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# Explanation of Our Proposal

## Our Request

We believe that the Board of Directors of Cosmo Energy Holdings Co., Ltd. (“Cosmo”) should **engage in sincere discussions regarding taking its renewable energy subsidiary public** from the perspective of the optimal decision for the maximization of Cosmo’s enterprise and shareholder values **and disclose the results to the public.**

However, Cosmo has adhered to the idea that growing the renewable energy business as a part of the entire value chain will lead to the maximization of Cosmo’s enterprise value, as was explained as a part of its 7th Medium-Term Consolidated Management Plan disclosed March 23, 2023, and the Board is not showing any signs of engaging in sincere dialogues regarding taking its renewable energy subsidiary public.

## Our Request

Our proposal regarding taking the renewable energy subsidiary public does not adhere to a specific scheme, **nor does it state that the subsidiary has to be taken public immediately.**

The outside Director candidate that we are suggesting in our Shareholder Proposal commits to “Engaging in sincere dialogues among the Board about taking the renewable energy subsidiary public, and disclosing the results of these dialogues”. We hope that this commitment becomes a reality through the approval of our Proposal.

Additionally, we believe that the appointment of our proposed candidate as outside Director will significantly improve the initiatives taken by the Cosmo Board regarding the improvement of shareholder value, based on the Board’s past initiatives regarding this matter.

## Our Request

We believe that Cosmo has started to focus on improving shareholder value precisely because we have become shareholders and have been actively making proposals on the below matters, and we further believe that Cosmo share prices would have been left at stagnant levels otherwise:

- Cosmo's shareholder returns were minimal, at below 10% in total shareholder return ratio (excluding impacts of inventory valuation) when competitors were committing to 50%
- Conversion of convertible debt was happening, resulting in the effective increase of capital at below 1x PBR

Our hope is that our proposed candidate for outside Director is approved, so that the Cosmo Board engages in active dialogue from the standpoint of what initiatives contribute the most to the improvement of shareholder value instead of the self-preservation of the management, thereby leading to the medium-/long-term improvement of enterprise and shareholder value.

# Rationale Behind Our Belief that Taking the Renewable Energy Business Subsidiary Public Contributes to Improved Enterprise Value

We firmly believe that taking the renewable energy business subsidiary public will lead to improved shareholder value at Cosmo. We will explain this point in these materials.

There are three reasons why we believe that taking the renewable energy business subsidiary public will contribute to increased enterprise value:

- 1. Elimination of enterprise value discount**
- 2. Correction of effects that push ROE down**
- 3. Acceleration of the growth of the renewable energy business subsidiary itself**

We will explain each of these concisely but specifically in the ensuing sections.

