



From the left, Koji Kato, Masasuke Kishi, Kiyotaka Fuke, Hirokazu Hikosaka, Nobuko Mizumoto and Tatsuo Yamauchi

## Corporate Governance and New Value Creation

Taikisha aims to create new value to respond to the demands of society to achieve long-term growth. At the same time, the Company is making ongoing efforts to improve the effectiveness of corporate governance and build a management structure that contributes to the enhancement of corporate value. President Kato held a round table discussion with four Outside Directors including two newly appointed Outside Directors, and talked about the future direction of the Company.

### <Attendees>

Representative Director,  
President Corporate Officer

**Koji Kato**

Joined Taikisha Ltd. in 1978. Previously worked as Director, Managing Corporate Officer, Chief General Manager, Green Technology System Division, and General Manager, Engineering Planning Dept., Green Technology System Division; Chief Executive, Corporate Planning Headquarters; Director, Executive Corporate Officer, Chief Executive, Administrative Management Headquarters and in charge of CSR; Representative Director, and Executive Vice President Corporate Officer, in charge of Administrative Management Headquarters. In the current position since April 2019.

Outside Director

**Hirokazu Hikosaka**

Mr. Hikosaka had worked as Audit & Supervisory Board Member since 2015 and was appointed as an Outside Director in 2017. He has abundant experience and a high level of in internal control and governance, etc., through his long tenure as an attorney. He chairs the Governance Committee, which was newly established in April.

Outside Director

**Kiyotaka Fuke**

Mr. Fuke had worked as Audit & Supervisory Board Member since 2017 and was appointed as an Outside Director in 2019. He has served as a manager of a leading life insurance company for many years, and has abundant experience and a high level of insight regarding internal control, governance, human resources development, personnel and labor management, etc. Leveraging his experience as a corporate leader, he chairs the Board of Directors and the Nomination Advisory Committee since 2020.

### <Facilitator>

Deloitte Touche Tohmatsu LLC  
Partner CPA

**Tatsuo Yamauchi**

After joining Deloitte Touche Tohmatsu LLC, he was engaged in auditing and IPO support services, and from 2012 he worked for the Ministry of Economy, Trade and Industry, where he was involved in the establishment of the Act on Strengthening Industrial Competitiveness and corporate governance policies. Currently, he is engaged in consulting services regarding development of business management structures utilizing corporate governance and non-financial information.

Outside Director

**Masasuke Kishi**

Mr. Kishi was appointed as an Outside Director in June 2021. He has years of experience as a manager of a leading business corporation, and has abundant expertise and experience regarding the information and communications sector, internal control, and governance. He chairs the Compensation Advisory Committee, which was newly established this year.

Outside Director

**Nobuko Mizumoto**

She joined a leading business corporation as a technical employee and worked as a researcher. In 2018, she became its first female director. She has abundant expertise and experience regarding the DX sector, operational reforms, human resources development, etc. In June 2021, she was appointed as an Outside Director of Taikisha Ltd. She also serves as a member of the Advisory Committee for Natural Resources and Energy at the Ministry of Economy, Trade and Industry.



Please see the pages given in the right column for details.

● Management Structure/Careers of Directors

P.33-34

Round table discussion held: August 10, 2021

## New Outside Directors' Impression of Taikisha

**Yamauchi:** Today, we would like to talk about initiatives for corporate governance. Also, I would like to hear your thoughts on how Taikisha will create value from a long-term perspective.

To begin, I would like to ask you, Director Mizumoto and Director Kishi, the newly appointed Outside Directors. Director Mizumoto, you are the first female director of the Company. I would like to ask your honest impression of Taikisha, including diversity and inclusion.

**Mizumoto:** I don't think much about being a woman, but in the construction industry, I have the impression that Taikisha is a company that has an intention to change, and I believe my appointment as an outside director is a reflection of the company's such determination. Although I have only spoken to a limited number of female employees in the Company, I would like to contribute to the change the Company is willing to make, leveraging my experience working in a male-dominant industry for a long time.

**Yamauchi:** Director Kishi, how about you?

**Kishi:** Previously, I was working in the telecommunications and IT industry, which is very competitive. Various businesses and technologies are constantly emerging and companies are required to keep pace. Now that I am part of Taikisha, I feel the Company has a tailwind of growth behind it. The Company deals with energy, air and water that are directly related to the global trend of ESG/SDGs. I was also inspired by the fact that all Directors and Audit & Supervisory Board Members have been continuously engaged in discussion to seek future business opportunities. I was impressed by the Company's logical and straightforward way of doing business.

