铁货 IRC

IRC Limited 鐵江現貨有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 1029)

FOURTH QUARTER TRADING UPDATE FOR THE THREE MONTHS ENDED 31 DECEMBER 2021 SALES VOLUME IN Q4 INCREASED BY 2.2% YoY

CONFERENCE CALL

A conference call will be held today at 15h00 Hong Kong time to discuss the fourth quarter trading update. The number is +852 2112 1888 and the passcode is 8290727#. Presentation slides to accompany the call are available at www.ircgroup.com.hk. A replay call will be available from 28 January 2022 at http://www.ircgroup.com.hk/en/ir_presentations.php

Thursday, 27 January 2022: The Board of Directors of IRC Limited ("**IRC**" or the "**Company**", together with its subsidiaries, the "**Group**") is pleased to provide the Fourth Quarter Trading Update for the three months ended 31 December 2021.

HIGHLIGHTS – Q4 2021

K&S

- Sales volume increased by 2.2% YoY despite adverse weather and additional pandemic-control measures;
- Production down by 6.7% over the previous quarter, due to shipment constraints, underperformance of mining contractors and lower ore quality;
- Mining contractor planning to increase mining equipment and expand mining fleet in 2022;
- Sutara project development on track for commissioning in late 2022 or early 2023.

Corporate & Industry

- Repaid a total of US$91 million to Gazprombank in 2021; outstanding loan principal reduced to US$113 million;
- Cash balance of c.US$52 million at the year end;
- Average Platt's 65% Fe price increased by 52.5% year-on-year to US$186 per tonne in 2021; current Platt's 65% Fe price at US$160 per tonne level;
- Price spread between high-grade and low-grade iron ore widened, doubling from the previous year;
- Higher transportation efficiency is expected after the Amur River Bridge is operational in the first half of 2022.

FOURTH QUARTER TRADING UPDATE FOR THE THREE MONTHS ENDED 31 DECEMBER 2021

	Q4 2021	Q3 2021	Change	**Q4 2020**	Change	**FY 2021**	FY 2020	Change
Platts 65% Fe (average price per tonne)	**USD129**	USD191	-32.5%	**USD147**	-12.2%	**USD186**	USD122	52.5%
Iron ore concentrate								
– Production (tonnes)	**601,843**	645,233	-6.7%	**686,842**	-12.4%	**2,557,794**	2,747,767	-6.9%
– Sales (tonnes)	**556,260**	697,586	-20.3%	**544,403**	2.2%	**2,553,892**	2,576,722	-0.9%

SUMMARY OF PERFORMANCE

During the fourth quarter of 2021, the iron ore sales volume from K&S increased by 2.2% year-on-year to 556,260 tonnes. This was achieved under difficult operating conditions, as railway shipments to the Chinese customers were hampered by adverse weather, temporary closure of the railway border crossings at Grodekovo-Suifenhe and Zabaikalsk-Manzhouli due to additional pandemic-control measures implemented by China, and continued transportation demand from the Russian exporters. To mitigate the impacts, K&S diversified and shipped more product to the Chinese customers by sea. Although the restriction measures on railways border crossing points have now been lifted, cross-border railway traffic may take some time to improve, and the situation may remain difficult during the winter months.

In light of the shipment constraints, production at K&S had to slow down after the warehouse was full. Production was also limited by the underperformance of mining contractors and the quality of ore mined in this quarter. K&S's quarterly production volume was 601,843 tonnes, 6.7% lower than the last quarter. The newly hired mining contractor is increasing the amount of mining equipment on-site and intends to put additional mining fleet on the ground in 2022 which is expected to have a positive impact on the supply of feedstock. Apart from considering setting up its own mining fleet, K&S continues to seek new mining contractors in order to catch up on mining volume lag. In terms of ore quality, the beneficiating properties of the ore mined at the Kimkan West deposit continued to be a key factor in limiting the production capacity. The situation is likely to improve when the Sutara pit is operational. K&S is actively preparing the Sutara deposit for operation with the aim of start mining operations by the end of 2022 or early 2023.

Iron ore prices rose significantly in the first half of 2021, reaching new highs against the backdrop of global economic recovery and monetary easing. However, the price fell into a bear market in the second half, especially in the fourth quarter, before recovering in December as Chinese steel mills resumed production following China's pledge to reduce steel output. When compared to last year, the 2021 average price of Platt's 65% Fe increased by approximately 52.5% to US$186 per tonne. The price spread between high-grade and low-grade iron ore has also widened further, doubling from the previous year's level to US$26 per tonne, as steel mills in China prefer using higher grade iron ore for steel production to reduce carbon emissions.