# 1-1: Current Discount Effect

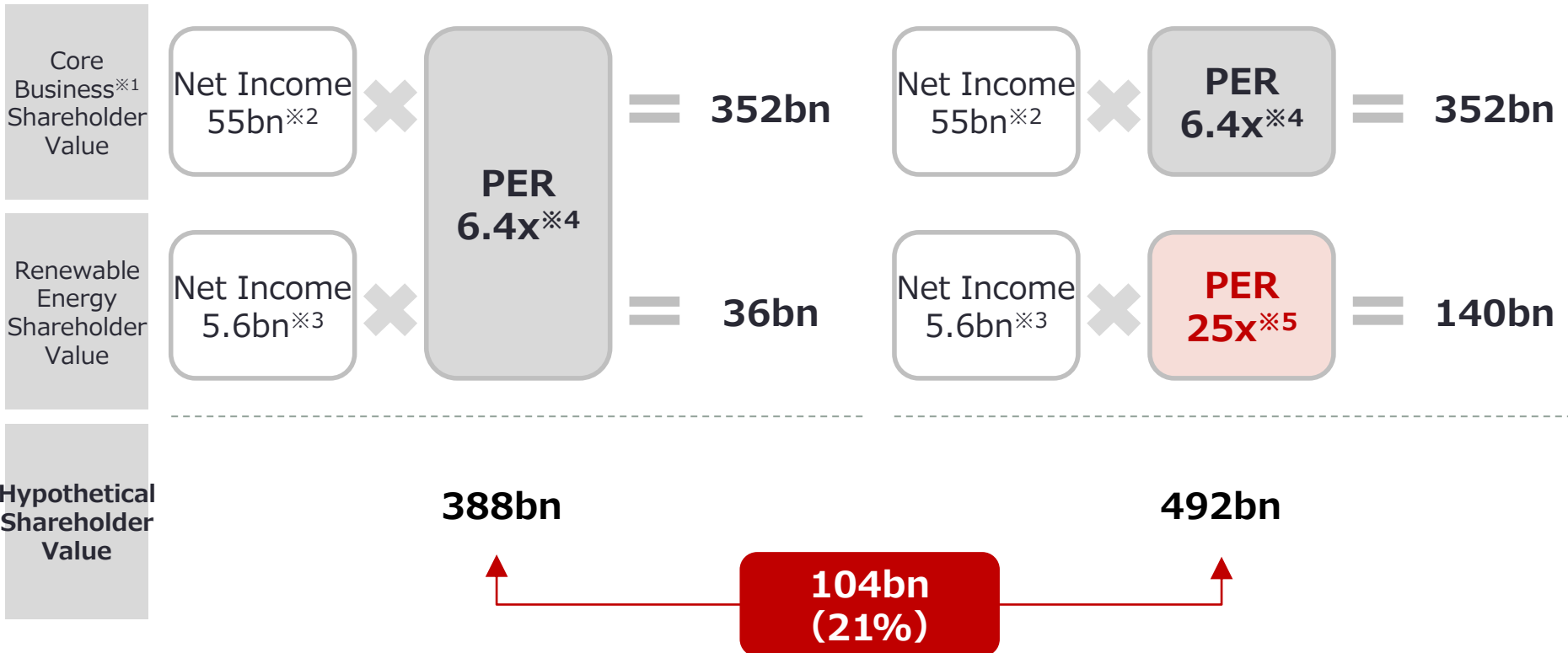
If the renewable energy business is separated from the core business and evaluated independently, shareholder value hypothetically increases by JPY 104bn. In other words, there currently is a discount of the same amount, and shareholder value is being unjustly held down.

Comparison of Shareholder Value (Based on Earnings Plan in 7<sup>th</sup> Management Plan)

(JPY)

When valued as a whole

When valued separately



※1 Total of businesses excluding renewable energy (Petroleum Sales & Refining, Oil E&P, Petrochemicals)

※2 Cosmo's total net income target JPY 60bn for FY2025 (as per its 7<sup>th</sup> Consolidated Mid-Term Plan) minus the after-tax profit of the renewable energy business

※3 Cosmo's ordinary income for its green energy supply chain JPY 8bn for FY 2025 (as per its 7<sup>th</sup> Consolidated Mid-Term Plan) x (1-effective tax rate)

※4 PER values based on Cosmo's recent market capitalization and 2025 profit levels

※5 Valuation levels of domestic publicly traded companies that engage in renewable energy businesses

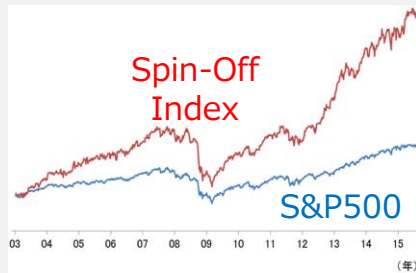
# 1-2: Evidence of Increased Enterprise Value from Conducting Spin-Offs

It is evident from past examples that spin-offs actually contribute to increases in enterprise value (=elimination of discounts).

## Cases of Eliminations of Discount Effects through Spin-Offs

### Spin-Off Index

#### Index Performance

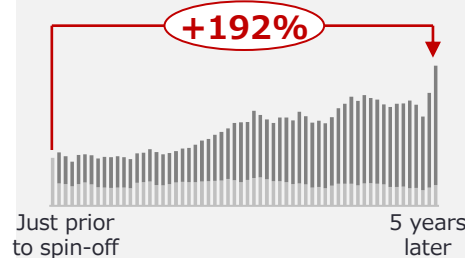


- The index of spin-off corporations outperforms the S&P500
- In the US, it is believed that spin-offs are highly effective in increasing enterprise value

