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Consolidated Financial Results for the Six Months Ended September 30, 2021 [Japanese GAAP]



November 10, 2021

Company name: PACIFIC METALS CO., LTD.

Stock exchange listing: Tokyo Stock Exchange

Code number: 5541

URL: <https://www.pacific-metals.co.jp/en/>

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Scheduled date of filing quarterly securities report: November 10, 2021

Scheduled date of commencing dividend payments: December 6, 2021

Availability of supplementary briefing materials on quarterly financial results: Not available

Schedule of quarterly financial results briefing session: Scheduled (for analysts)

(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for the Six Months Ended September 30, 2021 (April 1, 2021 - September 30, 2021)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended September 30, 2021	24,098	81.7	952	—	3,995	208.8	3,405	170.2
Six months ended September 30, 2020	13,262	(39.9)	(53)	—	1,293	15.3	1,260	24.0

(Note) Comprehensive income: Six months ended September 30, 2021: ¥3,894 million [80.0%]

Six months ended September 30, 2020: ¥2,164 million [18.1%]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
September 30, 2021	174.61	—
September 30, 2020	64.62	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2021	77,560	70,517	90.5
As of March 31, 2021	75,484	67,014	88.4

(Reference) Equity: As of September 30, 2021: ¥70,227 million

As of March 31, 2021: ¥66,737 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2021	–	0.00	–	20.00	20.00
Fiscal year ending March 31, 2022	–	20.00			
Fiscal year ending March 31, 2022 (Forecast)			–	35.00	55.00

(Note) Revision to the forecast for dividends announced most recently: None

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2022 (April 1, 2021 - March 31, 2022)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	51,840	60.9	213	–	4,321	29.2	3,712	219.3	190.33

(Note) Revision to the financial results forecast announced most recently: None

*** Notes:**

- (1) Changes in significant subsidiaries during the period under review: None
(Changes in specified subsidiaries resulting in changes in scope of consolidation):
Newly included: – (), Excluded: – ()
- (2) Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements: None
- (3) Changes in accounting policies, changes in accounting estimates and retrospective restatement
- 1) Changes in accounting policies due to the revision of accounting standards: Yes
 - 2) Changes in accounting policies other than 1) above: None
 - 3) Changes in accounting estimates: None
 - 4) Retrospective restatement: None

For more details, please see “Changes in accounting policies” in (3) Notes to Quarterly Consolidated Financial Statements” under “2. Quarterly Consolidated Financial Statements and Key Notes” on page 10.

- (4) Total number of shares issued and outstanding (common stock)
- 1) Total number of shares issued and outstanding at the end of the period (including treasury shares):

September 30, 2021:	19,577,071 shares
March 31, 2021:	19,577,071 shares
 - 2) Total number of treasury shares at the end of the period:

September 30, 2021:	74,115 shares
March 31, 2021:	73,791 shares
 - 3) Average number of shares during the period:

Six months ended September 30, 2021:	19,503,140 shares
Six months ended September 30, 2020:	19,504,287 shares

* These quarterly consolidated financial results are outside the scope of quarterly review by certified public accountants or an audit firm.

*** Explanation on the proper use of financial results forecast and other notes**

(Notes on forward-looking statements)

The forward-looking statements including the financial results forecast contained herein are based on information currently available to the Company, as well as certain assumptions deemed reasonable by the Company. As such, the Company does not intend to guarantee the achievement of these forecasts. In addition, actual results may differ significantly from these forecasts due to various factors. For preconditions for the financial results forecast and precautions when using the financial results forecast, please see “(3) Forward-looking Statements Including Consolidated Financial Results Forecast” under “1. Qualitative Information on Quarterly Financial Results” on page 4.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation on Operating Results

During the six months ended September 30, 2021 (the “period under review”), the Japanese economy continued to face an uncertain situation with the pace of economic recovery still slow. Despite a recovery in economic activities as contrasted with a certain period in the past, the impact of COVID-19 continued, resulting in the declaration of the state of emergency or other relevant measures being issued in many areas. As such, personal consumption and employment environment remained weak due to various behavioral restrictions and other factors.

