

# Corporate Governance

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.

## Establishment of Corporate Governance Guidelines

Our company has established the “Penta-Ocean Construction Corporate Governance Guidelines,” which provides basic principle and operating guidelines for corporate governance. In response to the Corporate Governance Guidelines, which was revised in June 2021, the content of the guidelines has been expanded and revised (December 20, 2021).

### ● 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

### ● Structure of the Corporate Governance Guidelines

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

## Continuous Improvement of Corporate Governance

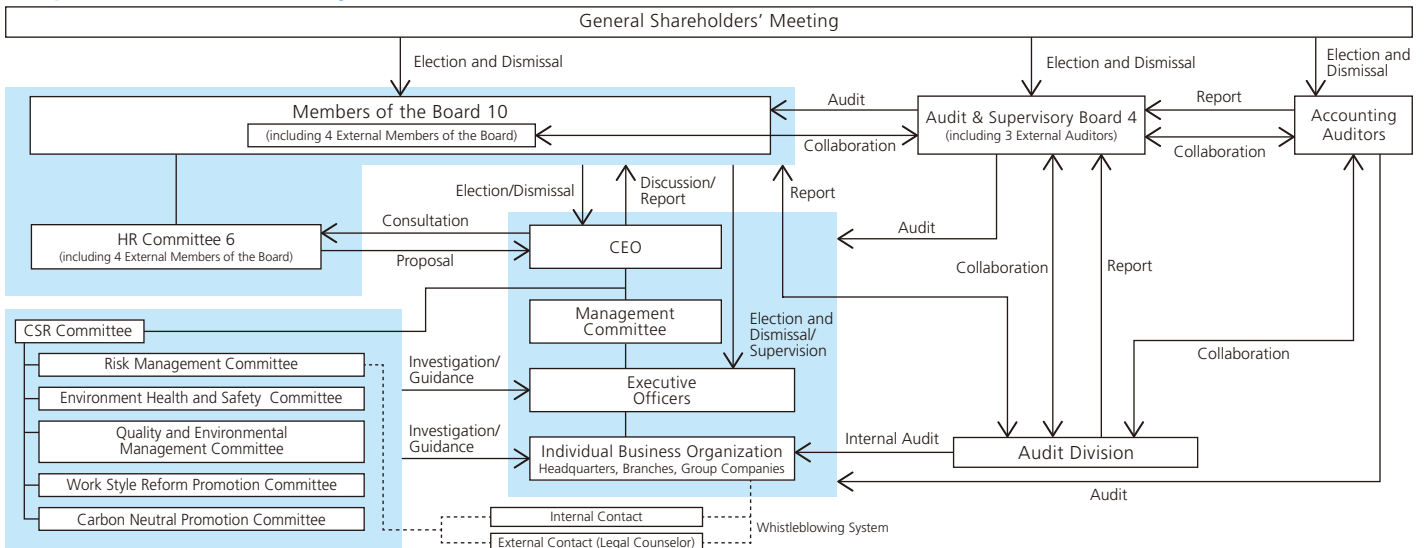
### Management and Business Execution

Our company’s Board of Directors is composed of 10 members, including four outside directors, and abides by all applicable laws, regulations, and articles of incorporation, in-house rules, and Penta-Ocean Construction Corporate Governance Guidelines. In principle, the Board of Directors meets twice a month, to decide on significant management issues and monitors the progress of business operation. In addition, we implemented an executive officer system, to define roles in 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 outside Members of the Board and additional small number of other Members of the Board, not exceeding a majority. Executive compensation is composed of (1) basic salary (fixed monetary compensation), (2) performance-based monetary compensation based on individual performance (individual performance-based compensation) and company performance (short-term incentives), and (3) (non-monetary) Performance-based compensation in the form of company shares via the Board Benefits Trust (BBT). In light of their role, outside directors’ compensation is based solely on their Individually established base salary, and they are not eligible for performance-based compensation (whether monetary or non-monetary).

