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IRC Limited 鐵江現貨有限公司
(Incorporated in Hong Kong with limited liability)
(Stock code: 1029)

**SECOND QUARTER TRADING UPDATE
FOR THE THREE MONTHS ENDED 30 JUNE 2021
K&S PRODUCTION INCREASED BY 3% QoQ
MARKET IRON ORE PRICE DOUBLED YoY**

CONFERENCE CALL

A conference call will be held today at 14h00 Hong Kong time to discuss the second quarter trading update. The number is +852 2112 1888 and the passcode is 7110529#. Presentation slides to accompany the call are available at www.ircgroup.com.hk. A replay call will be available from 30 July 2021 at http://www.ircgroup.com.hk/en/ir_presentations.php

Thursday, 29 July 2021: The Board of Directors of IRC Limited (“**IRC**” or the “**Company**”, together with its subsidiaries, the “**Group**”) is pleased to provide the Second Quarter Trading Update for the three months ended 30 June 2021.

HIGHLIGHTS – Q2 2021

K&S

- 3.3% increase in production over Q1; average production rate at 85% capacity;
- 4.7% reduction in sales volume over Q1, mainly due to railway congestion affecting shipments;
- Development of Sutara deposit on track, expected to be operational end of 2022 or early 2023;
- K&S current production rate at c.80%. Reduction due to mining contractor issues.

Corporate & Industry

- Positive Profit Alert with larger profit in H1 2021 than in H1 2020;
- 100% increase in H1 2021 average Platts 65% iron ore price (H1 2021: US\$211/t vs H1 2020: US\$106/t);
- H1 2021 closing cash and deposits balance increased to c.US\$67 million, after
 - loan repayment and interest totalling US\$17.1 million to Gazprombank in H1 2021; and
 - payment of guarantee fees to Petropavlovsk PLC of US\$13.8 million in H1 2021;
- Early principal repayment to Gazprombank of US\$20 million in July 2021;
- K&S continues to operate normally while it continues to resolve the RTN compliance issues;
- Trial shipment via the Amur River Bridge is expected in August 2021.

SECOND QUARTER TRADING UPDATE FOR THE THREE MONTHS ENDED 30 JUNE 2021

	Q2 2021	Q1 2021	Change	Q2 2020	Change	H1 2021	H1 2020	Change
Platts 65% Fe (average price per tonne)	USD232	USD190	22.1%	USD108	>100%	USD211	USD106	99.1%
Iron Ore concentrate								
– Production (tonnes)	665,974	644,744	3.3%	724,934	-8.1%	1,310,718	1,395,411	-6.1%
– Sales (tonnes)	634,381	665,664	-4.7%	717,076	-11.5%	1,300,045	1,380,516	-5.8%

SUMMARY OF PERFORMANCE

In the second quarter of 2021, K&S operated at an average capacity of 85% to produce 665,974 tonnes of iron ore concentrate, an increase of 3.3% over the previous quarter. As announced previously, mining issues have been the bottleneck in K&S's production. K&S appointed an additional mining contractor at the end of March and this contractor is gradually ramping up its work volume. However, given that Sovremennyye Gornye Technologii (“SGT”, the main mining contractor of K&S) has been unable to adequately increase its mining fleet at the K&S site and some of its existing equipment is in relatively poor technical condition, it is difficult to catch up quickly with the lag in mining works.

During the quarter, 634,381 tonnes of iron ore concentrate were sold, a decrease of 4.7% over the previous quarter. Sales continued to be affected by railway congestion issues, as more Russian exporters use the railway to ship coal and timber to China. The increase in bulk exports coincided with the seasonal railway network maintenance works carried out by the Russian Railways. In July, the congestion issue has eased, and K&S has been able to ship at close to the full capacity. Also, to mitigate the impact of the congestion at the Grodekovo/Suifenhe crossing, K&S has been diverting more sales to the seaborne customers in southern China. K&S is also exploring the west-bound transportation route with trial shipments going via the Zabaikalsk/Manzhouli border crossing.

As previously reported, an administrative offence proceeding was brought against K&S by the Russian Federal Service for Environmental, Technological, and Nuclear Supervision (“RTN”) for operating the project without the requisite approvals. The court considered the case to be outside its jurisdiction and the matter was returned to RTN. RTN has imposed an administrative penalty of RUB200,000 (equivalent to approximately US\$3,000) and has not required K&S to suspend operations. While K&S is resolving the issues as soon as practicable, it will continue to operate as normal.