**Yamauchi:** Thank you. When it comes to considering business in response to the expectations of society, the Company actively seeks opinions from the Outside Directors, and that gives you the impression that the Company is striving to change. Director Mizumoto, could you share some advice on new business development and operational reforms based on your experience?

**Mizumoto:** Mr. Kishi mentioned the trend of ESG/SDGs. For companies to have longevity, they must keep changing, and when there is change in the trends of society, these present opportunities for companies to grow. I would like to support the reforms the Company is working on under President Kato's leadership, by giving advice and suggestions from my own experience.



## Revitalization of the Board of Directors and Establishment of Advisory Committees

**Yamauchi:** Since the Corporate Governance Code was introduced in 2015, Taikisha's governance has changed significantly. President Kato, what do you think of the changes the Company has made?

**Kato:** In 2015, I took part in the implementation of the Corporate Governance Code as Chief Executive of the Administrative Management Headquarters. The Company's initiatives started before the implementation, which began with us asking, "What exactly is corporate governance?" Until then, the construction industry was a relatively stable industry with little change, and we started to feel sense of urgency that if we stayed as we were, we would be left out in society. As part of the initiatives for enhancement of governance, we increased the number of Outside Directors. Since then, the Company has been supervised and received advice from an external point of view, which I expected would stimulate and change our awareness in the Company. I feel the Company's awareness of social movements has been elevated in accordance with the enhancement of governance in the last six years.

**Yamauchi:** Director Fuke, as Outside Director, you have chaired the Board of Directors since the previous fiscal year. In what ways do you think governance at Taikisha has changed?

**Fuke:** Since last year, I have tried to revitalize the Board of Directors by encouraging the attendees to have open discussions. Compared with four years ago when I was appointed as Outside Director, Executive Directors are now discussing more freely how they think the Company should be, irrespective of their positions as representatives of divisions and headquarters. On the other hand, Outside Directors are required to support "protective" governance for risk avoidance as well as governance



that supports new initiatives to enhance corporate value. I believe active discussions among Directors and Audit & Supervisory Board Members, both internal and external, have created synergy. Now in the second year, we have experienced new movements with the change in industry and the impact of the COVID-19 pandemic, as well as ESG/SDGs movements. Under such circumstances, having Mr. Kishi and Ms. Mizumoto as new Outside Directors is reassuring, as they have expertise in technology development and IT fields. President Kato and other Executive Directors are all open-minded and listen to us Outside Directors. I find it rewarding but feel responsible at the same time.

**Yamauchi:** As the Chairman of the Board of Directors, is there something you aim to do or any particular challenges you would like to address?

**Fuke:** In order to have constructive discussions at meetings of the Board of Directors, as the Chairman, I try to deepen my understanding on the agendas by attending Management Meetings and listening to the explanations from the department in charge. In addition, I think it is important to exchange opinions on the agendas and share the understanding of the discussion points with Outside Directors and Audit & Supervisory Board Members beforehand. Also, I make sure that the agendas were thoroughly discussed in the advisory committees, which mainly consist of the Outside Directors, and other related committees, so the meetings of the Board of Directors will be the place to finalize the discussions.

**Yamauchi:** Director Hikosaka, you were appointed as Outside Director in 2017 and have the longest tenure. What do you think is rewarding or difficult as Outside Director?

**Hikosaka:** I have been working as an attorney for a long time, and our main job as attorneys is to resolve disputes. But recently, we are required to solve problems as well. Similarly, our important role as Outside

Directors is to solve the issues the Company is facing. If this was tennis, we would need to make a decision whether to return the ball straight to the middle of the court, or to take a risk and aim at just inside of the line, depending on the situation. I give advice and hold discussions to help management with such decision making to solve issues, based on my experience as an attorney. I find it rewarding and difficult. In accordance with the changes in the world, laws, too, change. Regulations can be tightened or eased. I would like to accurately capture these changes to enhance my problem-solving skills.

**Yamauchi:** Director Fuke mentioned the advisory committees. Could you, the chairmen of the three committees, explain the initiatives of each committee that were established as the advisory board to the Board of Directors?

**Hikosaka:** The Governance Committee was newly established this year as an advisory committee to enhance governance as President Kato talked about. We will respond to inquiries from the Board of Directors in terms of optimization of internal control. We also give advice to the Board of Directors. I would like to transform the Company to have the most advanced governance in the construction industry.

