

This flash report is unaudited and the translation of the Japanese language version.



## Flash Report for the Fiscal Year Ended May 31, 2006 (Non-consolidated)

July 6, 2006

Name of the Company **Oracle Corporation Japan** Listed Stock Exchange: Tokyo  
 Ticker 4716 Head office location: Tokyo  
 (URL <http://www.oracle.co.jp/corp/index.html>)  
 Representative personal Masaaki Shintaku, President and Chief Executive Officer  
 Contact personal Shigeru Matsuoka, Chief Financial Officer

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Date of the board meeting for this release: July 6, 2006

Schedule for dividends payment: August 30, 2006

Schedule for general shareholders meeting: August 29, 2006

Tangenkabu (trading unit of shares): Yes (1unit=100shares)

Name of the parent company: Oracle Corporation(U.S.)

Parent company's shareholding of the company's voting shares: 75.2%

### 1. Business results for this term (from June 1, 2005 to May 31, 2006)

#### (1) Operating Results

	Revenues		Operating Income		Ordinary Income	
	Million Yen	%	Million Yen	%	Million Yen	%
May 2006	91,564	10.0	32,126	11.9	32,206	11.8
May 2005	83,209	0.4	28,708	3.6	28,797	3.6

	Net Income		EPS	EPS after adjustment for potential shares	ROE	ROA	Ordinary Income Margin
	Million Yen	%	Yen Sen	Yen Sen	%	%	%
May 2006	18,988	11.8	149.51	149.40	24.3	29.6	35.2
May 2005	16,989	6.0	133.51	133.40	21.6	26.3	34.6

Note:

- (i) Investment profit(loss) on equity method May 2006: Not Applicable May 2005: Not Applicable  
 (ii) Average number of shares during the term May 2006: 126,998,551 May 2005: 126,969,383  
 (iii) Change in accounting method: applicable  
 (iv) Percentage of revenues operating income, ordinary income and net income indicate changes from the previous term.

#### (2) Financial Position

	Total Assets		Shareholders' Equity		Ratio of shareholders' equity	Shareholders' equity per share
	Million Yen		Million Yen		%	Yen Sen
May 2006	110,917		78,714		71.0	619.72
May 2005	107,049		77,468		72.4	609.77

Note:

- (i) Outstanding shares at term end May 2006: 127,016,071 May 2005: 126,983,126  
 (ii) Treasury stock at term end May 2006: 300 May 2005: 1,211,536

#### (3) Cash Flows

	Cash flow from operating activities	Cash flow from investing activities	Cash flow from financing activities	Balance of cash & cash equivalents at the term end
	Million Yen	Million Yen	Million Yen	Million Yen
May 2006	22,216	-8,067	-17,666	18,364
May 2005	16,006	-2,747	-18,945	21,883

### 2. Forecast for the May 2007 term (from June 1, 2006 to May 31, 2007)

	Revenues	Ordinary Income	Net Income
	Million Yen	Million Yen	Million Yen
Interim	45,700	15,000	8,850
Entire term	101,000	35,550	20,950

(Reference) Estimated EPS for the term

164.94 Yen

### 3. Dividends

Dividends by cash	Dividend per share (Yen)			Total amount of dividends (Million Yen)	Dividends payout ratio	Dividend ratio to shareholders' equity
	Interim	Term end	Annual			
May 2005	60.00	80.00	140.00	17,776	104.9	22.9
May 2006	60.00	90.00	150.00	19,051	100.3	24.2
May 2007(forecast)	70.00	94.00	164.00			

Caution: Amount is rounded down. Above forecast is based on the information available at a time of issuance of this report, and the actual result may change by various reasons. Please refer to the 7-8 page of attached document for using the forecast.

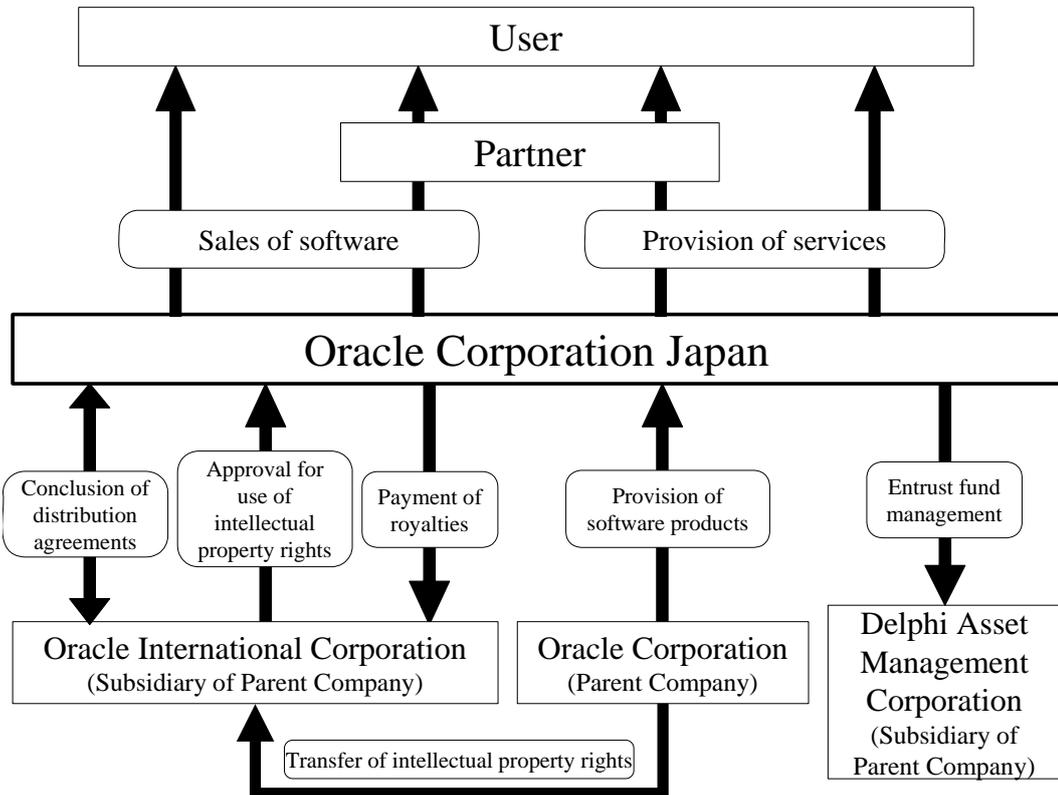
**1. Current Status of the Company Group**

Our Company’s parent company is essentially Oracle Corporation of the United States and our Company is part of the group that is headed by Oracle Corporation. In various parts of the world the group sells software products including relational database management systems, middleware and business applications, as well as a range of systems using the software products and software products for application development and management. The group also provides an array of services to support users of these software products.

Moreover, Oracle International Corporation is a subsidiary company of Oracle Corporation. Oracle Corporation transfers intellectual property rights pertaining to the software and other products it owns to Oracle International Corporation and Oracle International Corporation holds and manages these intellectual property rights, concludes distribution agreements with Oracle Corporation’s subsidiaries including our Company and authorizes license use. Meanwhile, Delphi Asset Management Corporation is also a subsidiary of Oracle Corporation, and is in charge of the operation and management of funds owned by Oracle Corporation and its subsidiaries. Our company concluded investment advisory agreement with Delphi Asset Management Corporation, and has been investing its surplus fund to the securities that satisfy the Company’s investment policy while maintaining safety and adequate liquidity.

Research and development of software products is primarily carried out under the leadership of Oracle Corporation. However, our company participates in new development initiatives from the onset and has played an important role in developing products suited to the Japanese market in close cooperation with Oracle Corporation. We have also taken a leading role in developing some of the products, such as human resource modules with specifications suited to Japan. Our Company makes use of its knowledge and expertise with respect to Japanese market features and has been selling software products thus developed in Japan and providing services to support users.