Commenting on the performance of the second quarter, Yury Makarov, Chief Executive Officer of IRC said, *“Due to the strong demand for iron ore from the Chinese steel mills and scarce supply, the iron ore price has reached an all-time high. We are pleased with the strong price environment and are taking advantage of this tailwind to improve our profitability and liquidity. Our strong cash flow allowed us to prepay part of the Gazprombank loan in July to reduce the Group’s gearing and finance costs.*

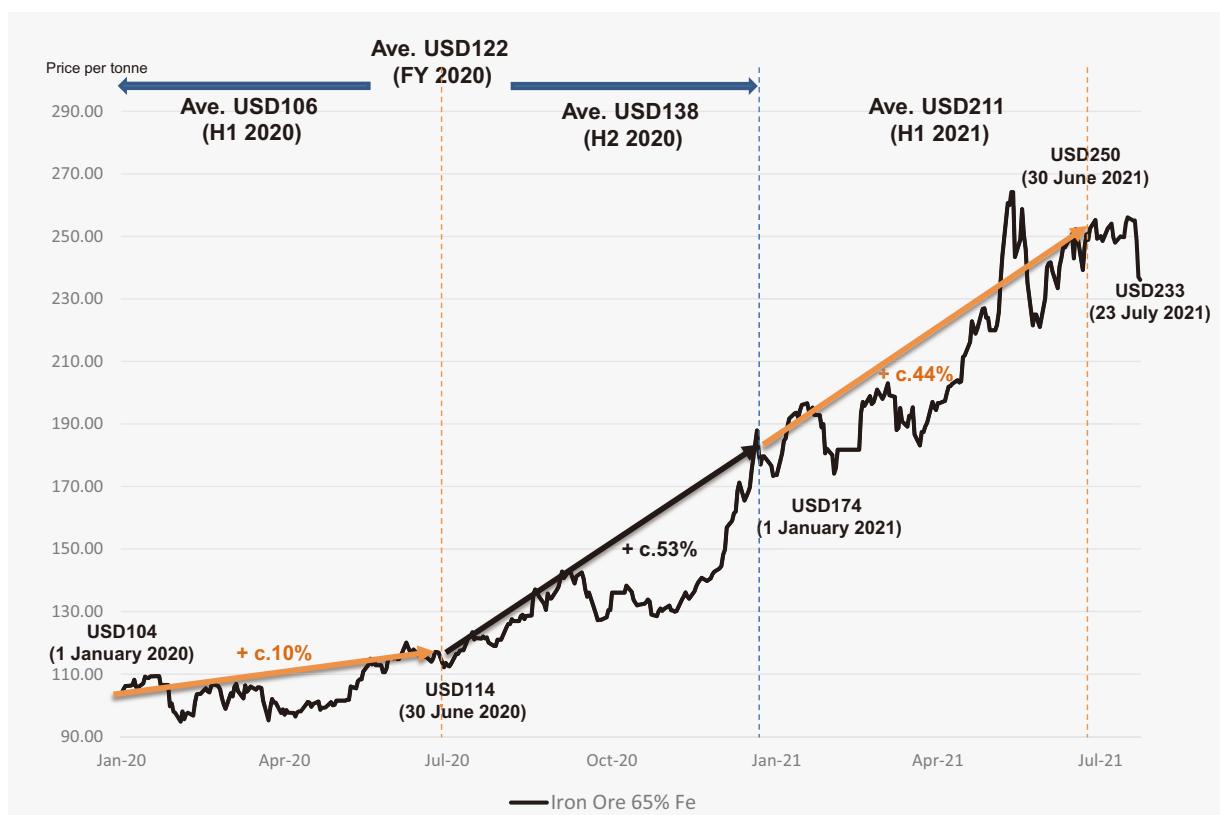
Q2 was an operationally challenging quarter, as production and sales were hindered by mining problems and railway congestions respectively. That being said, these are non-recurring issues and their impacts have been mostly mitigated. We are also working to resolve the compliance issues raised by RTN while production at K&S is unaffected.

