

# 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, 2019), our Board of Directors consists of five Directors, three of whom are Outside Directors (two men and one woman). All of the Outside Directors are independent officers. 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.

In 2019, we separated management decision-making and supervising functions from executive functions for the purpose of further strengthening corporate governance. The Board of Directors determines management policies and strategies for the entire group and supervises business execution of the Executive Officers, while the Executive Officers focus on business execution in line with the policies determined by the Directors.

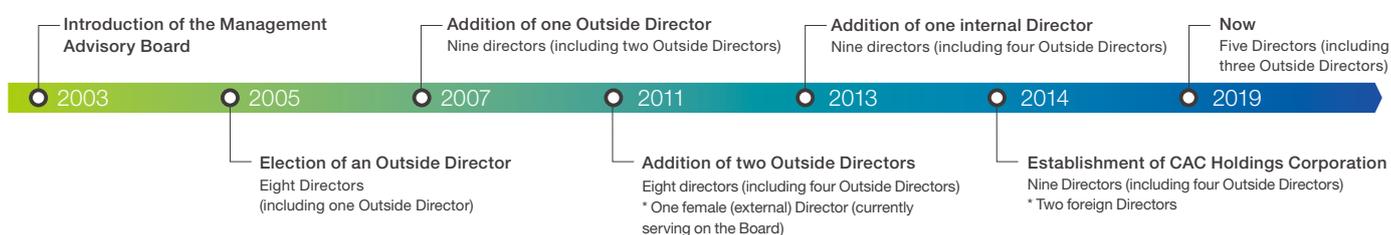
### Board of Directors

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.

