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Consolidated Financial Results for the Three Months Ended June 30, 2022 [Japanese GAAP]



August 10, 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: August 10, 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 scheduled

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

1. Consolidated Financial Results for the Three Months Ended June 30, 2022 (April 1, 2022–June 30, 2022)

(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	%
Three months ended June 30, 2022	10,857	(3.7)	1,509	936.2	3,676	176.9	3,283	190.0
June 30, 2021	11,280	97.6	145	–	1,327	–	1,132	–

(Note) Comprehensive income: Three months ended June 30, 2022: ¥2,650 million [41.7%]

Three months ended June 30, 2021: ¥1,870 million [–%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended June 30, 2022	168.36	–
June 30, 2021	58.05	–

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2022	87,156	79,781	91.2
As of March 31, 2022	89,852	80,153	88.9

(Reference) Equity: As of June 30, 2022: ¥79,505 million

As of March 31, 2022: ¥79,866 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, 2022	–	20.00	–	155.00	175.00
Fiscal year ending March 31, 2023	–				
Fiscal year ending March 31, 2023 (Forecast)		0.00	–	35.00	35.00

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

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2023 (April 1, 2022 - March 31, 2023)

(% 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
First half	25,068	4.0	(78)	–	2,705	(32.3)	2,294	(32.6)	117.62
Full year	60,744	6.3	(1,516)	–	2,508	(80.7)	2,167	(80.9)	111.11

(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: None
 - 2) Changes in accounting policies other than 1) above: None
 - 3) Changes in accounting estimates: None
 - 4) Retrospective restatement: None
- (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):

June 30, 2022:	19,577,071 shares
March 31, 2022:	19,577,071 shares
 - 2) Total number of treasury shares at the end of the period:

June 30, 2022:	74,421 shares
March 31, 2022:	74,341 shares
 - 3) Average number of shares during the period:

Three months ended June 30, 2022:	19,502,679 shares
Three months ended June 30, 2021:	19,503,244 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
(Cautionary statement regarding 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 three months ended June 30, 2022 (the “period under review”), the Japanese economy saw a pickup in corporate earnings and other factors, while the number of COVID-19 cases showed a trend towards bottoming out. There was a recovery trend with some weakness seen in the Japanese economy, as the impact of the situation in Ukraine, among other factors, cast increasing uncertainty.

As for overseas economies, although there was steady performance in the employment and income environment in general, a high level of uncertainty continued due primarily to the impact of concerns about the resurgence of COVID-19, financial and capital market fluctuations, the situation in Ukraine, and concerns about economic slowdown driven by accelerating inflation.

Under these circumstances, in 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, demand trended to recover in line with trends towards the normalization of economic activities, while there was increasing uncertainty in the market condition due to the impact of restriction of economic activities caused by the resurgence of COVID-19 in China, concerns about the prolonged situation in Ukraine, and other factors, with capacity utilization rates of production facilities starting to vary.

As a result, the demand for ferronickel showed slowdown in some part.

As for the procurement of nickel ore, the primary raw material for ferronickel products, the Company maintained the procurement of the volume sufficient to meet our production and sales. In addition, nickel ore prices have remained high against the backdrop primarily of the impact of the Indonesia’s unprocessed ore export ban and a robust demand for nickel ore, which resulted in higher production costs.

Nickel prices on the London Metal Exchange (LME) were continuously affected by financial and capital market fluctuations, complex factors related to the situation in Ukraine, and unstable prices of crude oil and other commodities. There were also concerns about economic slowdown due to accelerating inflation, and the prices remained weak.

In this situation, the Company’s ferronickel sales volume was planned modestly due to the impact of production decrease caused by the electric furnace molten material leakage incident that occurred in one of the three furnaces in the ferronickel manufacturing facilities just before the end of the previous fiscal year, and the sales volume decreased by 43.7% year on year as a whole due to a decrease in both domestic and overseas sales against the backdrop of a continuous partial shift in raw material procurement by overseas stainless steel producers to nickel pig iron and other materials that are more price competitive and variation in capacity utilization rates of production facilities in the stainless steel industry.

