(English Translation)

Consolidated Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2019 (IFRS)

August 8, 2018

Company name: Nichi-Iko Pharmaceutical Co., Ltd.
Stock exchange listings: Tokyo Stock Exchange
Securities code: 4541
(URL https://www.nichiiko.co.jp/)
Representative: Yuichi Tamura, President and CEO
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Scheduled date of filing of quarterly report: August 10, 2018
Scheduled date of commencement of dividend payment: -
Presentation of supplementary materials on quarterly financial results: Yes
Holding of quarterly financial presentation meeting: No

(Note that all amounts have been rounded down to the nearest one million yen.)

1. Consolidated Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2019 (From April 1, 2018 to June 30, 2018)

(1) Consolidated Results of Operations (cumulative)

(Percentage figures represent changes from the same period of the previous fiscal year)

	Revenue	Operating profit	Profit before tax	Profit	Profit attributable to owners of parent	Total comprehen-sive income
First quarter of fiscal year ending March 31, 2019	¥42,278 million (-1.5%)	¥2,036 million (-59.3%)	¥2,897 million (-42.1%)	¥2,461 million (-28.3%)	¥2,461 million (-28.3%)	¥5,652 million (28.7%)
First quarter of fiscal year ended March 31, 2018	¥42,927 million (-%)	¥5,008 million (-%)	¥5,006 million (-%)	¥3,433 million (-%)	¥3,433 million (-%)	¥4,391 million (-%)

	Basic earnings per share	Diluted earnings per share
First quarter of fiscal year ending March 31, 2019	¥43.60	¥43.53
First quarter of fiscal year ended March 31, 2018	¥61.02	¥60.92

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of parent	Ratio of total equity attributable to owners of the parent to total assets	Equity attributable to owners of parent per share
First quarter of fiscal year ending March 31, 2019	¥274,459 million	¥91,895 million	¥91,895 million	33.5%	¥1,627.31
Fiscal year ended March 31, 2018	¥278,364 million	¥87,542 million	¥87,542 million	31.4%	¥1,550.65

2. Dividends

	Annual dividends per share				
	First quarter	Second quarter	Third quarter	Year-end	Total
Fiscal year ended March 31, 2018	¥-	¥15.00	¥-	¥15.00	¥30.00
Fiscal year ending March 31, 2019	¥-				
Fiscal year ending March 31, 2019 (forecast)		¥15.00	¥-	¥15.00	¥30.00

(Note)
Revisions to recently announced dividends forecast: None

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending March 31, 2019 (From April 1, 2018 to March 31, 2019)

(Percentage figures represent changes from the same period of the previous fiscal year)

	Revenue	Operating profit	Profit attributable to owners of parent	Basic earnings per share
Second quarter (cumulative total)	¥82,000 million (-%)	¥3,000 million (-%)	¥2,800 million (-%)	¥49.49
Annual	¥172,000 million (4.4%)	¥8,000 million (-22.3%)	¥5,000 million (-38.0%)	¥88.13

(Note)
Revisions to recently announced forecast of financial results: Yes
For details, please refer to "Notice Concerning Revisions of Forecast of Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2019" announced today (August 8, 2018) and "(3) Explanation of Forecast of Consolidated Financial Results and Other Forward-looking Statements" in "1. Qualitative Information on Financial Results for the Quarter under Review" on page 4 of the Attachment.

***Notes**

(1) Changes in significant subsidiaries during the consolidated cumulative quarter under review (changes in specified subsidiaries resulting in change in scope of consolidation): No

(2) Changes in accounting policies and changes in accounting estimates

(i)	Changes in accounting policies required by IFRS:	Yes
(ii)	Changes in accounting policies due to other reasons:	No
(iii)	Changes in accounting estimates:	No

(3) Total number of issued shares (common stock)

(i) Total number of issued shares as of the end of the period (including treasury shares):

As of June 30, 2018	60,662,652 shares
As of March 31, 2018	60,662,652 shares

(ii) Number of treasury shares as of the end of the period:

As of June 30, 2018	4,191,645 shares
As of March 31, 2018	4,207,195 shares

(iii) Average number of shares during the period (cumulative quarter):

First quarter of fiscal year ending March 31, 2019	56,462,794 shares
First quarter of fiscal year ended March 31, 2018	56,274,220 shares

(Note)
Number of treasury shares as of the end of the period includes shares held by the Employee Shareholding Incentive Plan.