### International

#### eBay/PayPal

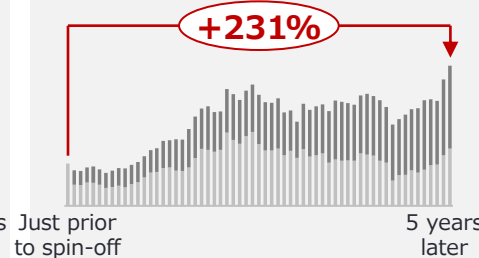
#### Total Market Capitalization



- PayPal remaining under the eBay umbrella would have provided little business benefits, such as restrictions on business counterparts
- In the 5 years after spin-off, the joint market caps of the 2 companies nearly doubled

#### Fiat/Ferrari

#### Total Market Capitalization

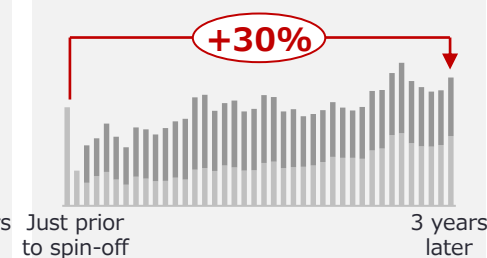


- For the improvement of shareholder value, Fiat took Ferrari public and then spun off the rest of its ownership in Ferrari
- The joint market caps of the 2 companies more than doubled in 5 years

### Domestic

#### Koshidaka/Curves

#### Total Market Capitalization



- Conducted under the intent of increasing locations through the focusing of managerial resources, hiring, and improved motivation
- The joint market cap outperformed the TOPX despite COVID-19

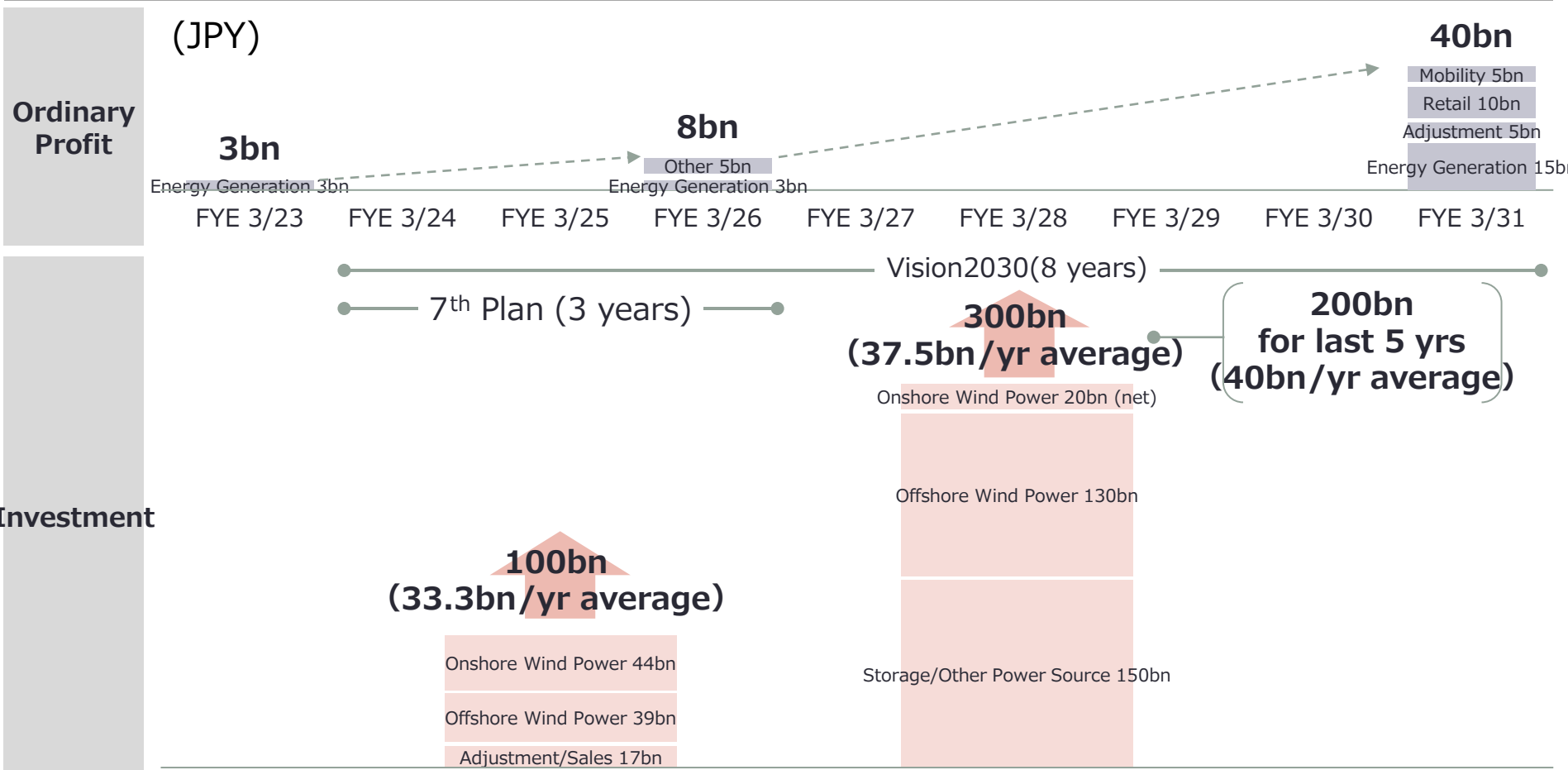
If Cosmo refuses to consider a spin-off and requires that shareholders allow a discount to exist, the management team should take responsibility in publicly and clearly committing to the size and timing of the realization of shareholder value