**(Business relation diagram)**



In June 2000, we established Miracle Linux Corporation, which specializes in the development and sale of Linux operating systems. Miracle Linux Corporation was set up as our subsidiary in a joint venture with leading domestic companies in a number of different fields (as of May 31, 2006, we hold a 50.5% stake). However, we have not prepared consolidated financial statements for the term, since the subsidiary's total assets and sales are insignificant for the time being and their exclusion would not prevent a rational judgment on our financial status and business achievements. The subsidiary has also been excluded from the above business relation diagram.

## **2. Business Policies**

### **a) Our basic business policies**

We believe that the basic concept for our Company is “to maximize the value of data to the point that they are regarded as intelligence, and to build an affluent information society.” Our corporate mission is to offer diverse means to turn data into “set of intelligence”, which refers to valuable knowledge and processes that can be used effectively in the global information society, instead of handling them as mere data.

Moreover, we have promoted corporate activities designed to make our Company an “IT corporation that is the most highly trusted by our customers,” under the following three basic business policies:

- (1) Our Company will offer products and services that can enhance the productivity of our customers and help develop the Japanese economy.
- (2) Our Company will strive for the overall development of the IT industry in Japan, together with our partners.
- (3) Our Company will train IT engineers able to assume leading roles globally, through “Oracle Master” and other systems.

We understand that these efforts will enable our Company to continuously enhance its corporate value and to offer benefits to our shareholders and other stakeholders.

### **b) Basic policies on income distribution**

We recognize that one of its most important business missions is to continuously offer our shareholders dividends at a high level, by enhancing corporate value. We will continue to distribute to all shareholders the profits from our periodic income as dividends while considering the retention of earnings for the management of the company. And we will examine about the flexible profit distribution that conformed to corporate law in future.

### **c) Perspectives and policies concerning reducing minimum investment unit**

We recognize that lowering the stock investment unit is an effective means of increasing the liquidity of shares with the aim of further expanding our investor base. Our approach is to lower the investment unit as appropriate if deemed necessary in view of our results, share price movements, market conditions and other factors. However, we have yet to decide on the exact measures or timing of such action.

### **d) Targeted business indices**

We aim for continuously improvement of corporate value by growth of revenue and operating income, and by management that attached great importance to operating income margin. For middle to long term, we make it our policy to increase revenue with maintaining a high operating income margin.

### **e) Mid- to long-term business strategies**

We have upheld the Company's slogan of becoming a highly trusted IT company. The

foundation of our management strategy is to provide customers and business partners with innovative technologies and to become a highly profitable company for our shareholders and other stakeholders. To this end, we recognize that it is critically important for us to achieve constant growth by appropriately responding to customer needs and consistently providing high quality products and services that will enable our customers to expand their businesses. Our business policies are as follows.

① Operation policy of license (Software Product) business

We build three business entities, which are database, middleware and application, in a license business. We maintain growth in the database area sequentially. In the middleware and application areas, we continue high growth by the ratio and aim to be the next pillars of profit of the Database.

② Operation policy of service (including Update & Product Support) business

About three service businesses, customer service (support), education and consulting, we aim at expansion of our business scale by more organized cooperation with license business while raising a margin rate of each business.

**f) Issues to address**

As of May 2006, Oracle Japan Holding, Inc. owns 74.8% of the company's issued shares, making the portion owned by top-ranking shareholders prominent in terms of share distribution. If the top-ranking shareholders' portion rises further, we may see the ownership percentage of "special few" shareholders running in conflict with the Tokyo Stock Exchange's delisting standard (75%), but we expect that it does not conflict with this standard as of May 31, 2006 due to review of the ownership percentage of "special few" shareholders.

**g) Matters related to parent company and others**

**(1) Name of the parent company**

As of May 31, 2006

Parent company	Attribute	Parent company's shareholding of the Company's voting shares (%)	Listed stock exchange
Oracle Corporation	Parent company	75.2 (75.2)	NASDAQ (U.S.)
Oracle Japan Holding, Inc	Holding company	75.2	

(Note) 1. () Ratio of indirect shareholding by the parent company, which is included in the count.

2. Parent company's shareholding of the Company's voting shares is not equal to the ratio of shareholding.

**(2) Positioning of the Company in the group of the parent company**

Our Company's parent company is essentially Oracle Corporation of the United States and our Company is part of the group that is headed by Oracle Corporation.

Moreover, Oracle International Corporation is a subsidiary company of Oracle Corporation. Oracle Corporation transfers intellectual property rights pertaining to the software and other products it owns to Oracle International Corporation and Oracle International Corporation holds and manages these intellectual property rights, concludes distribution agreements with Oracle Corporation's subsidiaries including our Company and authorizes license use.

Two of the five members of our board of directors are outside directors chosen from Oracle Corporation. We conduct our business activities based on management decisions taken as an independent business organization, which are performed principally by directors who also assume their positions as the operating officers and operating officers.

### **(3) Matters related to transactions with parent company**

Please refer to “Transactions with related bodies” as set forth hereinafter.

#### **i) Other important matters for business**

Not applicable.

## **3. Business outcomes and financial situation**

### **a. Business outcomes**

#### **(1) Overview of the current term**

During the period under review, the Japanese economy continued to show signs of recovery. This recovery was driven by an increase in capital investment stemming from steady growth in corporate profits and a moderate rise in consumption expenditure accompanying improved employment conditions.

With these changes in the business environment, the Company implemented structural reform focusing on sales of specialized products and increased the efficiency of business operations to facilitate growth while maintaining existing revenue sources.

Specifically, the Company established the System Technology Business Group and the Applications & Industries Business Group in June 2005 to create an organizational structure highly geared toward industry and product characteristics. In addition, we set up the Applications Business Group and the Business Strategy Group with existing System Technology Business Group in March 2006 to strengthen the operations and business management functions for each product.

The company also hosted Oracle OpenWorld Tokyo 2006, an international conference on the business and technologies of Oracle, in March 2006. At this conference, we successfully presented the current values and strong future potential of our products and services to customers both in Japan and abroad.

As a result, the Company achieved sales at 91,564 million yen (up 8,354 million yen, or 10.0%, from the previous term), ordinary income at 32,206 million yen (up 3,409 million yen, or 11.8%, from the previous term), and net income at 18,988 million yen (up 1,998 million yen, or 11.8%, from the previous term) and realized record-high numbers in sales, ordinary income and net income. The dividend per share at the term end is expected to 90 yen, increased by 7 yen from 83 yen that we forecasted on June 30, 2005. Combined with the interim dividend (60 yen), the annual dividend per share is expected to increase 10 yen from the previous term to 150 yen.

The results of each business segment are as follows. From the current term, in accordance with the disclosure of Oracle Corporation, the Support Service Division is classified as Updates & Product Support and Advanced Support, because the sales of Updates and Product Support are becoming increasingly important. These two entities are categorized as Software Related and Service, respectively.

#### **① Software Related**

##### **(i) Database Technology**

In the Database Technology Division, Revenue increased steadily thanks to greater demand for our database products led by solid corporate performance, and the start of shipments of Oracle Database 10g Release 2. Demand for products for large-scale systems continued to increase accompanying the transition from system integration and mainframes to open-system networks and the strong need for system enhancement. The introduction of RAC (Real Application Clusters), an option function to provide highly scalable and available database solutions, spread rapidly and is quickly becoming the standard. For small and medium-sized systems, IT investment was active and the introduction of open-systems through Linux servers is increasing, Oracle Database 10g Standard Edition One, a

database for small and medium-sized companies, showed high growth. Oracle Fusion Middleware, a new area of technology, also posted high growth thanks to the establishment of dedicated organizations and our aggressive sales activities.

As a result, revenue reached 41,060 million yen (up 3,152 million yen, or 8.3% from the previous term).

#### **(ii) Business Applications**

Business Applications Division offers “Oracle E-Business Suit”, a type of software that facilitates quick management decision-making and greater operating efficiency in client companies’ principal functions, such as general affairs and human resources, as well as general corporate activities such as inventory management, production management, customer management and purchase management.

