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Consolidated Financial Results for the Three Months Ended June 30, 2023 [Japanese GAAP]



August 9, 2023

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 9, 2023

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, 2023 (April 1, 2023 – June 30, 2023)

(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, 2023	4,217	(61.2)	(3,292)	–	(1,417)	–	(1,566)	–
June 30, 2022	10,857	(3.7)	1,509	936.2	3,676	176.9	3,283	190.0

(Note) Comprehensive income: Three months ended June 30, 2023: ¥(1,508) million [–%]

Three months ended June 30, 2022: ¥2,650 million [41.7%]

	Basic earnings per share	Diluted earnings per share
Three months ended June 30, 2023	Yen (80.35)	Yen –
June 30, 2022	168.36	–

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2023	76,697	70,525	91.6
As of March 31, 2023	78,825	72,034	91.0

(Reference) Equity: As of June 30, 2023: ¥70,238 million

As of March 31, 2023: ¥71,746 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, 2023	–	0.00	–	0.00	0.00
Fiscal year ending March 31, 2024	–				
Fiscal year ending March 31, 2024 (Forecast)		0.00	–	0.00	0.00

(Note) Revision from the latest released dividends forecast : None

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2024 (April 1, 2023 - March 31, 2024)

(% 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	8,592	(51.3)	(6,343)	–	(3,712)	–	(3,871)	–	(198.49)
Full year	20,885	(40.1)	(7,089)	–	(2,891)	–	(3,246)	–	(166.44)

(Note) Revision from the latest released financial results forecast : None

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation on Operating Results

During the three months ended June 30, 2023 (the “period under review”), although the simultaneous occurrence of the high resource prices and the appreciation of the U.S. dollar led to price hikes, and there were concerns about the impact on economic activities, the Japanese economy showed a gradual recovery trend as corporate earnings and personal consumption remained steady.

As for overseas economies, while weaknesses are seen in some regions due to concerns about the effects of global monetary tightening, the prolonged situation in Ukraine, and the accelerating inflation, the employment and income environment remain steady, with signs of recovery.

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, while the capacity utilization rate is recovering due to expectations of implementing economic stimulus measures in China, the expectations precede the weak movement of actual demand. Moreover, the prolonged situation in Ukraine has added to the uncertainty in the overall market condition, and the capacity utilization rates of production facilities generally remained varied and lacked momentum.

As a result, the demand for ferronickel continued to slow down.

On the procurement front, prices of nickel ore, the primary raw material for ferronickel products, have been high against the backdrop of the impact of Indonesia’s unprocessed ore export ban and a robust demand for nickel ore. Moreover, prices of various raw materials and fuel, including electricity remained high in line with the steep rise in resource prices globally, causing increasing production costs.

Nickel prices on the London Metal Exchange (LME) remained within a specific range. However, the market weakened slightly due to complex factors, including delayed economic recovery in China, fluctuations in foreign exchange rates and financial and capital markets, and the situation in Ukraine.

In this situation, in addition to the environment mentioned above, the Company’s ferronickel sales volume decreased by 57.0% year on year as a whole due to a decrease in both domestic and overseas sales. The Company continued its policy with the objective of strategically controlling volume to a certain level so as not to impair profitability since overseas producers of stainless steel are shifting some of their procurement to nickel pig iron, which has a price advantage, and the price of nickel pig iron is also affecting the selling price of the Company’s products.

The ferronickel production volume decreased year on year due to the policy of controlling sales volume mentioned above.

The selling price of ferronickel products rose year on year as the LME nickel price applicable to the Company increased by 0.4% year on year, and the average exchange rate of Japanese yen against U.S. dollar applicable to the Company was 7.5% weaker year on year. On the other hand, as mentioned previously, 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. Therefore, the selling environment continues to be challenging, with stagnant revenue growth due to lower selling prices compared to before.

Despite the rapidly evolving business environment and expectations that the situation in Ukraine will continue on as mentioned above, the Company is striving to 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 61.2% year on year to ¥4,217 million. On the profit front, the Company posted operating loss of ¥3,292 million (compared with operating profit of ¥1,509 million for the same period of the previous fiscal year), owing to an increase in cost of sales due to an inventory write down following a downturn in profitability, on top of the decrease in net sales, and ordinary loss was ¥1,417 million (compared with ordinary profit of ¥3,676 million for the same period of the previous fiscal year), reflecting the recording of ¥1,245 million in share of profit of entities accounted for using

equity method under non-operating income. Loss attributable to owners of parent was ¥1,566 million (compared with profit attributable to owners of parent of ¥3,283 million for the same period of the previous fiscal year).

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 62.2% year on year to ¥4,042 million with operating loss of ¥3,292 million (compared with operating profit of ¥1,624 million for the same period of the previous fiscal year).

