

GREEN BOND / GREEN BOND PROGRAMME INDEPENDENT EXTERNAL REVIEW FORM

Section 1. Basic Information

Issuer name:	Penta-Ocean Construction Co., Ltd.
Green Bond ISIN or Issuer Green Bond Framework Name, if applicable:	Penta-Ocean Construction Co., Ltd. 5th Unsecured Straight Bonds
Independent External Review provider's name:	Japan Credit Rating Agency, Ltd.
Completion date of this form:	October 8, 2020
Publication date of review publication:	October 8, 2020

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBPs:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

ROLE(S) OF Independent External REVIEW PROVIDER

- | | |
|--|--|
| <input type="checkbox"/> Second Party Opinion | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input checked="" type="checkbox"/> Scoring/Rating |
| <input type="checkbox"/> Other (please specify): | |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

Penta-Ocean Construction Co., Ltd. (the "Company")) is a construction company founded in Kure City, Hiroshima Prefecture in 1896. The Company's former name is Mizuno Gumi. It was re-established as Mizuno-Gumi Co., Ltd. in 1950, and in 1967, the company renamed current Penta-Ocean Construction. Since its establishment, the Company has been a strength in port civil engineering work, and it is the top construction company in Japan in marine civil engineering work today. The Company has strengths in the coastal regions and overseas.

With the Corporate Policy of "Affiliating with Society," "Creating a Nature-Rich Environment," and "Cherishing a Pioneer Spirit," the Company aims to implement philosophies stated above, and strives to create environmental value unique to the Company through its business activities, while constantly sincerely facing the challenges for its customers and society in order to realize a sustainable society. The Company established an environmental policy that summarizes what should be emphasized particularly with respect to the environment and making it a guideline for business operations. The Company also announced the Medium-term management Plan in May 2020 and the Company has designated the "A Genuine Global General Contractor" as its goal. It has also formulated the item of implementing CSR management that emphasizes ESG in the Medium-term Management Plan, and has declared that its initiatives will be classified into three categories: the environment (E), society (S), and governance (G), and it will promote these initiatives. The bonds subject to this evaluation are unsecured straight corporate bonds issued by the Company (the "Bonds"). The proceeds of the Bonds will be allocated for fund the cost of SEP (Self-Elevating Platform) multi-purpose vessels which will be used for foundation and installation work of offshore wind power generation facilities. JCR confirmed that the SEP vessel will be used exclusively for the construction of offshore wind power generation facilities, and that in the construction of SEP vessels, the use of fossil fuels for the operation of facilities accompanying SEP vessels will be limited for the construction of wind power generation facilities, and that the use of the latest facilities will be installed to minimize the use of fossil fuels. As a consequence, it is unlikely that it will have a significant negative environmental impact that exceeds the benefits of environmental improvements. JCR evaluates that it is a green project that can significantly contribute to reducing CO2 emissions by constructing wind power generation facilities by SEP vessels. In terms of the management and operation, JCR has confirmed that eligible projects will be determined by the approval of the management after the appropriate process in the project selection criteria and process. JCR also confirmed that the proceeds of the Bonds will be linked to the construction cost of the SEP vessels and managed properly, and that the reporting will also be conducted appropriately. In the current Medium-Term Management Plan (From FY3/21 to FY3/23), based on the fact that management is placing greater emphasis on ESG initiatives, including environmental issues, the Company the departments with expertise in environmental issues and technical viewpoints, and the involvement of management in setting specific targets, such as the CSR promotion committee and the Environment Health, Safety and Quality Division, JCR confirmed that the management team of the Company regards environmental issues as a priority issue and that the management of the Company has developed an appropriate management and operation system and has high transparency with regard to the Bonds.

As a result, based on the JCR Green Finance Evaluation Methodology, JCR assigns "g1" for the evaluation of the "Greenness Evaluation (Use of Proceeds)" and "m1" for the evaluation of the "Management, Operation and Transparency Evaluation". Consequently, JCR assigns "Green1" for the overall "JCR Green Bond Evaluation."

The Bonds are considered to meet the standards for the items required by the Green Bond Principles and the Green Bond Guideline of the Ministry of the Environment of Japan.

<https://www.jcr.co.jp/en/greenfinance/>

Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

1. USE OF PROCEEDS

Overall comment on section (if applicable):

a. On the environmental improvement effects of the project

- i. 100% of the proceeds of the bonds will be allocated to the SEP vessels which is used for foundation and installation work of offshore wind power generation, and environmental improvement effect can be expected in the future.
- ii. The proceeds of the bonds fall under the category of "Renewable Energy" as defined in the Green Bond Principles and in the Ministry of the Environment's Green Bond Guidelines, and applicable to Maritime Renewable Energy of CBI Criteria.

b. Negative impact on Environment

Negative effects on the environment associated with the operation of SEPs include CO₂, SOX, NOX emissions resulting from the consumption of fossil fuels, ocean pollution resulting from leaks of fossil fuels and oils, and waste generated from on-board activities.