We have established the Audit and Supervisory Board, which is composed of four corporate 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) to see how directors are carrying out their duties. We believe that adopting such a corporate governance system will enable fair, and transparent business management.

### Corporate Governance System



## Internal Control System

POC has established a basic internal control policy and developed an internal control system, overseen by the Board of Directors, in order to ensure thorough risk management, compliance with laws and regulations, and proper and efficient execution of business. The internal audit department audits the development and operation of the overall internal control system, especially focusing on the continuous improvements and appropriate operation. Their examination results are evaluated by the Board of Directors annually, to confirm that the internal control system is operating properly based on the basic internal control policy.

## Strategic Shareholdings

To maintain and strengthen business and cooperative relationships with issuing companies, we hold strategic shareholdings on a long-term basis subject to a resolution of the Board of Directors. In June of each year, the Board of Directors reviews the financial position, operating results, share price and dividends, as well as transactions in the past three years and future plans of each company in which we have vested to determine whether the holding's purpose, benefits and risks, and cost of capital are commensurate with the appropriateness of the holding.

Following a thorough dialogue with the companies with which we do business, we are proceeding with a gradual reduction in the interest of controlling holding risk and capital efficiency.

## Assessing the Effectiveness of the Board of Directors

At the end of each 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 conducting a self-assessment of FY 3/22 in June 2022, 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.

## Skill Matrix for Directors and Corporate Auditors

In nominating candidates for directors and corporate auditors, the president and representative director selects candidates while comprehensively considering their background, personality, insight, ability and the balance of these factors, regardless of gender, nationality, etc. The Personnel Committee is consulted and the Board of Directors makes a decision on the candidates.

The following is a skills matrix listing the knowledge, experience and abilities of each director and corporate auditor.

	Those with experience as representative directors, directors of other companies, chairpersons or directors of audit corporations, foundations, etc.
Corporate Management	Those with experience as representative directors, directors of other companies, chairpersons or directors of audit corporations, foundations, etc.
Technology/IT	Those with expertise in construction technology, IT, etc./Experienced executive officers, general managers, and others
Sales/ Business Strategy	Experienced executive officer or general manager in charge of sales and business strategy
Financial Affairs/ Accounting	Person with expertise in finance and accounting/Experienced executive officer or general manager in charge of finance and accounting
Legal Affairs/ Risk Management	Person with expertise in legal affairs and risk management/Experienced executive officer or general manager in charge of legal affairs and risk management
CSR/ Sustainability	Person with expertise in CSR and sustainability/Experienced executive officer, general manager, etc.
Global	Person with expertise in global business/Experienced executive officer, general manager, etc. in charge/Experienced in overseas work

	Name	Expertise and experience of directors and auditors						
		Corporate Management	Technology/IT	Sales/Business Strategy	Financial Affairs/Accounting	Legal Affairs/Risk Management	CSR/Sustainability	Global
Members of the Board	Takuzo Shimizu	President, Chief Executive Officer and Representative Director	●	●	●		●	
	Kazuya Ueda	Representative Director Executive Vice President Head of Civil Engineering Sales and Marketing Divisions Group	●	●	●			
	Tetsushi Noguchi	Senior Managing Executive Officer, Head of Civil Engineering Divisions Group		●	●			
	Hiroshi Watanabe	Senior Managing Executive Officer, Head of Building Construction Sales and Marketing Divisions Group		●	●			●
	Tomoyuki Yamashita	Senior Managing Executive Officer, Head of Corporate Administration Divisions Group				●	●	●
	Osamu Hidaka	Executive Officer, Head of International Civil Engineering Divisions Group		●	●			●
	Yasuhiro Kawashima	outside members	●	●				●
	Hidenori Takahashi	outside members	●			●	●	
	Hokuto Nakano	outside members	●		●	●		●
Mina Sekiguchi (Ms.)	outside members	●		●	●		●	
Audit & Supervisory Board Members	Michio Inatomi				●	●	●	●
	Hideaki Kuraishi	outside members		●	●			●
	Shin Suganami	outside members		●			●	
	Hisashi Takebayashi	outside members	●		●		●	

\*CSR/Sustainability: Includes ESG, IR/PR, D&I, respect for human rights, global environmental issues, etc.

