

May 11, 2021

Listed company: Penta-Ocean Construction Co., Ltd.

Code number: 1893

Stock exchange: Tokyo Stock Exchange, Nagoya Stock Exchange

Notice of Revision of Remuneration Amount (Monetary) for the Members of the Board, etc. upon Revision of the Remuneration System for the Members of the Board, etc. and Partial Revision of Performance-based Stock Compensation Program

Penta-Ocean Construction (hereinafter, the “Company”) hereby announces that the Company passed a resolution at the Board of Directors Meeting held on May 11, 2021 on proposing the revision of the remuneration amount (monetary) for the Members of the Board in accordance with revision of, the Remuneration System for the Members of the Board, etc. as well as partial revision of the Performance-based Stock Compensation Program as agenda items at the 71st Ordinary General Shareholders Meeting (hereinafter, the “General Shareholders Meeting”) scheduled for June 25, 2021. The details are as follows:

1. Outline of the revision of the Remuneration System for the Members of the Board, etc.
With the Act of Partially Amending the Companies Act (Act No. 70 of 2019) coming into effect on March 1, 2021, companies are required to establish the policy for determining the details of remuneration of each individual director etc. at the Board of Directors Meeting. In order to ensure that our remuneration system for the Members of the Board and executive officers (hereinafter referred to as the “Members of the Board, etc.”) functions properly as an incentive to achieve sustainable growth in corporate value, we have revised the Remuneration System for the Members of the Board, etc., as described below:
 - (1) Outline of the Remuneration System for the Members of the Board, etc.
The remuneration for the Members of the Board, etc. shall consist of; (i) basic remuneration (fixed salary in cash), (ii) performance-based remuneration in cash consisting of performance-based remuneration based on individual performance (individual performance-based remuneration) and performance-based remuneration based on corporate performance (short-term incentive remuneration), and (iii) performance-based stock compensation through a Board Benefit Trust(non-monetary).
The monetary remuneration shall be at the same level as that of peer-companies with the similar market capitalization, based on the assessment of a third-party specialized organization.
The ratio of fixed salary (monetary), performance-based remuneration (monetary) and performance-based remuneration (non-monetary) shall be approximately 65%, 25% and 10%, respectively.
Regarding the determination of remuneration for the Members of the Board, etc., the Representative Directors shall consult with the Personnel Committee (chaired by an Outside

Members of the Board), which consists of all Outside Members of the Board and a few Members of the Board, on compensation proposals, and the Board of Directors shall make decisions based on the results of deliberations and reviews by the Personnel Committee.

In consideration of their duties, Outside Members of the Board shall be paid only the basic salary (fixed remuneration in cash) set for each individual person and shall not be subject to performance-based remuneration (monetary nor non-monetary).

(2) Policy for determining each type of remuneration

(i) Fixed salary (monetary)

The amount of remuneration shall be the basic salary determined upon the duties of executive officers, plus additional remuneration for the Members of the Board commensurate with their responsibilities.

(ii) Individual performance-based compensation (monetary)

The amount of individual performance-based compensation shall be determined by an evaluation based on objective indicators such as the performance of the division or branch they belong to, as well as a qualitative evaluation of their individual performance, and shall be within $\pm 10\%$ of the fixed salary (monetary).

Evaluations based on objective indicators shall be made according to the degree of achievement of orders received for construction, which is an indicator of future sales, operating profit and operating profit ratio, which are indicators of current earnings, and evaluation of actual performance against the targets of each division or branch. In addition, the collection rate of construction payments, quality and safety control initiatives in the course of construction (points added for commendations, for demonstration of creativity in productivity improvement, etc., points deducted for accidents and disasters, with considerations for the target achievement degree in terms of frequency and severity of occupational accidents), and the performance (operating profit) of subsidiaries, will be taken into account.

Qualitative evaluations are determined by the Members of the Board based on their evaluation of the individual performance of each person.

(iii) Short-term incentive compensation (monetary)

The short-term incentive compensation is based on the base amount determined for each rank, multiplied by the annual incentive coefficient, which is calculated by multiplying the company performance evaluation coefficient, operating profit coefficient, ROE coefficient, and dividend payout ratio coefficient.