**Fuke:** The Nomination Advisory Committee took part in the establishment of the Company's CEO succession plan and discussed the structure and requirements for the candidates. Next, we are going to determine the selection process of the candidates and evaluation criteria, but in order for us Outside Directors to garner support from within the Company regarding our decision making, it is necessary to create opportunities for us to get to know the candidates as well as warranting the system. The requirements for the CEO also mean the ideal qualities the Company is looking for, so that comes down to the evaluation of employees. In that regard, I would like to see how that would be reflected in the Company's personnel system and human resource





management. Last year, as part of the routine work of the committee, we discussed the candidate selection process for Director and the evaluation of the Executive Directors based on the advice from the Board of Directors. We also assessed the validity of the rotation to fulfill personnel requirements.

**Kishi:** The Compensation Advisory Committee discusses the matters that directly affect the motivation of the Directors, so that needs to be determined in collaboration with the Nomination Advisory Committee and the Governance Committee. Compensation also changes partly in accordance with changes in society, so we need to pay close attention to these trends and incorporate them into the compensation system. Going forward, the main focus of our discussion will be setting of KPIs to be used for evaluation of each Director. To begin, in order to implement the Company's strategy and achieve its goals, we would like to confirm what sort of compensation is appropriate and how much should be paid.

### Discussion regarding Climate Change and Energy Problems

**Yamauchi:** I would like to ask you about value creation from a long-term perspective. On July 10, "Officers Open Discussion" was held. The members of the Board of Directors gathered and talked about long-term visions, future portfolio, allocation of management resources and so on. Taikisha has had these discussion sessions since 2019 in order for the Directors and Audit & Supervisory Board Members to actively exchange opinions. Looking back on the discussion in July, could you share with us your thoughts?

**Kato:** Taikisha Group has been good at solving problems raised by customers. The Company is more than capable of dealing with specific issues that are brought to our attention, but it is difficult for us to come up with new ideas and determine what we should aim for in response to changes in society and the environment. Outside Directors have given us advice in that regard from various perspectives, and that has inspired the Company. My intention is to apply the matters that have been discussed to "What (What we should do)" for the future of the Group, and put them into "How (How we realize it)" at the executive level.

**Yamauchi:** In the Officers Open Discussion, Directors and Audit & Supervisory Board Members discussed a wide range of topics, but the main topics were climate change and energy problems. What sort of impact do you think these issues have on the business of Taikisha?

**Kato:** There are three aspects to energy problems; "generation," "storage" and "consumption." Taikisha Group makes technical contributions to the "consumption" aspect of the energy problem, and I think our future business will also be developed around it. The business of energy generation requires a large amount of capital, and it would be difficult to pursue on our own. However, regarding the business in energy storage, if we could come up with a great idea, we would like to give it a try, and even with the business of energy generation, we will keep an eye on opportunities for collaboration with other companies. It would be ideal if we could realize a well-balanced growth strategy.

**Kishi:** As I mentioned earlier, the Company has a tailwind of growth behind it, and climate change and energy problems are the examples. Having said that, competition in these fields will intensify going forward, so we will need to embark on new ideas as early as possible, not focusing on one particular area, but in several areas. I believe the Company is capable of doing this. We can try first and make adjustments as we see things more clearly as we go.



**Kato:** I can't agree more with Mr. Kishi. It is very important to try first, otherwise we will never find a solution. I would like to share this view with the executive side and with the whole company, and quickly act on our ideas. The development department is now required to challenge creation of value, instead of waiting for customers to raise issues. It will be necessary to think ahead of potential customers and sow the seeds for the future in new fields. It is vital for the Company's survival to make serious efforts in technology innovation, technology investment and R&D. In that sense, I have high hopes for the trends of the times, but I also feel a sense of urgency.



**Mizumoto:** R&D has two main roles. A role as a doctor and a nurse to the existing business, and a role to perform research to find and create new technologies that can be the pillars for new businesses that would support the Company in its quest to survive 100 years. They have two different time axes, but without balancing these two roles, it would be difficult for the Company to survive. In the Officers Open Discussion in July, we talked about a wide range of topics, but I also wondered what the Company is actually aiming for. Although the business of the Company is changing, the Company has a persistent goal in regard to what Taikisha should do as a company, and I believe Taikisha is the company which can provide solutions to issues related to climate change. As President Kato pointed out, for the Company to change its passive attitude of solving issues raised by consumers, I think climate change could be a big opportunity. Many companies have realized the necessity to tackle this issue in order to survive and started taking initiatives. On the other hand, it is still unclear how society will be in ten years. Therefore, companies need to assume different scenarios, and not rely on optimism. I believe Taikisha can focus its energy on the issue by questioning what the Company should do to tackle the problems related to climate change.

