

Promotion of Effective Corporate Governance

Corporate Governance Initiatives

The Penta-Ocean Construction Group shall carry out business management with a high degree of transparency and fairness. We are making efforts to build and strengthen our corporate governance structure to achieve sustainable growth and development of the company, as outlined below.

Continuous Improvement of Corporate Governance

Management and Business Execution

Our company's Board of Directors is composed of 10 directors, including three external ones, and operates in accordance with the laws, regulations, articles of incorporation, in-house rules, and Penta-Ocean Construction Corporate Governance Guidelines. In principle, a meeting of the Board of Directors is held twice a month, to make decisions on important management issues and supervise business operation. In addition, we adopted a system of executive officers, in order to clarify the responsibility for business execution.

Nomination of candidates for executive positions and proposals for executive compensation are made by the Board of Directors after consultation with the Nominating Committee, which is chaired by an outside Member of the Board. The Nominating Committee is composed of all external Members of the Board and a small number of other Members of the Board, not exceeding a majority.

Executive compensation is determined according to a performance-based system, in which executives receive fixed compensation in cash, as well as performance-based compensation via the employee stock ownership plan (ESOP).

We have established the Board of Auditors, which is composed of four auditors including three external auditors. In addition to attending the Board of Directors' Meetings, the auditors also actively participate in important meetings in the Company (e.g. Executive Board Meetings, Group Management Meetings) and monitor the execution of duties of Members of the Board. We believe that such a corporate governance system enables fair, transparent business administration.

Establishment of Corporate Governance Guidelines

Our company has established the "Penta-Ocean Construction Corporate Governance Guidelines," as its basic stance for corporate governance and management guidelines. Following the revision of Corporate Governance Code in June 2018, we expanded and revised the guidelines on June 25, 2019.

1 Objectives

Penta-Ocean Construction makes CSR-oriented management a priority in its corporate philosophy. Pursuant to our corporate creed that "our greatest contribution to society is the construction of high-quality infrastructure," we have set high goals to offer high-quality workmanship backed by advanced technologies developed with high regard to safety and ecological considerations. We strive to achieve sustainable growth and to further enhance our corporate values in order to grow into an even more attractive corporation in the eyes of our various stakeholders.

To achieve this goal, we have decided to place a greater emphasis on enhancing corporate governance, and have established the Penta-Ocean Construction Corporate Governance Guidelines. In accordance with these guidelines, we will strive to expedite our decision-making process and ensure management transparency while responding appropriately to changing business conditions.

2 Structure of the Corporate Governance Guidelines

- Ensuring shareholders' rights and equality
- Proper cooperation with stakeholders other than shareholders
- Appropriate information disclosure and transparency
- Duties of the Board of Directors
- Dialogue with shareholders

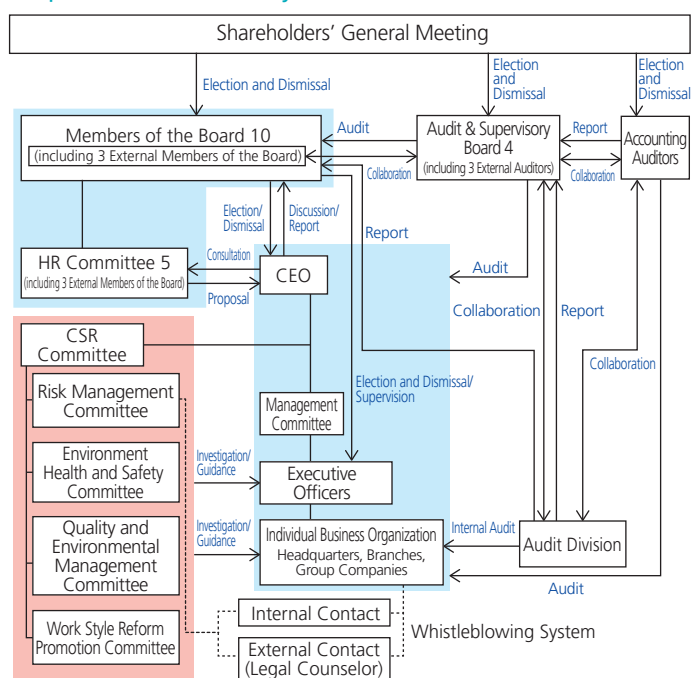
Internal Control System

Our company has established a basic internal control policy and developed an internal control system, overseen by the Board of Directors, with the aim of ensuring thorough risk management, compliance with laws and regulations, and the appropriate and efficient performance of business activities. In-house inspection department examines the facilitation and operation of the overall internal control system, especially focusing on the continuance improvement and adequate operation. Their examination results are evaluated by the Board of Directors annually, to confirm whether the internal control system is operated properly based on the basic internal control policy.