During the period under review, a recovery in capital spending at client companies was led the higher earnings, and in addition, new initiatives steadily implemented in this division contributed to higher revenue growth than we anticipated. These initiatives included the expansion of customer coverage through the establishment of a new specialized sales structure and cooperation with business partners, the reinforcement of our ability to propose solutions for large corporations by integrating consulting service functions, and a stronger capacity for leveraging Oracle NeO for business proposals for medium-sized enterprises. As a result, revenue in this division reached 3,294 million yen (up 677 million yen, or 25.9% from the previous term).

#### **(iii) Updates & Product Support**

In the Updates & Product Support Division, we support the system operations of client companies by providing them with update rights for software products, general product support services and technical information that enables potential problems to be avoided.

Revenue in the Updates & Product Support Division steadily increased and reached 38,366 million yen (up 3,346 million yen, or 9.6% from the previous term). These results were due to the brisk sales of software products and the continuing high demand from client companies for the reliable operation of their information infrastructure as well as the maintenance of a high rate of support contracts through the sharing of contract information with partners since the fiscal year ended May 2005.

Consequently, revenue in the Software Related that is Software Products (including Database Technology Division and Business Application Division) with Updates & Product Support Division reached 82,721 million yen (up 7,176 million yen, or 9.5% from the previous term) and realized record-high numbers.

## **② Service**

### **(i) Advanced Support**

In the Advanced Support Division, we provide client companies with technical support for system construction and operation, offering high-value added services according to their individual needs.

This past term saw substantial growth for Oracle On Demand, a strategic service area for the Company. This outsourcing service, in which our professional engineers remotely operate and manage Oracle software for client companies online 24 hours a day, 365 days a year, has seen growth in the three years since it was launched in the fiscal year ended May 31, 2004. As a result, revenue in this division reached 1,178 million yen (up 448 million yen, or 61.4% from the previous term).

### **(ii) Education Services**

Education Services Division has been providing qualification and training services to partner companies and clients. One of the certified qualifications, “Oracle Master”, is for the Company’s database products and is a highly regarded technical qualification. Another certified qualification is “Oracle Certified Consultant”, which is for our business application products.

Although there were still some adverse effects in the first half stemming from the cautious approach to spending on IT education by the corporate sector, educational demand from partner companies and client companies for database technology products rose during the period under review. As a result, revenue in this division reached 1,976 million yen (down 45 million yen, or 2.3% from the previous term).

At the end of this term, the number of “ORACLE MASTER” qualifications, the technical certification for our database products, reached about 153,000 (up 14,000 from the previous term), while those who were awarded “Oracle Certified Consultant”, the technical certification for our business application products, reached about 7,300 (up 470 from the previous term).

(Note) The ORACLE MASTER qualification system in Japan was revised to correspond to the global system in October 2003 and the method for determining the number of qualifications obtained was changed. As a result, the number of qualifications mentioned in the text that has been acquired has been recalculated back to the previous year. For example, under the previous method, an applicant who obtained the ORACLE MASTER Platinum qualification subsequently for Oracle8, Oracle8i, and Oracle9i, was considered to have one qualification. However, under the new method this is counted as three qualifications, because the qualification is counted separately for each product.

### **(iii) Consulting Services**

Consulting Service Division provides technology and operational consulting on database technology, Fusion Middleware and business application products, customer support services in each phase such as installation planning, system design development and system operation, as well as industry solutions for customers in each sector.

In the period under review, the Company quickly responded to the strong needs of our clients companies for technical assistance with the introduction and stable operation of database technology products for their core functions. In addition, we aggressively enhanced our ability to propose middleware and business application product solutions to large companies and introduced short-term standard models. As a result, sales in this division reached 5,687 million yen (up 775 million yen, or 15.8% from the previous term).

As a result, sales in the Service reached 8,842 million yen (up 1,178 million yen, or 15.4% from the previous term).

The following table lists the revenue by segment.

Item	May 2005		May 2006		
	Amount	Composition	Amount	Composition	Variance
	Million Yen	%	Million Yen	%	%
Database Technology	37,908	45.6	41,060	44.8	8.3
Business Applications	2,617	3.1	3,294	3.6	25.9
Software Product	40,525	48.7	44,355	48.4	9.5
Updates & Product Support	35,019	42.1	38,366	41.9	9.6
Software related sub total	75,544	90.8	82,721	90.3	9.5
Advanced Support	730	0.9	1,178	1.3	61.4
Education services	2,021	2.4	1,976	2.2	-2.3
Consulting services	4,912	5.9	5,687	6.2	15.8
Service sub total	7,664	9.2	8,842	9.7	15.4
Total	83,209	100.0	91,564	100.0	10.0

\*Amount is rounded down. Composition ratio and year-to-year comparison (Variance) are rounded off.

## (2) Estimated business outcomes for the May 2007 term

The Japanese economy continues its steady recovery. Capital investment is being sustained thanks to growing exports and production, the high level of corporate profits and accelerated consumer spending accompanying the moderate increase in employee compensation, which reflect improved employment and wage conditions. As a result, the Japanese economy is expected to remain on a moderate upward trend.

We will continue to work to expand customer coverage and business with partners. We will also strive to aggressively strengthen our sales capability through our highly specialized structure, with the goal of accelerating the growth of the established strong revenue sources that we have been cultivating in the reorganization of our business. We will also actively propose new solutions for internal controls in response to legal developments such as the enforcement of the Corporate Law and the Financial Instruments and Exchange Law (the Japanese version of the Sarbanes-Oxley Act (SOX)). In the System Technology Business area, we will maintain our dominant share in the database products (Note) and aim to achieve a leading position in the markets with high growth potential, such as SOA (Service Oriented Architecture), security, BI (Business Intelligence), grid and content management, by focusing expansion of Fusion Middleware products sales. In the Application Business area, we have developed a product distribution agreement with Oracle Information Systems (the former PeopleSoft Japan and Siebel Japan) and adopted a policy to maximize business synergy exceeding the former ERP business scheme by compelling end-to-end products and business development with expertise in industries, while performing more positive sales activities.

Based on the above, we have derived the following estimates for our business outcomes in the May 2007 term: revenue of 101,000 million yen (up 9,435 million yen, or 10.3% from the previous term); ordinary income of 35,550 million yen (up 3,343 million yen, or 10.4%); net income for the term of 20,950 million yen (up 1,961 million yen, or 10.3%); and net income for the term per share of 164.94 yen.

The estimated annual dividend per share is expected to increase by 14 yen from the previous term, to 164 yen based on our policy on profit sharing, assuming that the above operating results are

achieved.

(Note) Quote from Japan RDBMS sales by Vendor, 2003-2005 of “DBMS and BI market in Japan, 2005 analysis and 2006-2010 forecast” issued by IDC Japan in June 2006

### **Cautious Statements for the forecast**

**Statements in this document with respect to Oracle Corporation Japan (OCJ)'s current plans, estimates, strategies and beliefs and other statements that are not historical facts are forward-looking statements about the future performance of OCJ. These statements are based on OCJ's assumptions and beliefs in light of the information currently available to it. OCJ cautions you that a number of important risks and uncertainties could cause actual results to differ materially from those forward-looking statements.**

### **b. Financial situation**

The total assets of our Company at the end of the term stood at 110,917 million yen (up 3,867 million yen from the end of the previous term).

Net assets totaled 78,714 million yen, up 1,245 million yen from the end of the previous term.

The cash flow situations for the interim term are as follows:

#### (1) Cash flow from operating activities

Pretax income for the term was 32,203 million yen, up 3,396 million yen from the previous term. Advances by customers increased by 2,302 million yen, due to extension of support agreement. As the results, cash generated by operating activities was 22,216 million yen (up 6,210 million yen from the previous term).

#### (2) Cash flow from investment activities

Cash spent on investment activities was 8,067 million yen (up 5,320 million yen from previous term), mainly payment of deposits for acquiring of the headquarter office building.

#### (3) Cash flow from financial activities

Cash spent on financial activities stood at 17,666 million yen (down 1,278 million yen from the previous term), mainly on the payment of dividends.

