

Promoting Effective Governance

Corporate Governance

To ensure sound, transparent, and law-abiding corporate management, and for the company's continued growth and development, Penta-Ocean Construction Group is working to build and enhance our corporate governance system, including management, business execution, internal control, and risk management.

▶ Corporate Governance Guidelines

We have established the "Penta-Ocean Construction Corporate Governance Guidelines," as our basic stance for corporate governance and management guidelines.

Purposes of establishment

Our Group practices a management philosophy that focuses on sustainability. We believe that the "Construction of high-quality social infrastructure and buildings is the greatest contribution to society." We not only provide reliable safety and quality backed by technology but also earnestly address all sustainability issues from an ESG perspective. We strive to achieve sustainable growth and further enhance our corporate value to grow into an even more attractive corporation in the eyes of our various stakeholders.

To achieve this, we have established the "Penta-Ocean Construction Corporate Governance Guidelines" and built a system that allows us to make quick and resolute decisions in response to changes in the business environment.

Structure of the 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



Click here on our website for the details of the "Penta-Ocean Construction Corporate Governance Guidelines"
<https://www.penta-ocean.co.jp/english/sustainability/management/governance.html>

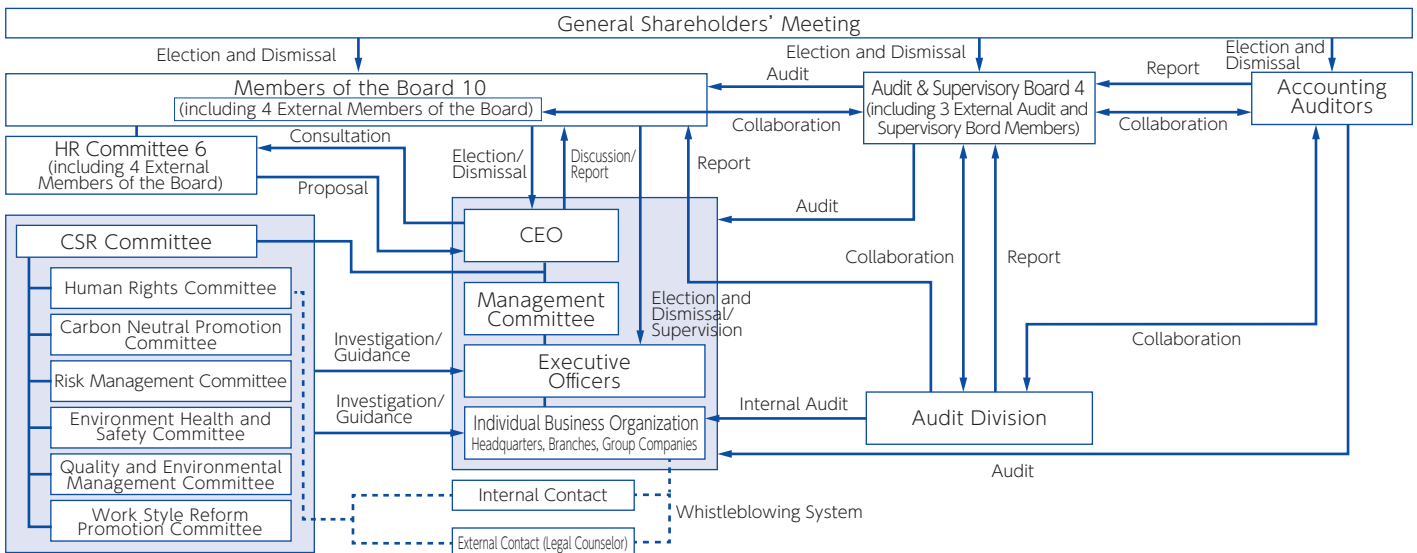
▶ Continuous Improvement of Corporate Governance

Management and business execution

The Board of Directors is composed of 10 Members of the Board, including four external ones, and operates in accordance with the laws, regulations, articles of incorporation, in-house rules, and the 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 composed of (1) base 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) performance-based stock compensation using a stock benefit trust (non-monetary). In light of their role, outside Members of the Board's 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 the Audit and Supervisory Board serving, which is composed of four Audit and Supervisory Board Members including three external Audit and Supervisory Board Members. In addition to attending the Board of Directors' meetings, the Audit and Supervisory Board Members 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 the above corporate governance system enables fair and transparent business administration.



