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Consolidated Financial Results for the Nine Months Ended December 31, 2023 [Japanese GAAP]



February 9, 2024

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: February 9, 2024

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 Nine Months Ended December 31, 2023 (April 1, 2023 – December 31, 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	%
Nine months ended December 31, 2023	11,926	(56.7)	(8,236)	–	(3,095)	–	(1,964)	–
December 31, 2022	27,518	(33.8)	(6,718)	–	(580)	–	(1,195)	–

(Note) Comprehensive income: Nine months ended December 31, 2023: ¥(2,590) million [–%]

Nine months ended December 31, 2022: ¥(2,113) million [–%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
December 31, 2023	(100.75)	–
December 31, 2022	(61.32)	–

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of December 31, 2023	74,622	69,442	92.7
As of March 31, 2023	78,825	72,034	91.0

(Reference) Equity: As of December 31, 2023: ¥69,168 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	15,586	(55.3)	(8,740)	–	(3,242)	–	(1,138)	–	(58.35)

(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):

December 31, 2023: 19,577,071 shares

March 31, 2023: 19,577,071 shares

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

December 31, 2023: 75,401 shares

March 31, 2023: 75,035 shares

3) Average number of shares during the period:

Nine months ended December 31, 2023: 19,501,868 shares

Nine months ended December 31, 2022: 19,502,471 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.

Table of Contents – Attachments

1. Qualitative Information on Quarterly Financial Results	2
(1) Explanation on Operating Results	2
(2) Explanation on Financial Position	4
(3) Forward-looking Statements Including Consolidated Financial Results Forecast.....	5
2. Quarterly Consolidated Financial Statements and Key Notes	7
(1) Quarterly Consolidated Balance Sheets	7
(2) Quarterly Consolidated Statements of Income and Comprehensive Income	9
(3) Notes to Quarterly Consolidated Financial Statements.....	11
(Notes on going concern assumption)	11
(Notes on significant changes in the amount of shareholders' equity)	11

1. Qualitative Information on Quarterly Financial Results

(1) Explanation on Operating Results

During the nine months ended December 31, 2023 (the “period under review”), although corporate earnings and personal consumption remained steady, the recovery of the Japanese economy was moderate, as 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.

As for overseas economies, 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 remaining high level of inflation rate. While the employment and income environment remained steady, the pace of economic recovery seemed to have slowed down somewhat.

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, despite the high capacity utilization rate due to expectations of economic recovery in China, the expectations preceded the weak movement of actual demand, and high inventory levels have piled up. Intermittent adjustments were also evident in some parts, 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 moreover, due to reviewing of 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, keeping production costs high.

Nickel prices on the London Metal Exchange (LME) remained slightly weaker due to complex factors, including the slowdown of the Chinese economy, 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 52.7% 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 12.1% year on year, while the average exchange rate of the Japanese yen against the U.S. dollar applicable to the Company was 5.1% weaker year on year. Moreover, in addition to the market prices applicable to the Company, as mentioned previously, the 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 to achieve carbon neutrality, and reinforcement of operational efficiency improvement measures to pursue cost minimization.

As a result, consolidated net sales for the period under review decreased by 56.7% year on year to ¥11,926 million. On the profit front, the Company posted operating loss of ¥8,236 million (compared with operating loss of ¥6,718 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 ¥3,095 million (compared with ordinary loss of ¥580 million for the same period of the previous fiscal year), reflecting the recording of ¥4,546 million in share of profit of entities accounted for using equity method under non-operating income. Loss attributable to owners of parent was ¥1,964 million (compared with loss attributable to owners of parent of ¥1,195 million for the same period of the previous fiscal year), including ¥1,538 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 58.1% year on year to ¥11,301 million with operating loss of ¥8,196 million (compared with operating loss of ¥6,559 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 8.2% year on year to ¥626 million with operating loss of ¥24 million (compared with operating loss of ¥8 million for the same period of the previous fiscal year).

(iii) Other

The segment of other businesses recorded a loss, despite concluding sales contracts in the real estate business, because the sales proceeds failed to exceed costs such as administrative expenses.

As a result, net sales in this segment increased by 59.3% year on year to ¥61 million with operating loss of ¥22 million (compared with operating loss of ¥157 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 December 31, 2023 are as follows.

Total assets decreased by ¥4,203 million from the end of the previous fiscal year to ¥74,622 million.

Current assets decreased by ¥3,481 million from the end of the previous fiscal year mainly due to a decrease in accounts receivable - other resulting from the receipt of a bonus incentive reward for reducing power consumption through participation in a winter-time power-saving campaign of our power supplier and the refund of consumption taxes receivable, and other factors.

Non-current assets decreased by ¥721 million from the end of the previous fiscal year mainly due to a decrease in investment securities resulting from the sale of cross-shareholdings, and other factors. Investment securities held by the Company amounting to ¥24,608 million consisted mainly of ¥17,931 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 ¥3,753 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 ¥1,611 million from the end of the previous fiscal year to ¥5,179 million.

Current liabilities decreased by ¥859 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 ¥752 million from the end of the previous fiscal year mainly due to a decrease in deferred tax liabilities associated with the sale of cross-shareholdings, and other factors.

Total net assets decreased by ¥2,591 million from the end of the previous fiscal year to ¥69,442 million.

