

Practicing Sustainability Management

– Contributing to Sustainable Social Development through Sustainable Construction Activities –



President,
Chief Executive Officer and
Representative Director

A handwritten signature in black ink that reads "Takuya Shimizu".

Penta-Ocean Construction (POC) celebrated the 127th anniversary of the company's founding. Founded in 1896 as Mizuno-gumi in Kure City, Hiroshima Prefecture, we have expanded our business areas from initial marine civil engineering to land civil engineering and building construction. Starting with the Suez Canal Widening Project in 1961, we have been involved in many milestone projects overseas, mostly based in Singapore, since our first entry to the market in 1964. At present, our three business units of domestic civil engineering, domestic building construction and overseas, have roughly the same output in terms of net sales. We have developed into a company where these three business units contribute to profits in a balanced manner.

In the business environment surrounding the construction industry, we expect to benefit from robust public investment in the national resilience, etc., as well as solid private investment particularly in the logistics, urban redevelopment and "facilities and equipment investment from the economic security perspective". Outside Japan, our overseas business hubs in Singapore and Southeast Asia enjoy the ever-increasing infrastructure demand. However, we need to monitor high price of construction materials, global geopolitical uncertainties and financial market trends.

Under the previous Medium-Term Management Plan (FY 3/21 – FY 3/23), we fell short of our performance targets because of the significant construction losses we had suffered in overseas projects. However, thanks to the orders received for the largest-ever scale projects both in the Domestic Civil Engineering and the Building Construction Business Units, our projects at hand at the beginning of FY 3/24 exceeded JPY 1 trillion. As several large-scale projects including the above become in full swing both at home and abroad, we expect to achieve the record-high sales and profits under the current Medium-Term Management Plan (FY 3/24 - FY 3/26), which was launched in FY 3/24.

In order to drive sustainable corporate growth, we must, above all else, reaffirm our full commitment to tackling "Sustainability" issues from a global perspective in all our business and corporate activities. Under the new Medium-Term Management Plan, our previous CSR management with focus on ESG extended its reach. Our new corporate vision outlines POC's aspiration of becoming "A genuine global general contractor who practices sustainability management". In an attempt to achieve the above vision, we have identified the followings as our eight materiality issues associated with Environment (E), Social (S) and Governance (G) criteria: 1. Responding to climate change issues (E), 2. Creation of a rich environment (E), 3. Construction of high-quality social infrastructure and buildings (S), 4. Enhancing technology development and technical capabilities (S), 5. Promotion of diversity and inclusion (S), 6. Respecting human rights and building sustainable supply chain (S), 7. Ensuring occupational health and safety (S), and 8. Promotion of effective governance (G).

In exploring sustainability management, integrity in corporate activities is paramount, and all executives and employees must uphold high ethical standards and the spirit of compliance. In May 2023, we revised and released the Code of Conduct. It outlines the standard behavior requirements as a member of society and defines the compliance framework to abide by for each executive and employee of POC Group. We will pursue fair and honest corporate activities through exerting further efforts to ensure strict compliance with laws and regulations, fair competition, management transparency and accountability. Another key pillar of sustainability management is respect for humanity. While making further efforts to ensure occupational health and safety with safety as the top priority, we have also started incorporating specific measures to work on one of the aforementioned Materiality issues of "Respecting human rights and building sustainable supply chain". We established the Human Rights Committee in May, formulated and released the Human Rights Policy in June, and started the human rights due diligence initiatives primarily targeted for POC Group. In November, we formulated and released the "Sustainable Supply Chain Policy and Guidelines".

Furthermore, to foster a society where people with diverse backgrounds thrive, we promote Diversity and Inclusion initiatives. We endeavor to create a workplace where diverse employees, regardless of gender or nationality, can work together with mutual respect and enthusiasm. Also, we incorporate initiatives to advance Work Style Reform. Amid the increasing business volume, we strive to adapt to the new overtime cap regulations, which will be enforced in April 2024. As we view the improvement in productivity to be the key component in successful Work Style Reform, we strive to encourage technological innovation and management reform by way of Digital Transformation, or DX.

As for coping with climate change issues, we are promoting Green Transformation, or GX, with the pioneering spirit that is part of our corporate DNA. By making continuous efforts to reduce CO₂ in construction activities and advancing the construction of offshore wind farms and net zero energy buildings (ZEB), we will contribute to the achievement of carbon neutrality.

