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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 2023
2% DECREASE IN PRODUCTION DUE TO TEMPORARY ISSUES, NOW RESOLVED**

CONFERENCE CALL

A conference call will be held today at 16h00 Hong Kong time to discuss the second quarter trading update. The number is +852 2112 1888 and the passcode is 9353014#. Presentation slides to accompany the call are available at www.ircgroup.com.hk. A replay call will be available from 15 August 2023 at http://www.ircgroup.com.hk/en/ir_presentations.php

Monday, 14 August 2023: The Board (“**Board**”) of Directors (“**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 2023 (“**Q2 2023**”).

HIGHLIGHTS – Q2 2023

K&S

- 2.1% decrease in production volume over the previous quarter (i.e. the three months ended 31 March 2023) (“**Q1 2023**”), mainly due to issues with the pulp pumps leading to stoppage of production for about 1 week. Despite the stoppage, production in the first half of 2023 (“**1H 2023**”) was 4.0% higher than that of the same period last year (“**1H 2022**”).
- Sales volume decreased by 2.3% over Q1 2023, in line with the production decrease in the quarter. Sales volume in 1H 2023 was 7.6% higher than that in 1H 2022.
- Continuous preparation of the Sutara deposit with the aim of starting the mining operation at Sutara in the first half of 2024, minor delay against previous plan.

Corporate & Industry

- Cash balance increased to US\$45.2 million (31 March 2023: US\$24.1 million) and net debt decreased to US\$28.0 million (31 March 2023: US\$51.7 million), mainly due to positive net operational cash inflow and improved receivables turnover totalling c.US\$8.9 million and partial receipt of the sales proceeds of the Vessel of c.US\$17.0 million in Q2 2023.
- For the sales of the Vessel, out of the total sales consideration of US\$23.2 million, c.US\$17.0 million was received in Q2 2023. Another c.US\$0.8 million was received in July 2023 and the remaining balance is expected to be received in the third quarter of 2023 (“**Q3 2023**”).
- Average Platts 65% iron ore index decreased by 11.4% over Q1 2023 to US\$124 per tonne.
- Russian Rouble depreciated by 10% to an average of RUB81 per US Dollar.

SECOND QUARTER TRADING UPDATE FOR THE THREE MONTHS ENDED 30 JUNE 2023

SUMMARY OF PERFORMANCE

| | Q2 2023 | Q1 2023 | Change | Q2 2022 | Change | 1H 2023 | 1H 2022 | Change |
|---|---------|---------|--------|---------|--------|-----------|-----------|--------|
| Platts 65% Fe (average US\$ per tonne) | 124 | 140 | -11.4% | 161 | -23.0% | 132 | 165 | -20.0% |
| Iron ore concentrate | | | | | | | | |
| – Production (tonnes) | 647,486 | 661,335 | -2.1% | 665,773 | -2.7% | 1,308,821 | 1,258,847 | 4.0% |
| – Sales (tonnes) | 679,167 | 695,382 | -2.3% | 697,610 | -2.6% | 1,374,549 | 1,277,048 | 7.6% |

In mid-May 2023, due to electrical issues presumably attributable to the external grid, the pulp pumps of K&S malfunctioned and stopped operating properly which resulted in water-overflow in the pulp pumping station. As a result, K&S's production had to be temporarily suspended for about one week. The problem was fixed by the end of May 2023. With the production stoppage, 647,486 tonnes of iron ore concentrates were produced in Q2 2023 and was 2.1% lower than that of the previous quarter.

In line with the decrease in production, sales volume of 679,167 tonnes was 2.3% lower when comparing with that in Q1 2023.

For the first half of 2023, despite the aforesaid production stoppage, K&S managed to operate at an average capacity of c.83% with production and sales volumes having increased by 4.0% and 7.6% respectively over the same period last year.

As reported in the previous trading updates, the Group successfully traded a vessel in Q1 2023 which, upon transaction completion, is expected to give rise to a one-off gain of c.US\$0.5 million. The Group has been receiving the sales proceeds of the Vessel (as defined below) by instalments. As of 30 June 2023, out of the total sales proceeds of c.US\$23.2 million, c.US\$17.0 million has been received. Another c.US\$0.8 million was received in July 2023 and the remaining balance is expected to be received in Q3 2023.

