CAC Holdings Corporation

CAC REPORT 2018

— Fiscal year ended December 31, 2017 —

Creating new value on a global level with the use of the latest ICT



Our mission is to continually create new value through advanced ICT. Against a backdrop of globalization, and with an increasingly diverse range of values, we understand the needs of the market and are determined to create new services that will change the world.

That is our goal here at the CAC Group.



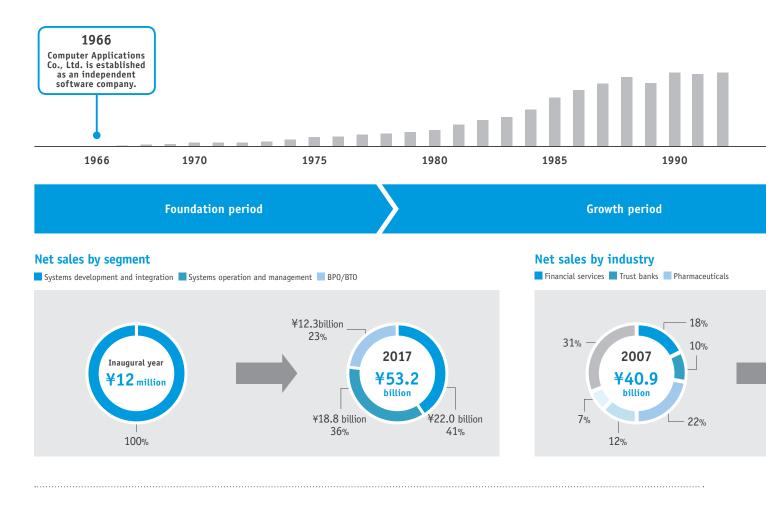
We continue growing by tackling various challenges.

The history of the CAC Group's growth is also a history of challenges.

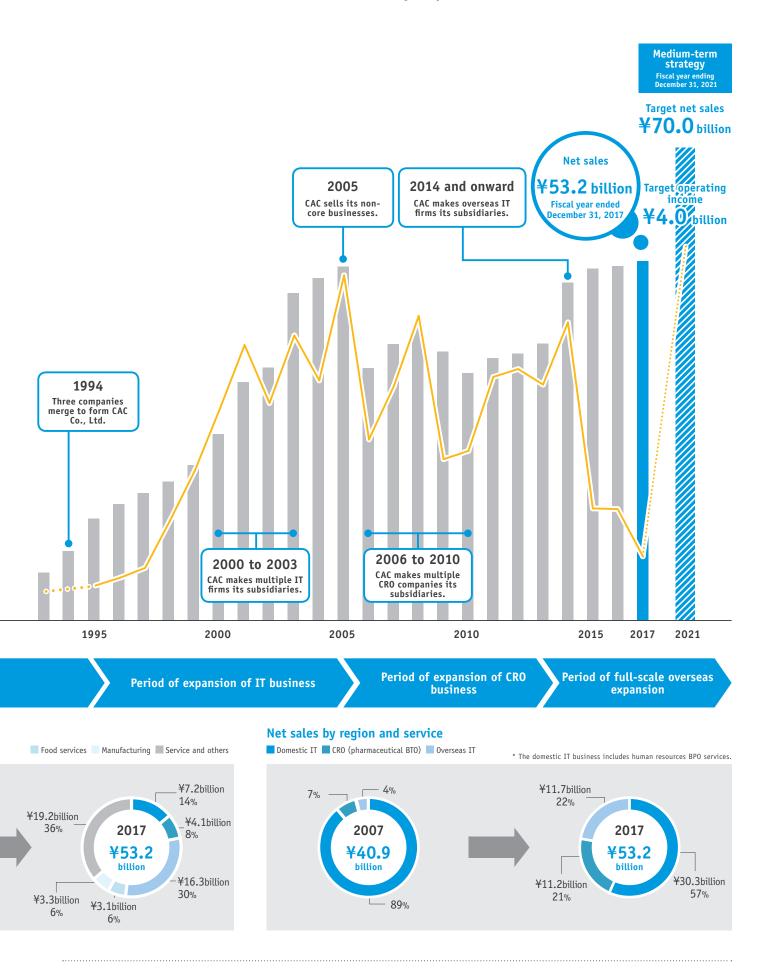
Never fearing failure, we have tackled challenges in new areas.

We will try to create further corporate value while making a full-scale entry on the global stage.

Net sales — Operating income



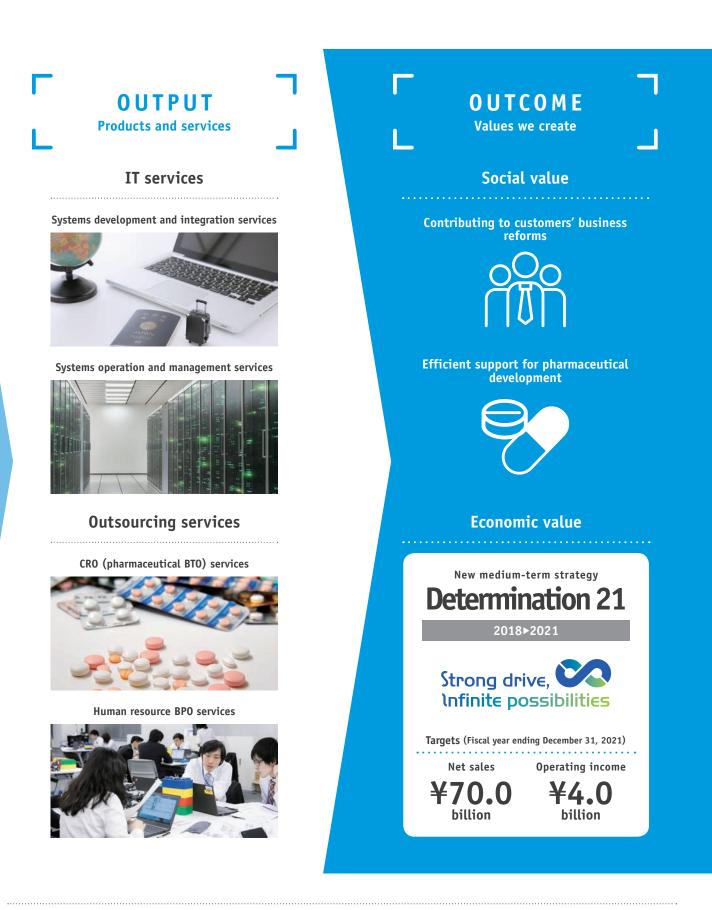
CAC Holdings Corporation



04

CAC Group's value creation and outcomes

Social needs Business activities and issues **Corporate concept** As a knowledge-intensive company, we provide a full range Globalization of business information system services, as well as highvalue added services that integrate information technology into business. **Promotion of Our role** innovations Creating new value on a global level Productivity with the use of the latest ICT improvement **Manpower reduction** Work style reform Our strengths Percentage of projects in Having served which we serve as the prime industry-leading corporate customers for contractor: Super-aging society vears Sound financial structure **Control of healthcare** Net D/E ratio costs -0.10_{times}

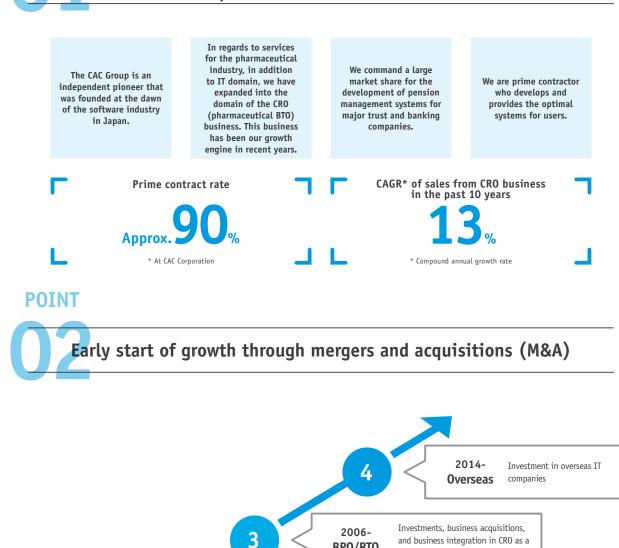


POINT

Three key points of the CAC Group

We have summarized our unique strengths into three key points to have the CAC Group understood better.

An IT and healthcare service provider that has been changing in response to needs of the times



growth field

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

and business integration in CRO as a

Merger of Computer Applications Co., Ltd., a systems development

System Service Co., Ltd. (SSK) and System Utility Co., Ltd. (SUC)

2000-

IT system

Merger of three and integration company, with two CAC Group companies, Nippon

2

1994

companies

BPO/BTO

POINT

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. Number of non-Japanese Number of non-Japanese Foreign fresh graduates of the **Overseas sales** directors of employees of the group core operating company (consolidated) **CAC Holdings Corporation** (consolidated) (CAC Corporation) ¥11.7 billion 3,361 19 2 22% 25% **62**% Sales in Japan Japanese Japanese Japanese ¥41.5billion 6 2,023 33 **Overseas business locations** * As of April 1, 2018 UK **2** China 2 USA **3** UAE **1** India 3 Number of overseas group companies: History of overseas expansion Entered the United States **Entered China Entered Singapore** 2000 1989 2015 Established local subsidiary and acquired shares in an offshore company, making it a subsidiary Acquired an IT company Established local subsidiar \mathbf{O} Ω Entered Europe **Entered India** 1990 2010 Established local subsidiary Established local subsidiary and acquired an IT company

We will capitalize on digital transformation as an opportunity and transform ourselves into a company that achieves sustainable growth.



