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Consolidated Financial Results for the Three Months Ended June 30, 2024 [Japanese GAAP]



August 8, 2024

Company name: PACIFIC METALS CO., LTD.
 Stock exchange listing: Tokyo Stock Exchange
 Code number: 5541
 URL: <https://www.pacific-metals.co.jp/en/>
 Representative: Masayuki Aoyama, President and Representative Director
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 Scheduled date to commence dividend payments: -
 Preparation of supplementary material on financial results: None
 Holding of financial results briefing: None

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

1. Consolidated Financial Results for the Three Months Ended June 30, 2024 (April 1, 2024 – June 30, 2024)

(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, 2024	3,446	(18.3)	(962)	—	344	—	301	—
June 30, 2023	4,217	(61.2)	(3,292)	—	(1,417)	—	(1,566)	—

(Note) Comprehensive income: Three months ended June 30, 2024: ¥801 million [–%]
 Three months ended June 30, 2023: ¥(1,508) million [–%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended June 30, 2024	15.48	—
June 30, 2023	(80.35)	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2024	74,448	69,861	93.5
As of March 31, 2024	73,790	69,060	93.2

(Reference) Equity: As of June 30, 2024: ¥69,603 million
 As of March 31, 2024: ¥68,785 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, 2024	—	0.00	—	0.00	0.00
Fiscal year ending March 31, 2025	—				
Fiscal year ending March 31, 2025 (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, 2025 (April 1, 2024 - March 31, 2025)

(% 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	7,248	(10.3)	(3,687)	—	(1,261)	—	(1,346)	—	(69.02)
Full year	14,229	(8.3)	(5,979)	—	(1,555)	—	(1,847)	—	(94.71)

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

*** Notes:**

(1) Significant changes in the scope of consolidation during the period: None

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):

June 30, 2024: 19,577,071 shares

March 31, 2024: 19,577,071 shares

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

June 30, 2024: 75,613 shares

March 31, 2024: 75,605 shares

3) Average number of shares during the period:

Three months ended June 30, 2024: 19,501,464 shares

Three months ended June 30, 2023: 19,502,026 shares

* Review of the Japanese-language originals of the attached consolidated quarterly financial statements by certified public accountants or an audit firm: None

* 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. Overview of Operating Results, etc.” on page 5.

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1. Overview of Operating Results, etc.

(1) Overview of Operating Results for the Period under Review

During the three months ended June 30, 2024 (the “period under review”), although the continued appreciation of the U.S. dollar and rising prices raised concerns about their impact on economic activities, the Japanese economy showed a gradual recovery trend amid a standstill, as the employment situation, corporate earnings, and other factors generally improved.

As for overseas economies, although there were concerns about an economic slowdown due to the effects of the stagnant real estate market in China, global monetary tightening, growing tensions in the Middle East and Ukraine, and persistently high inflation, the economy showed signs of recovery, supported by solid personal consumption, a favorable employment and income environment, and other factors.

Under these circumstances, 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, is experiencing high inventory levels due to a decline in construction demand accompanying the real estate recession in China, and the surplus stainless steel products in China are flowing to neighboring countries, creating excessive competition. As a result, intermittent adjustments were evident in some areas, and the capacity utilization rates of production facilities generally remained varied and lacked momentum.

Demand for ferronickel continued to slow down because, 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 robust demand for nickel ore. Moreover, prices for various fuels remained high due to the steep rise in global resource prices, causing production costs to remain high.

Nickel prices on the London Metal Exchange (LME) were relatively volatile due to complex factors, including the slowdown of the Chinese economy, fluctuations in foreign exchange rates and financial and capital markets, increasing tensions in the Middle East and Ukraine, and concerns over nickel ore supply following the riots in New Caledonia.

In this situation, the Company’s ferronickel sales volume decreased by 5.5% year on year, as the Company continued its policy with the objective of strategically controlling volume so as to secure a certain level of 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.

Regarding the selling price of ferronickel products, the LME nickel price applicable to the Company declined by 32.4% year on year, while the average exchange rate of the Japanese yen against the U.S. dollar applicable to the Company was 12.8% 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 the lowering of the selling price. Therefore, the selling environment continued to be challenging, with stagnant revenue growth due to lower selling prices compared to previous levels.