Commenting on the performance of the fourth quarter, Yury Makarov, Chief Executive Officer of IRC said, *"IRC encountered a number of challenges during this quarter. Apart from the softening of the iron ore price, our sales and production were impacted by shipment constraints, continued underperformance of mining contractors and the stringent anti-pandemic measures at the border. Fortunately, the impacts have been mitigated to the extent possible. Despite the difficulties in the fourth quarter, overall, 2021 was a good year for IRC. Most notably, the Group managed to reduce the Gazprombank loan balance by US$91 million to US$113 million. IRC also closed the year with a strong cash position of US$52 million after stringent cash management.*

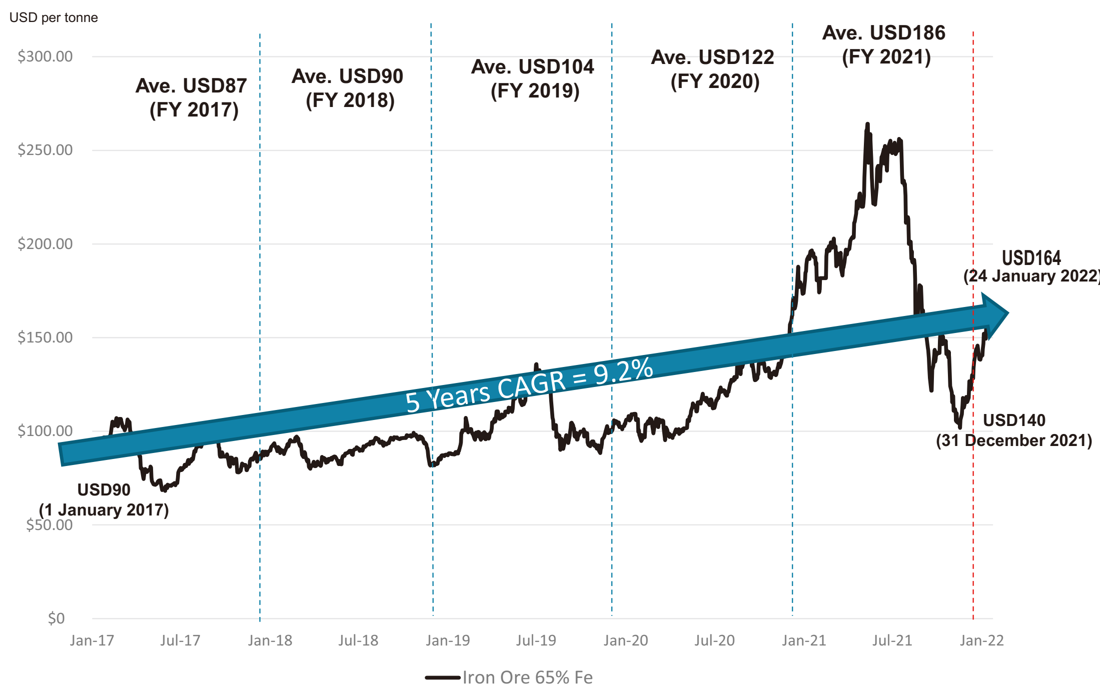
Declaring a maiden dividend is high on our agenda, but the weak iron ore price and our operating difficulties during the quarter set us back in this objective for 2021. We are pleased to see that the iron ore price has recovered to a stronger level, and that shipments are gradually, though slowly, returning to normal. We are hopeful that operating environment will continue to improve in 2022 allowing IRC to consider a maiden dividend payment in respect of 2022.

In December 2021, Petropavlovsk disposed of its stake in IRC and we look forward to working with our new substantial shareholder for a bright future of the Company."

