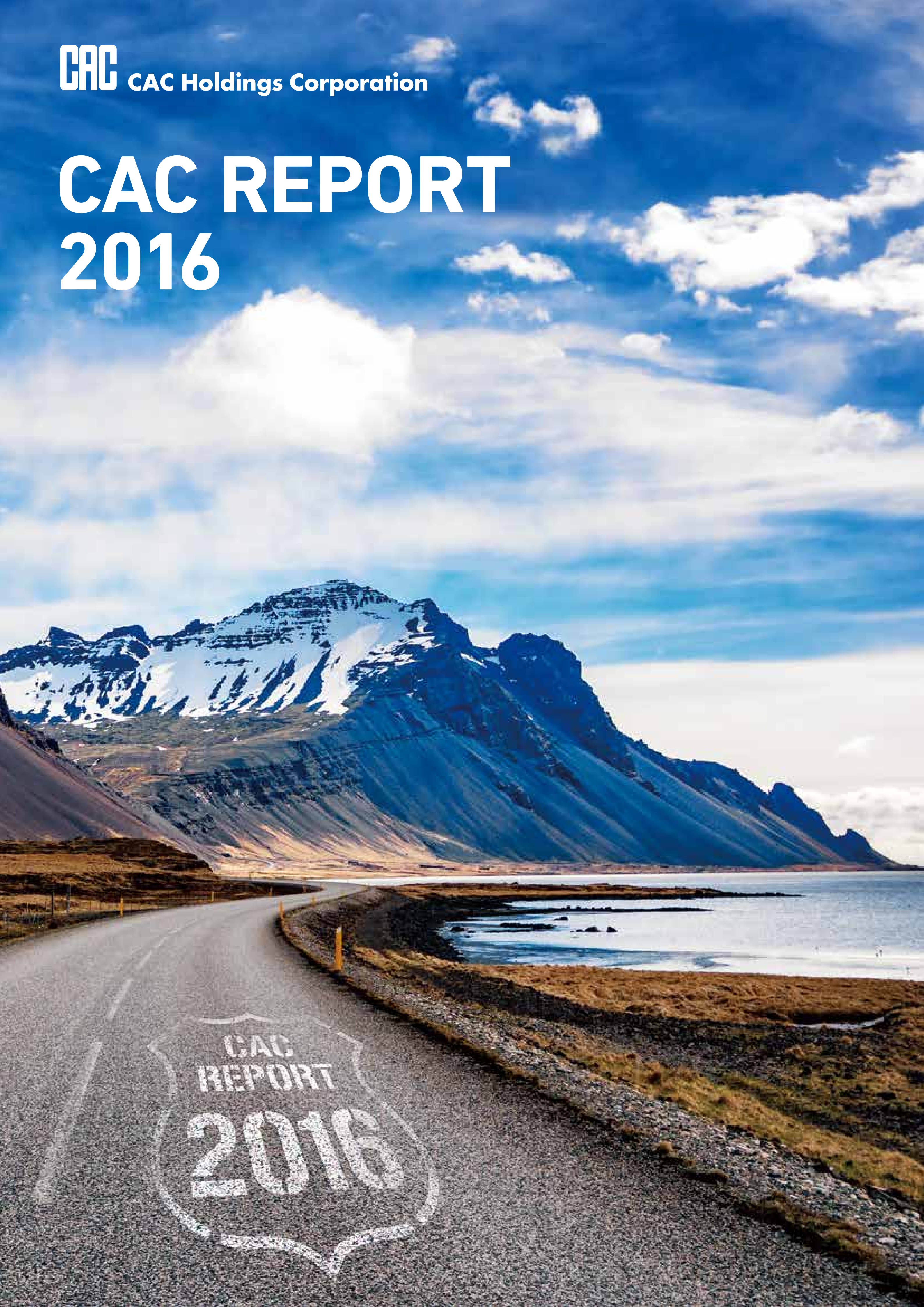
CAC Holdings Corporation

CAC REPORT 2016



Changing the world and shaping the future through IT and healthcare services.

The CAC Group was established on August 8, 1966 as a pioneering independent software company in Japan. From our earliest days, we have striven to evolve by anticipating the needs of the times and environmental changes and changing the nature of who we are.
Constantly tackling challenges, never allowing ourselves to be satisfied with the status quo or give in to the fear of failure, and continually reinventing who we are to further our growth – this is the essence of what we do at the CAC Group.

We never stop evolving.

We will try to seize the next opportunity by continually reinventing who we are.

Re Birth! BEYOND




BPO/BTO services
22.5%
Systems development and integration services
43.3%
Field of outsourcing services
Sales by service
(FY2016*)
¥52,521
million
*FY2016 began on January 1, 2016 and ended on December 31, 2016.
Field of IT services
Systems operation and management services
34.2%

CONTENTS

We have continued growing for 50 years, tackling various challenges along the way.

The CAC Group has been changing its business portfolio since its founding to meet the needs of customers and the demands of the times, and in doing so has achieved growth. We have expanded our business domains and enlarged the growth domains from within Japan to overseas.

2014

Shift to a holding company structure

2000

Listed on the First Section of the Tokyo Stock Exchange

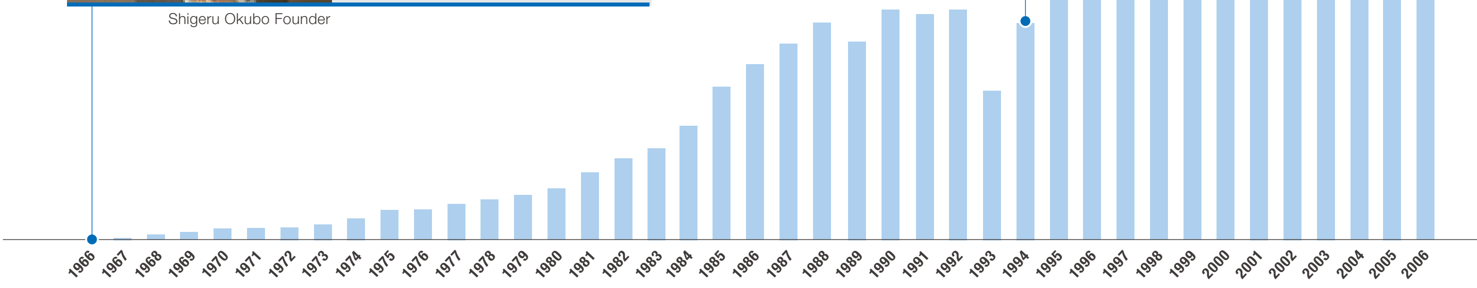
1994

Relaunch CAC Co., Ltd. as a result of a merger among three companies, namely the pre-merger CAC and two CAC Group companies (SSK and SUC)

1966

Shigeru Okubo Founder

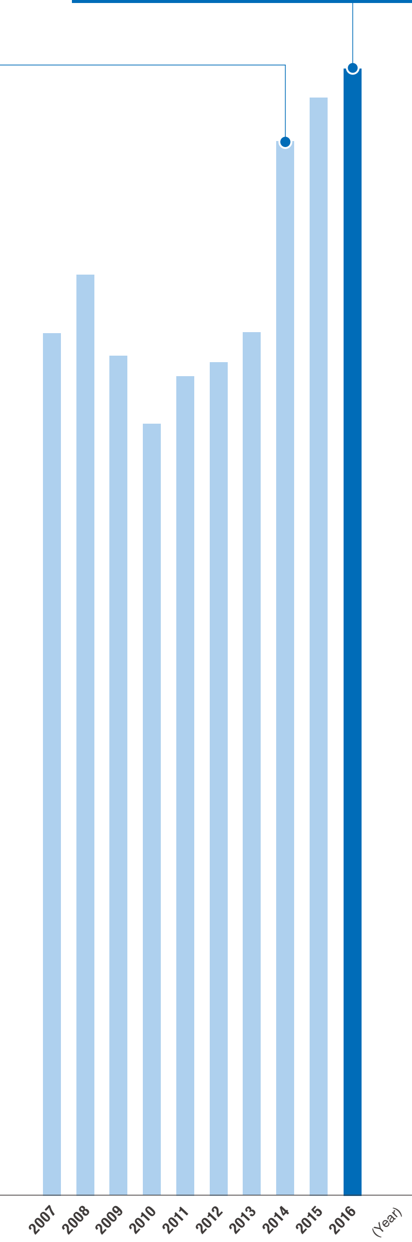
Establish Computer Applications Co., Ltd. (CAC), a pioneering independent software company in Japan



Net sales

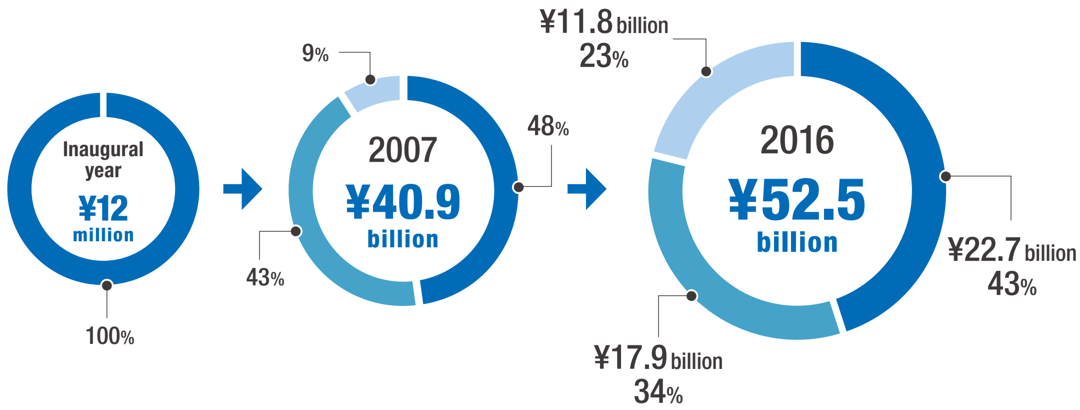
¥52.5 billion

Fiscal year ended on December 31, 2016



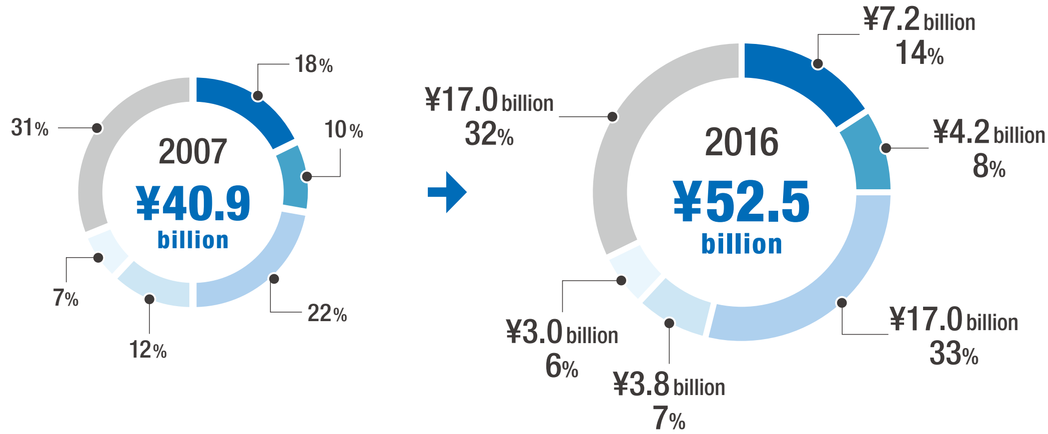
Net sales by segment

■ Systems development and integration ■ Systems operation and management ■ BPO/BTO



Net sales by industry

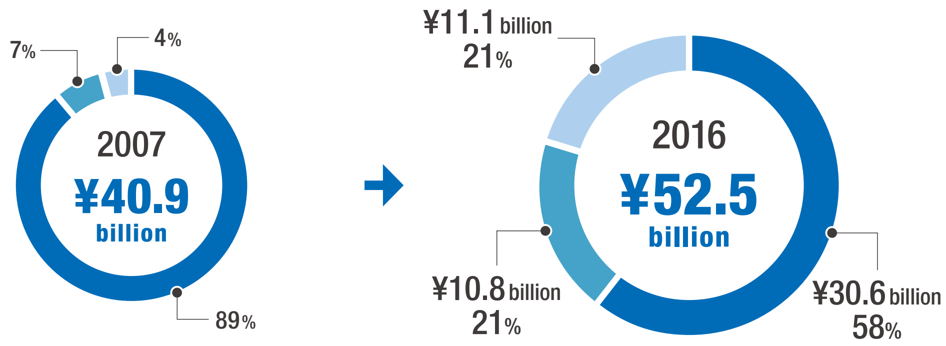
■ Financial services ■ Trust banks ■ Pharmaceuticals ■ Food services ■ Manufacturing ■ Service and others



Composition of sales within the CAC Group

■ Domestic IT ■ CRO (pharmaceutical BTO) ■ Overseas IT

* The domestic IT business includes human resources BPO services.



CAC Group's value creation and outcomes

Social needs and issues

- Globalization
- Promotion of innovations
- Productivity improvement
  - Manpower reduction
  - Work style reform
- Super-aging society
- Control of healthcare costs

Business activities

Corporate concept

As a knowledge-intensive company, we provide a full range of business information system services, as well as high-value added services that integrate information technology into business.

Our role

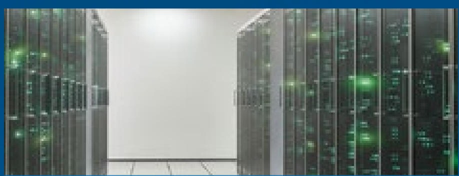
Changing the world and shaping the future through IT and healthcare services.

Our strengths	Growth strategies
High level of knowledge in finance, trusts and pharmaceutical	M&A
Percentage of projects in which we serve as the prime contractor: 90%	Overseas
Large shares in the pension field	Healthcare
Global human resources	BPO
Sound financial structure	

OUTPUT
Products and services

IT services


Systems development and integration services


Systems operation and management services

Outsourcing services


CRO (pharmaceutical BTO) services


Human resource BPO services

OUTCOME
Values we create

Social value

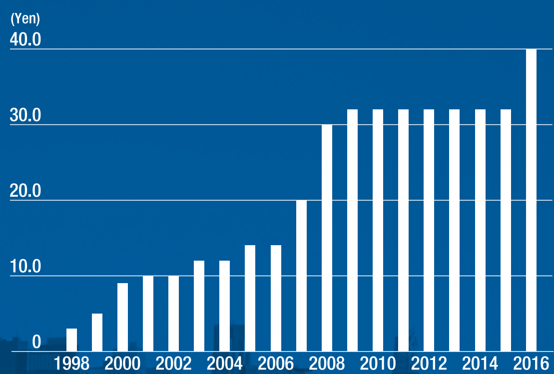

Contributing to customers' business reforms


Efficient support for pharmaceutical development

Economic value

Stable dividends

Dividend per share



*The dividend for 2016 includes the 50th anniversary commemorative dividend of ¥8.0.

The CAC Group keeps changing

My name is Akihiko Sako, the president and CEO of CAC Holdings Corporation. Since we were founded in 1966, we have provided customers with systems development and integration and systems operation and management services under the basic principles of Independent/Neutral, User-Oriented, and Fully Liable for Deliverables. We take great pride in being a knowledge-intensive company that carefully studies its customers' business and operations and utilizes the knowledge it gains. We also provide outsourcing services, mainly in the field of Contract Research Organization (CRO) services. We are proactive in expanding our overseas business in each field, and we have grown to become a corporate group that now has approximately 5,700 employees in Japan and other countries.

In the IT service industry, new markets are expected to be created due to IoT, Fintech, AI, and other elements. On the other hand, cost reductions are strictly required in the existing system field. I believe that for us to continue growing sustainably as a company in this era of major changes, we must keep changing ourselves by introducing technologies and human resources from outside and integrating them into the CAC Group, instead of adhering to our existing business categories and previous success experiences. The CAC Group is about to transform itself under the slogan of "Rebirth Beyond."

Performance trends: We expect business performance to recover in FY2017

Net sales for the fiscal year ended December 31, 2016 increased 0.8% year on year, to 52,521 million yen. Operating income decreased 0.6% year on year, to 1,202 million yen. We achieved a slight increase in sales due to the expansion of CRO (pharmaceutical BTO) services and the new consolidation of Sierra Solutions Pte. Ltd.(Sierra Solutions) an IT service company in Singapore that we acquired in November 2015. However, operating income decreased, partly reflecting the decrease of systems development and integration services in the financial services industries in Japan and a decline in the profitability of projects at Sierra Solutions. With regard to Accel Frontline Limited (AFL), our subsidiary in India, operating income increased partly because of the absence of the allowance for doubtful accounts that was posted in the previous fiscal year. Ordinary income decreased 13% year on year, to 937 million yen, due in part to the influence of foreign exchange loss. Profit attributable to owners of parent was 2,039 million yen (compared to a loss of 142 million yen in the previous fiscal year), partly reflecting the gain on sales of investment securities posted in the fiscal year under review.

Net sales for the fiscal year ending December 31, 2017 are expected to rise 2.8% year on year, to 54,000 million yen. Operating income is expected to increase 49.7% year on year, to 1,800 million yen. The IT service market of Japan is expected to continue growing slowly, with the profit level remaining lower than in FY2014 and earlier. We plan to aim for

We will continue tackling challenges in new business domains while strengthening the Group's governance.

Akihiko Sako President and CEO

the recovery of profit through measures including improving the profitability of overseas business and cost optimization in the field of CRO (pharmaceutical BTO) services.

Setting overseas businesses on track in the final year of the Medium-Term Strategy

The current Medium-Term Strategy (2015-2017) consists of six basic strategies of "Pursuing new mainstream technologies," "Increasing the added value of BPO," "All in AZAREA," "Making use of global support system centering on Asia," "Tackling challenges in new business domains," and "Strengthening corporate capabilities through group-wide strategies." We promote these strategies with the spirit of "Rebirth," with which we will tackle new challenges in new technologies and new business domains to transform ourselves into a new CAC Group. In FY2017, which is the final year of the Medium-Term Strategy, we will strive to improve the profitability of our existing businesses while strengthening the foundation of overseas businesses that we acquired in the past several years, and promote the development of new business domains.
First, we will set the business expansion of our overseas subsidiaries on track, such as AFL in India, which has been delayed longer than we initially intended. During FY2015 to FY2016, AFL posted a loss of 2,650 million yen, due in part to the allowance for doubtful accounts, impairment loss on goodwill, and expenses for reinforcing the business foundation. In FY2016, however, the company returned to the black in terms of operating income, and a recovery path is in sight. AFL has bases in the United States, the United Kingdom, and the Middle East in addition to India, and operates businesses in broad domains, including those where no other CAC Group company is operating. Accordingly, its position as a company that will contribute to the CAC Group in the long run has remained unchanged. The company also has a track record in the field of the Advanced Driving Assistant System (ADAS), so it also intends to enter the automotive business by collaborating with CAC Corporation. Sierra Solutions posted poor results in FY2016 because of a decline in the profitability of the hospital project in Thailand. However, it is expected to expand its new businesses. For example, it has commenced the development and provision of mobile applications aimed at people caring for elderly family members at home.

Outline of the 2015-2017 Medium-Term Strategy

- Pursuing new mainstream technologies
- Increasing the added value of BPO
- All in AZAREA
- Making use of global support system centering on Asia
- Tackling challenges in new business domains
- Strengthening corporate capabilities through group-wide strategies

Exploring opportunities to expand new businesses at the same time as improving the profitability of existing businesses

While we see the shift to cloud computing as a positive trend, the traditional IT service market has continued to decline. This has resulted in a tough environment for our businesses of systems development and integration and systems operation and management services. However, we would like to maintain profitability by implementing unique measures. we will proceed with the commercialization of AZAREA, a group of tools that support systems development and integration and systems operation and management. AZAREA is a platform for improving the productivity of systems development and integration and systems operation and management, in which CAC Corporation's knowledge and expertise in systems development and integration and systems operation and management are consolidated and accumulated. We will sell this platform by packaging it. In the same way, we will strengthen the system for selling Micmari, our originally-developed pension management package that represents the summation of our expertise in corporate pension management.

In the field of CRO (pharmaceutical BTO) services, pharmaceutical companies as the users are encouraging the outsourcing of the business due to the growing need to improve the efficiency and reduce the cost of clinical trials, which has resulted in the continuous expansion of the market. On the other hand, there is a movement among pharmaceutical companies to use CRO services from a limited number of major vendors, which has made the competition fiercer. Amid this trend, CAC Croit Corporation experienced a decline in the profit rate of some projects in FY2016. Major pharmaceutical companies and biopharmaceutical companies demand the capacity to operate on a global scale and the capability of providing a wide range of services in drug development as well because of the increase of international joint clinical trials and the diversification of clinical tests. In our efforts to provide services aligned with the times, we will consolidate the capabilities of our domestic and overseas group companies, with a focus on CAC Croit Corporation, and further, explore an opportunity to form an alliance with a global enterprise.

For the development of new business domains, we have invested in more than ten venture firms in a wide variety of fields including IoT, next-generation communications, and healthcare via the corporate venture fund that we established in Silicon Valley. In FY2016, we began to invest in Affectiva, Inc., a U.S. company which has technologies in Emotion Artificial Intelligence. Affectiva, Inc. is a leading company in the field of Emotion Artificial Intelligence, which analyzes human emotions by using a deep learning technology based on more than 50 billion emotion data points. These data points were collected and accumulated by the company by analyzing the facial expressions of more than four million people from 75 countries. CAC Corporation has concluded an agreement to be the first agent of Affectiva in Japan and plans to develop the Emotion Artificial Intelligence market in Japan in the future. The technology has a range of potential applications, including editing programs at broadcast stations, interactive marketing, and sales promotion. We will expand this business by taking advantage of our expertise in the introduction of the technology to companies and consulting services for companies.

We have yet to decide on the specific details of the next Medium-Term Strategy that will commence in FY2018. However, our direction will remain unchanged — that is, we will continue tackling challenges in new business domains while maintaining our earning power with initiatives taken by taking advantage of our strengths. At the same time, we are planning to clarify how we will reap the harvest from the seeds of new businesses that we have sowed in the last several years.

A demonstration application that uses the Emotion Artificial Intelligence of Affectiva
(developed jointly with Toppan Printing Co., Ltd.)

Strengthening governance and continuing investment for improving our corporate value

At our Board of Directors meetings in FY2016, we spent a lot of time discussing Group governance, partly because the number of our subsidiaries has been increasing globally and partly because AFL in India posted an unexpected loss. With regard to AFL, we held discussions with an advisory committee including third parties, through which we strengthened risk management in the acquisition process, such as the selection of an appropriate service provider to whom to outsource due diligence, and created a system in which we do not place excessive trust in the internal control system of the company we have acquired in the process of integration following acquisition. We thus formulated measures for preventing the recurrence of the above loss, including strengthening the system for managing our overseas subsidiaries.

The management team of the CAC Group includes ten directors, of whom four are outside directors. If the internal directors, who execute management, function as the accelerator of an automobile, the main duty of the outside directors is to serve as its brake. It is important for the outside directors to make recommendations by anticipating risks from the viewpoint of shareholders by taking advantage of the background and knowledge of each, rather than by looking at matters related to the operation of individual businesses. I believe that in this sense, they are functioning effectively. We have actually abandoned a plan in response to the brakes applied by an outside director.

Governance will remain an extremely important issue when we advance corporate acquisition in the future, or overseas M&A in particular. However, we do not intend to control investment unnecessarily. Making investment by taking risks is necessary for expanding our businesses into new domains and improving our corporate value. Fortunately, we maintain a sound financial structure. We will therefore continue investing in M&A and human resources, aiming for growth, by checking each project carefully while also reflecting on our past.

About diversity/social engagement activities

As of December 31, 2016, the overall CAC Group has approximately 3,600 non-Japanese employees, who constitute more than 60% of the total. While many of these employees belong to our overseas group companies, non-Japanese employees also play active roles at group companies in Japan. In this way, diversity is spreading naturally throughout the Group. We also promote diverse workstyles of employees. For example, we have introduced telework, which permits employees to work from home.

The CAC Group is also working to spread and support Boccia, a sport that became well known at the 2016 Rio De Janeiro Paralympics, as a Gold Partner of the Japan Boccia Association. We send employee volunteers to tournaments to support the operations and cheer on the players. In addition, employees also participate in Boccia games and enjoy the excitement. In this way, our involvement in Boccia has taken root as a social engagement activity that gives us a sense of oneness as a Group.

Our policy on shareholder returns and a message to our shareholders

We work under a basic policy of continuing to pay stable dividends by monitoring the consolidated dividend payout ratio. In addition, we will study and make treasury stock acquisitions in a flexible manner. Although our business performance for 2016 was not strong, we paid a dividend of 40 yen (compared to 32 yen in FY2015), which included a 50th anniversary commemorative dividend of 8 yen, for the full year and purchased treasury stock in the amount of 999 million yen, taking the abundant cash flow into account. In FY2017, we plan to pay an ordinary dividend of 36 yen for the full year, up 4 yen from the ordinary dividend paid in the previous year. Moving forward, we would like to adhere to continuous, stable shareholder returns.