Despite this harsh 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 new business development, including the new metal smelting project utilizing submarine resources, 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 18.3% year on year to ¥3,446 million. On the profit front, the Company posted an operating loss of ¥962 million (compared with an operating loss of ¥3,292 million for the same period of the previous fiscal year), owing to the significant impact of decreased sales despite a decrease in cost of sales resulting from the reversal of the write-down of inventories. Ordinary profit was ¥344 million (compared with an ordinary loss of ¥1,417 million for the same period of the previous fiscal year), reflecting the recording of ¥852 million in share of profit of entities accounted for using equity method under non-operating income. Profit attributable to owners of parent was ¥301 million (compared with loss

attributable to owners of parent of ¥1,566 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) Overview of Operating Results for the Period under Review.”

As a result, net sales in this segment decreased by 18.8% year on year to ¥3,283 million with an operating loss of ¥925 million (compared with an operating loss of ¥3,292 million for the same period of the previous fiscal year).

(ii) Gas business

In the gas business, increased prices for raw materials and fuels, along with other factors, resulted in a loss despite stable operations as planned.

As a result, net sales in this segment decreased by 10.8% year on year to ¥174 million with an operating loss of ¥33 million (compared with an operating profit of ¥2 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 were ¥7 million (compared with net sales of nil for the same period of the previous year) with an operating loss of ¥5 million (compared with an operating loss of ¥5 million for the same period of the previous fiscal year).

(2) Overview of Financial Position for the Period under Review

Assets, liabilities, and net assets of the Group as of June 30, 2024 are as follows.

Total assets increased by ¥658 million from the end of the previous fiscal year to ¥74,448 million.

Current assets decreased by ¥467 million from the end of the previous fiscal year, mainly due to a decrease in cash and deposits relating to an increase in accounts receivable – trade associated with the impact of payments and an increase in raw materials and supplies, as well as other factors.

Non-current assets increased by ¥1,125 million from the end of the previous fiscal year, mainly due to an increase in investment securities resulting from an increase in foreign currency translation adjustment related to equity-method affiliates, and other factors. Investment securities held by the Company amounting to ¥24,959 million consisted mainly of ¥20,566 million in the amount reflected in the consolidated balance sheet of shares of entities accounted for using equity method, ¥2,320 million in shares of subsidiaries and associates, and ¥1,495 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 ¥143 million from the end of the previous fiscal year to ¥4,586 million.

Current liabilities decreased by ¥184 million from the end of the previous fiscal year due to a decrease in accrued expenses and a decrease in accounts payable – facilities, which is included in other, and other factors, despite an increase in notes and accounts payable – trade due to the impact of payments and other factors.

Non-current liabilities increased by ¥41 million from the end of the previous fiscal year mainly due to an increase in deferred tax liabilities associated with equity-method affiliates, and other factors.

Total net assets increased by ¥801 million from the end of the previous fiscal year to ¥69,861 million.

Shareholders' equity increased by ¥301 million resulting from the recording of profit, and other factors. Accumulated other comprehensive income increased by ¥516 million resulting from an increase in foreign currency translation adjustment related to equity-method affiliates. Non-controlling interests decreased by ¥16 million.

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

With regard to the consolidated financial results forecast, the outlook remains highly uncertain due to the effects of the stagnant real estate market in China, global monetary tightening, growing tensions in the Middle East and Ukraine, and persistently high inflation.

On the volume front of the Company's ferronickel products, the environment in which the Company operates has remained largely unchanged. Accordingly, the Company has continued with the policy of volume control from a profitability perspective and expects results to be almost the same as the previously announced forecast.

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, the prices of nickel ore, the primary raw material, and those of raw materials, fuel, and electricity remain high and are expected to significantly impact procurement prices.

In addition, regarding the write-down of inventories, the Company expects to record a reversal of the write-down of inventories under cost of sales (decrease in cost of sales) due to the progression of a reduction in the write-down along with a decrease in inventory volume and other factors from the end of the previous fiscal year to the end of the current fiscal year.

Although the circumstances remain severe, response measures to address the 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 Cost of Sales (Reversal of Write-down of Inventories), Recording of Non-operating Income (Share of Profit of Entities Accounted for Using Equity Method) and Revisions to Financial Results Forecast," dated July 31, 2024.

