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## Consolidated Financial Results for the Nine Months Ended December 31, 2021 [Japanese GAAP]



February 8, 2022

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: February 8, 2022

Scheduled date of commencing dividend payments: -

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

Schedule of quarterly financial results briefing session: Not Available

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

### 1. Consolidated Financial Results for the Nine Months Ended December 31, 2021 (April 1, 2021 - December 31, 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	%
Nine months ended December 31, 2021	41,554	80.6	2,506	-	8,296	288.2	7,131	270.5
December 31, 2020	23,004	(33.9)	(365)	-	2,137	(34.5)	1,924	(37.4)

(Note) Comprehensive income: Nine months ended December 31, 2021: ¥7,551 million [66.5%]

Nine months ended December 31, 2020: ¥4,536 million [24.5%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
December 31, 2021	365.68	-
December 31, 2020	98.69	-

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of December 31, 2021	82,148	73,784	89.5
As of March 31, 2021	75,484	67,014	88.4

(Reference) Equity: As of December 31, 2021: ¥73,497 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)				110.00	130.00

(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	54,713	69.8	2,722	–	9,913	196.4	8,455	627.2	433.52

(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):

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

December 31, 2021:	74,215 shares
March 31, 2021:	73,791 shares
  - 3) Average number of shares during the period:

Nine months ended December 31, 2021:	19,503,072 shares
Nine months ended December 31, 2020:	19,504,142 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**

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 nine months ended December 31, 2021 (the “period under review”), the Japanese economy continued to be influenced by COVID-19, and personal consumption and the employment environment remained weak due to the impact of the declaration of a state of emergency and other relevant measures being issued in many areas during the period. However, as the effects of COVID-19 were gradually mitigated, there were some signs of a recovery in economic activities.

As for overseas economies, the outlook remained uncertain due to various factors such as concerns over the resurgence of COVID-19 infections, the economic policy management of the new U.S. administration, the development of trade policies between the U.S. and China, and the impact of financial and capital market fluctuations. Meanwhile, as the employment and income environment recovered due partly to stimulus measures aimed at economic normalization and the progress in vaccination, there were signs of economic recovery although the degree of recovery varied depending on each country.

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 in general 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) showed a temporary adjustment phase due to the continuation of the impact of financial and capital market fluctuations, uncertainty of economic trends in various countries, and unstable prices of crude oil and other commodities, as well as the major debt problem of the real estate conglomerate and the electric power regulation issues in China. However, the prices remained high throughout the period under review, as the resumption of economic activities that had been restricted by the COVID-19 pandemic expanded with an upward trend against the backdrop of a sense of expectation for recovery in production activities and accelerated vaccination efforts.

Notably, the Company’s ferronickel sales volume increased by 31.9% 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 32.9% year on year and the average exchange rate of Japanese yen applicable to the Company was 5.2% 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 80.6% year on year to ¥41,554 million. On the profit front, operating profit was ¥2,506 million (compared with operating loss of ¥365 million for the same period of the previous fiscal year), and ordinary profit reflecting the recording of ¥4,934 million in share of profit of entities accounted for using equity method under non-operating income increased by 288.2% year on year to ¥8,296 million. Profit attributable to owners of the parent increased by 270.5% year on year to ¥7,131 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 81.4% year on year to ¥40,891 million, and operating profit was ¥2,614 million (compared with operating loss of ¥204 million for the same period of the previous fiscal year).

(ii) Gas business

In the gas business, the Company maintained a stable operation, but this segment recorded a loss due partly to increased costs associated with facility repair.

As a result, net sales in this segment decreased by 1.6% year on year to ¥446 million with operating loss of ¥5 million (compared with operating loss of ¥27 million for the same period of the previous fiscal year).

(iii) Other

For the segment of other businesses, the real estate business recorded profit due to sale of land. However, due partly to sluggish orders in the waste recycling business, this segment recorded a loss for the period under review.

As a result, net sales in this segment increased by 250.2% year on year to ¥301 million with operating loss of ¥109 million (compared with operating loss of ¥140 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 December 31, 2021 are as follows.

Total assets increased by ¥6,663 million from the end of the previous fiscal year to ¥82,148 million.

Current assets increased by ¥2,321 million from the end of the previous fiscal year mainly due to increases associated with a rise in selling price and the effect of the settlement timing in notes and accounts receivable – trade and other factors, partially offset by a decrease in merchandise and finished goods, in addition to a decrease in advance payments to suppliers included in “Other.”

Non-current assets increased by ¥4,341 million from the end of the previous fiscal year mainly due to an increase in investment securities associated with an increase in share of profit of entities accounted for using equity method and other factors, partially offset by a decrease in property, plant and equipment resulting from the recording of impairment loss.

Total liabilities decreased by ¥106 million from the end of the previous fiscal year to ¥8,363 million.

Current liabilities decreased by ¥302 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 increased by ¥195 million from the end of the previous fiscal year mainly due to an increase in deferred tax liabilities resulting from a rise in the market price of some stocks held, partially offset by a decrease in retirement benefit liability.

Total net assets increased by ¥6,770 million from the end of the previous fiscal year to ¥73,784 million.