At POC Group, not only do we strive to deliver reliable safety and quality backed by advanced technologies in our construction business activities, but we will also endeavor to tackle all sustainability issues from an ESG perspective. We believe that our genuine commitment to sustainable social development will ultimately provide a path to achieve both sustainable corporate growth and corporate value enhancement. We would appreciate your continuous guidance and support.

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▶ [Environment]

Initiatives for Tackling the Climate Change Issues

We believe that responding to climate change issues is one of our most important management issues, and we continuously undertake initiatives to reduce CO₂ emissions from our construction activities. By promoting the construction of offshore wind power facilities and net zero energy buildings (ZEB), we will strive to achieve carbon neutrality by 2050 through our core business.

In the construction industry, CO₂ emissions arising from construction activities are relatively minor compared to other industries. However, the marine civil engineering work, which is one of our fortes, is characterized by higher CO₂ emissions than other construction work, because of the use of work vessels. Also, looking at the supply chain as a whole, construction work is characterized by the use of steel members, cement and other materials that emit a large amount of CO₂ during the manufacturing stage, as well as by the long service life of buildings and infrastructure structures after completion, resulting in a large amount of CO₂ emissions during the operational stage.

In July 2021, we established under the CSR Committee: 1. The Carbon Neutral (CN) Promotion Committee chaired by the President and Representative Director, and 2. The CN Promotion office for its designated department. In May 2022, we expressed our support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and set out CO₂ emission reduction targets relative to the base year of FY 3/21 (for SCOPE 1+2, 50% reduction by FY 3/2031, and 100% reduction by FY 3/2051), in order to reduce CO₂ emissions in tandem with our supply chain partners. With regard to our CO₂ reduction targets for FY 3/31, we obtained the SBT (Science Based Targets) certification for the "1.5 degrees Celsius trajectory".

Initiatives for Offshore Wind Power

As a company with distinctive strengths in marine civil engineering technology and as the front runner in offshore wind construction, we are striving with a pioneering spirit to contribute to the expansion of renewable energy supply in Japan. In 2018, we built Japan's first offshore installation vessel, CP-8001. Equipped with a large 800t lifting crane, she is indispensable for installing bottom-fixed offshore wind turbines. Our second offshore installation vessel, CP-16001 (joint ownership with Kajima Corporation and Yorigami Maritime Construction), equipped with a 1,600t lifting crane, capable of installing larger and larger wind turbines, started operations in November 2023. Furthermore, "Sea Challenger", an offshore installation vessel currently owned by a European industry leader DEME Offshore in Belgium, will be upgraded with a 1,600t lifting crane and reflagged to Japan to be owned by Japan Offshore Marine (JOM), a joint venture between DEME and POC, with the scheduled operation start in 2027. In the years to come, we plan to maintain our capital investment in offshore wind power business as we deem necessary, particularly in vessels such as an offshore cable laying vessel, a large foundation installation vessel and others.

In 2023, our first major construction of an offshore wind farm started in Kitakyushu Port, Hibikinada area. We will leverage our extensive expertise in marine civil engineering work and our offshore installation vessel operation that we have accumulated over the past years and ensure customer satisfaction with safe and reliable construction. Moreover, for the construction of floating-type offshore wind power, we continuously work on technology development towards streamlining of construction processes and cost reduction.

Initiatives for the Construction of Net Zero-Energy Buildings (ZEB)

We engage in the construction of ZEB, as an initiative that contributes to achieve carbon neutrality in the building construction field. ZEBs are built to reduce energy consumption to net zero by incorporating energy-saving measures in buildings and by using renewable sources such as solar power generation.

Starting with our first acquisition of the highest-rank ZEB certification under the Building-Housing Energy-efficiency Labeling System (BELS) for Hisamitsu Pharmaceutical Museum in 2019, we have proposed application of ZEB features to clients, followed by actual project execution. From 2022, we have undertaken setting ZEB construction site offices with ZEB certifications. Going forward, we will collaborate with a prefab building rental and leasing company to promote its widespread application.

For the construction of our new Muroran Factory, which fabricates bridges as well as temporary steel structures for offshore wind power facilities, we successfully constructed "a factory 100% powered by renewable energy". All electricity used in the factory and the offices are covered by renewable energy sources. Solar power is the main source of electricity, and we also installed a hydrogen power generation system using fuel cells. The hydrogen for the generation process will be both by-product hydrogen and green hydrogen produced from solar-generated electricity using a water electrolyzer. The office building has acquired the highest ZEB certification under BELS by improving its energy-saving performance through enhanced thermal insulation and other measures, and by using renewable energy to cover its all electricity needs.

