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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 2022
PRODUCTION DECREASED AFTER SCALING DOWN OF K&S'S OPERATION;
AND
PROFIT WARNING**

CONFERENCE CALL

A conference call will be held today at 14h00 Hong Kong time to discuss the fourth quarter trading update. The number is +852 2112 1888 and the passcode is 9063010#. Presentation slides to accompany the call are available at www.ircgroup.com.hk. A replay call will be available from 13 February 2023 at http://www.ircgroup.com.hk/en/ir_presentations.php.

Friday, 10 February 2023: The Board of Directors (“**Board**”) 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 2022 (“**Q4 2022**”).

HIGHLIGHTS – Q4 2022

K&S

- 10.5% decrease in production volume over the previous quarter (“**Q3 2022**”), mainly due to the temporary scaling down of operations in November, following weak iron ore price. Normal operating capacity resumed in December;
- 1.4% decrease in sales volume over Q3 2022; and
- Continuous preparation of the Sutara deposit with the aim of starting to mine Sutara ore in the second half of 2023.

Corporate & Industry

- Completion of the subscription of new IRC shares by MIC invest Limited Liability Company (“**MIC**”) at a total consideration of approximately US\$19 million, reducing the Group’s gearing and strengthening IRC’s balance sheet;
- Net debt decreased to US\$41.6 million (Q3 2022: US\$51.7 million) following the completion of the subscription by MIC;
- Cash balance reduced to US\$36.9 million (Q3 2022: US\$46.0 million), mainly due to working capital movements at the end of the year;

- The Amur River Bridge commenced operation in December 2022 and K&S had made successful trial shipments via the bridge;
- China's slowing economy weakened the Chinese iron ore market although stimulus policies provided some support to the iron ore price's recovery; the Platts 65% Fe average price declined 4.3% quarter to quarter to US\$111 per tonne but increased to US\$131 per tonne by the end of the year; and
- The Russian Rouble depreciated to an average of RUB63 per US Dollar after seeing a significant appreciation in the earlier part of 2022.

FOURTH QUARTER TRADING UPDATE FOR THE THREE MONTHS ENDED 31 DECEMBER 2022

SUMMARY OF PERFORMANCE

	Q4 2022	Q3 2022	Change	Q4 2021	Change	12M 2022	12M 2021	Change
Platts 65% Fe (average price per tonne)	US\$111	US\$116	(4.3%)	US\$129	(14.0%)	US\$139	US\$186	(25.3%)
Iron Ore concentrate								
Production (tonnes)	619,184	691,814	(10.5%)	601,843	2.9%	2,569,845	2,557,794	0.5%
Sales (tonnes)	640,251	649,180	(1.4%)	556,260	15.1%	2,566,480	2,553,804	0.5%

In the earlier part of the fourth quarter, the challenging operating environment, particularly the weak market iron ore price, was adversely affecting K&S's profit margins. To mitigate the impact, the mine temporarily scaled down its operation in November to minimize operating cash outflow and conserve the ore resources for future production. Fortunately, the market iron ore price recovered in the latter part of the quarter and K&S gradually resumed its operation to its normal production rate. With this temporary scaling down of operation, K&S's production volume in the fourth quarter of 2022 was 10.5% lower than that of the previous quarter.

Although production volume reduced by 10.5%, sales volume only dropped by 1.4% over the previous quarter as K&S sold the inventories from its warehouse and took advantage of the alleviated railway congestion. K&S also managed to make trial shipments to customers via the newly-opened Amur River Bridge.

For the full year of 2022, despite various operating challenges and difficulties, production and sales volumes both increased by 0.5% respectively over the previous year.

In light of the complex external operating environment and the market challenges, IRC entered into a subscription agreement with MIC in September 2022, pursuant to which MIC agreed to subscribe for new IRC shares under the general mandate to raise an equivalent of approximately US\$19 million of equity for the partial repayment of the loan facilities provided by Gazprombank (Joint-Stock Company) ("GPB") to K&S, which have been assigned by GPB to MIC in February 2022. The subscription was completed in October 2022.