The onboard equipment is operated by the electric power of the diesel generator on board. The fossil fuel used for diesel generators is A-type heavy oil, and the annual consumption is estimated to be about 3000 kl. In addition, this SEP vessel is a tugboat type, and a tugboat is required for moving. The fossil fuel used for towed vessels is heavy oil A, and its annual consumption is estimated to be about 700kl. Annual consumption of heavy oil A is about 3700 kl. When this figure is multiplied by 2.71 t-CO₂ of A heavy based on the GHG Emissions Calculation, Reporting, and Publication System, CO₂ annual emissions are approximately 10,000 t-CO₂. On the other hand, the construction of offshore wind turbines by SEPs can be expected to reduce CO₂ emissions by substituting existing electricity for the generated electricity. As this vessel is expected to construct an offshore wind turbine of 10MW-12MW, the annual CO₂ reductions of one 10MW (10,000kW) offshore wind turbine are estimated. Assuming that the capacity factor is 30%, the annual output of one 10,000kW offshore wind turbine is $10,000\text{kW} \times 8760\text{ h} \times 0.3 = 26,280,000\text{kWh}$. The annual CO₂ reductions are about 12,141t-CO₂ by multiplying this by the national mean emission factor of 0.000462 tons per CO₂ per kWh for fiscal 2018. Given that dozens of wind turbines are generally constructed for an offshore wind farm and that SEP ships can be used to build more than one plant in a year, CO₂ emissions from SEP ships and tugboats are likely to be much less than CO₂ savings from the offshore wind farms constructed.

In addition to CO₂, SOX, NOX may be ejected due to the consumption of the fossil-fueling type A. SOX will comply with the Sulfur Oxide Regulation stipulated in Annex VI, Regulation 14 of MARPOL Convention (The Protocol of 1997 to amend the 1978 Protocol to the International Convention for the Prevention of Pollution by Ships in 1973). NOX will adopt Diesel power generators that comply with Tier II (secondary restrictions) of NOx Regulation stipulated in Annex VI, Regulation 13 of MARPOL Convention. In this way, measures for SOx and NOX emissions are taken in accordance with international regulations.

Since Fuel Oil A is used as fuel for diesel generators and hydraulic oil is used for hydraulic equipment, there is a possibility of causing marine pollution by leakage of oil. As a countermeasure, the circumference of the fuel oil tank is made to be a double hull, and vertical steel plate wall (coaming) of about 75mm in height is provided in the whole circumference of the upper deck and about 300mm in height is provided in the vicinity of the fueling pipe connection. In addition, a deck drain tank is provided inside the ship, and piping is provided so that if fuel or equipment oil spreads on the deck, it can be guided to that tank. In this way, appropriate measures will be taken to prevent oil and other leaks to the ocean.

On-board work uses fossil fuels as the power for the operation of associated equipment, such as cranes and dynamic positioning systems, but the use of fossil fuels is expected to be minimized because of the

use of the latest equipment.

In addition, waste oil and household waste from workers are generated. These are planned to be disposed of as industrial waste after being unloaded. In this way, the waste generated by the operation of SEP vessels is also expected to be properly disposed of. As described above, it can be evaluated as a plan to take appropriate measures against negative impacts on the environment.

Use of proceeds categories as per GBP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Renewable energy | <input type="checkbox"/> Energy efficiency |
| <input type="checkbox"/> Pollution prevention and control | <input type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input type="checkbox"/> Clean transportation |
| <input type="checkbox"/> Sustainable water and wastewater management | <input type="checkbox"/> Climate change adaptation |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and | <input type="checkbox"/> Green buildings |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input type="checkbox"/> Other (<i>please specify</i>) : |

If applicable please specify the environmental taxonomy, if other than GBPs:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (*if applicable*):

The Company has established clear environmental objectives, project selection criteria, and processes for the use of proceeds.

Such matters are disclosed in the JCR's evaluation report.

Evaluation and selection

- | | |
|--|---|
| <input checked="" type="checkbox"/> Credentials on the issuer's environmental sustainability objectives | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Green Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other (<i>please specify</i>) : |

Information on Responsibilities and Accountability

- | | |
|---|---|
| <input type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input checked="" type="checkbox"/> In-house assessment |
|---|---|

☐ Other (please specify) :

3. MANAGEMENT OF PROCEEDS

Overall comment on section (if applicable) :

- a. The proceeds of the bonds will be used for the construction of SEP vessels and will not be used for other purposes.
- b. The account is managed by the Finance Division after the bond issue is deposited into the account. The Finance Division will prepare a dedicated bookkeeping for managing the proceeds, and will manage the receipts and disbursements on the books. Withdrawals are approved by the Finance Manager each time they are allocated, and appropriate decisions are planned by the person in charge. Unallocated funds are managed in cash and cash equivalents.
- c. With regard to tracking management, the status of appropriation and unappropriated funds will be managed on a quarterly basis.
- d. Regarding the management of proceeds, internal control is carried out, and the documentation related to internal control is filed and managed. Documents related to this control will be subject to internal audits. In addition, external audits will be conducted to determine whether or not the management of unappropriated funds balances is appropriate.
- e. JCR confirmed that, in the event of the loss of the subject asset before the redemption of the Bonds, during the construction period, it will be covered by the performance guarantee received from the shipbuilding company, and after the construction, it will be covered by the insurance and the construction will be carried out again. Thus, JCR evaluates that the management of funds for the Company is appropriate and that disclosure to investors is also appropriate.

