on this point at Cosmo's annual general shareholders' meeting scheduled for June 2023.

As a shareholder in Cosmo, we intend to continue making proposals to Cosmo through constructive dialogue, so that Cosmo does not deteriorate its shareholder value by actions such as deciding on policies to expand its equity capital in its New Medium-Term Management Plan without adequate accountability to its shareholders.