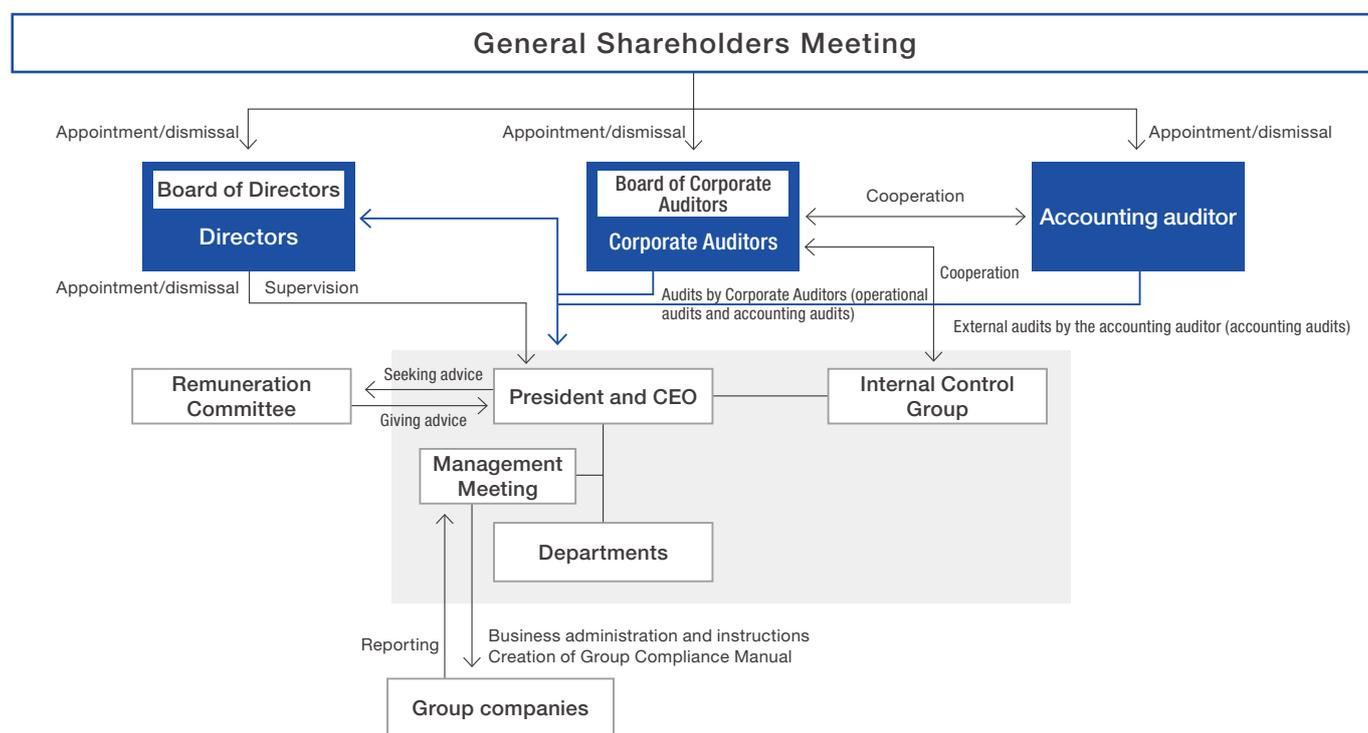
### Board of Corporate Auditors

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 duties. Corporate Auditors actively participate in Management Meetings in addition to the 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, etc. for Directors is determined by the Board of Directors on the basis of their contribution, etc. to the Company's business performance and strategies, by ensuring that the remuneration serves as an incentive for the medium- to long-term improvement of corporate value and that it does not exceed the upper limit resolved 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 deliberating on the fairness, transparency and objectiveness of remuneration for Directors, etc. Moreover, to promote value sharing with shareholders, the Company introduced a restricted stock program at the 53rd Annual General Shareholders Meeting held on March 27, 2019.

## Amount of remuneration for officers in FY2018

Position	Number of officers	Total amount of remuneration in millions of yen	Breakdown	Upper limit of the amount
Directors (Outside Directors)	11(5)*	187(15)	Base remuneration: ¥153 million Bonus: ¥34 million (Only base remuneration was paid to Outside Directors)	Up to ¥240 million per year
Corporate Auditors (Outside Corporate Auditors)	4(2)	43(9)	Base remuneration only	Up to ¥4 million per month
Total	15(7)	230(24)		

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 Directors to whom remuneration was paid is eleven (including five Outside Directors) because one Director and two Outside Directors resigned and one new Outside Director was appointed in March 2018.

## Corporate governance

### Management team (As of March 27, 2019)

#### Directors/Auditors



President and CEO  
**Akihiko Sako**  
Date of birth:  
June 15, 1960

Mr. Sako joined the Company in 1983. Starting in 1989, he worked on the establishment of the subsidiary in the United States and promoted local system development projects, etc. After returning to Japan, he served as General Manager of the 1st Section of Financial System Department, Senior Vice President of Corporate Division, etc. In January 2011, he assumed the post of President and CEO of the Company.



Senior Managing Director  
**Togo Shimizu**  
Date of birth:  
September 28, 1956

Mr. Shimizu joined the Industrial Bank of Japan, Limited (current Mizuho Bank, Ltd.) in 1982. He held several positions in Mizuho Corporate Bank, Ltd. (current Mizuho Bank, Ltd.), including General Manager of Career Development Division and Managing Executive Officer and deputy officer in charge of IT & Systems Group. In 2013, he served as Deputy President and Representative Director of Mizuho Information & Research Institute, Inc. In March 2019, he assumed the post of Senior Managing Director of the Company.



Outside Director  
**Michitaka Hirose**  
Date of birth:  
May 7, 1954

Mr. Hirose held the positions of Professor of Engineering at Graduate School of Engineering of The University of Tokyo and Professor at Research Center for Advanced Science and Technology of the university. He is currently Professor of Mechano-Informatics at Graduate School of Information Science and Technology of The University of Tokyo. Since March 2011, he serves as an Outside Director of the Company.