*** Quarterly financial results reports are exempt from quarterly reviews conducted by certified public accountants or an audit corporation.**

*** Explanation on the appropriate usage of forecast of financial results, and other specific matters**

(Considerations on forward-looking statements)
The forward-looking statements including forecast of financial results contained in these materials are based on the information currently available to the Company and certain assumptions which are regarded as legitimate. As such, they do not constitute the Company's guarantee that such results would be achieved. Actual business and other results may differ substantially from the forecasts provided in these materials as a result of various factors.

(How to obtain supplementary materials for financial results)
Supplementary materials for financial results will be provided on the website of the Company on Wednesday, August 8, 2018.

Attachment – Contents

1. Qualitative Information on Financial Results for the Quarter under Review 2
(1) Explanation on Operating Results 2
(2) Explanation on Financial Position 3
(3) Explanation of Forecast of Consolidated Financial Results and Other Forward-looking Statements 4
2. Condensed Quarterly Consolidated Financial Statements and Primary Notes 5
(1) Condensed Quarterly Consolidated Statement of Financial Position 5
(2) Condensed Quarterly Consolidated Statement of Income and Condensed Quarterly Consolidated Statement of Comprehensive Income 7
(3) Condensed Quarterly Consolidated Statement of Changes in Equity 9
(4) Condensed Quarterly Consolidated Statement of Cash Flows 13
(5) Notes to Condensed Quarterly Consolidated Financial Statements 15
(Notes on premise of going concern) 15
(Changes in accounting policies) 15

1. Qualitative Information on Financial Results for the Quarter under Review

The Group has applied International Financial Reporting Standards (IFRS) in place of previous Japan GAAP, effective from the previous fiscal year (from April 1, 2017 to March 31, 2018).

(1) Explanation on Operating Results

In the cumulative first quarter under review, although there are concerns such as the worsening of trade friction starting in the United States, the Japanese economy is continuing a trend of moderate recovery due to steady internal demand such as private consumption and capital investment.

In the generic drug industry, the usage rate of generic drugs steadily increased with the aim of "an 80% usage rate of generic drugs by September 2020" in the Cabinet decision made in June 2017, while it was announced that the quantitative share of generic drugs was 72.5% in February 2018 according to the data on Prescription in Pharmacy in the Survey on the Trend of Medical Care Expenditures announced by the Health Insurance Bureau of the Ministry of Health, Labour and Welfare.

Also, although enhancements have been made to the medical fee points to promote the use of generic drugs such as premiums for generics dispensing systems for pharmacies and premiums for generics use systems and generic name prescriptions for clinics and hospitals, the revision of drug prices implemented in April 2018 significantly lowered prices by 7.48% on a drug cost basis. The generic drug industry is required to respond to environmental changes surrounding the volume and unit price such as the increase in volume due to measures to promote the use of generic drugs and the fall in unit prices due to drug price revisions.

Under such circumstances, during the first quarter that is the starting period of the final year of the 7th Medium-term Business Plan "Obelisk," which positions the three years from April 2016 to March 2019 as a period for launch to new business fields from the preparatory stage to embark on entering global markets, the Company steadily implemented the basic policies of "Expansion," "Production" and "Development" set forth under the plan.

In "Expansion," the Company launched sales of 7 products with 15 strengths such as Bepotastine Besilate OD Tablets "Nichi-Iko" that are more identifiable by different color printing for each strength and Minodronic Acid Tablets 50mg "Nichi-Iko" using a sliding card sheet taking into consideration the prevention of accidental ingestion by children in June 2018.

In "Production," a new plant was completed by Aprogen Biologic Inc., a subsidiary of Aprogen Inc., which is an affiliate of the Company, creating a structure for stable supply of premium quality biosimilars to the Japanese market and the U.S. market.