## 2-1: Investment Plan for the Renewable Energy Business in the 7<sup>th</sup> Management Plan

Plans for investments into the renewable energy business are better suited for equity due to the nature of expected returns (timing and size), and considering its size, the natural choice would be to seek external equity capital.

- The newly added “storage & adjustment” is even more equity-oriented in nature

### Cosmo’s Plans for Investments and Ordinary Profit for the Renewable Energy Business

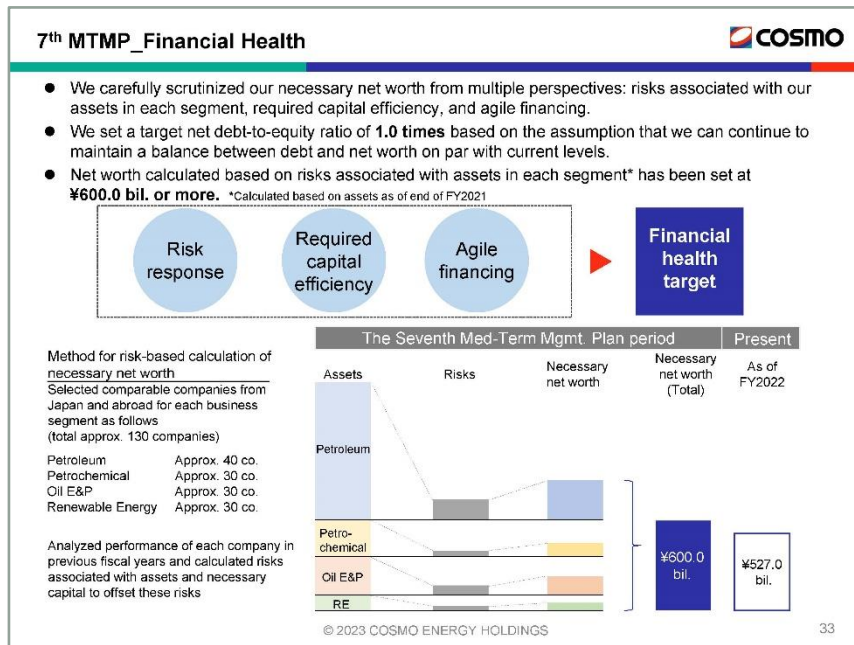




## 2-2: Increase in Capital Due to Investment in Renewable Energy Business

Cosmo stated that it needs JPY 600bn of equity capital in its 7<sup>th</sup> Management Plan. The breakdown has not been disclosed, but the responses during the Q&A suggest that a significant portion of the increase is related to the renewable energy business.

### Explanation of necessary equity capital in the materials



### Disclosed Q&A responses (excerpts)

Q9 : With the net worth outlook... which specific segments need to be built up of net worth?

