

Message From the President

We will continue to change so that we may remain the kind of materials manufacturer that the times demand

Masayuki Aoyama

President and Representative Director



► Our future will change depending on how we view the rapid changes in the business environment

Our financial performance for the fiscal year ended March 31, 2024 were harsh, with decreases in both net sales and profits due to the impact of rapid changes in the business environment surrounding us. I would first like to express our sincere apologies to our shareholders and other stakeholders for the concern that this has caused.

In addition to possessing one of the world's largest ELKEM-type electric furnaces at our plant in Hachinohe City, the Company has built a position as one of the world's leading ferronickel manufacturers based on our in-house developed smelting technology. However, the environment surrounding our industry has changed dramatically due to China ramping up production of nickel pig iron (NPI), which is produced from relatively low-grade nickel ore, since the 2000s. The price of ferronickel handled by the Group handles is based on the nickel price on the London Metal Exchange (LME). However, the expansion of supply of NPI produced, smelted, and processed by companies with Chinese and other capital regrettably caused a situation where market prices are

determined by the price movements of NPI. This resulted in a fall in the selling price of our ferronickel products, which had a severe impact on our earnings. Although there continues to be high demand for our products from customers seeking high-quality ferronickel, we have been forced to strategically control production.

Frankly speaking, the market environment related to ferronickel is not something that we can change, and the current market trends are expected to continue. On the other hand, although the fall in market prices is not attributable to us, the smelting technologies that we have cultivated remain highly valued, and there is potential for them to be applied to polymetallic materials. While we face extremely difficult straits as a ferronickel manufacturer, my view of the situation is that, once again, an opportunity for us to change has come around. So that you may understand that this is my heartfelt belief, allow me to talk briefly about the history of PACIFIC METALS CO., LTD.

► We have continued to change to demonstrate our strengths in our field of expertise

Pacific Metals was founded in 1949 as a company making pig iron from iron sand. It established its headquarters in the industrial zone of Hachinohe, Aomori Prefecture, where many companies have grown and prospered together while respecting each other's fields of expertise. When I joined the Company in 1975, it had already begun its smelting business and was manufacturing ferroalloys, including Fe-Ni, Fe-Mn, and Fe-Cr, and stainless steel. Subsequently, however, price competition in the stainless steel industry intensified. At the time, I visited a major steel company, and I honestly felt that, given its huge scale, this was not a company that we wanted to compete with. Later, the Company shifted its focus to become a specialized manufacturer of ferronickel, the raw material of stainless steel. Looking back, I can sense that the history of the Company has been a repeated cycle of finding an area of expertise and transforming in order to survive.

Thanks to that cycle of transformation, we have received many requests for new projects from companies that value our smelting technologies. One of them is a project to refine the seabed resources of polymetallic nodules. The layers of black deposits that have

accumulated over many years on the deep ocean floor are called polymetallic nodules. They contain metals with high resource value, such as cobalt and nickel. We have already conducted a feasibility study in cooperation with a company that mines polymetallic nodules, and we have begun pilot demonstration trials with a sample mining of approximately 2,000 tons of polymetallic nodules. In the next stage of this project, we plan to obtain technical and facility data for separating and extracting polymetallic nodules in our electric furnaces, verify the changes in the smelting process, and conduct a detailed examination of the equipment and the amount of investments that will be required. We are also working on multiple new projects, including the development of lithium-ion battery technologies.

If the ferronickel business had been going well, we would not have had the spare capacity to use our electric furnaces for other projects. I believe that it is this harsh business environment that has actually handed us the opportunity to take on the challenge of new growth areas, including polymetallic nodules.

► Moving steadily forward with our eyes on the present for the sake of the future

One thing that I would like to say is that I have no hesitation whatsoever about the idea of the Company shifting its business model. However, companies do not change suddenly one day; it takes time and money to get new businesses on track. In the meantime, all of us, including our employees, have to make a living. We will sustain the high value-added ferronickel business by continuing to operate our electric furnaces while strategically controlling production. We will also uphold our earnings base, employment of personnel, and technologies at a certain level. During that time, we will steadily generate results from new businesses. To take it further, no matter how meticulously we may plan a new business, quite often, it is a case of not knowing until we try, or the business environment may change in the process of tackling that new business. That is why we are always focused on facing reality, carrying out what we can do right in front of us, so we will be ready for whatever opportunities may come our way.

The Company's treasures are its technological capabilities and its employees. Amid the rapid pace of technological innovation in society, the driving force behind passing on and further developing our technologies is our employees. Amid the severe business environment, we have been placing efforts into providing internal briefings and individual interviews so as not to cause anxiety among our employees. Now that the medium-term business plan, PAMCO-2024, has been completed, we are also developing plans to explain the Company's vision for our future to our stakeholders.