In 2016, when we celebrated our 50th anniversary, we held dialogues with numerous customers and business partners. During these dialogues, we received many comments expressing their trust and expectations for services that have been provided by the CAC Group. They caused us to realize once again that we must continue to make efforts to remain a corporate group that is essential for them. I hereby request that our shareholders watch for and place hopes on the CAC Group, which will continue tackling challenges for the long-term, continuous improvement of its corporate value.

Date of interview: April 2017

Medium-term strategy

ReBirth! BEYOND

Basic strategies and main strategic points

Pursuing new mainstream technologies

Work on research and development and marketing activities jointly with overseas group companies, anticipating the formation of new markets with IoT and other areas.

Tackling challenges in new business domains

Invest in ventures and other external management resources by making use of our internal reserves in an attempt to enter domains that have yet to be developed by the CAC Group.

Increasing added value of BPO

Try to expand our businesses to BPO in fields where we only provide IT services, such as pension management for trust and banking companies. Move forward with measures to increase the added value of our existing businesses of CRO (pharmaceutical BTO) and human resource BPO services.

Progress made in FY2016

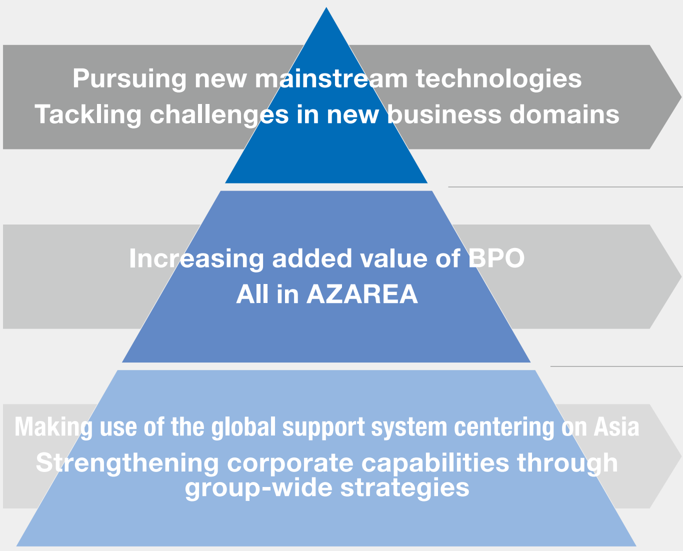
Investment in Affectiva, Inc. in the United States and commencement of the development of the domestic market for Emotion Artificial Intelligence

Installation of an innovation space aimed at open innovation*

*Open innovation: Creating an innovative business model, product, or service by combining ideas, services, expertise, and other elements from inside and outside a company

Initiatives for FY2017

Accelerating initiatives for the final fiscal year to reinvent ourselves over the next 50 years



- Developing new technologies and new business domains through continuous investments
- Enhancing external management resources

- Promoting the expansion of the BPO business in the healthcare field
- Commercializing AZAREA

- Strengthening cooperation within the group
- Early promotion of global human resources

Our medium-term strategy for FY2015 to FY2017 contains six basic strategies. In existing fields, we will strive to improve the quality of our services and productivity by consolidating our knowledge. At the same time, we will try to increase orders by developing new businesses, and to improve our ability to operate on a global scale, aiming to improve our corporate value.

All in AZAREA

Reduce costs and improve quality by enhancing the function of AZAREA, a unique development platform that is an aggregation of the CAC Group's intellectual properties, in our attempt to differentiate ourselves from other companies.

Making use of the global support system centering on Asia

Identify demand among existing customers for overseas IT services by establishing a global support system centering on Accel Frontline Limited in India and CAC SHANGHAI CORPORATION and GoldenTech Computer Technology (Suzhou) Co., Ltd. in China.

Strengthening corporate capabilities through group-wide strategies

Establish a foundation for long-term development by strengthening the bonds between group companies and working jointly to develop next generation human resources.

Sales of our own products such as Micmari, a packaged pension management service, and AZAREA, and business expansion

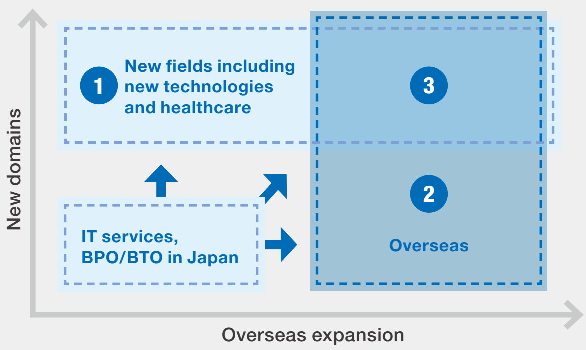
Implementation of programs aimed at discovering or fostering global human resources as next-generation leaders

Expanding business in the healthcare field

Expansion of business domains

		Objectives	Measures
New domains	Nursing care	Creating a comfortable nursing care environment	Collaborating in the nursing care business in Asia
			Use of cloud computing for medical data analysis
	Healthcare	Spreading and promoting preventive healthcare	Support for systems for telemedicine
Existing domains	Pension	Reducing pension management costs	Spreading and expanding Micmari, a common infrastructure for corporate pension
	Personnel management affairs	Helping customers concentrate on their main business	Optimizing personnel management affairs and supporting human resource development

Overseas markets and new businesses as frontiers



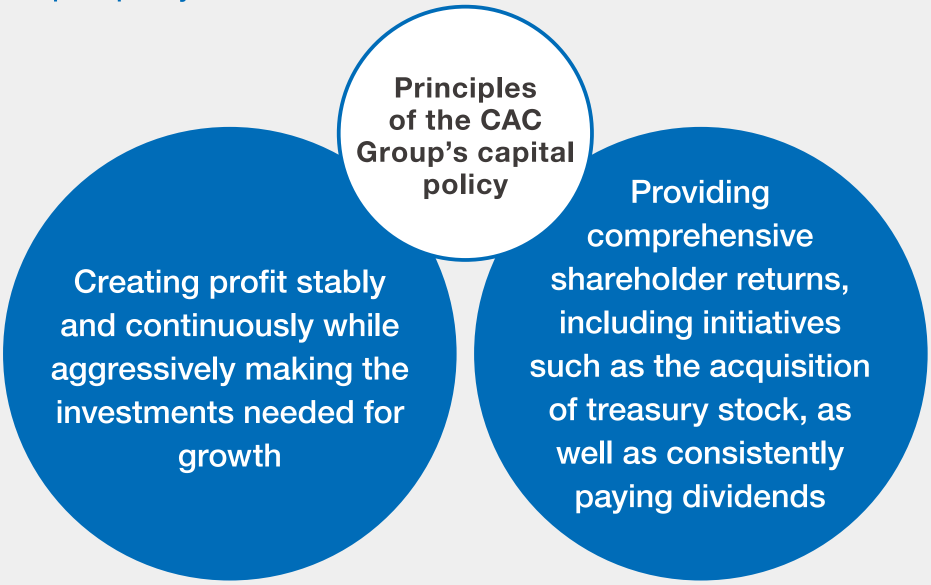
1 Expanding business domains through the acquisition of new technologies, the expansion of the healthcare field, and other measures

2 Expanding domains to emerging areas in Asia

3 The combination of the above two measures may lead to further growth

We achieve growth and stable dividends.

Principles of capital policy

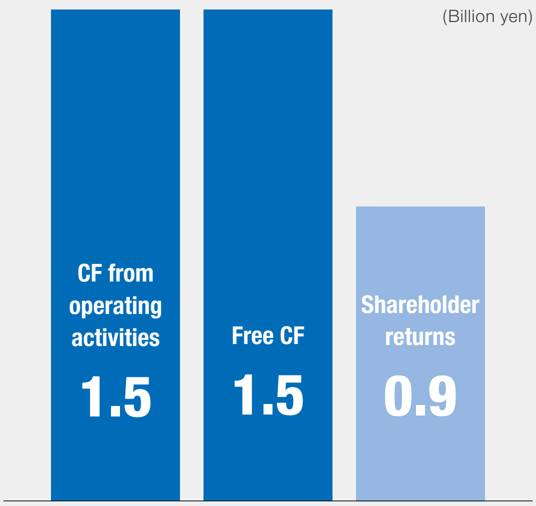


Cash flows

Cash flows (CF) from operating activities for the fiscal year ended December 31, 2016 resulted in a net inflow of 892 million yen (compared to a net outflow of 770 million yen for the fiscal year ended December 31, 2015). There were inflows of 3,945 million yen as income before income taxes and minority interests, 1,532 million yen as a decrease in notes and accounts receivable, and 793 million yen as depreciation, while outflows included a gain on sale of investment securities of 3,701 million yen and income taxes paid of 1,424 million yen. CF from investing activities resulted in a net inflow of 3,233 million yen (compared to a net outflow of 2,760 million yen for the fiscal year ended December 31, 2015). There was an inflow of 5,967 million yen as proceeds from the sale of investment securities, which offset outflows including 1,421 million yen for the purchase of investment securities and 650 million yen for the purchase of intangible assets. CF from financing activities resulted in a net outflow of 1,920 million yen (compared to a net outflow of 796 million yen for the fiscal year ended December 31, 2015). This is attributed in part to outflows of 999 million yen for the acquisition of treasury stock and 707 million yen as cash dividends paid. As a result of the above, cash and cash equivalents at the end of December 2016 increased by 2,166 million yen from the end of December 2015, to 11,268 million yen.

CF from investing activities differs significantly among fiscal years, due in part to the acquisition of companies and the sale of investment securities. The average amount of CF from operating activities for the last five years and that of free CF are almost equivalent to each other, being as high as approximately 1.5 billion yen. We have returned approximately 0.9 billion yen to shareholders. This amount is more than 60% of the amount of free CF.

Average cash flows (CF) and shareholder returns in the past five years

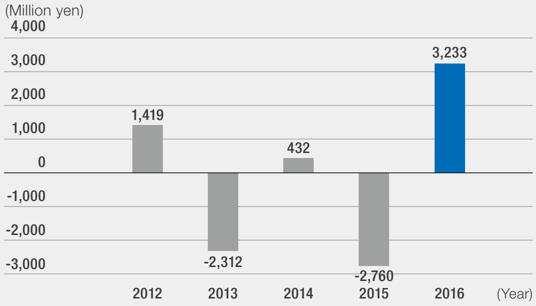


At the CAC Group, our financial strategy aims to deliver both investment for growth and stable shareholder returns. The following section provides an overview of our approach to finance.

Investments

Since around the year 2000, the year when we were listed on the First Section of the Tokyo Stock Exchange, we have actively pursued growth initiatives through aggressive M&A. Although we sold some subsidiaries in 2005, we have continued to promote M&A. The main areas of investment from 2000 to 2006 were system-related companies, while from 2006 to 2010 were CRO companies. We acquired IT companies in China in 2002, India in 2014, and Singapore in 2015 to accelerate overseas expansion. In addition, we established a corporate venture fund in the United States in 2015 to pursue new technologies, and invested approximately 300 million yen for the fiscal year ended December 31, 2015 and approximately 500 million yen for the fiscal year ended December 31, 2016 in startup companies that we deemed beneficial for our future growth.

Changes in CF from investing activities



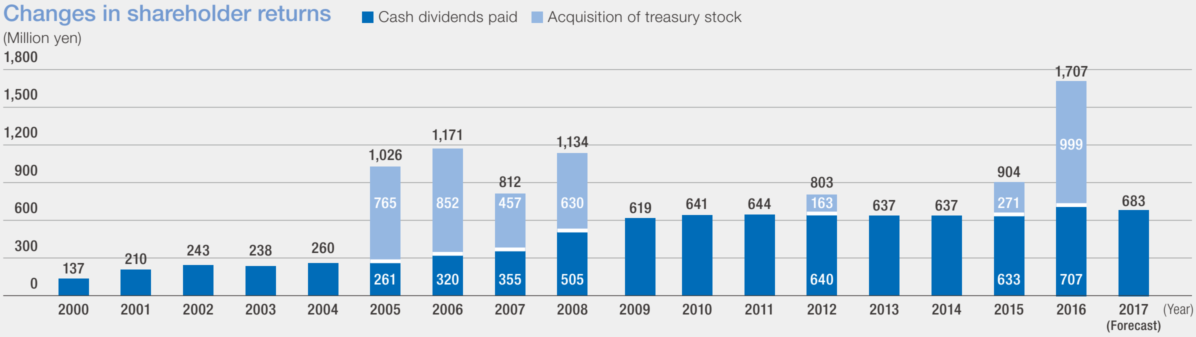
Major investments made over the past two years

Fiscal year ended December 31, 2015	**Acquisition of overseas IT companies** **Amount of investment: ¥1,700 million** **Investments in two companies including Jibo, Inc., which develops family robots** **Total amount of investments: Approx. ¥300 million**
Fiscal year ended December 31, 2016	**Investments in six companies including Affectiva, Inc., which has technologies in Emotion Artificial Intelligence** **Total amount of investments: Approx. ¥500 million**

We consider the return of profits to our shareholders to be an important business mission. We work under a basic policy of continuing to pay stable dividends by monitoring the consolidated dividend payout ratio, while at the same time striving to increase our earning power and build a sound financial structure. In addition, we will study and make treasury stock acquisitions when necessary as a part of our flexible capital policy and comprehensive measures for shareholder returns. In regards to internal reserves, we will invest in M&A for growth of the group, business development, human resource development, research, and development carried out from medium- to long-term perspective. We will also work to improve productivity and our capabilities to ensure superior quality, as well as reinforce our financial structure in an effort to boost our comprehensive strengths and reinforce the business foundation of the group for sustainable growth.

In the fiscal year ended December 31, 2016, we acquired 1,222,100 shares of treasury stock (5.67% of outstanding shares/approximately 999 million yen). In regards to dividends, we added a 50th anniversary dividend of 8 yen (full-year) to an ordinary (full-year) dividend of 32 yen, as a result of which we paid a full-year dividend of 40 yen per share. For the fiscal year ending December 31, 2017, we plan to pay an ordinary dividend of 36 yen per share for the full year, up 4 yen from the ordinary dividend paid in the previous fiscal year, in comprehensive consideration of cash on hand and other factors. In regards to shareholder returns, we will continue to observe our basic policy of ensuring continuous, stable dividends and flexibly purchasing treasury stock.

Changes in shareholder returns



Three key points of the CAC Group

Key point 01
An IT and healthcare service provider that has strength in financial services, trust banks, and pharmaceuticals

The CAC Group is an independent pioneer that was founded at the dawn of the software industry in Japan.

We are prime contractor who develops and provides the optimal systems for users.

We command a large market share for the development of pension management systems for major trust and banking companies.

In regards to services for the pharmaceutical industry, in addition to IT domain, we have expanded into the domain of the CRO (pharmaceutical BTO) business. This business has been our growth engine in recent years.

Prime contract rate

Approx. 90%

* At CAC Corporation

5-year growth rate of CRO business

135%

Key point 02
Early start of growth through mergers and acquisitions (M&A)

4 2014- Overseas

Investment in overseas IT companies

3 2006- BPO/BTO

Investments, business acquisitions, and business integration in CRO as a growth field

2 2000- IT system

Acquisition of IT affiliates as systems divisions of companies such as Maruha Nichiro Corporation and YUASA TRADING CO., LTD. and converting them into subsidiaries of the CAC Group

1 1994 Merger of three companies

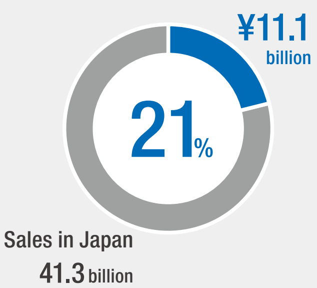
Merger of Computer Applications Co., Ltd., a systems development and integration company, with two CAC Group companies, Nippon System Service Co., Ltd. (SSK) and System Utility Co., Ltd. (SUC)

We have summarized our unique characteristics into three points so that you can get a better idea of what the CAC Group is all about.

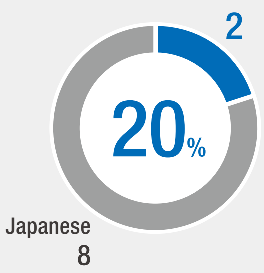
Key point 03 Overseas markets as growth frontiers

The CAC Group expanded overseas in the 1970s before other Japanese companies were interested in entering the markets of other countries.
In recent years, we have been increasing the percentage of overseas operations through initiatives such as aggressive M&A as part of our efforts to respond to global demand.
We will continue making group-wide efforts to accelerate our globalization as a growth area.

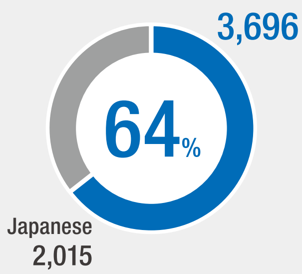
Overseas sales (consolidated)



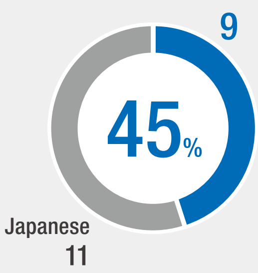
Number of non-Japanese directors of CAC Holdings Corporation



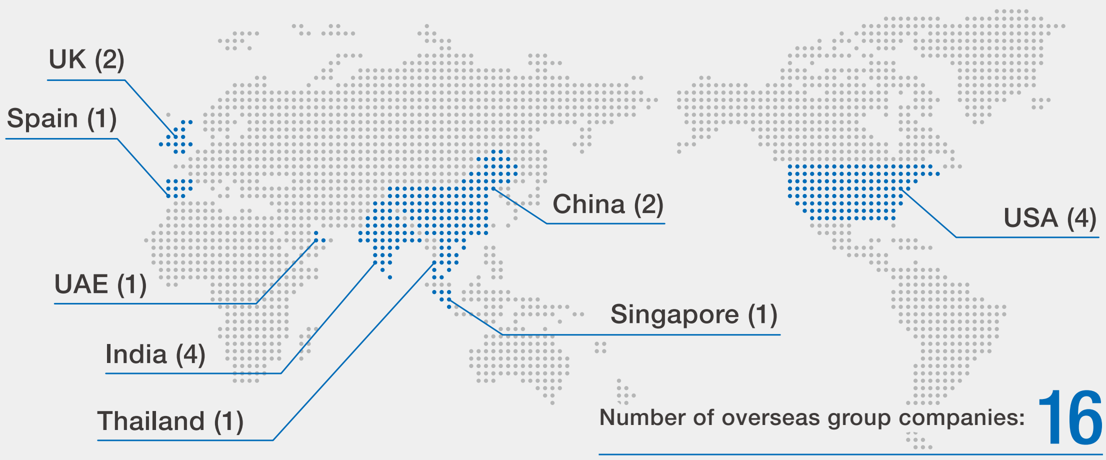
Number of non-Japanese employees of the group (consolidated)



Foreign fresh graduates of the core operating company (CAC Corporation)



Overseas business locations



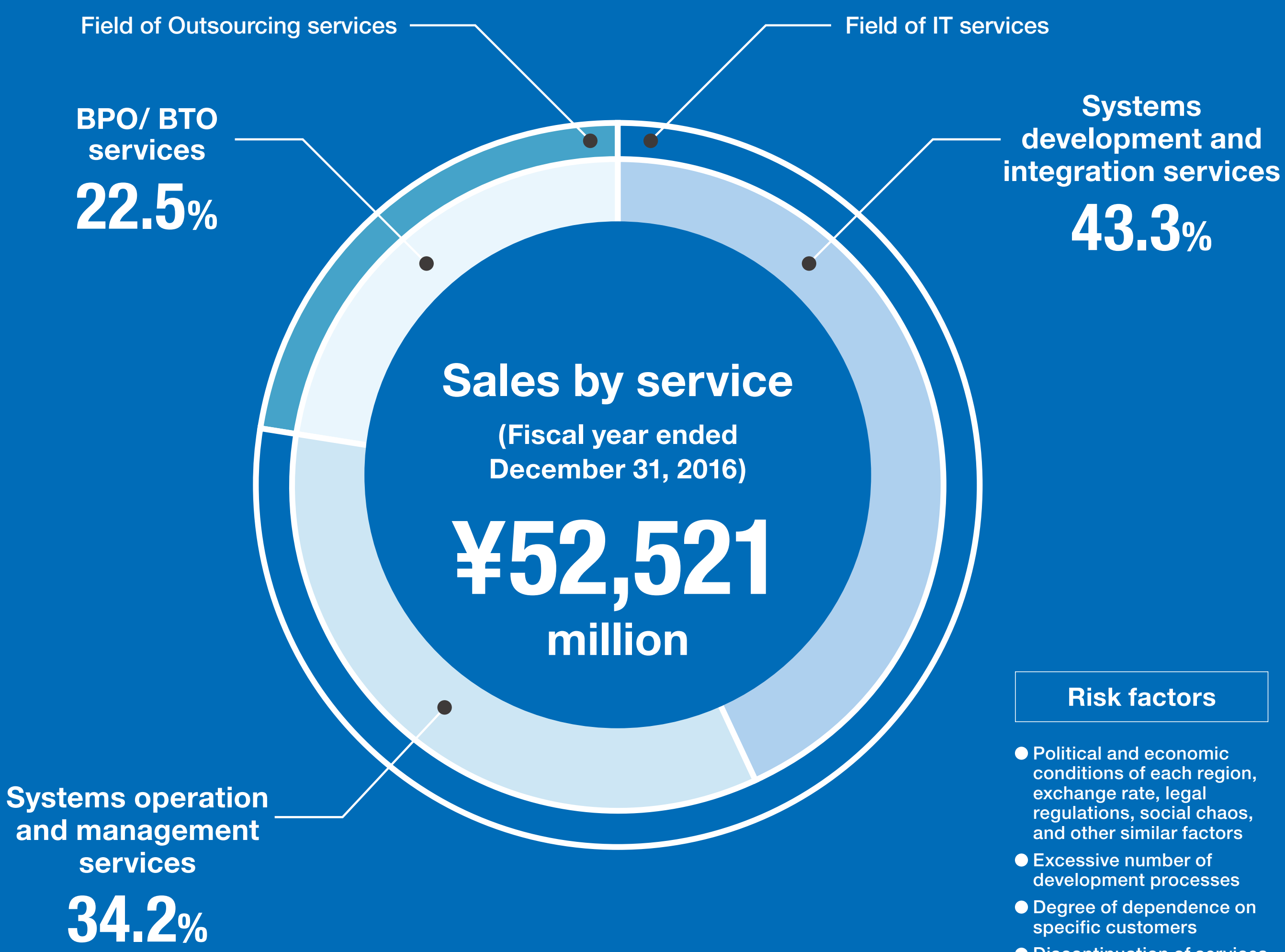
*As of July 10, 2017

History of overseas expansion

- **1989** Entered the United States
  Established local subsidiary
- **1990** Entered Europe
  Established local subsidiary
- **2000 –** Entered China
  Established local subsidiary and acquired shares in an offshore company, making it a subsidiary
- **2010 –** Entered India
  Established local subsidiary and acquired an IT company
- **2015** Entered Singapore
  Acquired an IT company

Business review

At the CAC Group, we run a systems development and integration service and systems operation and management service in the field of IT services, and a BPO/BTO service business in the field of outsourcing services that combine IT and operation functions.
The full-year consolidated results for the fiscal year ended December 31, 2016 are as follows. Net sales rose 0.8% year on year to 52,521 million yen, while operating income fell 0.6% year on year, to 1,202 million yen. Ordinary income declined 13.3% year on year, to 937 million yen. We posted net income attributable to owners of parent of 2,039 million yen (compared to net loss of 142 million yen in the previous fiscal year).



Risk factors

- Political and economic conditions of each region, exchange rate, legal regulations, social chaos, and other similar factors
- Excessive number of development processes
- Degree of dependence on specific customers
- Discontinuation of services due to a disaster or other similar event
- Leakage of confidential information or other similar incident

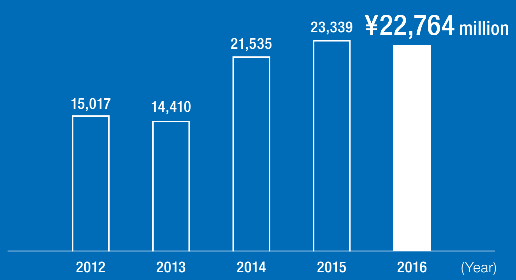
Field of IT services

Systems development and integration services

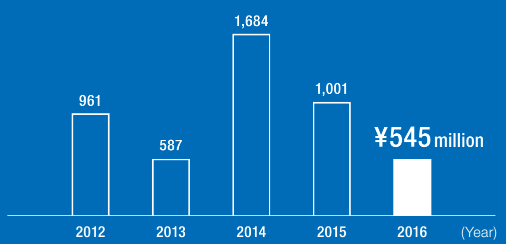
Business overview

We provide customers in Japan and other countries with a wide range of services. These include consultation on corporate information systems, system development and maintenance, and package integration.