In an era of rapid change, we will tackle challenges with strong *determination*

My name is Akihiko Sako, the president and CEO of CAC Holdings Corporation. First, I would like to express my sincere gratitude to our shareholders for their ongoing support.

Since its founding in 1966 as Japan's first independent software company, the CAC Group has continued to grow steadily by anticipating change.

However, recent years have seen rapid waves of digital transformation (hereinafter, "DX"), in which AI, IoT, and other digital technologies greatly change the lives of individuals, corporate activities, and society in general. These changes have led to a significant shift in the capabilities required of system integrators and outsourcers. There is even a possibility that companies unable to make full use of the latest technologies will be eliminated.

What services should we provide to society in this era of rapid change?

Without question, the CAC Group is facing a big turning point.

In response, the CAC Group adopted a new corporate philosophy this year, that is, "Creating new value on a global level with the use of the latest ICT." Based on this philosophy, we will identify needs generated from globalization and diversifying sets of values, ahead of others, and tackle challenges with a strong determination, aiming to be a corporate group that can respond to great change.

FY2017 results dragged down by unprofitable overseas projects

Net sales for the fiscal year ended December 31, 2017 increased 1.4% year on year, to 53,260 million yen while operating income declined 41.9% year on year, to 690 million yen. We created new technologies and new business domains by making use of AI, blockchain, IoT, and other technologies. In addition, we stepped up collaboration among group companies in and outside Japan and also worked to expand our overseas operations in China and India. On the other hand, our profits were heavily influenced by unexpected events. They included an increase in SG&A expenses at CAC Croit Corporation, which provides CRO (pharmaceutical BTO) services, and at Accel Frontline Limited, our subsidiary in India. They also include the fact that major projects that formed the basis of Sierra Solutions Pte. Ltd. (sold), a subsidiary in Singapore, became unprofitable.

Recovery expected in FY2018

Net sales for the fiscal year ending December 31, 2018 are expected to rise 1.4% year on year, to 54,000 million yen. Operating income is expected to increase 129.1% year on year, to 1,600 million yen. In the domestic IT business, we will achieve a rebound in profits by capturing demand for Amazon Web Services (AWS), a cloud service, and taking other measures. In the overseas IT business, we have sold Sierra Solutions Pte. Ltd., a subsidiary in Singapore that posted an operating loss. In addition, Accel Frontline Limited, a subsidiary in India, plans to spin off unprofitable businesses. While reducing cost through these and other measures, we will strive to increase orders, targeting only India and China, where demand from companies, schools, and other organizations is high.

Past two medium-term strategies: Acceleration of change as the challenge

In the previous medium-term strategy "Rebirth Beyond" (2015-2017), whose final year was FY2017, we tackled new challenges in new technologies and new business domains, with a focus on overseas expansion and investment in CRO business, to transform ourselves into a new CAC Group.

While net sales increased, events at our overseas subsidiaries in Singapore and India dragged down profits, and CRO business continued to see marginal and unprofitable projects. As a result, businesses in areas that we deemed priority areas pushed down profits. In "Rebirth" (2012-2014), the mediumterm strategy before the previous one that started in my second year as the president, and the previous mediumterm strategy "Rebirth Beyond" (2015-2017), we sought to transform ourselves into a new CAC Group in anticipation of changes of the times caused by DX. During the three-year period of "Rebirth," we were able to improve our performance, mainly in existing businesses. During that of "Rebirth Beyond," however, we could not catch the waves of DX or keep pace, although we took a number of measures.





New Medium-term strategy "Determination 21"

In the new medium-term strategy (2018-2021), whose first fiscal year is FY2018, we will work with *determination*, aiming to change ourselves into a corporate group that can respond to great changes caused by DX. We aim to achieve consolidated net sales at 70,000 million yen and consolidated operating income at 4,000 million ven in FY2021 as the final fiscal year of the new medium-term strategy. Above all, we have an urgent need to achieve a recovery in consolidated operating income, which has been in a slump. We will keep in mind the following three trends: rapid expansion and penetration of DX; formation of a borderless, seamless global market; and the significant possibility that old-fashioned system integrators and outsourcers will be eliminated. To restore operating income, then, we will change our existing businesses, and at the same time, develop new businesses and domains and entrench new technologies in the CAC Group.

We aim to improve profitability in existing businesses.

In existing businesses, we aim to achieve net sales at 50,000 million yen and operating income at 2,500 million ven in FY2021. The major source of profit of the CAC Group has been businesses for financial institutions. However, the environment surrounding the financial industry has been growing tougher, with major banks instituting large-scale restructuring, for example. We will therefore shift our domestic IT business to digital technologies and provide the solutions of our overseas subsidiaries in Japan. We have already produced results, including the provision of technologies for automated driving support systems, which are owned by Accel Frontline Limited, a subsidiary in India, to an automotive parts manufacturer in Japan. Moving forward, we will carry out these activities more aggressively by expanding the area for sales activities and taking other initiatives.

Our overseas business is facing a turning point. In the future, we will aim to win market share by focusing on huge markets such as India and China. In addition, we will select the next countries and regions to enter, considering M&A and integration as possible options, while also promoting further restructuring by taking measures such as spinning off unprofitable businesses. With regard to the CRO business, we will create new businesses as an extension of our existing businesses, by pursuing initiatives such as undertaking compound management with the backup of the Ministry of Health, Labour and Welfare. We will also expand the business to China and India, where it is expected to enjoy high demand, by deploying a 40-member CRO team in China, for example.

New businesses will grow based on M&A and investment.

We plan to achieve consolidated net sales from new businesses at 20,000 million yen and operating income from the businesses at 1,500 million yen in FY2021.

New businesses are based on M&A and investment. If our existing businesses are the first floor of a building, new businesses constitute the second floor that continues to expand. New domains and technologies are added to our existing businesses. That's the way it works.

We will invest in various business fields, without limitation, including nursing care, agriculture, and inbound tourism, not to mention digital technologies. We will quickly promote investment projects which are deemed promising.

For example, we have invested in a website where tourists from China and Taiwan can reserve tables at restaurants. We are looking at creating and adding a service that will permit reservations for medical tours to this website jointly with healthcare corporations. We also pay attention to *film farming*, which is considered promising. CAC Holdings has a specialized organization named Innovative Business Planning Dept., which focuses its efforts on creating new businesses and new technologies based on M&A and business and capital alliances. Separately from this division, we established CAC CAPITAL Co., Ltd., an asset management company aimed at investing in startups in Japan, and set up an individually managed corporate venture capital (CVC) fund of 3,000 million yen in total (upper limit). In addition to continuing with the initiatives we have taken to create innovation, such as M&A, we will invest flexibly to create new businesses and build partnerships with startups at early stages. We have also invited investment management professionals from outside the group, with whom we will pursue an absolute return.

Developing investment expertise by learning from past failures as well

During FY2017 to early FY2018, our alliance and portfolio businesses began to operate without trouble.

In November 2017, we began to provide a Proof of Concept (PoC) support service intended for financial institutions, which combines blockchain, AI, and IoT, jointly with Toppan Printing Co., Ltd. While innovation of existing business models and business processes with DX is required, we are providing this service of giving support with total solutions, from consulting to system development and result verification. It enables us to test the commercial viability of new theories and technologies in the development of a new product or service or in a large-scale commercial project, for example. In addition, in February 2018, we began to provide the kokoro sensor (Ver. 1.0), a video analysis service that analyzes human facial expressions by using the Emotion Artificial Intelligence from Affectiva Inc., in which we began investing in 2016, and outputting numerical data for the human emotions it has detected. The kokoro sensor analyzes the facial expressions of people in videos

prepared by users, by applying the Emotion Artificial Intelligence. The emotions of persons in the videos are detected and output as numerical data.

The *kokoro* sensor permits business companies and other users to analyze the video data they own and make use of the obtained data for research, product development, and customer satisfaction surveys, for example.

There were cases in which our investment projects ended in failure. We will develop measures to prevent this, with the leading role played by the Board of Directors including four outside directors (as of the date of this interview). We will make full use of investment skills, knowledge, and methods learned from the failure. At the same time, we will continue to accumulate in-house investment management expertise.

From a system development company to a true holding company

We used to be a general software company. We shifted to a pure holding company structure in April 2014 as we expanded our operations in response to the advent of an era when IT is essential for all businesses, at the same time as promoting our globalization. Later, I served concurrently as the president of CAC Holdings, the parent company, and that of CAC Corporation as an operating company. However, I was forced to devote much of my energy to the operating company, which is responsible for its corporate customers and employees. This made me painfully aware that the new structure was not working effectively. In response, I resigned from my position of the president and CEO of CAC Corporation, which I held concurrently, in January 2018. As a result, the president and CEO of CAC Holdings, which is a pure holding company, became my only position.

By maintaining a distance from operations and steering the overall group from a broader perspective, I will seek to improve the structure to make it more profitable and also increase ROE, while considering the balance between people, goods, and money.

I will also promote investment aggressively within the scope of cash flow, although it depends on the project. Making effective use of treasury stock is another task. I think we have options that should be considered, such as retirement, investment made using a share swap, and stock options aimed at revitalizing the company.

The name of the team in charge of IR activities was changed from the Corporate

Communication Section to the Enterprise Value Up Group. As a strategic organization that is more integrated with management, the team will work to improve our value.

CAC Holdings will catch the wave of great change brought about by DX and will continue pursuing initiatives to achieve sustainable growth. I invite our shareholders will continue to watch and support our progress.

Date of interview: Early March, 2018





New medium-term strategy Determination 21 2018 > 2021

We are seeing rapid waves of digital transformation (DX), in which AI, IoT, and other digital technologies are significantly changing the lives of individuals, corporate activities, and even society overall. This has completely changed the capabilities required of us as system integrators and outsourcers and created the possibility that companies without full knowledge of digital technologies will be eliminated. To respond to this rapid progress of DX without delay and grow sustainably as a corporate group, we have formulated the new medium-term strategy (FY2018-FY2021) of the CAC Group and are striving to achieve the targets under the strategy.