There are many companies in Japan that have been around for 100 years, but I think it is rare for a company to have continued handling the same materials or business for that long. So that it may continue to be a manufacturer of materials that each era requires, the Company is now entering another time of transformation, one of several that it has faced in the past. I hope that all our stakeholders will watch over our challenges and extend their support.

We have established a new long-term vision, “a comprehensive materials company that co-creates a sustainable, recycling-oriented society,” aiming to grow into a sustainable company, and we have implemented the medium-term business plan (period: FY2022-FY2024, hereinafter, PAMCO-2024) to achieve this.

Summary of Progress on Major Priority Measures

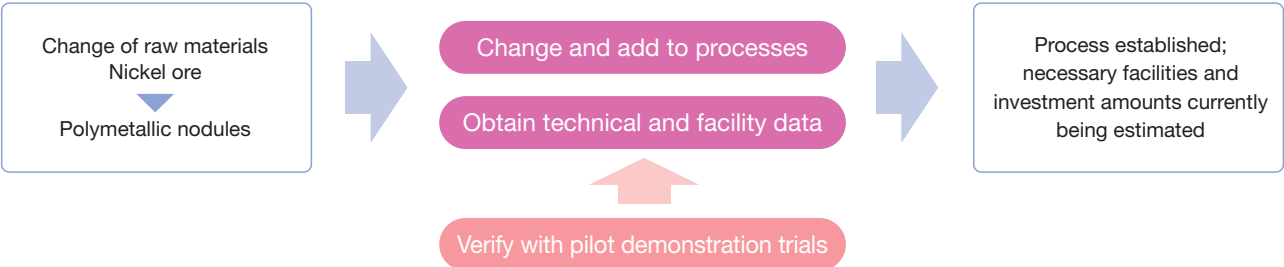
Creation of new businesses that contribute to society	Promotion of new metal refining projects → Highlights of major priority measures ❶	
	Realization of production and sales of raw materials for LIB materials	● Established (filed patent application for) cobalt sulfate manufacturing process, but postponed consideration of joint ventures with other companies ● Continuing development of process for producing rare metals for LIB applications from other raw materials (will consider commercialization after process is established, taking requirements of U.S. Inflation Reduction Act into account)
	Development of LIB recycling technology	● Completed development of technology, phased up to demonstration levels
Acceleration of consideration of expansion into overseas smelting business	Promotion and production start-up of overseas smelting projects	● Restarted project after obtaining approval of local governments ⇒ Deepened discussions with owners toward the Company’s participation
Diversification of business in Japan to contribute to a recycling-oriented society	Restructuring of recycling business	● Continued marketing activities of the production and sales business of raw materials for steelmaking and raw materials for battery materials
Enhancement of corporate value by addressing sustainability issues	Reduction of GHG emissions → Major priority measures highlights ❷	
	Promotion of symbiosis by contributing to regions and resource-rich countries	● Disclosed value creation process in integrated reports ● Conducted CSR surveys of consolidated subsidiaries and equity-method affiliates as part of our initiatives for respecting human rights
	Promotion of constructive dialogue with stakeholders	

Priority Measures Highlights ❶

Promotion of new metal refining projects

▶ Feasibility study of new metal smelting business from seabed resources

The Company is currently conducting pilot demonstration trials toward the construction of a smelting process tailored to the characteristics of polymetallic nodules (prior verification tests completed). We aim to ensure highly reliable operations by obtaining technical and facility data on the smelting process through smelting tests using polymetallic nodules.



Prior verification test



Polymetallic nodules being unloaded



Polymetallic nodule stockpile

Priority Measures Highlights ❷

Reduction of GHG emissions

▶ Electrification of calcination process in ferronickel production

In joint research with Microwave Chemical Co., Ltd., we succeeded in calcination and reduction of nickel ore using standard microwave bench-scale equipment.

● Removal of crystallization water from nickel ore

We measured the crystallization water after the calcination test and confirmed that it had been removed.

● Reduction reaction of nickel ore

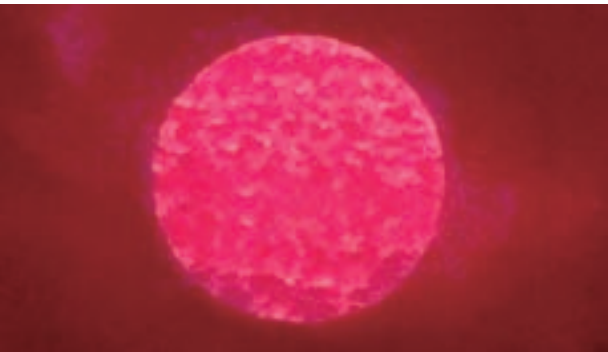
Reduction of nickel oxide and iron oxide in ore progressed. We obtained results that are almost equivalent to the reduction rate of our existing rotary kiln.