In total, cash and equivalents decreased 3,518 million yen from the end of the previous term, to 18,364 million yen.

The trends with cash flow indices for our Company are as follows:

	May 2004	May 2005	May 2006
Capital ratio based on market prices	608.8%	507.7%	571.4%
Capital ratio	71.1%	72.4%	71.0%

(Notes) Capital ratio based on market prices:

Market capitalization of the company / Total assets

### **C. Business risks**

The following are the main business risks we are aware of. The risks described herein about the future are based on our judgment as of the date of this publication.

#### (1) Relationships with Oracle Corporation

Our Company's parent company is essentially Oracle Corporation of the United States and

our Company is part of the group that is headed by Oracle Corporation. Therefore, our future business activities may be affected by Oracle Corporation's management strategies.

① Dependence on Oracle Corporation's products and technologies

We supply the Japanese market with the products developed by Oracle Corporation, which makes us dependent on its products and technologies. Thus, our business performance largely depends upon how Oracle Corporation will maintain its technological development capabilities and competitiveness, and continue to supply new products and updated versions of the existing products that meet customer needs.

The information service industry is highly competitive where technological innovation rapidly advances causing any new product or technology to become quickly obsolete. Thus, any delay on the part of Oracle Corporation in launching new products or updated versions, or any material fault or defect found on its products will likely affect our business results and financial conditions.

② Possibility of change in the rate and scope applicable to royalty

We have a distributorship agreement with Oracle International Corporation (a 100% subsidiary of Oracle Corporation), which is charged with the ownership and management of Oracle Corporation's intellectual property. As the sole distributor under the agreement of products developed by the parent company for supply to the Japanese market, we receive the products in consideration of which we pay to Oracle International Corporation a royalty equivalent to a certain percentage of our sales of the products. The percentage and the scope applicable to the royalty are determined between Oracle Corporation and all of its group companies that distribute Oracle products, including us, on the identical reasonable basis. If the percentage or applicable scope changes because of any change made to the contents of products or services supplied by Oracle Corporation, or of the transfer pricing taxation system, our business results and financial conditions may be affected.

③ Relationships with Shared Service Center

For greater management efficiency we make use of the Shared Service Center that operates on integrated and standardized management of office work across the Oracle group worldwide. We have transferred to the Center operations relating to accounting. If the Center receives transactions in excess of its processing capacity or fails to provide appropriate service because of any unexpected event, it may affect our business performance and financial conditions.

④ System failure due to natural disasters

The Company is promoting GSI (Global Single Instance) through the optimization of systems and the unification of operations across the Oracle group led principally by Oracle Corporation, and in keeping with such efforts we share with other member companies of the Oracle group various in-house systems such as the computer server for document storage, e-mail, purchase and procurement. If such shared systems fail due to an earthquake or any other natural disaster within or without Japan, it may cause our business activities to be troubled, and our very systems to be less credible, and consequently adversely affecting our business results and future business activities. In anticipation of such events, we have built our own measures to cope with natural disasters, create restoration plan and implement data backup; and we regularly review the systems and are now building "Business Continuity Management Program" for common use by all the member companies of the Oracle group worldwide including us.

(2) Dependence on certain limited sales items

Our sales are characterized by a high percentage of database technology-related product groups, most notably the relational database management system "Oracle 10g". The contribution of this product group to the overall sales of the current interim period reaches 44.8%, meaning that the product group's sales trends are likely to affect our business performance and financial conditions.

(3) Dependence on indirect sales

Our products are sold in collaboration with our partners, who are principally hardware

manufacturers, system integrators, and independent software developers. Our customers, some big and some small, cover diverse, wide-ranging industries, sectors such as manufacturing, distribution, finances, communications, and service as well as governments and other public bodies, and educational institutions. To attentively and meticulously address the needs of such wide-ranging customers, we are making efforts to expand indirect sales through partners. As a result, indirect sales in software products account for approximately 90 percent for the current interim period. It means then that maintaining stable relationships with partners will be significantly important to our future. For example, deterioration of such relationships, any strategic partnership entered into by any of our competitors with any of our partners, or aggravated financial conditions of our partners will likely affect our business performance and financial conditions.

(4) Project management

We provide customers introducing our software products with assistance relating to implementation programs, system design programs, or system operation. We are working for upgrading project management in terms of quality, development period and profitability. Under such circumstances, if the progress of any project deviates from the initial plan due to the customer's requirements for specification changes, or the occurrence of more operations than originally contemplated, it may give rise to additional costs or a penalty for a delayed delivery, and affect our business performance and financial conditions.

(5) Oracle On Demand business

Oracle On Demand, which we are aggressively promoting, provides a service in which we monitor and manage our products that are used by customers in their systems on the customers' behalf. Therefore, negligence of our employees or the personnel who is under the control of us could lead to a shutdown of customer's system and result in a delay or opportunity loss to the customer business itself. In these cases, it may affect our business performance and financial conditions by compensation for loss.

(6) Possibility of more intense competition

The information service industry where we perform our business activities is characterized by so intense competition and so rapidly progressing technological innovation that our business performance and financial conditions may be affected by the trends of the industry and competitors. For instance, stronger downward price pressure as the result of more fierce price competition spurred by new market entrants, more advantageous and competitive products launched by competitors, or strategic partnerships entered into between competitors will likely affect our competitiveness and market share.

(7) Securities holding risks

Pursuant to internal investment management policies, the Company purchases and holds yen-denominated bonds to maturity. For management of investment securities, we have an advisory agreement with Delphi Asset Management Corporation, an Oracle Corporation's subsidiary, to ensure high safety and proper liquidity. However, occurrence of any default as the result of aggravated financial conditions of any bond-issuing company or foreign government may cause us to suffer losses.

(8) Securing excellent human resources

It is indispensable for our future growth to secure human resources such as capable engineers and competent management executives. If we fail to secure highly capable human resources equipped with high-level technologies or know-how as planned, it may affect our future business activities and performance.

(9) Stock option plan

We have in place stock option plans aimed at bolstering the willingness or motivation of our directors and employees toward better business results. As of May 31, 2006, the total number of our shares covered by equity warrants reaches 1,945,850 equivalent to 1.5% of our total issued share. If all these stock options are exercised, they may dilute the value per share.

(10) Dependence on representative director

Ever since August 2000, Masaaki Shintaku, our representative director and president, has continued to play an important role as our representative director in deciding the Company's management policies and strategies as well as drawing up and promoting business plans. Although we establish regulations on the clarification of responsibilities and authorities of directors and employees, thereby establishing the environment in which the company's businesses can be efficiently executed within their responsibilities and authorities and are building a structure that does not excessively depend upon Mr. Shintaku, in the event of his incapacity to perform his duties for any reason, it may affect our business performance and future activities.

(11) M&A possibility in the future

As part of our own business strategy or of the parent company's global business strategy, we may merge or acquire any other company or business in the future. If such merger or acquisition takes place, we may have difficulty in effectively and efficiently consolidating the acquired company or business with our own business, in maintaining the existing relationships with the acquired company's important customers, suppliers or other related parties, or in maintaining the value of the acquired assets, which situation may lead to impairment losses. If any such event occurs, it may affect our business performance and financial conditions.

(12) Personal information control

We hold a large amount of personal information relating to the execution of our business activities. We have established internal regulations and educated all our employees as to the confidentiality of such information, but there is the least possibility for the information to be leaked out under any unexpected circumstances, in which case our credibility with the public may be damaged incurring a large amount of costs to address such problem.

(13) Legal controls

We are subject to various applicable laws and regulations in connection with our business activities. To comply with such laws and regulations we have established an appropriate internal system and provided necessary education to all employees. However, should any suit be filed or legal proceedings instituted against us, we may incur substantial expenses to defend ourselves against the suit or to pay for damages, in which case our business performance and financial conditions will likely be adversely affected.