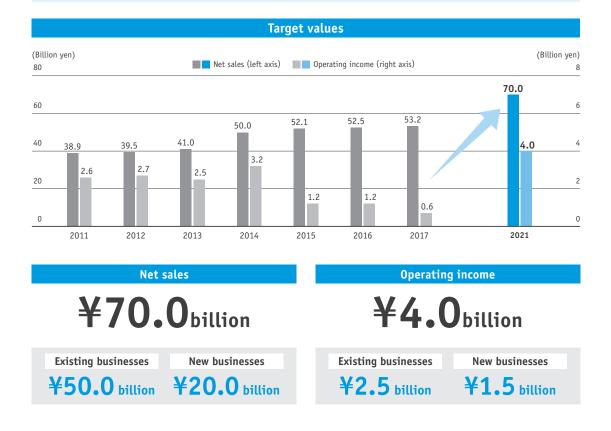
Review of the previous medium-term strategy

Achievements

- 1.Increase in the percentage of overseas operations (0verseas sales ratio increased to 22.0%)
- 2.Globalization of human resources (Non-Japanese employees constitute 62.3%)
- 3.Investment in new technologies (Some technologies, such as Emotion Artificial Intelligence from Affectiva, have been commercialized.)
- 1. Continuous creation of business income

Issues

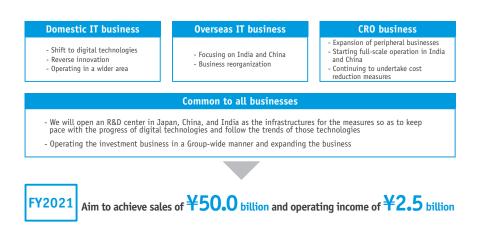
- 2. Strengthening Group governance
- 3. Responding to DX



Three initiatives

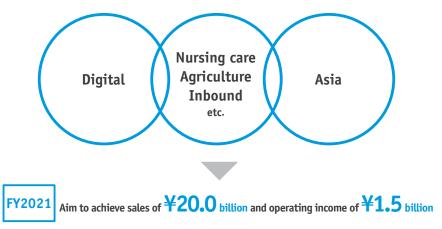
1• Increasing the earning power of existing businesses

For our existing businesses, we will focus our efforts on improving their earning power. We aim to provide high valueadded services by applying digital technologies. We will also carry out business reorganization and cost reductions.



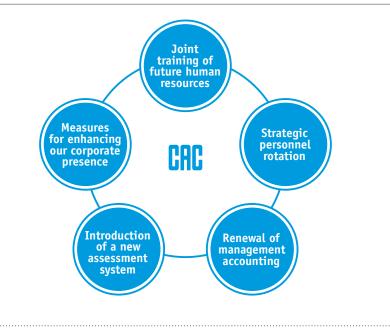
2. Creating and expanding new business domains

To create and expand new business domains, we will establish a dedicated department within CAC Holdings and aim to acquire new management resources by means of investment. We will strive to expand the CAC Group by carrying out investment and M&A of promising companies, targeting digital businesses with keywords such as "nursing care," "agriculture" and "inbound," with a focus on Asian countries includingw China and India. Acquiring new management resources by means of investment



3. Strengthening and revitalizing the Group

We will revitalize the CAC Group further through the joint training of future human resources and strategic personnel rotation, which we will implement across the entire Group. We will also renew our management accounting, introduce a new assessment system, and take other measures to strengthen the management of the Group. Further, we will strengthen our PR, IR and CSR activities with the aim of enhancing our corporate presence.



We achieve growth and stable dividends.

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.

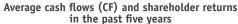
Principles of the CAC Group's capital policy

Creating profit stably and continuously while aggressively making the investments needed for growth Providing comprehensive shareholder returns, including initiatives such as the acquisition of treasury stock, as well as consistently paying dividends

Cash flows

With regard to our cash flows (CF) from operating activities in FY2017, we posted net cash used in operating activities of 1,014 million yen (compared with net cash provided by operating activities of 892 million yen in FY2016). This mainly reflected a gain on sales of investment securities of 1,732 million yen, a gain on sales of shares of subsidiaries and associates of 1,177 million yen and income taxes paid of 2,366 million yen, offsetting profit before income taxes of 2,122 million yen, depreciation of 820 million yen and an impairment loss of 1,288 million. Concerning CF from investing activities, we posted net cash provided by investing activities of 307 million yen (compared with net cash provided by investing activities of 3,233 million yen in FY2016). This was chiefly attributable to proceeds from sales of investment securities of 4,026 million yen and proceeds from sales of shares of subsidiaries of 797 million yen, offsetting the purchase of investment securities of 2,931 million yen and the purchase of intangible assets of 994 million yen, among other expenditures. With regard to CF from financing activities, we posted net cash used in financing activities of 2,196 million yen (compared with net cash used in financing activities of 1,920 million yen in FY2016). This was mainly due to cash dividends paid of 701 million yen, payments from changes in ownership interests in subsidiaries of 518 million yen, and a net decrease in short-term loans payable of 482 million ven. As a result of the above, cash and cash equivalents at the end of FY2017 stood at 8,389 million ven, down 2,878 million yen from the end of FY2016.

CF from investing activities changes significantly from year to year due to the acquisition of companies, the purchase of investment securities and other activities. Looking at the average for the past five years, CF from operating activities stands at around 700 million yen, CF from investing activities is around -200 million yen, and free cash flow (the difference between CF from operating activities and CF from investing activities; hereinafter, "FCF") is around 500 million yen. For the FCF of around 500 million yen, we have provided around 900 million yen as the return of profits to shareholders. The average total dividend payout ratio for the five years is 66.9%.

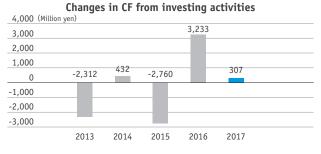


			Je live year	-	
1,000 (M	1illion yen)				
800					
600		CF from		Shareholder	
400		operating		returns	
200		activities	Free CF	917	
0	CF_from-investing_	708	488		
-200	activities	1			
-400	-220 -				

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. We continue to undertake M&A as a growth initiative while also implementing restructures and other measures.

In addition, we established a CVC fund in the United States in 2015, jointly with a venture capital in the country, to pursue new technologies, and invested around 500 million yen for the fiscal year ended December 31, 2016 and around 500 million yen for the fiscal year ended December 31, 2017 in startup companies that we deemed to be beneficial for our future growth. Further, in January 2018, we established a CVC fund, which we operate on our own, to make investments more flexibly and build partnerships with startups promptly. We have begun to invest in domestic companies that provide IT services in anticipation of future social needs, companies that have different business models from the CAC Group, and others.



Major investments made over the past three years

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
2016	Investments in six companies including Affectiva, Inc., which has technologies in Emotion Artificial Intelligence Total amount of investments: Approx. ¥500 million
2017	Investment in five companies including Money Forward, a Fintech-related company, and Color Genomics, a provider of genetic analysis services Total amount of investments: Approx. ¥500 million

Investment plan based on the medium-term strategy

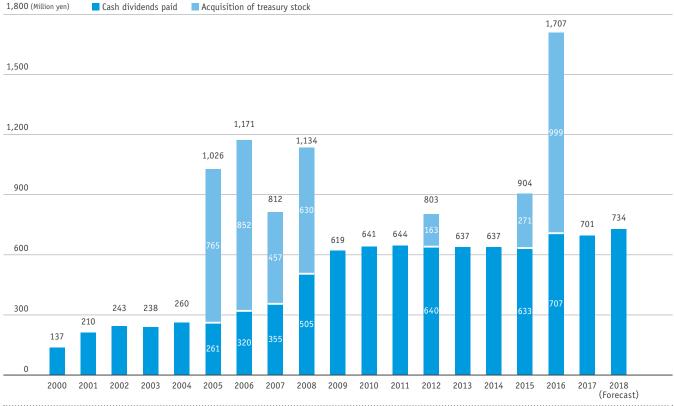
Under the new medium-term strategy that commenced in FY2018, we aim to create new businesses and technologies based on M&A, investments and capital contributions. We aim to achieve net sales of 20,000 million yen and operating income of 1,500 million yen in new businesses in the final year of the medium-term strategy. We have established a dedicated department within CAC Holdings where we are implementing the investment plan to achieve the target.

With regard to inbound business, which is one of our new businesses, we took a stake in tourcandy Inc., which operates the restaurant booking and payment service called Xunwei that is aimed at foreign tourists visiting Japan, in March 2018. We have also formed a business alliance with a Chinese venture capital to discover, invest in, and build alliances with startup companies related to inbound business. We are accelerating these and other initiatives.

Shareholder returns

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. With respect to internal reserves, we will invest in M&A for the growth of the Group, business development, human resources development, and research and development carried out from a medium- to long-term perspective, in addition to strengthening our financial structure. We will also work to improve productivity and our capabilities to ensure superior quality, as well as reinforce comprehensive strengths and reinforce the business foundation of the Group for sustainable growth.