We will continue our initiatives to apply ZEB technology in all kinds of buildings by adopting various energy-saving measures and promoting the use of renewable energy sources.



▶ [Social]

Promotion of Diversity & Inclusion (Creation of Comfortable Work Environment and Promotion of Work Style Reform)

As a social initiative, we are committed to contributing to society through our core business to achieve "empathy with society", which is part of our corporate philosophy. We make various efforts in an aim to become: 1. An advanced company in terms of DX which improves onsite productivity, and 2. An advanced company in D&I where diverse human resources thrive.

In the D&I promotion efforts, we are committed to securing and fostering diverse human resources both at home and abroad, regardless of gender or nationality. For example, to promote women's active participation, we have established a working environment to help them navigate their career path when important life events happen. Furthermore, we have established a global personnel system with an objective-based evaluation and compensation system for locally-hired employees working in overseas offices. In addition, we have newly established a global-career track position system for foreign students in Japan, and we recruit them on a regular basis.

Amid the business volume expansion, our imminent issue is to be fully compliant with the upper limit regulations of overtime work, imposed by the revision of the Labor Standards Act in April 2024. To align with the new regulations, we believe that improvement of onsite productivity is vital. We are promoting DX by streamlining and sophistication of construction management utilizing ICT, BIM/CIM and automated construction machinery, etc. In addition, we are tackling onsite labor and manpower saving by adopting precast concrete members, etc. Furthermore, we support subcontractors with their work style reform and management of future personnel needs by: 1. Paying construction fees in 100% cash, 2. Promoting enrollment in social insurance schemes and in the Construction Career Up System (CCUS), 3. Introducing the excellent foremen system, and 4. Paying increased labor cost when their employees' holiday acquisition targets are met.

Respect for Humanity (Respect for Human Rights, Ensuring Occupational Health and Safety)

With regard to respect for human rights, we established the Human Rights Committee chaired by the President and representative director in May 2023. In June, we formulated the "Penta-Ocean Construction Group Human Rights Policy". By implementing the human rights due diligence process based on the Human Rights Policy and providing corrective and remedial measures for alleviating negative impacts through the Human Rights Consultation Desk, we will strive to assume responsibility as a business entity to respect human rights. In November, we established and released the "Sustainable Supply Chain Policy and Guidelines".

Our occupational hazard prevention initiatives stem from respect for humanity, and we maintain a strong focus on safety-first construction and collaborative work in tandem with subcontractors. Domestically, we obtained Construction Occupational Health and Safety Management System Certification (COHSMS) from the Japan Construction Occupational Safety and Health Association (in 2008), which is renewed every three years upon completion of renewal assessment. Outside Japan, we have acquired and worked under ISO45001, the international standard for occupational health and safety management systems, and we are also working to roll out the "Penta-Ocean standards", which was developed domestically, in our

overseas sites.

Domestically, in June every year, we hold the Safety and Health Environment Promotion Contests across the country in preparation for National Safety Week, which takes place in the first week of July every year. Our overseas sites follow the same protocol. In addition, our headquarters, branch offices and subcontractors regularly cooperate to carry out safety inspections, and twice a year we perform "President's Patrols", where I myself take part in such inspections. Furthermore, we are educating and training foremen of our subcontractors to raise their knowledge, skills and awareness related to occupational safety.



▶ [Governance]

Promotion of Effective Governance

Regarding corporate governance, we place a great emphasis on stakeholder-oriented approaches in our business activities, and practice fair and transparent management. We recognize the improvement of corporate governance as an important management issue and set out our basic concepts and operational guidelines in the "Penta-Ocean Construction's Corporate Governance Guidelines." In accordance with these guidelines, the Board of Directors makes continuous efforts to improve corporate governance. Furthermore, in addition to thoroughly implementing risk management, the Board provides practical compliance training sessions based on real-world examples both at home and abroad.

In our relationship with shareholders and investors, we make every effort to disclose information in a timely and appropriate manner so they can better understand the stance and future directions of our company. Additionally, we proactively carry out our PR and IR activities both in Japan and overseas.

We believe that high ethical standards and a spirit of compliance are at the heart of sustainable corporate growth. In order to fulfill corporate social responsibility through the conduct of our business and corporate activities that are conducive to development of a sustainable society, we have revised and released the Code of Conduct in May 2023 as a guideline for all executives and employees of POC Group. We will live up to the trust of customers by ensuring reliable safety and quality, contributing to society through advanced technology. All of us are committed to build an open corporate culture and embrace our technologies towards the ultimate goal of development of a sustainable society.