While enjoying the current high price environment and at the same time managing the operational challenges, we have not lost sight of the longer-term horizon. Our development of the Sutara deposit is on track and it will provide K&S with ample supply of high-quality feedstock to meet future production needs.”

MARKETING, SALES AND PRICES

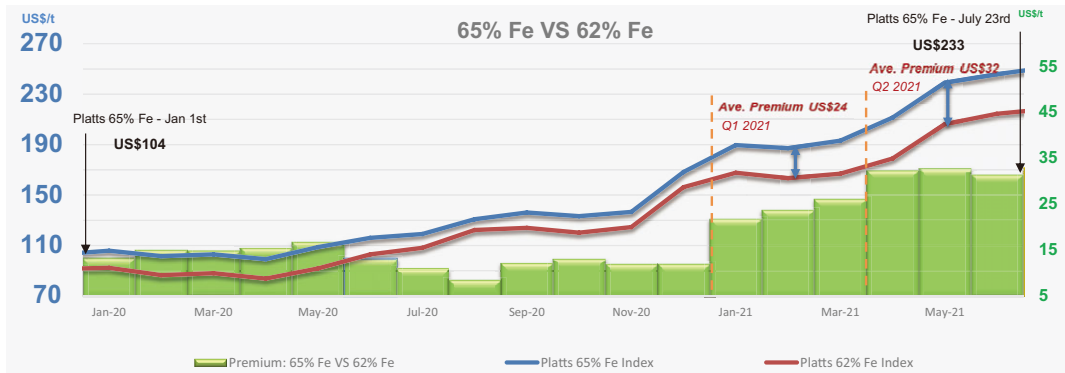
Iron Ore

Iron ore performed strongly in the second quarter of 2021. The price of Platts' 65% iron ore index continued its upward trend and broke the US\$260 per tonne mark in mid-May, the highest level since the listing of IRC in 2010, before settling at US\$250 per tonne at the end of the quarter. During the first half of 2021, the benchmark price of 65% iron ore increased by 44%. The dramatic price increase reflected China's high demand for high-grade iron ore and concerns about supply shortage. Crude steel output in China in April was strong, approximately 9% higher than the average monthly output of Q1 2021. Apart from the strong iron ore demand from China, an increase in COVID-19 infections in Brazil has raised concerns of iron ore supply shortages. During the second quarter, China's iron ore imports fell short of meeting the massive demand, falling by about 2% against the previous quarter to 278 million tonnes. However, it is worth noting that the Chinese government's vigilance has been heightened by the rise in iron ore prices. Steel mills may be forced to reduce production capacity as a result of China's new policy measures announced in early May.



Source: Platts (as of 23 July 2021)

High-grade 65% iron ore was selling at a record premium to the 62% iron ore, as Chinese steel mills sought to maximise production by utilising as much of the high-grade ore as possible to meet the Chinese government’s emission reduction target. In Q2 2021, the average price premium of 65% iron ore and 62% iron ore was US\$32 per tonne, 33% higher than that of the previous quarter.



Source: Bloomberg (as of 23 July 2021)

The selling price of the K&S’s product is determined with the reference to the international Platts iron ore price indices. It should be noted that the headline benchmark prices for all commodities are based on a fungible product at a specified location and thus the actual delivered price for the physical product is different to the one on the futures exchange. Transportation and handling costs and the level of deleterious elements in the concentrate delivered also have an effect.

World trade volume came roaring back as the COVID-19 pandemic gradually eased, and this has resulted in a temporary shortage of containers for seaborne cargoes. In order to circumvent this issue, exporters have increased their usage of the Russian railway system in both directions and as a result, the railway congestion previously experienced by IRC persisted into the second quarter. As a result, and in order to find its own alternative that would avoid the congestion at the border crossing, IRC has recently been diversifying its customer base by selling to customers in the southern part of China using seaborne bulk shipments. The delivered price that IRC can achieve in these locations is much closer to the benchmark price, however the transportation and handling costs are higher and thus the margin achieved at the seaborne deliveries is usually similar to, or slightly lower than the margin achieved on inland deliveries.

The Amur River Bridge, which would improve the logistic efficiency of both IRC and its Chinese customers, will open the door to renegotiate sales terms and potentially improve the pricing. It is expected that a trial shipment on this route may happen in August 2021.