The ferronickel production volume decreased year on year due to the impact of the electric furnace molten material leakage incident. The restoration of the affected unit of the production facilities is scheduled for the third quarter of this fiscal year in view of the lengthy delivery period for parts and materials due to recent supply chain disruptions and other factors.

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 44.9% year on year and the average exchange rate of Japanese yen applicable to the Company was 16.9% weaker year on year.

Although the COVID-19 pandemic and the situation in Ukraine are expected to continue as mentioned above, the Company continues to implement measures in response to the highly uncertain 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 decreased by 3.7% year on year to ¥10,857 million. On the profit front, operating profit increased by 936.2% year on year to ¥1,509 million, and ordinary profit reflecting the recording of ¥1,197 million in share of profit of entities accounted for using equity method under non-operating income increased by 176.9% year on year to ¥3,676 million. Profit attributable to owners of parent increased by 190.0% year on year to ¥3,283 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 decreased by 3.3% year on year to ¥10,700 million with operating profit of ¥1,624 million (compared with operating profit of ¥142 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 the recording of costs associated with facility repair.

As a result, net sales in this segment increased by 10.3% year on year to ¥164 million with operating loss of ¥31 million (compared with operating profit of ¥25 million for the same period of the previous fiscal year).

(iii) Other

The segment of other businesses recorded a loss. The real estate business had no new sales contracts concluded, and the waste recycling business's order-taking was sluggish.

As a result, net sales in this segment decreased by 81.3% year on year to ¥16 million with operating loss of ¥86 million (compared with operating loss of ¥25 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 June 30, 2022 are as follows.

Total assets decreased by ¥2,696 million from the end of the previous fiscal year to ¥87,156 million.

Current assets decreased by ¥3,109 million from the end of the previous fiscal year mainly due to a decrease in cash and deposits resulting from the settlement of raw materials and supplies and other factors, partially offset by an increase in the raw materials and supplies impacted by the maintenance of planned inventory quantity and an increase in raw material and other prices.

Non-current assets increased by ¥413 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. Investment securities held by the Company amounting to ¥24,341 million consisted mainly of ¥14,973 million in the amount reflected in the consolidated balance sheet of shares of entities accounted for using equity method, ¥2,378 million in shares of subsidiaries and associates, and ¥5,974 million in shares of Nickel Asia Corporation, a holding company of the Company's equity-method affiliates listed on the Philippine Stock Exchange.

Total liabilities decreased by ¥2,323 million from the end of the previous fiscal year to ¥7,375 million.

Current liabilities decreased by ¥2,089 million from the end of the previous fiscal year due to a decrease in income taxes payable in line with the payment of income taxes and other factors, in addition to a decrease in notes and accounts payable - trade caused by the effect of the settlement timing.

Non-current liabilities decreased by ¥234 million from the end of the previous fiscal year mainly due to a decrease in deferred tax liabilities resulting from a drop in the market price of some stocks held.

Total net assets decreased by ¥372 million from the end of the previous fiscal year to ¥79,781 million.

Shareholders' equity increased by ¥260 million resulting from the recording of profit, partially offset by the payment of dividends. Accumulated other comprehensive income decreased by ¥620 million resulting from a decrease in valuation difference on available-for-sale securities. Non-controlling interests decreased by ¥12 million.

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

With regard to the consolidated financial forecast, the economic outlook remains highly uncertain as COVID-19 and the situation in Ukraine continue to affect the domestic and overseas economies.

On the volume front, the Company expects the volume to be in line with the previously announced plan while severe situation is expected in production and sales activities due to the impact of the electric furnace molten material leakage incident that occurred in one of the three furnaces in the ferronickel manufacturing facilities just before the end of the previous fiscal year on the production front, as well as a more highly uncertain environment triggered by the impact of restriction of economic activities attributable to the resurgence of COVID-19 in China, concerns about the prolonged situation in Ukraine, and other factors on the sales front. The restoration of the suspended electric furnace due to the leakage incident is scheduled for the third quarter of this fiscal year.

