chapter 2

Strategy for Value Creation

Medium to Long-term Strategy PAMCOvision 2031

The Group is currently implementing its seven-year Medium to Long-term Strategy PAMCOvision 2031, covering the period from FY2025 to FY2031.

Based on this strategy, we are reviewing our business model from scratch, restructuring our business portfolio with the aim of entering new business areas that will become new pillars, and working to address key sustainability issues.

Vision

The environment surrounding the Group has seen an overproduction of nickel pig iron by overseas producers, which has caused market prices to collapse and led to excessive competition. In addition, high raw material and fuel prices have resulted in significant increases in energy costs, and both sales and procurement have deviated considerably from the assumptions made in our Medium-term Business Plan (PAMCO-2024).

While a sudden turnaround in the external environment is unlikely, the Company will work to eliminate the susceptibility of the business type, which is dominated by nickel, and overcome the downturn in performance. In this way, the Company will pursue a business model shift involving a reduction or withdrawal from the nickel business, with the aim of becoming "a comprehensive materials company that co-creates a sustainable, recycling-oriented society."

(Million yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2025
Net sales	57,129	34,852	15,521	13,175
Operating profit	4,806	(12,588)	(9,114)	(7,368)
Ordinary profit	12,999	(4,960)	(2,119)	(1,622)

Overall Strategy

A comprehensive materials company that co-creates a sustainable, recycling-oriented society

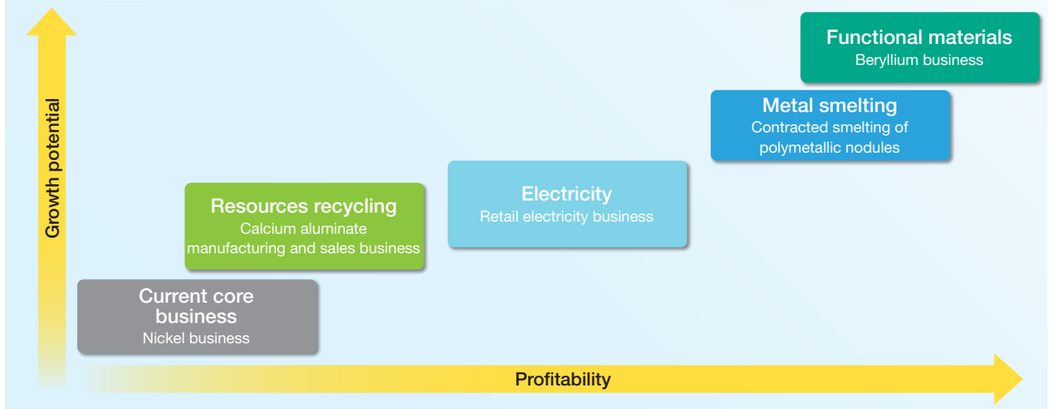
	PAMCO-2024 Medium-term Management Plan Apr. 2022-Mar. 2025 (3 years)	PAMCOvision 2031 Medium to Long-term Strategy Apr. 2025-Mar. 2032 (7 years)	
Themes	Further strengthen the platform and promote the sustainability strategy	**Review the business model from scratch and proceed to a new stage**	**Promote growth strategy Expand sustainability strategy**
Priority measures	1. Restructuring of ferronickel production and sales systems with emphasis on profitability 2. Acceleration of consideration of expansion into overseas smelting business 3. Creation of new businesses that contribute to society 4. Diversification of business in Japan to contribute to a recycling-oriented society 5. Enhancement of corporate value by addressing sustainability issues	1. Smooth shift from ferronickel business to new business 2. Securing of stable earnings in the polymetallic nodule business 3. Beryllium business and promotion of development of LIB-related business 4. Promotion of retail electricity business with focus on local production for local consumption 5. Building a frameworks for use of renewable energy 6. Expansion of business that support social infrastructure 7. Fostering of new corporate culture	

Restructuring of Business Portfolio

Business Feasibility Analysis

We will shift our core business from the nickel business to the metal smelting and functional materials businesses, which have high growth and profitability, and restructure our business portfolio to combine the electricity and resources recycling businesses. (→P.15)