<Reference>

[Revisions to financial results forecast]

Revisions to consolidated financial results forecast for the six months ending September 30, 2024 (April 1, 2024 through September 30, 2024)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent	Basic earnings per share
Previously announced forecast (A) (Announced on May 10, 2024)	Million yen 6,641	Million yen (4,418)	Million yen (2,376)	Million yen (2,514)	Yen (128.91)
Revised forecast (B)	7,248	(3,687)	(1,261)	(1,346)	(69.02)
Change (B-A)	607	731	1,115	1,168	
Change (%)	9.1	—	—	—	
(Reference) Actual results for the six months ending September 30, 2023	8,083	(6,194)	(2,487)	(2,611)	(133.90)

Revisions to consolidated financial results forecast for the fiscal year ending March 31, 2025 (April 1, 2024 through March 31, 2025)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent	Basic earnings per share
Previously announced forecast (A) (Announced on May 10, 2024)	Million yen 13,994	Million yen (6,838)	Million yen (2,903)	Million yen (3,252)	Yen (166.76)
Revised forecast (B)	14,229	(5,979)	(1,555)	(1,847)	(94.71)
Change (B-A)	235	859	1,348	1,405	
Change (%)	1.7	—	—	—	
(Reference) Actual results for the previous fiscal year ended March 31, 2024	15,521	(9,114)	(2,119)	(1,074)	(55.10)

[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 10, 2024)	2,869	3,131	6,000	2,777	2,770	5,547
Revised forecast	3,074	2,926	6,000	2,475	2,770	5,245
(Reference) Actual results for the previous fiscal year ended March 31, 2024	3,052	2,973	6,025	3,210	2,825	6,035

	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 10, 2024)	7.83	8.00	7.92	139.28	139.15	139.21
Revised forecast	8.08	8.00	8.04	151.61	149.17	150.42
(Reference) Actual results for the previous fiscal year ended March 31, 2024	10.78	8.42	9.62	140.18	148.85	144.46

2. Quarterly Consolidated Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of March 31, 2024	As of June 30, 2024
Assets		
Current assets		
Cash and deposits	21,758	19,236
Accounts receivable - trade	5,001	6,354
Securities	2,199	2,199
Merchandise and finished goods	7,303	7,515
Work in process	257	317
Raw materials and supplies	3,521	4,106
Other	1,773	1,619
Allowance for doubtful accounts	(1)	(1)
Total current assets	41,814	41,347
Non-current assets		
Property, plant and equipment	7,388	7,315
Intangible assets	285	9
Investments and other assets		
Investment securities	23,687	24,959
Retirement benefit asset	476	489
Other	142	332
Allowance for doubtful accounts	(5)	(5)
Total investments and other assets	24,301	25,776
Total non-current assets	31,975	33,100
Total assets	73,790	74,448

(Million yen)

	As of March 31, 2024	As of June 30, 2024
Liabilities		
Current liabilities		
Notes and accounts payable - trade	234	412
Accrued expenses	892	790
Income taxes payable	47	23
Provision for bonuses	117	40
Provision of restoration cost	5	—
Other	376	223
Total current liabilities	1,674	1,489
Non-current liabilities		
Retirement benefit liability	59	61
Deferred tax liabilities	1,135	1,175
Deferred tax liabilities for land revaluation	547	547
Provision for environmental measures	2	2
Provision for loss contract	1,273	1,273
Provision of restoration cost	14	14
Other	23	22
Total non-current liabilities	3,055	3,096
Total liabilities	4,729	4,586
Net assets		
Shareholders' equity		
Share capital	13,922	13,922
Capital surplus	3,481	3,481
Retained earnings	49,658	49,960
Treasury shares	(452)	(452)
Total shareholders' equity	66,609	66,910
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,183	1,137
Revaluation reserve for land	400	400
Foreign currency translation adjustment	179	744
Remeasurements of defined benefit plans	412	409
Total accumulated other comprehensive income	2,176	2,693
Non-controlling interests	274	257
Total net assets	69,060	69,861
Total liabilities and net assets	73,790	74,448