A9 : Previously, we have focused our attention on inventory valuation risk in petroleum refining, but there are more risks in other segments than we had thought. Although it is difficult to present them quantitatively, we have come to the conclusion that **it is necessary to build up corresponding net worth**, especially in the **Oil E&P and Renewable energy segments**.

Although contradictory, the below was also mentioned previously (Q2·A2):

Q2: I believe that the major shareholder has raised the issue of spinning off renewable energy business

A2: For offshore wind power generation, there is not a huge amount of investment...Even equity is not considered to be a major capital risk...

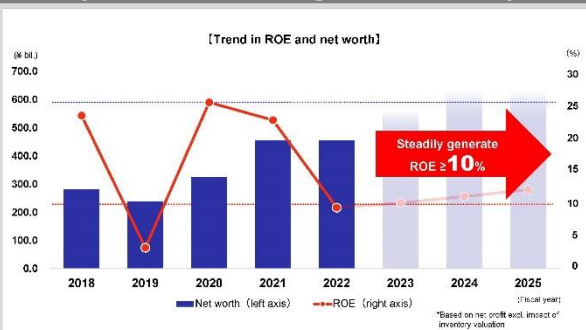
Considering the possibility that some segments already had excess capital, we presume that we are not far off in assuming that most of the JPY 73bn (600bn – 527bn) is for the renewable energy segment.

- This assumption does not contradict the investment/return plan on the previous page

## 2-3: ROE Push-Down Effect

By continuing to own the entirety of the renewable energy business, Cosmo's equity capital is bloated beyond levels at where it should be, and as a result, its ROE will be pushed down by 1% as of its final year of the 7<sup>th</sup> Management Plan.

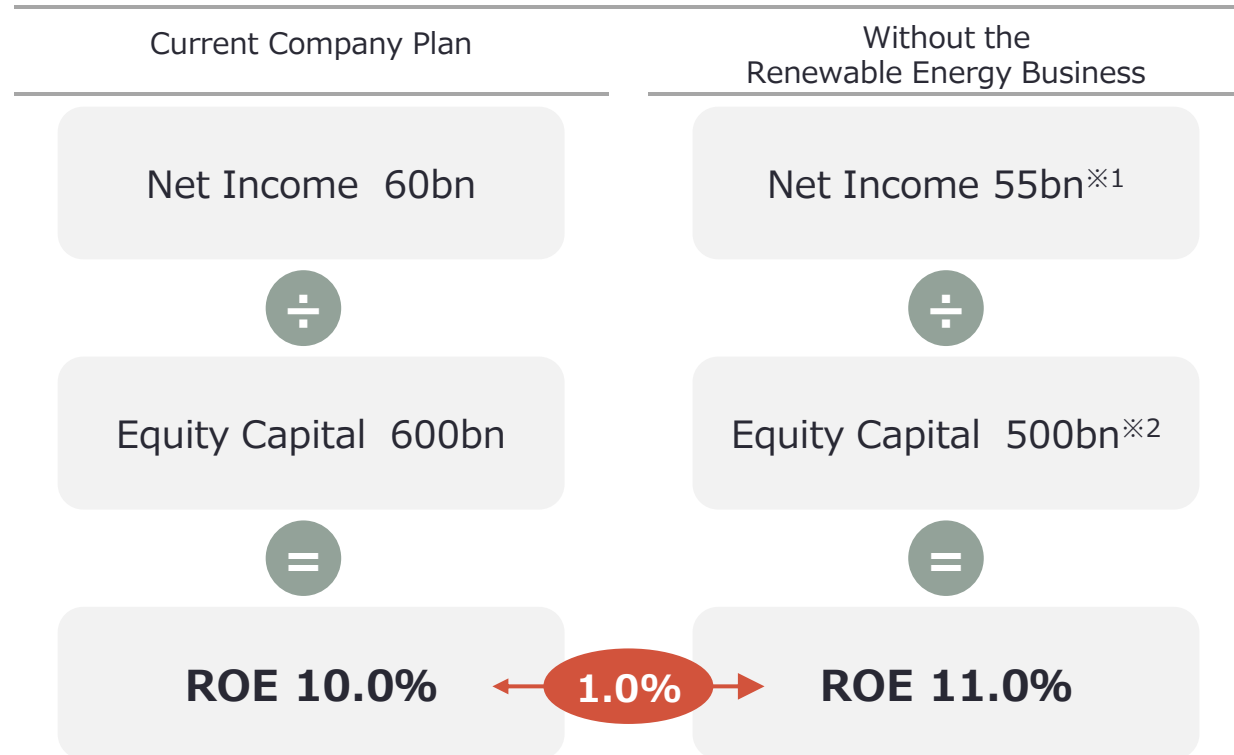
### ROE Trend (from 7<sup>th</sup> Management Plan)



The 10% goal in the Plan is not ambitious when considering the levels already achieved in the last Management Plan.