(14) Delisting standard

As of May 2006, Oracle Japan Holding, Inc. owns 74.8% of the company's issued shares, making the portion owned by top-ranking shareholders prominent in terms of share distribution. If the top-ranking shareholders' portion rises further, we may see the ownership percentage of "special few" shareholders running in conflict with the Tokyo Stock Exchange's delisting standard (75%), but we expect that it does not conflict with this standard as of May 31, 2006 due to review of the ownership percentage of "special few" shareholders.

## 4. Financial Statements

### (1) Balance Sheet

(Unit : Million yen)

Terms Items	Previous term end (as of May 31, 2005)		Current term end (as of May 31, 2006)		Changes
	Amount	Ration	Amount	Ration	Amount
(Assets)		%		%	
I Current assets					
1. Cash and deposits	19,383		15,864		-3,518
2. Notes receivable	5		4		-1
3. Accounts receivable	14,855		14,867		11
4. Marketable securities	64,994		65,001		7
5. Merchandise	3		3		-0
6. Prepaid expenses	319		303		-16
7. Deferred tax assets	1,608		1,662		54
8. Accrued revenue	718		524		-194
9. Others	84		117		32
10. Allowance for doubtful accounts	-4		-0		4
Total current assets	101,968	95.3	98,349	88.7	-3,618
II Fixed assets					
1. Property and equipment *1					
(1) Buildings and accessory equipment	465		414		-51
(2) Furniture and fixtures	629		596		-32
(3) Construction in progress	—		7,816		7,816
Total property and equipment	1,095	1.0	8,828	8.0	7,733
2. Intangible fixed assets					
(1) Software	16		12		-3
(2) Others	1		0		-0
Total intangible fixed assets	17	0.0	13	0.0	-3
3. Investments and other assets					
(1) Investments in securities	793		631		-161
(2) Shares in affiliated companies	33		29		-4
(3) Deferred tax assets	436		385		-51
(4) Guarantee money deposits	2,672		2,652		-20
(5) Bankruptcy and reorganization claim	15		—		-15
(6) Others	40		37		-3
(7) Allowance for doubtful accounts	-24		-9		15
Total investments and other assets	3,968	3.7	3,726	3.3	-242
Total fixed assets	5,081	4.7	12,567	11.3	7,486
Total assets	107,049	100.0	110,917	100.0	3,867
	—		—		—

(Unit : Million yen)

Terms Items	Previous term end (as of May 31, 2005)		Current term end (as of May 31, 2006)		Changes	
	Amount	Ration	Amount	Ration	Amount	
(Liabilities)						
I Current liabilities						
1. Accounts payable	8,550		6,717		-1,832	
2. Accrued amount payable	2,696		2,776		80	
3. Accrued income taxes	6,208		7,450		1,241	
4. Accrued consumption tax	647		695		47	
5. Advances by customers	10,199		12,502		2,302	
6. Deposits payable	73		135		62	
7. Allowance for bonus payable	1,203		1,449		245	
8. Allowance for directors bonus payable	—		99		99	
9. Others	0		376		375	
Total current liabilities	29,580	27.6	32,203	29.0	2,622	
Total liabilities	29,580	27.6	32,203	29.0	2,622	
(Shareholders' equity)						
I Capital stock	*2	22,131	20.7	—	—	-22,131
II Capital surplus						
Capital reserve		33,569		—		-33,569
Total capital surplus		33,569	31.4	—	—	-33,569
III Earned surplus						
1. Legal reserve of retained		3,212		—		-3,212
2. Voluntary reserves		94		—		-94
Reserve for special depreciation		94		—		-94
3. Unappropriate retained earnings at the en		23,778		—		-23,778
Total earned surplus		27,085	25.3	—	—	-27,085
IV Unrealized gain on other securities, net of taxes		176	0.1	—	—	-176
V Treasury stock	*3	-5,493	-5.1	—	—	5,493
Total shareholders' equity		77,468	72.4	—	—	-77,468
Total liabilities and shareholders' equity		107,049	100.0	—	—	-107,049
(Net assets)						
I Shareholders' equity						
1. Capital stock		—	—	22,144	20.0	22,144
2. Capital surplus						
Capital reserve		—	—	33,582		33,582
Total capital surplus		—	—	33,582	30.3	33,582
3. Earned surplus						
(1) Legal reserve of retained		—	—	3,212		3,212
(2) Other earned surplus						
Reserve for special depreciation		—	—	34		34
Carried forward earned surplus		—	—	19,614		19,614
Total earned surplus		—	—	22,861	20.6	22,861
4. Treasury stock		—	—	-1	-0.0	-1
Total shareholders' equity		—	—	78,586	70.9	78,586
II Difference of appreciation and conversion						
Unrealized gain on other securities, net of taxes		—	—	127	0.1	127
Total difference of appreciation and conversion		—	—	127	0.1	127
Total net assets		—	—	78,714	71.0	78,714
Total liabilities and net assets		—	—	110,917	100.0	110,917

## (2) Statement of Income

(Unit : Million yen)

Terms Items	Previous Term (From June 1, 2004 to May 31, 2005)		Current Term (From June 1, 2005 to May 31, 2006)		Changes
	Amount	Ratio	Amount	Ratio	Amount
		%		%	
I Revenues *1	83,209	100.0	91,564	100.0	8,354
II Cost of sales	33,534	40.3	37,010	40.4	3,476
Gross Profit	49,675	59.7	54,553	59.6	4,878
III Selling, general and administrative expenses	20,966	25.2	22,427	24.5	1,460
Operating income	28,708	34.5	32,126	35.1	3,418
IV Non-operating income					
1. Interest income	0		0		0
2. Interest on securities	10		23		12
3. Refund of travel expenses	21		11		-10
4. Insurance dividend	27		—		-27
5. Others	66		61		-5
Total Non-Operating Income	126	0.1	96	0.1	-30
V Non-Operating Loss					
1. Interest expense	0		0		0
2. Foreign exchange loss	12		—		-12
3. Others	24		15		-8
Total Non-Operating Loss	37	0.0	15	0.0	-21
Ordinary Income	28,797	34.6	32,206	35.2	3,409
VI Extraordinary Income					
1. Reversal of allowance for doubtful accounts	18		—		-18
2. Gain on sale of invested securities	24		0		-23
3. Gain on sale of affiliated companies' shares	—		91		91
Total Extraordinary Income	43	0.0	92	0.1	48
VII Extraordinary Loss					
1. Loss on appraisal of invested securities	4		78		73
2. Loss on sale of invested securities	2		—		-2
3. Loss on appraisal of right to use telephone facilities	27		—		-27
4. Loss on expenses for restructuring *2	—		16		16
Total Extraordinary Loss	34	0.0	95	0.1	61
Net Income before Tax	28,806	34.6	32,203	35.2	3,396
Income taxes—Current	11,739	14.1	13,184	14.5	1,444
Income taxes—Deferred	77	0.1	30	0.0	-46
Net Income	16,989	20.4	18,988	20.7	1,998
Profits carried over from the previous term	14,425		—		-14,425
Loss on disposition of treasury stock	17		—		-17
Interim Dividends	7,618		—		-7,618
Current unappropriated retained earnings	23,778		—		-23,778

## (3) Statement of changes in shareholders' equity

Current Term (From June 1, 2005 to May 31, 2006)

(Unit : Million yen)

	Shareholders' equity							Treasury stock	Total shareholders' equity
	Capital stock	Capital surplus		Earned surplus			Total earned surplus		
		Capital reserve	Legal reserve of retained	Other earned surplus					
				Reserve for special depreciation	Carried forward earned surplus				
Balances as of May 31, 2005	22,131	33,569	3,212	94	23,778	27,085	-5,493	77,292	
Changes in the term									
Issuing of new shares (Execution of share warrants)	13	13						26	
Dividend of surplus					-17,778	-17,778		-17,778	
Reversal of reserve for special depreciation				-59	59	-		-	
Directors bonuses by the appropriation in previous term					-38	-38		-38	
Net income					18,988	18,988		18,988	
Purchase of treasury stock							-18	-18	
Selling of treasury stock					-19	-19	134	115	
Retirement of treasury stock					-5,376	-5,376	5,376	-	
Changes in items except shareholders' equity (Net amount)									
Total changes in the term	13	13	-	-59	-4,164	-4,224	5,492	1,294	
Balances as of May 31, 2006	22,144	33,582	3,212	34	19,614	22,861	-1	78,586	