Although K&S is strategically located at the doorstep of its Chinese market, most of the major Chinese steel mills nearby are owned or controlled by the same corporate organisation. This means that in the north-eastern part of China, IRC is operating in a semi-captive market, where low transportation costs play an important positive role on the delivered cost of its product but the bargaining power in price negotiations is negatively affected. This means that IRC's Chinese customers expect a discount to the benchmark Platts price and IRC have relatively little power to resist these monopolistic requests. IRC understands that this has been the case for other Russian producers as well, with discounts being commonly offered to customers in the region. For this reason, sales have also been made by K&S to customers in Russia, but this market is not without its challenges in light of the market competition from other local producers. As the purchase prices offered by the Russian customers of K&S were not attractive, very minimal shipments were made to Russia in Q2 2021 in favour of diverting more sales to the Chinese seaborne market, which offered better sales terms. K&S is also exploring the west-bound transportation route to China with trial shipments going via the Zabaikalsk/Manzhouli border crossing. K&S will continue monitoring the situation and adjusting its sales and marketing strategy accordingly.

The achieved selling price of K&S in the second quarter of 2021 is not published in this trading update for commercial reasons.

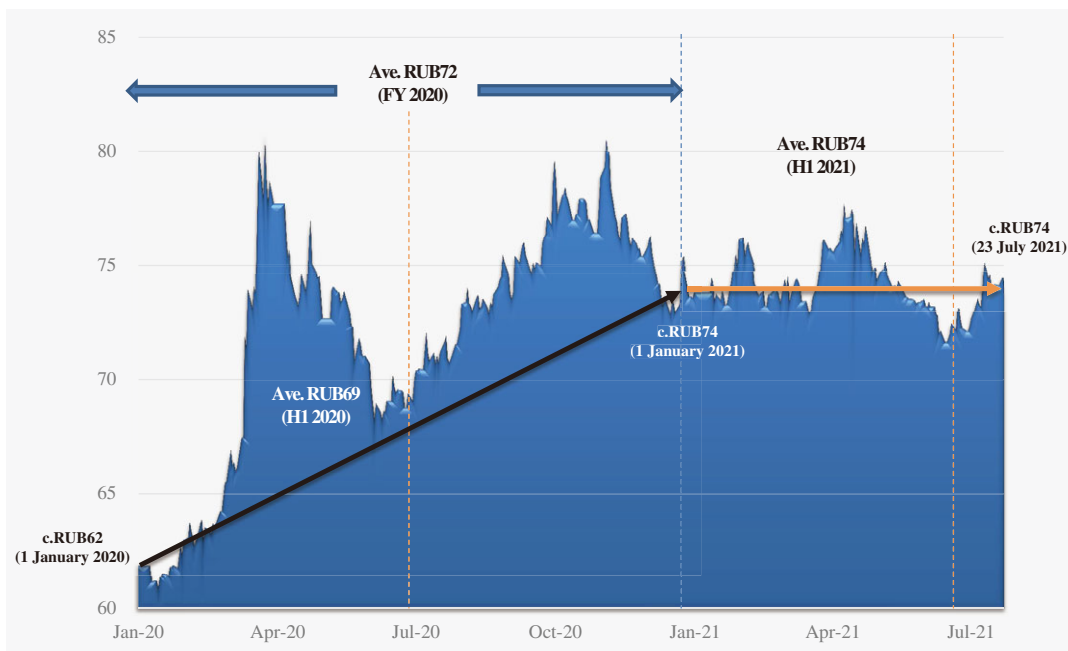
Iron Ore Hedging

IRC has taken the opportunity to lock-in the strong iron ore price by hedging about 40% of K&S's expected 2021 production volume. The hedging is mostly done by zero-cost collars using options on the 62% iron ore index, with Puts' strike at about US\$100 per tonne and Calls' strike at about US\$175 per tonne. A small part of the hedging is performed by buying Put options of 62% iron ore index at US\$100 per tonne. For Q1 2022, about 20% of K&S's expected production has been hedged with Put options of 62% iron ore index at about US\$110 per tonne.

It should be noted that the hedging is not speculative in nature and is for risk management purposes.