(ii) Gas business

In the gas business, despite the recording of costs associated with facility repair, the Company maintained a stable operation, recording a profit.

As a result, net sales in this segment increased by 19.1% year on year to ¥196 million with operating profit of ¥2 million (compared with operating loss of ¥31 million for the same period of the previous fiscal year).

(iii) Other

The segment of other businesses recorded a loss because the real estate business had no sales contracts.

As a result, net sales in this segment were nil (compared with net sales of ¥16 million for the same period of the previous fiscal year) with operating loss of ¥5 million (compared with operating loss of ¥86 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, 2023 are as follows.

Total assets decreased by ¥2,128 million from the end of the previous fiscal year to ¥76,697 million.

Current assets decreased by ¥3,298 million from the end of the previous fiscal year mainly due to receipt of a bonus incentive reward for reducing power consumption through participation in a winter-time power-saving campaign of our power supplier and a decrease in accounts receivable - other, in line with consumption taxes refund receivable, and other factors, despite an increase in merchandise and finished goods impacted by the adjustment of planned inventory quantity.

Non-current assets increased by ¥1,169 million from the end of the previous fiscal year mainly due to an increase in investment securities resulting from an increase in share of profit of entities accounted for using equity method, and other factors, despite a decrease in property, plant and equipment due to increased depreciation resulting from investment in maintenance/replacement. Investment securities held by the Company amounting to ¥26,694 million consisted mainly of ¥17,767 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 ¥5,988 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 ¥620 million from the end of the previous fiscal year to ¥6,171 million.

Current liabilities decreased by ¥643 million from the end of the previous fiscal year primarily owing to a decrease in the settlement of notes and accounts payable - trade, and other factors.

Non-current liabilities increased by ¥23 million from the end of the previous fiscal year mainly due to an increase in deferred tax liabilities resulting from an increase in share of profit of entities accounted for using equity method and other factors, despite a decrease in provision for restoration costs resulting from acceptance inspection of construction costs.

Total net assets decreased by ¥1,508 million from the end of the previous fiscal year to ¥70,525 million.

Shareholders' equity decreased by ¥1,567 million resulting from the recording of loss, and other factors.

Accumulated other comprehensive income increased by ¥58 million resulting from an increase in foreign currency translation adjustment. Non-controlling interests decreased by ¥0 million.

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

With regard to the consolidated financial forecast, the economic outlook remains highly uncertain as the prolonged situation in Ukraine continues to affect the domestic and overseas economies, in addition to economic slowdown against the background of sharp interest hikes in the U.S. and Europe and a delayed economic recovery in China.

On the volume front, the Company expects the environment to remain unchanged and at the same level as the announced plan.

In terms of profit and loss, on the selling price front, the Company refers to the price of nickel pig iron, which has a price advantage over ferronickel products, in addition to the applicable LME nickel price and the applicable exchange rate. On the procurement front, prices of nickel ore, the primary raw material for ferronickel products, and the prices of raw materials, fuel, and electricity remain at high levels and are expected to impact prices significantly.

In addition, regarding the impact of the write-down of inventories, while an additional amount will be recorded in the first half, the reversal amount will be recorded in the second half due to an inventory write-down. As a result, the profit and loss trend is expected to differ between the first and the second half of the fiscal year.

Although these challenging conditions persist, 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," dated August 2, 2023.

<Reference>

[Revisions to financial results forecast]

Revisions to consolidated financial results forecast for the six months ending September 30, 2023 (April 1, 2023 through September 30, 2023)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent	Basic earnings per share
Previously announced forecast (A) (Announced on May 9, 2023)	Million yen 8,910	Million yen (4,198)	Million yen (2,937)	Million yen (2,961)	Yen (151.83)
Revised forecast (B)	8,592	(6,343)	(3,712)	(3,871)	(198.49)
Change (B-A)	(318)	(2,145)	(775)	(910)	
Change (%)	(3.6)	—	—	—	
(Reference) Actual results for the six months ended September 30, 2022	17,642	(4,464)	605	229	11.75

Revisions to consolidated financial results forecast for the fiscal year ending March 31, 2024 (April 1, 2023 through March 31, 2024)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent	Basic earnings per share
Previously announced forecast (A) (Announced on May 9, 2023)	Million yen 20,899	Million yen (7,299)	Million yen (4,569)	Million yen (4,778)	Yen (245.00)
Revised forecast (B)	20,885	(7,089)	(2,891)	(3,246)	(166.44)
Change (B-A)	(14)	210	1,678	1,532	
Change (%)	(0.1)	—	—	—	
(Reference) Actual results for the previous fiscal year ended March 31, 2023	34,852	(12,588)	(4,960)	(5,026)	(257.75)