**Kato:** When asked what the Company should do to tackle the problems of climate change, I, as a person who has been working in the Company for many years, find it difficult to find a clear answer. The Officers Open Discussion is an opportunity to hear opinions from Outside Directors, and I hope that it will help us realize or become aware of various issues we didn't notice before. I hope that will ultimately change our way of thinking, leading to new actions by the company as a whole and a leap



forward. With that in mind, we would like to expand the topics to be discussed at the next Officers Open Discussion.

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### Business Development to Create New Value

**Yamauchi:** At the first Officers Open Discussion held in July, questionnaires filled out by participants and documents shared before the meeting were just as extensive and well-organized as the meeting itself. In the discussion we brought up various topics including natural resources, health and medical care, food, digital innovation on top of climate change and energy-related problems. Director Hikosaka and Director Fuke, what were your thoughts?

**Hikosaka:** The open discussion was a great opportunity to hear many interesting viewpoints. I mainly talked about streamlining operations including ZEB\* and large-scale 3D printers as well as implementation of remote-controlled robots at sites. It was my second time participating in an open discussion since last year. I found that in the first open discussion we discussed more practical topics whereas in the last discussion in July we talked more about our dreams and possibilities, but it also gave us some sense of urgency that we need to start now. It was a constructive discussion.

**Fuke:** As a moderator, I asked everyone to talk freely and expand upon topics and not to be fixated on the immediate issues. However, my presentation was about initiatives for new generations such as demonstration and development of the plant factory and development of air-conditioning systems to respond to the pandemic. The reason for this

\*ZEB stands for Net Zero Energy Buildings. Buildings designed to achieve annual primary energy consumption of net zero, while realizing comfortable in-room environments.



was because I believe it is more strategically rational in the current business environment to expand our business in relation to “air” which is the Company’s core competence. However, it is also true that we must break free from the conventional business model to find an answer. Accordingly, I think it is necessary to discuss product and technology strategies or market strategies after solidifying the business models for upcoming generations over the next 10 to 20 years.

**Kishi:** I think even if the Company is going to expand the business into a different field, the reason for the entrance would be something related to the Company’s strengths: energy, air and water. In that regard, the Company can expand its business from the plant factory that Mr. Fuke talked about to smart cities or even space development, as long as the Group can survive and garner understanding from society. In addition, progressive initiatives like space development would not lead to increased profit right away, but the technology or the business itself could be applied in other areas of the current businesses and that will contribute to future performance. Regarding smart cities, the Company will be dealing with local society as a whole, not just buildings, so the entire business model will change, including who the Company will partner with and how the model will be monetized.

**Yamauchi:** In the discussion in July, we’ve heard thoughts, ideas and dreams from non-executive perspectives. The next Officers Open Discussion will be held in October, and that is going to be an opportunity for the executives to give explanations. Director Mizumoto, what do you expect from the next discussion?

**Mizumoto:** Personally I feel connected to the Company because my major at university was “*taiki-ranryu* (atmosphere turbulence).” I think



the business has a huge potential because it can be extended and linked to diverse business realms. Taikisha Group’s strength is in its possibility and ability to expand business. I am looking forward to listening to the business direction and how to leverage the Company’s strengths not only from the executives but also from those in charge of operations. It is going to be a prospective discussion looking into the future, not just the immediate issues.

### Decision Making and Initiatives for Challenges

**Yamauchi:** In order for Taikisha to expand its business to create new value, the management will be required to make decisions on how to leverage its strengths and in which areas to allocate its management resources. Starting a new business, regardless of how determined you are, would take a long time before it becomes profitable. I would like to hear your thoughts from you, Outside Directors, on the difficulties in decision making regarding starting a new business, and how to overcome such difficulties, based on your experiences.

**Kishi:** Taikisha Group is making prospective efforts, looking 10 years or more from now. However, it is difficult to know how things will be a decade on. It will prepare multiple plans and gradually implement them. Starting small and setting milestones like one or three years from now, then evaluating the achievements, it will make decisions on whether to continue or withdraw, or to transform it into other purposes. It is preferred that these initiatives are driven by young or mid-level employees who will carry the Company in 10 to 20 years, rather than by executives





or other officers, and that different divisions work together cross-functionally to propel the efforts.

**Hikosaka:** From the perspective of risk supervision as a role of the Board of Directors, we need to make decisions considering both the risks of starting a new business and the risks of not starting the business. In terms of our agenda such as SDGs, climate change, carbon-free society, the risk of not taking action as Taikisha Group would be higher, so we will need to continuously discuss with the executives and respond to risk. As Mr. Kishi just mentioned, we will need to communicate with young and mid-level employees in those sorts of discussions.

