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Consolidated Financial Results for the Six Months Ended September 30, 2023 [Japanese GAAP]



November 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: November 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: Scheduled (for analysts)

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

1. Consolidated Financial Results for the Six Months Ended September 30, 2023 (April 1, 2023 - September 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	%
Six months ended September 30, 2023	8,083	(54.2)	(6,194)	–	(2,487)	–	(2,611)	–
September 30, 2022	17,642	(26.8)	(4,464)	–	605	(84.8)	229	(93.3)

(Note) Comprehensive income: Six months ended September 30, 2023: ¥(1,927) million [–%]

Six months ended September 30, 2022: ¥(1,049) million [–%]

	Basic earnings per share	Diluted earnings per share
Six months ended September 30, 2023	Yen (133.90)	Yen –
September 30, 2022	11.75	–

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2023	76,304	70,106	91.5
As of March 31, 2023	78,825	72,034	91.0

(Reference) Equity: As of September 30, 2023: ¥69,840 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	–	0.00			
Fiscal year ending March 31, 2024 (Forecast)			–	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
Full year	15,874	(54.5)	(8,611)	–	(3,511)	–	(2,442)	–	(125.22)

(Note) Revision from the latest released financial results forecast : 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, 2023: 19,577,071 shares

March 31, 2023: 19,577,071 shares

2) Total number of treasury shares at the end of the period:

September 30, 2023: 75,313 shares

March 31, 2023: 75,035 shares

3) Average number of shares during the period:

Six months ended September 30, 2023: 19,501,943 shares

Six months ended September 30, 2022: 19,502,574 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, 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 concerns about the impact on economic activities and uncertainty remained, the Japanese economy showed a gradual recovery trend as corporate earnings and personal consumption remained steady.

As for overseas economies, while weaknesses were seen in some regions due to concerns about the effects of severe real estate market conditions in China, global monetary tightening, the prolonged situation in Ukraine, and the accelerating inflation, the employment and income environment remained steady, and the economies remained resilient despite some signs of challenges.

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 has been improving due to expectations of economic recovery in China, the expectations preceded the weak movement of actual demand, and high inventory levels have been piling up. Moreover, intermittent adjustments were evident in the overall market conditions, and the capacity utilization rates of production facilities generally remained varied and lacked momentum.

The demand for ferronickel continued to slow down since, in addition to the environment described above, overseas producers of stainless steel shifted some of their procurement to nickel pig iron, which has a price advantage, and reviewed the stainless steel scrap blending ratio with carbon neutrality in mind.

On the procurement front, prices of nickel ore, the primary raw material for ferronickel products, have been high against the backdrop of a robust demand for nickel ore. Moreover, prices of various raw materials and fuel remained high due to the steep rise in resource prices globally, causing increasing production costs.

Nickel prices on the London Metal Exchange (LME) remained slightly weaker 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, the Company’s ferronickel sales volume decreased by 46.2% 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 the price of nickel pig iron, which has a price advantage mentioned above, 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.

Regarding the selling price of ferronickel products, the LME nickel price applicable to the Company declined by 11.0% year on year, while the average exchange rate of Japanese yen against U.S. dollar applicable to the Company was 6.6% weaker year on year. Moreover, in addition to the market prices applicable to the Company, as mentioned previously, selling price level of the Company’s ferronickel products also partly referred to the price of nickel pig iron resulting in lowering its selling price. Therefore, the selling environment continued to be challenging, with stagnant revenue growth due to lower selling prices compared to before.

Despite the rapidly evolving business environment, 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 business development, initiatives to reduce GHG emissions, and reinforcement of operational efficiency improvement measures to pursue cost minimization.

