October 28, 2022

To whom it may concern,

Company name:	PACIFIC METALS CO., LTD.
Representative:	Aoyama Masayuki, President and Representative Director (Securities code: 5541 TSE Prime Market)
Contact:	Matsuyama Terunobu, Managing Executive Officer and Director (Telephone: +81-3-3201-6681)

Notice Concerning Recording of Operating Loss (Write-down of Inventories), 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

PACIFIC METALS CO., LTD. (the "Company") hereby announces that it has recorded write-down of inventories under operating losses and share of profit of entities accounted for using the equity method under non-operating income for the six months ended September 30, 2022 (April 1, 2022 through September 30, 2022). The Company also announces that, in light of the most recent performance trend, it has decided to revise the financial results forecast for the six months ended September 30, 2022 (April 1, 2022 through September 30, 2022) and the financial results forecast for the fiscal year ending March 31, 2023 (April 1, 2022 through March 31, 2023) announced on July 29, 2022.

● Details of operating loss (write-down of inventories)

In the nickel business, the LME nickel price applicable to the Company is higher than that of nickel pig iron, which is mass-produced overseas and supplied to the market, and producers of stainless steel are shifting some of their procurement to nickel pig iron, which has a price advantage including with respect to production costs. Therefore, in light of this environment, the selling prices of the Company's products are set at the price level partially based on the price of nickel pig iron. In addition, with regard to inventories, the rate of the increase in production costs has been increasing because of sharp rises in prices of raw materials and fuel used in the manufacturing process and the cost of electricity and other factors, which collectively have a great impact on the book value of inventories. As a result, a decline in profitability of inventories (merchandise and finished goods, work in process, raw materials and supplies) has been recognized, and the Company expects to record a write-down of inventories amounting to 5,963 million yen under cost of sales for the six months ended September 30, 2022..

● Details of non-operating income (share of profit of entities accounted for using the equity method)

The Company plans to record share of profit of entities accounted for using the equity method of 3,699 million yen for the six months ended September 30, 2022 mainly from the entities accounted for using the equity method in the Philippines, supported primarily by strong demand.

● Revisions to financial results forecast

1. Revisions to consolidated financial results forecast for the six months ended 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
	Million yen	Million yen	Million yen	Million yen	Yen
Previously announced forecast (A) (Announced on July 29, 2022)	25,068	(78)	2,705	2,294	117.62
Revised forecast (B)	17,642	(4,464)	605	229	11.75
Change (B–A)	(7,425)	(4,386)	(2,099)	(2,064)	
Change (%)	(29.6)	—	(77.6)	(90.0)	
(Reference) Actual results for the six months ended September 30, 2021	24,098	952	3,995	3,405	174.61

2. 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
	Million yen	Million yen	Million yen	Million yen	Yen
Previously announced forecast (A) (Announced on July 29, 2022)	60,744	(1,516)	2,508	2,167	111.11
Revised forecast (B)	35,548	(9,997)	(3,493)	(3,711)	(190.28)
Change (B–A)	(25,196)	(8,481)	(6,001)	(5,878)	
Change (%)	(41.5)	—	—	—	
(Reference) Actual results for the previous fiscal year ended March 31, 2022	57,129	4,806	12,999	11,368	582.93

3. Reason for revisions

With regard to the consolidated financial results 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 a challenging business environment with results expected to fall short of the previously announced forecast. In addition to the impact of the molten material leakage accident at an electric furnace that occurred in one of the three ferronickel manufacturing facilities just before the end of the previous fiscal year, this is because the Company changed its policy with the objective of strategically controlling volume to a certain level so as not to impair profitability. This decision reflects easing of the nickel supply-demand balance due to mounting uncertainty triggered by the impact of restriction of economic activities and the sluggish real estate market in China attributable to the resurgence of COVID-19 in that country, concerns about the protracted situation in Ukraine, and other factors. It was also taken because producers of stainless steel are shifting some of their procurement to nickel pig iron, which has a price advantage, including with respect to production costs, and the price of nickel pig iron is also affecting the selling price of the Company's products. Regarding restoration of the electric furnace which has suspended operation owing to the leakage accident, resumption of operation, which was expected to be in the third quarter of the fiscal year ending March 31, 2023, has been postponed until the fiscal year ending March 31, 2024, because of the shift of the Company's policy to volume control, as mentioned above. While closely monitoring the business environment, the Company will resume operation of the said electric furnace once the volume control policy is lifted. During the third quarter of the fiscal year ending March 31, 2023, production facilities are expected to be repaired to a state such that resumption of their operation will be possible.

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, has been relatively high. On the other hand, the price of nickel pig iron, which has a price advantage, is affecting the selling price of the Company's products. Therefore, the Company also refers to the price of nickel pig iron in addition to the applicable LME nickel price and the applicable exchange rate in setting the selling price of the Company's products, and thus an impact on net sales is expected.

On the procurement front, while the volume of nickel ore and other materials necessary to meet production needs is expected to be secured, prices of nickel ore remain high. Moreover, the rate of the increase in production costs is accelerating because of sharp rises in prices of raw materials and fuel used in the manufacturing process and the cost of electricity and other factors. These factors are expected to have a significant impact on profit.

Although the impacts of COVID-19 and the situation in Ukraine are expected to continue during the fiscal year ending March 31, 2023, 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.

Accordingly, the consolidated financial results forecast has been revised as described in the previous page. For the underlying assumptions, please refer to "(Reference) Revisions to underlying assumptions."

● Revisions to dividend forecast

1. Details of revisions

	Annual dividends				
	First quarter-end	Second quarter-end	Third quarter-end	Year-end	Total
Previous forecast (Announced on July 29, 2022)	Yen —	Yen 0.00	Yen —	Yen 35.00	Yen 35.00
Revised forecast	—	—	—	0.00	0.00
Actual results for the current fiscal year	—	0.00			
Actual results for the previous fiscal year (Fiscal year ended March 31, 2022)	—	20.00	—	155.00	175.00

2. Reason for revisions

With regard to dividends of surplus, the Company has positioned the return of profits to shareholders as one of the important management issues in its Medium-term Management Plan. The Company will aim to achieve a consolidated dividend payout ratio of 30% while enhancing and strengthening its corporate structure.

As a result of revisions to the consolidated financial results forecast, the Company has revised the dividend forecast to 0 yen for the full year, with a year-end dividend of 0 yen per share, in accordance with the above dividend policy.

(Note) 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. Actual results may differ significantly from these forecasts due to various factors.

(Reference) Revisions to underlying assumptions

	Sales volume (t)			Production volume (t)			Applicable LME nickel price ($/lb)			Applicable exchange rate (¥/$)		
	1st half	2nd half	Full year	1st half	2nd half	Full year	1st half	2nd half	Full year	1st half	2nd half	Full year
Previously announced forecast (July 29, 2022)	8,516	11,984	20,500	9,008	11,573	20,581	11.92	11.00	11.38	122.46	119.03	120.46
Revised forecast	5,668	7,332	13,000	8,079	5,857	13,936	12.12	10.03	10.94	131.49	134.12	132.98
(Reference) Actual results for the previous fiscal year ended March 31, 2022	12,957	14,103	27,060	11,874	14,375	26,249	8.12	9.33	8.75	109.16	113.97	111.67