PROFIT WARNING

The Board wishes to advise its shareholders and potential investors that, pursuant to Rule 13.09(2)(a) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), based on the preliminary assessment of the unaudited consolidated management accounts of the Group for the year ended 31 December 2022 and the information currently available to the Board and before taking into account any possible adjustments (including but not limited to provision for assets impairment losses or reversal of assets impairment losses as of 31 December 2022, if any) in connection with the finalisation of the annual results of the Group for the year ended 31 December 2022, the Group expects to record a loss attributable to the owners of the Company of between approximately US\$90 million to US\$100

million (corresponding period in 2021: profit of US\$134 million). The Board considers that the expected deterioration in the Group's financial performance compared to the year ended 31 December 2021 is mainly due to:

- 1) the provision for asset impairment loss for the K&S mine of US\$113 million made as of 30 June 2022, as reported in the Group's interim report for the six months ended 30 June 2022. It should be noted that the Company is still in the process of assessing if additional provision for assets impairment losses or reversal of assets impairments losses is required as of 31 December 2022 (corresponding period in 2021: no impairment or reversal of impairment). The Company will make a further announcement about any such impairment, if necessary, as soon as practicable;
- 2) the significant decrease in the market iron ore price. The selling price of K&S's product is determined with reference to the international Platts spot price of 65% iron ore concentrate. The average Platts spot price of 65% iron ore concentrate in 2022 was US\$139 per tonne, 25.3% lower than that in 2021 of US\$186 per tonne;
- 3) the appreciation of Russian Rouble. The Russian Rouble strengthened to an average exchange rate of RUB68 per US Dollar in 2022, which was 8.8% stronger than the 2021 average exchange rate of RUB74 per US Dollar. The appreciation of the Russian Rouble has a negative impact on the Group's operating margin, as the operating costs of the Group are mainly denominated in Russian Rouble and revenue is mainly denominated in US Dollars; and
- 4) the rise in Russian inflation. Due to geopolitical issues, the average Russian inflation was 18.1% in 2022. With the Group's operation mostly being conducted in Russia, the high inflation rate resulted in increase in cost levels.

The information contained in this announcement is based on the preliminary review and assessment by the Board with reference to the latest available financial and other information, and such information has not been audited nor reviewed by the auditor of the Company thus may be subject to further adjustments. The actual financial results of the Group for the year ended 31 December 2022 may be different from what is disclosed in this announcement.

Shareholders and potential investors of the Company are advised to read carefully the annual results announcement of the Company for the year ended 31 December 2022 which is expected to be published by the end of March 2023, and the subsequent publication of the 2022 annual report of the Company.

Shareholders and potential investors are advised to exercise caution when dealing in the shares of the Company and, in case of doubt, to seek independent advice from professionals or financial advisers.

Commenting on the performance of the fourth quarter, Mr Denis Cherednichenko, Chief Executive Officer of IRC said, *“As the operating environment continued to deteriorate, the fourth quarter of 2022 was one of the most difficult quarters IRC had endured. At one point, the Platts 65% iron ore price fell to as low as US\$91 per tonne, more than 50% lower than the average price level of 2021. K&S's customers were also demanding for greater sales discounts.*

The Board had been closely monitoring the market conditions and we were able to react swiftly by scaling down K&S's operation to preserve cash and ore resources. We are also pleased with the completion of the subscription by MIC to fortify the Group's financial position. And knowing that we need to diversify our business risk, we have taken a small but important step by actively pursuing other business opportunities, such as the acquisition and chartering of a vessel in the first quarter of 2023. These measures help IRC deal with the adverse operating environment.