On the selling price front, the market is attracting a great deal of attention owing to financial and capital market fluctuations and complex factors related to the situation in Ukraine, concerns about the impact of accelerating inflation and other factors. 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 unstable albeit being relatively at high level.

On the procurement front, production costs have significantly increased due to higher prices of nickel ore, fuels, and other raw materials, but the volume of nickel ore sufficient to meet production needs will be secured. This is expected to have a significant impact on the profit level.

In addition, in the period under review, the Company recorded share of profit of entities accounted for using equity method of ¥1,197 million and foreign exchange gains of ¥731 million in non-operating income.

As for profit and loss information, in the second quarter of the fiscal year ending March 31, 2023, operating profit is expected to decrease due to soaring prices of nickel ore, fuels, and other raw materials while non-operating income is expected to include share of profit of entities accounted for using equity method and foreign exchange gains. Accordingly, profit attributable to owners of parent is expected to increase.

In the fiscal year ending March 31, 2023, profits are expected to decrease despite the continuous soaring prices of nickel ore, fuels, and other raw materials and the recording of share of profit of entities accounted for using equity method.

Although the impacts of COVID-19 and the situation in Ukraine are expected to continue in this 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 Revisions to Financial Results Forecast and Dividends Forecast" dated July 29, 2022.

<Reference>

[Revisions to financial results forecast]

Revisions to consolidated financial results forecast for the six months ending September 30, 2022 (April 1, 2022 through September 30, 2022)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent	Basic earnings per share
Previously announced forecast (A) (Announced on May 10, 2022)	Million yen 25,164	Million yen 735	Million yen 2,101	Million yen 1,856	Yen 95.17
Revised forecast (B)	25,068	(78)	2,705	2,294	117.62
Change (B-A)	(96)	(813)	604	438	
Change (%)	(0.4)	—	28.7	23.6	
(Reference) Results for the six months ended September 30, 2021 (Six months ended September 30, 2021)	24,098	952	3,995	3,405	174.61

Revisions to consolidated financial results forecast for the fiscal year ending March 31, 2023 (April 1, 2022 through March 31, 2023)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent	Basic earnings per share
Previously announced forecast (A) (Announced on May 10, 2022)	Million yen 50,210	Million yen 925	Million yen 3,844	Million yen 3,513	Yen 180.13
Revised forecast (B)	60,744	(1,516)	2,508	2,167	111.11
Change (B-A)	10,534	(2,441)	(1,336)	(1,346)	
Change (%)	21.0	—	(34.8)	(38.3)	
(Reference) Actual results for the previous fiscal year ended March 31, 2022	57,129	4,806	12,999	11,368	582.93

[Revisions to dividends forecast]

(Revisions cover a period from April 1, 2022 through March 31, 2023)

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
Previously announced forecast (Announced on May 10, 2022)	Yen —	Yen 0.00	Yen —	Yen 50.00	Yen 50.00
Revised forecast	—	0.00	—	35.00	35.00
Results for this fiscal year	—				
(Reference) Actual results for the previous fiscal year ended March 31, 2022	—	20.00	—	155.00	175.00

[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 May 10, 2022)	9,850	10,650	20,500	9,237	11,573	20,810
Revised forecast	8,516	11,984	20,500	9,008	11,573	20,581
(Reference) Actual results for the previous fiscal year ended March 31, 2022	12,957	14,103	27,060	11,874	14,375	26,249

	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 May 10, 2022)	10.27	9.23	9.73	111.06	111.04	111.05
Revised forecast	11.92	11.00	11.38	122.46	119.03	120.46
(Reference) Actual results for the previous fiscal year ended March 31, 2022	8.12	9.33	8.75	109.16	113.97	111.67