#### Major concurrent positions

Professor of Mechano-Informatics, Graduate School of Information Science and Technology, The University of Tokyo/Chairman of Association for Net Skills Promotion and Certification (an incorporated non-profit organization)



Outside Director  
**Yukiko Kuroda**  
Date of birth:  
September 24, 1963

Ms. Kuroda held the positions of Representative Director of People Focus Consulting Co., Ltd., an organizational development consulting and training firm, Director of Cicom Brains inc. and Outside Director of several companies. She has been serving as Outside Director of the Company since March 2011.

#### Major concurrent positions

Director/Founder, People Focus Consulting Co., Ltd./Outside Director, Mitsui Chemicals, Inc./Outside Director, Terumo Corporation/Outside Director, Seven Bank, Ltd.



Outside Director  
**Tokihiko Mori**  
Date of birth:  
July 17, 1952

Mr. Mori held several positions, including Director of GE Japan Corporation, Representative Director of Teradyne K.K., Representative Director of Riverside Partners Co., Ltd., a private equity firm, and Advisor of Nihon M&A Center Inc. He has been serving as Outside Director of the Company since March 2018.

#### Major concurrent positions

Representative Director, Change Management Consulting Co., Ltd./Outside Director, Nihon M&A Center Inc.



Corporate Auditor  
**Masaaki Yoshida**  
Date of birth:  
May 10, 1959

Mr. Yoshida joined Nippon Kangyo Kakumaru Securities Co., Ltd. (current Mizuho Securities Co., Ltd.) in 1990. After working as a security analyst, etc., he joined the Company in 2005. He has held several positions in the Company, including Vice President of Corporate Division and General Manager of Corporate Planning Department and General Manager of Corporate Division. He has been Corporate Auditor of the Company since March 2017.



Corporate Auditor  
**Kazuki Kawamata**  
Date of birth:  
September 17, 1962

Mr. Kawamata joined the Company in 1986 and has engaged in several system development projects, etc. for banks in and outside Japan. He held several positions, including General Manager of Financial System Business Unit, General Manager of Sales Division and Director and Managing Executive Officer of CAC Corporation. He has been serving as Corporate Auditor of the Company since March 2019.



Outside Corporate Auditor  
**Hirokazu Honda**  
Date of birth:  
May 5, 1970

Mr. Honda was registered as a lawyer and joined the Abe, Ikubo & Katayama Law Office in 1997. In 2004, he was registered as a lawyer in the State of New York, the United States. He became Partner of the Abe, Ikubo & Katayama Law Office (current position). He held positions of Outside Corporate Auditor and Outside Director of Uoriki Co., Ltd. He has been serving as Outside Corporate Auditor of the Company since March 2017.

#### Major concurrent positions

Partner of the Abe, Ikubo & Katayama Law Office/Senior Director, International Association for the Protection of Intellectual Property of Japan



Outside Corporate Auditor  
**Yuichi Ishino**  
Date of birth:  
March 13, 1968

Mr. Ishino has worked for the Mitsubishi Bank, Ltd. (current MUFG Bank, Ltd.), Booz Allen Hamilton Inc. (current PwC Consulting LLC) and other companies before he assumed the post of Representative Director (current position) of Ontrack Corporation, a management consulting firm. He has been serving as Outside Corporate Auditor of the Company since March 2019.