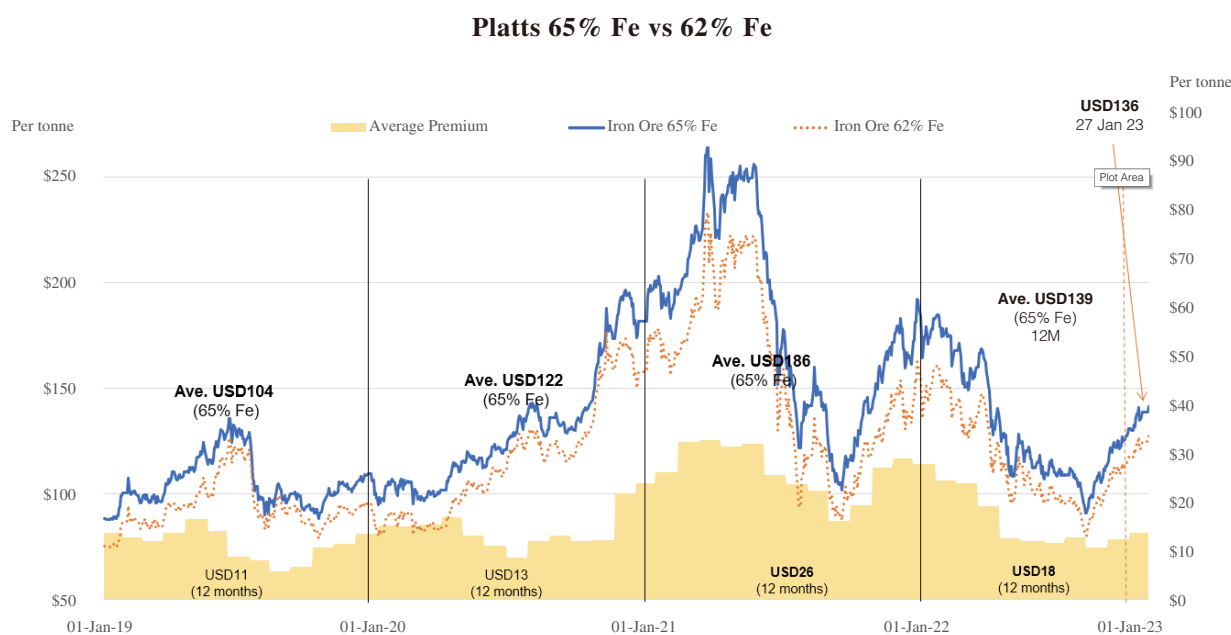
At the time of writing this trading update, I am pleased to note that the operating environment has somewhat improved. But we must remain vigilant and will continue to adopt a cautious approach as we enter into the year of 2023.”

MARKETING, SALES AND PRICES

Iron Ore

In the previous quarters in 2022, the economy of China was sluggish as the country pursued its zero-COVID policy. This was reflected in the weak iron ore price which continued its downward trend in October 2022. But in the latter part of the fourth quarter, with additional policy support to shore up the Chinese economy, iron ore price gradually recovered and Platts 65% iron ore price closed the year at US\$131 per tonne. Nevertheless, with China easing the COVID restrictions, analysts expect the spreading infections in China would continue to curb industrial activity in the near term.

The average Platts 65% iron ore price of US\$111 per tonne during the fourth quarter was 4.3% lower than that of the previous quarter. With a depressed economy, demand for low-grade and discounted medium-grade iron ore has been boosted as steel producers prioritised cost-effectiveness to keep production cost low. As such, the price premium of high-grade iron ore over the lower grade ones remained relatively small in the fourth quarter of 2022.



Source: Platts (as of 27 January 2023)

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

Iron Ore Hedging

Currently, IRC does not have any open iron ore hedging position, given that it is difficult to achieve meaningful hedges with the forward iron ore curve in backwardation. IRC would continue to monitor the price movements and could enter into hedging transactions if the hedging terms are considered favorable.

Foreign Exchange Movements

The Russian Rouble is one of the most volatile currencies in 2022. While the currency depreciated to about RUB120 per US Dollar at one point in the first quarter of 2022, it appreciated drastically in the second quarter and stabilised at an average of RUB59 per US Dollar in the third quarter. The fourth quarter saw the currency devalued to an average of RUB63 per US Dollar. The movement of the currency is influenced by factors including the growth in fossil-fuels price, high interest rates and geopolitical concerns.