# Corporate Governance

## Directors' Remuneration

Fixed salary (monetary), performance-based remuneration (monetary), and performance-based remuneration (non-monetary) account for approximately 65%, 25%, and 10%, respectively, of the remuneration paid to directors and executive officers (hereinafter "directors and others").

In consideration of their duties, outside Members of the Board shall receive only base salary (fixed remuneration in cash), which is set for each Member of the Board, and shall not receive performance-based remuneration (monetary and non-monetary).

### (i) Fixed salary (monetary)

The amount of remuneration consists of the base salary determined for each executive officer's position, plus additional remuneration for the Members of the Board commensurate with the weight of their responsibilities.

### (ii) Performance-based remuneration (monetary)

#### Individual performance-based remuneration (monetary)

Individual performance-based remuneration is a variable amount of ±10% of the fixed remuneration (monetary), based on an evaluation of each individual based on objective indicators such as the performance of the division or branch to which the individual belongs, as well as a qualitative evaluation of the individual. Individual performance evaluation (five-level evaluation) is determined by evaluation of items such as company-wide performance evaluation (orders received, operating income, cash flow, quality and safety initiatives, and subsidiary performance) and qualitative evaluation.

$$\boxed{\text{Individual performance-based remuneration}} = \boxed{\text{Fixed salary}} \times \boxed{\text{Evaluation coefficient based on individual performance evaluation}}$$

#### Short-term incentive compensation (monetary)

The base amount determined for each position is multiplied by the annual incentive coefficient, which is calculated by multiplying the company performance evaluation coefficient, operating income coefficient, Return on Equity (ROE) coefficient, and dividend payout ratio coefficient. The company performance evaluation coefficient is calculated using the same method as the individual performance-based remuneration and the operating income coefficient is calculated based on the amount of consolidated operating income.

The short-term incentive compensation is set at zero if ROE falls below 5% or if no dividend is paid.

$$\boxed{\text{Short-term Incentive Compensation}} = \boxed{\text{Base Amount}} \times \boxed{\text{Annual Incentive Coefficient}}$$

$$\boxed{\text{Annual Incentive Coefficient}} = \boxed{\text{Company Performance Evaluation Coefficient}} \times \boxed{\text{Consolidated Operating Profit Coefficient}} \times \boxed{\text{ROE level coefficient}} \times \boxed{\text{Dividend payout ratio level coefficient}}$$

### (iii) Performance-based compensation (non-monetary)

This is performance-based stock compensation using a stock benefit trust. Points to be granted to Members of the Board, etc. are determined each fiscal year by multiplying the points determined for each position by a company-wide evaluation coefficient based on an evaluation of the company's performance, an individual evaluation coefficient based on a qualitative evaluation of the individual, and a standard stock price coefficient for a standard stock price to be reviewed every three years, in the same manner as the individual performance-based compensation in (2) above.

Each point is converted into one share of common stock of the company at the time of payment of stock-based compensation.

As a general rule, Members of the Board and others receive benefits in the form of shares of our company, etc. when they retire from the Board of Directors.

The ratio of remuneration for Members of the Board

Fixed remuneration (monetary)	Performance-linked remuneration (monetary)	Performance-linked remuneration (non-monetary)
Approximately 65%	Approximately 25%	Approximately 10%

### Details of Executive Compensation

Type of Compensation	Members of the Board	Outside Members of the Board	Audit and Supervisory Board Members
Fixed remuneration (monetary)	●	●	●
Performance-linked remuneration (monetary)	●	-	-
Performance-linked remuneration (non-monetary)	●	-	-

### Remuneration for Directors and Corporate Auditors in FY 3/2022

Executive category	Total amount of remuneration, etc. (million yen)	Total amount of remuneration, etc. by type (million yen)		Number of Directors and Corporate Auditors to be paid
		Monetary compensation	Stock compensation	
Members of the Board (excluding outside Members of the Board)	356	332	23	7
Outside Members of the Board	37	36	0	4
Audit and Supervisory Board Members (excluding Outside Members)	24	24	-	2
Outside Audit and Supervisory Board Members	36	36	-	3

\*The number of Members of the Board and Audit and Supervisory Board Members paid and the amount paid include those for Members of the Board and Audit and Supervisory Board Members who retired during the fiscal year.