Sales



Operating income



Our strengths and features

Strength in systems for financial institutions

We are more than capable when it comes to market transaction systems and overseas trading systems for mega banks and pension-related systems for trust and banking companies.

High overseas sales ratio

Overseas sales constitute approximately 36% of our total sales. Currently we provide services in India, Singapore, China, the United States, and the United Kingdom. Moving forward, we expect to further increase of our overseas sales ratio.

Business performance

For the fiscal year ended December 31, 2016, net sales decreased 2.5% year on year despite the contribution of the new consolidation of Sierra Solutions Pte. Ltd.(Sierra Solutions) a subsidiary in Singapore, and an increase in sales from some customers, which were offset by the completion of the projects for mega banks. Operating income decreased 45.5% year on year due to the completion of the projects for mega banks and a decline in the profitability of projects at Sierra Solutions.

For the fiscal year ending December 31, 2017, we will strive to increase both sales and income through measures including the improvement of the profitability of Accel Frontline Limited (AFL), our subsidiary in India, and Sierra Solutions, and business expansion in the social security and healthcare domains.

Creating value

▶ Reinforcing software package businesses based on know-how

We will commercialize AZAREA, a tool for high-speed development that we have developed internally in the CAC Group on our own for improving development quality, efficiency, and profitability. The market of tools for high-speed development is expected to continue growing, and we plan to launch AZAREA on overseas markets, as well as the Japanese market.

▶ Increase in global projects

We will work to boost the number of global projects by identifying the demand arising from the shift of IT investment to other countries in response to the globalization of customer companies.

▶ Development of new mainstream technologies and new business domains

We will continue to expand business domains where new mainstream technologies are used through measures including investment via the corporate venture fund and alliance with overseas group companies. We have acquired new technologies such as those of Jibo, Inc., which develops family robots, and those for Emotion Artificial Intelligence from Affectiva, Inc. We will continue to pursue new mainstream technologies proactively.

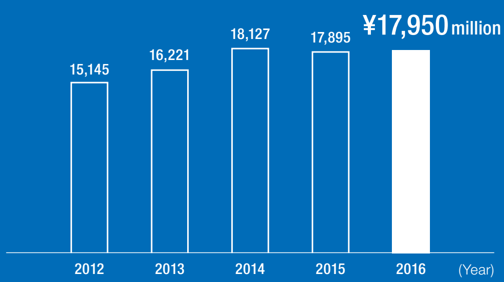
▶ Synergy with group companies

While the standard specifications of automotive systems are shifting to new technologies, the number of engineers who have acquired the new technologies is insufficient in Japan. In the CAC Group, we will expand our business by collaborating with engineers from AFL who have acquired the new technologies to differentiate ourselves in terms of technological capabilities and transfer the skills to engineers in Japan.

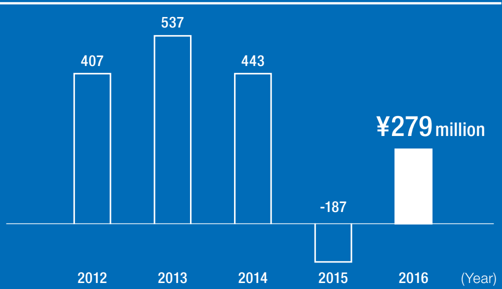
Business overview

In addition to operations outsourcing services, we provide data center services, help desk/ call center services, security-related services, and product assurance services, among others.

Sales



Operating income



Our strengths and features

Services for a major pharmaceutical company

These services began with a company that specialized in outsourcing, which was our subsidiary in the early days of the CAC Group. A major pharmaceutical company also invested in this company. We have built up our expertise in management through the provision of comprehensive services to this pharmaceutical company.

Expansion through M&A

CAC MARUHA NICHIRO SYSTEMS CORPORATION, CAC ORBIS CORPORATION, CAC Knowledge Co., Ltd., and ARK Systems Co., Ltd., which are group companies, all joined the CAC Group as a result of M&A.

Business performance

For the fiscal year ended December 31, 2016, sales increased only slightly, or by 0.3% year on year. However, operating income returned to the black because AFL was no longer affected by the allowance for doubtful accounts, etc. and reconstructed the earnings structure of its main business.
For the fiscal year ending December 31, 2017, we will further promote the automatization of operation, which is in demand in the market of systems operation and management services, in our efforts to improve efficiency and stability and secure stable income.

Creating value

Acceleration of human resource development

The CAC Group will strive to develop and allocate operation and management engineers in anticipation of demand for cloud-based operation and management.

For stable provision of services

The CAC Group has obtained certification under the international standard on information security (ISMS), namely JIS Q 27001:2014 (ISO/IEC 27001:2013). This certification provides customers with a sense of security when they use our stable services.

Evolution of the operation and management menus

We continue to develop new services and menus of operation and management with the aim of reducing customers' burden and the costs of operation and management, among other factors. In 2016, CAC Corporation began to provide AZAREA-AUTONOMICS, an IT operations automation service. The company automatizes a wide range of operations in an optimal manner based on its 50 years of experience and helps to minimize manual operations. In addition, ARK Systems began to provide services for *Marugoto Omakase* Zabbix (Leave everything to Zabbix), open-source system monitoring software. The company thus provides high-quality services ranging from development to operation and management at a low price while ensuring prompt delivery.

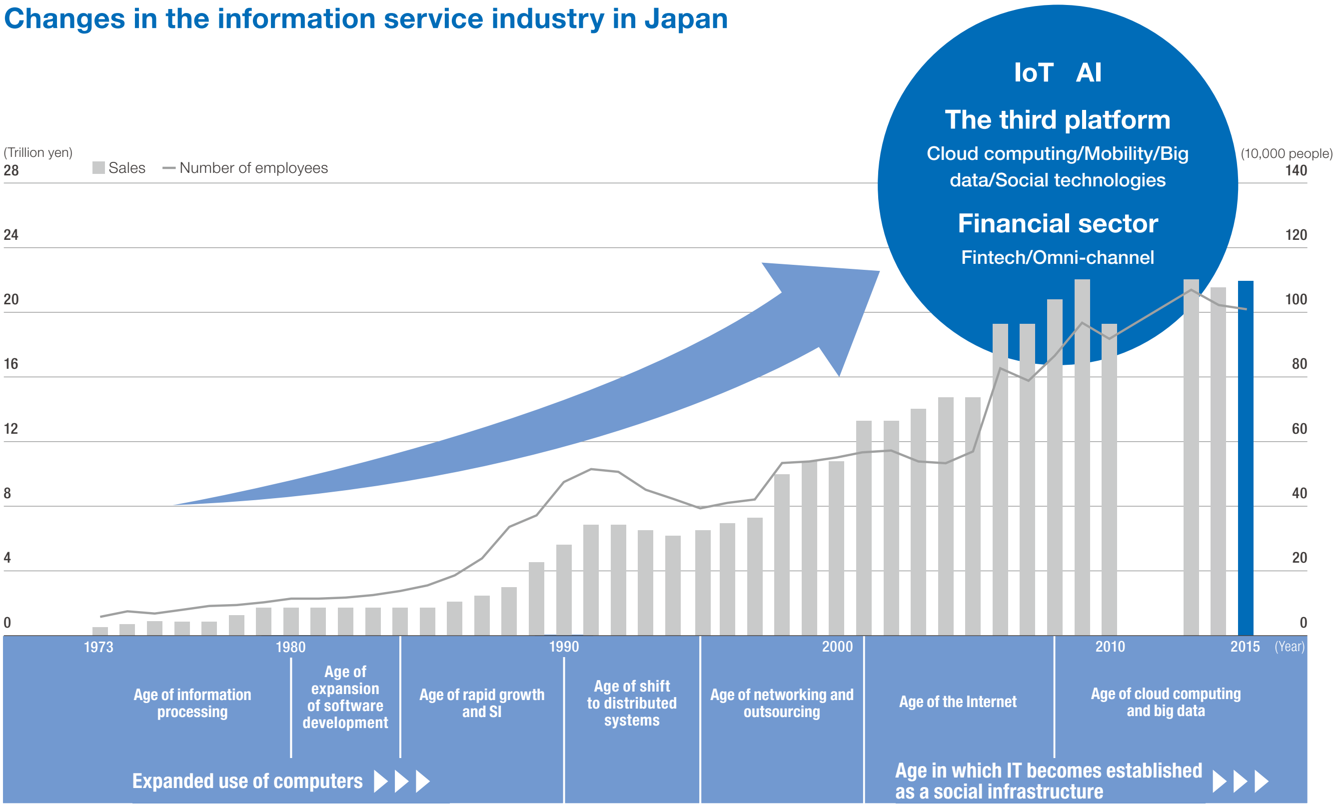
Industry structure in the field of IT services

Trends in the IT service industry

Japan's IT service market grew from 2014 to 2015 at a rate exceeding 3%. The year-on-year growth rate in 2016 is estimated to be no higher than 1.4% because of the completion of large-scale projects at financial institutions, government offices, and local governments, which had been the growth driver. In FY2017 and onward, the growth rate will gradually decline due to a shift from the conventional IT services to alternative services, such as cloud and BPO services, in addition to the sluggish growth of the domestic economy. The average annual growth rate for 2016 to 2021 is expected to be 1.1%. It is anticipated that during this period, Japan's IT market will be driven by demand related to digital transformation, which is associated with new products and services that use new technologies including the third platform (mobility, social technologies, big data, and cloud computing), IoT, and AI.

*All of the estimated values are from *Kokunai IT Service Shijou Sangyou Bunya-betsu Yosoku 2017 nen ~ 2021 nen* (Outlook of Domestic IT Service Market by Industrial Field: 2016 to 2021) that was published by IDC Japan.

Changes in the information service industry in Japan



[Sources: Japan Information Technology Services Industry Association (JISA), Jouhou Service Hatten no Keii (Development of Information Services) at http://itjobgate.jisa.or.jp/trend/index.html] and Ministry of Economy, Trade and Industry: Survey of Selected Service Industries]

Trends in the global market

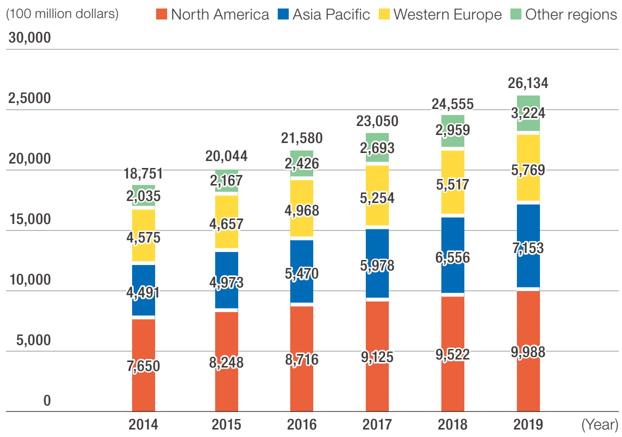
Global ICT expenditure* is expected to increase steadily at an average annual rate of 6.9%, from approximately 1.9 trillion dollars in 2014 to 2.6 trillion dollars in 2019. The largest market is North America, followed by Asia Pacific. The markets of developed countries, where major companies are based, are expected to continue to be the driver.

In the CAC Group, we will identify and capitalize on demand in growth fields in Japan as an independent company that excels in specific fields such as financial services and pharmaceuticals, and by investing in innovative technologies. At the same time, we will develop overseas business opportunities by deepening cooperation with our subsidiaries in India and other Asian countries.

*Defined as the sum of expenditures by businesses on ICT-related equipment, software, and services.

Global ICT expenditure – Changes and forecast

(Source: Ministry of Internal Affairs and Communications: WHITE PAPER 2015 - Information and Communications in Japan)



Initiatives on innovative businesses taken by the Innovation Company

To achieve long-term growth under the slogan “Rebirth Beyond,” the CAC Group invests in new technologies such as artificial intelligence (AI) and social robots and seeks ways to develop businesses based on these technologies. In this special feature, we introduce initiatives of the Innovative Business Planning Dept. of CAC Holdings and the Innovation Company of CAC Corporation, which sow the seeds of future businesses.

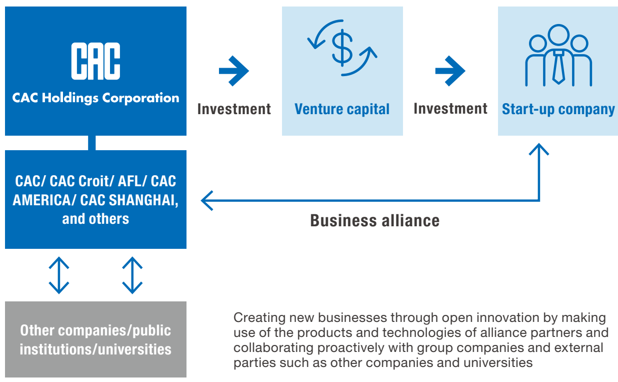
Investing in the advanced technologies of IT start-ups in the United States in search of new businesses

The CAC Groups invests in start-ups with innovative technologies, looking for ways to turn these technologies into new businesses. The Innovative Business Planning Dept. of CAC Holdings considers and determines investments mainly in IT start-ups in the United States with technologies and products that are the potential seeds of future businesses. The Innovation Company of CAC Corporation envisions, plans, and actually launches businesses from the seeds owned by the start-ups. The investments are made via a corporate venture fund that we established in the United States. The fund has assets of approximately 2.0 billion yen, and has invested nearly half of the assets in ten companies to date (including Affectiva, which has technologies in emotion recognition AI, Jibo and Blue Frog Robotics, which develop social robots, Meta, which specializes in augmented reality (AR), and Sano, which has technologies in IoT devices).

Missions of the Innovation Company

Half of the staff at the Innovation Company are from overseas, including such countries as Spain, Nepal, Malaysia, and Mexico, and most of them joined CAC Corporation as fresh graduates in the last few years. Staff members other than these young employees consist of people from diverse backgrounds, among them a researcher who has been studying AI for many years, a leader of development team, and a salesperson.
In the process of developing businesses based on the technologies of start-ups, the Innovation Company serves as a kind of technology intermediary by working together with other group companies including CAC Croit Corporation , AFL, and CAC SHANGHAI CORPORATION(CAC SHANGHAI). It is also the Innovative Company’s mission to create new business opportunities by taking advantage of the technologies of the CAC Group and working together with venture firms and companies in Japan other than investment destinations. One example is our collaboration with Retrieva, Inc., a Japanese software company that has technologies in natural language processing and machine learning. We engaged in sales, maintenance support, development, and other tasks for Retrieva products under a distributor agreement with the company. In May 2017, we began collaborating with the company in developing solutions for financial institutions. We aim to develop solutions related to natural language in financial services by making use of CAC Corporation's knowledge of systems for financial institutions and AI technologies of Retrieva.

Initiatives for innovations



Investment in Affectiva, a start-up company that has technologies in emotion recognition AI

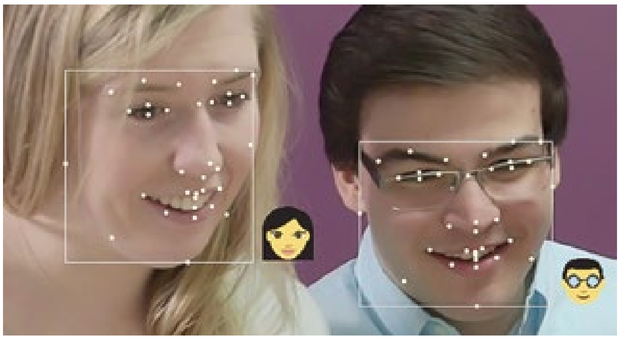
Affectiva, Inc., which is one of the start-ups in which we have invested, was spun off from the Media Lab of the Massachusetts Institute of Technology (MIT). It is a leader in the market of emotion recognition AI. Its founder and CEO Rana el Kaliouby has carried out research in the field of emotion recognition AI at MIT for 16 years, having started with a desire to create a computer that understands her emotions. Affdex, which was developed by Affectiva, is software that enables emotions to be analyzed as data by monitoring the subtle movements of human facial muscles on a real-time basis with a web camera or similar device. It can be referred to as an “emotional sensor” and has already been used in the United States.
One advantage of Affectiva, Inc. is the amount of data on emotions, which is the greatest differentiating factor in the world of machine learning. The company provides an emotion AI platform that uses a deep learning technology based on the world’s largest amount of data consisting of 70 billion data points that were collected from five million people in 75 countries. In the United States, this platform is widely used for viewing analysis – that is, gauging the reactions of viewers of TV commercials, dramas, and other contents to improve them – and for the promotion of events. As a medical application of this technology, a smart-glass-type device has been developed for autistic children who have difficulty communicating with others. The device is used to teach these children to read the emotions of others, such as happy and angry, based on their facial expressions.

The application of AI will dramatically expand the possibilities of our business partners and business domains.

Based on the investment in Affectiva, Inc., CAC Corporation concluded a distributor agreement with the company for the first time in Japan in July 2016 and began selling the services of the company and Affdex. In addition, Toppan Printing Co., Ltd., which was aware of this initiative of CAC Corporation, offered to collaborate with the company. As a result, we have commenced joint development with Toppan Printing by using emotion AI. Toppan Printing is developing services based on Experience Design, which offers experiences and sensations for various events, in-store promotions, and others. The company is therefore believed to have a high affinity with emotion recognition AI. On the other hand, CAC Corporation has mainly engaged in BtoB businesses in the financial and pharmaceutical fields. This collaboration will increase the possibility that CAC Corporation will expand the scope of its businesses to BtoBtoC.

We are studying the application of the technology to digital signage ads at commercial facilities as a specific future application. In addition to facial expressions, Affdex is capable of recognizing the gender, race, and age of multiple persons on a real-time basis. It therefore enables the emotions of people who view a digital signage ad to be recognized and analyzed in order to create more effective ads. In the field of medicine, the Pharmaceutical Business Company of CAC Corporation is playing the leading role in studying whether

Emotion recognition software provided by Affectiva



Affdex can be applied for stress checks and the detection of early-stage depression. We also envision diverse other applications, including a robot that reads human emotions and consoles or advises people and an in-vehicle camera that reads the driver's emotions, degree of concentration, and other conditions and relaxes the driver by playing music when it detects a decline of concentration.

Koji Iketani

General Manager of Innovative Business Planning Dept., CAC Holdings Corporation
Director and Executive Officer, Vice-President of Innovation Company, CAC Corporation

I joined CAC Corporation after working for several companies, including IT companies. I find CAC attractive because I can create new businesses together with other staff members by using AI and other new technologies, and I can be involved in jobs for the global market.

Takahiro Suzuki

Executive Officer, Vice-President of AZAREA Company, Senior Vice President of Innovation Company, and General Manager of AI & Robotics Business Dept., CAC Corporation

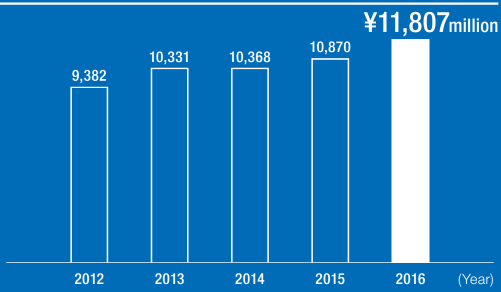
At the same time as creating new businesses, I would like to evolve AI and other new technologies by applying them to the company's businesses including AZAREA. The existing businesses of CAC Corporation, such as those in the fields of finance and pharmaceuticals that handle huge amounts of data, should have significant room for innovations that could be caused by automatizing processes with AI, thereby turning implicit knowledge into explicit knowledge.

Field of outsourcing services
BPO/ BTO services

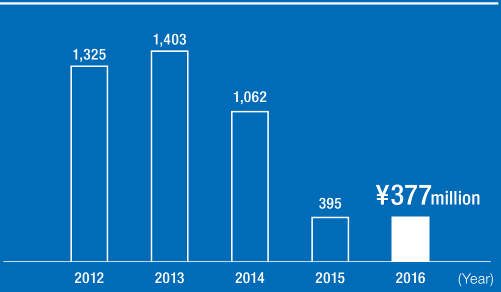
Business overview

We provide outsourcing services that combine IT and operation functions. At the CAC Group, we currently provide CRO (pharmaceutical BTO) services and human resource BPO services.

Sales



Operating income



Our strengths and features

CRO with strength in pharmacovigilance services

Our CRO (pharmaceutical BTO) services cover all the factors needed to support pharmaceutical development. Above all, we are a leading provider of pharmacovigilance and pharmaceutical application services in Japan.

Ready to undertake all types of personnel management affairs

Our human resource BPO services handle general tasks such as salary calculation. They also cover the operation of personnel systems, labor management, benefit program management, and other personnel management affairs.

Business performance

For the fiscal year ended December 31, 2016, sales from both CRO (pharmaceutical BTO) services and human resource BPO services increased, and overall sales grew 8.6% year on year. Operating income declined 4.7% year on year due to the impact of unprofitable projects in CRO.
For the fiscal year ending December 31, 2017, we expect to see a recovery of profit, which will result partly from the appropriate allocation of staff and the elimination of unprofitable projects, and also the synergy from the merger of the two consolidated subsidiaries that we carried out in the fiscal year ended December 31, 2016.

Creating value

Pursuing new BPO services

We have provided BPO services mainly in the human resource field. Going forward, we will pursue new BPO services intended for other fields. We will develop high-quality, efficient outsourcing services that we will provide by making effective use of information technologies. We will develop these services for the back office operations of customers that are needed to support their main businesses, which are cumbersome, costly, and can be handled only by specific personnel.

A research institute focused on the future

CAC Croit Corporation is constantly aware of service provision with a focus on the future while covering all service menus that are required of CRO (pharmaceutical BTO services).
The Research Institute of CAC Croit Corporation issues its own White Paper by working together with group companies. It conducts research on various cases, such as movements in the pharmaceutical industry and changes in international laws, regulations, and standards. It anticipates specific tasks, technologies and services that will be required of CRO, and at the same time it makes use of the knowledge to improve its existing businesses and services and their quality.

Accelerating measures to respond to globalization through M&A and alliances

In the CRO (pharmaceutical BTO services), international joint clinical trials constitute more than 40%* of all clinical trials, and are expected to continue increasing. This makes it essential to ensure that the level of quality is consistent with the global standard. We will accelerate measures to respond to globalization through M&A and alliances.

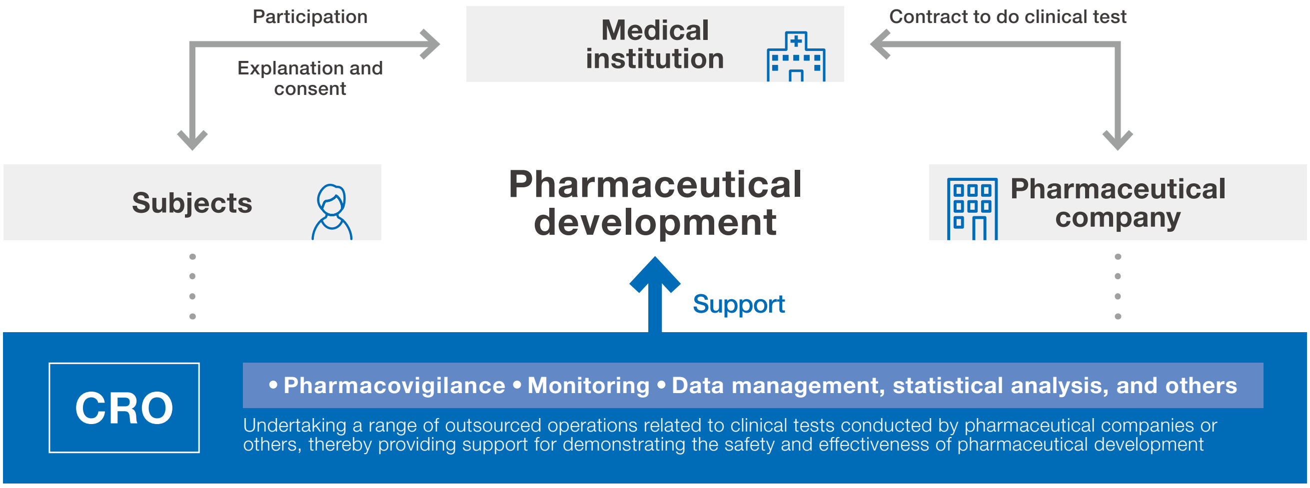
* Source: Pharmaceuticals and Medical Devices Agency: "Chiken Keikaku Todokede-Su no Suii" (Trend in Number of Clinical Trial Plan Submissions) in *Iyakuhin-to no Shinsa Oyobi Chiken ni Kansuru Saikin no Doko ni Tsuite* (Recent Trends Concerning Drug Examinations and Clinical Trials) (Material for the FY2016 GCP Workshop)

Special feature

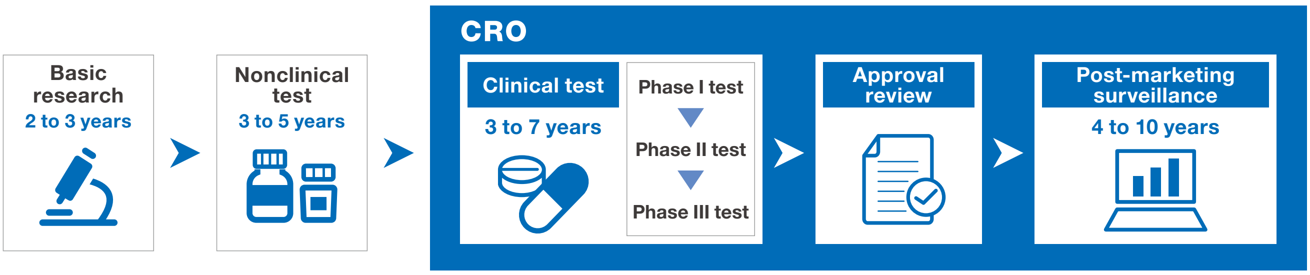
Our CRO services

CRO stands for Contract Research Organization. CRO refers to undertaking outsourced operations of conducting clinical trials (clinical development) upon drug development by a pharmaceutical company and operations after manufacturing and sales. The term also refers to companies that perform these operations. At the CAC Group, we provide all kinds of CRO solutions, including pharmacovigilance, monitoring, and data management and statistical analysis. The CAC Group categorizes these operations as BPO/ BTO services.