As for overseas economies, although there are signs of recovery in the employment and income environment in some countries partly due to stimulus measures aimed at economic normalization and the progress in vaccination, the economic recovery varies from country to country depending on the severity of the impact of the COVID-19 pandemic. Furthermore, amid the continuing sense of uncertainty associated with the economic policy management of the new U.S. administration, the development of trade policies between the U.S. and China, the impact of financial and capital market fluctuations, and geopolitical risks in the Middle East, the overall economic outlook remained highly uncertain.

Under these circumstances, the stainless steel industry, the primary source of demand for the nickel business that accounts for the majority of the Group’s sales and profit and loss, remained firm with a strong capacity utilization of production facilities. This is because demand picked up in line with trends towards the normalization of economic activities, although a sense of uncertainty remained over the impacts of COVID-19 trend, the electric power regulation issue in China, and other factors.

As a result, the demand for ferronickel continued to recover to a certain extent.

As for the procurement of nickel ore, the primary raw material for ferronickel products, mining companies’ operations and shipments were generally stable, which allowed us to procure the volume sufficient to meet our production and sales. In addition, nickel ore prices have remained high against the backdrop of the impact of the Indonesia’s unprocessed ore export ban and a robust demand for stainless steel, which resulted in higher production costs.

Nickel prices on the London Metal Exchange (LME) saw an upward trend against the backdrop of a sense of expectation for recovery in production activities and accelerated vaccination efforts as the trend of resumption in economic activities restricted by the COVID-19 pandemic expanded in some areas. On the other hand, they showed a temporary adjustment phase due to the continuation of fluctuations in financial and capital markets, uncertainty of economic trends in various countries, and unstable prices for crude oil and other commodities. In addition, during the latter half of the period under review, the prices were affected primarily by the debt problem of the real estate conglomerate and the electric power regulation issue both in China. Overall, the prices remained relatively high throughout the period under review.

Notably, the Company’s ferronickel sales volume increased by 33.9% year on year due to an increase in both domestic and overseas sales against the backdrop of the aforementioned environment in the stainless steel industry, despite a partial shift in raw material procurement by overseas stainless steel producers to nickel pig iron and other materials that are more price competitive.

In addition, the ferronickel production volume increased, generally following the same trend as the sales volume.

Amid continued responses to the increasingly uncertain business environment, the selling price of ferronickel products increased as the LME nickel price applicable to the Company increased by 36.9% year on year and the average exchange rate of Japanese yen applicable to the Company was 2.9% weaker year on year.

In this business environment characterized by continued uncertainty, the Group has strived to prevent infections by formulating the Behavioral Guidelines for Preventing the Spread of Infections, making efforts to reduce the COVID-19 impact on business activities while maintaining timely and appropriate communications with its customers and procurement partners across the world. Although the COVID-19 pandemic is expected to continue during the current fiscal year ending March 31, 2022, the Company continues to implement these measures in response to the business environment. To further strengthen its earnings base, the Company is

striving to reduce total cost through energy conservation and low-cost production, strengthen facilities to build an optimal production system, work toward long-term and stable procurement of ore, and thoroughly focus on the profitability of orders, thereby building a flexible production and sales system. Furthermore, the Company continues its efforts to improve business performance and stabilize earnings through measures such as the early realization of overseas business development and new mine development as well as reinforcement of operational efficiency improvement measures to pursue cost minimization.

As a result, consolidated net sales for the period under review increased by 81.7% year on year to ¥24,098 million. On the profit front, operating profit was ¥952 million (compared with operating loss of ¥53 million for the same period of the previous fiscal year), and ordinary profit reflecting the recording of ¥2,642 million in share of profit of entities accounted for using equity method under non-operating income increased by 208.8% year on year to ¥3,995 million. Profit attributable to owners of parent increased by 170.2% year on year to ¥3,405 million.

Operating results by business segment are as follows.

(i) Nickel business

The operating results of the nickel business are described in “(1) Explanation on Operating Results.”

As a result, net sales in this segment increased by 82.8% year on year to ¥23,736 million and operating profit increased by 739.3% year on year to ¥996 million.