**Kato:** What I am focusing on is raising awareness among the Executive Directors and the Corporate Officers, including myself, of the rapidly changing world, and raising the sense of urgency that if we don't act fast, we will be left out. In a corporate organization, employees follow their superiors, and a sense of urgency will only penetrate in the company if top managers have such awareness. I would like to advance transformation to raise this awareness among young and mid-level employees who will carry the Company into the future.

**Fuke:** It may sound extreme, but it is true that the Company may not be able to survive unless it takes risks to embark on new business opportunities. Final decisions will be made by the top management, but we non-executive Outside Directors are required to explain the validity of the new business as measures to enhance corporate value or how we think of the cost and loss that the Company would incur. Outside Directors also need to play a supervisory role with regard to rules on investments and monitoring of recovery, based on discussion at the Governance Committee. In addition to our risk management role, I think we will be able to power up the engine that supports the dynamism of management by adequately carrying out our duties.

**Mizumoto:** It might be hard for employees to have that sense of urgency that President Kato is talking about when there is no sign of the Company going bankrupt and they are doing their job properly. For that reason, it could be more effective to spread a growth mindset within the Company such that Taikisha is able to do this and that to tackle climate change and create a system where employees can challenge themselves to address the issues. And it would be ideal if, while implementing strategies approved by President under the risk management and governance by the Board of Directors, the company could naturally change from within.

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### Expectations for Taikisha's Long-term Growth

**Yamauchi:** Now, in developing a growth strategy to create corporate value in the long run, tell us your thoughts on what Taikisha should focus on and how it should leverage its technology or other strengths.

**Kishi:** The raison d'être of a company is, of course, to solve social problems and provide social value, and I believe that Taikisha Group's technologies are the means to achieve this. For technologies that we don't have internally, we can secure them through external partnerships or investments, for example, while assessing the risks. On the other hand, technologies that the Company has developed or is developing can contribute especially to the achievement of SDGs, so our long-term growth strategy should be developed around SDGs, thereby meeting the expectations of society. For a technology-oriented company like Taikisha, it may sound paradoxical, but it is important to focus on sales and marketing so as not to fall into complacency of self-satisfying technological development.

**Fuke:** I think considering business alliances would be important in developing the future growth strategy. When moving forward with business development in new fields, M&As and other strategic alliances will undoubtedly be one of the major options. Overseas expansion advanced by Taikisha Group has focused mainly on regional marketing strategy. In terms of technical collaboration or cross-regional collaboration with a view to create synergy, I think it has been insufficient. To start a business in a new field, we will need to consider business investments in technology.

**Hikosaka:** Investments in venture capital will be effective to gather information on advanced technologies. I believe Taikisha would attract a

lot of opportunities. Investing in venture capital could be a way to get tips on business and technology, or to keep our eyes open for new opportunities.

**Kato:** I recognize the importance of technology investments and investments in venture capital. The plant factory also started from investment in venture capital in 2010, and the project has continued for over 10 years. We are considering how to select partners from among thousands of venture capital businesses and how we can integrate our investments into our business and developing the methodology as part of our long-term growth strategy.

**Yamauchi:** Lastly, could you tell us what you expect for Taikisha's long-term growth?

**Mizumoto:** Taikisha is a company that can address social issues and requirements and solve customers' problems. I expect the Company to grow to be more proactive in finding customers who are seeking solutions to various issues, not just dealing with existing customers.

**Kishi:** With the low birthrate, aging population and declining labor force, the construction industry will be in a more difficult position in 10 to 20 years' time. The race to boost labor productivity through automation technology will become increasingly prevalent going forward, which will result in industry restructuring or entrance from different industries. While preparing for these changes, I expect the Company to grow over the long term by providing value to customers in new markets, leveraging its strengths and the tailwind of growth.

**Hikosaka:** As the Company name "Taikisha" suggests, the business of providing clean air to society will continue expanding not only to the extent of growing demand for air-conditioning systems for buildings but



also to a wide range of areas. I hope the Company will continue to grow and support a prosperous future by providing such value to society.

**Fuke:** Since its foundation, Taikisha group has followed the mission statement "Customers First." However, in the current social environment, I think the concept of "Customers First" shared by previous generations has changed and is interpreted differently by the younger generations. As Ms. Mizumoto mentioned earlier, the concept of "customers" may need to be redefined to include new customers. I believe the Company will be able to further grow its business by clarifying the concept of "Customers First" and sharing it among the President and all employees and working as one to achieve that goal.

**Kato:** On top of the Officers Open Discussion in July, we had a constructive discussion today and I was able to hear diverse opinions. The matters we discussed today will not only be used for my future reference but also be included in internal and external communications.

**Yamauchi:** Thank you all for your time.

