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May 15, 2023

City Index 11 Co., Ltd.

Regarding our Shareholder Proposal to Cosmo Energy Holdings Co., Ltd.

Our company is a major shareholder in Cosmo Energy Holdings Co., Ltd. (“Cosmo”), with an ownership of approximately 20% of the voting rights in Cosmo along with our joint shareholders.

On April 19, we made a proposal to Cosmo regarding the appointment of one outside Director of the Board, to be determined at the 8th ordinary general shareholders’ meeting scheduled for June of this year.

This Shareholder Proposal is based on the idea that Cosmo should “engage in sincere discussions regarding taking its renewable energy subsidiary public, and disclose the results to the general public”, and is neither a claim nor a demand to “immediately take the renewable energy subsidiary public”, although we are confident that taking the renewable energy subsidiary public will contribute to the improvement of shareholder value, as we have stated publicly earlier. Our goal is to have the Board of Directors sincerely discuss “the option that will best contribute to the improvement of Cosmo’s enterprise and shareholder values”.

However, based on Cosmo’s past actions, it seems that the management team of Cosmo does not have a focus on shareholder value improvement. Until we have become shareholders, Cosmo has been very reluctant to engage in shareholder returns, with less than 10% total payout ratios (excluding impacts of inventory valuation) when industry competitors were committing to 50% for the same ratio. Additionally, regarding the convertible debt that we had proposed to buy back entirely, Cosmo allowed a capital increase at below 1x PBR by converting 32 billion yen of this convertible debt. Furthermore, the Board of Cosmo is not engaging in sincere discussions about the spin-off of the renewable energy subsidiary or taking it public. This is a stark contrast to its competitor ENEOS Holdings announcing that it has begun preparing for taking its 100% subsidiary JX Nippon Mining & Metals public, actively engaging in the elimination of conglomerate discounts.

Despite the investment plan for the renewable energy business being 140 billion yen over the next 3 years and 400 billion yen over the next 8 years, there is no disclosure regarding target returns, investment criteria, or profitability thresholds. Cosmo has laid out excessive investment plans without reviewing their failure to win their focus project regarding offshore wind power generation at Yurihonjo City (Akita Prefecture) or explaining countermeasures to changes in the market, and it is doubtful whether investments can be made that will generate the levels of returns that Cosmo plans for. Additionally, there is no disclosure on how Cosmo will react if these investments cannot be made.

Under such circumstances, we hope to have our proposed candidate for outside Board Director appointed so that

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corporate governance at Cosmo is enhanced and that its Board of Directors engages in sincere discussions to realize a share price that is above 1x PBR.

We have stated our thoughts on Cosmo in the latter part of this letter, taking into account the questions that we have received from our shareholders pertaining to “Regarding our Shareholder Proposal to Cosmo Energy Holdings Co., Ltd.”, the document we disclosed on April 21.

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Our Thoughts on Cosmo

1. Cosmo's Stance Toward Its Shareholders

Based on Cosmo's past actions pertaining to the improvement of shareholder returns such as total payout ratios or the situation with the convertible debt, we feel that they lack the attitude to face the shareholders squarely and make an attempt to gain understandings through dialogues and explanations.

A recent example is the explanation on necessary equity capital in the 7th Management Plan. Whereas the previous Plan stated a goal of achieving 400 billion yen in equity capital, the 7th Plan raised this goal to 600 billion yen^{*1} without an adequate explanation to the shareholders regarding this 1.5x increase^{*2}.

*1: The target equity capital has been increased by 50% from 400 billion yen to 600 billion yen when comparing the 7th Management Plan to the previous plan, while Ordinary Income (increase of 37.5% from 120 billion yen to 165 billion yen) and Net Income (increase of 20% from 50 billion yen to 60 billion yen) show smaller growths. In other words, These target goals suggest a decrease in ROE.

*2: Cosmo only made an extremely vague explanation, saying that the "evaluated the risks inherent to assets utilizing a comparable companies analysis", without disclosing numbers for each segment or making individual, specific explanations. In the Q&A, Cosmo responded saying that "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." (This is hard to comprehend, as Cosmo replied to a separate question saying, "For offshore wind power generation, there is not a huge amount of investment".)

2. Investment Plan for the Renewable Energy Business

Regarding the investment plan for the renewable energy business, again, Cosmo lacks the attitude to face the shareholders and gain their understandings through dialogues and explanations. In the 7th Management Plan, Cosmo debuted the term "storage & adjustment" as well as several other investment/profit plans that are very different in nature from the contents of past disclosures, with no specific explanations^{*3} – we fear that a stubborn adherence to past plans and directions is leading Cosmo to make investments aimlessly with no probable justification for generating adequate returns. As for "storage & adjustment", Cosmo states that "validation will begin in FY2023", but there have been no mentions of the validation period, evaluation method, possibilities of changes in investment plans, use of capital when plans change, possible changes in profit plans, etc.

Additionally, recent fierce competition for winning offshore wind power generation mandates have caused rapid falls in profitability, and has simultaneously increased the probability of losing competitions. If Cosmo fails to make investments as they have planned, they need to disclose how to utilize the cashflow elsewhere.