In the fiscal year ended December 31, 2017, we paid a full-year dividend of 36 yen per share. In the fiscal year ending December 31, 2018, we plan to pay a full-year dividend of 38 yen per share, up 2 yen from the previous fiscal year. With regard 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

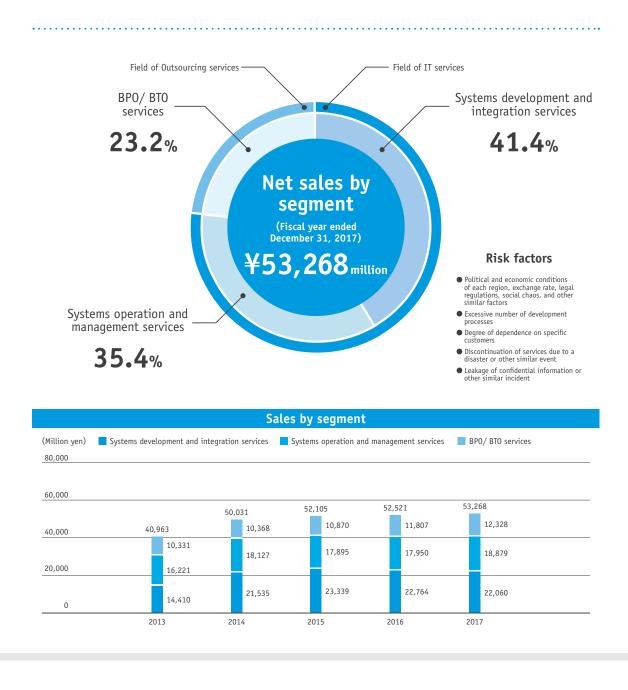
1,800 (Million yen)

Business overview

Net sales by segment

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.

In the fiscal year ended December 31, 2017, consolidated net sales from systems development and integration services fell to 22,060 million yen (down 3.1% year on year) due to declines in sales of our subsidiary in Singapore and sales in the IT field in Japan. Consolidated net sales from system operation and management services were 18,879 million yen (up 5.2% year on year), reflecting increased sales both in Japan and overseas. Consolidated net sales from BPO/BTO services increased to 12,328 million yen (up 4.4% year on year) due to an increase in sales of CRO (pharmaceutical BTO) services and human resources BPO services. With regard to the trends since 2013, BPO/BTO services have been expanding due to the expansion of the CRO business.



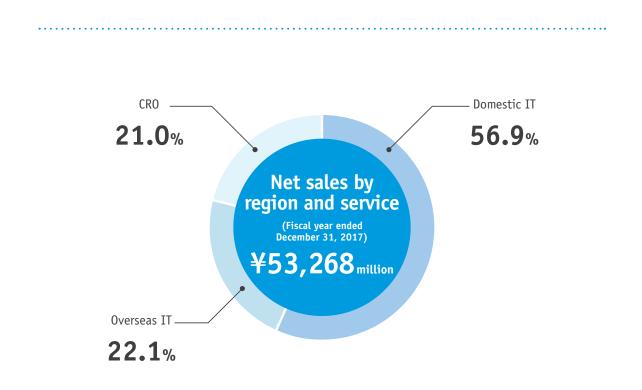
CAC Holdings Corporation

Net sales by region and service

At the CAC Group, we check our management status based on the results of the domestic IT, overseas IT and CRO businesses, respectively, in addition to the results of the respective segments shown on the left page, in response to the expansion of our global business and CRO business in recent years.

In the fiscal year ending December 31, 2018, we changed the reportable segments to the following, coinciding with the start of the new medium-term strategy. Our new reportable segments are classified into IT and CRO services based on the type of service provided by the Group, and the IT services are divided into domestic IT and overseas IT services in accordance with the locations of the operating companies.

The FY2017 net sales based on the new segments show that nearly 60% of net sales are from domestic IT services. This is followed by overseas IT and CRO, each accounting for around 20%.



New segments	Main contents of the business	Major operating companies
Domestic IT	Provision of services including systems development and integration services, systems operation and management services, and human resources BPO services by our subsidiaries in Japan	CAC Corporation, ARK Systems Co., Ltd., CAC Knowledge Co., Ltd., CAC ORBIS CORPORATION, CAC MARUHA NICHIRO SYSTEMS CORPORATION, kizasi Company, Inc.
Overseas IT	Provision of services including systems development and integration services, systems operation and management services, and maintenance services by our overseas subsidiaries	CAC AMERICA CORPORATION, CAC EUROPE LIMITED, CAC SHANGHAI CORPORATION, CAC India Private Limited, Accel Frontline Limited
CRO	Undertaking outsourced operations of conducting clinical trials (clinical development) upon drug development by a pharmaceutical company and operations after manufacturing and sales	CAC Croit Corporation

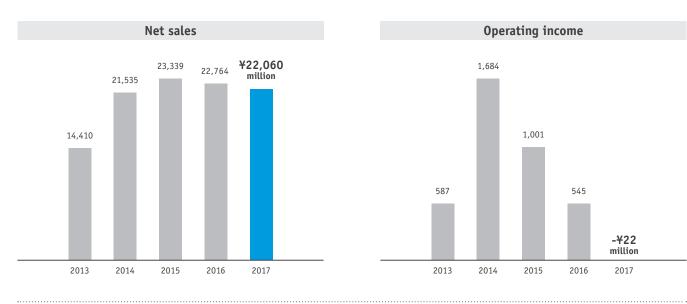
Field of IT services Systems development and integration services

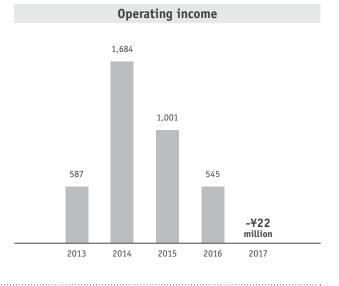
We provide customers in Japan and other countries with a wide range of services. These include consultation on corporate information systems, system development and maintenance, and package integration.



Major affiliates

CAC Corporation, CAC Knowledge Co., Ltd., CAC ORBIS CORPORATION, kizasi Company, Inc., CAC AMERICA CORPORATION, CAC EUROPE LIMITED, CAC SHANGHAI CORPORATION, GoldenTech Computer Technology (Suzhou) Co., Ltd., Accel Frontline Limited, Sierra Solutions Pte. Ltd.* *In December 2017, CAC Holdings transferred all its shares in Sierra Solutions.





(Fiscal year ended

December 31, 2017



Business performance

For the fiscal year ended December 31, 2017, net sales decreased 3.1% year on year, to 22,060 million yen, despite the increase in sales at Accel Frontline, our subsidiary in India, which was offset by the decrease in sales at Sierra Solutions, our subsidiary in Singapore, and in the field of IT in Japan. We posted an operating loss of 22 million yen due to the impact of the sales decrease and the occurrence of operating losses at Accel Frontline and Sierra Solutions.

In the fiscal year ending December 31, 2018, we will capture market demand by taking initiatives regarding digital technologies and increase opportunities to win orders in our efforts to achieve profit recovery. At the same time, we will continue to strengthen project management to prevent projects from becoming unprofitable. We will consider shedding unprofitable projects in the overseas business and promote activities for receiving orders locally in India and China. In December 2017, we completed the transfer of all the shares we held in Sierra Solutions. From the fiscal year ending December 31, 2018 onward, Sierra Solutions is not a consolidated subsidiary of CAC Holdings.

Our strengths and features

High overseas sales ratio

Overseas sales constitute approximately 38% of our total sales in this segment. We currently provide services in India, China, the United States and the United Kingdom. We expect our overseas sales ratio to increase further.

Active entry into new businesses

CSV

Creating Shared Value

Social contribution

through business

At the CAC Group, we are proactive in acquiring new businesses in overseas countries through M&A and investments, and we operate them as our new businesses. To provide a recent example, we invested in Affectiva, Inc. in the United States, concluded a distributor agreement with the company, and began to work on the Emotion Artificial Intelligence business. We have thus begun to expand our business to advertising, education and other fields in which we have never worked previously.

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.

Medium-term strategy

We will work to increase the earning power of our businesses to ensure that the CAC Group gains a foothold into the future. First of all, we will depart from our existing contracted development business with the aim of changing our business model into one in which growth is based on digital business. We will develop services and products by applying new technologies in Japan and overseas and strive to expand them horizontally. For the overseas business, we will focus on India and China as huge markets and work to stabilize and expand the business by capturing IT demand through the development of solutions that are appropriate for local needs and taking other measures including business restructures and M&A.

We will also establish R&D centers in Japan, China and India, where we will carry out research and development of next-generation technologies and which will serve as the foundation that is needed for planning and developing future businesses. Taking advantage of collaborations among the R&D centers, we will share innovative business models and solutions both domestically and internationally and bring them into each market ahead of other companies.

Development of business that uses Emotion Artificial Intelligence from Affectiva, Inc.

At the CAC Group, we operate a business that uses Emotion Artificial Intelligence in Japan and overseas. CAC Corporation developed the *kokoro* sensor, which is its unique video analysis service, and began providing it in February 2018. The *kokoro* sensor analyzes the facial expressions of people in videos by using Emotion Artificial Intelligence and converts the results into numerical values. The numerical data for the detected emotions are expected to be applied effectively for product development, customer satisfaction surveys, education and other functions.



In the CAC Group's activities for supporting Boccia, a sport for disabled people, we have developed *Boccia Measure*, an Android app that measures the distance between balls. This has enabled us to help the sport to become more widespread.

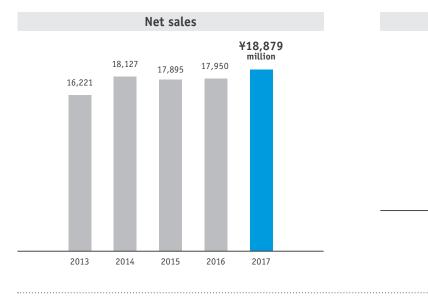
We will continue aiming to contribute to society in diverse ways by pursuing digital technologies, which are said to bring further wealth to our lives as individuals, not to mention solving social issues such as the population decline and declining birthrate and aging population.