The Movement of Russian Rouble



Source: Bank of Russia (as of 27 January 2023)

Foreign Exchange Hedging

The strengthening of the Russian Rouble has a negative 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, from July 2022 to January 2023, about US\$2 million equivalent of Rouble expenditure per month has been hedged using zero-cost collars with puts' strike at about RUB75 and calls' strike at about RUB94. 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. The hedging that IRC has entered into serves as a counter-measure against the strengthening of Rouble.

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 kilometres 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

In the earlier part of the fourth quarter, K&S was facing a difficult operating environment with weak market iron ore price, heightened operating costs resulted from strong Russian Rouble and inflation, as well as rising interest rate. K&S was recording negative profit margins and it was not economical to operate at the normal production rate, being 80% to 90% of the designed production capacity of K&S. To mitigate the impact, in mid-November 2022, the mine scaled down its operation in the production of iron ore concentrate by up to 50% of its normal production rate. The Board considered that scaling down the operation of K&S was in the best interest of the Company and the shareholders of the Company as a whole as it could minimize operating cash outflow and conserve the ore resources of K&S for future production, when the operating environment becomes more favorable.

Towards the end of the quarter, following the recovery in market iron ore price, K&S gradually resumed its operation in the production of iron ore concentrate to its normal production rate. With this temporary scaling down of operation, K&S produced 619,184 tonnes of iron ore concentrate in the fourth quarter of 2022, 10.5% lower than that of the previous quarter.

In the previous quarters in 2022, the shipment of iron ore concentrate to China was constrained due to the ongoing cross-border railway congestion issue between Russia and China. The railway congestion slightly alleviated during the fourth quarter. Besides, K&S also managed to make trial shipments to customers via the newly-opened Amur River Bridge. Hence, despite the 10.5% reduction in production volume in the fourth quarter, K&S managed to ship 640,251 tonnes of iron ore concentrate to its customers, representing a decrease in sales volume of only 1.4% over the previous quarter, by taking advantage of the improved railway logistics and selling the inventories from its warehouse.

During the fourth quarter, K&S mainly sold its products by railway to its customers in the north-eastern region of China. China's strict zero-COVID rules have caused a sharp slowdown in the country's economy. This results in significant decrease in the profitability of the Chinese steel mills. Consequently, K&S's customers are demanding for greater sales discount. Shipments to Russian and seaborne customers are becoming uneconomical and sales to these customers have been scaled down as a result of lower iron ore prices, higher sea freight charges, and stronger Russian Rouble.

For the full year of 2022, despite various operating challenges and difficulties, K&S produced and sold 2,569,845 tonnes and 2,566,480 tonnes of iron ore concentrate respectively, both increasing by 0.5% respectively over the previous year. These volumes represent about 81% of K&S's designed capacity.

Due to the scaling down of K&S's operation during the earlier part of the fourth quarter, mining activities were also reduced to minimize cash outflow and preserve ore resources.

Key Mining Data of K&S for Q4 2022

K&S	Q4 2022	Q3 2022	Changes
Mining (tonnes)	2,457,800	2,617,300	(6.1%)
Drilling (metre)	158,371	169,495	(6.6%)
Blasting (cubic metre)	3,860,600	4,375,300	(11.8%)
Rock mass moved (cubic metre)	4,552,200	5,111,800	(10.9%)
Ore fed to the primary processing plant (tonnes)	2,185,800	2,379,100	(8.1%)
Pre-concentrate produced (tonnes)	1,461,321	1,601,209	(8.7%)

K&S – Sutara Development

K&S comprises of two main pits, Kimkan and Sutara. The Kimkan operation comprises two key ore zones – Central and West. Open pit mining at the Kimkan deposit is currently carried out at both zones. Mining works were originally performed only at the Kimkan Central pit. As the development of the Kimkan Central pit advances, K&S has 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. 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 starting to mine ore from Sutara in the second half of 2023. It is estimated that the total initial capital expenditure required to bring the Sutara pit into operation would amount to approximately US\$51.1 million. Up to 31 December 2022, approximately US\$19.8 million had been incurred. The remaining sum of US\$31.3 million is expected to be self-funded by cashflow generated by K&S.