Annual incentive coefficient will be determined based on coefficients calculated from consolidated business results for FY3/19.

The Company's performance evaluation coefficient will be determined in the same way as the evaluation of individual performance-based remuneration, based on an objective evaluation of the achievement level of the Company's performance targets, etc., the average value of qualitative evaluation of each Member of the Board, and a stock price evaluation which is determined by comparing the change in the Company's stock price at the beginning and the end of the subject fiscal year with that of Nikkei 225 average and those of other peer companies in the same industry.

The operating profit coefficient is the ratio of the consolidated operating profit for the subject fiscal year to the consolidated operating profit for the base year (FY 3/19), the ROE (return

on equity) coefficient equals a score of 1.0 if 10% or more is achieved, and a score of 0 if less than 5% is achieved, and the dividend payout ratio coefficient equals a score of 1.0 if a dividend payout ratio of 30% or more is achieved, and a score of 0 in case of no dividend. If the ROE and dividend payout ratio exceed the threshold values set in accordance with the targets of the Medium-term Management Plan, the coefficient automatically stands at 1.0, and if the ROE falls below 5% or no dividend is paid, the coefficient score will be zero, resulting in zero short-term incentive compensation.

(iv) Performance-based stock compensation (non-monetary)

Performance-based stock compensation shall be provided through the Board Benefit Trust. The points to be granted to the Members of the Board, etc. are determined for each fiscal year by multiplying the determined points for each rank by the overall company evaluation coefficient based on the Company's performance, the individual evaluation coefficient based on the qualitative evaluation of individuals, and the standard stock price coefficient for the standard stock price, which is reviewed every three years, in the same manner as the individual performance-based remuneration in (ii) above.

2. Revision of the Maximum Amount of Remuneration (monetary) for the Members of the Board
At the 52nd Ordinary General Shareholders Meeting held on June 27, 2002, the amount of monetary remuneration for the Members of the Board of the Company was approved as 40 million yen or less per month.

As described in the previous section 1, the Company will revise the Remuneration System for the Members of the Board, etc. to be more linked to the Company's business performance in order to lead to the sustainable enhancement of corporate value. As performance-based remuneration in cash, we will introduce short-term incentive remuneration, which will be paid once a year in July. In addition, the Company has determined the level of monetary remuneration, including both fixed and performance-based remuneration, to be at the same level as that of peer-companies with the similar market capitalization, based on the assessment of a third-party specialized organization.

In line with this revision, the amount of monetary remuneration for the Members of the Board was changed from a monthly amount to an annual amount, and within the scope of this amount, fixed remuneration in cash and performance-based remuneration have been set for the Members of the Board (excluding Outside Members of the Board). The amount of remuneration for them will be revised to be no more than 600 million yen per year, taking into consideration the level of remuneration paid to the Members of the Board, trends in the number of the Members of the Board, etc., and future business prospects.

3. Partial revision of the Performance-based Stock Compensation Plan

(1) Outline of the revision

With the approval at the 67th Ordinary General Shareholders Meeting held on June 27, 2017, outside the framework of monetary remuneration, the Company introduced a performance-based stock compensation plan for the Members of the Board, etc., called the "Board Benefit Trust (BBT)" (hereinafter referred to as the "Program"). Following the enforcement of the Act of Partially Amending the Companies Act (Act No. 70 of 2019) on March 1, 2021, the maximum number of shares to be granted to the Members of the Board, etc. for each applicable period (three fiscal years) shall be set at 550,000 shares, and the maximum

number of points shall be set at 550,000 points (including 170,000 points for the Members of the Board). In addition, the maximum contribution amount per applicable period shall be revised from 300 million yen to 550 million yen, in light of the increase in the Company's stock price.

In addition, from FY 3/22, outside Members of the Board will not be eligible for the Program.

(2) Overview of the Program after the revision

1) Outline of the Program

The Program is a performance-based stock compensation program "Board Benefit Trust", under which the Company's shares are acquired through a trust (the trust established under this system is hereinafter referred to as the "Trust") using cash contributed by the Company as the source of funds, and the Company's shares and cash equivalent to the market value of the Company's shares (hereinafter referred to as "the Company's shares, etc.") are paid to the Members of the Board, etc. through the Trust, in accordance with the Rules of Stock Benefit Trust for the Members of the Board, etc. established by the Company. In principle, the Members of the Board, etc. will receive the benefits of the Company's shares, etc. at the time of their retirement from office.