● Identification of issues and estimation of economic feasibility

Having obtained material and thermal balance data from continuous supply testing, we are now in the process of identifying the issues and estimating economic feasibility for the introduction of the actual system.



Standard microwave bench-scale equipment



(Center) Nickel ore undergoing calcination (900°C)

Investment Plan

	"PAMCO-2024" Plan for FY2023	Results for FY2023	(Difference)	Plan for FY2024
❶ Capital investment	1,351	317	(1,034)	309
❷ 1) Domestic business	500	0	(500)	0
❷ 2) Overseas business, resources	18	0	(18)	3,607
❷ 3) R&D investment	0	14	14	231
Total	1,869	331	(1,538)	4,147

Reason for difference between "PAMCO-2024" Plan for FY2023 and its results	● ❶ Capital investment Due to slump in environment, we reduced the amount of investment to the extent that it would not affect stable operations. ● ❷ 1) Domestic business Cancelled FY2023 capital investments as the results of marketing surveys about the restructuring of the recycling business found that demand diverges from our initially expectation.
Plan for FY2024	● ❷ 2) Overseas business, resources Investments in overseas smelting projects planned for FY2022 were postponed to FY2024 due to the review of the business structure.

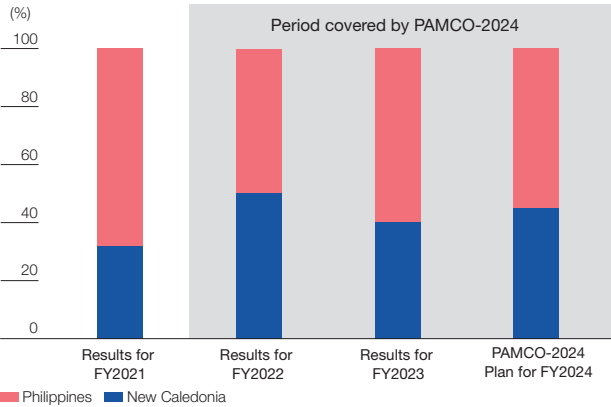
Ore Procurement Plan

► Status of conclusion of long-term contracts

Other party in long-term contracts	FY2021	FY2022	FY2023	FY2024	FY2025
<div></div> Rio Tuba Nickel Mining Corporation (36% stake held by the Company)	Prior contract period	Renewed	Contract period: Jan. 2022 to Dec. 2026 (5 years)		
<div></div> Taganito Mining Corporation (33.5% stake held by the Company)	Prior contract period		Contract period: Jan. 2022 to Dec. 2026 (5 years)		
<div></div> Cagdianao Mining Corporation	Prior contract period		Contract period: Jan. 2022 to Dec. 2026 (5 years)		
<div></div> Mai Kouaoua Mines	Contract period: Jan. 2014 to Dec. 2025 (2 contracts, 10 years each)				
<div></div> Montagnat SARL	Contract period: Apr. 2016 to Mar. 2026 (10 years)				

Philippines New Caledonia

► Procurement ratio



► Status of procurement

Environment surrounding nickel ore procurement

- The export ban on Indonesian ore came in effect in January 2014.
- The export ban was relaxed temporarily between January 2017 and December 2019.
- Afterwards, the export ban was reintroduced in January 2020.
- Since then, ore supply and demand has remained tight.

The Company's ore procurement policy

- As an ongoing ore procurement policy, the Company is pushing forward with the expansion of the procurement of ores from New Caledonia.