In "Development," the biosimilar formulation product lineup was also expanded by concluding an agreement for Etanercept BS that was developed by Lupin Limited and for which an application for marketing approval was filed with the Pharmaceuticals and Medical Devices Agency by Kyowa Pharmaceutical Industry Co., Ltd. on March 3, 2018.

The above efforts have also been made as the Company steadily works to become a global top 10 company.

The cumulative first quarter of the current fiscal year showed decreased revenue and earnings with revenue of 42,278 million yen (1.5% decrease year-on-year), operating profit of 2,036 million yen (59.3% decrease year-on-year), and profit attributable to owners of parent of 2,461

million yen (28.3% decrease year-on-year), due to factors such as a decline in revenue from overseas subsidiary and the profit margin decreasing as a result of the revision of drug prices.

(2) Explanation on Financial Position

(i) Assets, Liabilities and Equity

Assets on a consolidated basis at the end of the first quarter of the current fiscal year decreased by 3,904 million yen from the previous fiscal year-end to 274,459 million yen. This was mainly attributable to investments accounted for using equity method increasing by 4,223 million yen, and intangible assets increasing by 2,476 million yen, trade and other receivables decreasing by 5,093 million yen, cash and cash equivalents decreasing by 3,170 million yen, and inventories decreasing by 3,091 million yen.

Liabilities on a consolidated basis decreased by 8,258 million yen from the previous fiscal year-end to 182,563 million yen. This was mainly attributable to borrowings increasing by 933 million yen, trade and other payables decreasing by 10,056 million yen, and income taxes payable decreasing by 1,356 million yen.

Equity on a consolidated basis increased by 4,353 million yen from the previous fiscal year-end to 91,895 million yen. This was mainly attributable to other components of equity increasing by 3,197 million yen and retained earnings increasing by 1,128 million yen.

(ii) Cash Flows

At the end of the first quarter of the current fiscal year, cash and cash equivalents on a consolidated basis decreased by 3,170 million yen from the previous fiscal year-end to 15,358 million yen.

Details of cash flows from each of the three activities for the cumulative first quarter of the current fiscal year are described below.

(Cash flows from operating activities)

Net cash provided by operating activities during the cumulative first quarter of the current fiscal year amounted to income over expenditure by 4,625 million yen. The main outflows included trade and other payables decreasing by 7,542 million yen. In terms of inflows, there were trade and other receivables decreasing by 4,517 million yen, inventories decreasing by 3,629 million yen, profit before tax of 2,897 million yen, and depreciation and amortization of 2,266 million yen.

(Cash flows from investing activities)

Net cash used in investing activities during the cumulative first quarter of the current fiscal year amounted to expenditure over income by 7,344 million yen. This was due to outflows such as expenditure of 3,400 million yen arising due to the purchase of investments accounted for using equity method as a result of the acquisition of 20% of the shares issued by Elmed Eisai Co., Ltd. and 3,791 million yen in purchase of property, plant and equipment.

(Cash flows from financing activities)

Net cash used in financing activities during the cumulative first quarter of the current fiscal year amounted to expenditure over income by 364 million yen. This was due to outflows such as short-term borrowings decreasing of 2,350 billion yen and 2,062 million yen in repayments of

long-term borrowings, while the main inflows were 5,000 million yen in proceeds from long-term borrowings.

(3) Explanation of Forecast of Consolidated Financial Results and Other Forward-looking Statements

With regard to the forecast of consolidated financial results for the second quarter of the fiscal year ending March 31, 2019, the forecast for revenue remains unchanged from the forecast announced on May 14, 2018, but as stated in the “Notice Concerning Revisions of Forecast of Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2019” announced today, we have revised the forecast for operating profit from 2,500 million yen to 3,000 million yen because the effect of reduced costs due to efforts under the ongoing cost improvements in “Profit Management Plan 2019” is expected to exceed initial forecast.

Profit attributable to owners of parent was revised from 1,600 million yen to 2,800 million yen based on the above revision to operating profit in addition to the recording of share of profit of investments accounted for using equity method due to the sale of investments in subsidiaries in Aprogen Inc., an affiliate accounted for using the equity method during the cumulative first quarter of the current fiscal year.