(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, 2023	For the Three months ended June 30, 2024
Net sales	4,217	3,446
Cost of sales	7,023	3,861
Gross loss	(2,806)	(415)
Selling, general and administrative expenses		
Selling expenses	89	87
General and administrative expenses	396	459
Total selling, general and administrative expenses	485	547
Operating loss	(3,292)	(962)
Non-operating income		
Interest income	7	8
Dividend income	165	73
Rental income from real estate	25	27
Share of profit of entities accounted for using equity method	1,245	852
Foreign exchange gains	479	356
Other	19	12
Total non-operating income	1,941	1,331
Non-operating expenses		
Interest expenses	0	0
Loss on disposal of inventories	30	1
Commitment fees	7	7
Foreign withholding tax	23	9
Other	5	6
Total non-operating expenses	67	25
Ordinary profit (loss)	(1,417)	344
Extraordinary income		
Gain on sale of investment securities	–	25
Total extraordinary income	–	25
Extraordinary losses		
Loss on retirement of non-current assets	0	0
Total extraordinary losses	0	0
Profit (loss) before income taxes	(1,417)	369
Income taxes - current	4	1
Income taxes - deferred	144	83
Total income taxes	149	84
Profit (loss)	(1,567)	285
Loss attributable to non-controlling interests	(0)	(16)
Profit (loss) attributable to owners of parent	(1,566)	301

Quarterly Consolidated Statements of Comprehensive Income
Three Months Ended June 30

(Million yen)

	For the Three months ended June 30, 2023	For the Three months ended June 30, 2024
Profit (loss)	(1,567)	285
Other comprehensive income		
Valuation difference on available-for-sale securities	(231)	(103)
Remeasurements of defined benefit plans, net of tax	(10)	(3)
Share of other comprehensive income of entities accounted for using equity method	300	623
Total other comprehensive income	58	516
Comprehensive income	(1,508)	801
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(1,507)	818
Comprehensive income attributable to non-controlling interests	(0)	(16)

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on segment information, etc.)

I For the Three months ended June 30, 2023 (from April 1, 2023 to June 30, 2023)

1. Information on net sales and profit or loss by reportable segment

(Million yen)

	Reportable segment			Other (Note 1)	Total	Adjustment (Note 2)	Amount recorded in Quarterly Consolidated Statements of Income (Note 3)
	Nickel business	Gas business	Total				
Net sales							
Net sales to outside customers	4,042	174	4,217	—	4,217	—	4,217
Intersegment sales or transfer	—	21	21	—	21	(21)	—
Total	4,042	196	4,238	—	4,238	(21)	4,217
Segment profit (loss)	(3,292)	2	(3,289)	(5)	(3,294)	2	(3,292)

- Notes:
1. “Other” corresponds to the real estate business not included in the reportable segments.
 2. Adjustment to segment profit (loss) of ¥2 million includes intersegment elimination of ¥2 million and other adjustments of ¥0 million.
 3. Segment profit (loss) is adjusted with operating loss in the quarterly consolidated statements of income.

2. Information on impairment losses of non-current assets or goodwill by reportable segment

Not applicable.

II For the Three months ended June 30, 2024 (from April 1, 2024 to June 30, 2024)

1. Information on net sales and profit or loss by reportable segment

(Million yen)

	Reportable segment			Other (Note 1)	Total	Adjustment (Note 2)	Amount recorded in Quarterly Consolidated Statements of Income (Note 3)
	Nickel business	Gas business	Total				
Net sales							
Net sales to outside customers	3,283	155	3,438	7	3,446	—	3,446
Intersegment sales or transfer	—	19	19	—	19	(19)	—
Total	3,283	174	3,457	7	3,465	(19)	3,446
Segment loss	(925)	(33)	(959)	(5)	(964)	2	(962)

- Notes:
1. “Other” corresponds to the real estate business not included in the reportable segments.
 2. Adjustment to segment loss of ¥2 million includes intersegment elimination of ¥2 million and other adjustments of ¥0 million.
 3. Segment loss is adjusted with operating loss in the quarterly consolidated statements of income.

2. Information on impairment losses of non-current assets or goodwill by reportable segment

Not applicable.

(Notes on significant changes in the amount of shareholders' equity)

Not applicable.

(Notes on going concern assumption)

Not applicable.

(Notes on statements of cash flows)

The Company has not prepared quarterly consolidated statements of cash flows for the period under review. The depreciation and amortization (including amortization of intangible assets) for the period under review is as follows:

	(Million yen)	
	For the three months ended June 30, 2023	For the three months ended June 30, 2024
Depreciation and amortization	85	86