Foreign Exchange Movements and Hedging

The Russian Rouble has steadily regained ground against the US Dollar in Q2 2021 after sliding to RUB76 per US Dollar at the end of March. On 30 June 2021, the currency traded at RUB72 per US Dollar, c.2.1% appreciation over the beginning of the year. Despite this small appreciation, generally, the Russian Rouble still remains weak in the first half of 2021 with an average exchange rate of around RUB74 per US Dollar. When comparing against the same period last year, the currency has depreciated by c.6.8%.



Source: Bank of Russia (as of 23 July 2021)

The weakness of the Russian Rouble has a positive impact on the Group's operating margin, as the operating costs of the Group are mainly denominated in Russian Roubles and revenue is mainly denominated in US Dollars. In 2021, IRC has taken the opportunity to lock-in the current weak Rouble exchange rate by hedging about 10% of the Group's expected Rouble expenditure using zero-cost collars with Puts' strike varying in the mid-70s and Calls' strike in the mid-90s, to provide protection against the appreciation of the currency. The Group may consider entering into further foreign exchange hedging contracts if deemed appropriate. It should be noted that the hedging is not speculative in nature and is for risk management purposes.

OPERATIONS

K&S (100% owned)

The K&S Mine is located in the Jewish Autonomous Region (EAO) of the Russian Far East. The operation is 4 kilometres from the town of Izvestkovaya, through which the Trans-Siberian Railway passes. It is also on a federal highway 130 km away from the regional capital Birobidzhan and 300 kilometres from Khabarovsk, the principal city of the Russian Far East.

K&S Production

In the second quarter of 2021, K&S operated at an average capacity of 85% to produce 665,974 tonnes of iron ore concentrate, an increase of 3.3% over the previous quarter. As announced previously, mining issues have been the bottleneck in K&S's production. K&S has appointed an additional mining contractor at the end of March and this contractor is gradually ramping up their work volume. However, given that SGT, the main mining contractor of K&S, has been unable to adequately increase its mining fleet at the K&S site and some of its existing equipment is in relatively poor technical condition, it is difficult to catch up quickly with the lag in mining works. Currently, K&S is operating at a capacity of c.80%.

During the quarter, 634,381 tonnes of iron ore concentrate were sold, a decrease of 4.7% over the previous quarter. Sales continued to be affected by the railway congestion issues as more exporters use the Russian railways to ship coal and timber. This was aggravated by the seasonal railway network maintenance works carried by the Russian Railways. In July, the congestion issue has eased, and K&S has been able to ship at close to the full capacity. Also, to mitigate the impact, K&S has been diverting more sales to the seaborne customers in southern China. K&S is also exploring the west-bound transportation route to China with trial shipments going via the Zabaikalsk/Manzhouli border crossing.

Sutara deposit will start to be mined in parallel with Kimkan deposit by the end of 2022 or early 2023, and the volume mined at Kimkan deposit will be gradually reduced. The development of Sutara has already been started to ensure a steady supply of feedstock for the rest of the mine life.

COVID-19

K&S has set up an emergency response office to prevent the spread of COVID-19 and has taken the necessary organisational and administrative measures to prevent the spread of the virus. A contingency plan for K&S, including quarantine arrangement, medical screening, travel restriction and reduction in face-to-face interaction, is in place. While the production at K&S continues uninterrupted, employees from the head office and administrative staff are encouraged to work from home.

Employees are regularly tested for COVID-19 and there is a number of employees at K&S who were tested positive. Most of the patients have mild or no symptoms. Those diagnosed get quarantined or hospitalised, depending on their condition, and receive appropriate medical treatment. Employees are also encouraged to be vaccinated.

To date, there has been no material impact on IRC's operations due to the virus. The Group has taken the necessary measures to support the prevention of the COVID-19 at its operations and will continue to monitor closely the situation.

Mining

During the period, the mining contractors mined 2,245,600 tonnes (Q1 2021: 2,334,000 tonnes) of ore, drilled 152,596 metres (Q1 2021: 138,911 metres), and blasted 4,754,175 cubic metres (Q1 2021: 4,046,176 cubic metres) of rock mass at the Kimkan Centre and Kimkan West pits. Concurrently, there were 2,173,300 tonnes (Q1 2021: 2,407,500 tonnes) of ore fed to the primary processing plant and 1,464,914 tonnes (Q1 2021: 1,552,329 tonnes) of pre-concentrate produced. Finally, 665,974 tonnes of commercial iron ore concentrate were produced, a 3.3% increase from the previous quarter.