2. Quarterly Consolidated Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of March 31, 2022	As of June 30, 2022
Assets		
Current assets		
Cash and deposits	26,332	17,301
Accounts receivable - trade	13,994	11,278
Securities	2,999	2,800
Merchandise and finished goods	5,649	8,428
Work in process	453	524
Raw materials and supplies	5,587	11,897
Other	2,867	2,544
Allowance for doubtful accounts	(2)	(2)
Total current assets	57,882	54,772
Non-current assets		
Property, plant and equipment	7,734	7,735
Intangible assets	1	1
Investments and other assets		
Investment securities	23,903	24,341
Other	336	310
Allowance for doubtful accounts	(5)	(5)
Total investments and other assets	24,234	24,647
Total non-current assets	31,970	32,383
Total assets	89,852	87,156

(Million yen)

	As of March 31, 2022	As of June 30, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	1,341	877
Accrued expenses	1,761	1,543
Income taxes payable	1,026	301
Provision for bonuses	444	125
Other	935	571
Total current liabilities	5,508	3,419
Non-current liabilities		
Retirement benefit liability	122	90
Deferred tax liabilities	2,077	1,869
Deferred tax liabilities for land revaluation	631	631
Provision for environmental measures	5	12
Provision for loss on litigation	34	34
Provision for loss contract	1,306	1,306
Other	11	10
Total non-current liabilities	4,190	3,956
Total liabilities	9,699	7,375
Net assets		
Shareholders' equity		
Share capital	13,922	13,922
Capital surplus	3,481	3,481
Retained earnings	58,590	58,850
Treasury shares	(450)	(451)
Total shareholders' equity	75,542	75,802
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,603	3,794
Deferred gains or losses on hedges	-	(157)
Revaluation reserve for land	593	593
Foreign currency translation adjustment	(969)	(629)
Remeasurements of defined benefit plans	95	100
Total accumulated other comprehensive income	4,323	3,702
Non-controlling interests	287	275
Total net assets	80,153	79,781
Total liabilities and net assets	89,852	87,156

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
Quarterly Consolidated Statements of Income
Three Months Ended June 30

(Million yen)

	For the three months ended June 30, 2021	For the three months ended June 30, 2022
Net sales	11,280	10,857
Cost of sales	10,451	8,653
Gross profit	828	2,204
Selling, general and administrative expenses		
Selling expenses	324	292
General and administrative expenses	358	402
Total selling, general and administrative expenses	682	695
Operating profit	145	1,509
Non-operating income		
Interest income	1	3
Dividend income	215	237
Rental income from real estate	25	25
Share of profit of entities accounted for using equity method	949	1,197
Foreign exchange gains	19	731
Other	51	25
Total non-operating income	1,263	2,221
Non-operating expenses		
Interest expenses	0	0
Foreign withholding tax	30	30
Settlement on contract	20	–
Other	30	23
Total non-operating expenses	81	54
Ordinary profit	1,327	3,676
Extraordinary income		
Gain on sale of non-current assets	–	0
Total extraordinary income	–	0
Extraordinary losses		
Impairment losses	61	–
Loss on retirement of non-current assets	6	15
Total extraordinary losses	67	15
Profit before income taxes	1,260	3,661
Income taxes - current	16	249
Income taxes - deferred	99	141
Total income taxes	115	390
Profit	1,144	3,271
Profit (loss) attributable to non-controlling interests	12	(12)
Profit attributable to owners of parent	1,132	3,283

Quarterly Consolidated Statements of Comprehensive Income

Three Months Ended June 30

(Million yen)

	For the three months ended June 30, 2021	For the three months ended June 30, 2022
Profit	1,144	3,271
Other comprehensive income		
Valuation difference on available-for-sale securities	311	(809)
Deferred gains or losses on hedges	11	(157)
Remeasurements of defined benefit plans, net of tax	12	4
Share of other comprehensive income of entities accounted for using equity method	390	340
Total other comprehensive income	726	(620)
Comprehensive income	1,870	2,650
Comprehensive income attributable to:		
Owners of parent	1,858	2,662
Non-controlling interests	12	(12)

(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.