Assessing the Effectiveness of the Board of Directors

Every term, the Board of Directors conducts a self-assessment of its effectiveness to improve performance, with each board member providing an evaluation in accordance with Penta-Ocean Construction Corporate Governance Guidelines. Through the self-assessment of FY 2019 conducted in June 2020, we were able to confirm the effectiveness of our current Board of Directors. We will strive to further improve the Board's effectiveness by continuously making the necessary considerations and improvements of issues identified through this assessment.

Corporate Governance System



Risk Management Initiatives

Penta-Ocean Construction Group effectively and consistently manages various risks that are assumed to occur in the course of its business, such as making efforts to prevent the occurrence of such risks and to minimize losses caused by the risks, which may affect the entire group management.

Risk Management Structure

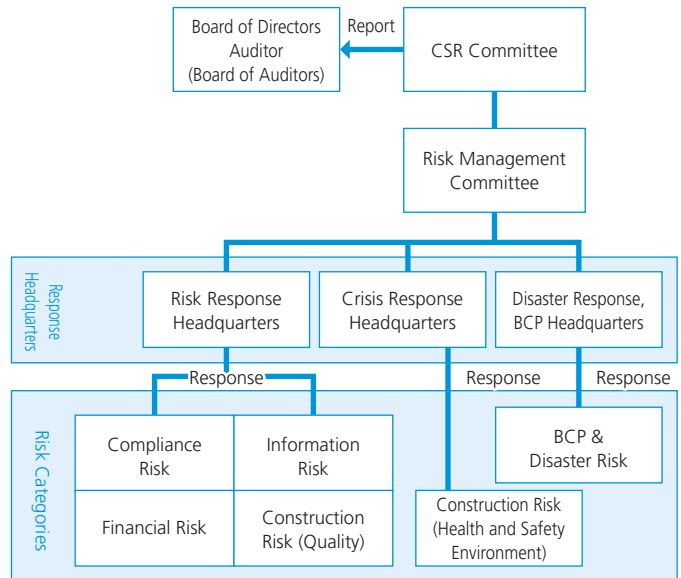
Our company has formed the Risk Management Committee under the CSR Committee, chaired by the Representative Director and the President. The Committee takes the initiative in managing various risks, such as compliance risks inherent in the company, information risks, business continuity plan (BCP), and large-scale disaster risks. Also, the Committee determines the department in charge according to the risk category to promote risk management.

Furthermore, in April 2010, our group implemented the concept of group risk management to strengthen risk management of the Group companies.

By identifying and classifying risks in advance, we have established Risk Management System that enables us to promptly respond according to the type of risk that actually arises. As a result, we will be able to minimize the damage caused by risks, even in the event of unexpected risks. By reviewing the results of our risk management efforts, we will be aware of and prepared for new risks.

Also, in the event of a major risk situation, the Committee establishes a Risk Response Headquarters, headed by the representative director. If a major incident that threatens the continuity of business activities occurs, a BCP Headquarters will be established. If a major work-related accident occurs, a Crisis Response Headquarters will be established, and if a natural disaster occurs, a Disaster Response Headquarters will be established.

Outline of the Risk Management Structure



Information Security Management

In recent years, there has been a steady stream of information-related incidents and accidents, including a leak of personal and other confidential information. As such an incident or accident occurs, the company will suffer immeasurable damage as well as shoulder grave social responsibility. Thus, the company is required to control information appropriately. Furthermore, in the current information society, the company is required to make arrangements and responses based on the information systems environment (electronic bidding, electronic delivery, e-commerce, etc.). After establishing the Information Management System in 2004, we have been reviewing and enhancing the system periodically. Also, by leveraging common groupware, we not only take physical measures for information systems equipment, but also strive to improve the information management technology through providing training such as e-learning information education for all employees and executives (twice a year) and job-specific training.

2003	Issuance of the "Information Management Criteria" regarding the handling of information systems
2004	Introduction of the "Information Management System"
2005	Full implementation of "Personal Information Protection Act" Start of Business Continuity Plan (BCP) activities Signing of the "Confidentiality Agreement" with all business partners
2006	Implementation of internal audit concerning information security Establishment of a Security Policy for six affiliated companies
2008	Implementation of self-check for Information Security
2012	Smart device deployment and revision of the Security Policy
2016	Revision in line with "My Number" System Review of information on Security Policy in accordance with groupware migration
2017	Revision and establishment of Security Policy for 10 affiliated companies

Establishment of the Business Continuity Plan (BCP)

In anticipation of natural and fire disasters, system failures, or other emergency situations that could threaten the continuity of business operations, we have established a Business Continuity Plan (BCP) so that critical business functions can be resumed even during a crisis, particularly in the event of an earthquake directly hitting the Tokyo metropolitan area.

Every September, we perform large-scale BCP disaster drills, aiming to maintain a system that enables smooth implementation of the BCP in an emergency and fosters continuous improvement of the plan.