Production and Marketing

	<u>Q2 2021</u>	<u>Q1 2021</u>	<u>Changes</u>
K&S			
Production (tonnes)	665,974	644,744	+3.3%
Sales (tonnes)	634,381	665,664	-4.7%

Update of Estimated Unit Cash Cost

Cost control is always an important element in improving profitability. While K&S is making more seaborne sales, the transportation costs also increase accordingly. Besides, due to the recent increase in the stripping ratio (the ratio of waste removed to ore mined), hauling distances, the gradual recovery of oil prices, as well as the general inflation in Russia, the production cash costs are on the rise. IRC will continue to apply stringent cost control measures.

The relevant cash cost information for the first half year of 2021 will be analysed and disclosed in the 2021 interim results announcement.

Impact of U.S. Sanctions Against Russia

IRC is listed in Hong Kong Stock Exchange with operational mines in Russian Far East. Most of the Group's suppliers and customers are based in China and Russia. As such, K&S has not been subject to any direct negative impact from the sanctions against Russia.

SLAG REPROCESSING PROJECT (46% owned)

Having successfully sourced feedstock from China, IRC's slag reprocessing project, a joint venture with Jianlong Steel, has recommenced operation and this diversifies the product mix of the Company. Due to the relatively small scale of the project, contribution from the joint venture is not material.

CORPORATE AND INDUSTRY UPDATE

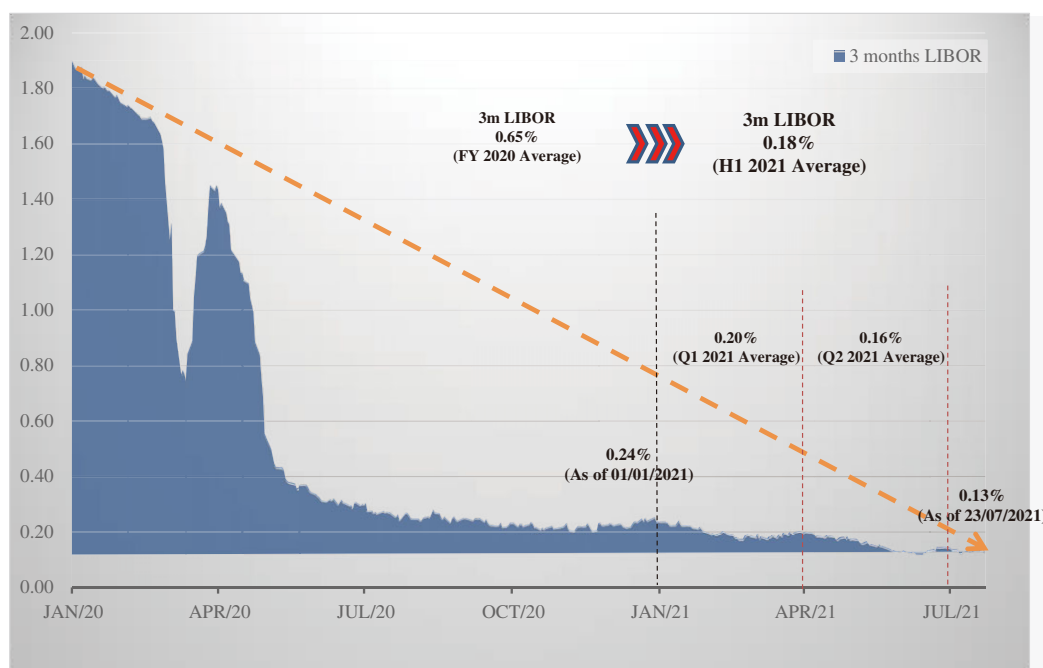
Positive Profit Alert

As announced previously, the Group is expected to record a larger unaudited profit attributable to the shareholders of the Company for the six months ended 30 June 2021 than that of the same period last year. The expected increase in profit in H1 2021 as compared to H1 2020 is mainly attributable to the significant increase in the market iron ore price in 2021. The unaudited financial results of the Group for the six months ended 30 June 2021 will only be ascertained when all the relevant results and accounting treatments are finalised. The Company will make further announcement if additional material information in relation to the finalisation of the Group's financial results for the six months ended 30 June 2021 becomes available. Shareholders of the Company and potential investors are also advised that the Company's interim results announcement for the six months ended 30 June 2021 is expected to be announced before the end of August 2021.