Role and position of CRO



Flow of new drug development and descriptions of CRO's operations



	Contents	Descriptions of CRO's operations
Clinical test	Administering the new drug to subjects to check its safety and effectiveness	CRO undertakes operations including checking whether the test is conducted in accordance with the standards specified by the administrative authorities, the overall management of the clinical test including explanations to subjects, and the management of test result data.
Approval review	Applying for approval for the drug to the administrative authorities in accordance with the standards	CRO undertakes operations including conducting the overall tasks for the application, including the analysis, creation, and correction of application materials. CRO also checks the guidelines in various countries, international rules, and other regulations, which keep changing on a daily basis.
Post-marketing surveillance	Conducting extensive research and analyses to check the effectiveness and safety that were not found in the clinical test phase	CRO provides services after manufacturing, which include the collection of information, data management, and statistical analysis. Information about the side effects needs to be handled accurately and quickly by applying IT and other technologies because it is mandatory to report such information to the authorities.

Special feature

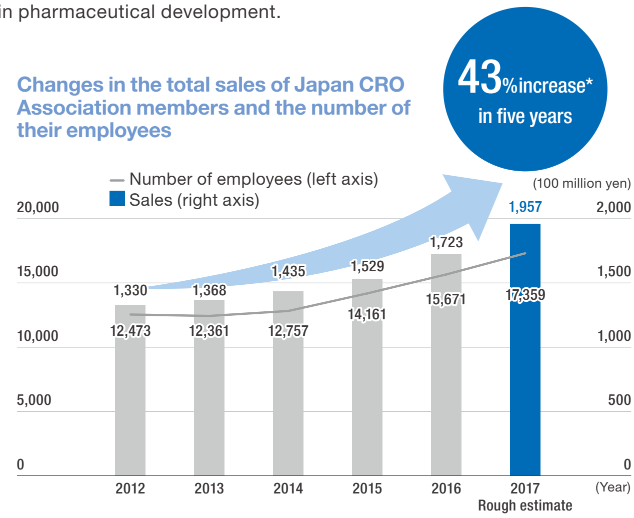
Possibilities of CRO services

It takes numerous processes and a huge amount of time and effort to ensure that a pharmaceutical product fulfills government standards and is approved, which imposes a major burden on a pharmaceutical company. CRO supports pharmaceutical companies by undertaking various operations, which are involved mainly in clinical tests and post-marketing surveillance, so as to improve the efficiency of the development and help create new drugs quickly. CRO is therefore essential in pharmaceutical development.

Trends in the CRO market

The trends in the CRO market are expected to continue growing positively. The main reasons for this growth are that pharmaceutical companies are outsourcing more of their operations to reduce the cost of clinical trials and improve their efficiency, and that international joint clinical trials have been increasing.
Globally, there has been a growing trend for pharmaceutical companies and biopharmaceutical companies to outsource R&D operations. The global CRO market is expected to grow positively.

Changes in the total sales of Japan CRO Association members and the number of their employees



Source: Japan CRO Association, 2016 Annual Report
*Change in five years from 2013 figure to rough estimate for 2017

Future expansion of drug discovery and CRO markets

Given the expansion of new markets and new domains in the drug discovery industry, CROs are required to expand and enhance their roles.
With the establishment of international rules, international joint clinical trials have been increasing. They account for 42% of all notifications of clinical trials made in Japan. This has made it essential for CROs to work with a global perspective.
In addition, pharmaceutical companies have shifted their corporate strategy to the domain of advanced medicine, including the development of orphan drugs* that is encouraged by the national government and promotion of regeneration medicine such as the practical application of iPS cell technologies. Hereafter, CRO services will be expected to transcend existing frameworks in line with the strategies of pharmaceutical companies, not to mention achieving the objectives of reducing the cost and improving the efficiency of clinical trials.

*Pharmaceutical products for diseases and conditions for which research has not advanced sufficiently due to reasons including the small number of patients

CRO industry in Japan and position of the CAC Group

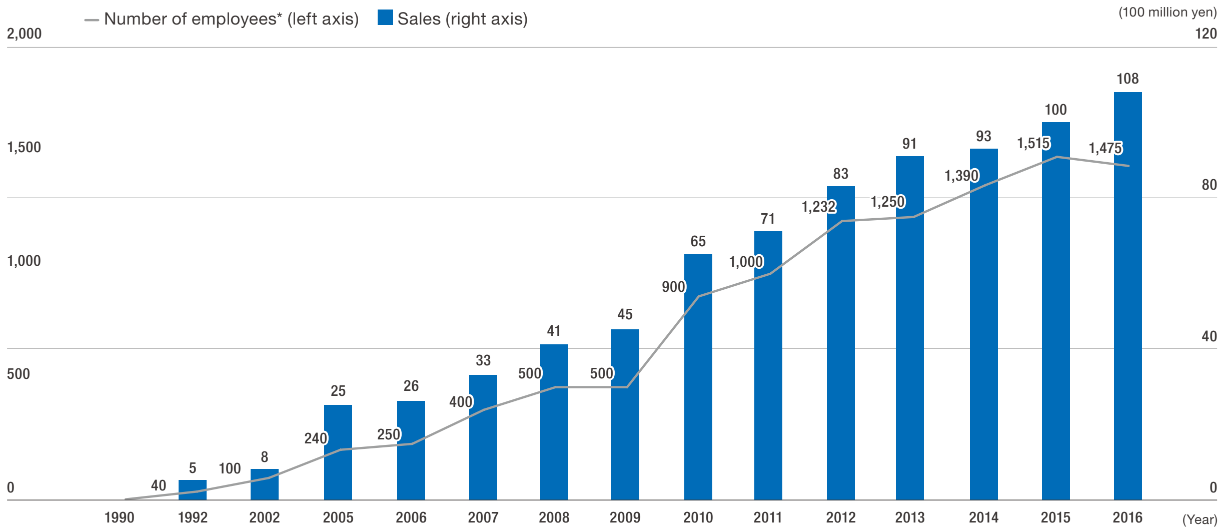
While the majority of the companies in the industry are those that originally began as companies specializing in CRO, CAC Croit Corporation stands as a distinctive service vendor that has evolved from an IT company. CAC Croit Corporation provides outsourcing services for the pharmaceutical development process, as well as services for systems development and integration and systems operation and management for customers. It is positioned as a second-tier company in the industry behind industry-leading corporate groups such as CMIC Co., Ltd. and EPS Holdings, Inc.

In recent years, it has become necessary to respond flexibly to customer requests, including those for the expansion and diversification of services as well as for higher quality and speed and lower cost. At the same time, an increasing number of foreign CRO companies are entering the Japanese market as a result of an increase in international joint clinical trials. Accordingly, the company aims to expand its businesses by exploring an opportunity to form an alliance with a global enterprise, for example.

Features and growth of CRO business at the CAC Group

The CRO business is operated by CAC Croit Corporation. This company has been growing by catering to customer needs by taking full advantage of its position as a subsidiary of an IT company. It began providing a service of inputting clinical trial data in the 1970s, when the term “CRO” did not yet exist. The range of its services has now been expanded to cover diverse drug manufacturing processes, from drug discovery and nonclinical tests to post-marketing processes. It posted sales of 10.8 billion yen in 2016.

Changes in sales of CAC Croit Corporation



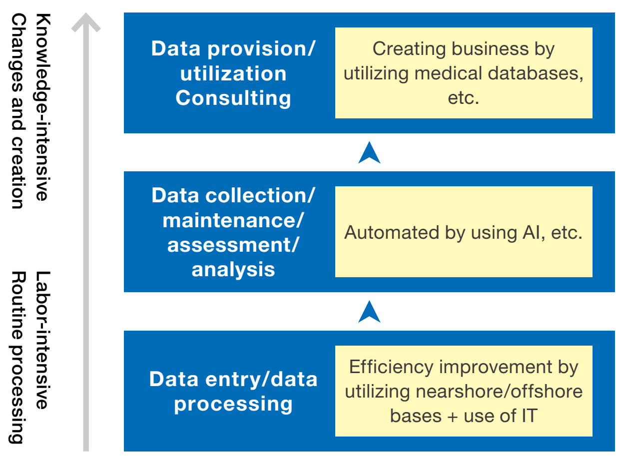
*Including employees of partners, dispatched employees, and part-time employees

Unique points of CAC Croit Corporation

- **CRO that evolved from an IT company**
- **In-house development of IT tools exclusively for the CRO business**
- **The first company in Japan to begin operating the CRO business**
- **Strengths in pharmacovigilance and Regulatory Operations**

For further growth and value creation

We have achieved growth by undertaking diverse operations involved in pharmaceutical development, something that had previously been carried out internally by pharmaceutical companies, and by conducting the operations efficiently, accurately, and promptly by applying information technologies. It is said that new technologies such as big data and AI will change society significantly. We believe that the new technologies will also be a trump card for CRO in facilitating the creation of new business models and its growth. For example, the use of AI enables the collection and analysis of big data to be automated and a new business of providing consulting services to be created based on the analysis. We aim to shift to businesses with greater added value and profitability than ever before by using new information technologies to shift from labor-intensive business to knowledge-intensive business.



Corporate governance

Basic approach to corporate governance

The core of the CAC Group's management philosophy is "to continually contribute to the enhancement of customers' corporate value." To successfully embody this philosophy, we will develop a solid base of growth and mobilize the capacities of the CAC Group for improving earnings. We will manage the company in a way that maximizes stakeholder satisfaction in line with the basic policies of earning the trust of customers, responding to changes in the market ahead of others, and enhancing the vitality of each individual employee. For this purpose, we have improved the transparency of our decision-making and have established a corporate governance system in which a monitoring function and a supervising function are embedded appropriately.

Basic structure of governance and management execution system

At the CAC Group, we have been strengthening governance aiming for open management with an emphasis on the transparency of management. In 2003, we set up the Management Advisory Board and began to take initiatives for obtaining advice and recommendations about corporate governance from external specialists. In 2005, we made the change to a management system that includes outside directors. Currently (as of March 23, 2017), our Board of Directors consists of ten directors, four of whom are outside directors (three men and one woman). All of the outside directors are independent officers. In addition, two of our directors are foreign nationals due to the expansion of our global business. In 2014, we made the switch to a pure holding company structure, thereby establishing a system under which the formulation of business strategies for the entire group and the business administration of group companies are carried out faster than ever before.

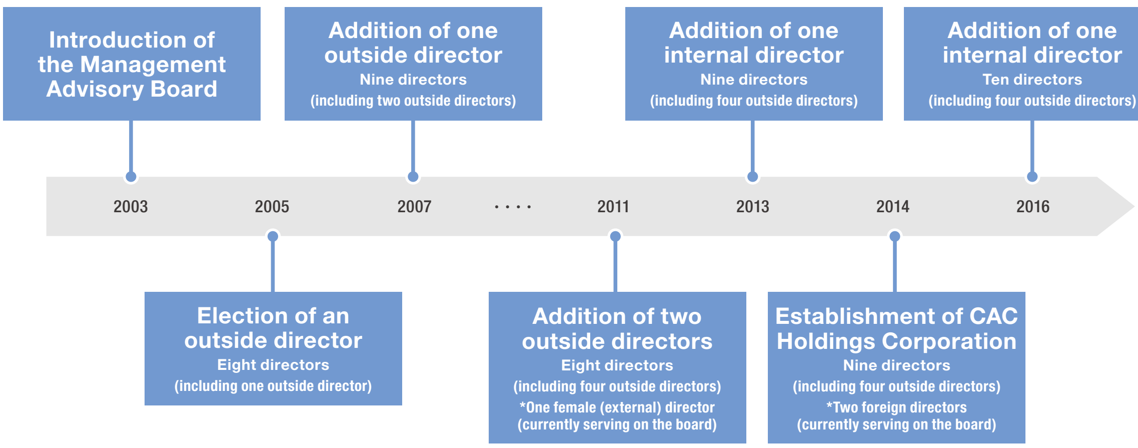
Board of Directors

The Board of Directors meets regularly every month and as needed. Important matters are submitted for discussion at the Board of Directors, and the status of operations is reported as needed. We have also set up a Management Meeting as a place for deliberating and making final decisions on important management matters related to consolidated subsidiaries and affiliates.

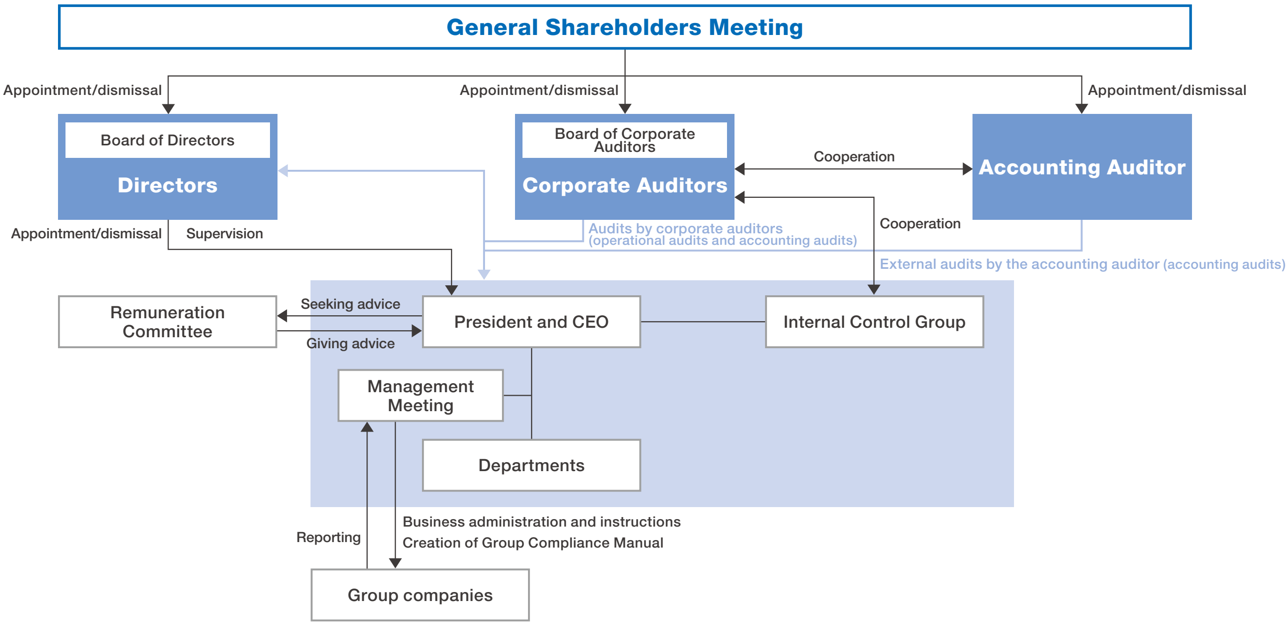
Board of Corporate Auditors

Our Board of Corporate Auditors consists of four corporate auditors, two of whom are outside corporate auditors. They meet regularly every month and as needed to hold discussions aimed at ensuring the adequacy and appropriateness of decisions made by the Board of Directors, and the manner in which each director performs his or her operations. Corporate auditors actively participate in Management Meetings in addition to Board of Directors meetings to properly monitor the performance of operations by directors.

Reinforcement of the governance system



Corporate governance system chart



Remuneration Committee

The amount of remuneration and other similar benefits for each director is determined through a comprehensive evaluation of the roles and degree of contribution each director makes by the Board of Directors, making sure the range does not exceed the upper limit approved at the General Shareholders Meeting. The amount of remuneration for corporate auditors is determined through discussion by corporate auditors, comprehensively taking into account factors such as whether each corporate auditor is a full-time or part-time corporate auditor and the distribution of auditing operations among corporate auditors, while making sure the range does not exceed the upper limit approved at the General Shareholders Meeting.

The Remuneration Committee, which is chaired by an outside director (Mr. Mitsuyo Hanada), was established as an advisory committee for the purpose of examining the adequacy of remuneration for directors and other executives.

Amount of remuneration for officers in FY2016

Position	Number of officers	Total amount of remuneration (million yen)	Breakdown	Upper limit of the amount
Directors (outside directors)	**10** (4)	**147** (18)	**Base remuneration: ¥122 million Bonus: ¥25 million (Only base remuneration was paid to outside directors)**	**Up to ¥240 million per year**
Corporate auditors (outside corporate auditors)	**4** (2)	**45** (9)	**Base remuneration only**	**Up to ¥4 million per month**
Total	**14** (6)	**192** (27)		

Notes: 1. The upper limit of the amount of remuneration for directors, which is 240 million yen per year (excluding the amount of employee salaries), was approved at the 40th Annual General Shareholders Meeting held on March 30, 2006.
2. The upper limit of the amount of remuneration for corporate auditors, which is 4 million yen per month, was approved at an extraordinary General Shareholders Meeting held on December 11, 1997.
3. At the 42nd Annual General Shareholders Meeting held on March 27, 2008, the abolition of officers' resignation bonuses was approved. It was also decided that the amount to be paid as of the time of the abolition should be paid, and that the payment should be made at the time each director or corporate auditor resigns.

Management team (As of March 23, 2017)

Directors

Toshio Shimada

Chairman of the Board of Directors

Nov. 1997 : Joins the Company
Mar. 2002 : Director and Senior Vice President, Corporate Planning Dept., the Company
Mar. 2004 : President and CEO, the Company
Jan. 2011 : Representative Director and Chairman of the Board of Directors, the Company
Jun. 2011 : Vice Chairman, Japan Information Technology Services Industry Association (current position)
Mar. 2015 : Director and Chairman of the Board of Directors, the Company (current position)

Akihiko Sako

President and CEO

Apr. 1983 : Joins the Company
Mar. 2000 : Executive Officer and General Manager, 1st Section, Financial System Dept., SI Div., the Company
Mar. 2005 : Director, Executive Officer and Senior Vice President, Corporate Div., the Company
Jan. 2011 : President and CEO, the Company (current position)
Apr. 2014 : President and CEO, CAC Corporation (current position)

Hisashi Takahashi

Director (In charge of Pharmaceutical BTO)

Apr. 1979 : Joins the Company
Mar. 2000 : Executive Officer, Vice President, SI Promotion Div., the Company
Mar. 2004 : Director and Executive Officer, Head of R&D System Business Unit, the Company
Apr. 2012 : President and Chief Executive Officer, CAC EXICARE Corporation (now CAC Croit Corporation) (current position)
Apr. 2014 : Director, the Company (current position)

Bin Cheng

Director (In charge of China)

Jul. 1992 : Joins CAC AMERICA CORPORATION
Apr. 2000 : Joins the Company
May. 2000 : Director & President, CAC PACIFIC CORPORATION
Jul. 2000 : Director & President, CAC SHANGHAI CORPORATION (current position)
Apr. 2014 : Director, the Company (current position)

Malcolm F. Mehta

Director (In charge of India)

Jun. 2010 : Joins the Company
Oct. 2010 : President, CAC India Private Limited (current position)
Apr. 2014 : Director, the Company (current position)
Jul. 2014 : Executive Director, Accel Frontline Limited (current position)
Nov. 2016 : Chairman and Executive Director, Accel Frontline Limited (current position)

Ryota Nishimori

Director (In charge of Corporate Dept., Corporate Planning Dept., and Innovative Business Planning Dept.)

Apr. 1994 : Joins the Company
Jan. 2009 : Executive Officer and Deputy Head of Financial Business Unit, the Company
Jan. 2011 : Director & President, CAC AMERICA CORPORATION
Mar. 2016 : Director, CAC Corporation (current position)
Director, the Company (current position)

Outside directors

Mitsuyo Hanada

Outside Director

Sep. 1977 : Lecturer, Department of Sociology, California State University, Los Angeles
Apr. 1986 : Professor, Sanno University
Mar. 1990 : Professor, Faculty of Policy Management, Keio University
Mar. 2005 : Director, the Company (current position)
Apr. 2014 : Professor Emeritus, Keio University (current position)

*The Company has designated Mr. Mitsuyo Hanada as an independent officer in accordance with the stipulations of the Tokyo Stock Exchange, Inc.

Shigeru Matsushima

Outside Director

Apr. 1973 : Joins the Ministry of International Trade and Industry of Japan (currently the Ministry of Economy, Trade and Industry)
Jun. 1993 : Director, Southeast Asia and Pacific Division, Trade Policy Bureau
Sep. 1999 : Director-General, Chubu Bureau of International Trade and Industry
Apr. 2001 : Professor, Faculty of Business Administration, Hosei University
Mar. 2007 : Director, the Company (current position)
Apr. 2011 : Professor, Department of Management of Technology, Graduate School of Innovation Studies, Tokyo University of Science

*The Company has designated Mr. Shigeru Matsushima as an independent officer in accordance with the stipulations of the Tokyo Stock Exchange, Inc.

Michitaka Hirose

Outside Director

Apr. 2006 : Professor, Department of Mechano Informatics, Graduate School of Information Science and Technology, the University of Tokyo (current position)
Mar. 2011 : Director, the Company (current position)
Apr. 2011 : R&D Advisor, National Institute of Information and Communications Technology (current position)
Apr. 2014 : Auditor, The Virtual Reality Society of Japan (current position)

*The Company has designated Mr. Michitaka Hirose as an independent officer in accordance with the stipulations of the Tokyo Stock Exchange, Inc.

Yukiko Kuroda

Outside Director

Jan. 1991 : Representative Director, People Focus Consulting Co., Ltd.
Aug. 1996 : Director, CICOM BRAINS Inc.
Mar. 2011 : Director, the Company (current position)
Apr. 2012 : Founder and Director, People Focus Consulting Co., Ltd. (current position)

*The Company has designated Ms. Yukiko Kuroda as an independent officer in accordance with the stipulations of the Tokyo Stock Exchange, Inc.

Auditors

Akinobu Matsumura

Full-Time Corporate Auditor

Oct. 2000 : Joins the Company
Apr. 2001 : Executive Officer, Senior Vice President, Internet Business Promotion Div., COE Control Div., the Company
Mar. 2005 : Director and Executive Officer, Head of Outsourcing Business Unit, the Company
Mar. 2011 : Full-Time Corporate Auditor, the Company (current position)

Masaaki Yoshida

Full-Time Corporate Auditor

Oct. 2005 : Joins the Company
Jan. 2012 : Vice President, Corporate Div. and General Manager of Corporate Planning Dept. of the same division, the Company
Apr. 2014 : General Manager, Corporate Control Dept., the Company
Jan. 2015 : General Manager, Corporate Dept., the Company
Mar. 2017 : Full-Time Corporate Auditor, the Company (current position)

Kotaro Ishii

Outside Corporate Auditor

Apr. 1984 : Joins The Boston Consulting Group
Jan. 1986 : Participates in the foundation of Corporate Directions, Inc.
Mar. 1993 : Director and Partner, Corporate Directions, Inc.
Mar. 2003 : Representative Director, Corporate Directions, Inc. (current position)
Mar. 2015 : Corporate Auditor, the Company (current position)

*The Company has designated Mr. Kotaro Ishii as an independent officer in accordance with the stipulations of the Tokyo Stock Exchange, Inc.