Specific BCP activities

- Confirming the safety of all group employees and their family members via our safety confirmation system and the damage evaluation of company workplaces
- Back-up information resources at Institute of Technology
- The provision of an alternative base in case the headquarters is affected



The BCP drill carried out in September 2019

Compliance Initiatives

Our Group has established Risk Management Committee in each company of the Group in accordance with the "Basic Compliance Policy," ensuring that all employees and executives of the entire Group comply with laws and regulations, respect social norms and corporate ethics, and act with integrity at all times.

Compliance Training

We provide compliance training to ensure that all employees and executives of the entire Group comply with the laws and regulations, respect social norms and corporate ethics, and act with integrity at all times. In FY 2019, discussion-based training was carried out, as with the year before. Also, compliance training was conducted a total of 217 times across the group, with a total of 10,734 executives and employees taking part.

As part of the training, our international business unit conducted compliance training in ten Asian countries and regions, including Singapore and Hong Kong. 187 Japanese employees and 1,702 non-Japanese employees attended the training. Training for Japanese employees involved learning about the legal systems of each country in which the Group operates. Meanwhile, training for non-Japanese employees was taught by a lawyer employed at a local law firm, and focused on learning about construction industry-related laws and case studies for that particular country. They underwent discussion-based training, receiving lectures on subjects including an introduction to the company code of conduct, explanations about the competition law (Anti-Monopoly Act), bribery, the appropriate use of software, and information leak prevention, as well as case studies. We believe that these training made our Japanese and non-Japanese employees understand the importance of compliance with laws or being involved in any violation at each branch.



Compliance training conducted in Thailand in January 2020

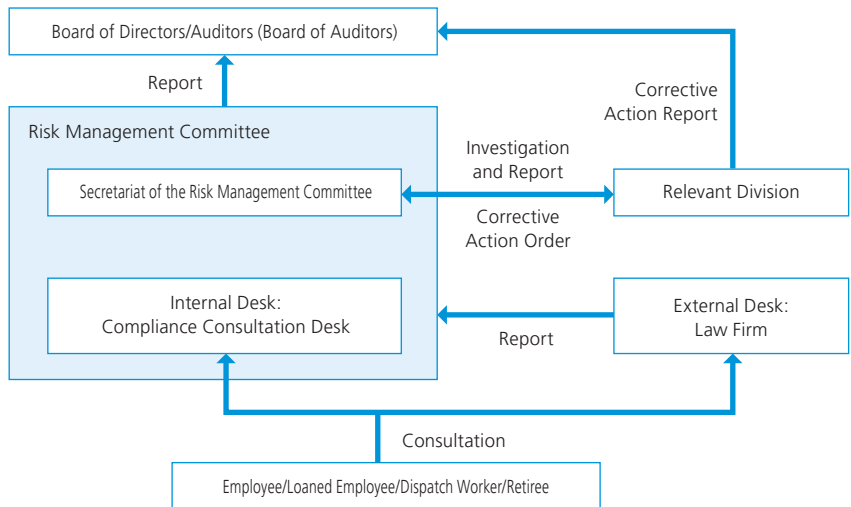
Internal Reporting System

As part of measures to further promote thorough compliance, our company has established an outside office for consulting a lawyer, the Compliance Consultation Desk, apart from an in-house consulting office. Employees can report incidents that may conflict with laws, regulations, corporate ethics, and internal regulations, or a suspected violation of compliance. Our company clearly state the prohibition of retaliation or other disadvantageous treatment of whistleblowers in compliance with the Whistle-Blower Protection Act, and reports can be submitted anonymously if requested.

Moreover, we have established the Harassment Consultation Desk to receive consultations regarding harassment and other issues (i.e., issues related to the various forms of harassment, such as sexual harassment, power harassment, and maternity harassment, as well as other human rights issues).

For received consultations, the Risk Management Committee investigates each case and takes appropriate actions, such as coaching and discipline, in accordance with company regulations.

Outline of the Internal Reporting System



	FY 3/16	FY 3/17	FY 3/18	FY 3/19	FY 3/20
Compliance-related Reports (No. of reports)	1	1	1	1	11
Harassment-related Reports (No. of reports)	0	2	7	7	11

"Guideline for Appropriate Bidding"

In June 2009, we undertook a complete revision of our Antitrust Compliance Manual and issued our Guideline for Appropriate Bidding. In September 2014, we issued the second edition, with enhanced contents. In this Guideline, our group's basic stance for acts of violation is clearly specified, which is: We will not commit, allow others to commit, and overlook illegal acts. Guideline is handed out to executives and employees of the Group, and e-learning training on this Guideline is given annually, to continuously ensure a thorough understanding of the Guideline by all our employees.

Thorough Elimination of Antisocial Forces

The Risk Management Committee has established a framework that prevents any relations with organized crime groups and other antisocial forces. It also manages and coordinates risks on this front, and has a system in place that enables the immediate response to the emergence of these risks. Furthermore, we carry out various initiatives that encompass our Group's overall business activities, such as providing a wide range of compliance trainings for our employees.

Regarding relationships with our business partners, our contracts (sales of goods contracts, construction subcontracting agreements, etc.) contain provisions for the eradication of antisocial forces.