The forecast of financial results was made based on information available to the Company at this point, and actual business and other results may differ from the forecast values provided in these materials as a result of various factors in the future.

2. Condensed Quarterly Consolidated Financial Statements and Primary Notes

(1) Condensed Quarterly Consolidated Statement of Financial Position

(in millions of yen)

	Fiscal year ended March 31, 2018 (as of March 31, 2018)	First quarter of fiscal year ending March 31, 2019 (as of June 30, 2018)
Assets		
Current assets		
Cash and cash equivalents	18,529	15,358
Trade and other receivables	32,087	26,993
Inventories	74,321	71,229
Other financial assets	974	425
Other current assets	2,365	2,296
Total current assets	128,278	116,304
Non-current assets		
Property, plant and equipment	54,045	53,644
Goodwill	38,536	39,933
Intangible assets	45,735	48,212
Investments accounted for using equity method	6,380	10,603
Other financial assets	3,962	4,815
Deferred tax assets	1,326	856
Other non-current assets	99	89
Total non-current assets	150,086	158,154
Total assets	278,364	274,459

(in millions of yen)

	Fiscal year ended March 31, 2018 (as of March 31, 2018)	First quarter of fiscal year ending March 31, 2019 (June 30, 2018)
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	50,686	40,630
Borrowings	35,499	33,854
Other financial liabilities	994	975
Income taxes payable	1,676	319
Provisions	2,928	-
Contract liabilities, etc.	-	2,679
Other current liabilities	5,608	7,644
Total current liabilities	97,394	86,103
Non-current liabilities		
Borrowings	85,625	88,204
Other financial liabilities	2,232	2,051
Retirement benefit liability	465	478
Provisions	56	57
Contract liabilities, etc.	-	692
Deferred tax liabilities	2,823	2,827
Other non-current liabilities	2,224	2,150
Total non-current liabilities	93,427	96,460
Total liabilities	190,821	182,563
Equity		
Share capital	19,976	19,976
Capital surplus	18,827	18,828
Treasury shares	(9,046)	(9,020)
Retained earnings	51,912	53,040
Other components of equity	5,872	9,070
Total equity attributable to owners of parent	87,542	91,895
Non-controlling interests	0	0
Total equity	87,542	91,895
Total liabilities and equity	278,364	274,459

(2) Condensed Quarterly Consolidated Statement of Income and Condensed Quarterly Consolidated Statement of Comprehensive Income

(Condensed Quarterly Consolidated Statement of Income)

(in millions of yen)

	First quarter of previous fiscal year (from April 1, 2017 to June 30, 2017)	First quarter of current fiscal year (from April 1, 2018 to June 30, 2018)
Revenue	42,927	42,278
Cost of sales	31,174	33,359
Gross profit	11,753	8,918
Selling, general and administrative expenses	6,154	5,869
Research and development expenses	1,130	1,220
Other operating income	571	224
Other operating expenses	31	16
Operating profit	5,008	2,036
Finance income	51	113
Finance costs	267	186
Share of profit (loss) of investments accounted for using equity method	214	932
Profit before tax	5,006	2,897
Income tax expense	1,573	435
Profit	3,433	2,461
Profit attributable to:		
Owners of parent	3,433	2,461
Non-controlling interests	(0)	(0)
Profit	3,433	2,461
Earnings per share		
Basic earnings per share (Yen)	61.02	43.60
Diluted earnings per share (Yen)	60.92	43.53

(Condensed Quarterly Consolidated Statement of Comprehensive Income)

(in millions of yen)

	First quarter of previous fiscal year (from April 1, 2017 to June 30, 2017)	First quarter of current fiscal year (from April 1, 2018 to June 30, 2018)
Profit	3,433	2,461
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	703	584
Share of other comprehensive income of investments accounted for using equity method	108	(117)
Total of items that will not be reclassified to profit or loss	811	466
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	211	2,755
Share of other comprehensive income of investments accounted for using equity method	(64)	(31)
Total of items that may be reclassified to profit or loss	146	2,723
Other comprehensive income (net of tax)	958	3,190
Comprehensive income	4,391	5,652
Comprehensive income attributable to:		
Owners of parent	4,392	5,652
Non-controlling interests	(0)	(0)
Comprehensive income	4,391	5,652