Hirokazu Honda

Outside Corporate Auditor

Apr. 1997 : Registered as a lawyer and joins Abe, Ikubo & Katayama
Mar. 2004 : Registered as a lawyer in the State of New York, the United States
Aug. 2004 : Partner of Abe, Ikubo & Katayama (current position)
Jun. 2015 : Senior Director, International Association for the Protection of Intellectual Property of Japan (current position)
Mar. 2017 : Corporate Auditor, the Company (current position)

*The Company has designated Mr. Hirokazu Honda as an independent officer in accordance with the stipulations of the Tokyo Stock Exchange, Inc.

Voices of outside directors

Creating harmony between challenges in new business domains and disciplined governance.

Shigeru Matsushima Outside Director
Appointed in 2007

I was assigned to the position of outside director of the company in 2007. I feel that the CAC Group has changed dynamically in the last ten years. The company, which was established as an independent software company, became a “company that takes on challenges” by expanding its businesses proactively to new fields, such as BPO/BTO services, just when I joined it as an outside director. The company has been expanding its businesses overseas in earnest, with a focus on Asia, since President Sako took office, or since 2014 in particular. I believe that these movements reflect the management team’s strong determination to transform the company in response to the significant changes in the environment surrounding the IT industry.

The Board of Directors of CAC Holdings Corporation consists of ten members, four of whom, including myself, are outside directors. While each of us has a specialty, we are not necessarily entrenched in our specialties but have lively discussions by exchanging opinions. Above all, when making decisions on M&A, we hold careful discussions by presenting different perspectives and applying the brakes from time to time. We also spend a lot of time discussing post-merger integration (PMI), which is a material issue of the CAC Group.

I used to work for the Ministry of International Trade and Industry (which is now the Ministry of Economy, Trade and Industry). At the graduate school of the Tokyo University of Science, to which I belonged until March 2017, I was in charge of teaching practical courses, including one on business innovation processes that was intended mainly for business managers with an engineering background. Because of my own career, I am very interested in the operation and PMI of overseas subsidiaries. I participate in discussions at Board of Directors meetings from the viewpoint of organizational theory and other aspects, including to what extent and in what form CAC Holdings should be involved in an overseas company it has acquired and how CAC Holdings should manage such an overseas company. Before acquisition, it is very important to identify the footings of the target overseas company, including the local management team. And after acquisition, it is important to watch the subsidiary while in Japan and create a structure that will enable synergy.

Japan’s IT market is not expected to grow at a rapid pace, and IT service companies such as the CAC Group have entered an era when they can no longer settle for existing businesses only. To survive and continue to grow, they need to take on the challenge of expanding their businesses overseas, even if they have to take risks. Governance will be increasingly important for harmonizing the challenge with the risks. I also believe that human resources will be more important when companies tackle challenges in overseas countries or new fields. While human resources with a high level of expertise are major assets of the CAC Group, we will need to develop human resources with a broad perspective as well as knowledge and skills in their specialized fields.

The CAC Group will continue to take on challenges to transform itself. As an outside director, I intend to check its operation carefully so that it can move forward by skillfully making adjustments between expansion into new domains and the risks that are generated in the process.

Identifying promising new technologies that will lead to the development of the CAC Group's business.

Michitaka Hirose Outside Director
Appointed in 2011

I feel that the company is quick to make decisions and implement them and tolerant of attempts to tackle new challenges. This is extremely important for managing business in this era. Previously, the CAC Group was a stable company with operating system development, operation, and management as its main businesses. In the current environment, however, sustainable growth cannot be achieved with these businesses alone. Japanese companies would formulate plans perfectly and implement the plans carefully, which was the typical style of business operations in the Showa Period (especially from the postwar period until the late 1980s). Going forward, however, the speed of detecting and responding to changes in the market will be essential, especially for an IT service company like the CAC Group.

I have been working for the company as an outside director since 2011. I also teach at a graduate school, specializing in new fields of computer science such as virtual reality (VR). The duty of an outside director was originally to function as an inhibitor when the management team was about to go too far. I believe, however, that my duties also include identifying new technologies and trends, sharing them with other people in the company, and proposing investments and research. Of course, I maintain a certain distance from the execution of businesses because an outside director must remain objective when making judgments about businesses. On the other hand, I participate proactively in discussions of next-generation businesses that are hosted by departments in charge of cutting-edge technologies at group companies. An example of such technologies is the AI technology of Affectiva, Inc., in which the company invested last year via the corporate venture fund. This technology is called Emotion Artificial Intelligence, and it goes ahead of the AI that is in practical use at present. It will not bring us profit immediately, but I expect it to become a mainstay business of the company in the near future.

At CAC Holdings Corporation, four of the ten directors are outside directors. In addition, two of its directors are non-Japanese directors. This enables us to say that the company has an advanced corporate governance system. Both outside directors and non-Japanese directors make statements under equal relationships, and I feel that diversity has been achieved in a natural form, although it is not something to be judged solely by form.

I believe that a major issue facing the CAC Group at present is how to take on the challenge of new things while minimizing risks in the rapidly changing industrial structure, as with many other Japanese companies in the IT service industry. This means that a new system is also necessary for governance. We must learn from experience and evolve our risk management system.

The IT service industry is seeing a huge wave of new technologies, including AI, VR, next-generation communications, big data, and others. This will make it important to determine in which direction we will steer ourselves in the face of new technologies, how to apply them for our business expansion and M&A, and how to internalize things that are foreign to us as we manage the company. Because I specialize in technologies, I will try to determine these things, which is how I would like to contribute to decision-making by the management team and support human resource development within the company.

Initiatives for securing global human resources

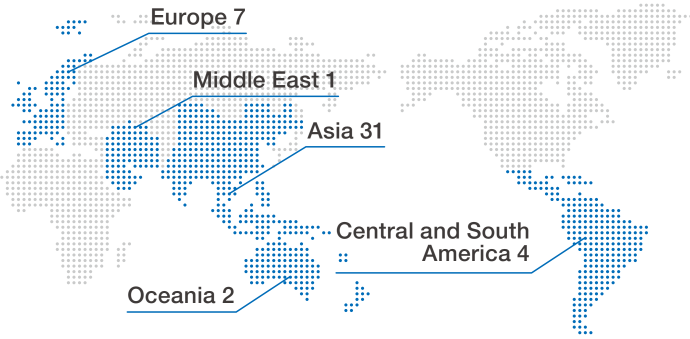
At the CAC Group, we work on the recruitment and development of human resources on the global level to promote diversity as well as the globalization of our businesses.

Initiatives for globalization

At present, the number of employees of our overseas group companies exceeds 60% of all the employees of the CAC Group. Operating companies in Japan are also accelerating their efforts to globalize their operations. Since 2008, CAC Corporation, the core operating company, has actively recruited employees of other nationalities. The company has a total of 45 non-Japanese employees from 20 countries as of December 31, 2016. Nearly half of the new employees recruited in the last three years are of other nationalities. In 2013, CAC Corporation began to recruit new employees in the autumn as well as in the spring in order to secure highly skilled individuals. In addition, we are taking initiatives to improve the English proficiency of Japanese employees.

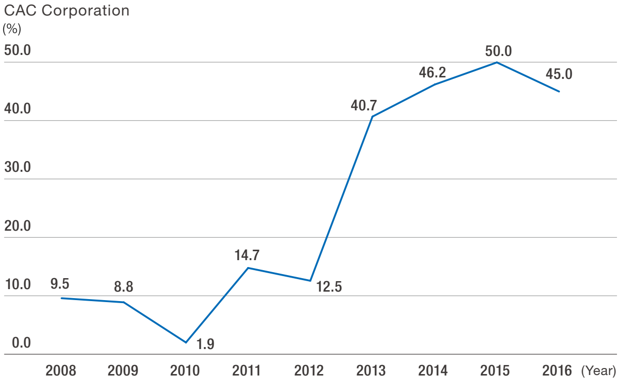
Number of foreign employees by region of origin

CAC Corporation (as of December 31,2016)

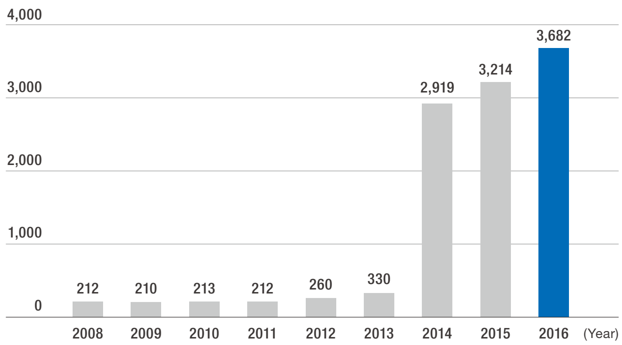


Percentage of new non-Japanese employees

CAC Corporation



Number of employees at overseas subsidiaries



Initiatives for developing next-generation global leaders

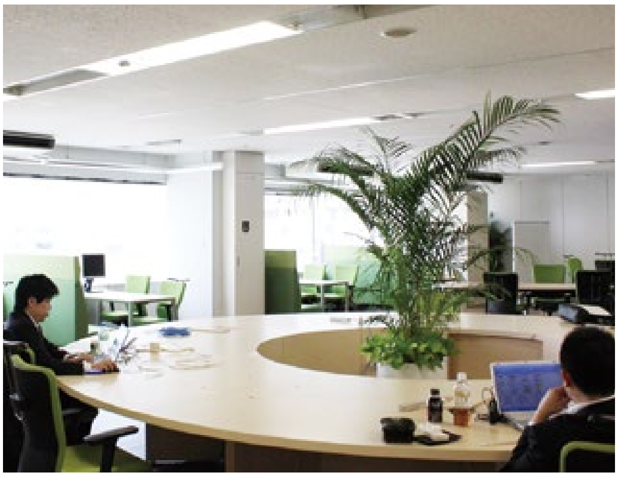
To identify and develop next-generation global leaders, we held the CAC Global Camp 2016 for selected human resources from group companies in Japan and other countries. At the CAC Global Camp 2016, training sessions were held in English in Singapore and China (Suzhou), and then the participants made presentations in Tokyo on "How CAC Group can increase its business outside Japan with multi-national companies." The participants collaborated with each other by exercising their ingenuity together beyond the differences in culture, language, and background. This has created a bond (Kizuna) among the participants and their network, which will be a major force of the CAC Group in the near future. We will continue to make group-wide efforts to develop human resources who will lead our global business.

Work style reform

We provide our employees, as our assets and commodities, with a comfortable work environment that enables them to demonstrate their skills to the full extent.

Teleworking environment

In 2012, CAC Holdings Corporation and CAC Corporation, the core operating company, built a teleworking environment and system that allow people to work anytime, anywhere, and with anyone. This has resulted in the introduction of a free-address system (which allows employees to work anywhere in the office) to the floors of sales and administrative departments. It also permits employees to work from home. As a result of this initiative, CAC Corporation was selected for the Telework Pioneer 100 by the Ministry of Internal Affairs and Communications in November 2016.

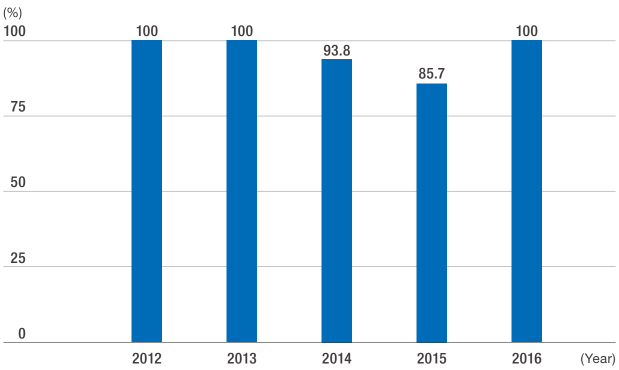


Establishment of systems

We have introduced systems that allow our employees to adjust their work hours. With these systems, we help our employees to work in a way that is appropriate for the situation or lifestyle of each of them. These systems also contribute to promoting operational efficiency.
We have also introduced a reemployment system under which we reemploy everyone who wishes to be reemployed, in addition to offering shorter working hours for employees who are raising children or providing nursing care to their families.

Rate of childcare leave takers returning to work in the last five years (female)

CAC Corporation



Achievements enabled by provision of environment and establishment of systems

Employees' work styles have become flexible due to the provision of the teleworking environment and the establishment of the systems that support this environment. These initiatives have also raised employees' awareness of time and led them to respect the diverse work styles of co-workers. They have resulted in awareness reform, including consideration of the times for holding meetings and further optimization of the way they proceed with work.
What is more, these flexible work styles prevent women from having to leave work due to childbirth or childcare and enable employees who need time for family care to continue working. A high percentage, namely 96.6%, of female employees taking childcare leave in the last five years have returned to work on average. Despite the changes in their environments, those employees continue to demonstrate their skills as much as or more than before. The rate of reemployment of retiring employees is 82.2%.

Relationship with society

Contribution to society in the healthcare field

At the CAC Group, we provide services including CRO services and systems development and integration services related to corporate pension. In this super-aging society, where the aging of the population is expected to continue, we would like to contribute to society by expanding our businesses to nursing care, healthcare, and similar fields, in addition to the fields of CRO and pensions.
To date, in the field of pensions, we have supported the establishment of the Institute for Strategic Solutions for Pension Management, an institution for research on pension systems, and we will continue to support the operations of the institute, in addition to operating businesses related to pensions.
At the CAC Group, we have been involved in more than 50 projects for the construction of systems related to pensions, contributing to the sustainability of the pension system, and we are deeply aware that many issues need to be solved to ensure the stability of the pension system in the future. Having endorsed the establishment of the Institute for Strategic Solutions for Pension Management, whose vision is to "improve the public trust in the pension system and contribute to its long-term stability," we will continue to support the institute.

Outline of the Institute for Strategic Solutions for Pension Management

Improve the public trust in the pension system and contribute to its long-term stability

Research subjects

- **Pension systems** Social security / National finance
- **Comparative study of systems**
- **Pension finance Future estimation**
- **Systems Infrastructure**
- **Pension investment**

Interdisciplinary research and validation through the collaborative efforts of industry, academia, and the government

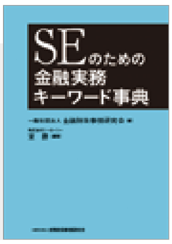
Industry **Academia** **National government**

Disseminating technologies and knowhow of operations

Since our establishment, we at the CAC Group have enjoyed long-term business relationships with leading companies in Japan in a range of fields, including Astellas Pharma Inc. (formerly Yamanouchi Pharmaceutical Co., Ltd.) and Mizuho Bank, Ltd. (formerly Industrial Bank of Japan, Ltd.). We have accumulated technologies and knowhow through these relationships. We disseminate our expertise and knowledge of operations outside the company, rather than retaining them internally.
In 1974, CAC Corporation launched SOFTECHS, a technology report magazine. The company has continued to publish this magazine for more than 40 years. In SOFTECHS, employees of our group companies, our customers, and external learned individuals report and explain technologies under specific themes, projects that the CAC Group was involved in, and other topics. In the financial field, in which we have strength, CAC Corporation employees have written books that show systematic summaries of knowledge of banking operations, corporate pension, and similar topics. They are *Zukai de manabu SE no tameno kigyou nenkin nyumon* (Illustrated ABCs of Corporate Pension for SEs) and *Zukai de manabu SE no tameno ginkou sandai gyoumu nyumon* (Illustrated ABCs of the Three Major Bank Operations for SEs). These books summarize information that is needed not only by system engineers involved in operations in the financial field but also by people who are beginning to learn banking operations.
In March 2017, we published *SE no tameno kinyu jitsumu keyword jiten* (a dictionary of keywords on financial practices for SEs), a dictionary-style book that explains the latest keywords on financial affairs, banks' operations, products, and services, and other relevant topics.

SE no tameno kinyu jitsumu keyword jiten
(Kinzai Institute for Financial Affairs, Inc.)

This book serves young and mid-level system engineers who are in charge of system development or operation in the financial field and people who are involved in practical operations at financial institutions.



At the CAC Group, we wish to help solve social problems through social contribution activities, such as support for the Institute of Strategic Solutions for Pension Management and sports for the disabled.

Activities for promoting and supporting Boccia, a sport for the disabled

As a member of society, we at the CAC Group engage in social contribution activities such as environmental protection and participate in activities of local communities. We also aim to build a better society through the provision of IT and healthcare services.
Specific activities include providing support for the Japan Cross Country Skiing Association for the Disabled, support for events held in local communities and helping the Red Cross Society of Japan with blood donation activities. We also used our 50th anniversary as an opportunity to start promoting and supporting Boccia, a sport for persons with disabilities.

Boccia which is a Paralympic sport, was invented in Europe for people with severe cerebral palsy and those with other equally severe disabilities that affect the functions of their limbs. Players compete to place their set of red and blue balls, six each, around a white ball called the jack ball (target ball). They throw or roll the balls or hit them with other balls to place them as close as possible to the jack ball. Players who are unable to throw the ball may use a ramp (assistive device) and take part in matches if they can tell their assistants where they wish to aim the ball.

Initiatives of the CAC Group for Boccia

At the CAC Group, we have continued out work to promote and support Boccia with the aim of making it known to a greater number of people, helping provide more opportunities for disabled people to play this sport, and for other purposes.
In addition to providing support for the activities of the Japan Boccia Association and the operations of major tournaments in Japan, our employees are proactive in creating opportunities to enjoy playing Boccia on their own. At the 2017 Boccia Tokyo Cup, an inclusive Boccia tournament* that was held in March 2017, one of the 12 teams from the CAC Group achieved second place.
We are also improving the environment for watching Boccia games by making use of information technologies that we use for our businesses in the CAC Group. In December 2016, we announced the development of *Boccia Measure* (tentative name) (patent-pending), an Android application for measuring the distance between Boccia balls. In addition to helping Boccia games to run smoothly with *Boccia Measure*, we will communicate the progress of each game to spectators in an easy-to-understand manner. By making use of information technologies, we will continue to study tools that will shorten the distance between the Boccia court and spectator stand and warm up Boccia tournaments.
These initiatives were highly evaluated, and we were certified by the Tokyo Metropolitan Government as a Tokyo Sports Promotion Company for FY2016.

Provide support as a Gold Partner of the Japan Boccia Association

Send employee volunteers to various tournaments to support the operations and cheer on players

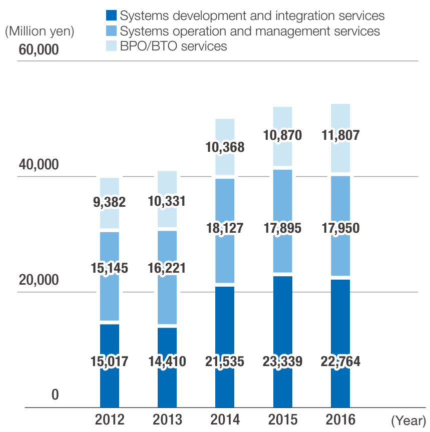
Create an environment for watching Boccia games through measures such as developing support tools by making use of information technologies

*Inclusive Boccia tournament: A Boccia tournament in which disabled and non-disabled players compete on equal footing

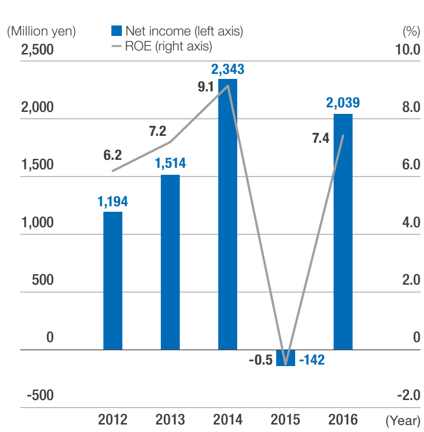
Financial highlights for the past 11 years

	41st term FY2006	42nd term FY2007	43rd term FY2008	44th term FY2009
Net sales (million yen)	37,387	40,924	43,701	39,842
Operating income (million yen)	1,944	2,512	3,260	1,733
Ordinary income (million yen)	2,185	2,846	3,491	1,884
Profit attributable to owners of parent (million yen)	1,209	1,168	1,844	929
Net assets (million yen)	18,065	18,574	18,708	19,773
Total assets (million yen)	27,225	29,516	29,713	31,004
Cash flows from operating activities (million yen)	(3,043)	3,279	2,666	687
Cash flows from investing activities (million yen)	(789)	(694)	(1,084)	(2,300)
Cash flows from financing activities (million yen)	(1,579)	(870)	(1,144)	705
Book value per share <BPS> (yen)	857.39	886.06	915.93	960.61
Earnings per share <EPS> (yen)	56.79	55.89	91.12	46.49
Return on equity <ROE> (%)	6.8	6.5	10.1	5.0
Return on assets <ROA> (%)	7.3	10.0	11.8	6.2
Equity ratio (%)	65.7	61.8	61.6	62.0
Price-to-earnings ratio <PER> (times) *Based on the closing share price at the end of each fiscal year	17.5	12.9	8.5	14.3
Amount of dividend per share (yen)	14.00	20.00	30.00	32.00
Dividend payout ratio (%)	24.7	35.8	32.9	68.8
Number of employees	1,882	1,881	1,998	2,150

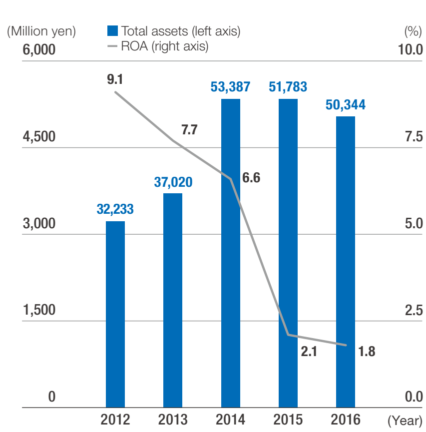
Net sales by segment



Net income/ROE

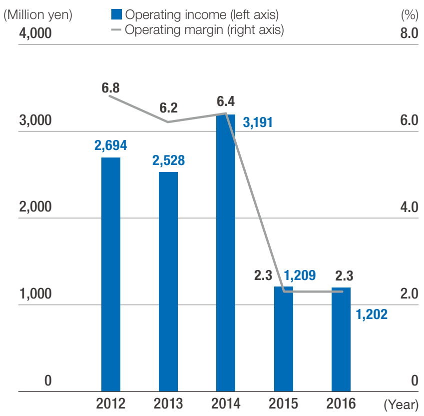


Total assets/ROA

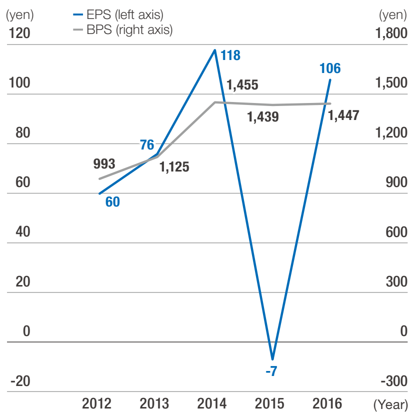


45th term FY2010	46th term FY2011	47th term FY2012	48th term FY2013	49th term FY2014	50th term FY2015	51st term FY2016
36,614	38,882	39,545	40,963	50,031	52,105	52,521
1,822	2,610	2,694	2,528	3,191	1,209	1,202
2,035	2,776	2,887	2,664	3,000	1,080	937
1,026	39	1,194	1,514	2,343	(142)	2,039
20,316	19,294	20,200	22,833	30,310	29,293	27,683
31,781	31,363	32,233	37,020	53,387	51,783	50,344
2,319	(1,509)	3,077	2,100	2,331	(770)	892
488	1,076	1,419	(2,312)	432	(2,760)	3,233
(908)	(407)	(1,248)	989	(1,388)	(796)	(1,920)
979.73	940.20	993.35	1,124.81	1,455.06	1,439.40	1,447.09
51.09	1.98	59.99	76.07	117.69	(7.21)	105.54
5.3	0.2	6.2	7.2	9.1	(0.5)	7.4
6.5	8.8	9.1	7.7	6.6	2.1	1.8
62.0	60.3	61.4	60.5	54.3	54.6	53.0
12.3	317.9	11.4	12.1	10.0	—	8.4
32.00	32.00	32.00	32.00	32.00	32.00	40.00
62.6	1,614.7	53.3	42.1	27.2	—	37.9
2,070	2,057	2,166	2,239	4,833	5,202	5,711