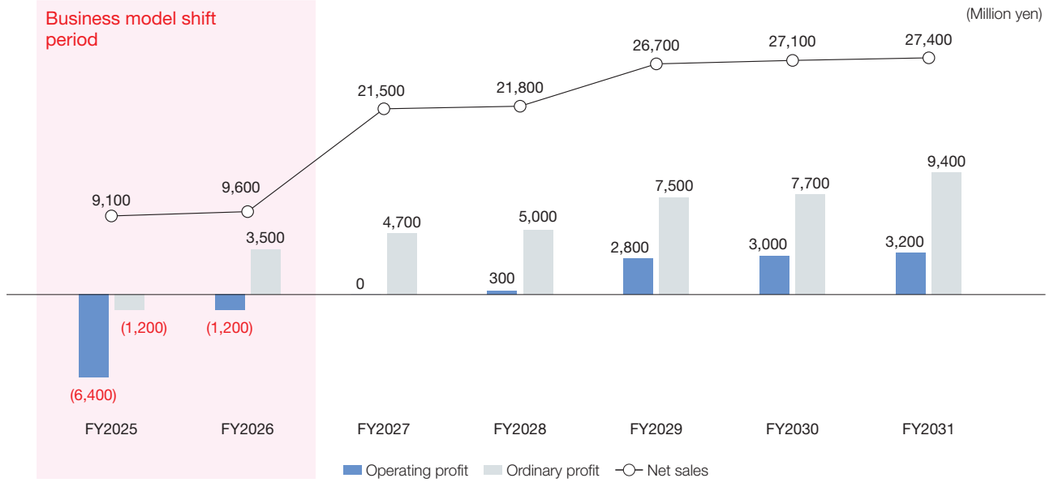
With metal smelting and functional materials as our core businesses, combine electricity and resources recycling businesses



Summary of Business Profit and Loss

In order to maintain our energy-related base during resource smelting, we expect to record temporary losses in the fiscal years ending March 31, 2026 and March 31, 2027 during the period of our business model shift. However, by expanding applications in the nickel business and launching the retail electricity business, we plan to achieve operating profit and ensure stable profitability from the fiscal year ending March 31, 2028.

By expanding applications in nickel business and launching retail electricity business, aim to achieve operating profit and ensure stable profitability from FY2027



Business Overview

1 Metal Smelting Business

→ We aim to smoothly transition from the nickel business to contracted smelting of polymetallic nodules

Business strategy

- For the nickel business, Pacific Metals aims to achieve a significant improvement in its business profit and loss by expanding applications from stainless steel raw materials to matte raw materials, and a transition to this new focus is under consideration
- Furthermore, energy-related infrastructure, which consumes large amounts of energy during resource smelting, will be utilized in new businesses. Therefore, Pacific Metals will ensure it can be utilized swiftly and maintain the system without interruption.
- The polymetallic nodule business will commence full-scale operation in FY2029; therefore, the Group's business results will be slow for the period from FY2025 to FY2026 due to the shift in business model

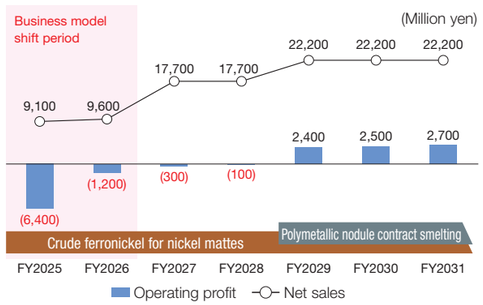
Strengths of the business

Maximize existing facilities and smelting technology to start the business with minimal capital investment

- The Pacific Metals plant has the advantage of being located in the largest logistics site in northern Tohoku

Future business potential

- The spread of EVs has significantly expanded demand for nickel for LIBs
- Rare metals are expected to see continued growth as raw materials for the LIBs used in EVs
- Slag is expected to grow steadily as a raw material for ferro alloys



What is nickel matte?

Nickel sulfide serves as an intermediate raw material for nickel refining and LIB, and is manufactured by sulfurizing and removing iron from crude ferronickel (before sulfur removal) in a converter.

Benefits of shifting focus from raw materials for stainless steel to raw materials for nickel matte

Costs are reduced due to the elimination of the desulfurization process (which removes sulfur, an element whose inclusion is avoided in stainless steel raw materials) and the substantial use of recycled nickel as the main raw material. A decrease in variable manufacturing costs leads to an improved break-even point.

What are polymetallic nodules?