(3) Condensed Quarterly Consolidated Statement of Changes in Equity

First Quarter of Previous Fiscal Year (from April 1, 2017 to June 30, 2017)

(in millions of yen)

	Equity attributable to owners of parent					
					Other components of equity	
	Share capital	Capital surplus	Treasury shares	Retained earnings	Exchange differences on translation of foreign operations	Financial assets measured at fair value through other comprehen-sive income
Balance as of April 1, 2017	19,976	18,845	(9,401)	45,050	7,267	1,200
Profit (loss)				3,433		
Other comprehensive income					146	811
Total comprehensive income	-	-	-	3,433	146	811
Purchase of treasury shares						
Disposal of treasury shares		(20)	133			
Dividends				(843)		
Share-based payment transactions						
Transfer from other components of equity				0		
Total transactions with owners	-	(20)	133	(843)	-	-
Balance as of June 30, 2017	19,976	18,825	(9,268)	47,640	7,413	2,011

	Equity attributable to owners of parent					
	Other components of equity			Total	Non-controlling interests	Total
	Remeasure-ments of defined benefit plans	Other	Total			
Balance as of April 1, 2017	-	234	8,701	83,171	0	83,171
Profit (loss)				3,433	(0)	3,433
Other comprehensive income	0		958	958	0	958
Total comprehensive income	0	-	958	4,392	(0)	4,391
Purchase of treasury shares						
Disposal of treasury shares		(75)	(75)	37		37
Dividends				(843)		(843)
Share-based payment transactions		73	73	73		73
Transfer from other components of equity	(0)		(0)	-		-
Total transactions with owners	(0)	(1)	(2)	(732)	-	(732)
Balance as of June 30, 2017	-	232	9,657	86,830	0	86,830

First Quarter of Current Fiscal Year (from April 1, 2018 to June 30, 2018)

(in millions of yen)

	Equity attributable to owners of parent					
					Other components of equity	
	Share capital	Capital surplus	Treasury shares	Retained earnings	Exchange differences on translation of foreign operations	Financial assets measured at fair value through other comprehen-sive income
Balance as of April 1, 2018	19,976	18,827	(9,046)	51,912	3,448	2,165
Changes in accounting policies				(480)		
Restated balance	19,976	18,827	(9,046)	51,431	3,448	2,165
Profit (loss)				2,461		
Other comprehensive income					2,723	472
Total comprehensive income	-	-	-	2,461	2,723	472
Purchase of treasury shares			(0)			
Disposal of treasury shares		1	25			
Dividends				(846)		
Share-based payment transactions						
Transfer from other components of equity				(6)		
Total transactions with owners	-	1	25	(852)	-	-
Balance as of June 30, 2018	19,976	18,828	(9,020)	53,040	6,172	2,637

	Equity attributable to owners of parent					
	Other components of equity			Total	Non-controlling interests	Total
	Remeasure-ments of defined benefit plans	Other	Total			
Balance as of April 1, 2018	-	258	5,872	87,542	0	87,542
Changes in accounting policies				(480)		(480)
Restated balance	-	258	5,872	87,062	0	87,062
Profit (loss)				2,461	(0)	2,461
Other comprehensive income	(6)		3,190	3,190	(0)	3,190
Total comprehensive income	(6)	-	3,190	5,652	(0)	5,652
Purchase of treasury shares				(0)		(0)
Disposal of treasury shares		(3)	(3)	23		23
Dividends				(846)		(846)
Share-based payment transactions		4	4	4		4
Transfer from other components of equity	6		6	-		-
Total transactions with owners	6	1	7	(818)	-	(818)
Balance as of June 30, 2018	-	260	9,070	91,895	0	91,895

(Note)

The amount of dividends does not include the amount of dividends to the Employee Shareholding Incentive Plan.