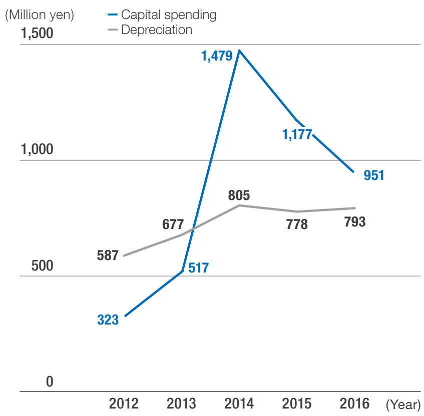
Operating income/Operating margin



EPS/BPS



Capital spending/Depreciation



CONSOLIDATED BALANCE SHEETS

CAC Holdings Corporation

	Millions of yen		Thousands of U.S. dollars
December 31	**2016**	2015	**2016**
Assets			
Current assets:			
Cash and deposits (Notes 6, 8 and 19)	**¥11,428**	¥8,983	**$98,517**
Notes and accounts receivable - trade (Notes 6 and 8)	**10,318**	12,081	**88,948**
Securities (Notes 5 and 6)	**1,101**	1,108	**9,491**
Merchandise and finished goods (Note 8)	**842**	779	**7,258**
Work in process	**762**	1,051	**6,568**
Supplies	**26**	52	**224**
Prepaid expenses	**1,098**	892	**9,465**
Deferred tax assets (Note 9)	**337**	284	**2,905**
Other (Note 8)	**680**	847	**5,862**
Allowance for doubtful accounts (Note 6)	**(128)**	(780)	**(1,103)**
Total current assets	**26,468**	25,300	**228,172**
Property and equipment:			
Land	**182**	182	**1,568**
Buildings and structures	**1,392**	1,397	**12,000**
Machinery and vehicles (Note 8)	**93**	114	**801**
Construction in progress	**0**	1	**0**
Other (Note 8)	**2,002**	2,177	**17,258**
Accumulated depreciation	**(1,940)**	(1,990)	**(16,724)**
Property and equipment, net	**1,731**	1,883	**14,922**
Intangible assets			
Software	**2,380**	2,163	**20,517**
Goodwill	**2,296**	3,064	**19,793**
Other	**58**	87	**500**
Total intangible assets	**4,736**	5,315	**40,827**
Investments and other assets:			
Investment securities (Notes 5 and 6)	**13,735**	15,777	**118,405**
Long-term prepaid expenses	**345**	162	**2,974**
Guarantee deposits (Note 8)	**782**	823	**6,741**
Deferred tax assets (Note 9)	**1,495**	1,623	**12,887**
Other (Note 8)	**1,073**	918	**9,250**
Allowance for doubtful accounts	**(24)**	(21)	**(206)**
Total investments and other assets	**17,408**	19,284	**150,068**
Total assets	**¥50,344**	¥51,783	**$434,000**

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars
December 31	**2016**	2015	**2016**
Liabilities and net assets			
Current liabilities:			
Notes and accounts payable - trade (Notes 6 and 8)	**¥3,324**	¥3,907	**$28,655**
Short-term loans payable (Notes 6, 7 and 8)	**3,322**	2,705	**28,637**
Current portion of bonds payable (Notes 6 and 7)	**–**	300	**–**
Current portion of long-term loans payable (Notes 6 and 7)	**60**	2,065	**517**
Lease obligations (Note 7)	**162**	193	**1,396**
Accrued expenses	**1,795**	1,469	**15,474**
Income taxes payable	**1,368**	953	**11,793**
Consumption taxes payable	**413**	440	**3,560**
Provision for bonuses	**309**	315	**2,663**
Provision for loss on order received	**20**	81	**172**
Other	**2,442**	2,001	**21,051**
Total current liabilities	**13,218**	14,434	**113,948**
Non-current liabilities:			
Long-term loans payable (Notes 6, 7 and 8)	**2,373**	463	**20,456**
Lease obligations (Note 7)	**306**	265	**2,637**
Provision for directors' retirement benefits	**70**	32	**603**
Net defined benefit liability (Note 10)	**3,964**	3,895	**34,172**
Deferred tax liabilities (Note 9)	**2,609**	3,278	**22,491**
Other	**118**	119	**1,017**
Total non-current liabilities	**9,442**	8,055	**81,396**
Contingent liabilities (Note 11)			
Total liabilities	**22,661**	22,489	**195,353**
Net assets:			
Shareholders' equity (Note 12):			
Common stock - Authorized, 86,284,000 shares in 2016 and 2015 Issued, 21,541,400 shares in 2016 and 2015	**3,702**	3,702	**31,913**
Capital surplus	**3,725**	3,969	**32,112**
Retained earnings	**16,373**	15,306	**141,146**
Treasury shares – at cost, 3,106,143 shares in 2016 and 1,884,043 shares in 2015	**(2,909)**	(1,909)	**(25,077)**
Total shareholders' equity	**20,892**	21,069	**180,103**
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	**5,869**	6,861	**50,594**
Foreign currency translation adjustments	**(253)**	128	**(2,181)**
Remeasurements of defined benefit plans	**169**	236	**1,456**
Total accumulated other comprehensive income	**5,785**	7,225	**49,870**
Non-controlling interests	**1,005**	998	**8,663**
Total net assets	**27,683**	29,293	**238,646**
Total liabilities and net assets	**¥50,344**	¥51,783	**$434,000**

CONSOLIDATED STATEMENTS OF OPERATIONS

CAC Holdings Corporation

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	**2016**	2015	**2016**
Net sales	**¥52,521**	¥52,105	**$452,767**
Cost of sales	**42,041**	42,315	**362,422**
Gross profit	**10,479**	9,790	**90,336**
Selling, general and administrative expenses (Note 13)	**9,277**	8,581	**79,974**
Operating income	**1,202**	1,209	**10,362**
Non-operating income:			
Interest and dividend income	**234**	238	**2,017**
Share of profit of entities accounted for using equity method	**–**	2	**–**
Other	**53**	80	**456**
Non-operating income, total	**288**	321	**2,482**
Non-operating expenses:			
Interest expenses	**328**	360	**2,827**
Share of loss of entities accounted for using equity method	**7**	–	**60**
Loss on investments in partnership	**37**	–	**318**
Commitment fee	**17**	16	**146**
Foreign exchange losses	**104**	19	**896**
Other	**59**	53	**508**
Non-operating expenses, total	**553**	450	**4,767**
Ordinary income	**937**	1,080	**8,077**
Extraordinary income:			
Gain on sales of investment securities	**3,701**	1,071	**31,905**
Gain on sales of shares of subsidiaries	**–**	15	**–**
Extraordinary income, total	**3,701**	1,086	**31,905**
Extraordinary losses:			
Loss on sales of investment securities	**0**	4	**0**
Loss on valuation of investment securities	**–**	5	**–**
Impairment loss (Note 14)	**105**	653	**905**
Loss on business of subsidiary (Note 15)	**570**	736	**4,913**
Other	**17**	6	**146**
Extraordinary losses, total	**693**	1,406	**5,974**
Profit before income taxes	**3,945**	761	**34,008**
Income taxes:			
Current	**1,826**	1,401	**15,741**
Deferred	**119**	(65)	**1,025**
	1,945	1,335	**16,767**
Profit (loss)	**1,999**	(574)	**17,232**
Loss attributable to non-controlling interests	**(39)**	(431)	**(336)**
Profit (loss) attributable to owners of parent	**¥2,039**	¥(142)	**$17,577**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

CAC Holdings Corporation

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	**2016**	2015	**2016**
Profit (loss)	**¥1,999**	¥(574)	**$17,232**
Other comprehensive income (Note 16)			
Valuation difference on available-for-sale securities	**(991)**	31	**(8,543)**
Foreign currency translation adjustments	**(456)**	(139)	**(3,931)**
Remeasurements of defined benefit plans	**(67)**	305	**(577)**
Total other comprehensive income	**(1,515)**	197	**(13,060)**
Comprehensive income	**¥483**	¥(376)	**$4,163**
Total other comprehensive income attributable to:			
Owners of parent	**¥598**	¥96	**$5,155**
Non-controlling interests	**(115)**	(473)	**(991)**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

CAC Holdings Corporation

	Millions of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury shares	Total
Balance at January1, 2015	¥3,702	¥3,969	¥15,944	¥(1,637)	¥21,978
Cumulative effect of changes in accounting policy			138		138
Restated balance at January1, 2015	¥3,702	¥3,969	¥16,082	¥(1,637)	¥22,116
Change in ownership interest of parent due to transactions with non-controlling interests					–
Dividend from surplus			(633)		(633)
Loss attributable to owners of parent			(142)		(142)
Purchase of treasury shares				(271)	(271)
Net changes of items other than shareholders' equity	–	–	–	–	–
Balance at December 31, 2015	**¥3,702**	**¥3,969**	**¥15,306**	**¥(1,909)**	**¥21,069**
Cumulative effect of changes in accounting policy		**(239)**	**(264)**		**(504)**
Restated balance at December 31, 2015	**¥3,702**	**¥3,729**	**¥15,042**	**¥(1,909)**	**¥20,564**
Change in ownership interest of parent due to transactions with non-controlling interests		**(3)**			**(3)**
Dividend from surplus			**(707)**		**(707)**
Profit attributable to owners of parent			**2,039**		**2,039**
Purchase of treasury shares				**(999)**	**(999)**
Net changes of items other than shareholders' equity	**–**	**–**	**–**	**–**	**–**
Balance at December 31, 2016	**¥3,702**	**¥3,725**	**¥16,373**	**¥(2,909)**	**¥20,892**

	Millions of yen					
	Accumulated other comprehensive income					
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Total	Non-controlling interests	Total net assets
Balance at January1, 2015	¥6,829	¥227	¥(69)	¥6,988	¥1,343	¥30,310
Cumulative effect of changes in accounting policy						138
Restated balance at January1, 2015	¥6,829	¥227	¥(69)	¥6,988	¥1,343	¥30,448
Change in ownership interest of parent due to transactions with non-controlling interests						–
Dividend from surplus						(633)
Loss attributable to owners of parent						(142)
Purchase of treasury shares						(271)
Net changes of items other than shareholders' equity	31	(99)	305	237	(345)	(107)
Balance at December 31, 2015	**¥6,861**	**¥128**	**¥236**	**¥7,225**	**¥998**	**¥29,293**
Cumulative effect of changes in accounting policy						**(504)**
Restated balance at December 31, 2015	**¥6,861**	**¥128**	**¥236**	**¥7,225**	**¥998**	**¥28,788**
Change in ownership interest of parent due to transactions with non-controlling interests						**(3)**
Dividend from surplus						**(707)**
Profit attributable to owners of parent						**2,039**
Purchase of treasury shares						**(999)**
Net changes of items other than shareholders' equity	**(991)**	**(381)**	**(67)**	**(1,440)**	**7**	**(1,432)**
Balance at December 31, 2016	**¥5,869**	**¥(253)**	**¥169**	**¥5,785**	**¥1,005**	**¥27,683**

See notes to consolidated financial statements.

	Thousands of U.S. dollars				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury shares	Total
Balance at December 31, 2015	**$31,913**	**$34,215**	**$131,948**	**$(16,456)**	**$181,629**
Cumulative effect of changes in accounting policy		**(2,060)**	**(2,275)**		**(4,344)**
Restated balance at December 31, 2015	**$31,913**	**$32,146**	**$129,672**	**$(16,456)**	**$177,275**
Change in ownership interest of parent due to transactions with non-controlling interests		**(25)**			**(25)**
Dividend from surplus			**(6,094)**		**(6,094)**
Profit attributable to owners of parent			**17,577**		**17,577**
Purchase of treasury shares				**(8,612)**	**(8,612)**
Net changes of items other than shareholders' equity	**–**	**–**	**–**	**–**	**–**
Balance at December 31, 2016	**$31,913**	**$32,112**	**$141,146**	**$(25,077)**	**$180,103**

	Thousands of U.S. dollars					
	Accumulated other comprehensive income					
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Total	Non-controlling interests	Total net assets
Balance at December 31, 2015	**$59,146**	**$1,103**	**$2,034**	**$62,284**	**$8,603**	**$252,525**
Cumulative effect of changes in accounting policy						**(4,344)**
Restated balance at December 31, 2015	**$59,146**	**$1,103**	**$2,034**	**$62,284**	**$8,603**	**$248,172**
Change in ownership interest of parent due to transactions with non-controlling interests						**(25)**
Dividend from surplus						**(6,094)**
Profit attributable to owners of parent						**17,577**
Purchase of treasury shares						**(8,612)**
Net changes of items other than shareholders' equity	**(8,543)**	**(3,284)**	**(577)**	**(12,413)**	**60**	**(12,344)**
Balance at December 31, 2016	**$50,594**	**$(2,181)**	**$1,456**	**$49,870**	**$8,663**	**$238,646**

CONSOLIDATED STATEMENTS OF CASH FLOWS

CAC Holdings Corporation

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	**2016**	2015	**2016**
Operating activities			
Profit before income taxes	**¥3,945**	¥761	**$34,008**
Depreciation	**793**	778	**6,836**
Amortization of goodwill	**213**	208	**1,836**
Share of (profit) loss of entities accounted for using equity method	**7**	(2)	**60**
Loss (gain) on investments in partnership	**37**	–	**318**
Loss (gain) on valuation of investment securities	**–**	5	**–**
Impairment loss	**105**	653	**905**
Loss on business of subsidiary	**570**	736	**4,913**
Increase (decrease) in net defined benefit liability	**76**	34	**655**
Increase (decrease) in provision for directors' retirement benefits	**37**	19	**318**
Increase (decrease) in provision for bonuses	**(0)**	23	**(0)**
Increase (decrease) in allowance for doubtful accounts	**(574)**	437	**(4,948)**
Interest and dividend income	**(235)**	(238)	**(2,025)**
Interest expenses	**328**	360	**2,827**
Loss (gain) on sale of investment securities	**(3,701)**	(1,067)	**(31,905)**
Loss (gain) on sale of shares of subsidiaries and associates	**–**	(15)	**–**
Decrease (increase) in notes and accounts receivable - trade	**1,532**	(1,435)	**13,206**
Decrease (increase) in inventories	**64**	(607)	**551**
Decrease (increase) in other current assets	**(333)**	219	**(2,870)**
Increase (decrease) in notes and accounts payable - trade	**(459)**	10	**(3,956)**
Increase (decrease) in accrued expenses	**308**	64	**2,655**
Increase (decrease) in other current liabilities	**24**	(211)	**206**
Decrease (increase) in other non-current assets	**(339)**	(48)	**(2,922)**
Increase (decrease) in other non-current liabilities	**1**	30	**8**
Other, net	**(83)**	(38)	**(715)**
	2,318	679	**19,982**
Interest and dividend income received	**235**	239	**2,025**
Interest expenses paid	**(347)**	(337)	**(2,991)**
Income taxes paid	**(1,424)**	(1,353)	**(12,275)**
Income taxes refund	**111**	1	**956**
Net cash provided by (used in) operating activities	**892**	(770)	**7,689**

(Continued)

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	**2016**	2015	**2016**
Investing activities			
Payments in time deposits	**¥(161)**	¥(311)	**$(1,387)**
Proceeds from withdrawal of time deposits	**311**	311	**2,681**
Purchase of property and equipment	**(300)**	(236)	**(2,586)**
Purchase of intangible assets	**(650)**	(941)	**(5,603)**
Decrease (increase) in securities, net	**(500)**	500	**(4,310)**
Purchase of investment securities	**(1,421)**	(1,457)	**(12,250)**
Proceeds from sale of investment securities	**5,967**	1,265	**51,439**
Payments for guarantee deposits	**(95)**	(126)	**(818)**
Proceeds from collection of guarantee deposits	**115**	0	**991**
Proceeds from sale of shares of subsidiaries and associates	**–**	41	**–**
Purchase of shares of subsidiaries and associates	**(30)**	(335)	**(258)**
Purchase of shares of subsidiaries resulting in change in scope of consolidation	**–**	(1,475)	**–**
Other, net	**(0)**	3	**(0)**
Net cash provided by (used in) investing activities	**3,233**	(2,760)	**27,870**
Financing activities			
Increase (decrease) in short-term loans payable, net	**777**	653	**6,698**
Proceeds from long-term loans payable	**2,003**	1	**17,267**
Repayments of long-term loans payable	**(2,059)**	(44)	**(17,750)**
Redemption of bonds	**(300)**	(300)	**(2,586)**
Repayments of lease obligations	**(207)**	(190)	**(1,784)**
Purchase of treasury shares	**(999)**	(271)	**(8,612)**
Cash dividends paid	**(707)**	(633)	**(6,094)**
Cash dividends paid to non-controlling interests	**(9)**	(11)	**(77)**
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	**(558)**	–	**(4,810)**
Proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	**142**	–	**1,224**
Net cash provided by (used in) financing activities	**(1,920)**	(796)	**(16,551)**
Effect of exchange rate change on cash and cash equivalents	**(39)**	(27)	**(336)**
Net increase (decrease) in cash and cash equivalents	**2,166**	(4,355)	**18,672**
Cash and cash equivalents at beginning of year	**9,101**	13,456	**78,456**
Cash and cash equivalents at end of year (Note 19)	**¥11,268**	¥9,101	**$97,137**

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CAC Holdings Corporation

1. Basis of Consolidated Financial Statements

The accompanying consolidated financial statements of CAC Holdings Corporation (the "Company") and consolidated subsidiaries (collectively, the "Group") are prepared on the basis of accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan (the "FIEA"). Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside of Japan.

In addition, certain reclassifications have been made in the 2015 consolidated financial statements to conform to the classifications used in 2016.

As permitted by the FIEA, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sums of the individual amounts.

The translation of Japanese yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetical computation only, at the rate of ¥116=U.S.$1, the approximate rate of exchange at December 31, 2016. The translation should not be construed as a representation that Japanese yen have been, could have been, or could in the future be converted into U.S. dollars at the above or any other rate.

2. Summary of Significant Accounting Policies

(a) Consolidation

The accompanying consolidated financial statements as of and for the year ended December 31, 2016 include the accounts of the Company and its 26 (26 in 2015) significant subsidiaries.

Under the control and influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investment in one (one in 2015) associated company (CEN Solutions Corp.) is accounted for by the equity method, Investments in the remaining two subsidiaries and three associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The fiscal periods of two consolidated subsidiaries end at the end of March. In preparing these consolidated financial statements, preliminary financial statements as of December 31 or September 30 are used to consolidate. For the preliminary financial statements as of September 30, necessary adjustments are made in the consolidation process concerning significant transactions that occurred for the period from October 1 to December 31.

All significant intercompany balances and transactions have been eliminated in consolidation.

(Change in the scope of consolidation)

Changes in the scope of consolidation for the year ended December 31, 2016 were as follows:

A subsidiary of Sierra Solutions Pte. Ltd. was newly established and included in the scope of consolidation. clinical trust Co., Ltd. was excluded from the scope of consolidation since it was merged into CAC Croit Corporation (formerly, CAC EXICARE Corporation), a consolidated subsidiary of the Company, and dissolved.

(b) Cash equivalents

For purposes of the statements of cash flows, the Company considers all highly liquid instruments with maturity of three months or less when purchased to be cash equivalents.

(c) Securities

All investment securities are classified as available-for-sale securities.

Marketable available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. The cost of securities sold is determined based on moving-average method.

Non-marketable available-for-sale securities are stated at cost determined by the moving average method.

(d) Inventories

Inventories ("Merchandise and finished goods" and "Work in process") are stated at the lower of the cost determined by specific identification method or the net selling value.

(e) Property and equipment (except for leased assets)

Property and equipment is stated at cost. For the Company and its consolidated domestic subsidiaries, depreciation is principally computed by the declining balance method. As for assets held by the consolidated overseas subsidiaries and buildings and structures (other than fixtures and structures acquired on and before March 31, 2016), depreciation is principally computed by the straight-line method.

The useful lives are as follows:

Buildings and structures	10 to 47 years
Machinery and vehicles	6 to 15 years
Others	3 to 30 years

(f) Software

Software for sale is amortized in the larger of either the amount computed based on the estimated sales volume or the straight-line method over the remaining effective life (mainly three years).

Software for internal use is amortized using the straight-line method over the estimated period of internal use (mainly five years).

(g) Leases

Leased assets under finance lease transactions which transfer ownership consist of mainly vehicles for internal use, computers and related equipment. Depreciation of these leased assets is computed using the same method as that for owned property and equipment.

Leased assets under finance lease transactions which do not transfer ownership consist of mainly office equipment for customer service and internal use. Depreciation of these leased assets is computed using the straight-line method over the lease period with no residual value.

(h) Allowance for doubtful accounts

Allowance for doubtful accounts is provided at an amount determined based on the historical experience of bad debts with respect to normal receivables, plus an estimate of uncollectible amounts determined by reference to specific doubtful receivables from customers experiencing financial difficulties.

(i) Provision for bonuses

The provision for bonuses to employees is provided for the payment of employees' bonuses based on estimate of future payments attributed to the fiscal year.

(j) Provision for loss on order received

For the software development contracts, the provision for loss on order received is provided based on estimated losses that are anticipated to occur from the next fiscal year, for any contract on which a loss is likely to be incurred as of the fiscal year-end and where the amount of such loss can be reasonably estimated.

(k) Provision for directors' retirement benefits

The provision for directors' retirement benefits is provided at the amount required to be paid if all directors had voluntarily terminated their services as of the balance sheet date.

(l) Pension and severance indemnities

The benefit formula method is used as the method of attributing expected benefits to periods through the balance sheet date in calculating the projected benefit obligation.

Actuarial gain or loss and prior service cost are recognized for each defined benefit plan over a period not exceeding the expected average remaining service years of the employees participating in the plan. Actuarial gain or loss are amortized using the straight-line method over a period not exceeding 10 years following the respective fiscal years when such gains or losses are recognized. Prior service cost is amortized using the straight-line method over a period not exceeding 10 years.

Unrecognized actuarial gain and loss and unrecognized past service cost, net of tax effect, are stated in “Remeasurements of defined benefit plans” under “Accumulated other comprehensive income”.

(m) Recognition of revenues and costs of software development contracts

Revenues and costs of software development contracts of which the percentage of completion can be reliably estimated, are recognized by the percentage-of-completion method. The percentage of completion is calculated at the cost incurred as a percentage of the estimated total cost. The completed-contract method continues to be applied for contracts for which the percentage of completion cannot be reliably estimated.

(n) Translation of foreign currency transactions

All monetary assets and liabilities denominated in foreign currencies are translated into yen at the exchange rates prevailing as of the fiscal year-end, and resulting gains and losses are included in income.

The accounts of the overseas consolidated subsidiaries are translated into yen at the year-end exchange rates, except for net assets, which are translated at historical rates, and income statement items are translated into yen at average exchange rates during the year. Differences arising from the translations are stated under “Foreign currency translation adjustments” and “Non-controlling interests” in the accompanying consolidated balance sheet.

(o) Amortization of goodwill

Goodwill is amortized over a period not exceeding 20 years, determined in consideration of the source of goodwill.

(p) Transactions are recorded exclusive of consumption taxes.

3. Changes in Accounting Policies and Presentation

(a) Accounting standard for business combinations

The Company adopted the “Revised Accounting Standard for Business Combinations” (Accounting Standards Board of Japan (“ASBJ”) Statement No.21, September 13, 2013 (hereinafter, “Statement No.21”)), “Revised Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No.22, September 13, 2013 (hereinafter, “Statement No.22”)) and “Revised Accounting Standard for Business Divestitures” (ASBJ Statement No.7, September 13, 2013 (hereinafter, “Statement No.7”)) (together, the “Business Combination Accounting Standards”), from the current fiscal year. As a result, the Company changed its accounting policies to recognize in capital surplus the differences arising from the changes in the Company’s ownership interest of subsidiaries over which the Company continues to maintain control and to record acquisition related costs as expenses in the fiscal year in which the costs are incurred. In addition, the Company changed its accounting policy for the reallocation of acquisition costs due to the completion following provisional accounting to reflect such reallocation in the consolidated financial statements for the fiscal year in which the business combination took place. The Company also changed the presentation of net income, and the term “non-controlling interests” is used instead of “minority interests”. Certain amounts in the prior year comparative information were reclassified to conform to such changes in the current year presentation.

In the consolidated statement of cash flows, cash flows from acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in “Cash flows from financing activities” and cash flows from acquisition related costs for shares of subsidiaries with changes in the scope of consolidation or costs related to acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in “Cash flows from operating activities”.

With regard to the application of the Business Combination Accounting Standards, the Company followed the provisional treatments in article 58-2 (3) of Statement No.21, article 44-5 (3) of Statement No.22 and article 57-4 (3) of Statement No.7. Consequently, capital surplus and retained earnings at the beginning of the current fiscal year are retroactively adjusted.

With regard to the consolidated statement of cash flows, the Company is followed the provisional treatments in article 26-4 of the Practical Guidelines on Preparation of Consolidated Statement of Cash Flows and comparative information in the prior year was not reclassified.

As a result, goodwill decreased by ¥504 million ($4,344 thousand), capital surplus by ¥239 million ($2,060 thousand) and retained earnings by ¥264 million ($2,275 thousand) as of January 1, 2016. Operating income, ordinary income and profit before income taxes increased by ¥28 million ($241 thousand) for the year ended December 31, 2016.

The impact on per share information is noted in 21. Per Share Information.

(b) Change in depreciation method

Pursuant to an amendment to the Corporation Tax Act, the Company has applied the “Practical Solution on a change in depreciation method due to Tax Reform 2016” (ASBJ Practical Issues Task Force (“PITF”) No. 32, issued on June 17, 2016) effective from the year ended December 31, 2016. Thus, the depreciation method for fixtures and structures acquired on and after April 1, 2016 was changed from the declining balance method to the straight-line method.