Internal control system

The Board of Directors has established the basic internal control policy and developed an internal control system, with the aim of ensuring thorough risk management, compliance with laws and regulations, and the appropriate and efficient operation of business activities. The internal audit department examines the implementation and operation of the overall internal control system, focusing on the continuous improvement and appropriate operation. The assessment results are evaluated by the Board of Directors in May of each year, to confirm whether the internal control system is implemented properly based on the basic internal control policy.

Strategic shareholdings

The Company holds strategic shareholdings with the premise of long-term participation, subject to a resolution of the Board of Directors, with the aim of maintaining and strengthening business and cooperative relationships with issuing companies.

Regarding the stocks we hold, we check the financial condition, business performance, stock price, and dividend status of the investee company for each stock, as well as the past three years' transaction status and future plans for each stock, in June of every year. The Board of Directors specifically examines the suitability of holdings with respect to its objectives, the benefits and risks associated with the investment, and the suitability of an investment with respect to its cost of capital. However, we proceed with gradual reductions based on in-depth dialogue with companies from the perspective of reducing holding risk and capital efficiency.

Assessment of Effectiveness of the Board

Every June, all the directors in the Board of Directors conduct self-assessment to improve effectiveness of the Board of Directors based on the "Penta-Ocean Construction Corporate Governance Guidelines." Through the self-assessment of FY 3/23 conducted in June 2023, we were able to ensure the effectiveness of our current Board of Directors. We will strive to further improve the Board's effectiveness by continuously making the necessary improvements for the issues identified through this assessment.

Skill Matrix for Members of the Board and Audit and Supervisory Board Members

In nominating candidates for Members of the Board and Audit and Supervisory Board Members, 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 Member of the Board and Audit and Supervisory Board Member.

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	Managing Executive Officers, 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.

▶ Executive 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 Members of the Board and executive officers (hereinafter "Members of the Board 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 Members of the Board, which 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 profit, 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 profit 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 profit coefficient is calculated based on the amount of consolidated operating profit.

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 Members of the Board and Corporate Audit and supervisory Board Members in FY 3/23

Executive category	Total amount of remuneration, etc. (million yen)	Total amount of remuneration, etc. by type (million yen)		Number of executive and Corporate Auditors to be paid
		Monetary compensation	Stock compensation	
Members of the Board (excluding outside Members of the Board)	242	227	14	7
Outside Members of the Board	46	46	-	4
Audit and Supervisory Board Members (excluding Outside Members)	25	25	-	1
Outside Audit and Supervisory Board Members	43	43	-	4

*The number of Members of the Board and Audit and Supervisory Board Members who received the payment 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

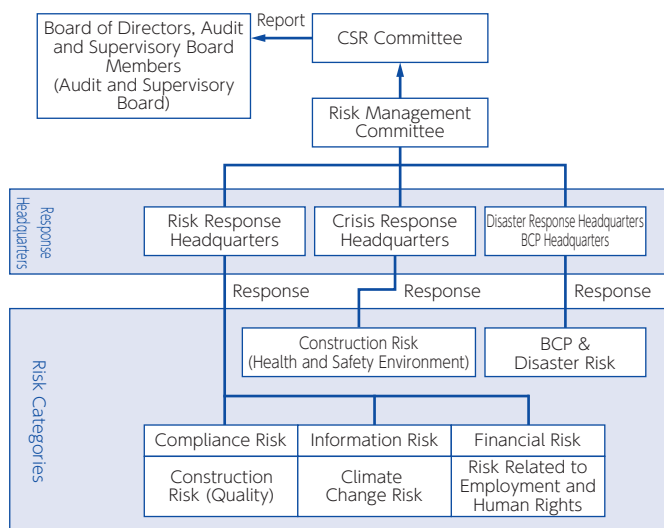
At Penta-Ocean Construction Group, we take appropriate, timely, and continued measures to cope with various risks that may arise in the course of our business operations, and strive to prevent the occurrence of such risks and if such risks do occur, we endeavor to minimize losses that may affect our overall management.