\*Stock compensation represents the amount paid during the fiscal year under review and the amount transferred to the reserve for Members of the Board's and Audit and Supervisory Board Members' stock benefits. It is paid at the time of retirement of directors or executive officers, and the amount of payment varies depending on the reason for retirement and the stock price at the time of payment.

# Risk Management

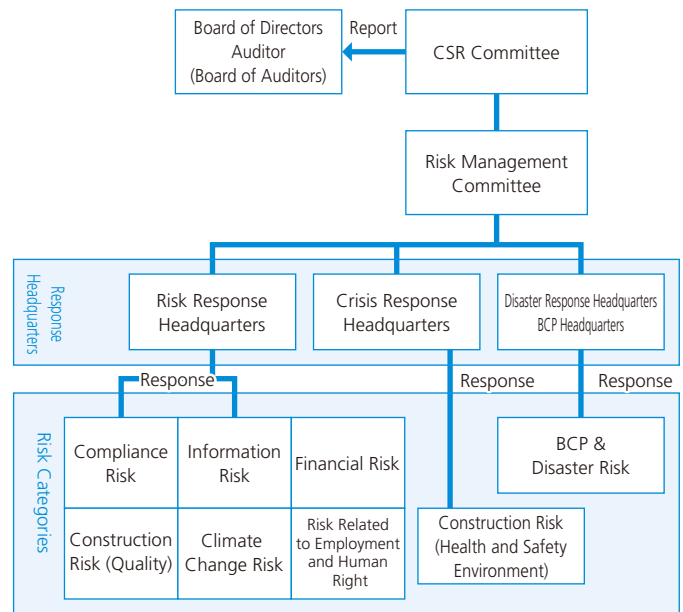
Penta-Ocean Construction Group identifies various risks that may arise during the course of its business operations and takes appropriate and continuous measures to prevent the occurrence of such risks and minimize losses that may affect the Group's overall management in the event that such risks arise.

## Risk Management Structure

Our Company has formed a Risk Management Committee within the CSR Committee, chaired by the President and Representative Director, to promote risk management. The committee plays a central role in addressing the company's inherent compliance risk, information risk, business continuity plan (BCP), large-scale disaster risk, and, and has designated a department in charge of each risk category. Furthermore, in April 2010, we introduced the concept of group risk management and began efforts to strengthen risk management at each Penta-Ocean Group company. By identifying and categorizing potential risks in advance, we have established a risk management system allowing us to promptly take countermeasures according to the type of risk when specific risks actually occur.

As a result, we can respond to minimize damage even if unexpected risks occur. In addition, after reviewing the results of our response to such risks, we disseminate our knowledge and preparedness for new risks horizontally. Also, in the unlikely event that a major risk occurs, the Committee establishes a Risk Response Headquarters, headed by the representative director. In the event of a major incident occurs that threatens the continuity of business activities, a BCP Headquarters is established. If a major work-related accident occurs, a Crisis Response Headquarters is established, and in the event of a natural disaster occurs, a Disaster Response Headquarters is 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 leaks of personal and other confidential information. As such an incident or accident occurs, the damage incurred by the company is immeasurable and the social responsibility is significant. Thus, the company is required to control information appropriately. Furthermore, in the current information society, the company is necessary to plan and act based on the information systems environment (electronic bidding, electronic delivery, e-commerce, etc.). Our company established its Information Management System in 2004, it has been reviewed and enhanced periodically. We are also leveraging common groupware, not only through 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 officers (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
2021	Security audit by an external organizations, and take countermeasures

## Establishment of the Business Continuity Plan (BCP)

We have established a 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, 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 conduct large-scale BCP disaster drills, aiming to maintain a system that can smoothly activate the BCP in the event of an emergency and to continuously improve the plan.