There were those that were doubtful of this goal, asking during the Q&A: "from the perspective of expanding enterprise value, couldn't you show a further improvement in capital efficiency?" (Q7)

### ROE Comparison (FY2025, JPY)



Improvements in ROE contribute directly to increased in PBR which have been lagging under 1x, so also from this perspective, an explanation to shareholders is owed if Cosmo does not engage in proactive initiatives

※1 Cosmo's total net income target JPY 60bn for FY2025 minus the after-tax profit of the renewable energy business

※2 Total of JPY 73bn (from previous page) + 25bn (net assets of Cosmo Eco Power as of March 2022) + 2bn (our estimate of increase in net assets for FYE March 2023)

# 3-1: Competitors' Strengths in the Renewable Energy Business Industry

Especially in the field of offshore wind power, Cosmo competes against various competitors with significant strengths in different areas.

- The same applies for "Storage & adjustment" and "Retail" that Cosmo introduced in the 7<sup>th</sup> Management Plan

## Competitors' Strengths

	Comparison to:	Details of Competitors' Strengths
Talent	Independent Renewable Energy Pure-Play Power Generation Company R	<ul style="list-style-type: none"> <li>• Employs multiple talent with dedicated expertise at management level and internal engineering teams                             <ul style="list-style-type: none"> <li>✓ Management: leading foreign consulting firms, investment banks, Ministries, professional executives, etc.</li> <li>✓ Engineers: 50 employees from leading general contractors, electricity companies, plant manufactures, etc.</li> </ul> </li> </ul>
Organizational Structure/ Corporate Culture		<ul style="list-style-type: none"> <li>• Agile decision making and actions with speed                             <ul style="list-style-type: none"> <li>✓ Speedy decision making through flexible and flat organizational structure</li> <li>✓ Culture of speed entrepreneurship and risk-taking</li> </ul> </li> </ul>
Design/ Estimation/ O&M	Trading Company Renewable Energy Power Generation Company M	<ul style="list-style-type: none"> <li>• Skillful design and high-precision estimation backed by (multiple) experience with international projects</li> <li>• Lean but feasible O&amp;M planning and relationships with O&amp;M vendors, also gained through experiences in international projects</li> </ul>
Procurement/ Construction		<ul style="list-style-type: none"> <li>• Strong relationships and track records of working with domestic/international power plant manufacturers and marine construction companies</li> <li>• Groupwide purchasing/negotiation power against the aforementioned parties</li> </ul>
Fundraising		<ul style="list-style-type: none"> <li>• Financial foundation and stability of the entire Group</li> <li>• Planning/execution capability backed by knowledge of any possible project finance scheme</li> </ul>

## 3-2: The Need to Reassess Group Benefits

Cosmo is insistent on the benefits within its Group, but it is necessary to assess this claim, including comparing Cosmo to its competitors.

- The following points, though seeming intuitively important, are not included for the following reasons:  
 (Wind) power generation: because Cosmo Eco Power already has accumulated functions and know-how  
 Capital raising: because Cosmo believes that “there is not a huge investment for wind power generation”

### Cosmo’s Claims (from Management Plan Q&A)

### Points for Further Consideration

#### Software

Talent  
Organization  
Culture

“Cosmo Eco Power has active human resource exchanges within the Group, and we do not believe that it is in the best interests of maximizing the enterprise value to separate it through a spin-off.”

- Many including management have already transferred from the Group, so will know-how and personnel exchange be lost immediately with a spin-off?
- Which is more advantageous for recruiting outside talent?
- Are there any disadvantages currently, such as delayed decision-making for investments or construction execution due to Group issues or situations?