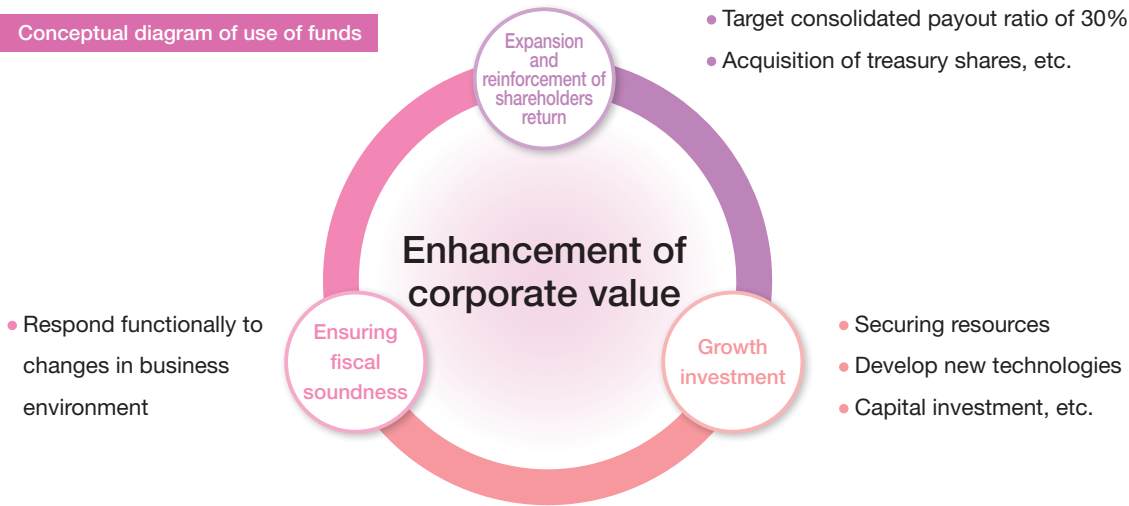
Quantitative Targets

Forecast for the period covered by PAMCO-2024		Plan for FY2022	Plan for FY2023	Plan for FY2024
	Production volume (Ni tons)	20,810	29,037	28,454
	Sales volume (Ni tons)	20,500	27,500	27,500
	Applicable LME nickel price (US\$/ton) [US\$/lb.]	21,451[9.73]	19,379[8.79]	19,290[8.75]
	Applicable exchange rate (¥/US\$)	111.05	111.06	111.07
	Net sales (million yen)	50,210	60,958	60,801
	Operating profit (loss) (million yen)	925	225	1,809
	Ordinary profit (loss) (million yen)	3,844	2,822	4,549
	Profit (loss) attributable to owners of parent (million yen)	3,513	2,415	4,058
	Total assets (million yen)	89,594	91,934	97,914
	Net assets (million yen)	81,026	82,416	85,797
	Investment (million yen)	7,089	1,869	9,484
	Depreciation (million yen)	314	402	536
Results and forecast for the period covered by PAMCO-2024		Results for FY2022	Results for FY2023	Results for FY2024
	Production volume (Ni tons)	13,380	6,035	5,547
	Sales volume (Ni tons)	12,393	6,025	6,000
	Applicable LME nickel price (US\$/ton) [US\$/lb.]	25,507[11.57]	21,208[9.62]	17,461[7.92]
	Applicable exchange rate (¥/US\$)	135.26	144.46	139.21
	Net sales (million yen)	34,852	15,521	13,994
	Operating profit (loss) (million yen)	(12,588)	(9,114)	(6,838)
	Ordinary profit (loss) (million yen)	(4,960)	(2,119)	(2,903)
	Profit (loss) attributable to owners of parent (million yen)	(5,026)	(1,074)	(3,252)
	Total assets (million yen)	78,825	73,790	70,670
	Net assets (million yen)	72,034	69,060	65,825
	Investment (million yen)	1,201	331	4,147
	Depreciation (million yen)	289	350	407

Capital Policy

We will pursue an optimal balance of expansion and reinforcement of shareholders return, growth investment, and ensuring fiscal soundness in the use of funds, and strive to enhance corporate value.

Conceptual diagram of use of funds



► Capital policy (expansion and reinforcement of shareholders return)

- **Dividends of surplus:** We regard the return of profits to shareholders as one of our most important management issues and will pay dividends with a target consolidated payout ratio of 30%, while enhancing and strengthening our corporate structure.
- **Internal reserve:** We will use internal reserve as a fund to respond functionally to changes in the business environment to secure resources, develop new technologies, make capital investments, and acquire treasury shares as part of our capital policies.

► Financial policy (ensuring fiscal soundness)

- With the aim of maintaining an appropriate level of funds for its business activities, the Group's basic policy in the immediate business climate is to finance capital investments with funds provided by operating activities. We have also concluded commitment line agreements as a means of ensuring short-term liquidity.
- In terms of the liquidity of funds, we strive to ensure an appropriate balance of cash and cash equivalents, while taking financial conditions and other factors into consideration. We have positioned the improvement of cash flow from operating activities through the improvement of profitability as the most important issue in our financial policy.

► Investment plans (growth investment)

- **Capital investment/strategic investment:** The investment plan under the medium-term business plan, PAMCO-2024, includes capital investments that contributes to the maintenance, efficiency, and longevity of facilities, and strategic investments in domestic business, overseas business and resources, and research and development. In the fiscal year ended March 31, 2024, the Group made capital investments of 314 million yen in the nickel business, primarily in ferronickel manufacturing facilities, and 16 million yen in the gas business, for a total investment (property, plant and equipment and intangible assets) of 331 million yen.
- **R&D investment:** Following a three-year plan (FY2022 - FY2024), we proceeded with research and development aimed at the reduction of greenhouse gas emissions aimed at carbon neutrality, the establishment of hydrometallurgical and smelting technologies, lithium-ion battery (LIB) recycling technology, polymetallic nodule smelting technology, expansion of recycled nickel resources use and applications for slag, and the rebuilding of the recycling business. A total of 511 million yen was spent on research and development in the fiscal year ended March 31, 2024.