2) Beneficiaries of the Program

The Members of the Board and executive officers of the Company (Outside Members of the Board shall not be eligible for the Program)

3) Trust period

From August 2017 to the termination of the Trust (No specific expiration date is set for the Trust, which remain in effect as long as the Program itself continues. The Program will be terminated due to delisting of the Company's shares, abolition of the Rules of Stock Benefit Trust for the Members of the Board, etc.)

4) Trust amount (the amount of remuneration, etc.)

The Company has introduced the Program for the three fiscal years from FY 3/18 through FY 3/20 (the period of relevant three fiscal years and the period of each of the three fiscal years after the relevant three fiscal years are hereinafter referred to as the "Applicable Period") and each subsequent three fiscal years, and as funds for the acquisition of shares to provide benefits to the Company's Members of the Board, etc. under the Program, the Company contributed 300 million yen to the Trust for the three fiscal years from FY 3/18 through FY 3/20, and 229 million yen to for the current FY 3/21, respectively, to provide benefit to the Members of the Board, etc. who satisfy the beneficiary requirements.

The Trust has acquired 456,100 shares of the Company's stock with respect to the Applicable Period for the three fiscal years from FY 3/18 through FY 3/20, and 355,800 shares of the Company's stock with respect to the current Applicable Period, respectively, using the money entrusted by the Company as the source of funds.

For the purpose of enhancing incentives to improve business performance and increase corporate value, the maximum amount of money that the Company may additionally contribute to the Trust for each Applicable Period will be revised to 550 million yen (including 170 million yen for the Members of the Board).

However, in cases where such additional contribution is made, if there are Company shares (with regard to the Company's shares equivalent to the number of points granted to the Members of the Board, etc., those for which the delivery of shares to the Members of the Board, etc. has not yet been completed are excluded) and money remaining in the Trust at the end of the Applicable Period immediately preceding the Applicable Period for which such additional contribution is to be made (hereinafter "the Remaining Shares"), the maximum amount of the total remaining shares, etc. plus the money to be additionally contributed shall be 550 million yen. When the Company decides to make an additional contribution, it will disclose the decision in a timely and appropriate manner.

- 5) Method of acquisition of the Company's shares and number of shares acquired
The acquisition of the Company's shares by the Trust will be carried out through the stock exchange market or by subscribing to the Company's disposal of treasury shares, using the funds contributed in accordance with 4) above as the source of funds, and no new shares will be issued. Therefore, upon the acquisition of the Company's shares by the Trust, the total number of issued shares of the Company will not increase, and no dilution will occur. Since the maximum number of points to be granted to the Members of the Board, etc. is 550,000 points per Applicable Period, the maximum number of Company shares to be acquired by the Trust for each Applicable Period will be 550,000 shares.
- 6) Maximum number of Company shares, etc. to be granted to the Members of the Board, etc.
The Members of the Board, etc. will be granted a number of points for each fiscal year based on the following formula, taking into consideration their rank and the degree of target achievement.

(Formula) Rank points x Performance-based coefficient (*1)

(*1) The performance-based coefficient is determined by the degree of achievement of the Company's performance (amount of orders received, operating income, cash flow, stock price, etc.) and individual performance indicators of the Members of the Board, etc. for each fiscal year, in accordance with a conversion table determined in advance by the Board of Directors.

The total number of points to be granted to the Members of the Board, etc. per Applicable Period shall be limited to 550,000 points (including 170,000 points for the Members of the Board). This has been determined in comprehensive consideration of the level of remuneration paid to the Members of the Board, etc., the trend in the number of the Members of the Board, etc. and future business prospects, etc., and is deemed to be appropriate.

The points granted to the Members of the Board, etc. will be converted into one share of the Company's common stock per one point, upon the provision of the Company's shares, etc. as described in 7) below (provided, however, that if the Company's shares are subject to a stock split, gratis allotment or reverse stock split, the maximum number of points and the number of points granted or conversion ratio will be reasonably adjusted according to the ratio, etc.).