Polymetallic nodules are a type of mineral that lies semi-buried in the seabed at depths ranging from 4,000 to 6,000 meters and are abundant in Mn, Ni, Cu, and Co. In Japan, they are considered critical due to the trends toward decarbonization, supply chain fragmentation, and heightened geopolitical risks. Estimates indicate that the polymetallic nodule reserves in just the Clarion-Clipperton Fracture Zone (CCZ) off Hawaii exceed the total resources of all mineral deposits combined.

The importance of the Company's initiatives

The technology and knowhow that the Company has cultivated over the years in the metal smelting business, which considers environmental impacts, can be applied, and initial investment can be reduced by leveraging existing infrastructure and smelting facilities, enabling the domestic supply of critical metals to be competitive compared to smelting in other nations.

Establishment of production methods via practical testing

We established a smelting method through pilot plant testing at the Company's facilities (kiln and electric furnace) using 2,000 tons of polymetallic nodules. The outcomes of this testing will inform the planned modification of specific equipment to achieve an annual smelting capacity of 1.3 million tons of polymetallic modules.

2 Retail Electricity Business

→ Establish a retail electricity business and enter the electricity market

Business strategy

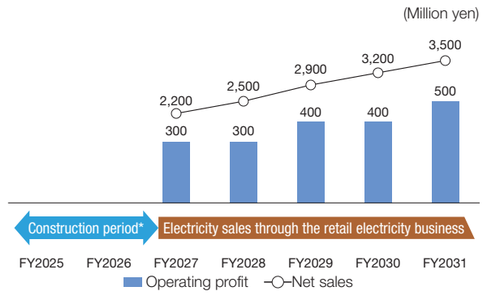
- Establish a retail electricity business for the high-voltage and extra-high-voltage sectors as a retail electricity business operator and aim to enter the electricity market
- Collaborate with local power generation businesses to supply high-value-added, locally sourced renewable energy power generation

Strengths of the business

- Proposals leveraging expertise in optimizing the balance of power consumption, including purchased electricity
- Proposals tailored to the needs of energy-intensive industries

Future business potential

- Develop an electricity business primarily focused on neighboring regions, and by proactively incorporating low-environmental-impact renewable energy, stable business development can be expected



* Construction period: Due to the external sales condition negotiation period, the expected profit is limited to a certain amount

What is the retail electricity business?

Electricity businesses are divided into three sectors: power generation, transmission and distribution, and retail; the Company operates in the retail sector, which involves selling electricity to plants and other facilities. We will commence a demand-side PPS (Power Producer and Supplier) operation to supply the Company's sites with electricity at advantageous market prices.

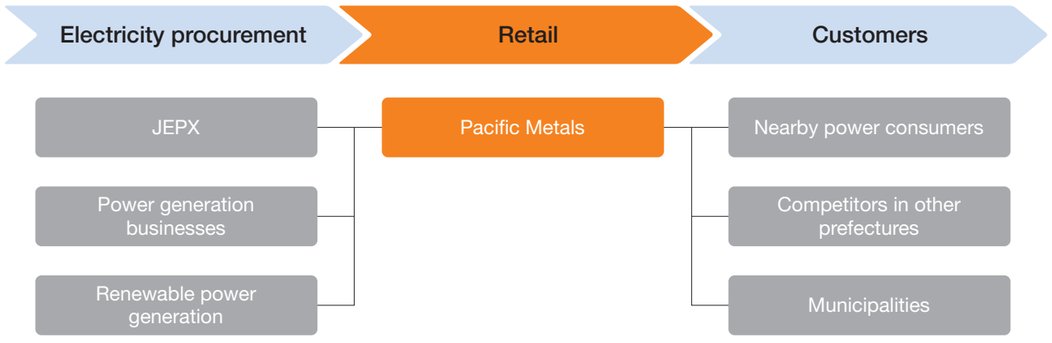
The importance of the Company's initiatives

In the metal smelting business, the Company has substantial electricity needs and a proven history of optimizing the mix of purchased and in-house power generation to drive down manufacturing costs; consequently, we possess extensive expertise developed over many years regarding how to procure electricity cheaply and consume it efficiently, enabling proposals tailored to the needs of energy-intensive industries. We will also start a demand-side PPS by collaborating with local power generation businesses in using high value-added, locally sourced renewable energy.