	Difference of appreciation and conversion	Total net assets
	Unrealized gain on other securities, net of taxes	
Balances as of May 31, 2005	176	77,468
Changes in the term		
Issuing of new shares (Execution of share warrants)		26
Dividend of surplus		-17,778
Reversal of reserve for special depreciation		-
Directors bonuses by the appropriation in previous term		-38
Net income		18,988
Purchase of treasury stock		-18
Selling of treasury stock		115
Retirement of treasury stock		-
Changes in items except shareholders' equity (Net amount)	-48	-48
Total changes in the term	-48	1,245
Balances as of May 31, 2006	127	78,714

## (4) Statement of Cash Flows

(Unit : Million yen)

Terms Items	Previous Term (From June 1, 2004 to May 31, 2005)	Current Term (From June 1, 2005 to May 31, 2006)	Changes
	Amount	Amount	Amount
I. Cash flows from operating activities			
Net income before tax	28,806	32,203	
Depreciation	446	411	
Increase/decrease of allowance for doubtful accounts (Decrease: -)	-25	-19	
Increase/decrease of allowance for bonus payable (Decrease:-)	426	245	
Increase/decrease of allowance for directors bonus payable (Decrease:-)	-	99	
Interest and dividends income	-13	-28	
Interest expense	0	0	
Loss on appraisal of invested securities	4	78	
Gain on sale of invested securities	-24	-0	
Loss on sale of invested securities	2	-	
Gain on sale of affiliated companies' shares	-	-91	
Loss on disposition and sale of fixed assets	7	7	
Increase/decrease of sales credits (Increase : -)	-2,302	-10	
Increase/decrease of inventory assets (Increase:-)	0	1	
Increase/decrease of accrued revenue (Increase: -)	-288	194	
Increase/decrease of other current assets (Increase: -)	-102	6	
Increase/decrease of accounts payable (Decrease: -)	1,342	-1,832	
Increase/decrease of accrued amount payable (Decrease: -)	363	99	
Increase/decrease of accrued expenses (Decrease: -)	-462	-	
Increase/decrease of accrued consumption tax (Decrease: -)	-79	47	
Increase/decrease of advances by customers (Decrease: -)	462	2,302	
Increase/decrease of other current liabilities (Decrease: -)	-501	294	
Others	-37	-18	
Sub Total	28,024	33,989	5,965
Interest and dividends received	36	25	
Amount paid for interest	-0	-0	
Income taxes paid	-12,054	-11,798	
Net cash flows provided by operating activities	16,006	22,216	6,210
II. Cash flows from investing activities			
Payment for acquisition of marketable securities	-80,506	-80,729	
Proceed from redemption of marketable securities	78,016	80,700	
Payment for acquisition of tangible fixed assets	-314	-8,146	
Payment for acquisition of intangible fixed assets	-2	-9	
Proceed from sale of invested securities	29	0	
Proceed from sale of affiliated companies' shares	-	96	
Payment as guarantee money deposits	-4	-2	
Refunds of guarantee money deposits	35	22	
Net cash flows provided by (used in) investing activities	-2,747	-8,067	-5,320
III. Cash flows from financing activities			
Proceed from issuing of new shares	-	26	
Payment for acquisition of treasury stock	-14	-18	
Proceed from sale of treasury stock	117	115	
Payment for dividends	-19,048	-17,789	
Net cash flows provided by (used in) financing activities	-18,945	-17,666	1,278
IV. Net Increase/Decrease in cash and cash equivalents (Decrease: -)	-5,686	-3,518	2,167
V. Cash and cash equivalents at the beginning of term	27,569	21,883	-5,686
VI. Cash and cash equivalents at the end of term	21,883	18,364	-3,518

(5) Proposed Appropriation of Retained Earnings

	Resolution at the 20th regular general shareholders meeting held on August 24, 2005	
Items	Amount (Million yen)	
I Unappropriated retained earnings at year-end		23,778
II Disposition of voluntary reserve		
Release from reserve for special depreciation	29	29
Total		23,808
III Appropriated amounts of retained earnings		
1. Dividends	10,158	
2. Bonuses paid to directors	37	
3. Bonuses paid to auditors	1	10,196
IV Earned surplus carried forward		13,611

[ Significant Accounting Policies ]

Term Item	Previous term (From June 1, 2004 to May 31, 2005)	Current term (From June 1, 2005 to May 31, 2006)
1. Valuation standard and method applied to negotiable securities	<p>(1) Subsidiaries' shares: At cost method based on moving average method</p> <p>(2) Debt securities held-to maturity: Amortized cost method</p> <p>(3) Other securities Securities with fair market value: At fair market value method based on the quoted market price as of the settlement date. (The related valuation differences are directly charged or credited to the shareholder's equity and the cost of securities sold is computed by the moving average method.)</p> <p>Securities without fair market value: At cost method based on moving average method.</p>	<p>(1) Subsidiaries' shares: Same as the left</p> <p>(2) Debt securities held-to maturity: Same as the left</p> <p>(3) Other securities Securities with fair market value: Same as the left</p> <p>Securities without fair market value: Same as the left</p>
2. Valuation standard and method applied to inventory assets	Merchandise: At cost method based on periodic average method by month	Merchandise: Same as the left
3. Depreciation method applied to fixed assets	<p>(1) Tangible fixed assets</p> <p style="padding-left: 20px;">i) Building fixtures: At fixed percentage method</p> <p style="padding-left: 20px;">ii) Appliances and equipment</p> <p style="padding-left: 40px;">a) Computer hardware: At straight-line method</p> <p style="padding-left: 40px;">b) Others: At fixed percentage method</p> <p>The useful life of major items are as follows:</p> <p style="padding-left: 20px;">i) Building fixtures: 8 to 15 years</p> <p style="padding-left: 20px;">ii) Appliances and equipment</p> <p style="padding-left: 40px;">Personal computers: 2 years</p> <p style="padding-left: 40px;">Computer servers: 3 years</p> <p style="padding-left: 40px;">Others: 5 to 8 years</p> <p>(2) Intangible fixed assets: At straight-line method based on an in-house estimated available period (5 years) for software for in-house use.</p>	<p>(1) Tangible fixed assets</p> <p style="padding-left: 20px;">i) Building fixtures: Same as the left</p> <p style="padding-left: 20px;">ii) Appliances and equipment</p> <p style="padding-left: 40px;">a) Computer hardware: Same as the left</p> <p style="padding-left: 40px;">b) Others: Same as the left</p> <p>The useful life of major items are as follows:</p> <p style="padding-left: 20px;">i) Building fixtures: 8 to 15 years</p> <p style="padding-left: 20px;">ii) Appliances and equipment</p> <p style="padding-left: 40px;">Personal computers: 2 years</p> <p style="padding-left: 40px;">Computer servers: 3 years</p> <p style="padding-left: 40px;">Others: 5 to 8 years</p> <p>(2) Intangible fixed assets: Same as the left</p>

Term Item	Previous term (From June 1, 2004 to May 31, 2005)	Current term (From June 1, 2005 to May 31, 2006)
4. Accounting standard for allowances	<p>1) Allowance for doubtful accounts To reserve for loss on doubtful accounts, general allowances are provided using a rate determined by past experience with bad debts. For specific claims such as claims suspected of being irrecoverable, allowances are provided according to the estimates of amounts considered uncollectible after reviewing the possibility of collection on an individual claim basis.</p> <p>(2) Reserve for bonus payable To provide for the payment of bonuses to employees, the estimated liability in the current term is recorded based on the estimated amount of bonus payment.</p> <p>(3) _____</p>	<p>(1) Allowance for doubtful accounts Same as the left</p> <p>(2) Reserve for bonus payable Same as the left</p> <p>(3) Reserve for directors bonus payable To provide for the payment of bonuses to directors, the estimated liability in the current term is recorded based on the estimated amount of directors bonus payment.</p>
5. Revenue recognition policy	As to consulting service revenue and part of software product revenue, the company accounts for them on the percentage of completion basis.	Same as the left
6. Scope of the fund in the statement of cash flows	The fund in the statement of cash flows, consisting of cash and cash equivalents, consists of cash on hand, deposits that can be withdrawn without notice and short-term investments that are easily convertible, that mature within three months of the date of acquisition and that have a slight risk of a fluctuation in value.	Same as the left
7. Other important remarks	Accounting of consumption tax Based on pre-tax method	Accounting of consumption tax Same as the left