### Specific BCP activities

- Confirmation of the safety of all group employees and their families through our safety confirmation system and the evaluation of damage to company workplaces
- Back-up support information resources at the Institute of Technology
- Provision of an alternative base in the event that the headquarters is damaged



BCP drill conducted in September 2021

# Compliance

POC Group 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 Policy

All executive officers and employees of POC group shall comply with laws and regulations in conducting their business activities, respect social norms and ethics, and always act with integrity. In particular, in construction bidding, we shall comply with the Antimonopoly Law and other related laws and regulations, and practice fair and free competition.

Our “Compliance Guidelines” stipulate several items related to the prevention of corruption, including “sound and normal relations with politics and government administration” and “prevention of improper payments to foreign public officials, etc.,” and we make these items known throughout the Company.

## 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 3/22, compliance training was conducted a total of 162 times across the group, with a total of 17,943 executives and employees taking part.

The International Business Unit provided compliance and anti-harassment training (including anti-corruption training) in 10 countries and regions (including Singapore, Hong Kong, and Mozambique). The training included explanations and case studies of the codes of conduct to be followed by our company’s officers and employees, including “anti-bribery,” “fair and free competition,” “proper use of software,” “prevention of information leaks,” “prevention of embezzlements, kickbacks, and other forms of corruption,” and “prevention of harassment,” as well as discussion-type training. For employees who may work in multiple countries and regions, the training covered a wide range of topics that are common to all countries where our company operates. For locally hired employees, the content focused on the laws of the relevant country and case studies, with a lawyer from a local law firm serving as a lecturer for each country.

## Guideline for Appropriate Bidding

On March 31, 2009, we issued a “Declaration of Bid Rigging and declaration of Compliance.” As one of the measures to ensure the implementation of the declaration, we formulated the “Action Guidelines for Proper Bidding” for all executive officers and employees of POC group in June of the same year.

This guideline is prepared in light of the Antimonopoly Law and other related laws and regulations.

- The guidelines indicate the types of conduct that are prohibited in the course of duties related to bidding operations.
- Penalties and illegal acts that may be imposed on individual executives and employees in the event of a violation
- The guidelines provide specific measures to be taken by executives and employees when they come into contact with acts that may be considered suspicious.

The guideline clearly states the Group’s basic stance against illegal activities: “We will not do, we will not allow, and we will not overlook”. We provide all executive officers and employees of the Group with the guideline via the intranet. In addition, e-learning training on the guideline is conducted every year to ensure their understanding.

## Thorough Elimination of Antisocial Forces

The Risk Management Committee 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.

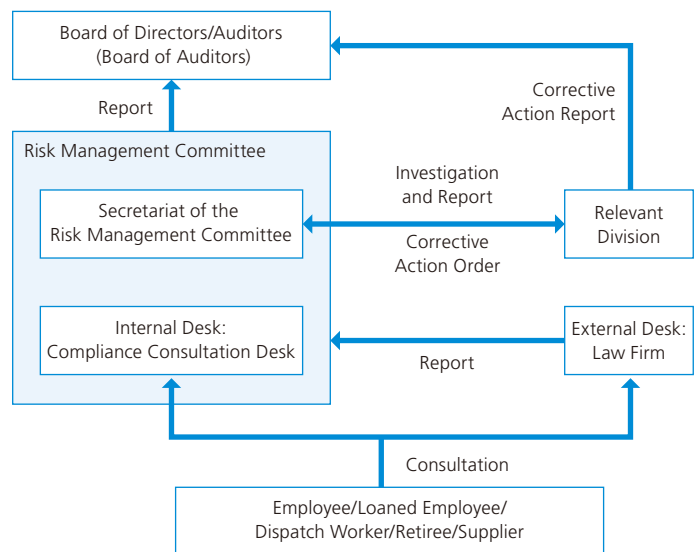
Regarding relationships with our business partners, our contracts (sales of goods contracts, construction subcontracting agreements, etc.) contain provisions for the eradication of antisocial forces.