Going forward, we also plan to maximize the electricity load management capabilities inherent to capital-intensive industries and enter the Virtual Power Plant (VPP*) market.

*This framework employs ICT to integrate and control multiple distributed energy resources as if they were a single power plant, thereby regulating the balance of electricity supply and demand.

Structure of the business



Business Overview

③ Beryllium Business

→ Pacific Metals anticipates a substantial increase in profits resulting from the pilot project and commercialization of nuclear fusion power generation

Business strategy

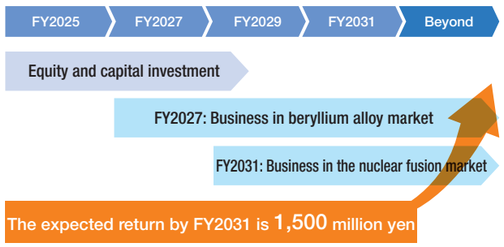
- Pacific Metals expects manufacturing cost reductions to continue due to MiRESSO's innovative smelting technology, coupled with the growth of EVs, leading to an expansion in demand for electronics applications
- A comprehensive business cooperation agreement has been concluded with MiRESSO; the agreement involves the utilization of Pacific Metals' resources and initial equity participation
- Enter the beryllium alloy market business, and aim to enter the nuclear fusion market business and participate as a business in the future

Strengths of the business

- Effective utilization of the extensive site
- Fully leverage Pacific Metals' comprehensive expertise in production technology, safety and health, and environmental management, capitalizing on the characteristics of the equipmentintensive industry

Future business potential

- Despite current demand limitations due to limited supply and high prices, Pacific Metals expects to convert potential demand into realized demand by lowering costs and catering to unmet needs
- Substantial future market growth driven by ongoing initiatives towards the implementation of nuclear fusion is anticipated.



Social implementation of nuclear fusion power generation is expected; investment recovery by FY2035 is possible

What is the beryllium business?

This business involves producing beryllium products from beryllium ore, with the future aim of selling such products to both the nuclear fusion power generation sector* and the established beryllium alloy market.

*Beryllium is an essential metal that functions as a neutron multiplier in the tritium production process, which serves as the fuel for nuclear fusion reactions.

The importance of the Company's initiatives

MiRESSO, a certified venture spun off from the National Institutes for Quantum Science and Technology (QST) and based in Aomori Prefecture, aims to contribute to the social implementation of nuclear fusion power generation by commercializing its beryllium business. Meanwhile, with a long-established site in Hachinohe City, Aomori Prefecture, the Company has the facilities, infrastructure, knowledge, experience, and proven results in producing metals from diverse ores, which can generate numerous synergies in the commercialization of the beryllium business. We aim to realize synergies by pooling management resources and knowhow, and participate in mass production for a nuclear pilot project on fusion power generation and the mass production phase after social implementation.

Growth drivers of the beryllium alloy market

Aerospace and defense	Increasing demand for lightweight, and high-strength materials leads to greater adoption of structural components and precision parts for commercial aircraft, etc.
Automotive	The spread of EVs and the trend towards higher-performance automotive components, alongside efforts to reduce vehicle weight to reduce CO_2 emissions
Electronics	Accelerated digitalization is driving expanded demand for materials with high-speed transmission and low-loss properties, as well as high-performance contacts and connectors
Healthcare	A rise in the application of window materials for X-ray apparatuses and the rapid advancement of cuttingedge medical technologies

④ Calcium Aluminate Manufacturing and Sales Business

→ Driven by the shift from blast furnaces to electric arc furnaces, Pacific Metals intends to develop an environmental recycling business in cooperation with Amita Holdings

Business strategy

- The shift from blast furnaces to electric arc furnaces is anticipated to drive increased demand for calcium aluminate as a desulfurizing and slag-forming material
- Pacific Metals will establish a calcium aluminate manufacturing and sales business in collaboration with Amita Holdings, aiming to build an environmental recycling business
- Pacific Metals will leverage the technologies it has cultivated through its existing businesses to enhance the added value of recycled raw materials
- Amidst the shift from blast furnaces to electric arc furnaces against the backdrop of transitioning to a low-carbon society, there is an expansion in demand for calcium aluminate, which is necessary for removing impurities from electric furnace steel

Strengths of the business

- Reduce manufacturing costs by using recycled raw materials as the primary raw material
- Collaboration with Amita Holdings (collection of recycled raw materials, relationships with electric arc furnace steel producers)
- Provided test production samples to key potential customers and received positive feedback

Future business potential

- Expansion in demand for desulfurization and slagging agents due to the shift from blast furnaces to electric arc furnaces

Demand expected to increase beyond FY2031 as well

What is calcium aluminate?