In addition, the number of shares corresponding to the maximum number of points per fiscal year to be granted to the Members of the Board, etc. (183 thousand shares) is approximately 0.06% of the total number of shares issued (as of March 31, 2021, after deduction of treasury

stock).

The number of points for the Members of the Board, etc. to be used as the basis for the provision of the Company's shares, etc. as described in 7) below shall be, in principle, the number of points granted to the relevant Members of the Board, etc. by the time of their retirement (the points calculated in this manner are hereinafter referred to as the "Number of Final Points").

7) Provision of the Company's shares, etc.

If the Member of the Boards, etc. retire from office and satisfy the beneficiary requirements set forth in the Rules of Stock Benefit Trust for the Members of the Board, etc., they will receive, in principle, the number of the Company's shares corresponding to the "Number of Final Points" determined as described in 6) above from the Trust after retirement, by completing the predetermined procedures for determining beneficiaries. However, if the requirements set forth in the Rules of Stock Benefit Trust for the Members of the Board, etc. are met, the Members of the Board, etc. will receive a cash payment, equivalent to the market value of the Company's shares instead of the Company's shares for a certain percentage. In addition, the Trust may sell the Company shares in order to provide the cash benefits.

Even if a Member of the Boards has been granted points, in the event where a resolution is passed at a General Shareholders Meeting or a Board of Directors meeting to dismiss the Member of the Board, etc. or if the Member of the Board resigns from office due to certain misconduct during his or her term of office, or he or she commits inappropriate acts that cause damage to the Company, all or part of the right to receive benefits may not be acquired. The amount of remuneration, etc. to be received by the Members of the Board, etc. shall be the amount obtained by multiplying the total number of points to be granted to the Members of the Board, etc. at the time of provision of points by the book value per share of the Company's shares held by the Trust (provided, however, that in the event of a stock split, gratis allotment of shares, or reverse stock split, etc. of the Company's shares, a reasonable adjustment shall be made in accordance with such ratio, etc.).

In addition, in cases where cash is exceptionally provided in accordance with the provisions of the Rules of Stock Benefit Trust for the Members of the Board, etc., if deemed appropriate, such amount shall be added.

8) Exercise of voting rights

The voting rights for the Company's shares in the Trust shall not be exercised uniformly based on the instructions of the Trust Manager. This method is intended to ensure the neutrality of the Company's management with respect to the exercise of voting rights for the Company's shares in the Trust.

9) Handling of dividends

Dividends from the Company's shares in the Trust will be received by the Trust and will be used to pay for the acquisition of the Company's shares and the trustee's remuneration for the Trust. In the event of the termination of the Trust, the dividends, etc. remaining in the Trust will be distributed to the Members of the Board etc. in office at that time in proportion to the number of points held by each of them, in accordance with the provisions of the Rules of Stock Benefit Trust for the Members of the Board, etc.

The following statements are an English-language translation of the original Japanese documents.