(ii) Gas business

In the gas business, the Company maintained a certain profit level through stable operations.

As a result, net sales in this segment increased by 9.2% year on year to ¥303 million with operating profit of ¥16 million (compared with operating loss of ¥82 million for the same period of the previous fiscal year).

(iii) Other

For the segment of other businesses, the real estate business recorded profit in the first quarter from a transaction related to sale of land during the previous fiscal year. However, due partly to sluggish orders in the waste recycling business, this segment recorded loss for the period under review.

As a result, net sales in this segment increased by 109.4% year on year to ¥113 million with operating loss of ¥65 million (compared with operating loss of ¥94 million for the same period of the previous fiscal year).

(2) Explanation on Financial Position

Assets, liabilities, and net assets of the Group as of September 30, 2021 are as follows.

Total assets increased by ¥2,075 million from the end of the previous fiscal year to ¥77,560 million.

Current assets decreased by ¥19 million from the end of the previous fiscal year mainly due to a decrease in advance payments to suppliers included in “Other” in addition to a decrease in merchandise and finished goods, partially offset by an increase in notes and accounts receivable - trade.

Non-current assets increased by ¥2,095 million from the end of the previous fiscal year mainly due to an increase in investment securities resulting from a rise in the market price of some stocks held and purchase of stocks, partially offset by a decrease in property, plant and equipment resulting from the recording of impairment loss.

Total liabilities decreased by ¥1,427 million from the end of the previous fiscal year to ¥7,043 million.

Current liabilities decreased by ¥1,385 million from the end of the previous fiscal year mainly due to a decrease in accounts payable - other included in “Other” in addition to a decrease in notes and accounts payable - trade caused by the effect of the settlement timing.

Non-current liabilities decreased by ¥42 million from the end of the previous fiscal year mainly due to a decrease in retirement benefit liability, partially offset by an increase in deferred tax liabilities resulting from a rise in the market price of some stocks held.

Total net assets increased by ¥3,503 million from the end of the previous fiscal year to ¥70,517 million.

This increase was attributable to an increase in shareholders’ equity of ¥3,014 million resulting from the recording of profit, partially offset by the payment of dividends; an increase in accumulated other comprehensive income of ¥475 million resulting from increases in valuation difference on available-for-sale securities and foreign currency translation adjustment; and an increase in non-controlling interests of ¥13 million.

(3) Forward-looking Statements Including Consolidated Financial Results Forecast

With regard to the consolidated financial results forecast, the economic outlook remains highly uncertain as COVID-19 continues to affect the domestic and overseas economies.

On the sales volume front, the stainless steel industry, which is the primary source of demand for the nickel business, is expected to achieve more sales than those in the previously announced forecast because operations in Japan and overseas are recovering.

On the selling price front, the LME nickel price applicable to the Company, which is used as an indicator for determining the selling price of the Company’s ferronickel products, is expected to remain firm reflecting expectations for economic measures aimed at economic recovery in each country.

On the procurement front, production costs are expected to be affected by higher prices of nickel ore, fuels, and other raw materials, while the volume of nickel ore will be secured to meet production needs.

Although the COVID-19 impact is expected to continue during the current fiscal year, response measures to address such business environment are consistent with activities to be undertaken under the basic policies set forth in the Group’s Medium-term Management Plan, and the Company will continue to strongly push forward with these measures.

Based on the above, the Company revised its consolidated financial results forecast as follows and also reviewed underlying assumptions, as announced in “Notice Concerning Recording of Non-operating Income (Share of Profit of Entities Accounted for Using Equity Method), Revisions to Financial Results Forecast, and Revisions to Dividend Forecast” dated October 29, 2021.