[ Changes in the accounting method ]

<p>Previous term (From June 1, 2004 to May 31, 2005)</p>	<p>Current term (From June 1, 2005 to May 31, 2006)</p>
<p>(Accounting Standard for Impairment of Fixed Assets) Accounting Standard for Impairment of Fixed Assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" by the Business Accounting Deliberation Council on August 9, 2002) and "Guidance for the application of Accounting Standard for Impairment of Fixed Assets" (The 6<sup>th</sup> Application Principle of the Accounting Standards on October 31, 2003) can be adopted from the fiscal year ending May 31, 2004. Accordingly, the Company has adopted the accounting standard and the application principle since the current term. The application of the accounting standard does not affect the income.</p>	<p>_____</p>
<p>_____</p>	<p>(Accounting Standard for Net Assets of Balance Sheet) "Accounting Standard for Net Assets of Balance Sheet" (The 5th Accounting Standards on December 9, 2005) and "Guidance for the application of Accounting Standard for Net Assets of Balance Sheet" (The 8th Application Principle of the Accounting Standards on December 9, 2005) have been adopted from the current term. Total amount of conventional shareholders' equity was 78,714 million yen. Due to corporate law regarding financial statements (Ministry of Justice ordinance No13, 2006), Net Assets of Balance Sheet was shown based on the revised regulation.</p>
<p>_____</p>	<p>(Accounting Standard for Directors Bonuses) "Accounting Standard for Directors Bonuses" (The 4th Accounting Standards on November 29, 2005) has been adopted from the current term. Though Directors Bonuses had recorded as decrease of unappropriated retained earnings by appropriation of earnings after a resolution of a general shareholders meeting, it is recorded as expense when it is paid since the current term. This application resulted in the decrease of operating income, ordinary income and net income before tax by 99 million yen.</p>

[ Changes in notation ]

<p style="text-align: center;">Previous term (From June 1, 2004 to May 31, 2005)</p>	<p style="text-align: center;">Current term (From June 1, 2005 to May 31, 2006)</p>
<p>(Related to the balance sheet) Accrued expenses “Accrued expenses” is included in the item “Others” of the current liabilities of the current term, since the amount of the “Accrued expenses” of the current term decreased to negligible amount.</p>	<p style="text-align: center;">_____</p>

[ Additional Information ]

<p style="text-align: center;">Previous term (From June 1, 2004 to May 31, 2005)</p>	<p style="text-align: center;">Current term (From June 1, 2005 to May 31, 2006)</p>
<p>(Presentation of pro forma standard taxation in income statement)</p> <p>The pro forma standard taxation system has been introduced for enterprise tax. Accordingly, the tax based on value added portion and capital portion is recorded as selling, general and administrative expenses since the current term pursuant to The 12<sup>th</sup> Practical treatment report; “Practical treatment concerning the presentation of pro forma standard taxation in income statement” (Accounting Standards Board, Feb. 13, 2004). This application resulted in the increase of selling, general and administrative expenses by 310 million yen, following the decrease of operating income, ordinary income and net income before tax by the same amount.</p>	<p style="text-align: center;">_____</p>

## Notes

(Related to the balance sheet)

Previous term end (as of May 31, 2005)	Current term end (as of May 31, 2006)
*1. Accumulated depreciation for tangible fixed assets 4,369 million yen	*1. Accumulated depreciation for tangible fixed assets 4,447 million yen
*2. Number of authorized shares and total number of issued shares Number of authorized shares 512,770,000 shares Total number of issued share 128,194,662 shares  If the Company redeems any treasury stock, the corresponding number of the redeemed shares shall reduce the number of authorized shares accordingly.	_____
*3. Treasury stock Treasury stock, which the Company holds, was 1,211,536 common stocks	_____
4. Dividend payment restriction Following a valuation based on the market value stipulated in the Article 124, Paragraph 3 of the enforcement regulations for the Commercial Code, increase in net assets is 176 million yen.	_____

(Related to the statement of income)

Previous term (from June 1, 2004 to May 31, 2005)	Current term (from June 1, 2005 to May 31, 2006)
_____	*1. Amount of transactions with affiliated companies Sales for affiliated companies 2,109 million yen
_____	*2. Restructuring expense is temporary severance for employees due to the reorganization of back-office.

(Related to the statement of cash flows)

Previous term (from June 1, 2004 to May 31, 2005)	Current term (from June 1, 2005 to May 31, 2006)
Relationship between the term end balance of cash and cash equivalents and the amount of items indicated in the balance sheet (As of May 31, 2005)	Relationship between the term end balance of cash and cash equivalents and the amount of items indicated in the balance sheet (As of May 31, 2006)
Balance of cash and deposits 19,383 million yen	Balance of cash and deposits 15,864 million yen
Balance of marketable securities 64,994 million yen	Balance of marketable securities 65,001 million yen
Debt securities mature over three months from the date of acquisition -62,494 million yen	Debt securities mature over three months from the date of acquisition -62,501 million yen
Cash and cash equivalents 21,883 million yen	Cash and cash equivalents 18,364 million yen

(Related to the statement of changes in shareholders' equity)

Current term (from June 1, 2005 to May 31, 2006)

1. Type and number of outstanding shares and treasury stock

	Number of shares as of May 31, 2005 (thousand shares)	Number of shares increased in the current term (thousand shares)	Number of shares decreased in the current term (thousand shares)	Number of shares as of May 31, 2006 (thousand shares)
Outstanding shares Common stock (Note) 1,2	128,194	6	1,185	127,016
Treasury stocks Common stock (Note) 3	1,211	3	1,214	0

(Note) 1. Increase of 6 thousand outstanding shares was due to exercise of share warrants.

2. Decrease of 1,185 thousand outstanding shares was due to retirement of treasury stocks.

3. Decrease of 1,185 thousand treasury stocks was due to retirement of treasury stocks.

2. Dividend

(1) Amount of paid dividends

Resolution	Type of share	Total amount of dividends (Million yen)	Dividend per share (Yen)	Reference date	Effective date
Regular general shareholders meeting held on August 24, 2005	Common stock	10,158	80	May 31, 2005	August 25, 2005
Board of director held on December 22, 2005	Common stock	7,619	60	November 30, 2005	February 9, 2006

(2) Dividend that effective date is in the next term though its reference date was in current term

Our company will submit the following bill at the regular general shareholders meeting on August 29, 2006.