As a result, consolidated net sales for the period under review decreased by 54.2% year on year to ¥8,083 million. On the profit front, the Company posted operating loss of ¥6,194 million (compared with operating loss of ¥4,464 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 ¥2,487 million (compared with ordinary profit of ¥605 million for the same period of the previous fiscal year), reflecting the recording of ¥2,827 million in share of profit of entities accounted for using equity method under non-operating income. Loss attributable to owners of parent was ¥2,611 million

(compared with profit attributable to owners of parent of ¥229 million for the same period of the previous fiscal year), including ¥138 million of gain on sale of investment securities included in extraordinary income.

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 55.6% year on year to ¥7,696 million with operating loss of ¥6,147 million (compared with operating loss of ¥4,328 million for the same period of the previous fiscal year).

(ii) Gas business

In the gas business, the recording of costs associated with facility repair resulted in recording a loss despite stable operations.

As a result, net sales in this segment increased by 25.2% year on year to ¥430 million with operating loss of ¥43 million (compared with operating loss of ¥25 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 ¥28 million for the same period of the previous fiscal year) with operating loss of ¥8 million (compared with operating loss of ¥114 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, 2023 are as follows.

Total assets decreased by ¥2,521 million from the end of the previous fiscal year to ¥76,304 million.

Current assets decreased by ¥3,733 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.

Non-current assets increased by ¥1,211 million from the end of the previous fiscal year mainly due to the recording of share of profit of entities accounted for using equity method, and other factors, despite a decrease in investment securities resulting from the sale of cross-shareholdings. Investment securities held by the Company amounting to ¥26,661 million consisted mainly of ¥17,722 million in the amount reflected in the consolidated balance sheet of shares of entities accounted for using equity method, ¥2,331 million in shares of subsidiaries and associates, and ¥5,976 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 ¥593 million from the end of the previous fiscal year to ¥6,197 million.

Current liabilities decreased by ¥445 million from the end of the previous fiscal year primarily owing to the settlement of notes and accounts payable - trade, and other factors.

Non-current liabilities decreased by ¥148 million from the end of the previous fiscal year mainly due to a decrease in provision for restoration cost resulting from acceptance inspection of construction costs, and other factors.

Total net assets decreased by ¥1,927 million from the end of the previous fiscal year to ¥70,106 million.

Shareholders' equity decreased by ¥2,611 million resulting from the recording of loss, and other factors. Accumulated other comprehensive income increased by ¥705 million resulting from an increase in foreign currency translation adjustment. Non-controlling interests decreased by ¥21 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, as well as due to recession fears against the background of the impact of cumulative monetary tightening in the U.S. and Europe and a delayed economic recovery in China.

On the volume front of ferronickel products, the Company expects the environment to remain unchanged and a decrease from the announced plan since the Company will strengthen volume control from the profitability perspective.

In terms of profit and loss, on the selling price front of ferronickel products, the Company refers to the price of nickel pig iron, which has a price advantage, in addition to the market prices applicable to the Company, so the revenue growth is restrained to a certain extent. On the procurement front, prices of nickel ore, the primary raw material, and the prices of raw materials, fuel, and electricity remain at high levels and are expected to have a significant impact.

In addition, regarding the write-down of inventories, while an additional amount was recorded in the first half, the reversal amount will be recorded in the second half due to a decrease in the 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. Moreover, as announced in “Notice Concerning Recording of Extraordinary Income (Gain on Sale of Investment Securities)” dated October 5, 2023, the Company expects to record gain on sale of investment securities under extraordinary income.

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 Non-operating Income (Share of Profit of Entities Accounted for Using Equity Method) and Revisions to Financial Results Forecast,” dated October 31, 2023.