<Reference>

[Revisions to financial results forecast]

Revisions to consolidated financial results forecast for the fiscal year ending March 31, 2022 (April 1, 2021 through March 31, 2022)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent	Basic earnings per share
	Million yen	Million yen	Million yen	Million yen	Yen
Previously announced forecast (A) (Announced on July 30, 2021)	46,591	(843)	2,106	1,685	86.40
Revised forecast (B)	51,840	213	4,321	3,712	190.33
Change (B-A)	5,249	1,056	2,215	2,027	
Change (%)	11.3	—	105.2	120.3	
(Reference) Actual results for the previous fiscal year ended March 31, 2021	32,217	(493)	3,344	1,162	59.61

[Revisions to underlying assumptions]

	Sales volume (t)			Production volume (t)		
	1st half	2nd half	Full year	1st half	2nd half	Full year
Previously announced forecast (Announced on July 30, 2021)	13,047	12,953	26,000	11,469	13,541	25,010
Revised forecast	12,957	14,043	27,000	11,874	14,280	26,154
(Reference) Actual results for the previous fiscal year ended March 31, 2021	9,674	11,119	20,793	9,374	9,040	18,414

	Applicable LME nickel price (\$/lb)			Applicable exchange rate (¥/\$)		
	1st half	2nd half	Full year	1st half	2nd half	Full year
Previously announced forecast (Announced on July 30, 2021)	7.94	7.58	7.76	107.61	106.40	107.01
Revised forecast	8.12	8.32	8.22	109.16	108.06	108.59
(Reference) Actual results for the previous fiscal year ended March 31, 2021	5.94	7.07	6.54	106.06	104.47	105.21

2. Quarterly Consolidated Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of March 31, 2021	As of September 30, 2021
Assets		
Current assets		
Cash and deposits	21,486	21,570
Notes and accounts receivable - trade	7,879	10,568
Securities	3,000	2,799
Merchandise and finished goods	5,670	4,262
Work in process	333	371
Raw materials and supplies	6,279	6,137
Other	3,206	2,126
Allowance for doubtful accounts	(1)	(1)
Total current assets	47,853	47,834
Non-current assets		
Property, plant and equipment	7,606	7,486
Intangible assets	1	0
Investments and other assets		
Investment securities	19,594	21,860
Other	435	384
Allowance for doubtful accounts	(5)	(5)
Total investments and other assets	20,023	22,239
Total non-current assets	27,631	29,726
Total assets	75,484	77,560

(Million yen)

	As of March 31, 2021	As of September 30, 2021
Liabilities		
Current liabilities		
Notes and accounts payable - trade	1,575	1,070
Accrued expenses	1,127	1,334
Income taxes payable	35	171
Provision for bonuses	258	303
Other	1,533	264
Total current liabilities	4,529	3,143
Non-current liabilities		
Retirement benefit liability	571	500
Deferred tax liabilities	1,266	1,364
Deferred tax liabilities for land revaluation	654	654
Provision for environmental measures	33	33
Provision for loss on litigation	28	28
Provision for loss contract	1,377	1,306
Other	9	11
Total non-current liabilities	3,941	3,899
Total liabilities	8,470	7,043
Net assets		
Shareholders' equity		
Share capital	13,922	13,922
Capital surplus	3,481	3,481
Retained earnings	47,950	50,965
Treasury shares	(449)	(450)
Total shareholders' equity	64,903	67,918
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,659	2,858
Deferred gains or losses on hedges	(37)	(42)
Revaluation reserve for land	644	645
Foreign currency translation adjustment	(1,108)	(857)
Remeasurements of defined benefit plans	(325)	(294)
Total accumulated other comprehensive income	1,833	2,309
Non-controlling interests	276	290
Total net assets	67,014	70,517
Total liabilities and net assets	75,484	77,560

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
Quarterly Consolidated Statements of Income
Six Months Ended September 30

(Million yen)

	For the six months ended September 30, 2020	For the six months ended September 30, 2021
Net sales	13,262	24,098
Cost of sales	11,988	21,749
Gross profit	1,274	2,348
Selling, general and administrative expenses		
Selling expenses	562	659
General and administrative expenses	765	737
Total selling, general and administrative expenses	1,327	1,396
Operating profit (loss)	(53)	952
Non-operating income		
Interest income	1	4
Dividend income	262	215
Foreign exchange gains	–	133
Rental income from real estate	57	51
Share of profit of entities accounted for using equity method	1,146	2,642
Other	154	102
Total non-operating income	1,623	3,149
Non-operating expenses		
Interest expenses	0	0
Foreign exchange losses	171	–
Foreign withholding tax	37	30
Other	66	75
Total non-operating expenses	275	106
Ordinary profit	1,293	3,995
Extraordinary income		
Gain on sale of non-current assets	1	–
Total extraordinary income	1	–
Extraordinary losses		
Impairment losses	–	221
Loss on retirement of non-current assets	5	11
Total extraordinary losses	5	232
Profit before income taxes	1,289	3,762
Income taxes - current	209	308
Income taxes - deferred	(147)	35
Total income taxes	62	343
Profit	1,226	3,418
Profit (loss) attributable to non-controlling interests	(33)	13
Profit attributable to owners of parent	1,260	3,405