Type of share	Total amount of dividend (Million yen)	Resource of dividend	Dividend per share (Yen)	Reference date	Effective date
Common stock	11,431	Earned surplus	90	May 31, 2006	August 30, 2006

1. Lease transactions

(Unit: million Yen)

Previous term (from June 1, 2004 to May 31, 2005)		Current term (from June 1, 2005 to May 31, 2006)	
Operating lease transactions		Operating lease transactions	
Ongoing lease charges		Ongoing lease charges	
Within a year	5	Within a year	4
Over a year	6	Over a year	1
Total	12	Total	6

2. Securities

Previous term (As of May 31, 2005)

1. Shares in subsidiaries with fair market value

Not applicable

2. Debt securities held-to-maturity with fair market value

(Unit: million yen)

	Category	Amount recorded on the balance sheet	Market value	Difference
Those whose fair market value exceed the amount recorded on the balance sheet	(1) Government and local government bond	-	-	-
	(2) Corporate bonds	-	-	-
	(3) Others	-	-	-
	Subtotal	-	-	-
Those whose fair market value not exceed the amount recorded on the balance sheet	(1) Government and local government bond	-	-	-
	(2) Corporate bonds	-	-	-
	(3) Others	-	-	-
	Subtotal	-	-	-
Total		-	-	-

3. Other securities with fair market value

(Unit: million yen)

	Category	Acquisition cost	Amount recorded on the balance sheet	Difference
Those whose amounts recorded on the balance sheet exceed the acquisition cost	(1) Stocks	149	446	296
	(2) Bonds	-	-	-
	(3) Others	-	-	-
	Subtotal	149	446	296
Those whose amounts recorded on the balance sheet not exceed the acquisition cost	(1) Stocks	-	-	-
	(2) Bonds	-	-	-
	(3) Others	-	-	-
	Subtotal	-	-	-
Total		149	446	296

4. Other securities disposed of during the term (from June 1, 2004 to May 31, 2005) (Unit: million yen)

Disposed amount	Total profit from disposition	Total loss from disposition
29	24	-2

5. Content of main marketable securities without fair market value (Unit: million yen)

	Amount recorded on the balance sheet
1. Debt securities to be held by maturity date	
Commercial paper	60,994
Certificate of Deposit	3,999
2. Other marketable securities	
Unlisted stocks (excluding OTC stocks)	346

6. Expected redemptions of debt securities held-to-maturity (Unit: million yen)

	Within 1 year	1 to 5 years	5 to 10 years	10 years and over
(1) Government and local government bond	-	-	-	-
(2) Corporate bonds	-	-	-	-
(3) Others	65,000	-	-	-
Total	65,000	-	-	-

Current term (As of May 31, 2006)

1. Shares in subsidiaries with fair market value

Not applicable

2. Debt securities held-to-maturity with fair market value (Unit: million yen)

	Category	Amount recorded on the balance sheet	Market value	Difference
Those whose fair market value exceed the amount recorded on the balance sheet.	(1) Government and local government bond	-	-	-
	(2) Corporate bonds	-	-	-
	(3) Others	-	-	-
	Subtotal	-	-	-
Those whose fair market value not exceed the amount recorded on the balance sheet.	(1) Government and local government bond	-	-	-
	(2) Corporate bonds	6,632	6,628	-3
	(3) Others	-	-	-
	Subtotal	6,632	6,628	-3
Total		6,632	6,628	-3

## 3. Other securities with fair market value

(Unit: million yen)

	Category	Acquisition cost	Amount recorded on the balance sheet	Difference
Those whose amounts recorded on the balance sheet exceed the acquisition cost	(1) Stocks	149	364	214
	(2) Bonds	-	-	-
	(3) Others	-	-	-
	Subtotal	149	364	214
Those whose amounts recorded on the balance sheet not exceed the acquisition cost	(1) Stocks	-	-	-
	(2) Bonds	-	-	-
	(3) Others	-	-	-
	Subtotal	-	-	-
Total		149	364	214

## 4. Other securities disposed of during the term (from June 1, 2005 to May 31, 2006)

(Unit: million yen)

Disposed amount	Total profit from disposition	Total loss from disposition
0	0	-

## 5. Content of main marketable securities without fair market value

(Unit: million yen)

	Amount recorded on the balance sheet
1. Debt securities to be held by maturity date	
Commercial paper	56,370
Certificate of Deposit	1,998
2. Other marketable securities	
Unlisted stocks (excluding OTC stocks)	267

## 6. Expected redemptions of debt securities held-to-maturity

(Unit: million yen)

	Within 1 year	1 to 5 years	5 to 10 years	10 years and over
(1) Government and local government bond	-	-	-	-
(2) Corporate bonds	6,607	-	-	-
(3) Others	58,400	-	-	-
Total	65,007	-	-	-

## 3. Derivative transactions

Previous term (from June 1, 2004 to May 31, 2005)	Current term (from June 1, 2005 to May 31, 2006)
Not applicable, since we do not engage in the trading of derivatives.	Same as the left

## 4. Loss / Gain on equity method

Previous term (from June 1, 2004 to May 31, 2005)	Current term (from June 1, 2005 to May 31, 2006)
Not applicable	Not applicable

## 5. Transactions with related bodies

Previous term (from June 1, 2004 to May 31, 2005)

Sister companies, etc.

Attributes	Corporate name	Address	Capital or investment	Scope of business or occupation	Ratio of voting and other rights in possession (or being possessed)	Relationship		Description of transactions	Transaction amount (million yen)	Item	Term-end balance (million yen)
						Double role of directors	Business relationship				
Subsidiary of parent company	Oracle International Corporation	California, U.S.A.	None	Holding and management of intellectual property rights	None	None	Conclusion of sales agency agreements	Payment of royalties	26,348	Accounts payable	8,165

(Notes) Transaction conditions and policies for determining them

- Royalty fees are charged at certain ratios of sales of Oracle products, with the ratios agreed between Oracle Corporation and group companies that handle Oracle products, including our Company, using uniform standards.
- The above transaction amount does not include consumption taxes.

Current term (from June 1, 2005 to May 31, 2006)

Sister companies, etc.

Attributes	Corporate name	Address	Capital or investment	Scope of business or occupation	Ratio of voting and other rights in possession (or being possessed)	Relationship		Description of transactions	Transaction amount (million yen)	Item	Term-end balance (million yen)
						Double role of directors	Business relationship				
Subsidiary of parent company	Oracle International Corporation	California, U.S.A.	None	Holding and management of intellectual property rights	None	None	Conclusion of sales agency agreements	Payment of royalties	28,868	Accounts payable	6,624

(Notes) Transaction conditions and policies for determining them

- Royalty fees are charged at certain ratios of sales of Oracle products, with the ratios agreed between Oracle Corporation and group companies that handle Oracle products, including our Company, using identical reasonable standards.
- The above transaction amount does not include consumption taxes.

## 6. Tax effect accounting

### 1. Breakdown of deferred tax assets/liabilities by main causes

(Unit: million yen)

Previous term (as of May 31, 2005)		Current term (as of May 31, 2006)	
(Current)		(Current)	
Deferred tax assets		Deferred tax assets	
Accrued amount payable	162	Accrued amount payable	172
Accrued business tax	434	Accrued business tax	571
Advances by customers	461	Advances by customers	282
Allowance for bonus payable	489	Allowance for bonus payable	589
Others	60	Others	46
Total deferred tax assets	1,608	Total deferred tax assets	1,662
(Fixed)		(Fixed)	
Deferred tax assets		Deferred tax assets	
Excess of depreciation	361	Excess of depreciation	282
Loss on valuation of invested securities	121	Loss on valuation of invested securities	107
Others	118	Others	106
Total deferred tax assets	601	Total deferred tax assets	495
Deferred tax liabilities		Deferred tax liabilities	
Reserve for special depreciation	-44	Reserve for special depreciation	-23
Unrealized gain on other securities	-120	Unrealized gain on other securities	-87
Total deferred tax liabilities	-165	Total deferred tax liabilities	-110
Net deferred tax assets	436	Net deferred tax assets	385

### 2. Breakdown by main items of the difference between the statutory tax rate and the effective income tax rate after application of tax effect accounting.

A breakdown by main items of the difference has been excluded as the difference is less than 5/100 of the statutory tax rate.

## 7. Retirement pensions

Previous term (as of May 31, 2005)

### 1. Summary of adopted retirement pensions scheme

Company adopt defined contribution-type pension plan from January 2002.

### 2. Items relating to employee retirement benefit expenses

The amount of assets transferred to the defined contribution pension is 290 million yen.

Current term (as of May 31, 2006)

### 1. Summary of adopted retirement pensions scheme

Company adopt defined contribution-type pension plan from January 2002.

### 2. Items relating to employee retirement benefit expenses

The amount of assets transferred to the defined contribution pension is 303 million yen.

## 8. Stock Options

Registration of this subject is dropped due to disclose in EDINET.

## **5. Change of directors and auditors**

To be determined