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Consolidated Financial Results for the Six Months Ended September 30, 2022 [Japanese GAAP]



November 9, 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: November 9, 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: Scheduled (for analysts)

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

1. Consolidated Financial Results for the Six Months Ended September 30, 2022 (April 1, 2022 – September 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	%
Six months ended September 30, 2022	17,642	(26.8)	(4,464)	–	605	(84.8)	229	(93.3)
September 30, 2021	24,098	81.7	952	–	3,995	208.8	3,405	170.2

(Note) Comprehensive income: Six months ended September 30, 2022: ¥(1,049) million [–%]
Six months ended September 30, 2021: ¥3,894 million [80.0%]

	Basic earnings per share	Diluted earnings per share
Six months ended September 30, 2022	Yen 11.75	Yen –
September 30, 2021	174.61	–

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2022	83,622	76,080	90.6
As of March 31, 2022	89,852	80,153	88.9

(Reference) Equity: As of September 30, 2022: ¥75,802 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	–	0.00			
Fiscal year ending March 31, 2023 (Forecast)			–	0.00	0.00

(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
Full year	35,548	(37.8)	(9,997)	–	(3,493)	–	(3,711)	–	(190.28)

(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):

September 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:

September 30, 2022: 74,741 shares

March 31, 2022: 74,341 shares

3) Average number of shares during the period:

Six months ended September 30, 2022: 19,502,574 shares

Six months ended September 30, 2021: 19,503,140 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 5.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation on Operating Results

During the six months ended September 30, 2022 (the “period under review”), the Japanese economy saw a pickup in corporate earnings, personal consumption, and other factors, though it was influenced by the trend in COVID-19. There was a recovery trend with weakness seen in the Japanese economy, as the simultaneous occurrence of the high resource prices and the appreciation of the U.S. dollar weighed on the recovery of domestic demand.

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 prolonged 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 and the sluggish real estate market in China attributable to the resurgence of COVID-19 in that country, 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.

On the procurement front, 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. On the price front, nickel ore prices have remained high against the backdrop primarily of the impact of Indonesia’s unprocessed ore export ban and a robust demand for nickel ore. Moreover, the rate of the increase in production costs was 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 had a significant impact.

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 an economic slowdown due to accelerating inflation, and prices remained directionless while remaining at a relatively high level.

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 56.3% 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. Regarding the restoration of the affected unit of the production facilities, resumption of operation, which was expected to be in the third quarter of this fiscal year, has been postponed until the next 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. It was also taken because producers of stainless steel are shifting some of their procurement to nickel pig iron, which has a price advantage, even including with respect to production costs, and the price of nickel pig iron is also affecting the selling price of the Company’s products. 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 this fiscal year, production facilities are expected to be repaired to a state such that resumption of their operation will be possible.

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 49.2% year on year and the average exchange rate of Japanese yen applicable to the Company was 20.5% weaker year on year. 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 the selling environment is rapidly changing into a difficult one with stagnant revenue growth.

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 26.8% year on year to ¥17,642 million. On the profit front, the Company posted operating loss of ¥4,464 million (compared with operating profit of ¥952 million for the same period of the previous fiscal year), owing to an increase in cost of sales as there was an inventory write down following a downturn in profitability, on top of the decrease in net sales, and ordinary profit reflecting the recording of ¥3,699 million in share of profit of entities accounted for using equity method under non-operating income of ¥605 million, down by 84.8% year on year. Profit attributable to owners of parent decreased by 93.3% year on year to ¥229 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 27.0% year on year to ¥17,319 million with operating loss of ¥4,328 million (compared with operating profit of ¥996 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 13.3% year on year to ¥343 million with operating loss of ¥25 million (compared with operating profit of ¥16 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 75.4% year on year to ¥28 million with operating loss of ¥114 million (compared with operating loss of ¥65 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, 2022 are as follows.

Total assets decreased by ¥6,230 million from the end of the previous fiscal year to ¥83,622 million.

Current assets decreased by ¥6,058 million from the end of the previous fiscal year mainly due to a decrease in cash and deposits resulting from the settlement of merchandise and finished goods and the decline in sales quantity, partially offset by an increase in merchandise and finished goods and other items impacted by the maintenance of planned inventory quantity and an increase in raw material and fuel prices.

Non-current assets decreased by ¥172 million from the end of the previous fiscal year mainly due to a decrease in investment securities resulting from a drop in the market price of some stocks held, despite an increase in property, plant and equipment resulting from investment in maintenance/replacement. Investment securities held by the Company amounting to ¥23,440 million consisted mainly of ¥15,757 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 ¥4,750 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 ¥2,157 million from the end of the previous fiscal year to ¥7,542 million.

Current liabilities decreased by ¥1,427 million from the end of the previous fiscal year primarily owing to a decrease in income taxes payable in line with the payment of income taxes and other factors.

Non-current liabilities decreased by ¥729 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 ¥4,073 million from the end of the previous fiscal year to ¥76,080 million.