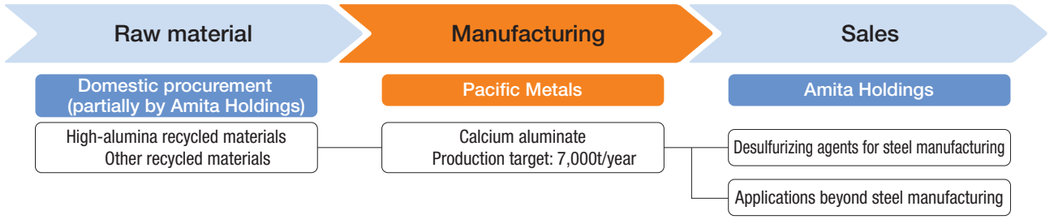
Calcium aluminate is primarily used as a desulfurizing agent in steel manufacturing. As the steel manufacturing industry transitions from blast furnaces to electric arc furnaces as part of decarbonization efforts, a greater need for more advanced desulfurizing agents is anticipated, which is forecast to result in growth in demand.

Establishment of manufacturing methods via practical testing

By conducting practical trials with its existing equipment (originally, a scallop shell incineration ash recycling facility), the Company has established a calcium aluminate manufacturing process. The primary high-alumina recycled raw material utilized in the trials was provided by a domestic partner with whom the Company has a long-term business relationship, thus ensuring a stable, amply supply for commercialization.

Partnership with Amita Holdings

In collaboration with Amita Holdings, the Company intends to pursue resource circulation that incorporates recycled materials in addition to conventional raw materials. In addition, by utilizing Amita Holdings' extensive distribution network, we anticipate applications beyond desulfurizing agents for steel manufacturing.



Financial Strategy

Comparison of Three-year Plan vs. Results and Progress of the Investment Strategy

We began implementing our previous three-year Medium-term Business Plan “PAMCO-2024” in April 2022, but the sudden deterioration of the nickel business environment led to a major deviation from the plan. In terms of investment plans, we limited investment in the nickel business in light of the deterioration of the environment, but this did not lead to investment in new businesses.

Comparison of Three-year Plan vs. Results (Consolidated)

(Million yen)

	For Apr. 2022 through Mar. 2025 (three-year total)			Reason for change
	Plan	Results	Comparison	
Net sales	171,969	63,549	(108,420)	• Many stainless-steel producers shifted to procuring NPI due to its price competitiveness after the expansion of NPI production resulted in excessive competition • Continuation of the policy of maintaining volume production and sales from a profitability perspective
Operating profit	2,959	(29,071)	(32,030)	• The ongoing impact of NPI prices and high raw material and energy costs, and upward-trending raw material costs
Ordinary profit	11,215	(8,703)	(19,918)	• While equity-method investment income from the Philippine equity-method affiliate increased, supported by robust demand, a loss was recorded
Profit attributable to owner of parent	9,986	(7,768)	(17,754)	–

Progress of the Investment Strategy

(Million yen)

	PAMCO-2024 Plan	PAMCO-2024 Results	Change
Capital investment	3,850	1,696	(2,154)
Domestic business	8,025	70	(7,955)
Overseas business, resources	5,532	31	(5,501)
R&D investment	1,035	152	(883)
Total	18,442	1,949	(16,493)

Capital investment: Maintain existing facilities in the nickel business and limit investment to safety and environmental measures.

Domestic business: The worsening cobalt market prevented a viable profitability forecast for the cobalt sulfate production and sales business, leading to the cessation of investment for the foreseeable future, even after due diligence.

Overseas businesses and resources: The impact of the shareholder restructuring of its Indonesian partner has reduced the priority of investment in overseas smelting businesses.

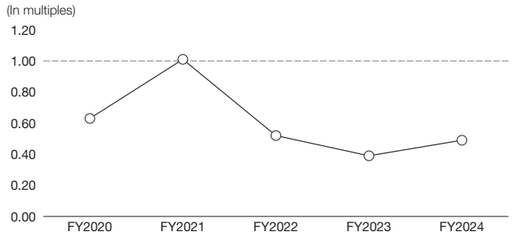
R&D investment: We expect that sufficient pilot data will be obtained for our small-scale prototype.