▶ Risk Management Structure

In accordance with the Risk Management Regulations, we established the "Risk Management Committee" under the CSR Committee, chaired by the President and Representative Director. In addition to discussing matters for building and improvement of risk management systems and providing guidance and supervision to departments in charge according to risk classification, the Committee aims to promote risk management for the entire Group by providing guidance and support to each Group company. The activities of the Risk Management Committee are reported to the Board of Directors through the CSR Committee, and are effectively monitored by the Board of Directors.

By identifying and classifying risks in advance, we are able to promptly respond according to the specific type of risk when they do occur. Reviewing the results of past risk management helps raise our awareness and strengthen our defenses against new risks, so we will be able to respond to minimize the damage even when an unexpected risk occurs.

Also, we will establish; (1) the Risk Response Headquarters, headed by the representative director in the event of a major risk situation, (2) the BCP Headquarters, if a major incident that threatens the continuity of business activities occurs, (3) the Crisis Response Headquarters, if a major occupational accident occurs, and (4) the Disaster Response Headquarters if a natural disaster occurs.



▶ Information Security Management

In recent years, there has been a number of information-related incidents and accidents, including a leak of personal and other confidential information. In the event that such an incident or accident occurs, companies may suffer immeasurable damage considering the substantial social responsibility they bear. In this context, companies are required to manage information appropriately. Furthermore, in the current information society, companies are required to consider and respond in accordance with the information systems environment (electronic bidding, electronic

delivery, e-commerce, etc.). After establishing the Information Management System in 2004, we conduct regular review to enhance the system. Also, by fully utilizing the common groupware, we not only ensure physical safeguarding of information systems equipment, but we also strive to improve the information management technology through training such as e-learning information education for all executives and employees 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)

In anticipation of natural disasters, fires, system failures, or other emergency situations that may 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 striking the Tokyo metropolitan area.

We conduct a large-scale BCP drill every September and a tsunami evacuation drill in November in order to maintain a system that can smoothly implement BCP initiatives in an emergency and continuously improve BCP.

Specific BCP activities

- Confirmation of the safety of all Group employees and their families through our safety confirmation system, and the assessment of damage to offices
- Backup of information data at the Institute of Technology
- Provision of an alternative business base in the event that the headquarters is damaged



BCP drill conducted in September 2023

POC Group established the Risk Management Committee in each company of the Group in accordance with the "Basic Compliance Policy," ensuring that all executives and employees 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 executives and employees of POC Group shall comply with laws and regulations in conducting 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.

In the "Compliance Guidelines", we stipulate several items related to anti-corruption efforts, including "sound and normal relations with politics and government administration" and "prevention of improper payments to foreign public officials, etc.," and ensure thorough dissemination of these items internally.

▶ Compliance Training

POC Group provides various compliance training sessions, including anti-corruption training, for all executives and employees.

In FY 3/23 in Japan, in addition to the "Declaration of Bid Rigging and Declaration of Compliance" based on past scandals, we also conducted training focused on compliance with laws and regulations such as the Construction Industry Act and the Industrial Safety and Health Act. All executives and employees attended the training.

At the same time, in all countries where we operate, we provided training focused on anti-bribery and prevention of unfair competition, and all executives and employees in our overseas offices, including non-Japanese employees, received the training.

In addition, we conducted rank-based training for young employees to provide legal knowledge such as the Antimonopoly Act and risk management, etc. and conducted training for managers to deepen and strengthen their understanding of compliance. This training included discussions on case studies of internal and external misconduct.

▶ Action Guidelines for Proper 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 established the "Action Guidelines for Proper Bidding" for all executives and employees of POC Group in June of the same year. This guideline is based on the following principles, in light of the Antimonopoly Law and other related laws and regulations:

- Indicating the types of conduct that are prohibited in the course of bidding operations
- Penalties and illegal acts that may be imposed on individual employees in the event of a violation
- Providing specific measures to be taken by executives and employees when they come in contact with suspicious behaviors