COVID-19

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

Partial Military Mobilisation

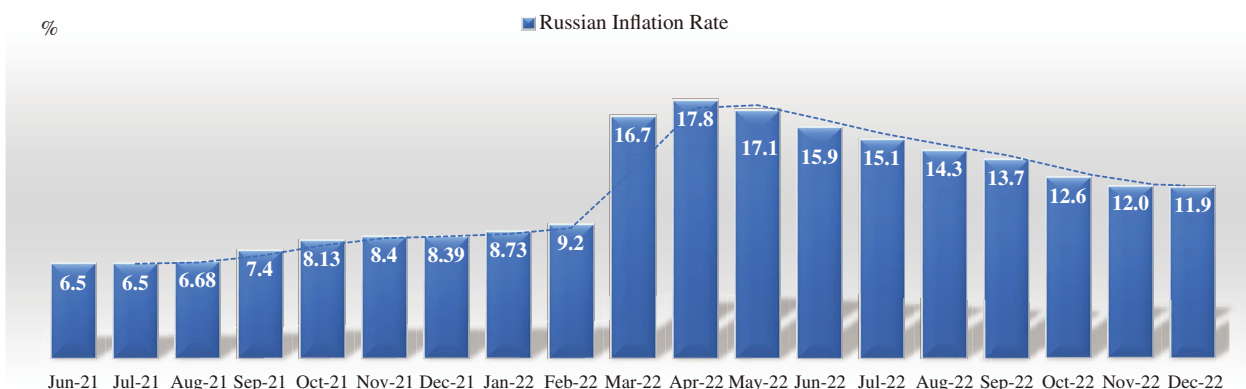
In September 2022, the Russian government announced a partial mobilisation of military reservists in Russia, and some K&S's workers have been called to the service. As of now, and so far as the Board is aware, based on its current assessment and the information currently available, there is no material impact on the operation of K&S. The Company will closely monitor the development of the situation.

Update of Estimated Unit Cash Cost

Cost control is always an important element in improving profitability, and IRC will continue to apply stringent cost control measures.

Inflation is a key concern among Russian businesses. Russian inflation rate has increased dramatically to double digits since the end of the first quarter of 2022. The average inflation rate in the fourth quarter of 2022 was 12.2%, up 3.4 percentage points from the same period last year. Although inflation appears to be slowing down in the second half of 2022, the rate is still relatively high. Inflation is worsening largely as a consequence of geopolitical issues. Inflation has a negative impact on K&S's operational costs as most of these costs are paid in Russian Rouble while Russian Rouble exchange rate was relatively strong in the second half of 2022.

The Movement of Russian Inflation Rate



Source: *Tradingeconomics.com* (as of 27 January 2023)

The relevant cash cost information for the full year of 2022 will be analysed and disclosed in the 2022 annual results announcement.

Impact of U.S. Sanctions against Russia

IRC is listed on the 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. The Company continues to review and consider the impact, if any, of the UK, EU and US sanctions. As of now, and so far as the Board is aware, based on its current assessment and the information currently available, the sanctions have no material direct impact on the Group or its operations. Although the Group's operations and activities in Russia and elsewhere are currently continuing as usual, as the geopolitical situation continues to develop, there is a risk of supply chain disruptions affecting K&S's operation, the purchase of mining fleet and the development of the Sutara pit. The Company will continue to closely monitor sanctions developments and will, if necessary, make further announcement(s).

