

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.

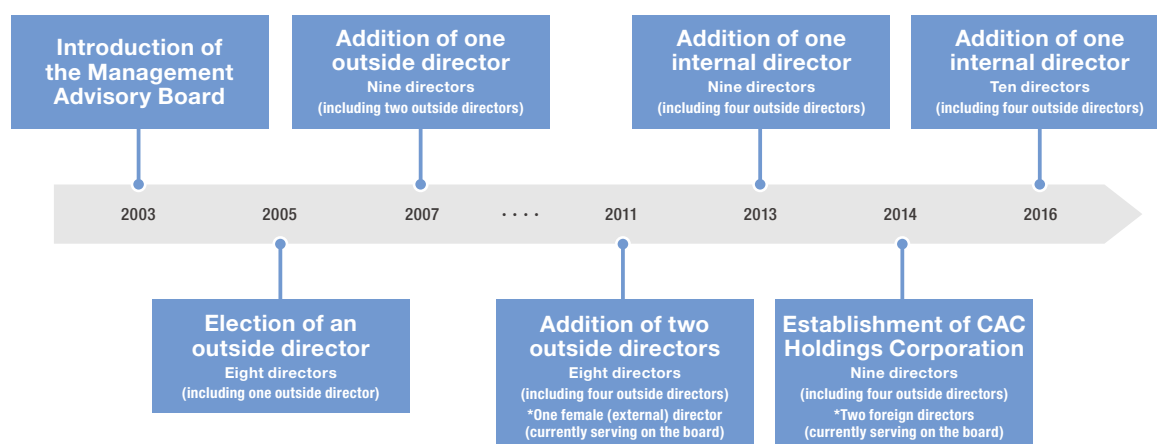
Board of Directors

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.

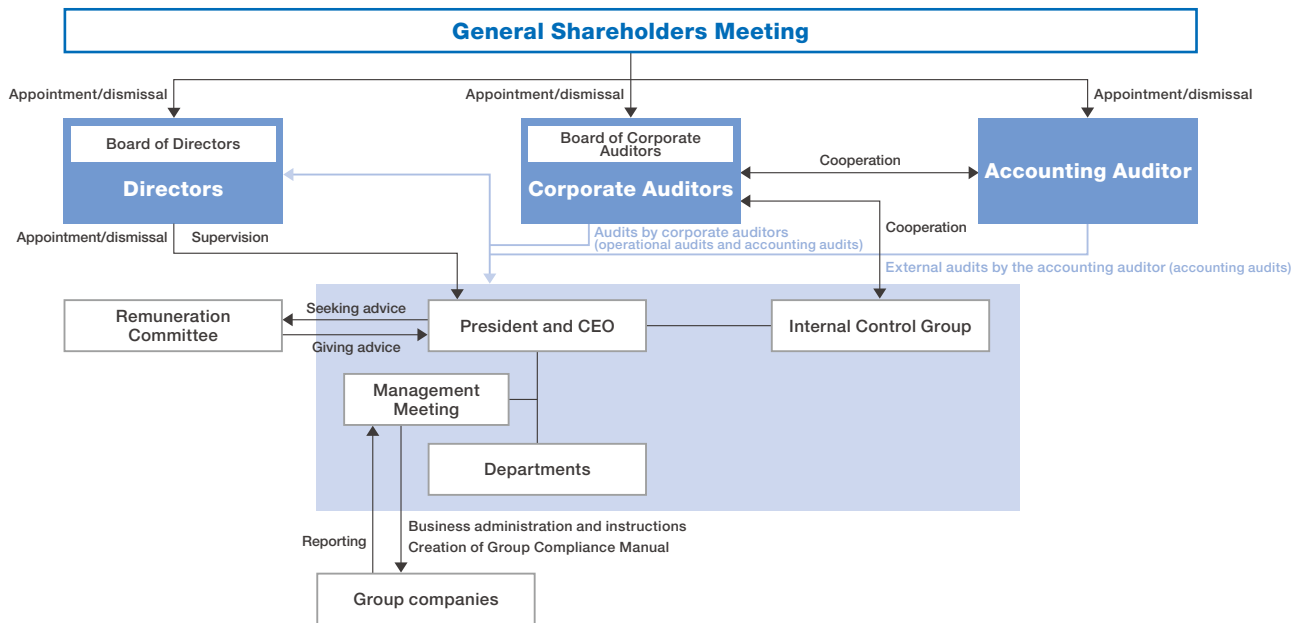
Board of Corporate Auditors

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.