MARKETING, SALES AND PRICES

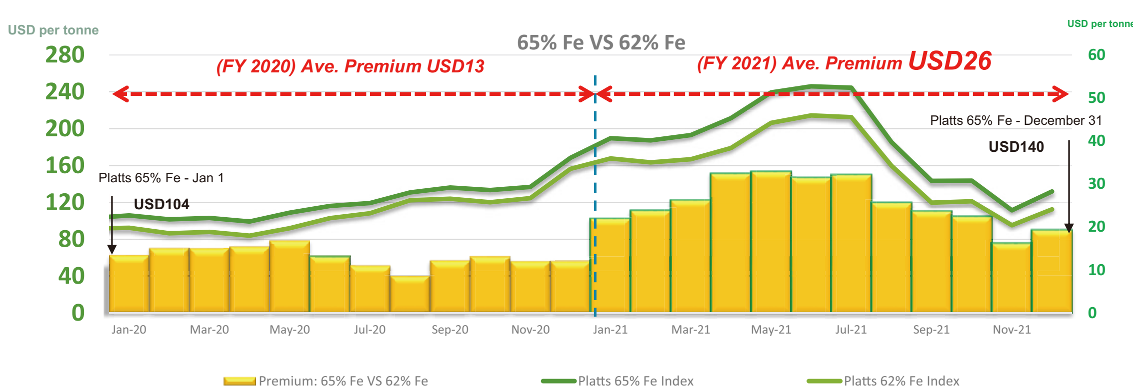
Iron Ore

In 2021, despite the relatively significant volatility, the average price of Platt's 65% Fe increased c.52.5% to US$186 per tonne year on year. Substantial surge in prices was noted in the first half of the year when the index reached new highs against the backdrop of global economic recovery and monetary easing. The Platt's 65% Fe spot price jumped to a record of c.US$260 per tonne in May. However, the iron ore prices collapsed into a bear market in the second half, particularly in the fourth quarter of the year. The index crashed to about US$102 per tonne in November on China's pledge to reduce steel output. The index returned to a bull market in the space of a month, recovering by 37% to US$140 per tonne at the end of the year, owing to rising steel mill margins and the resumption of Chinese steel production in December.



Source: Platts (as of 24 January 2022)

As China intends to reduce carbon emissions by the steel industry, demand for high-grade iron ore is rising. Generally, the greater the effort to decarbonise and safeguard the environment, the higher the demand for high-grade iron ore from the Chinese steel mills. The price spread between high-grade and low-grade iron ore remained substantial in 2021, with the average premium between 65% iron ore and 62% iron ore extending to US$26 per tonne, doubling from the previous year.



Source: Bloomberg (as of 24 January 2022)

The selling price of the K&S's product is determined with the reference to the international Platts iron ore price indices. The achieved selling price of K&S in the fourth quarter of 2021 is not published in this trading update for commercial reasons. The relevant information will be analysed and disclosed in the 2021 annual results announcement due for release in March 2022.