Shareholders' equity decreased by ¥1,945 million resulting from the recording of loss, and other factors. Accumulated other comprehensive income decreased by ¥631 million resulting mainly from a decrease in valuation difference on available-for-sale securities associated with the sale of cross-shareholdings. Non-controlling interests decreased by ¥13 million.

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

With regard to the consolidated financial results 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 mainly in the U.S. and Europe and the real estate problem in China.

On the volume front of the Company's ferronickel products, the Company expects a decrease from the announced plan, since the environment has remained largely unchanged and the Company has been continuing the policy of volume control from the profitability perspective.

In terms of profit and loss, on the selling price front of ferronickel products, the Company also partly 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 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 continue to have an 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 January 18, 2024, 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 February 2, 2024.

<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 October 31, 2023)	Million yen 15,874	Million yen (8,611)	Million yen (3,511)	Million yen (2,442)	Yen (125.22)
Revised forecast (B)	15,586	(8,740)	(3,242)	(1,138)	(58.35)
Change (B-A)	(288)	(129)	269	1,304	
Change (%)	(1.8)	—	—	—	
(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 October 31, 2023)	3,052	3,148	6,200	3,210	2,848	6,058
Revised forecast	3,052	2,998	6,050	3,210	2,805	6,015
(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 October 31, 2023)	10.78	9.27	10.01	140.18	139.22	139.69
Revised forecast	10.78	8.43	9.61	140.18	146.29	143.21
(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 December 31, 2023
Assets		
Current assets		
Cash and deposits	16,848	20,150
Accounts receivable - trade	6,593	5,189
Securities	1,500	1,699
Merchandise and finished goods	8,204	7,283
Work in process	361	251
Raw materials and supplies	5,836	4,297
Other	4,904	1,895
Allowance for doubtful accounts	(1)	(1)
Total current assets	44,247	40,766
Non-current assets		
Property, plant and equipment	8,383	8,508
Intangible assets	239	300
Investments and other assets		
Investment securities	25,518	24,608
Retirement benefit asset	198	277
Other	243	166
Allowance for doubtful accounts	(5)	(5)
Total investments and other assets	25,954	25,046
Total non-current assets	34,577	33,856
Total assets	78,825	74,622

(Million yen)

	As of March 31, 2023	As of December 31, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	760	324
Accrued expenses	1,018	908
Income taxes payable	7	24
Provision for bonuses	95	43
Other	657	379
Total current liabilities	2,539	1,680
Non-current liabilities		
Retirement benefit liability	50	56
Deferred tax liabilities	2,087	1,472
Deferred tax liabilities for land revaluation	631	623
Provision for environmental measures	11	5
Provision for loss contract	1,273	1,273
Provision of restoration cost	187	43
Other	10	24
Total non-current liabilities	4,252	3,499
Total liabilities	6,791	5,179
Net assets		
Shareholders' equity		
Share capital	13,922	13,922
Capital surplus	3,481	3,481
Retained earnings	50,540	48,595
Treasury shares	(452)	(452)
Total shareholders' equity	67,491	65,545
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,831	2,377
Revaluation reserve for land	593	573
Foreign currency translation adjustment	(510)	344
Remeasurements of defined benefit plans	340	326
Total accumulated other comprehensive income	4,254	3,622
Non-controlling interests	287	274
Total net assets	72,034	69,442
Total liabilities and net assets	78,825	74,622

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Nine Months Ended December 31

(Million yen)

	For the Nine months ended December 31, 2022	For the Nine months ended December 31, 2023
Net sales	27,518	11,926
Cost of sales	32,463	18,708
Gross loss	(4,944)	(6,781)
Selling, general and administrative expenses		
Selling expenses	663	260
General and administrative expenses	1,110	1,193
Total selling, general and administrative expenses	1,773	1,454
Operating loss	(6,718)	(8,236)
Non-operating income		
Interest income	8	16
Dividend income	459	228
Rental income from real estate	77	80
Share of profit of entities accounted for using equity method	5,600	4,546
Foreign exchange gains	28	328
Other	106	45
Total non-operating income	6,280	5,245
Non-operating expenses		
Interest expenses	0	0
Loss on disposal of inventories	–	31
Commitment fees	19	21
Foreign withholding tax	63	33
Provision for environmental measures	30	–
Other	27	18
Total non-operating expenses	142	104
Ordinary loss	(580)	(3,095)
Extraordinary income		
Gain on sale of non-current assets	0	7
Gain on sale of investment securities	386	1,538
Total extraordinary income	386	1,546
Extraordinary losses		
Loss on retirement of non-current assets	101	13
Loss on retirement of inventories	34	–
Total extraordinary losses	135	13
Loss before income taxes	(329)	(1,563)
Income taxes - current	494	386
Income taxes - deferred	373	29
Total income taxes	868	415
Loss	(1,197)	(1,978)
Loss attributable to non-controlling interests	(1)	(13)
Loss attributable to owners of parent	(1,195)	(1,964)

Quarterly Consolidated Statements of Comprehensive Income
 Nine Months Ended December 31

(Million yen)

	For the Nine months ended December 31, 2022	For the Nine months ended December 31, 2023
Loss	(1,197)	(1,978)
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,539)	(1,539)
Remeasurements of defined benefit plans, net of tax	13	(22)
Share of other comprehensive income of entities accounted for using equity method	609	949
Total other comprehensive income	(915)	(612)
Comprehensive income	(2,113)	(2,590)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(2,111)	(2,576)
Comprehensive income attributable to non-controlling interests	(1)	(13)

(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.