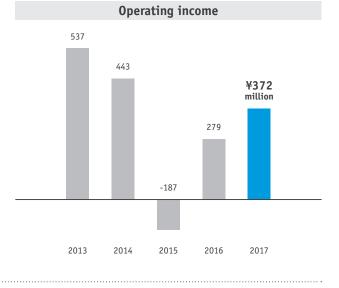


Field of IT services Systems operation and management services

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.









Business performance

For the fiscal year ended December 31, 2017, net sales increased both in Japan and overseas, which resulted in 5.2% year-onyear growth, to 18,879 million yen. Operating income increased 33.3% year on year, to 372 million yen. We enjoyed increases in both sales and income, mainly from our existing customers, due to the growing demand for the introduction of new technologies for systems operation and management, such as Amazon Web Services (AWS) and other cloud services.

We will continue to secure stable income in the fiscal year ending December 31, 2018, mainly through the promotion of AWS.

Medium-term strategy

The CAC Group has been striving to develop and allocate operation and management engineers in anticipation of demand for cloudbased operation and management. The number of engineers with AWS-related qualifications (such as certified AWS Solution Architect Professionals), which we strive to increase, now exceeds 60, enabling us to provide services based on knowledge and experience. We will continue to develop engineers with skills in new technologies and accumulate technological capabilities that will enable us to differentiate ourselves in anticipation of trends in business needs and technologies.

At the same time, we will pursue opportunities for open collaboration in a Group-wide manner and take initiatives such as sharing human resources and integrating the internal functions of the Group in our efforts to provide more efficient, stable systems operation and management services.

Our strengths and features

Services that commenced with those 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

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

Changing ourselves by incorporating the needs of the times

To survive the competition by incorporating the needs of the times, we engage in steady R&D activities for introducing new technologies as well as sales activities. In keeping with the shift from an era when systems are owned to one when they are used, CAC Corporation focuses its efforts on developing services for operating and managing AWS servers and has been certified as an APN Advanced Consulting Partner by AWS.

A contact center* that makes use of AWS

CAC Corporation proposes a contact center that combines AWS and AI and makes effective use of them to improve the operating efficiency and quality of contact center services, not to mention reducing costs. For example, we propose a system in which the contents of recorded calls are analyzed by AI (natural language processing) and the results of the analysis are used for creating FAQs, training and screening operators, undertaking customer analysis, and even for identifying customer needs, making auto replies, and other purposes.





* Amazon Web Services, AWS, and Amazon Connect are trademarks of Amazon.com, Inc. or its affiliates.



We are in an era when information systems are regarded as social infrastructure. While these systems are diverse in terms of purpose of use, structure and technology, the CAC Group as an information systems operator is required to provide efficient, stable services in every environment. Furthermore, our activities support the foundations of our corporate customers and enable them to focus their efforts on their main businesses, thereby contributing to the development of society. While the reduction of the load and the cost of systems operation and management is in demand, CAC Corporation achieves the optimal, wide-ranging automatization of operations and management based on its 50 years of experience in its efforts to minimize manual operations and management. In addition, with *Marugoto Omakase* Zabbix (Leave everything to Zabbix), ARK Systems provides high-quality services ranging from development to operation and management of system monitoring solutions at a low price while ensuring prompt delivery. With these and other activities, we support social infrastructure in the never-ending pursuit of the evolution of the operation service menu.

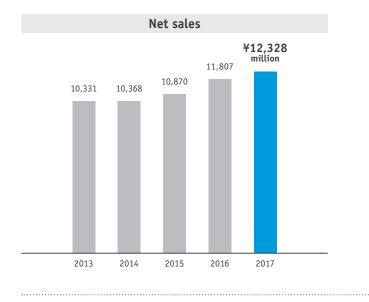
AI

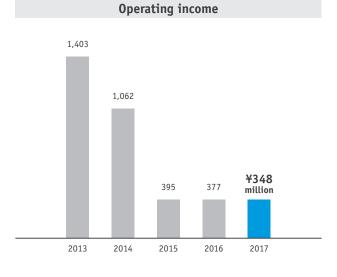
Field of outsourcing services

BPO/ BTO services

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.









Business performance

For the fiscal year ended December 31, 2017, net sales from both CRO services and human resources BPO services increased and overall sales grew 4.4% year on year, to 12,328 million yen. Operating income declined 7.5% year on year, to 348 million yen, due to an increase in SG&A expenses.

In the fiscal year ending December 31, 2018, we expect to achieve the recovery of profit through measures including the review of administration costs and the elimination of unprofitable projects.

Our strengths and features

CAC Croit -- a group of specialists with extensive experience in CRO

CAC Croit Corporation is a group of specialists who have accumulated a range of experience in CRO. They provide comprehensive, multifaceted support for all operations related to medicine and pharmaceuticals, from drug discovery and non-clinical tests to post-marketing processes, not to mention pharmacovigilance and regulatory operations. Above all, the company boasts the most extensive track record in Japan in pharmacovigilance and regulatory operations.

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.

Medium-term strategy

The environment surrounding pharmaceutical companies, who are the main customers of the CRO business, has been growing tougher due mainly to the reduction of drug prices, the rise of generic drugs, laws and regulations in recent years, and rising costs. This is combined with the increasing difficulty of new drug development, resulting in growing demand for outsourcing services in the pharmaceutical industry. Further, the environment for clinical trials has been globalized, which has resulted in the expansion of the CRO market and an increase in the number of outsourced operations that we undertake.

To follow this market expansion and strengthen its capability to operate globally, CAC Croit Corporation will focus its efforts on the full-scale operation of the CRO business in China and India. The company will also aim to secure stable income and achieve growth by expanding peripheral businesses, such as entering the drug discovery business with the compound sharing library business. At the same time, it will continue to take measures to achieve profit recovery, such as ensuring appropriate labor costs and administration costs and eliminating unprofitable projects.

What is CRO?

CRO refers to undertaking outsourced operations of conducting clinical trials (clinical development) upon drug development by a pharmaceutical company and a range of operations in post-marketing surveillance. CAC Croit Corporation provides all CRO solutions including pharmacovigilance, data management, and statistical analysis.





CAC Croit operates the CRO business, whose sales account for more than 90% of sales from BPO/BTO services. As a partner of pharmaceutical companies, CAC Croit contributes to maintaining, managing and improving people's health.

The compound sharing library business, which the company is working on at present, is a service of consolidating the libraries of chemical compounds (compounds for pharmaceutical frontier research), which are owned and stored individually by pharmaceutical companies, in order to manage them using the facilities and platform provided by CAC Croit. The use of the consolidated compound libraries as shared libraries is widely promoted by targeting pharmaceutical companies, academics and bio-ventures. The provision of the service of managing chemical compound libraries, which would require expensive acuiment and high costs, contributes cignificantly to the progress of the drug discovery business and

equipment and high costs, contributes significantly to the progress of the drug discovery business and enables industry-industry and industry-government-academia collaborations. CAC Croit promotes this business with the aim of eventually reinforcing the drug discovery system in Japan and achieving the provision of innovative pharmaceutical products developed in Japan.

Corporate governance

Basic approach to corporate governance

At the CAC Group, we have established the Basic Policy on Corporate Governance to fulfill our social responsibilities for our shareholders and various other stakeholders (including our customers, business partners, society and employees) and achieve the medium- and long-term improvement in our corporate value in accordance with our Corporate Philosophy and our Credo. Under this basic policy, we continue striving to strengthen our corporate governance.

Corporate Philosophy of the CAC Group

Creating new value on a global level with the use of the latest ICT

Our Credo

- **1.** Take pride in being part of a creative and resourceful engineering enterprise.
- 2. Act with integrity as a leading contributor to society.
- 3. Embrace challenges without fear of making mistakes.
- 4. Seek fulfillment working as members of a team who value one another.
- 5. Respect all stakeholders and deal with them in good faith.

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 27, 2018), our Board of Directors consists of eight directors, three of whom are outside directors (two 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.

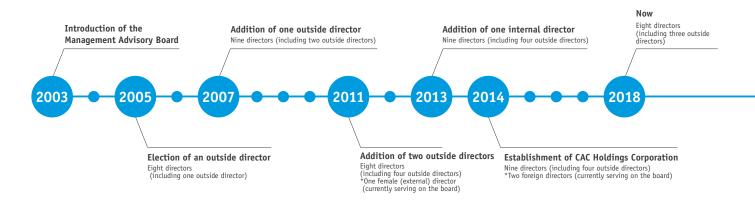
Board of Directors

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.

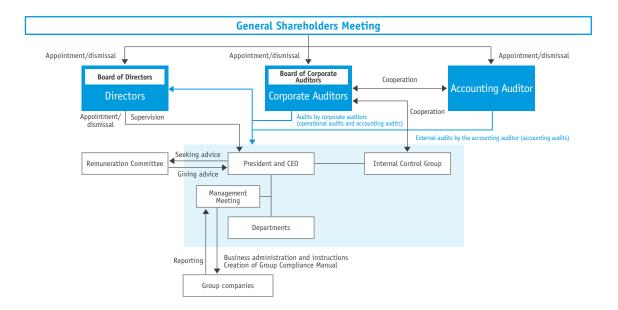
Board of Corporate Auditors

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. Michitaka Hirose), 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 FY2017

Position	Number of officers	Total amount of remuneratior in millions of yen	¹ Breakdown	Upper limit of the amount
Directors (outside directors)	10(4)	155(18)	Base remuneration: ¥128 million Bonus: ¥27 million (Only base remuneration was paid to outside directors)	Up to ¥240 million per year
Corporate auditors (outside corporate auditors)	6(3)*	43(9)	Base remuneration only	Up to ¥4 million per month
Total	16(7)	199(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.

*The total number of corporate auditors to whom remuneration was paid is six (including a total of three outside corporate auditors) because a full-time corporate auditor and an outside corporate auditor resigned and new auditors were appointed as their successors in March 2017.