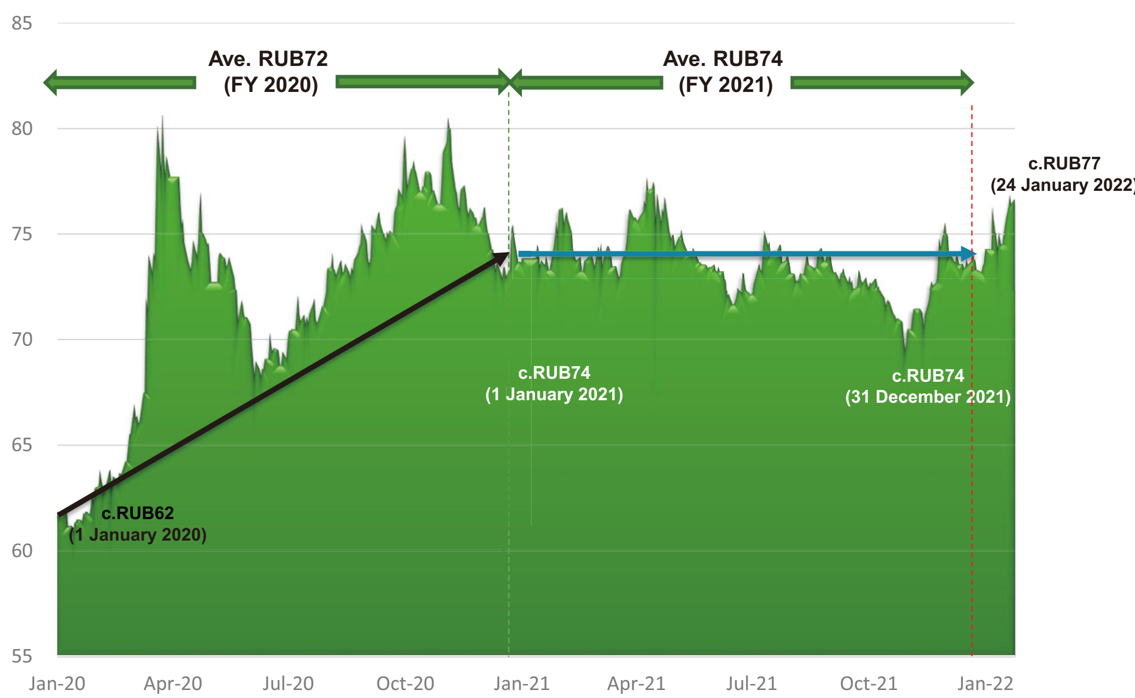
Iron Ore Hedging

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

Against the US dollar, the Russian Rouble strengthened to below the 70 level in late October before gradually depreciated to 74. Over the Q4 2021, the currency remained weak with an average exchange rate of RUB73 per US Dollar. On a yearly basis, on average, the currency depreciated by about 3% in 2021, averaging RUB74 per US dollar.



Source: Bank of Russia (as of 24 January 2022)

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. To provide protection against the appreciation of the currency, 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. For the first half of 2022, the Group has hedged about 10% of the Group's expected Rouble expenditure using zero-cost collars with Puts' strike varying in the low-70s and Calls' strike in the high-70s. Additionally, another 10% of the Group's expected Rouble expenditure for the period from February 2022 to January 2023 inclusive were hedged using zero-cost collars with Puts' strike in the mid-70s and Calls' strike in the mid-90s. The Group may consider entering 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 – Sales, Production and Sutara Development

Iron ore railway shipments of K&S to its Chinese customers were hampered by adverse weather in the region, temporary closure of the railway border crossings at Grodekovo-Suifenhe and Zabaikalsk-Manzhouli due to the implementation of additional pandemic-control measures by China, and continued transportation demand from the Russian exporters. Despite these difficulties, K&S's iron ore sales volume increased by 2.2% year on year to 556,260 tonnes. As previously announced, the Russian Railways suspended all shipments to China via the Grodekovo-Suifenhe crossing point for 5 days in late November due to a snowstorm in the region. At the same time, Chinese authorities imposed stringent pandemic control measures at the Russian-Chinese borders, limiting K&S's ability to ship via the railway border crossings. To mitigate the impact of the logistical difficulties at the railway border crossings, K&S diversified and shipped more product to the Chinese customers by sea. However, quarantine measures imposed at Chinese ports also affected sea shipments. Despite the fact the restriction measures on railways border crossing points have now been lifted, cross-border railway traffic may take some time to improve, and the situation may remain difficult during the winter months.

During the period, in light of the shipment constraints, production at K&S had to slow down after the warehouse was full. In addition, K&S's production was limited by the underperformance of mining contractors, in result of which the volumes of drilling, blasting and rock mass moved in this quarter were lower than in the previous quarter. The mining contractor hired in the first half of 2021 has been increasing the amount of mining equipment on-site and intends to put additional mining fleet on the ground in 2022, which will have a positive impact on the supply of the feedstock. Apart from considering setting up its own mining fleet, K&S also continues to seek new mining contractors to catch up on the volume lag. However, given the area's captive market of mining contractors, finding capable and cost-effective mining contractors requires patience and time.

K&S comprises of two main pits, Kimkan and Sutara. Mining at the Kimkan deposit is carried out at two open pits. Mining works were originally performed only at the Kimkan Central pit. As the development of the Kimkan Central pit advances, K&S started to mine at the Kimkan West pit, which has lower grades of iron ore magnetic properties than Kimkan Central. As a result, beneficiation properties of the ore blend fed to the processing plant have resulted in a lower yield of commercial concentrate from the ore than designed. This is currently affecting K&S's ability to increase production capacity. K&S's cash cost is expected to rise, both in the short and longer term, due to higher stripping ratio (the ratio of waste removed to ore mined) as well as increases in mining contractors' rates and mineral extraction tax, and the general inflation in Russia.

The production capacity issues are expected to improve when the Sutara pit becomes operational. The Company expects the Sutara pit will be the long-term solution as the geological information confirms that the ore at Sutara has higher grades of iron magnetic properties. K&S is actively preparing the Sutara deposit for operation with the aim of processing ore from Sutara by the end of 2022 or early 2023. Sutara ore has similar magnetic properties to the ore from Kimkan deposit and therefore can be beneficiated at the K&S processing plant. Construction permits for the major infrastructure works of the Sutara project have been obtained and the construction works are currently ongoing.