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So, also from these perspectives, we feel that there is a need for enhanced governance at the Board of Cosmo.

*3: The previous Management Plan stated “1 million kW generating capability and Ordinary Profit of 20 billion yen in 2030”, but the goal for Ordinary Profit in the 7th Management Plan has been changed to “15 billion yen in power generation + 5 billion in adjustment + 10 billion in retail + 5 billion in mobility”, with a total of 150 billion yen to be invested in storage over the course of the 8 years until 2030. There has been no review of their failure to win their focus project regarding offshore wind power generation at Yurihonjo City (Akita Prefecture) nor any explanation of countermeasures to changes in the market.

3. Thoughts on the Spin-Off or Taking Public of the Renewable Energy Business

We also feel that, in relation to the spin-off and taking public of its renewable energy subsidiary, Cosmo is misunderstanding the growth of its business as well as the meaningfulness of the capital market for this growth.

As one of the reasons for not executing the spin-off, Cosmo is stating that “there is not a huge amount of investment”, but we believe that the healthy thought process is that “it is fine that significant investment needs occur if that is necessary for business growth or winning offshore wind power generation projects, and external capital and/or capital markets can be utilized for those needs”, rather than “enter project competitions under the restrictions of capital raised from the core business or current resources, and make up the lost profits from missed offshore wind power generation projects with second-best plans such as storage batteries etc. to meet targets”.

We believe that Cosmo Eco Power (the renewable energy business subsidiary) currently has competitiveness and growth potential, that leveraging outside capital and taking the company public will be effective for further growth, that a spin-off will allow existing shareholders to reap the rewards of past capital investments, and that Cosmo will also be able to reap the benefits (although under 20%) if they act now. We have been explaining these points to Cosmo management, but we are unsure whether they have fully understood these points.

4. The Future of the Petroleum Business

We are also doubtful whether the Cosmo Board is engaging in adequate discussions regarding the petroleum business (development/refining/petrochemicals). It is expected that domestic demand for petroleum-refined products will decrease to half of current standards by 2050*⁴. The consolidation of refineries is a topic that requires a significant amount of time, including time for discussions with major customers in the vicinity as well as competitors*⁵, decisions on how to use the sites going forward, gaining the understanding of the local community, etc., and is something that needs to be handled immediately regardless of whether the renewable energy subsidiary spin-off takes place or not. However, Group CEO Yamada of Cosmo mentioned in a press conference on April 27th that they will “maintain the current structure for the next 10 years”, raising concern

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among shareholders as well as other stakeholders.

*4: Refers to the scenario laid out by the Agency for Natural Resources and Energy that demand will fall to 500k- 600k B/D (under 20% of current levels) by 2050. Idemitsu Kosan Co., Ltd. (Idemitsu) uses “20% decrease by 2030” as a premise for its mid-term plan announced November 16th, 2022, and ENEOS Holdings Inc. (“ENEOS”) uses the plan to cut investment in its fossil fuel business by 50% by 2040 as a premise for its mid-term plan announced on May 11th, 2023.

*5: ENEOS refineries are located near Cosmo’s Chiba and Sakai refineries, and Idemitsu’s refineries are located near Cosmo’s Yokkaichi refinery.

5. Topics That Should be Discussed and Disclosed

We have explained that current Cosmo share prices do not reflect the value of the renewable energy business, but we also believe that an excessive discount is being placed on the petroleum business too, due to the market’s concern regarding refinery consolidation costs going forward. We believe that this concern can be removed and valuations can be improved by developing a scenario for the petroleum business going forward as well as a plan for refinery consolidation, including costs and risks, disclosing them in a way that allows shareholders to understand the plan and run calculations.

6. Response to the 32 Billion Yen of Convertible Debt That Have Been Converted to Equity

The 32 billion yen of the 60 billion yen of Euroyen Convertible Bond maturing December 2022 that have been converted into equity was an increase in capital at below 1x PBR. With the spike in oil prices, Cosmo has generated historical levels of profits, and a capital increase at 1x PBR was an unnecessary incident that diluted earnings per share. We request to Cosmo that they use the aforementioned 32 billion yen to conduct share buybacks as share prices are temporarily suffering due to the fall of oil prices.

7. Election of One Outside Board Member

We believe that Cosmo is deeply rooted in a culture that lacks the focus on shareholder-oriented initiatives and explanations due to its premise/philosophy to protect its current advantageous position (operation rate and margins) in the petroleum refinery industry structure that was created due to extrinsic reasons, capital accumulated due to this position, and its renewable energy business that it has nurtured over 25 years. We will not go so far as to say that the Board is treating Cosmo as if they own it, but at least we think we can say that the ongoings at the Board is becoming a blackbox.

We are proposing the appointment of one candidate for an outside Board Member that commits to engaging in sincere discussions within the Cosmo Board, particularly regarding the renewable energy business, and disclosing

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those results. By having a Board member that understands the shareholder perspective and has the ability to engage in fair and unbiased discussions, we believe that the perspectives underlying the discussions within the Cosmo Board and its transparency will become more open.

We believe that this proposal benefits all stakeholders without any disadvantages, and this is not a proposal that is intended for a forced execution of any initiative such as a proposal for the replacement of all Board members or to obtain a majority vote.