## Internal Reporting System

As part of measures to further promote thorough compliance, our company established a Compliance Consultation Desk, which allows employees, business partners and others to report to outside counsel (lawyers) as well as the in-house consulting office when they notice actions that may be in conflict with laws, regulations, corporate ethics, and internal regulations, or when they suspected a 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 established a Harassment Consultation Desk to provide consultations on harassment and other issues (i.e., various acts of harassment, such as sexual harassment, power harassment, and maternity harassment, as well as other human rights issues). The Risk Management Committee investigates the facts of each case and takes appropriate measures including guidance and disciplinary actions, in accordance with company regulations.

### Outline of the Internal Reporting System





# Dialogue with Stakeholders

For all our diverse stakeholders – from individual shareholders to institutional investors – to understand our corporate philosophy, business strategy and business situation, we carry out multifaceted IR (investor relations) activities. In addition to the financial results briefing, we hold four times a year for our institutional investors, we also hold meetings with a total of over 250 domestic and foreign institutional investors throughout the year. Furthermore, we organize work site visits for our individual shareholders every year, so that they can see the results of our construction work and view the inside of a construction site while it's in operation, thereby deepening their understanding of the construction industry.

While continuing to provide information to our investors in a timely, appropriate manner, we place great value on direct dialogue with our shareholders, and will continue to take the initiative in holding IR activities.

## Main IR Activities

### Financial Results Briefings

We hold quarterly financial results briefings for analysts and institutional investors. The company president attends the briefing session after the announcements of the interim and final financial results, and provides explanations on the content of financial results, the business outlook, and the topics of interest.

### One-on-One Meetings

Throughout the year, we hold one-on-one meetings with analysts and institutional investors, including foreign investors, to discuss our company's operating and financial condition, as well as non-financial matters such as ESG (Environment, Social and Corporate Governance).

### IR Activities Overseas

Our president holds one-on-one meetings with foreign institutional investors every year. In New York, London, and elsewhere, he holds dialogue on management conditions and business prospects.

### Work Site Visits

As part of our IR activities, we hold site visits for institutional investors, individual shareholders and analysts, to help them gain a deeper understanding of our business and construction performance.

\*In FY 3/21 and FY 3/22 we suspended our in-person IR activities, including IR activities overseas, and work site visits in order to prevent the spread of COVID-19. We continued IR activities through web conferencing systems.



Financial Results Briefings (May 2022)

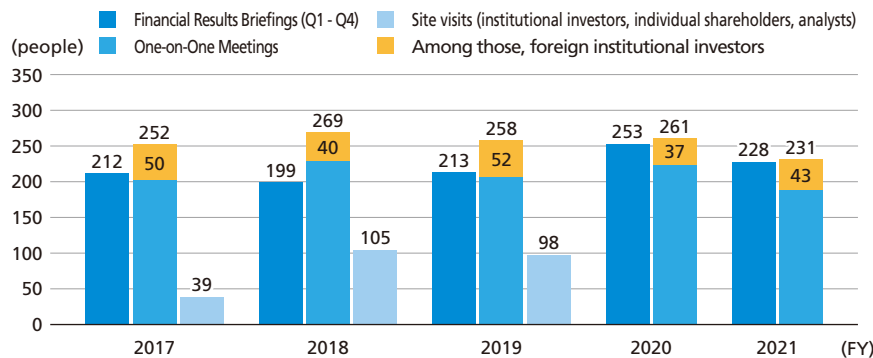


Individual shareholder site visit to the new Tokyo International Cruise Terminal (construction) (September 2019)



Work site visit held for individual shareholders (civil engineering) (September 2019)

## Track Record of IR Activities (total no. of participants)



## Changes in shareholder composition