#### Hardware

Functions

“Currently, Cosmo Eco Power does not have supply-demand adjustment or sales functions, so it will need to acquire these functions on its own if spinning off has executed. On the other hand, the Group already has a function for electricity retailing. In addition, the Group already has a function for supply-demand adjustment”

- Are the functions that already exist within the Group those that were designed for external sales and expansion in mind from the outset?
- If Cosmo Eco Power establishes or obtains these functions from the outside, how much time and cost will be necessary?
- Are there any benefits in working outside the Group, such as obtaining new customers or channels?

With the renewable energy industry further accelerating and becoming more complex going forward, aren’t there any disadvantages when considering the maintenance and enhancement of competitiveness?

## Summary

As explained, there is a high probability that taking the renewable energy subsidiary public will allow its true enterprise value to manifest, improve the ROE of Cosmo itself, and accelerate the growth of the subsidiary. In the least, we believe that it would benefit all stakeholders if the Board of Cosmo engages in constructive consideration and dialogue, including schemes and timings, and publicly disclosing its results and conclusions.

In order to ensure the attitude/quantity/quality/transparency of the considerations and dialogue, we are making a Shareholder Proposal to elect one outside Board Member who commits to “engaging in sincere dialogues among the Board about taking the renewable energy subsidiary public, and disclosing the results of these dialogues”.

# Reference: Current Comparison of Potential Structures [For Continued Analysis]

Overview

Shareholders

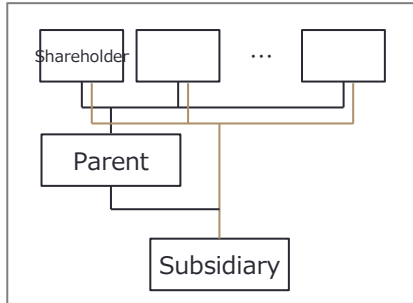
Parent

Subsidiary

## (Option A) Subsidiary shares are paid in kind

Subsidiary shares (all or partially) are paid in kind from the parent to its shareholders

- Subsidiary remains private

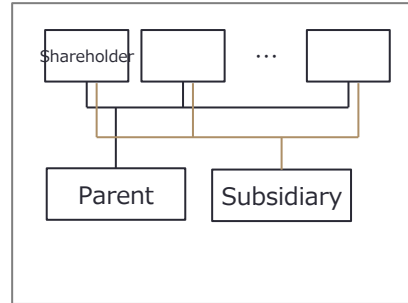


- Owned shares will be illiquid until public listing (if one chooses to receive shares as dividends in kind) ※1
- Dividend taxation will occur if the scheme is not deemed as an applicable payment in kind transaction
- Easy to keep a portion of its ownership in the subsidiary (can possibly maintain majority and consolidation status)
- May require time to process large decision-making procedures such as capita raising

## (Option B) Spin-off

So-called complete spin-off

- Subsidiary lists publicly
- Capital relationship between parent and subsidiary is lost

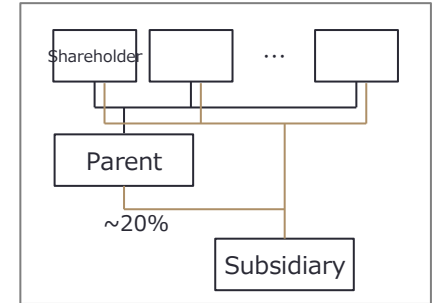


- Shareholder value improves, and liquidity of subsidiary shares is secured
- Taxation is deferred if the scheme meets certain taxation standards
- Parent will have no ownership in the subsidiary
- Capital relationship with parent will be lost, but the subsidiary will be more agile as a publicly traded company

## (Option C) Spin-off with 20% remaining

Parent keeps sub-20% ownership despite the structure being a spin-off

- Specific steps to be considered going forward



- Shareholder value improves, and liquidity of subsidiary shares is secured
- Taxation is deferred if the scheme meets certain taxation standards
- Can receive a portion of subsidiary profits
- Effectively the same as a complete spin-off

This is not a exhaustive review of possible structures and pros/cons analyses. The selection of an optimal scheme shall be a continued effort.

※1 Assumes that individual shareholders have been given the option to select cash dividends in the dividend-in-kind resolution (which is possible under the Companies Act)