(4) Condensed Quarterly Consolidated Statement of Cash Flows

(in millions of yen)

	First quarter of previous fiscal year (from April 1, 2017 to June 30, 2017)	First quarter of current fiscal year (from April 1, 2018 to June 30, 2018)
Cash flows from operating activities		
Profit before tax	5,006	2,897
Depreciation and amortization	2,034	2,266
Interest and dividend income	(46)	(37)
Interest expenses	167	173
Share of loss (profit) of investments accounted for using equity method	(214)	(932)
Decrease (increase) in trade and other receivables	(417)	4,517
Decrease (increase) in inventories	(608)	3,629
Increase (decrease) in trade and other payables	(3,701)	(7,542)
Increase (decrease) in provisions	115	(499)
Other	2,627	1,539
Subtotal	4,962	6,011
Dividends received	65	55
Interest received	1	18
Interest paid	(165)	(172)
Income taxes paid	(212)	(1,295)
Income taxes refund	36	7
Net cash provided by (used in) operating activities	4,687	4,625
Cash flows from investing activities		
Purchase of property, plant and equipment	(3,744)	(3,791)
Purchase of intangible assets	(1,113)	(1,693)
Purchase of investments accounted for using equity method	-	(3,400)
Collection of loans receivable	0	549
Proceeds from reversal of international interests	-	999
Other	68	(7)
Net cash provided by (used in) investing activities	(4,789)	(7,344)

(in millions of yen)

	First quarter of previous fiscal year (from April 1, 2017 to June 30, 2017)	First quarter of current fiscal year (from April 1, 2018 to June 30, 2018)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	11	(2,350)
Proceeds from long-term borrowings	5,189	5,000
Repayments of long-term borrowings	(1,830)	(2,062)
Repayments of finance lease obligations	(270)	(233)
Dividends paid	(777)	(794)
Other	37	76
Net cash provided by (used in) financing activities	2,359	(364)
Effect of exchange rate changes on cash and cash equivalents	21	(87)
Net increase (decrease) in cash and cash equivalents	2,278	(3,170)
Cash and cash equivalents at beginning of period	12,457	18,529
Cash and cash equivalents at end of period	14,735	15,358

(5) Notes to Condensed Quarterly Consolidated Financial Statements

(Notes on premise of going concern)

Not applicable.

(Changes in accounting policies)

The significant accounting policies applied to the Condensed Quarterly Consolidated Financial Statements are the same as the accounting policies applied to the consolidated financial statements for the previous fiscal year with the exception of the changes in the accounting policies listed below. Income taxes for the cumulative first quarter of the current fiscal year are calculated based on the estimated annual effective tax rate.

The following standards are applied from the first quarter of the current fiscal year.

The Group has adopted IFRS 15 “Revenue from Contracts with Customers” (issued in May 2014) and “Clarifications to IFRS 15” (issued in April 2016) (hereinafter, “IFRS 15” collectively), from the first quarter of the current fiscal year.

In the application of IFRS 15, the Group has adopted the method where the cumulative effect of applying this standard is recognized at the date of initial application, which is allowed as the transition approach.

With the application of IFRS 15, the Group recognizes revenue based on the following five steps approach.

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

With the application of this standard, for revenue from intellectual property that had previously been recognized as one-time revenue at the time of receipt, the consideration received is recorded as contract liabilities, etc. and recognized as revenue over a fixed period as performance obligations related to license agreements are fulfilled. Furthermore, the allowance for sales returns and allowance for rebates previously represented in provisions, and the advances received previously represented as included in other current liabilities are represented as contract liabilities, etc.

As a result, compared to if the previous accounting standards are applied, primarily retained earnings decreased by 480 million yen, provisions decreased by 2,928 million yen, and contract liabilities, etc. increased by 3,620 million yen at the beginning of the first quarter of the current fiscal year.

In the condensed quarterly consolidated statement of income for the cumulative first quarter of the current fiscal year, compared to if the previous accounting standards are applied, revenue decreasing by 19 million yen resulted in operating profit decreasing by 19 million yen and profit decreasing by 13 million yen.

Furthermore, in the condensed quarterly consolidated statement of financial position as of the end of the first quarter of the current fiscal year, compared to if the previous accounting standards are applied, primarily retained earnings decreased by 493 million yen, provisions decreased by 2,667 million yen, and contract liabilities, etc. increased by 3,371 million yen.