[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 9, 2023)	3,450	4,750	8,200	3,543	3,540	7,083
Revised forecast	3,330	4,870	8,200	3,428	3,540	6,968
(Reference) Actual results for the previous fiscal year ended March 31, 2023	5,668	6,725	12,393	8,079	5,301	13,380

	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 9, 2023)	10.68	10.00	10.29	134.06	134.10	134.08
Revised forecast	10.82	10.00	10.33	135.34	134.10	134.60
(Reference) Actual results for the previous fiscal year ended March 31, 2023	12.12	11.11	11.57	131.49	138.44	135.26

2. Quarterly Consolidated Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of March 31, 2023	As of June 30, 2023
Assets		
Current assets		
Cash and deposits	16,848	17,544
Accounts receivable - trade	6,593	5,520
Securities	1,500	1,500
Merchandise and finished goods	8,204	8,428
Work in process	361	306
Raw materials and supplies	5,836	5,548
Other	4,904	2,100
Allowance for doubtful accounts	(1)	(1)
Total current assets	44,247	40,949
Non-current assets		
Property, plant and equipment	8,383	8,335
Intangible assets	239	270
Investments and other assets		
Investment securities	25,518	26,694
Retirement benefit asset	198	232
Other	243	219
Allowance for doubtful accounts	(5)	(5)
Total investments and other assets	25,954	27,141
Total non-current assets	34,577	35,747
Total assets	78,825	76,697

(Million yen)

	As of March 31, 2023	As of June 30, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	760	354
Accrued expenses	1,018	883
Income taxes payable	7	26
Provision for bonuses	95	185
Other	657	447
Total current liabilities	2,539	1,896
Non-current liabilities		
Retirement benefit liability	50	53
Deferred tax liabilities	2,087	2,143
Deferred tax liabilities for land revaluation	631	631
Provision for environmental measures	11	5
Provision for loss contract	1,273	1,273
Provision of restoration cost	187	142
Other	10	25
Total non-current liabilities	4,252	4,275
Total liabilities	6,791	6,171
Net assets		
Shareholders' equity		
Share capital	13,922	13,922
Capital surplus	3,481	3,481
Retained earnings	50,540	48,973
Treasury shares	(452)	(452)
Total shareholders' equity	67,491	65,924
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,831	3,630
Revaluation reserve for land	593	593
Foreign currency translation adjustment	(510)	(243)
Remeasurements of defined benefit plans	340	333
Total accumulated other comprehensive income	4,254	4,313
Non-controlling interests	287	287
Total net assets	72,034	70,525
Total liabilities and net assets	78,825	76,697

(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, 2022	For the Three months ended June 30, 2023
Net sales	10,857	4,217
Cost of sales	8,653	7,023
Gross profit (loss)	2,204	(2,806)
Selling, general and administrative expenses		
Selling expenses	292	89
General and administrative expenses	402	396
Total selling, general and administrative expenses	695	485
Operating profit (loss)	1,509	(3,292)
Non-operating income		
Interest income	3	7
Dividend income	237	165
Rental income from real estate	25	25
Share of profit of entities accounted for using equity method	1,197	1,245
Foreign exchange gains	731	479
Other	25	19
Total non-operating income	2,221	1,941
Non-operating expenses		
Interest expenses	0	0
Loss on disposal of inventories	–	30
Foreign withholding tax	30	23
Other	23	12
Total non-operating expenses	54	67
Ordinary profit (loss)	3,676	(1,417)
Extraordinary income		
Gain on sale of non-current assets	0	–
Total extraordinary income	0	–
Extraordinary losses		
Loss on retirement of non-current assets	15	0
Total extraordinary losses	15	0
Profit (loss) before income taxes	3,661	(1,417)
Income taxes - current	249	4
Income taxes - deferred	141	144
Total income taxes	390	149
Profit (loss)	3,271	(1,567)
Loss attributable to non-controlling interests	(12)	(0)
Profit (loss) attributable to owners of parent	3,283	(1,566)

Quarterly Consolidated Statements of Comprehensive Income

Three Months Ended June 30

(Million yen)

	For the Three months ended June 30, 2022	For the Three months ended June 30, 2023
Profit (loss)	3,271	(1,567)
Other comprehensive income		
Valuation difference on available-for-sale securities	(809)	(231)
Deferred gains or losses on hedges	(157)	–
Remeasurements of defined benefit plans, net of tax	4	(10)
Share of other comprehensive income of entities accounted for using equity method	340	300
Total other comprehensive income	(620)	58
Comprehensive income	2,650	(1,508)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,662	(1,507)
Comprehensive income attributable to non-controlling interests	(12)	(0)

(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.