Tracking of proceeds:

- ☒ Green Bond proceeds segregated or tracked by the issuer in an appropriate manner
- ☒ Disclosure of intended types of temporary investment instruments for unallocated proceeds
- ☐ Other (please specify):

Additional disclosure:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Allocations to future investments only | <input type="checkbox"/> Allocations to both existing and future investments |
| <input checked="" type="checkbox"/> Allocation to individual disbursements | <input type="checkbox"/> Allocation to a portfolio of disbursements |
| <input type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other (please specify) : |

4. REPORTING

Overall comment on section (if applicable):

a. Reporting on proceeds allocation

The proceeds of the Bonds will be used for the construction of SEP vessels. Approximately two years are planned until the full allocation, and as mentioned above, JCR confirmed that the unappropriated funds are managed in cash and cash equivalents.

The company will disclose the status of allocation of the bonds for SEP vessels to the public via their website and also disclose to JCR an evidence that the SEP vessels will be used exclusively for the construction of offshore wind power facilities.

If it is necessary to reallocate the proceeds in case of loss before the redemption of the Bonds, the entire amount of the Green Bond procurement funds will be disclosed on the Company's website annually until it is allocated to projects that meet the eligible criteria.

b. Impact reporting for environmental benefits

The Company plans to disclose the following three items as the reporting of the environmental improvement effect.

1. Completion of a SEP multi-purpose craft ship
2. Performances for the number of installed offshore wind farms by SEP vessels

The Company will be reviewed by JCR for the period until the bond is redeemed, focusing on the status of funding appropriations and the status of reporting, such as the content of disclosures as environmental improvement effects.

JCR evaluates that the above reporting is planned to be disclosed appropriately to investors in terms of both the appropriation of funds and the effects of environmental improvement.

Use of proceeds reporting:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Project-by-project | <input type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (please specify): |

Information reported:

- | | |
|---|--|
| <input checked="" type="checkbox"/> Allocated amounts | <input type="checkbox"/> Green Bond financed share of total investment |
| <input type="checkbox"/> Other (please specify): | |

frequency:

- | | |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (please specify): | |

Impact reporting:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Project-by-project | <input type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (please specify): |

frequency:

- | | |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (please specify): | |

Information reported (expected or ex-post):

- | | |
|--|---|
| <input type="checkbox"/> GHG Emissions / Savings | <input type="checkbox"/> Energy Savings |
| <input type="checkbox"/> Decrease in water use | <input checked="" type="checkbox"/> Other ESG indicators (please specify):
Completion of a SEP multi-purpose craft ship

Performances for the number of installed offshore wind farms by SEP vessels |

Means of Disclosure

- | | |
|--|--|
| <input type="checkbox"/> Information published in financial report | <input type="checkbox"/> Information published in sustainability report |
| <input type="checkbox"/> Information published in ad hoc documents | <input checked="" type="checkbox"/> Other (please specify):
Show on the website |

- ☐ Reporting reviewed
Yes, both use of proceeds and impact reporting are subject to external review.

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

CSR activities by Penta-Ocean	http://www.penta-ocean.co.jp/english/company/policy/csr/index.html
JCR's website about green bond evaluation methodology	https://www.jcr.co.jp/en/greenfinance/

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

- | | |
|--|--|
| <input type="checkbox"/> Second Party Opinion | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input checked="" type="checkbox"/> Scoring/Rating |
| <input type="checkbox"/> Other (please specify): | |

Review provider(s): Japan Credit Rating Agency, Ltd.

Date of publication: October 8, 2020

ABOUT ROLE(S) OF INDEPENDENT REVIEW PROVIDERS AS DEFINED BY THE GBP

1. **Second Party Opinion:** An institution with environmental expertise, that is independent from the issuer may issue a Second Party Opinion. The institution should be independent from the issuer's adviser for its Green Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second Party Opinion. It normally entails an assessment of the alignment with the Green Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability, and an evaluation of the environmental features of the type of projects intended for the Use of Proceeds. 1.
2. **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Green Bond proceeds, statement of environmental impact or alignment of reporting with the GBP, may also be termed verification.
3. **Certification:** An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against a recognised external green standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
4. **Green Bond Scoring/Rating:** An issuer can have its Green Bond, associated Green Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental performance data, the process relative to the GBP, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental risks.