Key operating data of K&S for Q4 2021

Mining Data	**Q4 2021**	Q3 2021	Changes
Mining (tonnes)	**3,134,800**	2,019,400	55.2%
Drilling (metres)	**152,584**	163,022	-6.4%
Blasting (cubic metres)	**4,064,460**	4,947,800	-17.9%
Rock mass moved (cubic metres)	**4,158,500**	5,680,700	-26.8%
Ore fed to the primary processing plant (tonnes)	**2,053,100**	2,101,600	-2.3%
Pre-concentrate produced (tonnes)	**1,419,965**	1,454,252	-2.4%

Production and Marketing	**Q4 2021**	Q3 2021	Changes
Production (tonnes)	**601,843**	645,233	-6.7%
Sales (tonnes)	**556,260**	697,586	-20.3%

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 tested for COVID-19 on a regular basis. Employees at K&S who tested positive will be quarantined or hospitalised, depending on the severity of the condition, and will 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.

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), mineral extraction tax, hauling distances, the gradual recovery of oil prices, as well as the general inflation in Russia, the production cash costs are likely to be increasing. IRC will continue to apply stringent cost control measures.

The relevant information will be analysed and disclosed in the 2021 annual results announcement due for release in March 2022.

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

Change in Largest Shareholders

Until early December, Petropavlovsk PLC ("**Petropavlovsk**") was the largest shareholder of IRC holding about 31.06% of the issued share capital of the Company. In early December, Petropavlovsk disposed of its entire shareholding in the Company, pursuant to a disposal of shares to UCP Industrial Holdings Limited representing 1.20% of the Company's total issued share capital and a disposal of shares to Stocken Board AG ("**Stocken**") representing 29.86% of IRC's total issued share capital. Completion of the Stocken transaction followed the satisfaction of the conditions precedent to the sale and purchase agreement between Petropavlovsk and Stocken dated 18 March 2020, including the irrevocable release of Petropavlovsk from all loan guarantees given to Gazprombank ("**GPB**") in respect of the Group's GPB facility agreements.

Following these share transfers, Petropavlovsk ceased to hold any shares in the Company, Stocken became the Company's largest single shareholder holding 29.86% of the issued share capital of the Company and Mr Denis Alexandrov and Mr Aleksei Kharitontsev, Petropavlovsk's nominees to the board of directors of the Company, resigned as non-executive directors of the Company.

On 8 December 2021, the Company became aware that Stocken had entered into two sale and purchase agreements to dispose of its entire 29.86% stake in the Company. Stocken sold shares representing 24.07% of the total issued share capital of the Company to Cerisier Ventures Limited ("**Cerisier**"), a wholly-owned subsidiary of GPB; and shares representing 5.79% of the total issued share capital of the Company to Major Mining Partner (CY) Limited ("**Major Mining**"), a wholly-owned subsidiary of Mr. Dmitry Bakatin. On 4 January 2022, Cerisier and Major Mining were registered as the holders of these shares. Accordingly, Stocken has ceased to hold any shares in the Company. The Company also understands that each of Cerisier and Major Mining have entered into a deed of share charge to pledge all of the shares that they hold in the Company in favour of GPB for the Group's GPB facilities.

On 30 December 2021, the Company became aware that Cerisier and Major Mining had entered into separate sale and purchase agreements to sell their respective entire equity interests in the Company to Axiomi Consolidation Ltd ("**Axiomi**"), a wholly-controlled company of Mr. Nikolai Levitskii (Mr. Levitskii SPAs). Upon completion of the Mr. Levitskii SPAs, neither GPB nor Mr. Bakatin will hold any shares in the Company and Mr. Levitskii will become a substantial shareholder, holding (through Axiomi) shares representing 29.86% of the Company's issued share capital and will be the Company's largest single shareholder.

The Company will make a further announcement upon becoming aware that completion has occurred under the Mr. Levitskii SPAs. As far as the Company is aware, and save as disclosed in respect of GPB (which wholly-owns Cerisier), all the above-mentioned parties are third parties independent of and not connected with the Company and its connected persons.