Cash balance increased to US\$45.2 million (31 March 2023: US\$24.1 million) and net debt decreased to US\$28.0 million (31 March 2023: US\$51.7 million), mainly due to positive net operational cash inflow and improved receivables turnover totalling c.US\$8.9 million and partial receipt of the sales proceeds of the vessel of c.US\$17.0 million as mentioned above.

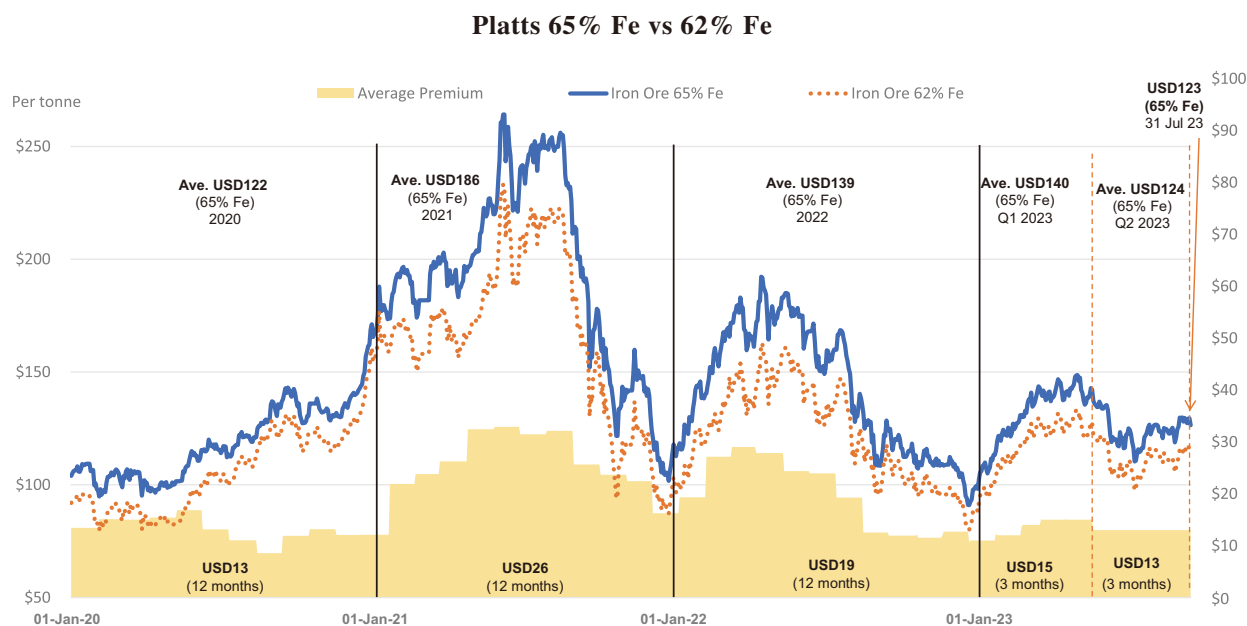
Commenting on the performance of the second quarter, Denis Cherednichenko, Chief Executive Officer of IRC said, *“The quarter started well with K&S operating at c.92% of its designed capacity in April. However, operating a sizeable project is never a straightforward task and there are bound to have difficulties and challenges. Our May production program was interrupted by the pulp pump issues and production was halted for about a week. I am pleased that our operation team swiftly resumed normal operation after the issues were resolved to lift the production rate to close to c.89% in June.*

We are seeing volatility in our operating environment, in particular, the softening of the iron ore price in Q2 2023. Our good production and sales volumes in 1H 2023 had allowed IRC to strengthen its liquidity position with an increase in cash balance and reduction in net debt. We are cautiously optimistic that our improved financial position would help IRC deal with various adversities as we enter the second half of the year.”

MARKETING, SALES AND PRICES

Iron Ore

In Q2 2023, iron ore prices decreased with the average Platts 65% iron ore price dropping to US\$124 per tonne, a 11.4% decrease quarter over quarter. Lower iron ore price was due to the market expecting too much for the demand after the COVID-19 pandemic, and the recovery of the supply side was quicker than that of the demand side. The typical summer slowdown in construction in China, together with the expected limits on domestic steel production in light of environmental protection policies, are also curbing the demand for steel which, in turn, are affecting iron ore prices.