Corporate governance

Management team

(As of March 27, 2018)

Directors



Chairman of the Board of Directors **Toshio Shimada**

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)

Director (in charge of CAC Corporation) **Ryota Nishimori**

Apr. 1994 : Joins the Company

- Jan. 2009 : Executive Officer and Deputy Head of Financial Business Unit, the Company Jan. 2011 : Director & President & TREASURER, CAC AMERICA CORPORATION
- Mar. 2016 : Director, CAC Corporation (current position) Jan. 2018: President and CEO, CAC Corporation (current position)



President and CEO Akihiko Sako

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

Director (in charge of China)

Bin Cheng

- 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)



Director (in charge of India) Malcolm F Mehta

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 Jul. 2017 : Chairman and Chief Executive Officer, Accel Frontline Limited (current position)



Outside Director Yukiko Kuroda

- Jan. 1991 : Representative Director, People Focus Consulting Co., Ltd.
- Mar. 2011 : Director, the Company (current position) Apr. 2012 : Founder and Director, People Focus Consulting Co., Ltd. (current position)
- Consulting Co., Ltd. (current position) Jun. 2013: External Director, Marubeni Corporation Jun. 2015: Outside Director, Mitsui Chemicals, Inc. (current position)

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



Outside Director Michitaka Hirose

May 1999: Professor of Engineering, Graduate School of Engineering, The University of Tokyo

- Jul. 1999: Professor, Research Center for Advanced Science and Technology, The University of Tokyo
- Apr. 2006: Professor of Mechano-Informatics, Graduate School of Information Science and Technology, The University of Tokyo (current
- position) Mar. 2011: Director, the Company (current position)

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



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

Outside Director

Outside Director Tokihiko Mori

- Jan. 1996: Director, Japan GE Co., Ltd. Dec. 1999: Asia-Pacific Technology Director, Plastics
- Business, General Electric Company Jul. 2006: Representative Director, Change Management Consulting Co., Ltd. (current position) Jul. 2017: Adviser, Nihon M&A Center Inc. (current
- Jul. 2017: Adviser, Nihon M&A Center Inc. (current position)
- Mar. 2018 : Director, the Company (current position)

Skill set

Name	Status of attendance at Board of Directors' Meetings (fiscal year ended December 31, 2017)	Status of attendance at Board of Corporate Auditors' Meetings (fiscal year ended December 31, 2017)	Number of years of service	Business management	Personnel affairs/ organizational development	Experience Law	Product development/ marketing	Technologies
Michitaka Hirose Outside Director	Attended 17 of 17 meetings	_	7					•••••
Yukiko Kuroda Outside Director	Attended 16 of 17 meetings	_	7	-	•••••			
Tokihiko Mori Outside Director	Newly appointed	_	_		•••••		•	
Kotaro Ishii Outside Corporate Auditor	Attended 15 of 17 meetings	Attended 9 of 11 meetings	3		•••••		•	
Hirokazu Honda Outside Corporate Auditor	Attended 13 of 13 meetings*	Attended 9 of 9 meetings*	1	-		•		

*The figure indicates the number of meetings that were held after he was appointed.

The table above shows the main skills of each person.

Auditors



Full-Time Corporate Auditor Akinobu Matsumura

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
- Mar. 2005 : Director and Executive Uncer, Head or Outsourcing Business Unit, the Company Mar. 2011 : Full-Time Corporate Auditor, the Company (current position)



Outside Corporate Auditor Kotaro Ishii

- 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
- lar. 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.



Full-Time Corporate Auditor Masaaki Yoshida

- 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)



Apr. 1997 : Registered as a lawyer and joins the Abe, Ikubo & Katayama law office
Mar. 2004 : Registered as a lawyer in the State of New York, the United States
Aug. 2004 : Partner of the Abe, Ikubo & Katayama law office (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.

Voice of outside corporate auditor



Enhancing the portfolio of the CAC Group in all directions, including human resources and businesses.

Kotaro Ishii Appointed in 2015

I was assigned to the position of outside corporate auditor of CAC Holdings in March 2015 after having worked solely as a consultant for 33 years. I am now in my fourth year as an outside corporate auditor of the Company. Before I took up this position, I interviewed more than ten officers and general managers of the Company to obtain a picture of it in person. What I found through the interviews was the fact that the CAC Group had been growing as an independent software company, building a solid customer base by taking advantage of its sincere attitude with which it ensures that it fulfills its corporate customers' requests. However, because the overall IT industry is about to change, that advantage is likely to turn into a disadvantage. If the CAC Group can be compared to a ship, it is a container vessel that sails slowly in the ocean. While stability is an important element for a company, it is speed that will be required in the coming era. What is required of the CAC Group at present is the ability to act promptly. At Meetings of the Board of Corporate Auditors, which consists of two full-time corporate auditors and two outside auditors, we have lively discussions about the measures to take toward the new era, with Mr. Honda, the other outside corporate

auditor, giving opinions mainly about legal affairs while I give frank opinions about management strategies. It must also be noted that CAC Holdings began to appoint multiple outside directors at a relatively early stage. By attending Meetings of the Board of Directors as well as those of the Board of Corporate Auditors, I would like to confirm the importance of the role of each and accelerate the decision-making process while working to integrate the Group. I believe that the top priority issue of the CAC Group is not how to change the large ship, which the Group is at present, but to create another ship -- that is, a state-of-theart high-speed vessel that can respond to the changes of the times. This is because we need to get ready to take a variety of measures in this era, when it is difficult to identify the appropriate speed although we know which direction to go in. We should also keep adjusting the ratio of the cargoes loaded onto the two vessels to maintain a good balance between them as we continue to sail. This applies not only to new businesses and new domains, but also to human resources.

What is needed in this era, which does not comprise ordinary times, is a manager with a strong spirit and leadership. Mr. Sako, who

had been serving concurrently as a president of an operating company, began to serve solely as the president and CEO of CAC Holdings in FY2018. This reflects his determination to change the company. I ask that our stakeholders understand this as the first step taken by CAC Holdings to become what it should be like.

In addition, the revision of the Corporate Governance Code is also a significant issue for the CAC Group, which keeps changing. The Corporate Governance Code is aimed at controlling the top management of foreign companies who get out of control. If it is applied as is, it may be a ball and chain for Japanese companies, which attach importance to risk prevention. We need to have even deeper discussions to develop the optimal governance system for the CAC Group. The CAC Group has financial strength and strong potential. The presence of issues is the evidence that the Group keeps moving. If the issues are solved, the Group is likely to improve accordingly. I will therefore continue to fulfill my duties by saying whatever I believe is good for the Group, as many times as I need to, even if the management team members are ashamed to hear it, and checking whether they overlook anything in deciding on the direction of strategies.

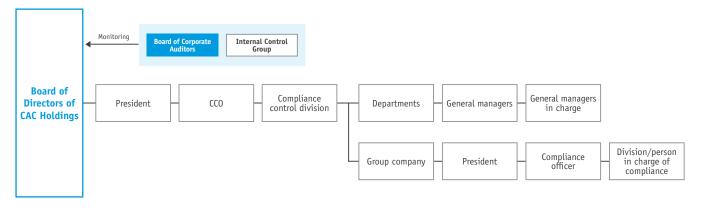
Compliance/Risk management

At the CAC Group, we believe that the strong awareness of our corporate social and public responsibilities and the actions we take to strengthen social understanding and trust leads to our sustainable development. To increase our sense of morality and our sincerity as a corporate entity, we have established our policies and systems on compliance and risk management and are striving to maintain these policies and systems.

Compliance

At the CAC Group, we define compliance as "increasing our sense of morality and our sincerity as a corporate entity by complying strictly with laws, regulations, rules and social norms." Based on Our Credo, we have formulated the Basic Guidelines for Business Conduct for Compliance of the overall Group. We have made it our basic compliance policy to establish a system for promoting compliance and to take actions to promote compliance. In our system for promoting compliance, we have established a compliance control division, which is a division in charge of legal compliance, under the Chief Compliance Officer (CCO), who is appointed by the Board of Directors. The CCO supervises the compliance control division, which engages in activities related to compliance, including planning, training, supervision and improvements. We have also introduced the Compliance Helpline System (a whistle-blowing system), which permits employees of the CAC Group to respond appropriately to compliance violations or potential compliance violations that they discover. We operate this system both within and outside the Group.

As our basic policy for eliminating anti-social forces, we at the CAC Group will not be involved at all with any forces or groups that threaten social order and safety, will firmly reject demands from such forces or groups, and will not undertake any trade with any companies, groups or individuals related to such forces or groups.



CAC Group's system for promoting compliance

Risk management

In business activities, a company faces not only risks generated in its external business environment but also internal risks that exist within the company. The CAC Group needs to handle these risks appropriately to maintain and keep improving its corporate value. At the CAC Group, we have established the Risk Management Principles as basic rules on risk management. The Risk Management Principles clarify the guiding principle, action guidelines, and risks to manage (such as risks related to disaster, employment, information security, project management and compliance), along with the system to promote the management of these risks. As the system for promoting the appropriate identification, assessment and handling of risks, we have established the risk management division under the Chief Risk Officer (CRO).

Invisible assets

Initiatives for human resources/Work style reform



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. In addition, 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.

Recruiting diverse human resources with different values

CAC Corporation, which is the core operating company, began recruiting non-Japanese new graduates in 2008. In 2018, 19 non-Japanese new graduates joined the company (which employed a total of 52 new graduates). When the company began to recruit non-Japanese employees, it expected them to demonstrate their capabilities mainly in global projects (projects associated with the overseas expansion of corporate customers). However, the presence of such employees, who have diverse values, has created excellent opportunities to review the way people from the company would proceed with work and their attitude to work.

