June 26, 2018
Oracle Corporation Japan

Summary of Questions and Answers in the Results Briefing for Fiscal Year Ended May 2018

Q1: Why did cloud service revenue fall below the guidance? On the other hand, please tell me the factors you have delivered brisk new license revenues.
Under favorable market conditions, our business was healthy for the fiscal year. As data volume grew, significant needs emerged for business reforms using data, and we received a large number of inquiries about databases in the second half.
Shortage of cloud revenue against guidance is explained by the failure to gain contract renewals in the PaaS deals for development and testing use in the prior year and the concentration of orders in the second half of fiscal year 18. Orders are strong.

Q2: What is your outlook for FY2019?
We foresee that the market will remain strong. There is demand for new licenses, mainly for databases. We expect new licenses, product support, and cloud services to be steady.

Q3: Revenue in hardware systems remained on a downward trend. Is this expected to continue in FY2019?
Engineered systems showed strength in the second half and the need for them is continuing. Demand for storage seems to have hit a bottom. As for systems from which performance is required, there is a trend towards higher-end models. Accordingly, demand for general purpose servers is decreasing. We recognize the demand for the Private Cloud Appliance and we are addressing it.

Q4: Headcount increased for FY2018 and human resource expenses per person increased. According to the EPS guidance for FY2019, the profit margin is forecasted to shrink slightly. What is your forecast on expenses for FY2019?
With respect to human resource expenses, the sales section will increase its incentives in line with its revenue growth. In other sections, human resource expenses are stable because a large portion has a fixed salary.
Regarding outsourcing expenses, those for operating cloud services will rise according to the increase in cloud revenue and the number of cloud service users. In addition, outsourcing makes up for the shortage of labor for consulting services. We are working to hire consultants in pursuit of good balance.
Capital investment consists of a portion for renovation of the Oracle Digital office and a portion for data centers. Expenses for their depreciation and expenses of data center operation will incur.

Q5: You have 170 billion yen in cash. How will you spend it in the future?
We evaluate our cash generating capability attributed from the business model. Two years ago, we paid

an extraordinary dividend to return profit to our shareholders. We retain it in order to ensure flexibility of the management in terms of investments for growth, response to crises and management. Our policy has not changed.

Q6: What are the specific trends and applications concerning new software licenses?
Along with the progress of digital technologies, customers are swiftly carrying out business transformations. There are mounting needs for data usage not only in operational processes but to improving customer facing and enhance marketing activities for business growth. The public service, manufacturing, communication and many other sectors are in demand.

Q7: I wonder if the large orders for new software licenses are temporary. Do you have to think about a reactionary decline?
Momentum will remain in FY2019. We foresee high demand for data usage.

Q8: In the Oracle Open World last October, Larry Ellison said that not everything would shift to the cloud and on-premises systems would not be gone. What is the situation in Japan?
There are considerable needs for active data usage to innovatively change business. Regarding the issue of whether to choose between on-premises systems and cloud services, we feel that many Japanese companies still prefer on-premises systems.
We are proposing the use of the cloud under the Bring Your Own License (BYOL) program. It allows customers to apply their licenses for on-premises systems to cloud services.

Q9: What do you think about cannibalization between cloud services and on-premises systems?
We take sales measures aimed at shifting customers from on-premises systems to cloud services. The choice of the system environment varies in depending on the customer. Both built with the same technologies, our business is going forward by a combination of on-premises system and cloud services.

Q10: What is your outlook on investment and depreciation for FY2019?
We cannot provide detailed comments, but we anticipate some increase from the current level of one billion and hundreds of millions of yen.

Q11: You have set a lower limit of 1% in terms of revenue for FY2019 in the guidance. Is it too conservative?
It does not mean that we only aim to attain the lower limit of 1%. We aim to exceed 5%. We anticipate growth at a rate that is higher than the market growth rate. The software related business has such strong momentum that it is a profit-making driver. We will take positive measures in a bid to exceed 5%.

Q12: According to the guidance, there is gap between the revenue growth rate and the profit growth rate for FY2019. What about the royalty rate on sales?

We have not changed the royalty rate. We are currently in the phase of investment in growth. We are positively investing in staff and the cloud business.

Q13: One year has passed since the change to the new management team. After the transitional period, how do you rate the current management?

We are a sales company and our staff drive business growth. Therefore, we focus on investment in staff, effective and productive working styles and the development of teamwork. The management team interacts with staff members and provides positive support for them. The financial results reflect the consequences of the reforms that we conducted over the past 12 months.

Q14: What risks are involved in the achievement of FY2019 targets and what is the competition environment for cloud and on-premise business?

We are a late entrant to the cloud market. With the rapid growth of PaaS and IaaS, we are catching up with the competition. Our growth rate is higher than the growth rate of the cloud business market.

Our on-premises databases are so reliable that they have maintained a good position in the market. We have developed sales pipelines for large projects and enjoy a competitive advantage over the competition.

In the application business, we are aggressively proposing shifts to the ERP cloud and upgrades to users of EBS and JDE applications.

NetSuite is very competitive to small and medium-size enterprises and we have received positive responses.

Q15: What are the circumstances surrounding the *Bring Your Own License* (BYOL) program? Will Japanese clients be unlikely to use it, as they have high demand for new licenses or on-premises systems? What is your outlook on the future utilization of the BYOL? Will it work as a deterrent against AWS and other public cloud services?

The BYOL program has gained high recognition among clients. It gives on-premises license holders access to Oracle Cloud. Because they can use Oracle Cloud with their existing licenses, the program paves the way for the effective use of assets. Regarding the transition, we are moving forward with separate talks with individual customers.