Group's Cashflow Position and Gazprombank Facility

IRC completed the refinancing of the ICBC loan in 2019 with the Gazprombank facility. The Gazprombank facility is secured by charges over the assets of K&S and is guaranteed by Petropavlovsk PLC. The repayment schedule is more closely aligned with the production plans of K&S and improves the cash flow position of IRC. During the second quarter of 2021, c.US\$8.5 million was paid to Gazprombank as loan principal repayment and interest in accordance with the repayment schedule. US\$8.8 million was paid in Q2 2021 to Petropavlovsk PLC as guarantee payment.

The interest rate of the Gazprombank facility is determined based on LIBOR, which has experienced a steep decline in 2020 after the central-bank policymakers around the world signaled that action would be taken as needed to stabilise the financial markets in the face of the growing threat of COVID-19. In the first half of this year, the three-month LIBOR kept decreasing from an average of 0.65% in 2020 to 0.18%. The lower LIBOR rate allows IRC to reduce its finance costs.



Source: Bloomberg (as of 23 July 2021)

As of 30 June 2021, the Group's unaudited cash and deposits balance was c.US\$67 million. The total debt outstanding as of 30 June 2021 amounted to c.US\$194 million, all of which represents the loans from Gazprombank. In July, K&S made an early repayment of US\$20 million to Gazprombank, reducing the gearing and financing costs of IRC. As of the date of this announcement, the total debt outstanding amounted to c.US\$174 million.

Administrative Offence Against K&S

Construction of K&S was carried out based on the original project design, which received the necessary approvals of the Russian authorities before the construction works began. However, for various reasons, including improvement of technology, production efficiency, cost saving considerations and correction of the construction deficiencies of the main contractor, some equipment and machinery were replaced and/or added. As a result, some of the actual production facilities deviated from the approved project design. The Company believes this is not an uncommon occurrence when a relatively complex production facility is put into operation. Thus, the design documentation should have been updated and submitted to the Russian State authorities for approval.

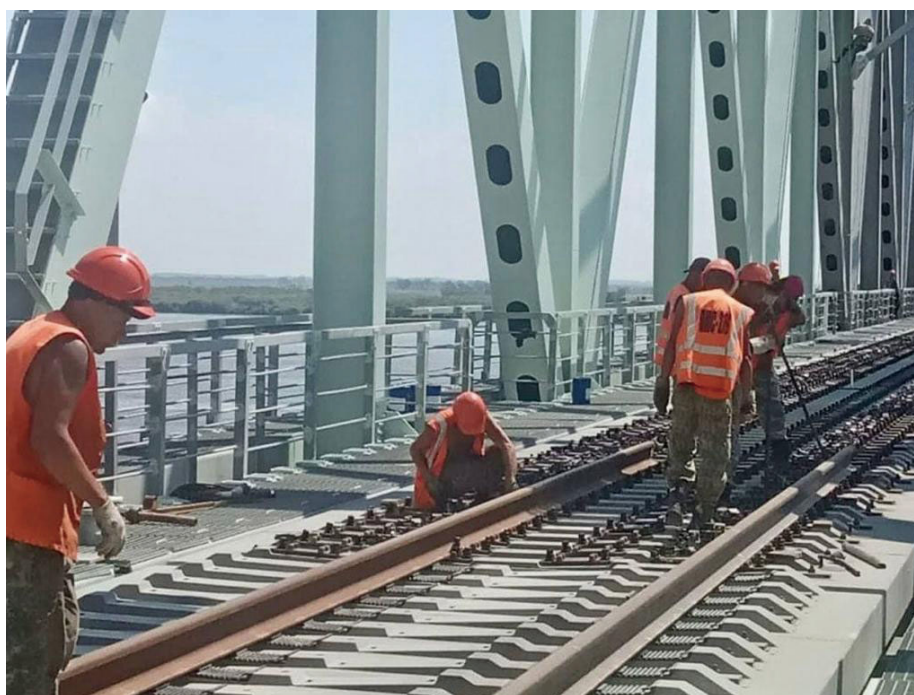
While K&S was updating the design documents and preparing the application for approvals, in February 2020, RTN made an inspection of K&S, during which it determined the deviations from the approved design as non-compliances. Accordingly, RTN required K&S to complete the process of obtaining the relevant approvals by November 2020. Upon receiving RTN's notice, K&S continued to rectify the non-compliances. However, due to the COVID-19 pandemic, K&S was not able to complete the required works by the due date of November 2020, and in December 2020, at K&S's request, the RTN reviewed the progress of updating the design documentation and application for approval, and granted K&S an extension of the deadline to 31 December 2021 to complete the works and formalities.