Shareholders' equity decreased by ¥2,794 million resulting from the recording of profit, partially offset by the payment of dividends. Accumulated other comprehensive income decreased by ¥1,269 million resulting from a decrease in valuation difference on available-for-sale securities. Non-controlling interests decreased by ¥9 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 a challenging business environment with results expected to fall short of the previously announced plan. In addition 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, 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 prolonged 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 this fiscal year, has been postponed until the next fiscal year, 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 this fiscal year, 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 prices of the Company's ferronickel products, remains at a relatively high level. 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 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 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 Dividends Forecast" dated October 28, 2022.

<Reference>

[Revisions to financial results forecast]

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 July 29, 2022)	Million yen 60,744	Million yen (1,516)	Million yen 2,508	Million yen 2,167	Yen 111.11
Revised forecast (B)	34,548	(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

[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 July 29, 2022)	Yen —	Yen 0.00	Yen —	Yen 35.00	Yen 35.00
Revised forecast	—	—	—	0.00	0.00
Results for this fiscal year	—	0.00			
(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 July 29, 2022)	8,516	11,984	20,500	9,008	11,573	20,581
Revised forecast	5,668	7,332	13,000	8,079	5,857	13,936
(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 July 29, 2022)	11.92	11.00	11.38	122.46	119.03	120.46
Revised forecast	12.12	10.03	10.94	131.49	134.12	132.98
(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 September 30, 2022
Assets		
Current assets		
Cash and deposits	26,332	13,883
Accounts receivable - trade	13,994	9,771
Securities	2,999	2,300
Merchandise and finished goods	5,649	11,918
Work in process	453	456
Raw materials and supplies	5,587	10,154
Other	2,867	3,340
Allowance for doubtful accounts	(2)	(1)
Total current assets	57,882	51,824
Non-current assets		
Property, plant and equipment	7,734	8,074
Intangible assets	1	1
Investments and other assets		
Investment securities	23,903	23,440
Other	336	287
Allowance for doubtful accounts	(5)	(5)
Total investments and other assets	24,234	23,722
Total non-current assets	31,970	31,798
Total assets	89,852	83,622

(Million yen)

	As of March 31, 2022	As of September 30, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	1,341	1,475
Accrued expenses	1,761	1,336
Income taxes payable	1,026	399
Provision for bonuses	444	221
Other	935	649
Total current liabilities	5,508	4,081
Non-current liabilities		
Retirement benefit liability	122	58
Deferred tax liabilities	2,077	1,472
Deferred tax liabilities for land revaluation	631	631
Provision for environmental measures	5	12
Provision for loss on litigation	34	-
Provision for loss contract	1,306	1,273
Other	11	11
Total non-current liabilities	4,190	3,460
Total liabilities	9,699	7,542
Net assets		
Shareholders' equity		
Share capital	13,922	13,922
Capital surplus	3,481	3,481
Retained earnings	58,590	55,796
Treasury shares	(450)	(451)
Total shareholders' equity	75,542	72,747
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,603	2,662
Revaluation reserve for land	593	593
Foreign currency translation adjustment	(969)	(293)
Remeasurements of defined benefit plans	95	92
Total accumulated other comprehensive income	4,323	3,054
Non-controlling interests	287	278
Total net assets	80,153	76,080
Total liabilities and net assets	89,852	83,622

(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, 2021	For the six months ended September 30, 2022
Net sales	24,098	17,642
Cost of sales	21,749	20,885
Gross profit (loss)	2,348	(3,243)
Selling, general and administrative expenses		
Selling expenses	659	437
General and administrative expenses	737	783
Total selling, general and administrative expenses	1,396	1,220
Operating profit (loss)	952	(4,464)
Non-operating income		
Interest income	4	6
Dividend income	215	237
Rental income from real estate	51	51
Share of profit of entities accounted for using equity method	2,642	3,699
Foreign exchange gains	133	1,056
Other	102	86
Total non-operating income	3,149	5,137
Non-operating expenses		
Interest expenses	0	0
Foreign withholding tax	30	31
Other	75	36
Total non-operating expenses	106	67
Ordinary profit	3,995	605
Extraordinary income		
Gain on sale of non-current assets	–	0
Gain on sale of investment securities	–	386
Total extraordinary income	–	386
Extraordinary losses		
Impairment losses	221	–
Loss on retirement of non-current assets	11	76
Total extraordinary losses	232	76
Profit before income taxes	3,762	915
Income taxes - current	308	518
Income taxes - deferred	35	177
Total income taxes	343	696
Profit	3,418	219
Profit (loss) attributable to non-controlling interests	13	(9)
Profit attributable to owners of parent	3,405	229

Quarterly Consolidated Statements of Comprehensive Income
Six Months Ended September 30

(Million yen)

	For the six months ended September 30, 2021	For the six months ended September 30, 2022
Profit	3,418	219
Other comprehensive income		
Valuation difference on available-for-sale securities	197	(1,937)
Deferred gains or losses on hedges	(4)	–
Remeasurements of defined benefit plans, net of tax	24	9
Share of other comprehensive income of entities accounted for using equity method	258	659
Total other comprehensive income	475	(1,269)
Comprehensive income	3,894	(1,049)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,880	(1,040)
Comprehensive income attributable to non-controlling interests	13	(9)

(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.