#### Major concurrent positions

Representative Director, Ontrack Corporation

## Skill set

Name	Status of attendance at Board of Directors' Meetings (fiscal year ended December 31, 2018)	Status of attendance at Board of Corporate Auditors' Meetings (fiscal year ended December 31, 2018)	Number of years of service	Experience								
				Industry knowledge	Global business	Business management	Technology/research and development	Financial affairs/finance	Personnel affairs/organizational development	Product development/marketing	Law	
Akihiko Sako	Attended 17 of 17 meetings	–	14	●	●	●						
Togo Shimizu	Newly appointed	–	–	●	●					●		
Michitaka Hirose	Independent Officer Attended 16 of 17 meetings	–	8				●					
Yukiko Kuroda	Independent Officer Attended 17 of 17 meetings	–	8			●				●		
Tokihiko Mori	Independent Officer Attended 13 of 13 meetings <sup>*2</sup>	–	1		●	●		●		●	●	
Masaaki Yoshida	Attended 17 of 17 meetings	Attended 13 of 13 meetings	2	●				●				
Kazuki Kawamata	Newly appointed	Newly appointed	–	●								
Hirokazu Honda	Independent Officer Attended 15 of 17 meetings	Attended 10 of 13 meetings	2									●
Yuichi Ishino	Independent Officer Newly appointed	Newly appointed	–			●		●				

\*1 The table above shows core skills.

\*2 The figure indicates the number of meetings that were held after he was appointed.

## Executive Officer



Managing Executive Officer

**Ryota Nishimori**  
(in charge of Core ICT Domain)

Managing Executive Officer

**Bin Cheng**  
(in charge of China Domain)

Managing Executive Officer

**Malcolm F Mehta**  
(in charge of India Domain)

Executive Officer

**Hajimu Kato**  
(in charge of Healthcare Domain)

Executive Officer

**Koji Iketani**  
(in charge of Future Domain)

### Messages from an outside director and an outside corporate auditor



**I will advance shareholder-oriented management and improve the profit margin for maximizing our corporate value.**

Outside Director  
**Tokihiko Mori**  
Appointed in 2018

#### **Increasing awareness for shareholders**

I was appointed an outside director at CAC Holdings Corporation in March 2018, thanks to the Company's assessment of my management experience and my knowledge about M&A.

In a word, my impression of the CAC Group at the time of my appointment was independence and self-reliance. Employees appeared to be working in a way that was free and unrestrained as independent system integrators, too. However, I also felt that their awareness of shareholders was low, in spite of CAC Holdings' status as a listed company.

For that reason, I've been actively stating my opinions at board meetings, bearing in mind the enhancement of shareholder value. On the most recent occasion for medium-term strategy revisions, too, I made a number proposals from the viewpoint of shareholders based on my experience. I don't know if I could call it a result of these efforts, but I think the awareness of shareholders has begun to clearly change, as the numerical ROE target set for fiscal 2021, the final fiscal year for the medium-term strategy, indicates.

Value creators and vision are essential for continuously increasing corporate value. This is another issue. I feel the Board of Directors rarely discusses human resources development and work styles at present. I also think that greater preparations are necessary for discussing M&A and business investment projects. Changing all things at once is difficult, but I'm thinking about doing what I can so that things start changing, however slightly.

#### **Improving profit margins as a starting point for enhancing corporate value**

I also think increasing the operating margin is the important first step toward enhancing corporate value. I think in that way because operating margin and market capitalization are closely correlated. According to my provisional calculation, it would not be unusual for the value of CAC Holdings' shares to increase by a factor of about three, if the CAC Group simply achieves the average operating margin in the industry. When that happens, the motivation of employees rises, the degree of strategic freedom increases, and various initiatives become possible.

The Board of Directors is currently devoting many hours to the discussions of defensive governance. However, the Board's discussions of offensive governance is still far from sufficient. Defensive governance is designed to prevent scandals from taking place. In contrast, offensive governance is aimed at increasing returns. Personally, I would like to encourage reforms that increase the motivation to enhance shareholder value through offensive governance so that CAC Holdings can meet shareholders' expectations for long-term growth.

The CAC Group has the advantage of undertaking businesses with a focus on two independent, growth industries called IT and healthcare. The Group has abundant financial assets, too. The Group must be able to make rapid progress in the age of digital transformation if it can make the most of these strengths. I will play my role in this respect from my position as an outside director.