* Source: Platts (as of 31 July 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 Q2 2023 is not published in this trading update for commercial reasons. The relevant information will be analysed and disclosed in the 2023 interim results announcement due for release by the end of August 2023.

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 favourable.

Foreign Exchange Movements and Hedging

The Russian Rouble lost 10% and depreciated to an average of RUB81 per US Dollar in Q2 2023.

The Movement of Russian Rouble



* Source: Bank of Russia (as of 31 Jul 2023)

The weakening 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. However, it should be noted that the depreciation of the currency also has negative inflationary impact on the operating costs. The Group currently does not have any hedging position for the Russian currency, but may consider entering into 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 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

As disclosed above, in mid-May 2023, due to electrical issues presumably attributable to the external grid, the pulp pumps of K&S malfunctioned and stopped operating properly which resulted in water-overflow in the pulp pumping station. As a result, K&S's production had to be temporarily suspended for about one week. The problem was fixed by the end of May 2023. With the production stoppage, 647,486 tonnes of iron ore concentrates were produced in Q2 2023 and was 2.1% lower than the previous quarter.

In line with the decrease in production, sales volume of 679,167 tonnes was 2.3% lower when comparing with 1Q 2023.

For the first half of 2023, despite the aforesaid production stoppage, K&S operated at an average capacity of c.83% with production and sales volumes having increased by 4.0% and 7.6% respectively over the same period last year.

During the quarter, K&S continued using the Amur River Bridge for railway shipments to the Chinese customers. As reported in the previous trading update, K&S also recommenced the seaborne sales in Q1 2023. However, as the macroeconomy and operating conditions are volatile, evidenced by the softening of the iron ore price, K&S is managing the scale of the seaborne sales. IRC would continue monitoring the situation and adjust its marketing strategy accordingly.

Key mining data of K&S for Q2 2023

| K&S | Q2 2023 | Q1 2023 | Changes |
|--|------------------|-----------|---------|
| Mining (tonnes) | 2,478,400 | 2,159,100 | 14.8% |
| Drilling (metres) | 156,613 | 161,721 | (3.2%) |
| Blasting (cubic metres) | 4,203,100 | 3,657,000 | 14.9% |
| Rock mass moved (cubic metres) | 5,267,800 | 4,604,000 | 14.4% |
| Ore fed to the primary processing plant (tonnes) | 2,200,100 | 2,384,700 | (7.7%) |
| Pre-concentrate produced (tonnes) | 1,536,700 | 1,634,100 | (6.0%) |

The third-party mining contractors performed satisfactorily during Q2 2023 with a general increase in mining activities over the previous quarter. The reduction in production volume is mainly due to the pulp pump issues leading to suspension of operation, as mentioned above.

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.

In Q2 2023, K&S continued development of the Sutara project: construction of the permanent reinforced-concrete bridge over the Sutara River commenced; works on the construction of a diversion and straightening of the Sutara riverbed and preparatory works for the construction of the federal highway overcrossing were completed; work on the construction of a powerline is completed and work has begun on the construction of a substation. At the Sutara deposit, stripping and dewatering works are ongoing.

Due to certain deficiencies in the design documents discovered during the state expert review and the need to implement corrections of the said design documents, it is estimated that mining operations at Sutara will start in Q1 2024 and processing of Sutara ore will start in mid-2024, after necessary permits are obtained. The mining and production schedule for the second half of 2023 and the first half of 2024 has been amended to increase ore supply from the Kimkan deposit to compensate for the Sutara delay. With Kimkan increasing the ore supply during the interim period, the revised timeline for the operation of the Sutara pit is not expected to have material impact on the production schedule of K&S.

It is estimated that the total initial capital expenditure required to bring the Sutara pit into operation would amount to approximately US\$50.4 million. Up to 30 June 2023, approximately US\$25.9 million had been incurred. The remaining sum of US\$24.5 million of the pre-production capital expenditure is expected to be self-funded by cashflow generated by K&S.

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. Based on statistical data, the average Russian Producer Price Index in the first half of 2023 increased by 2.3%. Inflation has a negative impact on K&S's operational costs as most of these costs are paid in Russian Rouble.