CORPORATE AND INDUSTRY UPDATE

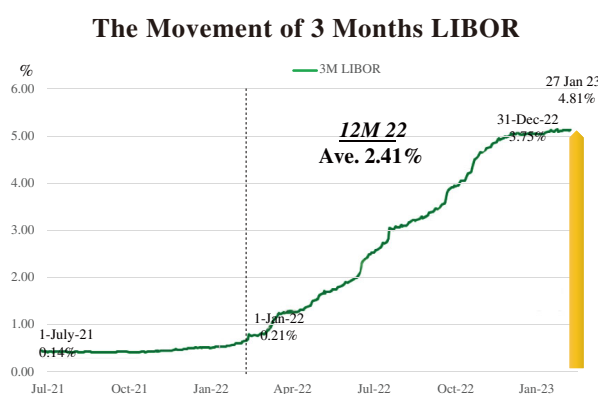
Group's Cashflow Position and Loan Facility

In the first half of 2022, GPB assigned its rights under two facility agreements for a loan in aggregate of US\$240 million (the “**GPB Facilities**”) to MIC, a company wholly-controlled by Ms Marina Kolesnikova. So far as the Company is aware, the assignments have not resulted in any change to the terms and conditions of the documentation for the GPB Facilities that the Group previously entered into.

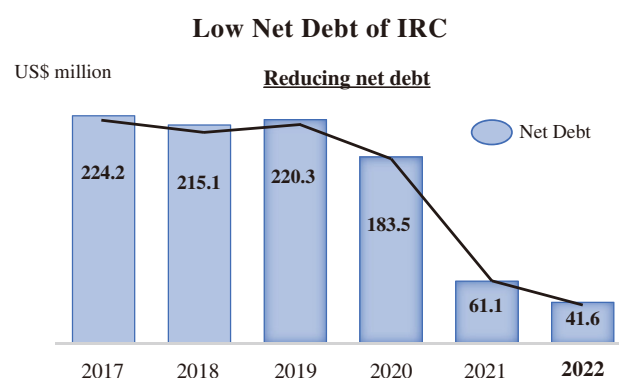
IRC drew down the US\$240 million loan facility in 2019 and since then and up to 30 September 2022, IRC has repaid US\$142 million. Another US\$19 million was repaid in October 2022 upon completion of the subscription of new IRC shares under the general mandate by MIC, as described below. As of 31 December 2022, the Group had an unaudited cash and deposits balance of approximately US\$36.9 million. The total debt due to MIC was US\$78.5 million. Net debt was reduced to US\$41.6 million (31 December 2021: US\$61.1 million).

The interest rate of the loan facility is determined based on London Interbank Offered Rate (“**LIBOR**”). The rising global inflation is pushing interest rate into a more aggressive position. The three-month LIBOR has been steadily rising with an average interest rate of 2.41% in 2022 (2021: 0.16%).

The significant reduction in the loan principal put IRC in a better position to withstand the volatile interest rates. In addition, the loan is no longer being guaranteed, saving the Group from making guarantee fee payments to guarantor.



Source: Bloomberg (as of 27 January 2023)



Source: IRC Limited (as of 31 December 2022)

Subscription of New Shares Under General Mandate

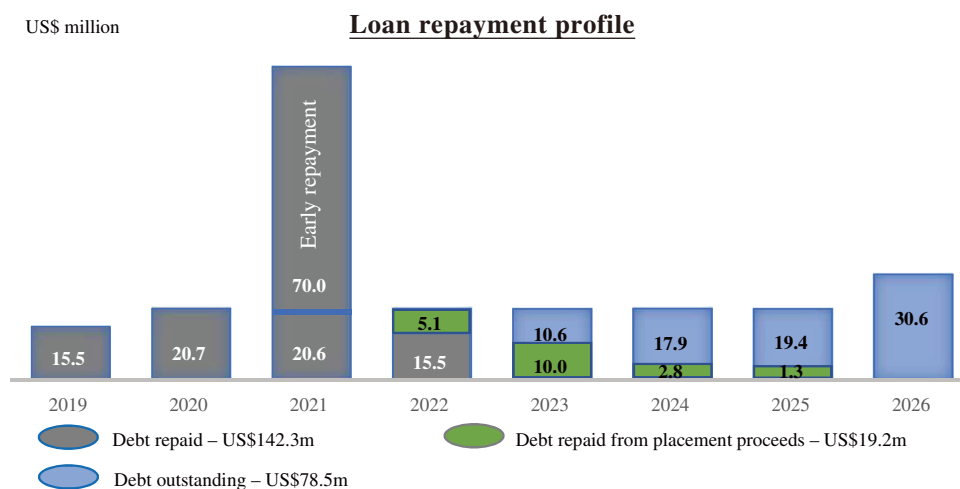
In contemplation of the complex external operating environment which continues to get worse in the second half of 2022 and the market challenges that the Group faces, including the weakening of iron ore prices, appreciation of Russian Rouble, heightening of inflation rate, and the increase in market interest rate, the Group is in need of cash to deal with these external factors which are largely out of the Group's control.