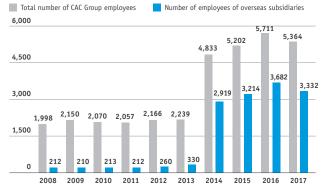
Currently, employees of overseas Group companies account for 55% of all CAC Group employees. This trend has also resulted in human interactions being promoted within the Group. For example, employees of Accel Frontline, a subsidiary in India, came to Japan and collaborated with employees of CAC Corporation to provide a Japanese automotive parts manufacturer with services in technologies for the advanced driving support system owned by Accel Frontline. We have continued to plan

Environment that permits employees to work flexibly

CAC Holdings Corporation and CAC Corporation, the core operating company, have maintained a teleworking environment that they developed in 2012. They have also introduced a hot-desk system (which allows employees to work anywhere in the office), mainly to the floors of administrative departments. They also permit employees to work from home. They thus enable their employees to work flexibly in accordance with the environment of each individual.

In recent years, CAC Croit Corporation has introduced a flexible working hours system, which has penetrated among all employees of the company. The introduction of this system has raised the employees' awareness of time management. As a result, the company achieved a reduction in the total number of hours worked per employee per month. human resources exchanges between Group companies, which are not limited to exchanges of technologies, in the belief that such exchanges will lead to the significant strength of the CAC Group.

Number of employees of overseas subsidiaries compared to total number of CAC Group employees





CAC Holdings Corporation



Facilitating smooth operations by sharing vision and promoting communication between employees

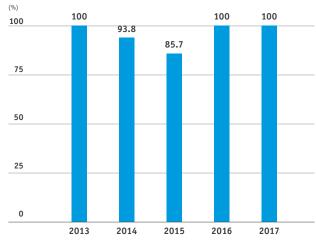
At CAC Corporation, which is the core operating company, and CAC Croit Corporation, company-wide training sessions are held regularly. As the name implies, all the employees of each company participate in the training. It is a large-scale initiative, with each session held more than 30 times a year at CAC Corporation and more than 20 times every year at CAC Croit. The strongest feature of this training is that all employees share the same training content. By sharing the company's vision through this training, employees who do not interact with each other on a daily basis exchange opinions and have friendly competition with each other. This contributes to better communication between employees after they receive the training. In FY2018, which is the first year of the medium-term strategy, CAC Corporation plans to hold the fifth company-wide training program, and CAC Croit is planning the sixth round of the training program. In addition, CAC Holdings holds events for CAC Group employees, their families and other people. In the summer, it holds a summer evening festival to which it invites employees, their families and

Achievements of the initiatives

We believe that the initiatives we have taken to create a comfortable working environment for our employees have helped prevent employees from leaving the CAC Group. For example, more than 95% of female employees who have taken childcare leave in the last five years have returned to work on average. Despite the major changes in their lives, the way they work and see things, such as childbirth and childcare, these employees continue to demonstrate their skills as they did before. people from subcontracting companies. In the autumn, it holds a softball tournament. These and various other events attract numerous participants as opportunities to reward families of CAC Group employees for their support, not to mention promote communication between employees.



Softball tournament



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

Invisible assets

Relationship with society



At the CAC Group, we wish to contribute to solving social problems through social contribution activities, such as support for sports for the disabled, in addition to business activities.

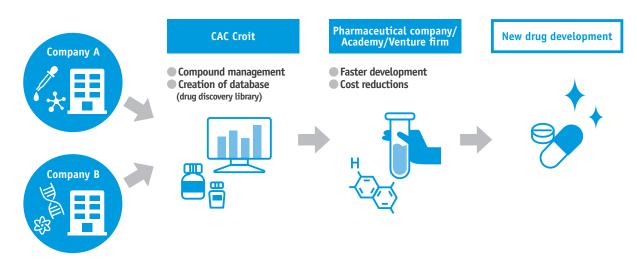
Creating new value on a global level with the use of the latest ICT

Since our foundation in 1966, we at the CAC Group have tackled challenges to create new technologies and businesses in response to customer requests. This has enabled us to enjoy 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.). It has also allowed us to develop our businesses in the field of systems, enter the field of CRO and make other achievements such as overseas expansion. As a result, we have grown into a corporate group with approximately 5,400 employees globally. We will continue to create new services by understanding the needs

of the market that are generated from globalization and an increasingly diverse range of values, thereby continuing to contribute to society.

Launch of a compound sharing library business aimed at promoting drug discovery

CAC Croit Corporation, which engages in the CRO business, launched a compound sharing library business in March 2018. The compound sharing library business is a service that involves consolidating the compounds and data for pharmaceutical frontier research, which are owned and stored individually by pharmaceutical companies, on facilities and platforms constructed and provided by CAC Croit, and promoting their use as shared libraries. This business is expected to lead to a significant reduction in the time and costs consumed for new drug development and create innovations, including the promotion of drug discovery by Japanese companies. It was therefore selected for Cyclic Innovation for Clinical Empowerment (CiCLE), which is part of the Economic Measures for Realizing Investment for the Future by the national government.



Compound sharing library business

CAC Holdings Corporation



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

As a corporate citizen, we at the CAC Group engage in social contribution activities such as environmental protection and participate in the activities of local communities. We also used our 50th anniversary, which fell in 2016, as an opportunity to start promoting and supporting boccia, a sport for people with disabilities. We carry out these activities by attaching importance to planning and practice by employees themselves, with the aim of making boccia known to a greater number of people, helping provide more opportunities for disabled people to play the sport, and for other purposes.

Initiatives of the CAC Group for Boccia

We help organize major tournaments held in Japan as a Gold Partner of the Japan Boccia Association. We also send employees qualified as judges to tournaments and have those in charge of promoting



Participants in the CAC Cup

boccia hold sessions for hands-on experience of the sport at various events. In addition, in September 2017, we held the first CAC Cup, a Boccia tournament. Eleven teams from seven special schools in Tokyo participated in the tournament, which staged exciting games. Play-by-play undertaken using Boccia Measure, an application for measuring the distance between boccia balls that was developed by the CAC Group, added to the excitement of the games. We also implement a project for donating boccia ball sets to organizations for disabled persons and similar groups. In FY2017, we donated boccia ball sets and held instruction sessions for 14 non-profit organizations and corporations.

Boccia athlete Shun Sato joins the CAC Group

In April 2018, Shun Sato, a top boccia athlete, joined CAC Group. He began playing boccia when he was a third-year student in elementary school and achieved brilliant results in tournaments held in Japan and other countries. In the Japan Boccia Championship Tournament that was held in 2017, he won



Shun Sato

4th place in the BC2 class. He is also registered as a certified athlete in the Japan Boccia Association, and is poised to continue to achieve great results in the future.

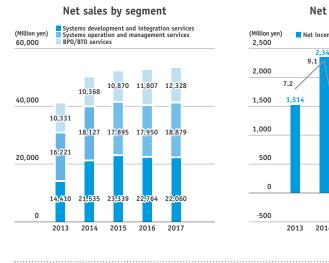
At the CAC Group, we will further promote the popularization of and support for boccia by supporting Shun Sato's activities as a boccia athlete. At the same time, we would like to strengthen the sense of unity of the Group further by providing Group-wide support to Mr. Sato as a coworker.

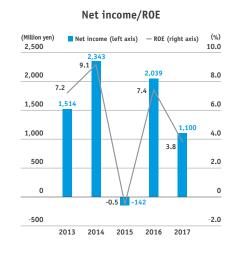


which is a Paralympic sport, was invented in Europe for people with severe cerebral palsy and those with other equally severe disabilities that affect the functions of their limbs. Players compete to place their set of red and blue balls, six each, around a white ball called the jack ball (target ball). 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.

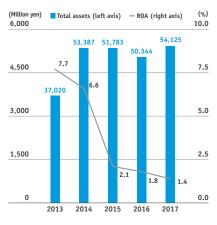
Financial highlights for the past 11 years

	42nd term	43rd term	44th term FY2009	45th term FY2010	
Net sales (million yen)	40,924	43,701	39,842	36,614	
Operating income (million yen)	2,512	3,260	1,733	1,822	
Ordinary income (million yen)	2,846	3,491	1,884	2,035	
Profit attributable to owners of parent (million yen)	1,168	1,844	929	1,026	
Net assets (million yen)	18,574	18,708	19,773	20,316	
Total assets (million yen)	29,516	29,713	31,004	31,781	
Cash flows from operating activities (million yen)	3,279	2,666	687	2,319	
Cash flows from investing activities (million yen)	(694)	(1,084)	(2,300)	488	
Cash flows from financing activities (million yen)	(870)	(1,144)	705	(908)	
Book value per share <bps> (yen)</bps>	886.06	915.93	960.61	979.73	
Earnings per share <eps> (yen)</eps>	55.89	91.12	46.49	51.09	
Return on equity <roe> (%)</roe>	6.5	10.1	5.0	5.3	
Return on assets <roa> (%)</roa>	10.0	11.8	6.2	6.5	
Equity ratio (%)	61.8	61.6	62.0	62.0	
Price-to-earnings ratio <per> (times) *Based on the closing share price at the end of each fiscal year</per>	12.9	8.5	14.3	12.3	
Amount of dividend per share (yen)	20.00	30.00	32.00	32.00	
Dividend payout ratio (%)	35.8	32.9	68.8	62.6	
Number of employees	1,881	1,998	2,150	2,070	