Expiry of the Recourse Agreement and Petropavlovsk CCTs

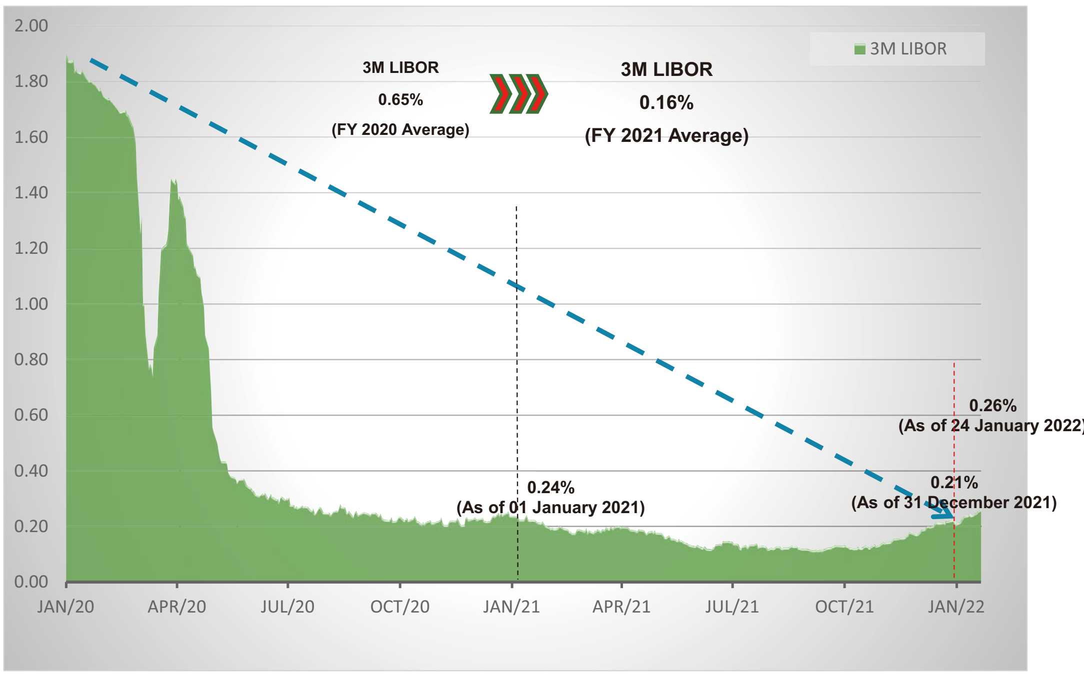
The Company and K&S previously entered into the recourse agreement with Petropavlovsk in connection with Petropavlovsk agreeing to act as guarantor under the Group's GPB facilities. The Company expects the recourse agreement to expire in February 2022. This will occur following the Company settling the outstanding guarantee fee payable to Petropavlovsk.

The Group previously entered into four continuing connected transactions with the Petropavlovsk Group, as disclosed in the Company's announcement dated 26 March 2019. Each of the continuing connected transactions expired on 31 December 2021, at the end of the term of each such agreement.

Group's Cashflow Position and Gazprombank Facility

During the Q4 2021, a total of c.US$6.9 million was paid to Gazprombank as loan principal repayment and interest. In 2021, K&S repaid a total loan principal of c.US$90.6 million, of which US$70 million was voluntary early principal repayments.

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 signalled that action would be taken as needed to stabilise the financial markets in the face of the growing threat of COVID-19. The three-month LIBOR remained low in 2021, decreasing from an average of 0.65% in 2020 to 0.16% in 2021. The lower LIBOR rate, together with the loan principal repayments made to GPB in 2021, allow IRC to reduce its finance costs.



Source: Bloomberg (as of 24 January 2022)

As of 31 December 2021, the Group's unaudited cash and deposits balance amounted to approximately US$52 million. The total debt outstanding as of 31 December 2021 amounted to approximately US$113 million, all of which represents the Gazprombank loan.

Updates on Administrative Offence Against K&S

As previously announced, the administrative offence case was deemed by the Court to be outside its jurisdiction and the matter was returned to Russian Federal Service for Environmental, Technological, and Nuclear Supervision ("**RTN**"). RTN made a ruling to impose an administrative penalty on K&S in respect of the non-registration of the K&S facility as hazardous. RTN did not require K&S to suspend operations nor has it imposed or specified any further action in relation to the non-registration. K&S has settled the administrative penalty and will endeavour to resolve the non-registration as soon as practicable. In the intervening period, K&S 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 the media, the construction of the bridge has been completed, and the Russian Siberian Railway is now connected with China's Northeast railway network. The bridge is expected to be put into use by the first half of 2022. 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.

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 bridge. Thus, IRC as well as its customers will benefit from the project with the reduced transportation distance and shipment time. The railway bridge 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, 27 January 2022

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 and Mr Danila Kotlyarov. 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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