**I will stand behind new challenges by  
CAC Group companies and contribute to  
enhancing their corporate value.**

Outside Corporate Auditor  
**Hirokazu Honda**  
Appointed in 2017



### **Venturing to verbalize tacit understandings**

I've contributed my opinions and made my proposals in areas focused on legal affairs from my position as a lawyer since March 2017 when I took up my appointment as an outside corporate auditor at CAC Holdings Corporation.

My initial impression of the CAC Group was a group of companies that were undertaking a broad range of operations, including the mainstay CRO (pharmaceutical BTO) business and expanding operations in overseas markets such as India and China, in addition to the core businesses of systems development, integration and operation. I felt the picture of the Group was difficult to grasp because of this wide range of businesses. At the same time, the Group appeared to have considerable potential. I understand that the Board of Directors and the Board of Corporate Auditors are spending many hours on agenda items related to strategies at CAC Holdings. We could argue that this is how a holding company should be. However, information about agenda items submitted to the boards, such as preconditions and backgrounds, are omitted in some cases because that information is known to all people at CAC Holdings. In such cases, I confirm the validity of the omission from the perspective of a third party to make sure if that approach is really in the best interests of shareholders and investors. I sometimes propose carrying an agenda item over to the next meeting in cases where the information supplied is insufficient. Venturing to say something and leaving it in the minutes is important, too. I aim at voicing my opinions about things that weigh on my mind as much as I can, even if those things are regarded as tacit understandings.

### **Making the role of a holding company clearer**

On the latest occasion of revising the medium-term strategy for fiscal 2018 to fiscal 2021, we separated management decision-making and supervision functions from business execution functions as a means of strengthening our governance. We also changed the composition of directors from eight Board members, including five internal directors and three outside directors, to five Board members, including two internal directors and three outside directors. I think outside directors holding a majority will cause changes in agenda items and discussions at Board of Directors Meetings.

In addition, we began offering advance explanations to outside directors in 2019. Previously, they had only limited time to look over items for resolutions at board meetings. I expect this change will deepen the understanding these directors have about the details of resolutions and will help them engage in efficient and constructive discussions.

The complete separation of business administration and execution in 2019 required business executors to understand what the CAC Group is expected to offer in a speedier and more timely manner, and take steps to respond to that demand going forward. Meanwhile, management team members must administer the Board of Directors and the Board of Corporate Auditors by making CAC Holdings' roles as a holding company clearer.

With that in mind, I aim to contribute to enhancing the value of CAC Group companies by playing my role of supporting new challenges while studying management strategies and IT, in addition to continuing to perform the checking functions as a corporate auditor.

# 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

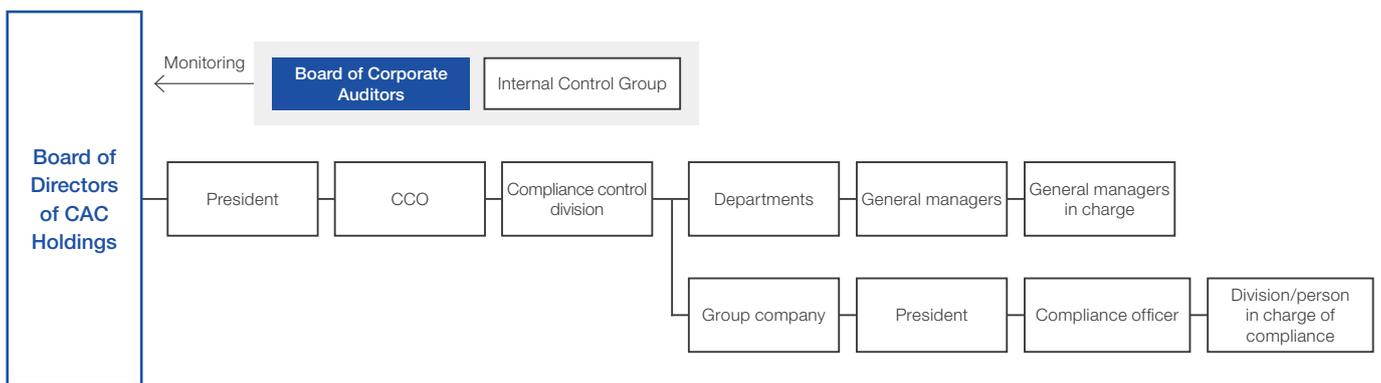
At the CAC Group, we define compliance as “increasing our sense of morality and our sincerity as a corporate entity by complying strictly with laws, regulations, rules and social norms.” Based on Our Credo, we have formulated the Basic Guidelines for Business Conduct for Compliance of the overall Group. 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).