Response to Realize Management That Is Conscious of Cost of Capital and Stock Price

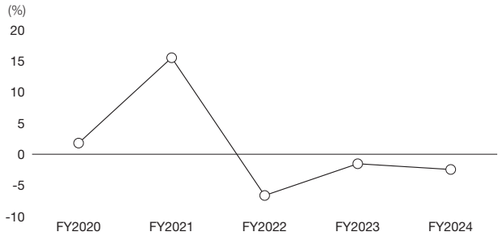
Analysis of the Current Situation

A low P/B ratio and low ROE have become the norm since the fiscal year ended March 31, 2023. The P/B ratio has consistently been below 1, and reliance on the highly volatile ferronickel business for the Company’s primary operations has resulted in unstable performance. The Company also had a prolonged period in which it paid no dividends, and its stock market valuation was consistently low. In addition, the persistent downturn in performance has resulted in a consistently low ROE. As a result, the Company continues to operate with inefficient capital utilization.

Trends in the P/B ratio



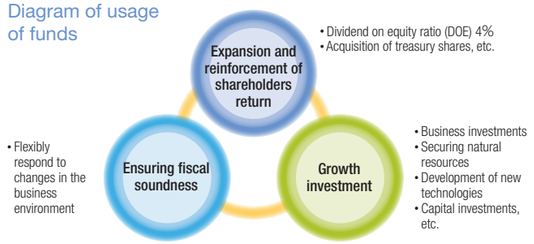
Trends in ROE



Initiatives to Enhance Corporate Value

In executing the Medium to Long-term Strategy PAMCOvision 2031, we aim to realize management that is conscious of cost of capital and stock price. We also aim to maximize corporate value by improving ROE and limiting capital costs.

Diagram of usage of funds



Dividends of surplus
To secure funds for growth investments aimed at improving return on capital, and to comprehensively consider the balance with shareholder returns, Pacific Metals will clarify its commitment to providing stable dividends to shareholders by revising the previous dividend payout ratio target of 30% and introducing a dividend on equity ratio (DOE) target of 4% as a new indicator

Internal reserve
Use the internal reserve as a fund to respond functionally to changes in the business environment and utilize it to invest in businesses, make capital investments, and acquire treasury shares as part of capital policies

Management that is conscious of cost of capital and stock price

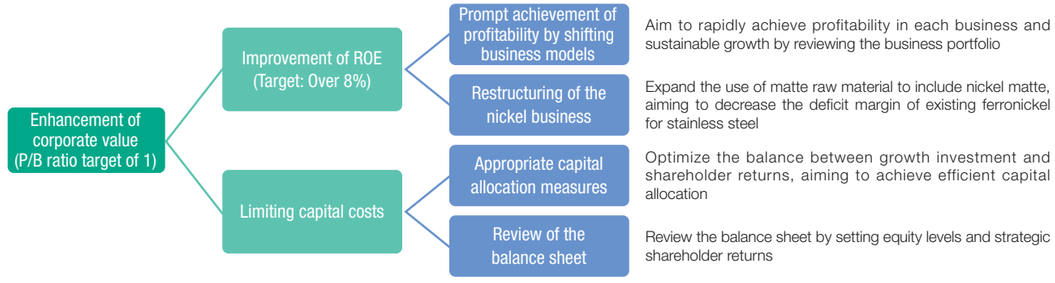
- Aim to achieve a target ROE of 8% by steadily executing the medium to long-term strategy
- Aim for a target P/B ratio of 1 as an indicator of management’s consciousness of cost of capital

Incentive-based compensation

- Pacific Metals’ management is considering the implementation of incentive-based compensation as a key commitment to achieving its medium to long-term strategy

Dialogues with shareholders and investors

- The director in charge of IR will spearhead constructive dialogues to ensure investors and shareholders understand the intrinsic corporate value of Pacific Metals
- Holding IR financial results briefing sessions (semiannually) • Holding individual IR meetings (quarterly)
- Also, considering the enhancement of IR activities for individual investors



Capital Allocation

From FY2025 to FY2031, operating CF will be allocated to growth investment and shareholder returns.