The effects on operating income and profit were immaterial for the year ended December 31, 2016.

(c) Change in presentation

Changes in presentation in the consolidated statements of cash flows are as follows:

Effective from the year ended December 31, 2016, purchase of securities and proceeds from redemption of securities under net cash provided by (used in) investing activities are presented on a net basis as decrease (increase) in securities net, due to their short-term turnover. The consolidated financial statements for the previous fiscal year have been restated in order to reflect this change in presentation.

As a result, ¥(4,000) million of purchase of securities and ¥4,500 million of proceeds from redemption of securities under net cash provided by (used in) investing activities shown on the financial statements for the year ended December 31, 2015 are reclassified to ¥500 million of decrease (increase) in securities, net.

4. Accounting Standards Issued But Not Yet Applied

"Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, issued on March 28, 2016)

(Overview)

The implementation Guidance continues to apply the framework used in the Auditing Committee Report No. 66 "Audit Treatment for Judgement of Recoverability of Deferred Assets" in which companies are grouped into five categories and assess the amounts of deferred tax assets based on such categories. However, necessary reviews on the following treatments are being implemented.

(i) Treatment for the entities who do not fulfill any of the criteria for (Category 1) to (Category 5).

(ii) Criteria for (Category 2) and (Category 3).

(iii) Treatment of unscheduled deductible temporary differences for the entities in (Category 2)

(iv) Treatment for the period in which a reasonable estimate is possible for the taxable income before temporary differences for the entities in (Category 3)

(v) Treatments for the entities who satisfy (Category 4) criteria but are applicable to (Category 2) or (Category 3).

(Date of application)

The Company will apply the implementation guidance effective from the beginning of the year ending December 31, 2017.

(Effect of application)

The Company is currently evaluating the effect of application.

5. Investment Securities

At December 31, 2016 and 2015, information with respect to available-for-sale securities for which market prices were available was summarized as follows:

	Millions of yen							
	2016				2015			
	Cost	Unrealized gain	Unrealized loss	Fair value	Cost	Unrealized gain	Unrealized loss	Fair value
Equity securities	**¥2,683**	**¥8,663**	**¥44**	**¥11,301**	¥3,400	¥10,204	¥46	¥13,559
Bonds	**500**	**–**	**130**	**369**	500	–	108	391
Other	**1,311**	**1**	**22**	**1,290**	1,442	81	5	1,517
Total	**¥4,495**	**¥8,665**	**¥198**	**¥12,962**	¥5,343	¥10,285	¥161	¥15,467

	Thousands of U.S. dollars			
	2016			
	Cost	Unrealized gain	Unrealized loss	Fair value
Equity securities	**$23,129**	**$74,681**	**$379**	**$97,422**
Bonds	**4,310**	**–**	**1,120**	**3,181**
Other	**11,301**	**8**	**189**	**11,120**
	$38,750	**$74,698**	**$1,706**	**$111,741**

The tables above do not include investment securities for which market prices were not available, in the total amount of ¥995 million ($8,577 thousand) and ¥1,037 million as of December 31, 2016 and 2015, respectively. Investments in shares of nonconsolidated subsidiaries and associates were ¥878 million ($7,568 thousand) and ¥380 million as of December 31, 2016 and 2015, respectively.

Proceeds from sales of securities classified as available-for-sale securities and gains or losses on such sales were summarized below.

	Millions of yen					
	2016			2015		
	Proceeds	Gains	Losses	Proceeds	Gains	Losses
Equity securities	**¥5,753**	**¥3,645**	**¥0**	¥1,174	¥1,066	¥0
Other	**256**	**56**	**–**	97	4	3
Total	**¥6,010**	**¥3,701**	**¥0**	¥1,272	¥1,071	¥4

	Thousands of U.S. dollars		
	2016		
	Proceeds	Gains	Losses
Equity securities	**$49,594**	**$31,422**	**$0**
Other	**2,206**	**482**	**–**
Total	**$51,810**	**$31,905**	**$0**

6. Financial Instruments

(a) Policy for financial instruments

As a policy, the Group raises necessary funds through bank loans or bond issues based on its investment plan, and invests temporary surplus fund primarily in very safe financial instruments. The Group uses derivatives only for the purpose of reducing foreign exchange risk and interest rate risk, and does not enter into derivatives for speculative purposes.

(b) Types of financial instruments and related risk and risk management

The Group manages its customer credit risk in relation to notes and accounts receivable-trade by periodically reviewing creditworthiness of main customers. The Group monitors due dates and outstanding balances by individual customer to ensure early identification and mitigation of potential risks of bad debts from customers who are having financial difficulties.

Investment securities consist of mainly the shares of common stock of other companies with which the Group has business relationships. To manage the credit risk of the issuers as well as market risk of investment securities, the Group also periodically reviews their fair value and financial status of the issuers. The Group also reviews the holding status of the issuers taking its business relationship into account.

Notes and accounts payables-trade have payment due dates within one year. The Group raises funds through long-term loans payable and bonds payable for capital investment and maintaining financial strength and stability. These loans and bonds payables are exposed to interest rate fluctuation risk. The Group manages its liquidity risk by preparing cash management plan on a timely basis and maintaining liquidity on hand.

(c) Fair value of financial instruments

The fair value of financial instruments is based on their market prices, if available. Where there is no market price available, fair value is reasonably estimated.

Carrying amount on the consolidated balance sheets as of December 31, 2016 and 2015 and estimated fair value and differences of financial instruments were as follows:

	Millions of yen					
	2016			2015		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
(1) Cash and deposits	**¥11,428**	**¥11,428**	**¥–**	¥8,983	¥8,983	¥–
(2) Notes and accounts receivable- trade	**10,318**			12,081		
Allowance for doubtful accounts*	**(117)**			(478)		
	10,200	**10,200**	**–**	11,602	11,602	–
(3) Marketable and investment securities	**12,962**	**12,962**	**–**	15,467	15,467	–
Total	**¥34,591**	**¥34,591**	**¥–**	¥36,054	¥36,054	¥–
(1) Notes and accounts payable- trade	**¥3,324**	**¥3,324**	**¥–**	¥3,907	¥3,907	¥–
(2) Short-term loans payable	**3,322**	**3,322**	**–**	2,705	2,705	–
(3) Bonds payable (including current portion)	**–**	**–**	**–**	300	300	–
(4) Long-term loans payable (including current portion)	**2,434**	**2,437**	**3**	2,529	2,536	7
Total	**¥9,081**	**¥9,084**	**¥3**	¥9,442	¥9,449	¥7

(*) The amount excludes specific reserve for notes and accounts receivable-trade.

	Thousands of U.S. dollars		
	2016		
	Carrying amount	Fair value	Difference
(1) Cash and deposits	**$98,517**	**$98,517**	**$–**
(2) Notes and accounts receivable- trade	**88,948**		
Allowance for doubtful accounts*	**(1,008)**		
	87,931	**87,931**	**–**
(3) Marketable and investment securities	**111,741**	**111,741**	**–**
Total	**$298,198**	**$298,198**	**$–**
(1) Notes and accounts payable- trade	**$28,655**	**$28,655**	**$–**
(2) Short-term loans payable	**28,637**	**28,637**	**–**
(3) Bonds payable (including current portion)	**–**	**–**	**–**
(4) Long-term loans payable (including current portion)	**20,982**	**21,008**	**25**
Total	**$78,284**	**$78,310**	**$25**

Notes:

1. Valuation method of fair value of financial instruments and information on securities

Assets:

(1) Cash and deposits, (2) Notes and accounts receivable-trade

Since these items are settled in a short period of time, their carrying amount approximates fair value. The fair value of notes and accounts receivable-trade is determined by deducting specific reserve for each receivable, if any, since the amount of specific reserve is deemed as the amount of credit risk.

(3) Marketable and investment securities

The fair value of marketable and investment securities are measured at the quoted market price of the stock exchange for equity instruments and at the quoted price obtained from the financial institution for debt instruments. Fair value information for marketable and investment securities by holding purpose is included in Note 5.

Liabilities:

(1) Notes and accounts payable-trade, (2) Short-term loans payable

Since these items are settled in a short period of time, their carrying amount approximates fair value.

(3) Bonds payable (including current portion)

For bonds payable with floating interest rate, carrying value approximates the fair value since the floating rate reflect market interest rates in a short period of time and the Company's credit status has not been changed after the issuance of the bond. Thus, the carrying value is used as the fair value.

(4) Long-term loans payable (including current portion)

For long-term loans payable with floating interest rates, carrying value approximates the fair value since the floating rate reflect market interest rates in a short period of time. Thus, the carrying value is used as the fair value. For long-term loans payable with fixed interest rates, the fair value is based on the present value of the total of principal and interest discounted by the interest rate assumed for a similar new loan.

2. Financial instruments whose fair value is extremely difficult to determine

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Unlisted stock and other	**¥1,874**	¥1,417	**$16,155**

These securities are not included in (3) Marketable and investment securities in the table above, as there were no market prices available and it is extremely difficult to determine the fair value. The amount includes investments in limited partnerships.

3. Maturity analysis for financial assets and securities with contractual maturities

	Millions of yen							
	2016				2015			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	**¥11,428**	**¥–**	**¥–**	**¥–**	¥8,983	¥–	¥–	¥–
Notes and accounts receivable- trade	**10,318**	**–**	**–**	**–**	11,512	568	–	–
Available-for-sale securities with maturities	**1,101**	**–**	**–**	**500**	1,108	–	–	500
Total	**¥22,847**	**¥–**	**¥–**	**¥500**	¥21,604	¥568	¥–	¥500

	Thousands of U.S. dollars			
	2016			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	**$98,517**	**$–**	**$–**	**$–**
Notes and accounts receivable- trade	**88,948**	**–**	**–**	**–**
Available-for-sale securities with maturities	**9,491**	**–**	**–**	**4,310**
Total	**$196,956**	**$–**	**$–**	**$4,310**

7. Short-Term Loans Payable, Long-Term Loans Payable, Bonds Payable and Lease Obligations

Short-term debts as of December 31, 2016 and 2015 are summarized below.

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Short-term loans payable (7.3% in 2016 and 8.6% in 2015)	**¥3,322**	¥2,705	**$28,637**
Current portion of long-term loans payable (6.0% in 2016 and 2.0% in 2015)	**60**	2,065	**517**
Current portion of lease obligations (2.6% in 2016 and 2.7% in 2015)	**162**	193	**1,396**
Current portion of 0.25% unsecured bonds, due in 2016	**–**	300	**–**

Long-term debts as of December 31, 2016 and 2015 are summarized below.

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Long-term loans payable, due through 2020 (1.8% in 2016 and 8.5% in 2015)	**¥2,373**	¥463	**$20,456**
Lease obligations, due through 2024, (2.6% in 2016 and 2.7% in 2015)	**306**	265	**2,637**

In the tables above, the weighted average interest rates applicable to respective debt outstanding at December 31, 2016 and 2015 were stated.

The Company enters into a loan commitment line agreement with financial institutions as follows.

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Commitment line agreement	**¥6,000**	¥6,000	**$51,724**
Balance executed as loans	**–**	–	**–**
Unused line of credit	**¥6,000**	¥6,000	**$51,724**

The annual maturities of long-term loans payable subsequent to December 31, 2016 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	2016	**2016**
2017	**¥60**	**$517**
2018	**83**	**715**
2019	**272**	**2,344**
2020	**2,017**	**17,387**
2021	**–**	**–**
2022 and thereafter	**–**	**–**
	¥2,433	**$20,974**

The annual maturities of lease obligations subsequent to December 31, 2016 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	2016	**2016**
2017	**¥162**	**$1,396**
2018	**111**	**956**
2019	**86**	**741**
2020	**61**	**525**
2021	**32**	**275**
2022 and thereafter	**14**	**120**
	¥468	**$4,034**

8. Pledged Assets

Assets pledged as collateral for notes and accounts payable-trade of ¥499 million ($4,301 thousand) and ¥545 million, short-term loans payable of ¥1,166 million ($10,051 thousand) and ¥2,354 million, long-term loans payable of ¥31 million ($267 thousand) and ¥35 million at December 31, 2016 and 2015, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Cash and deposits	**¥–**	¥79	**$–**
Notes and accounts receivable - trade	**1,891**	1,079	**16,301**
Merchandise and finished goods	**838**	651	**7,224**
Other current assets	**122**	105	**1,051**
Machinery and vehicles	**9**	15	**77**
Other property and equipment	**117**	309	**1,008**
Guarantee deposits	**33**	31	**284**
Other investments and other assets	**768**	484	**6,620**
Total	**¥3,781**	¥2,757	**$32,594**

9. Income Taxes

(a) Major components of deferred tax assets and deferred tax liabilities as of December 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Deferred tax assets:			
Net defined benefit liability	**¥1,194**	¥1,343	**$10,293**
Provision for bonuses	**85**	85	**732**
Accrued enterprise taxes	**97**	58	**836**
Provision for loss on order received	**7**	28	**60**
Provision for directors' retirement benefits	**24**	24	**206**
Depreciation	**126**	105	**1,086**
Net operating loss	**78**	257	**672**
Other	**158**	203	**1,362**
Deferred tax assets, subtotal	**1,772**	2,105	**15,275**
Valuation allowance	**(14)**	(293)	**(120)**
Deferred tax assets, net	**¥1,757**	¥1,812	**$15,146**
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	**¥(2,534)**	¥(3,184)	**$(21,844)**
Deferred tax liabilities, subtotal	**(2,534)**	(3,184)	**(21,844)**
Net deferred tax liabilities	**¥(777)**	¥(1,371)	**$(6,698)**

(b) Reconciliation between the statutory tax rate and effective tax rate reflected in the consolidated statement of income for the current fiscal year for the year ended December 31, 2016 and 2015 were as follows:

	%	
	2016	2015
Statutory tax rate:	**33.1**	35.6
(Adjustments)		
Permanent difference – nontaxable	**(0.4)**	(4.9)
Permanent difference – nondeductible	**10.0**	9.2
Donation	**1.0**	8.2
Amortization of goodwill	**1.8**	9.7
Inhabitant tax on per capita basis	**0.3**	1.6
Increase in valuation allowance	**1.6**	37.7
Impairment loss on subsidiaries	**–**	58.7
Adjustment due to change in tax rate	**3.4**	22.4
Other	**(1.5)**	(2.8)
Effective tax rate	**49.3**	175.4

The “Act on Partial Revision of the Income Tax Act” (Act No. 15 of 2016) and the “Act on Partial Revision of Local Tax Act” (Act No. 13 of 2016) were enacted in the Diet session on March 29, 2016 and income tax rates will be reduced effective from years beginning on or after April 1, 2016. Accordingly, the normal effective statutory tax rate used to measure the Company’s deferred tax assets and liabilities was changed from 32.26% to 30.86% for the temporary differences expected to be realized or settled from January 1, 2017 to December 31, 2018 and to 30.62% for those to be realized or settled on or after January 1, 2019. As a result, deferred tax liabilities, net of deferred tax assets, as of December 31, 2016 decreased by ¥56 million ($482 thousand) and income taxes-deferred and accumulated other comprehensive income increased by ¥85 million ($732 thousand) and ¥142 million ($1,224 thousand), respectively, as of and for the year ended December 31, 2016.

10. Pension and Severance Indemnities

The Company and its consolidated subsidiaries have several retirement benefit plans as summarized below.

- Defined benefit corporate pension plan and Lump-sum payment plan (two consolidated subsidiaries)
- Lump-sum payment plans (six consolidated subsidiaries)
- Defined contribution corporate pension plan (one consolidated subsidiary)
- Multiemployer plan such as Japan Computer Information Service Employees’ Pension Fund (three consolidated subsidiaries)
- Plan under Smaller Enterprise Retirement Allowance Mutual Aid Scheme (three consolidated subsidiaries)

Consolidated subsidiaries with the multiemployer plan (Japan Computer Information Service Employee’s Pension Fund) recognize the required contribution amount as retirement benefit expenses. Certain consolidated subsidiaries apply the simplified method in computing net defined benefit liability and retirement benefit expenses for lump-sum payment plans or the plan under Smaller Enterprise Retirement Allowance

Mutual Aid Scheme.

Defined benefit plan

(a) The changes in projected benefit obligations, excluding those under the simplified method, for the years ended December 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Balance at beginning of year	**¥5,978**	¥6,411	**$51,534**
Cumulative effects of changes in accounting policies	**–**	(214)	**–**
Restated balance at beginning of the year	**¥5,978**	¥6,197	**$51,534**
Service cost	**434**	465	**3,741**
Interest cost	**61**	62	**525**
Actuarial loss (gain)	**28**	(471)	**241**
Retirement benefits paid	**(291)**	(266)	**(2,508)**
Other	**(36)**	(8)	**(310)**
Balance at end of year	**¥6,175**	¥5,978	**$53,232**

(b) The changes in plan assets, excluding those under the simplified method, for the years ended December 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Balance at beginning of year	**¥2,589**	¥2,363	**$22,318**
Expected return on plan assets	**65**	59	**560**
Actuarial gain (loss)	**(35)**	18	**(301)**
Contributions from the employer	**327**	322	**2,818**
Retirement benefits paid	**(178)**	(149)	**(1,534)**
Other	**(0)**	(24)	**(0)**
Balance at end of year	**¥2,766**	¥2,589	**$23,844**

(c) The changes in net defied benefit liability under the simplified method for the years ended December 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Balance at beginning of year	**¥506**	¥488	**$4,362**
Retirement benefit expenses	**83**	74	**715**
Retirement benefits paid	**(33)**	(54)	**(284)**
Other	**–**	(1)	**–**
Balance at end of year	**¥555**	¥506	**$4,784**

(d) The reconciliation between the balances of projected benefit obligations and plan assets and net defied benefit liability recorded on the consolidated balance sheets as of December 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Funded projected benefit obligation	**¥3,847**	¥3,686	**$33,163**
Plan assets at fair market value	**(2,766)**	(2,589)	**(23,844)**
	1,081	1,097	**9,318**
Unfunded retirement benefit liabilities	**2,883**	2,798	**24,853**
Net liability recorded on the consolidated balance sheet	**¥3,964**	¥3,895	**$34,172**
Net defined benefit liability	**¥3,964**	¥3,895	**$34,172**
Net defined benefit asset	**–**	–	**–**
Net liability recorded on the consolidated balance sheet	**¥3,964**	¥3,895	**$34,172**

(Note) The table includes the amount of plans under the simplified method.

(e) The components of retirement benefit expenses for the years ended December 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Service cost	**¥434**	¥465	**$3,741**
Interest cost	**61**	62	**525**
Expected return on plan assets	**(65)**	(59)	**(560)**
Amortization of actuarial loss	**(55)**	(4)	**(474)**
Amortization of prior service cost	**–**	(1)	**–**
Retirement benefit expenses under the simplified method	**83**	74	**715**
Total retirement benefit expenses	**¥459**	¥536	**$3,956**

(f) The components of remeasurements of defined benefit plans (before applicable tax effects) in other comprehensive income for the years ended December 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Actuarial gain (loss)	**¥(105)**	¥456	**$(905)**
Total	**¥(105)**	¥456	**$(905)**

(g) The components of remeasurements of defined benefit plans (before applicable tax effects) in accumulated other comprehensive income as of December 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Net unrecognized actuarial gain	**¥243**	¥348	**$2,094**
Total	**¥243**	¥348	**$2,094**

(h) Components of plan assets as of December 31, 2016 and 2015 were as follows:

	2016	2015
Debt securities	**47%**	43%
Equity securities	**50%**	53%
Other	**3%**	4%
	100%	100%

The expected long-term rate of return on plan assets is determined considering current and expected distribution of plan assets and the long-term rate of return derived from various components of the plan assets.

(i) The major assumptions used for the actuarial calculation for the years ended December 31, 2016 and 2015 were as follows:

	2016	2015
Discount rates	**1.1%**	1.1%
Expected long-term rate of return on plan assets	**2.5%**	2.5%

Defined contribution benefit plan

The required contribution amount to the defined contribution benefit plan was ¥19 million ($163 thousand) and ¥19 million for the years ended December 31, 2016 and 2015.

Multiemployer plan

The required contribution amount to the multiemployer plan (Employee's Pension Fund) was ¥147 million ($1,267 thousand) and ¥190 million for the years ended December 31, 2016 and 2015. The following summarizes the plan assets of multiemployer plan.

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Plan assets	**¥727,403**	¥735,622	**$6,270,715**
Total of actuarial liability and minimum actuarial reserve	**706,662**	729,355	**6,091,913**
Net	**¥20,740**	¥6,266	**$178,793**

This net difference indicates that the plan was over-funded in 2016 and 2015.

The ratio of the Company's contribution to the plan as a whole was 1.38% and 0.99% for the years ended December 31, 2016 and 2015. The share does not agree with the actual Group's share of the funding status.

11. Contingent liabilities

The right to claim for returning of guarantee deposits, in the amount of ¥778 million ($6,706 thousand) and ¥755 million for the years ended December 31, 2016 and 2015, was transferred and deducted from the balance on the balance sheets. If any event that creates problems in returning the deposits from the property owners occurs, the Company may obligate to re-acquire the right to claim for returning of the guarantee deposits.

12. Net assets

Japanese companies are subject to the Companies Act of Japan (the "Act"). The significant provisions in the Act that affect financial and accounting matters are summarized below.

(a) Dividends

Under the Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria, such as: (1) having a Board of Directors, (2) having independent auditors, (3) having a Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the Company has prescribed so in its articles of incorporation. The Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements. Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the Company so stipulate.

(b) Increases/decreases and transfer of common stock, reserve and surplus

The Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation.

The Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury shares and treasury shares acquisition rights

The Act also provides for companies to purchase treasury shares and dispose of such treasury shares by resolution of the Board of Directors. The amount of treasury shares purchased cannot exceed the amount available for distribution to the shareholders, which is determined by specific formula. Under the Act, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of shareholders' equity.

The Act also provides that companies can purchase both treasury shares acquisition rights and treasury shares. Such treasury shares acquisition rights are presented as a separate component of shareholders' equity or deducted directly from stock acquisition rights.

(d) Number of shares

	Number of shares 2016	2015
Common stocks outstanding:		
At the beginning of the year	**21,541,400**	21,541,400
Changes during the year	**–**	–
At the end of the year	**21,541,400**	21,541,400
Treasury shares:		
At the beginning of the year	**1,884,043**	1,634,043
Purchase of treasury shares	**1,222,100**	250,000
At the end of the year	**3,106,143**	1,884,043

13. Selling, General and Administrative Expenses

The following summarizes the major items included in selling, general and administrative expenses for the years ended December 31, 2016 and 2015.

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Directors' remuneration	**¥556**	¥524	**$4,793**
Salaries and wages	**3,115**	2,555	**26,853**
Provision for bonus	**54**	74	**465**
Retirement benefit expenses	**165**	152	**1,422**
Provision for directors' retirement benefits	**3**	2	**25**
Provision for bad debts	**206**	467	**1,775**
Depreciation	**76**	66	**655**

Research and development costs included in cost of sales and selling, general and administrative expenses for the years ended December 31, 2016 and 2015 totaled ¥174 million ($1,500 thousand) and ¥267 million, respectively.

14. Impairment Loss

For the purpose of assessing impairment, assets are grouped, mainly based on its business segment, at the smallest units independently generating cash flows.

For the year ended December 31, 2016, the Company reviewed its business plan regarding internal software development with the intention of earning future revenues. With respect to four pieces of internally developed software, the investment recovery, net realizable value and value in use were expected to be zero. Thus, the Company recognized an impairment loss on the four pieces of software in the total amount of ¥105 million ($905 thousand).

For the year ended December 31, 2015, the Accel Frontline Limited (the "AFL"), the Company's consolidated subsidiary in India, faced to critical financial conditions. After careful reviews of its results of operations and financial status, the Company recognized an impairment loss on goodwill for the AFL in the amount of ¥653 million.

15. Loss on Business of Subsidiary

For the year ended December 31, 2016, loss on business of subsidiary presented loss incurred from disposal and revaluation of inventories held by the AFL, and it presented the amount of uncollectible accounts receivable of the AFL for the year ended December 31, 2015.