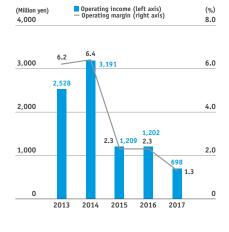
Total assets/ROA



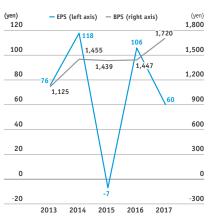
CAC Holdings Corporation

52nd term FY2017	51st term FY2016	50th term FY2015	49th term FY2014	48th term FY2013	47th term FY2012	46th term FY2011	
53,268	52,521	52,105	50,031	40,963	39,545	38,882	
698	1,202	1,209	3,191	2,528	2,694	2,610	
717	937	1,080	3,000	2,664	2,887	2,776	
1,100	2,039	(142)	2,343	1,514	1,194	39	
32,429	27,683	29,293	30,310	22,833	20,200	19,294	
54,125	50,344	51,783	53,387	37,020	32,233	31,363	
(1,014)	892	(770)	2,331	2,100	3,077	(1,509)	
307	3,233	(2,760)	432	(2,312)	1,419	1,076	
(2,196)	(1,920)	(796)	(1,388)	989	(1,248)	(407)	
1,720.38	1,447.09	1,439.40	1,455.06	1,124.81	993.35	940.20	
59.69	105.54	(7.21)	117.69	76.07	59.99	1.98	
3.8	7.4	(0.5)	9.1	7.2	6.2	0.2	
1.4	1.8	2.1	6.6	7.7	9.1	8.8	
58.6	53.0	54.6	54.3	60.5	61.4	60.3	
17.8	8.4	_	10.0	12.1	11.4	317.9	
36.00	40.00	32.00	32.00	32.00	32.00	32.00	
60.3	37.9	_	27.2	42.1	53.3	1,614.7	
5,364	5,711	5,202	4,833	2,239	2,166	2,057	



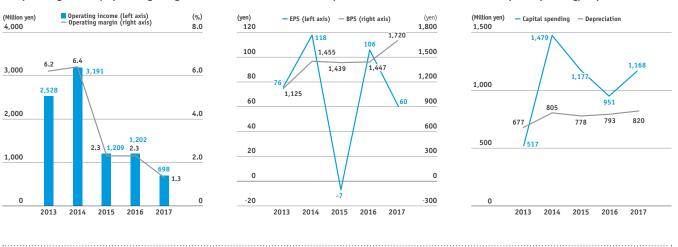






Capital spending/Depreciation

.....



CONSOLIDATED BALANCE SHEETS (Millions of yen)

Assets	December 31, 2016	December 31, 2017
Current assets:		
Cash and deposits	11,428	8,551
Notes and accounts receivable - trade	10,318	10,440
Securities	1,101	1,500
Merchandise and finished goods	842	641
Work in process	762	527
Supplies	26	23
Prepaid expenses	1,098	903
Deferred tax assets	337	231
Other	680	1,504
Allowance for doubtful accounts	(128)	(239)
Total current assets	26,468	24,084
Non-current assets:		
Property and equipment:		
Buildings and structures	689	620
Machinery and vehicles	39	29
Land	182	124
Construction in progress	0	—
Other	819	617
Property and equipment, net	1,731	1,392
Intangible assets		
Software	2,380	2,749
Goodwill	2,296	1,054
Other	58	67
Total intangible assets	4,736	3,871
Investments and other assets:		
Investment securities	13,735	20,788
Long-term loans receivable	—	253
Long-term prepaid expenses	345	237
Guarantee deposits	782	774
Deferred tax assets	1,495	1,519
Other	1,073	1,347
Allowance for doubtful accounts	(24)	(142)
Total investments and other assets	17,408	24,777
Total non-current assets	23,876	30,041
tal assets	50,344	54,125

CAC Holdings Corporation

iabilities	December 31, 2016	December 31, 2017
Current liabilities:		
Notes and accounts payable - trade	3,324	3,431
Short-term loans payable	3,322	2,794
Current portion of long-term loans payable	60	62
Lease obligations	162	148
Accrued expenses	1,795	1,547
Income taxes payable	1,368	371
Consumption taxes payable	413	369
Provision for bonuses	309	322
Provision for loss on order received	20	17
Other	2,442	2,056
Total current liabilities	13,218	11,120
Non-current liabilities:		
Long-term loans payable	2,373	2,084
Lease obligations	306	330
Provision for directors' retirement benefits	70	24
Net defined benefit liability	3,964	3,488
Deferred tax liabilities	2,609	4,528
Other	118	119
Total non-current liabilities	9,442	10,576
Total liabilities	22,661	21,696
let assets		
Shareholders' equity		
Common stock	3,702	3,702
Capital surplus	3,725	3,725
Retained earnings	16,373	16,773
Treasury shares	(2,909)	(2,909)
Total shareholders' equity	20,892	21,291
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	5,869	10,004
Foreign currency translation adjustments	(253)	(55)
Remeasurements of defined benefit plans	169	474
Total accumulated other comprehensive income	5,785	10,423
Non-controlling interests	1,005	713
Total net assets	27,683	32,429
tal liabilities and net assets	50,344	54,125

Financial data

CONSOLIDATED STATEMENTS OF OPERATIONS (Millions of yen)

	Year ended December 31, 2016	Year ended December 31, 2017
Net sales	52,521	53,268
Cost of sales	42,041	42,996
Gross profit	10,479	10,272
Selling, general and administrative expenses	9,277	9,573
Operating income	1,202	698
Non-operating income	288	441
Non-operating expenses	553	422
Ordinary income	937	717
Extraordinary income	3,701	2,949
Extraordinary losses	693	1,545
Profit before income taxes	3,945	2,122
Income taxes - Current	1,826	808
Income taxes - Deferred	119	66
Total income taxes	1,945	875
Profit	1,999	1,246
Profit (loss) attributable to non-controlling interests	(39)	146
Profit attributable to owners of parent	2,039	1,100

CONSOLIDATED STATEMENTS OF CASH FLOWS (Millions of yen)

	Year ended December 31, 2016	Year ended December 31, 2017
Operating activities	892	(1,014)
Investing activities	3,233	307
Financing activities	(1,920)	(2,196)
Net increase (decrease) in cash and cash equivalents	2,166	(2,878)
Cash and cash equivalents at beginning of year	9,101	11,268
Cash and cash equivalents at end of year	11,268	8,389

Stock information



General Information (as of December 31, 2017)

Number of Shares Authorized	86,284,000
Number of Shares Issued and Outstanding	21,541,400
Unit Share	100 shares
Number of Shareholders	5,341
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, 2017)

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)	1,164	5.40%
CAC Employee Shareholding Association	699	3.24%
Sumitomo Mitsui Banking Corporation	484	2.24%
Mitsubishi Tanabe Pharma Corporation	431	2.00%
GOVERNMENT OF NORWAY (Standing proxy: Citibank, N.A., Tokyo Branch)	320	1.48%
KLab Inc.	300	1.39%
Maruha Nichiro Corporation	300	1.39%
Japan Trustee Services Bank, Ltd. (Trust account)	289	1.34%
TOYO TIRE & RUBBER CO., LTD.	289	1.34%

* Treasury stocks (3,106 thousand shares as of December 31, 2017) are not included in the above.

Breakdown of Shareholding by Investor Type (as of December 31, 2017)

Investor Type	Number of Shareholders	Number of Shares held (Thousands)	Percentage of Total Issued Shares
Japanese Financial Institutions	26	3,630	16.86%
Japanese Securities Companies	24	278	1.29%
Other Japanese Companies	43	5,850	27.16%
Foreign Companies, etc.	89	2,917	13.54%
Japanese Individuals and Others	5,159	8,863	41.15%
Total	5,341	21,541	100.00%
* Treas	ury stocks (3,106 thousand shares as o	f December 31, 2017) are included	in "Japanese Individuals and Others."

" neasury stocks (3,100 mousand shares as of December 51, 2017) are included in Japanese individuals and others.

Corporate information

Corporate profile

Name	CAC Holdings Corporation
Head office	24-1, Hakozaki-cho, Nihonbashi, Chuo-ku, Tokyo 103-0015, Japan Phone: +81-3-6667-8001
Representative	Akihiko Sako, President and CEO
Founded	August 8, 1966

Capital	¥3,702 million
Consolidates sales	¥53,268 million (for the fiscal year ended December 31, 2017)
Number of group employees (as of December 31, 2017)	5,364
Main services offered	Formulation of the CAC Group's business strategy and business administration of the group
Main financing banks	Sumitomo Mitsui Banking Corporation, MUFG Bank, Ltd. Mizuho Bank, Mitsubishi UFJ Trust and Banking, and Sumitomo Mitsui Trust Bank

CAC Group

CAC Co	rporation
Location	Chuo-ku, Tokyo, Japan
Main services	Systems development and integration, systems operation and management, and BPO/BTO services
CAC Cr	oit Corporation
Location	Chuo-ku, Tokyo, Japan
Main services	CRO services and IT services
ARK Sy	stems Co., Ltd.
Location	Chuo-ku, Tokyo, Japan
Main services	System planning, construction, and operation management
CAC Kn	owledge Co., Ltd.
Location	Chuo-ku, Tokyo, Japan
Main services	System development, maintenance, and operation management and packaged software development and sales
CAC OR	BIS CORPORATION
Location	Nishi-ku, Osaka-shi, Osaka, Japan
Main services	System consulting services, software planning and development, and systems maintenance and operation
CAC MA	ARUHA NICHIRO SYSTEMS CORPORATION
Location	Chuo-ku, Tokyo, Japan
Main services	System development, maintenance, and operation
Hitec S	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

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

System development and solemate developm

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

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, 2017 to December 31, 2017 (activities in January 2018 and thereafter are also included in some sections.)
 Subject organizations: CAC Holdings Corporation and 21 CAC Group companies (as of December 31, 2017)

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 (Enterprise Value Up Group) https://www.cac-holdings.com/eng/