## Initiatives for dealing with material risks (as of December 31, 2018)

Major risks that may have a significant impact on the Group's management and operating results are as follows.

Recognizing the possibility that such risks may materialize, the Group endeavors to prevent them from occurring and appropriately deals with them in the event that they do materialize.

	Risks	Impact on the Group	Countermeasures
Business environment	Increasingly tough competitive environment	Failure to acquire projects will lead to a loss from fewer working hours for personnel and a deterioration in profits from projects.	<ul style="list-style-type: none"> <li>• Collection of information and monitoring regarding customers, market trends, competitors, etc.</li> <li>• Reinforcement of sales capabilities</li> </ul>
	Dependence on specific customers and industrial sectors	Changes in IT investment and management environment of the specific customers and industrial sectors that make up the majority of the Group's sales will make the Group's business results highly volatile.	<ul style="list-style-type: none"> <li>• Constant understanding of customer trends</li> <li>• Development of new customers</li> </ul>
	Development of overseas business	Politics and the economy, foreign exchange movements, legal restrictions, commercial practice, social turmoil, etc. in each country exert an adverse influence over the Group's overseas business activities.	<ul style="list-style-type: none"> <li>• Collection of information on politics, the economy, social situation, etc. of each country</li> <li>• Maintenance of systems that ensure smooth contact with overseas bases</li> </ul>
	Corporate acquisition/ Capital contribution	In the event that capital invested in acquired/portfolio companies is not recoverable or that additional costs are incurred, it will have an adverse impact on the Group's operating results, business development, etc.	<ul style="list-style-type: none"> <li>• Ensuring of preliminary examinations and reviews</li> <li>• Formation of standards for business acquisition and capital contribution and those for withdrawal</li> <li>• Strengthening of post-merger integration (PMI) process</li> </ul>
Business operation	Value of assets held	A decline in the value of investment securities and other assets held will have an adverse impact on the Group's operating results and financial situation.	<ul style="list-style-type: none"> <li>• Monitoring of asset value</li> <li>• Prompt decision making on whether to continue holding the assets based on a policy on holding assets</li> </ul>
	Securing and fostering of human resources	Failure to secure and foster excellent human resources as planned will have an adverse impact on the Group's business promotion.	<ul style="list-style-type: none"> <li>• Appropriate and effective hiring activities and human resources development</li> <li>• Improvement in corporate brands and creation of an attractive workplace</li> </ul>
Technology	Information security	Loss, destruction, leakage, etc. of confidential information will lead to a decline in, or loss of, social confidence and/or liability for damages.	<ul style="list-style-type: none"> <li>• Development of a policy, administrative procedures, etc. for information management</li> <li>• Training of all employees on information management</li> <li>• Security measures</li> </ul>
	Unprofitable projects	Excess time spent on development and work will raise the cost of sales ratio.	<ul style="list-style-type: none"> <li>• Detailed examination of each project prior to receiving an order</li> <li>• Monitoring of each project by specialized departments</li> </ul>
	Suspension of service	System failure, natural disaster, etc. that disables the provision of systems operation and management services or human resources BPO services will have an adverse impact on the Group's operating results.	<ul style="list-style-type: none"> <li>• Formation of a business continuity plan (BCP) and training and education</li> </ul>