

# -Corporate Governance-

## Corporate Governance Efforts

Penta-Ocean Construction Group has built a unique corporate governance system to ensure soundness, transparency and compliance in management, as well as for the perpetual growth and development of the Company. Moreover, we are implementing “strengthening of audits and audit functions (e.g. audits by auditors, internal audits and accounting audits)” relating to corporate management as our most important measure in order to enhance this system.

### Corporate Governance Structure

#### 1 Management and Business Execution

Our Board of Directors is composed of 11 directors, including three external directors, and it is operated in accordance with laws, articles of incorporation, and company regulations. As a general rule, the Board of Directors’ Meeting is held twice a month. In the meetings, the directors make decisions on important management matters, as well as supervise business execution. In addition, the Board of Directors annually analyzes and evaluates the effectiveness of the entire Board. We have also introduced an Executive Officer System to clarify the responsibilities in business execution.

The Human Affairs Committee, which is composed of several directors, including external directors, discusses and reports on executive candidates selection and executive compensation proposals to the Board of Directors. Regarding executive compensation, we have introduced an Executive Performance Evaluation System that links performance with remuneration. We have established the Board of Auditors, which is composed of four auditors including three external auditors. In addition to attending 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 directors. (The number of external directors and external auditors is current as of June 26, 2018.)

#### 2 Internal Control and Risk Management

In order to ensure thorough risk control, legal compliance and appropriate and effective execution of business, we have formulated an Internal Control Basic Policy in the Board of Directors and have established an Internal Control System.

The establishment and operation of the Internal Control System are annually reviewed in the Board of Directors. The Risk Management Committee that was established in our Office has formulated a Basic Risk Management Policy and each Business Execution Department is aiming to promote compliance through the implementation of training in accordance with the policy of this Committee. We are working to prevent risk and minimize corporate losses associated with it in regards to the various risks that occur in companies continuing business activities (e.g. financial risks, construction risks and business continuity plan risks) not limited to compliance risks.

### Establishment of the Guidelines for Corporate Governance

In our board meeting on November 11, 2015, we decided to formulate the Penta-Ocean Construction Corporate Governance Guidelines to achieve future growth and to enhance our medium-to long-term corporate value.

#### 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 superior infrastructure”, we have set high goals to offer high-quality construction backed by safety and environmental considerations and by our cutting-edge technologies. We strive to achieve perpetual growth and to further enhance our corporate value 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 focus on enhancing corporate governance, and have formulated the Penta-Ocean Construction Corporate Governance Guidelines as a set of basic policies and 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

1. Basic policies
2. Relationship with shareholders
3. Appropriate cooperation with stakeholders other than shareholders
4. Structure of corporate governance

## Compliance Efforts

The Group has established Risk Management Committees in each company of the Group based on our “Basic Compliance Policy.” The employees and executives of the entire Group are working in order to allow to respect social norms / corporate ethics and to be able to act in good faith at all times.

### Basic Compliance Policy

All employees and executives of Penta-Ocean Construction Group not only comply with laws in business activities and respect social norms / ethics, but also act in good faith at all

times. In particular, when bidding for construction projects, we practice free competition by complying with the Antitrust Act and all other relevant laws and regulations.

### Compliance Promotion Efforts

The Group is working so that it allows employees and executives to appropriately comply with the complex laws surrounding each of them during their busy day-to-day activities through various in-house training courses and dissemination of information on the Group Intranet.

## Compliance Training

We provide compliance training so that all employees and executives of the entire Group comply with laws and respect social norms / corporate ethics, and so employees and executives act in good faith at all times. In FY3/18, we additionally introduced discussion-based training and provided compliance training 252 times in total. The training sessions were attended by a total of 10,622 employees and executives. As part of the training, our international department provided compliance training in seven Asian countries, including Singapore and Hong Kong. The training was attended by 163 Japanese employees and 1,707 foreign employees.

Training for Japanese employees was provided in Japanese language to help employees learn the legal systems of the Asian countries where we have expanded our business. Training for foreign employees was provided in the local language, focusing on the country's related laws and case studies. The discussion-based training

began with a top message and the introduction of the code of conduct, including explanations about "competition law (Anti-Monopoly Act)," "bribery," "engineering ethics" and "unauthorized use of software" as well as case studies.

We believe that this training made Japanese and foreign employees working in our international department recognize again that they should not violate laws nor be involved in violations at each branch in the future.



## Risk Management Efforts

Penta-Ocean Construction Group appropriately and continuously manages various risks that are assumed to occur in continuing the business, such as making efforts to prevent the occurrence of such risks and to minimize loss caused by the risks, which affects the entire group management.

### Risk Management Structure

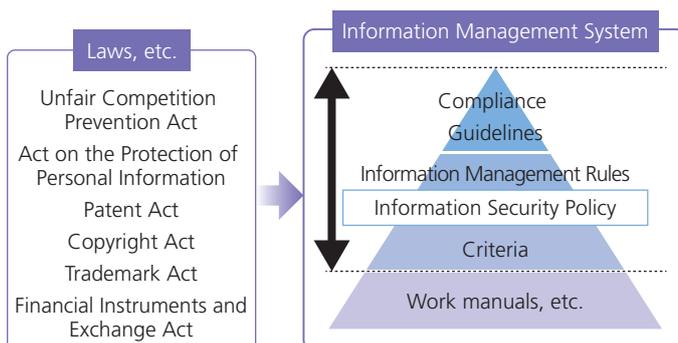
In April 2008, we established the "Risk Management Committee" in order to comprehensively manage risks. The Committee takes initiative in managing various risks, such as compliance risks inherent in the company, information risks, BCP, and large-scale disaster risks. Also, the Committee determines the department in charge according to the risk classification to promote risk management.

Furthermore, in April 2010, we began to adopt a concept of group risk management and make efforts to enhance risk management of the Group companies.

Our risk management has been built to be able to promptly respond to risks according to the type of risk when an actual specific risk has been identified by determining and classifying possible risks in advance. In this manner, we strive to minimize the damage caused by risks, even if the risks were not expected to occur. By reflecting on the results of our response to previous risks, we also strive to recognize and be prepared for new risks.

### Information Security Management

In recent years, a series of information-related incidents and accidents, including a leak of personal information and other confidential information, have occurred one after another. When an incident or accident occurs, the company will suffer immeasurable damage as well as shoulder grave social responsibility, so 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 working on 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 when providing training such as e-learning information education for all employees and executives (twice a year) and training by job type.



2003	Issued the "Information Management Criteria" regarding the handling of information systems
2004	Introduced the "Information Management System"
2005	Fully enforced the "Act on the Protection of Personal Information" Started Business Continuity Plan (BCP) activities Signed the "Confidentiality Agreement" with all business operators
2006	Conducted an internal audit concerning information security Established a Security Policy concerning six affiliated companies
2008	Conducted a self-check concerning Information Security
2012	Introduced smart devices and revised the Security Policy
2016	Revision in response to the Social Security and Tax Number System Reviewed the Security Policy in response to groupware migration
2017	Revised and established the Security Policy for 10 affiliated companies