Despite the extension of the deadline to complete the required work, in April 2021 RTN conducted an unscheduled inspection at the K&S project site. Following the inspection, RTN issued a notice informing K&S of its decision to commence an administrative offence proceeding against K&S at the local court for not registering the facility as hazardous (the "**Non-Registration**"). This registration is not possible without completion of the above-mentioned design documents update and application for approvals, for which the Company had the extension until December 2021 granted by RTN. The proceeding was registered at the local court on 2 June 2021. The Court deemed the case to be outside its jurisdiction and the matter was returned to RTN. Later, RTN made a ruling to impose an administrative penalty on K&S of RUB200,000 (equivalent to approximately US\$3,000) in respect of the Non-Registration. K&S was also ordered to take measures to eliminate reasons and conditions leading to the Non-Registration and to inform RTN about the measures taken within one month. RTN has not required K&S to suspend operations nor has it imposed or specified any further action in relation to the Non-Registration. K&S will endeavour to resolve the Non-Registration as soon as practicable and, in the intervening period, K&S will pay the administrative penalty and will continue to operate as usual.

Amur/Heilongjiang River Bridge

The project to build a railway bridge across the Amur River border between Russia and China was first launched by IRC in 2006. The project was sold to Russian and Chinese development funds in November 2014. In early June 2016, the regional government of the Jewish Autonomous Region announced that the Russian part of the Amur River Bridge would commence construction.

According to the reports in Russian media, citing the Presidential Envoy to the Far Eastern Federal District of Russia Mr. Yury Trutnev, the construction of the Bridge is expected to be completed by the end of 2021. The railway bridge is expected to enhance the region's economic development by providing a more efficient transportation alternative on top of the existing ferries and railway routes.



Both ends of the railway tracks on the bridge have been connected

Russian Railways have informed IRC that the first trial shipment via the Amur River Bridge is planned by the end of August 2021, and this first train to ever cross the Russian-Chinese border via the new bridge will be loaded with K&S's iron ore concentrate. Afterwards, some finishing works will be carried out on the bridge and the adjoining infrastructure for further several months, and after which the regular transportation via the bridge will commence.

K&S Mine is situated approximately 240 kilometres from the bridge site and IRC's nearest customer within China is approximately 180 kilometres away from the railway bridge. Thus, IRC will benefit from the project with the reduced transportation distance and shipment time. The railway bridge can not only save the transportation cost of K&S for shipment to the Chinese customers but can also alleviate any railway congestion of the region. Shipping time to customers in China will be reduced from 3-5 days to 1-3 days.

* *Figures in this announcement may not add up due to rounding. All volume tonnage used in this announcement, unless specify, refer to wet metric tonnes. All dollars refer to United States Dollar unless otherwise stated.*

Production volumes disclosed in this announcement are determined net of the excessive moisture content within the products, as shipped to the customers. Production rate of K&S is calculated based on an annual production capacity of c.3,155 thousand wet metric tonne.

By Order of the Board
IRC Limited
Yury Makarov
Chief Executive Officer

Hong Kong, People's Republic of China
Thursday, 29 July 2021

As at the date of this announcement, the Executive Director of the Company is Mr Yury Makarov. The Non-Executive Directors are Mr Peter Hambro, Mr Danila Kotlyarov, Mr Denis Alexandrov and Mr Aleksei Kharitontsev. The Independent Non-Executive Directors are Mr Daniel Bradshaw, Mr Jonathan Martin Smith, Mr Raymond Kar Tung Woo and Mr Martin Davison.

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