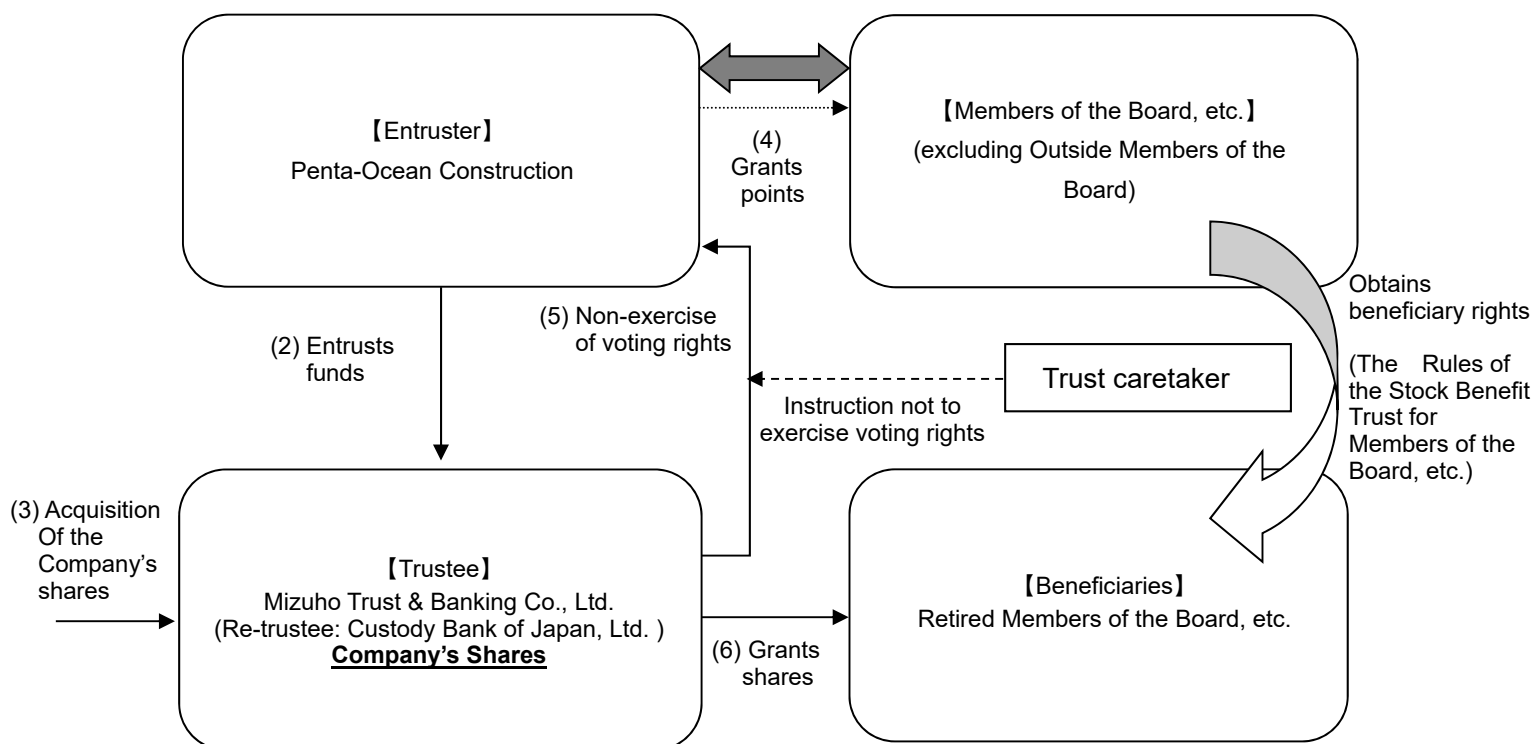
10) Termination of the Trust

The Trust will terminate in the event of the delisting of the Company's shares, the abolition of the Rules of Stock Benefit Trust for the Members of the Board, etc., or other events.

Of the remaining assets in the Trust at the time of its termination, all of the Company's shares will be acquired by the Company free of charge and then cancelled by resolution of the Board of Directors. The Company will receive the remaining cash after deducting the money to be provided to the Members of the Board, etc. in accordance with 9) above.

<Reference> Structure of the Program

(1) Establishment of the Rules of the Stock Benefit Trust for Members of the Board, etc.



- ① The Company establishes the "Rules of the Stock Benefit Trust for Members of the Board, etc." within the framework approved at General Shareholders Meeting.
- ② The Company entrusts money to the trustee within the limit approved by the resolution at General Shareholders Meeting.
- ③ The Trust acquires the Company's shares from the stock market or by underwriting shares of the Company's treasury stock, using the money entrusted in ② as source of funds.
- ④ The Company grants points to the Members of the Board, etc. in accordance with the "Rules of the Stock Benefit Trust for Members of the Board, etc."
- ⑤ The Trust follows the instruction from the trust administrator, which is independent from the Company, not to exercise the voting rights for the Company's shares held within the trust account.
- ⑥ The Trust grants the Company's shares to the Members of the Board, etc. at the time of their retirement in accordance with the "Rules of the Stock Benefit Trust for Members of the Board, etc.", based on the number of points assigned to the subject Member of the Board, provided, however, that, with regard to a certain portion of the points, the Trust may pay an amount of money corresponding to the prevailing market price of the Company's shares to Members of the Board, etc. in accordance with the "Rules of the Stock Benefit Trust for Members of the Boards, etc."

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