Quarterly Consolidated Statements of Comprehensive Income

Six Months Ended September 30

(Million yen)

	For the six months ended September 30, 2020	For the six months ended September 30, 2021
Profit	1,226	3,418
Other comprehensive income		
Valuation difference on available-for-sale securities	875	197
Deferred gains or losses on hedges	–	(4)
Remeasurements of defined benefit plans, net of tax	30	24
Share of other comprehensive income of entities accounted for using equity method	30	258
Total other comprehensive income	937	475
Comprehensive income	2,164	3,894
Comprehensive income attributable to:		
Owners of parent	2,197	3,880
Non-controlling interests	(33)	13

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Notes on significant changes in the amount of shareholders' equity)

Not applicable.

(Changes in accounting policies)

(Application of accounting standard for revenue recognition, etc.)

The Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020; hereinafter referred to as the "Revenue Recognition Accounting Standard"), etc. effective from the beginning of the first quarter of the current fiscal year, and has decided to recognize the amount expected to be received in exchange for promised goods or services as revenue when the control of such goods or services has been transferred to the customer. In line with this change, regarding certain domestic sales of the nickel business, although revenue was previously recognized on a shipment basis, the Company has shifted to the method by which it recognizes revenue when products have been delivered to customers.

The Revenue Recognition Accounting Standard, etc. is applied in accordance with the transitional treatment stipulated in the proviso of Paragraph 84 of the Revenue Recognition Accounting Standard. The cumulative effect of retrospectively applying the new accounting policy to the periods prior to the beginning of the first quarter of the current fiscal year was added to or subtracted from the balance of retained earnings at the beginning of the first quarter of the current fiscal year, and thus the new accounting policy was applied from the beginning balance. However, by applying the method stipulated in Paragraph 86 of the Revenue Recognition Accounting Standard, the new accounting policy has not been applied retrospectively to contracts for which almost all revenues had been recognized in accordance with the previous treatment before the beginning of the first quarter of the current fiscal year. In addition, by adopting the method stipulated in Paragraph 86 (1) of the Revenue Recognition Accounting Standard, the Company has implemented the following procedures as listed in (i) through (iii) below for the contract modifications made prior to the beginning of the first quarter of the current fiscal year based on the contract terms after reflecting all the contract modifications, and the cumulative effect of the procedures has been added to or subtracted from the beginning balance of retained earnings of the first quarter of the current fiscal year.

(i) Classification of fulfilled and unfulfilled performance obligations

(ii) Determination of transaction price

(iii) Allocation of the transaction price to fulfilled and unfulfilled performance obligations

As a result, there is no impact on net sales; cost of sales; selling, general and administrative expenses; operating profit; ordinary profit; and profit before income taxes for the six months ended September 30, 2021. Also, there is no impact on the beginning balance of retained earnings.

Furthermore, in accordance with the transitional treatment stipulated in Paragraph 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12, March 31, 2020), information on the breakdown of revenue arising from contracts with customers for the six months ended September 30, 2020 is not presented.

(Application of accounting standard for fair value measurement, etc.)

The Company has applied the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019; hereinafter referred to as the "Fair Value Measurement Accounting Standard"), etc. from the beginning of the first quarter of the current fiscal year, and has decided to prospectively apply the new accounting policies stipulated in the Fair Value Measurement Accounting Standard, etc. in accordance with the transitional treatment set forth in Paragraph 19 of the Fair Value Measurement Accounting Standard and

Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019).
This will have no impact on quarterly consolidated financial statements.