This increase was attributable to an increase in shareholders’ equity of ¥6,402 million resulting from the recording of profit, partially offset by the payment of dividends; an increase in accumulated other comprehensive income of ¥357 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 ¥10 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 generally firm despite variations in operations in Japan and overseas, and thus is expected to be in line with the previously announced forecast.

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, as well as the tightening of the supply and demand balance.

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 January 31, 2022.

<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 October 29, 2021)	51,840	213	4,321	3,712	190.33
Revised forecast (B)	54,713	2,722	9,913	8,455	433.52
Change (B-A)	2,873	2,509	5,592	4,743	
Change (%)	5.5	—	129.4	127.8	
(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 October 29, 2021)	12,957	14,043	27,000	11,874	14,280	26,154
Revised forecast	12,957	14,043	27,000	11,874	14,652	26,526
(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 October 29, 2021)	8.12	8.32	8.22	109.16	108.06	108.59
Revised forecast	8.12	8.83	8.49	109.16	111.61	110.43
(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 December 31, 2021
<b>Assets</b>		
Current assets		
Cash and deposits	21,486	22,488
Notes and accounts receivable - trade	7,879	13,074
Securities	3,000	2,800
Merchandise and finished goods	5,670	3,507
Work in process	333	421
Raw materials and supplies	6,279	6,185
Other	3,206	1,700
Allowance for doubtful accounts	(1)	(2)
Total current assets	47,853	50,175
Non-current assets		
Property, plant and equipment	7,606	7,437
Intangible assets	1	1
Investments and other assets		
Investment securities	19,594	24,179
Other	435	359
Allowance for doubtful accounts	(5)	(5)
Total investments and other assets	20,023	24,533
Total non-current assets	27,631	31,972
Total assets	75,484	82,148

(Million yen)

	As of March 31, 2021	As of December 31, 2021
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable - trade	1,575	1,055
Accrued expenses	1,127	1,806
Income taxes payable	35	429
Provision for bonuses	258	59
Other	1,533	875
Total current liabilities	4,529	4,226
Non-current liabilities		
Retirement benefit liability	571	466
Deferred tax liabilities	1,266	1,657
Deferred tax liabilities for land revaluation	654	631
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	4,137
Total liabilities	8,470	8,363
<b>Net assets</b>		
Shareholders' equity		
Share capital	13,922	13,922
Capital surplus	3,481	3,481
Retained earnings	47,950	54,353
Treasury shares	(449)	(450)
Total shareholders' equity	64,903	71,305
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,659	2,960
Deferred gains or losses on hedges	(37)	(48)
Revaluation reserve for land	644	593
Foreign currency translation adjustment	(1,108)	(1,034)
Remeasurements of defined benefit plans	(325)	(279)
Total accumulated other comprehensive income	1,833	2,191
Non-controlling interests	276	287
Total net assets	67,014	73,784
Total liabilities and net assets	75,484	82,148

## (2) Quarterly Consolidated Statements of Income and Comprehensive Income

### Quarterly Consolidated Statements of Income

Nine Months Ended December 31

(Million yen)

	For the nine months ended December 31, 2020	For the nine months ended December 31, 2021
Net sales	23,004	41,554
Cost of sales	21,373	36,653
Gross profit	1,631	4,901
Selling, general and administrative expenses		
Selling expenses	869	1,291
General and administrative expenses	1,128	1,103
Total selling, general and administrative expenses	1,997	2,394
Operating profit (loss)	(365)	2,506
Non-operating income		
Interest income	3	6
Dividend income	274	418
Foreign exchange gains	–	391
Rental income from real estate	84	77
Share of profit of entities accounted for using equity method	2,415	4,934
Other	171	115
Total non-operating income	2,949	5,943
Non-operating expenses		
Interest expenses	0	0
Foreign exchange losses	317	–
Foreign withholding tax	37	58
Other	91	94
Total non-operating expenses	446	153
Ordinary profit	2,137	8,296
Extraordinary income		
Gain on sale of non-current assets	1	–
Total extraordinary income	1	–
Extraordinary losses		
Impairment losses	–	317
Loss on retirement of non-current assets	40	23
Loss on sale of investment securities	1	–
Total extraordinary losses	42	341
Profit before income taxes	2,095	7,955
Income taxes - current	210	547
Income taxes - deferred	(35)	265
Total income taxes	174	812
Profit	1,920	7,142
Profit (loss) attributable to non-controlling interests	(3)	10
Profit attributable to owners of parent	1,924	7,131

Quarterly Consolidated Statements of Comprehensive Income

Nine Months Ended December 31

(Million yen)

	For the nine months ended December 31, 2020	For the nine months ended December 31, 2021
Profit	1,920	7,142
Other comprehensive income		
Valuation difference on available-for-sale securities	2,480	292
Deferred gains or losses on hedges	–	(11)
Remeasurements of defined benefit plans, net of tax	46	37
Share of other comprehensive income of entities accounted for using equity method	88	90
Total other comprehensive income	2,615	409
Comprehensive income	4,536	7,551
Comprehensive income attributable to:		
Owners of parent	4,540	7,540
Non-controlling interests	(3)	10

### (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 nine months ended December 31, 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 nine months ended December 31, 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.