16. Comprehensive Income

The components of other comprehensive income for the years ended December 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Valuation difference on available-for-sale securities:			
Amount arising during the year	**¥2,032**	¥585	**$17,517**
Reclassification adjustments	**(3,701)**	(1,068)	**(31,905)**
Amount before tax effects	**(1,668)**	(482)	**(14,379)**
Tax effects	**677**	514	**5,836**
Valuation difference on available-for-sale securities	**(991)**	31	**(8,543)**
Foreign currency translation adjustments:			
Amount arising during the year	**(456)**	(110)	**(3,931)**
Reclassification adjustments	**–**	(28)	**–**
Amount before tax effects	**(456)**	(139)	**(3,931)**
Tax effects	**–**	–	**–**
Foreign currency translation adjustments	**(456)**	(139)	**(3,931)**
Remeasurements of defined benefit plans:			
Amount arising during the year	**(64)**	489	**(551)**
Reclassification adjustments	**(40)**	(33)	**(344)**
Amount before tax effects	**(105)**	456	**(905)**
Tax effects	**37**	(150)	**318**
Remeasurements of defined benefit plans	**(67)**	305	**(577)**
Total other comprehensive income	**¥(1,515)**	¥197	**$(13,060)**

17. Business Combinations

Transactions under common control

As resolved at the Board of Directors' meeting held on January 19, 2016, the Company's two consolidated subsidiaries, CAC EXICARE Corporation ("CAC EXICARE") and clinical trust, Co., Ltd.("clinical trust"), merged and changed its business name to CAC Croit Corporation ("CAC Croit") effective April 1, 2016.

(1) Name and description of business

Name of business: Drug development support

Business description: Drug development support services including the following:

(i) Drug discovery/non-clinical, clinical development, pharmaceutical application, post-marketing product surveillance, safety information management and other

(ii) CRO business to support clinical development

(2) Date of business combination

April 1, 2016

(3) Legal form of business combination

Absorption-type merger with CAC EXICAREn as the surviving company.

(4) Company name after business combination

CAC Croit Corporation (consolidated subsidiary of the Company)

(5) Background of transactions

The Group provides a systems development and integration service and systems operation and management service in the field of IT services, and CRO (Contract Research Organization) services to pharmaceuticals in a form of pharmaceutical BPO/BTO.

Although CRO service market is moderately expanding in need of efficiency improvement for new drug development by pharmaceutical companies, its service providers are requested to provide services globally and extensively due to an increase in global clinical trials, diversification of trials and a need for improvement in safety measures.

Addressing market environmental changes, it was decided to merge CAC EXICARE with clinical trust, both of which engaged in pharmaceutical BPO/BTO services. CAC EXICARE provides strong IT supports for various drug development processes including non-clinical, post-marketing surveillance and pharmacovigilance, while clinical trust has highly advanced skills in monitoring operations. Integrating the advantages of two companies, the Group will enhance our services to meet diversified customer needs as a one-stop-service provider. In addition, the Group will enhance our cultivation of human resources as well as IT technology to improve quality, efficiency and safety of our services.

Through this merger, the Company will expand BPO service as planned in our on-going mid-term business strategy.

(6) Overview of accounting treatment

This transaction will be accounted for as a transaction under common control in accordance with the “Accounting Standard for Business Combinations” (ASBJ Statement No.21, issued on September 13, 2013) and the “Guidance on Accounting Standard for business combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, issued on September 13, 2013).

18. Segment Information

(a) Overview of reportable segments

The reportable segments of the Group are components for which discrete financial information is available and whose operating results are regularly reviewed by the Board of Directors to make decisions about resource allocation and to assess performance.

The Group's reportable segments consist of the following three segments by service: "Systems development and integration services," "Systems operation and management services" and "BPO/BTO services."

(b) Method of calculating net sales, income, assets, liabilities and other items by reportable segment

Accounting policies of the reportable segments are consistent to those described in Note 2. "Summary of Significant Accounting Policies."

(c) Net sales, income, assets, liabilities and other items by reportable segment

	Millions of yen					
	2016					
	Reportable segment					
	Systems develop-ment and integration	Systems operation and management	BPO/BTO	Total	Adjustments	Consolidated
Net sales						
Sales to third parties	¥22,764	¥17,950	¥ 11,807	¥ 52,521	¥–	¥ 52,521
Intersegment sales or transfers	–	–	–	–	–	–
Total	¥22,764	¥17,950	¥ 11,807	¥ 52,521	¥–	¥ 52,521
Segment income	¥545	¥279	¥377	¥1,202	¥–	¥1,202
Segment assets	¥14,037	¥8,133	¥5,258	¥27,429	¥22,914	¥50,344
Other item:						
Depreciation	¥342	¥347	¥102	¥793	¥–	¥793
Increase (decrease) in property and equipment and intangible assets	686	200	37	924	26	951

	Millions of yen					
	2015					
	Reportable segment					
	Systems develop-ment and integration	Systems operation and management	BPO/BTO	Total	Adjustments	Consolidated
Net sales						
Sales to third parties	¥23,339	¥17,895	¥10,870	¥52,105	¥–	¥52,105
Intersegment sales or transfers	–	–	–	–	–	–
Total	¥23,339	¥17,895	¥10,870	¥52,105	¥–	¥52,105
Segment income (loss)	¥1,001	¥(187)	¥395	¥1,209	¥–	¥1,209
Segment assets	¥14,207	¥8,318	¥6,279	¥28,805	¥22,977	¥51,783
Other item:						
Depreciation	¥312	¥334	¥132	¥778	¥–	¥778
Increase (decrease) in property and equipment and intangible assets	720	219	237	1,177	–	1,177

	Thousands of U.S. dollars					
	2016					
	Reportable segment					
	Systems develop-ment and integration	Systems operation and management	BPO/BTO	Total	Adjustments	Consolidated
Net sales						
Sales to third parties	**$196,241**	**$154,741**	**$101,784**	**$452,767**	**$–**	**$452,767**
Intersegment sales or transfers	**–**	**–**	**–**	**–**	**–**	**–**
Total	**$196,241**	**$154,741**	**$101,784**	**$452,767**	**$–**	**$452,767**
Segment income	**$4,698**	**$2,405**	**$3,250**	**$10,362**	**$–**	**$10,362**
Segment assets	**$121,008**	**$70,112**	**$45,327**	**$236,456**	**$197,534**	**$434,000**
Other item:						
Depreciation	**$2,948**	**$2,991**	**$879**	**$6,836**	**$–**	**$6,836**
Increase (decrease) in property and equipment and intangible assets	**5,913**	**1,724**	**318**	**7,965**	**224**	**8,198**

Notes: 1. Adjustments for segment assets include corporate assets not allocated to each reportable segment and the Company's excess funds such as cash and deposits.

2. Adjustments for increase (decrease) in property and equipment and intangible assets are capital investments not allocated to each reportable segment.

3. Total of segment income agrees with operating income in the accompanying consolidated statements of operations.

(d) Information by geographical area

1) Net sales

Millions of yen							
2016				2015			
Japan	Asia	Other	Total	Japan	Asia	Other	Total
¥41,363	**¥9,203**	**¥1,954**	**¥52,521**	¥41,561	¥8,721	¥1,822	¥52,105

Thousands of U.S. dollars			
2016			
Japan	Asia	Other	Total
$356,577	**$79,336**	**$16,844**	**$452,767**

2) Property and equipment

Millions of yen							
2016				2015			
Japan	Asia	Other	Total	Japan	Asia	Other	Total
¥968	**¥741**	**¥21**	**¥1,731**	¥960	¥907	¥15	¥1,883

Thousands of U.S. dollars			
2016			
Japan	Asia	Other	Total
$8,344	**$6,387**	**$181**	**$14,922**

(e) Information about major customers

		Millions of yen		Thousands of U.S. dollars
	Related segment	**2016**	2015	**2016**
Astellas Pharma Inc.	Systems development and integration Systems operation and management BPO/BTO	**¥5,930**	¥5,897	**$51,120**

(f) Information on impairment loss by reportable segment

	Millions of yen					
	2016					
	Reportable segment					
	Systems develop-ment and integration	Systems operation and management	BPO/BTO	Total	Adjustments	Consolidated
Impairment loss	**¥76**	**¥–**	**¥28**	**¥105**	**¥–**	**¥105**

	Millions of yen					
	2015					
	Reportable segment					
	Systems develop-ment and integration	Systems operation and management	BPO/BTO	Total	Adjustments	Consolidated
Impairment loss	¥–	¥–	¥–	¥–	¥653	¥653

The amount was in related to Accel Frontline Limited.

	Thousands of U.S. dollars					
	2016					
	Reportable segment					
	Systems development and integration	Systems operation and management	BPO/BTO	Total	Adjustments	Consolidated
Impairment loss	**$655**	**$–**	**$241**	**$905**	**$–**	**$905**

(g) Information on amortization and unamortized balance of goodwill by reportable segment

	Millions of yen					
	2016					
	Reportable segment					
	Systems development and integration	Systems operation and management	BPO/BTO	Total	Adjustments	Consolidated
Amortization	**¥72**	**¥65**	**¥75**	**¥213**	**¥–**	**¥213**
Unamortized balance	**1,144**	**266**	**886**	**2,296**	**–**	**2,296**

	Millions of yen					
	2015					
	Reportable segment					
	Systems development and integration	Systems operation and management	BPO/BTO	Total	Adjustments	Consolidated
Amortization	¥32	¥81	¥94	¥208	¥–	¥208
Unamortized balance	1,485	326	1,251	3,064	–	3,064

	Thousands of U.S. dollars					
	2016					
	Reportable segment					
	Systems development and integration	Systems operation and management	BPO/BTO	Total	Adjustments	Consolidated
Amortization	**$620**	**$560**	**$646**	**$1,836**	**$–**	**$1,836**
Unamortized balance	**9,862**	**2,293**	**7,637**	**19,793**	**–**	**19,793**

19. Supplemental Cash Flow Information

Cash and cash equivalents in the consolidated statements of cash flows were reconciled to cash and deposits reported in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Cash and deposits	**¥11,428**	¥8,983	**$98,517**
Time deposits with maturities of more than three months	**(161)**	(390)	**(1,387)**
Marketable securities included in cash and cash equivalents	**1**	508	**8**
Cash and cash equivalents	**¥11,268**	¥9,101	**$97,137**

The acquisition cost and net payments for assets and liabilities of Sierra Solutions Pte. Ltd. and its two subsidiaries acquired through a stock purchase for the year ended December 31, 2015 were as follows:

	Millions of yen
	2015
Current assets	¥500
Noncurrent assets	99
Goodwill	1,423
Current liabilities	(163)
Noncurrent liabilities	(1)
Minority interest	(130)
Acquisition cost	1,728
Amount of payable included in acquisition cost	(22)
Cash and cash equivalents	(230)
Payment for acquisition	¥1,475

20. Related Party Transactions

A transaction with its non-consolidated subsidiary which engages in investment in venture companies was as follows:

For the year ended December 2016:

Classification	Name of the company	Location	Stated capital (Thousands of U.S. dollars)	Type of business	% of voting rights (owned)	Business relationship	Type of transaction	Transaction amount (Millions of yen) / (Thousands of U.S. dollars)	Account	Balance at the end of the period (Millions of yen) / (Thousands of U.S. dollars)
Subsidiary	CAC Venture Capital Manage-ment, Inc.	Nevada, U.S.	10	Investment in venture capital	100% (Direct)	Payment of capital	Capital contribution (Note 1)	¥486 ($4,189)	–	–

Note: 1. Additional contribution was made to provide funds for new investments.

For the year ended December 2015:

Classification	Name of the company	Location	Stated capital (Thousands of U.S. dollars)	Type of business	% of voting rights (owned)	Business relationship	Type of transaction	Transaction amount (Millions of yen) / (Thousands of U.S. dollars)	Account	Balance at the end of the period (Millions of yen) / (Thousands of U.S. dollars)
Subsidiary	CAC Venture Capital Manage-ment, Inc.	Nevada, U.S.	10	Investment in venture capital	100% (Direct)	Payment of capital	Capital contribution (Note 1)	¥327	–	–

Note: 1. Capital contribution was made in connection with the establishment of the non-consolidated subsidiary.

A transaction with a company, which the Company's director and her relatives held a majority of its voting rights, was as follows:

For the year ended December 2016:

None.

For the year ended December 2015:

Classification	Name of the company	Location	Stated capital (Millions of yen)	Type of business	% of voting rights (owned)	Business relationship	Type of transaction	Transaction amount (Millions of yen) / (Thousands of U.S. dollars)	Account	Balance at the end of the period (Millions of yen) / (Thousands of U.S. dollars)
Director	People Focus Consulting Co., Ltd. (Note 1)	Shibuya, Tokyo	10	Consulting	–	Interlocking directorate	Outsourcing of internal training (Note 2)	¥22	Accrued expenses	¥2

Notes: 1. Yukiko Kuroda, a director of the Company, and her close relatives own a majority of the voting rights.

2. Terms and conditions are determined based on arm's-length transactions.

3. Consumption taxes are not included in the above transaction amount, but included in the balance at the end of the period.

21. Per Share Information

Per share information was as follows:

	Yen		U.S. dollars
	2016	2015	**2016**
Amounts per share:			
Net assets	**¥1,447.09**	¥1,439.40	**$12.47**
Profit (loss)	**105.54**	(7.21)	**0.90**
Cash dividends	**40.00**	32.00	**0.34**

Notes: 1. Diluted profit per share for the previous fiscal year was not presented since the Company reported net loss and had no outstanding residual shares. Diluted profit per share for the current fiscal year was not presented since the Company had no outstanding residual shares.

2. Cash dividends per share include a total of ¥8 ($0.06) commemorative dividends for the 50th anniversary of the Company's establishment.

3. The basis for calculating profit (loss) per share was as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Profit (loss) attributable to owners of parent	**¥2,039**	¥(142)	**$17,577**
Amount not attributable to common shareholders	**–**	–	**–**
Profit (loss) attributable to common stock owners of parent	**2,039**	(142)	**17,577**
Average number of common shares outstanding (share)	**19,317,964**	19,757,425	

4. As stated in Note 3. "Changes in Accounting Policies and Presentation, (a) Accounting standard for business combinations", the Company adopted the Business Combination Accounting Standards. Accordingly, net assets per share decreased by ¥24.42 ($0.21) and profit per share increased by ¥1.49 ($0.01) for the current fiscal year.

22. Subsequent Event

(a) Appropriation of retained earnings

The following appropriations of retained earnings, which have not been reflected in the accompanying consolidated financial statements for the year ended December 31, 2016, were approved at the shareholders' meeting held on March 23, 2017.

	Millions of yen	Thousands of U.S. dollars
	2016	**2016**
Cash dividends ¥20 ($0.17) per share	**¥368**	**$3,172**

Note: Cash dividends per share include ¥4 ($0.03) commemorative dividend for the 50th anniversary of the Company's establishment.

(b) Business combination

Sale of shares of an indirectly owned subsidiary

1. Outline of business combination

On May 26, 2017, Accel Frontline Limited (“AFL”), the Company’s consolidated subsidiary in India, concluded a contract to sell 51.0% of outstanding shares of Accel Systems & Technologies Pte. Ltd. (“ASTL”), the AFL’s consolidated subsidiary in Singapore, to StarHub Ltd. After the sale of shares, ASTL will be no longer a consolidated subsidiary of the Company.

(1) Name of a subsidiary to be sold and description of its business

Name :	Accel Systems & Technologies Pte. Ltd.
Business description:	To develop cyber security system and provide services with related to the security system

(2) Reason for sale of shares

AFL decided to select business field and focus on their strength for the future expansion of their business.

(3) Date of sale of shares

July 10, 2017

(4) Number of holding shares before sale, number of shares to be sold, sales proceeds, and number of holding shares after sale

Number of holding shares before sale:	11,730,000 shares (51.0% of outstanding shares)
Number of shares to be sold:	11,730,000 shares (51.0% of outstanding shares)
Sales proceeds:	Approximately ¥1,560 million ($13,448 thousand)
Number of holding shares after sale:	None

2. Accounting treatment to be applied

The excess amount of sales proceeds over the net book value of holding shares at the time of sale will be recognized as gain on sales of shares of subsidiaries.

3. Reportable segment in which the subsidiary was classified

Systems development and integration segment

4. Amount of income and expenses included in the consolidated financial statements of operations for the year ended December 31, 2016

Net sales	¥1,550 million
Operating income	¥531 million

Grant Thornton

Grant Thornton Taiyo LLC

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of CAC Holdings Corporation

We have audited the accompanying consolidated financial statements of CAC Holdings Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheet as at December 31, 2016, and the consolidated statements of operations, comprehensive income, changes in net assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of CAC Holdings Corporation and its consolidated subsidiaries as at December 31, 2016, and their consolidated financial performance and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The United States dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2016 are presented solely for the convenience. Our audit also included the translation of Japanese yen amounts into United States dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Grant Thornton Taiyo LLC

July 14, 2017

Tokyo, Japan

Member of Grant Thornton International Ltd

General Information (as of December 31, 2016)

Number of Shares Authorized	86,284,000
Number of Shares Issued and Outstanding	21,541,400
Unit Share	100 shares
Number of Shareholders	6,487
Fiscal Year End	December 31
General Shareholders Meeting	End of March
Registration Deadline for Dividend Payment	Year-end: December 31 Interim: June 30
Administrator of the Register of Shareholders	Mitsubishi UFJ Trust and Banking Corporation 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan
Stock Exchange Listing	Tokyo Stock Exchange, 1st Section (Date of Listing: October, 2000) (Securities Code: 4725)

Primary Shareholders (as of December 31, 2016)

Name of Shareholders	Number of Shares held (Thousands)	Percentage of Total Issued Shares
SHOGAKUKAN Inc.	3,512	16.30%
The Master Trust Bank of Japan, Ltd. (Trust account)	795	3.69%
CAC Employee Shareholding Association	732	3.40%
Sumitomo Mitsui Banking Corporation	484	2.24%
Mitsubishi Tanabe Pharma Corporation	431	2.00%
Japan Trustee Services Bank, Ltd. (Trust account)	386	1.79%
Maruha Nichiro Corporation	300	1.39%
TOYO TIRE & RUBBER CO., LTD.	289	1.34%
CLEARSTREAM BANKING S.A	233	1.08%
Yakult Honsha Co., Ltd.	210	0.97%

* Treasury stocks (3,106 thousand shares as of December 31, 2016) are not included in the above.

Breakdown of Shareholding by Investor Type (as of December 31, 2016)

Investor Type	Number of Shareholders	Number of Shares held (Thousands)	Percentage of Total Issued Shares
Japanese Financial Institutions	25	3,271	15.18%
Japanese Securities Companies	25	154	0.72%
Other Japanese Companies	72	6,069	28.18%
Foreign Companies, etc.	84	1,953	9.07%
Japanese Individuals and Others	6,281	10,092	46.85%
Total	**6,487**	**21,541**	**100.00%**

* Treasury stocks (3,106 thousand shares as of December 31, 2016) are included in "Japanese Individuals and Others."

Corporate information

Corporate profile

Name	CAC Holdings Corporation
Head office	24-1, Hakozaki-cho, Nihonbashi, Chuo-ku, Tokyo103-0015, Japan Phone: +81-3-6667-8001
Representative	Akihiko Sako, President and CEO
Founded	August 8, 1966
Capital	¥3,702 million
Consolidates sales	¥52,521 million (for the fiscal year ended December 31, 2016)
Number of group employees (as of December 31, 2016)	5,711
Main services offered	Formulation of the CAC Group's business strategy and business administration of the group
Main financing banks	Sumitomo Mitsui Banking Corporation, Bank of Tokyo-Mitsubishi UFJ, Mizuho Bank, Mitsubishi UFJ Trust and Banking, and Sumitomo Mitsui Trust Bank

CAC Group

CAC Corporation
Location Chuo-ku, Tokyo, Japan
Main services Systems development and integration, systems operation and management, and BPO/BTO services

CAC Croit Corporation
Location Chuo-ku, Tokyo, Japan
Main services CRO services and IT services

ARK Systems Co., Ltd.
Location Chuo-ku, Tokyo, Japan
Main services System planning, construction, and operation management

CAC Knowledge Co., Ltd.
Location Chuo-ku, Tokyo, Japan
Main services System development, maintenance, and operation management and packaged software development and sales

CAC ORBIS CORPORATION
Location Nishi-ku, Osaka-shi, Osaka, Japan
Main services System consulting services, software planning and development, and systems maintenance and operation

CAC MARUHA NICHIRO SYSTEMS CORPORATION
Location Chuo-ku, Tokyo, Japan
Main services System development, maintenance, and operation

Hitec Systems Corporation
Location Shimonoseki-shi, Yamaguchi, Japan
Main services Systems development, maintenance and operation, and packaged software development and sales

kizasi Company, Inc.
Location Chuo-ku, Tokyo, Japan
Main services Development and provision of basic Internet technologies

CAC AMERICA CORPORATION [CAC AMERICA]
Location New York, United States
Main services Systems planning and development, and systems operation and management

CAC EUROPE LIMITED [CAC EUROPE]
Location London, United Kingdom
Main services Systems consulting and system integration

CAC SHANGHAI CORPORATION
Location Shanghai, China
Main services System integration and software development

GoldenTech Computer Technology (Suzhou) Co., Ltd.
Location Suzhou, China
Main services System development and software development

CAC India Private Limited [CAC India]
Location Mumbai, India
Main services System development and operation management, and BPO/BTO services

Accel Frontline Limited
Location Chennai, India
Main services IT infrastructure services, software services, and warranty management services

Sierra Solutions Pte. Ltd.
Location Singapore
Main services Consulting and IT services for the healthcare industry, aimed primarily at medical institutions

Corporate history

1966	Computer Applications Co., Ltd. (CAC) is established as one of Japan's first independent software companies.
1971	CAC invests in Nippon System Service Co., Ltd. (SSK). SSK changes its business focus to outsourcing services.
1973	System Utility Co., Ltd. (SUC), a facility management company, is established as a wholly owned subsidiary.
1986	Formally enter the system consulting business.
1988	Certified as "System Integrator" by the first "Registration and Certification of System Integrator" of the Ministry of International Trade and Industry (MITI).
1989	CAC AMERICA CORPORATION, a wholly owned subsidiary, is established in New York, United States.
1990	CAC EUROPE LIMITED, a wholly owned subsidiary, is established in London, United Kingdom.
1994	CAC, SSK, and SUC merge to form CAC Co., Ltd.
1995	Certified as "Provider of Special Systems Operation Services" by the first "Certification of Provider of Special Systems Operation Services" of MITI.
1996	Enter the business for integrated management services targeting distributed systems.
1999	Listed on the OTC market.
2000	Acquire all the shares of ARK Systems Co., Ltd., effectively making the company a subsidiary. CAC Shanghai Corporation is established in Shanghai, China. Listed on the First Section of the Tokyo Stock Exchange.
2002	Acquire shares of GoldenTech Computer Technology (Suzhou) Co., Ltd., making the company a subsidiary. Acquire the shares of YUASA KNOWLEDGE INDUSTRY Co., Ltd., making the company a subsidiary and renaming it CAC Knowledge Co., Ltd.
2003	Acquire shares of ORBIS CORPORATION (presently CAC ORBIS CORPORATION), making the company a subsidiary. Acquire shares of MARUHA SYSTEMS CORPORATION (presently CAC MARUHA NICHIRO SYSTEMS CORPORATION), making the company a subsidiary.
2005	Relocate the head office to Hakozaki-cho, Nihonbashi, Chuo-ku, Tokyo
2006	Acquire shares of Arm Systex Co., Ltd., making the company and Arm Co., Ltd. subsidiaries.
2007	kizasi Company, Inc. is established. Acquire all the shares of Medical Ecology Co., Ltd. (later renamed CAC ClinIT Co., Ltd.), making the company a subsidiary.
2009	Acquire shares of clinical trust Co., Ltd., making the company a subsidiary.
2010	Merger of CAC ClinIT Co., Ltd., Arm Systex Co., Ltd., and Arm Co., Ltd. CAC India Private Limited is established in Mumbai, India.
2012	CAC EXICARE Corporation is established through a company split.
2014	Acquire shares of Accel Frontline Limited, making the company a subsidiary. Change to a holding company structure, as a result of which CAC Co., Ltd. is renamed CAC Holdings Corporation. At the same time, CAC Corporation is established through a company split and takes over the operations of CAC Co., Ltd.
2015	Acquire shares of Sierra Solutions Pte. Ltd., making the company a subsidiary.
2016	CAC Croit Corporation is established through the merger of CAC EXICARE Corporation and clinical trust Co., Ltd.

Editorial policy

The CAC Group began publishing the CAC REPORT in FY2015. The aim of this report is to ensure the value-creation initiatives of the CAC Group are understood by a wide range of stakeholders, primarily by investors who view matters from a long-term perspective.

Scope of reporting

- Reporting period: January 1, 2016 to December 31, 2016 (activities in January 2017 and thereafter are also included in some sections.)
- Subject organizations: CAC Holdings Corporation and 26 CAC Group companies (as of December 31, 2016)

Caution concerning forward-looking statements

This report contains descriptions of plans for the future and forecasts and prospects of the strategies and business results of CAC Holdings Corporation and CAC Group companies. These descriptions are based on judgements that were made based on currently available information. Please note that our actual business results may differ materially from these initial forecasts due to various external factors.

CAC Holdings Corporation

24-1, Hakozaki-cho, Nihonbashi, Chuo-ku,
Tokyo 103-0015, Japan

Phone: +81-3-6667-8010 (Corporate Communication Section)

https://www.cac-holdings.com/eng/