In light of the funding need, on 14 September 2022, the Company entered into a subscription agreement with MIC pursuant to which MIC had agreed to subscribe for and the Company had agreed to allot and issue 1,419,942,876 new IRC shares (the “**Subscription Shares**”) at a subscription price of HK\$0.10641 per Subscription Share. The Subscription Shares represent 20.0% of the then existing issued share capital of the Company and approximately 16.7% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares.

The net proceeds from the subscription amounted to an equivalent of approximately US\$19 million which would be fully applied to prepay (i) the entire principal amount of the instalment of the loan due to MIC pursuant to the assigned GPB Facilities that will fall due and become payable by the Group in the fourth quarter of 2022; and (ii) part of the principals of each of the 12 quarterly instalments of the GPB Facilities that will fall due and become payable by the Group to MIC in each of the year ending 31 December 2023, 2024 and 2025, subject to adjustment.

The subscription was completed on 12 October 2022. After applying the subscription proceeds against the loan due to MIC pursuant to the assigned GPB Facilities as intended, the outstanding loan principal amounted to approximately US\$78.5 million and the loan repayment profile is as follows:

IRC's Loan Facilities Repayment Profile



Source: IRC Limited (as of 31 December 2022)

Change of Auditor

Deloitte Touche Tohmatsu (“**Deloitte**”) resigned as the auditor of the Company with effect from 10 November 2022, who determined to tender its resignation after considering its ability to execute its responsibilities as the group engagement team in accordance with the requirements of Hong Kong Standard on Auditing 600 “Special Considerations – Audits of Group Financial Statements (including the Work of Component Auditors)” issued by the Hong Kong Institute of Certified Public Accountants, in light of the significance of the foreign operations to the Group.

The Board, with the recommendation from the audit committee of the Company, has resolved to appoint RSM Hong Kong (“**RSM**”) as the auditor of the Company and RSM has been formally appointed with effect from 30 December 2022 to fill the casual vacancy following the resignation of Deloitte and to hold office until the conclusion of the next annual general meeting of the Company.

For further details of the change of auditor, please refer to the announcements of the Company dated 18 November 2022 and 30 December 2022.

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 (the “**Bridge**”) would commence construction. The 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.

The 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 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.

The Bridge commenced operation in December 2022 with limited capacity and K&S had made successful trial shipments via the Bridge. K&S is planning to increase the usage of the Bridge but this will be subject to the Bridge's capacity, which is currently limited given that it has just become operational.

* *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 approximately 3,155 thousand wet metric tonne.

In this announcement, the exchange rate of US\$1 to HK\$7.80 has been used for conversion into the relevant currencies for illustrative purposes only.

By Order of the Board
IRC Limited
Denis Cherednichenko
Chief Executive Officer

Hong Kong, People's Republic of China
Friday, 10 February 2023

As at the date of this announcement, the executive Director is Mr. Denis Cherednichenko. The Chairman and non-executive Director is Mr. Nikolai Levitskii. The independent non-executive Directors are Mr. Dmitry Dobryak, Ms. Natalia Ozhegina, Mr. Alexey Romanenko and Mr. Vitaly Sheremet.

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