<Reference>

[Revisions to financial results forecast]

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 August 2, 2023)	Million yen 20,885	Million yen (7,089)	Million yen (2,891)	Million yen (3,246)	Yen (166.44)
Revised forecast (B)	15,874	(8,611)	(3,511)	(2,442)	(125.22)
Change (B–A)	(5,011)	(1,522)	(620)	804	
Change (%)	(24.0)	—	—	—	
(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 August 2, 2023)	3,330	4,870	8,200	3,428	3,540	6,968
Revised forecast	3,052	3,148	6,200	3,210	2,848	6,058
(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 August 2, 2023)	10.82	10.00	10.33	135.34	134.10	134.60
Revised forecast	10.78	9.27	10.01	140.18	139.22	139.69
(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 September 30, 2023
Assets		
Current assets		
Cash and deposits	16,848	17,104
Accounts receivable - trade	6,593	6,820
Securities	1,500	1,700
Merchandise and finished goods	8,204	7,936
Work in process	361	267
Raw materials and supplies	5,836	4,874
Other	4,904	1,812
Allowance for doubtful accounts	(1)	(1)
Total current assets	44,247	40,514
Non-current assets		
Property, plant and equipment	8,383	8,384
Intangible assets	239	291
Investments and other assets		
Investment securities	25,518	26,661
Retirement benefit asset	198	266
Other	243	192
Allowance for doubtful accounts	(5)	(5)
Total investments and other assets	25,954	27,114
Total non-current assets	34,577	35,789
Total assets	78,825	76,304

(Million yen)

	As of March 31, 2023	As of September 30, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	760	622
Accrued expenses	1,018	1,029
Income taxes payable	7	46
Provision for bonuses	95	163
Other	657	232
Total current liabilities	2,539	2,094
Non-current liabilities		
Retirement benefit liability	50	55
Deferred tax liabilities	2,087	2,068
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	43
Other	10	26
Total non-current liabilities	4,252	4,103
Total liabilities	6,791	6,197
Net assets		
Shareholders' equity		
Share capital	13,922	13,922
Capital surplus	3,481	3,481
Retained earnings	50,540	47,929
Treasury shares	(452)	(452)
Total shareholders' equity	67,491	64,879
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,831	3,663
Revaluation reserve for land	593	593
Foreign currency translation adjustment	(510)	375
Remeasurements of defined benefit plans	340	328
Total accumulated other comprehensive income	4,254	4,960
Non-controlling interests	287	266
Total net assets	72,034	70,106
Total liabilities and net assets	78,825	76,304

(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, 2022	For the Six months ended September 30, 2023
Net sales	17,642	8,083
Cost of sales	20,885	13,318
Gross loss	(3,243)	(5,234)
Selling, general and administrative expenses		
Selling expenses	437	176
General and administrative expenses	783	783
Total selling, general and administrative expenses	1,220	960
Operating loss	(4,464)	(6,194)
Non-operating income		
Interest income	6	11
Dividend income	237	174
Rental income from real estate	51	53
Share of profit of entities accounted for using equity method	3,699	2,827
Foreign exchange gains	1,056	691
Other	86	33
Total non-operating income	5,137	3,791
Non-operating expenses		
Interest expenses	0	0
Loss on disposal of inventories	–	32
Foreign withholding tax	31	25
Other	36	25
Total non-operating expenses	67	83
Ordinary profit (loss)	605	(2,487)
Extraordinary income		
Gain on sale of non-current assets	0	–
Gain on sale of investment securities	386	138
Total extraordinary income	386	138
Extraordinary losses		
Loss on retirement of non-current assets	76	1
Total extraordinary losses	76	1
Profit (loss) before income taxes	915	(2,350)
Income taxes - current	518	230
Income taxes - deferred	177	51
Total income taxes	696	282
Profit (loss)	219	(2,632)
Loss attributable to non-controlling interests	(9)	(21)
Profit (loss) attributable to owners of parent	229	(2,611)

Quarterly Consolidated Statements of Comprehensive Income
Six Months Ended September 30

(Million yen)

	For the Six months ended September 30, 2022	For the Six months ended September 30, 2023
Profit (loss)	219	(2,632)
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,937)	(200)
Remeasurements of defined benefit plans, net of tax	9	(19)
Share of other comprehensive income of entities accounted for using equity method	659	926
Total other comprehensive income	(1,269)	705
Comprehensive income	(1,049)	(1,927)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(1,040)	(1,905)
Comprehensive income attributable to non-controlling interests	(9)	(21)

(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.