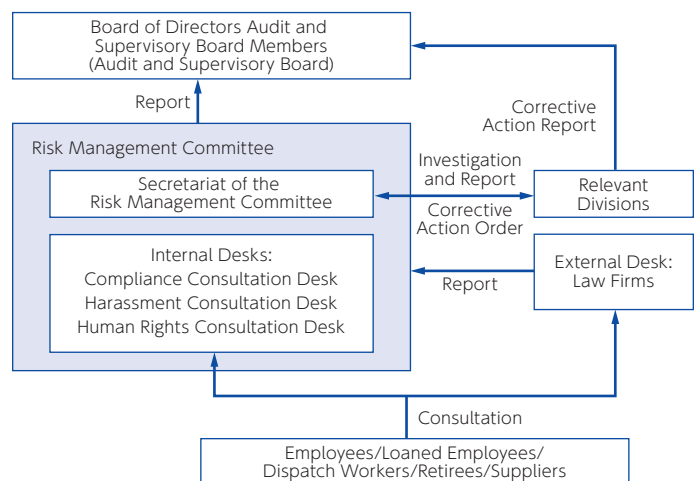
The guideline clearly states the Group's basic stance against illegal activities: "Not to do, not to allow, and not to overlook". We provide all executives and employees of the Group with the guideline via the intranet. In addition, compliance training on the guideline is conducted every year to ensure the understanding.

▶ Whistleblower System

As part of measures to further promote thorough compliance, Penta-Ocean Construction Group has established an outside office for consulting a lawyer, the Compliance Consultation Desk, apart from an internal contact point. Employees can report incidents that may conflict with laws, regulations, corporate ethics, and internal regulations, or a suspected violation of compliance. Regulations clearly state the "Prohibition of adverse treatment of whistleblowers" based on the Whistleblower Protection Act. Anonymous reports are also accepted and can be used by executives and employees of our Group as well as those of subcontracting companies. The contact point for whistleblowers is posted on the Company's intranet and website, and can be found at branch offices and construction offices, and is also announced during compliance training. Additionally, we have established the Harassment Consultation Desk and the Human Rights Consultation Desk to receive consultations on various types of harassment such as sexual harassment, power harassment, and maternity harassment, as well as general human rights issues.

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

Outline of the Whistleblower System



▶ Thorough Elimination of Anti-social Forces

The Risk Management Committee has established a framework that prevents any relations with organized crime groups and other anti-social 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 training 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 anti-social forces.

Dialogue with Stakeholders

For all our diverse stakeholders – from individual shareholders to institutional investors – to understand our management philosophy, business strategy and business performance, we carry out multifaceted IR (investor relations) activities. In addition to quarterly financial results briefings for our institutional investors, we 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 have a tour 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 conduct proactive IR activities.

▶ Main IR Activities

Financial Results Briefings

We hold quarterly financial results briefings for analysts and institutional investors. The President and Representative Director attends financial results briefings for interim and full-year financial results to explain in detail financial results, business outlook, and notable topics.

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) initiatives.

IR Activities Overseas

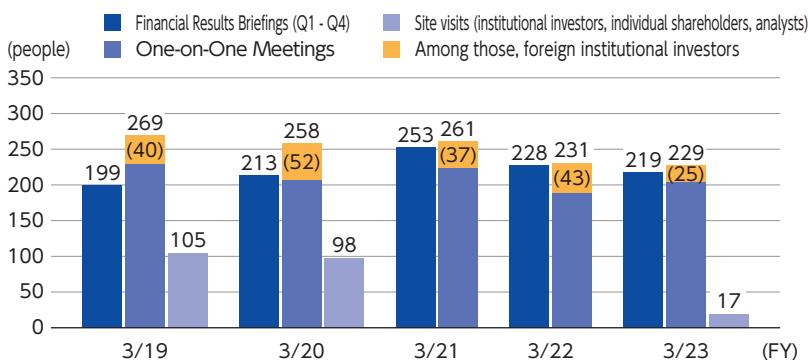
The President and Representative Director holds one-on-one meetings either face-to-face or online with foreign institutional investors to discuss management conditions and business prospects. In July 2023, we had overseas IR meetings in London for the first time in four years.

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.

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



Financial Results Briefing (May 2023)



Work site visit held for individual shareholders (building construction) (September 2023)



Work site visit held for individual shareholders (civil engineering) (September 2023)