The relevant cash cost information for the first half of 2023 will be analysed and disclosed in the 2023 interim results announcement due for release by the end of August 2023.

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

Trading of a vessel

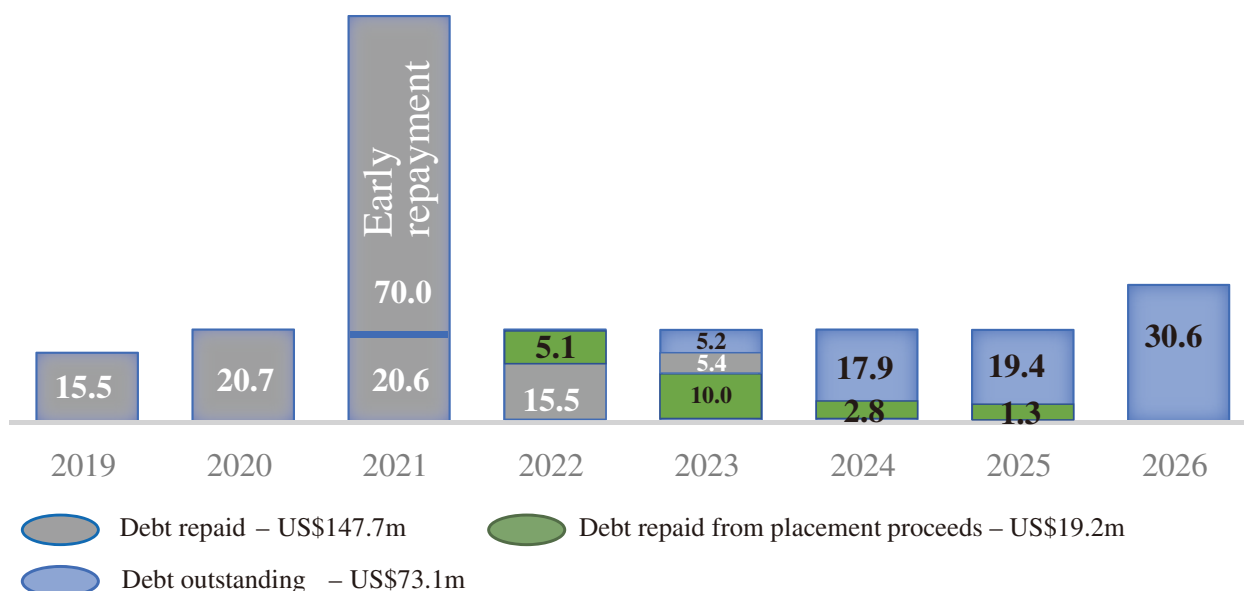
On 4 January 2023, Ariti HK Limited (“**Ariti HK**”), a wholly-owned subsidiary of the Company, as purchaser and Kirgan Holding S.A. as seller entered into a memorandum of agreement pursuant to which Ariti HK agreed to purchase and Kirgan Holding S.A. agreed to sell a crane vessel named “ATLAS DOUBLE” with Belize Flag (the “**Vessel**”) at the consideration of US\$20,500,000 (equivalent to approximately HK\$159,900,000) according to the terms and conditions of the memorandum of agreement which has been further set out in the announcement of the Company dated 5 January 2023. On 3 March 2023, Ariti HK as vendor and Limited Liability Company TK Wagon Trade as purchaser entered into a memorandum of agreement (the “**MOA**”) pursuant to which Ariti HK agreed to sell and Limited Liability Company TK Wagon Trade agreed to purchase the Vessel at the consideration of US\$23,195,000 (equivalent to approximately HK\$180,921,000) according to the terms and conditions of the MOA which has been further set out in the announcement of the Company dated 3 March 2023 (the “**Disposal**”).

The Group has been receiving the sales proceeds by instalments and c.US\$17.0 million had been received in the second quarter of 2023. Another c.US\$0.8 million was received in July 2023 while the balance is expected to be received in Q3 2023.

Group’s Cashflow Position and Loan Facility

IRC drew down the US\$240 million loan facility in 2019 and since then IRC has repaid US\$166.9 million and the total debt due to MIC Invest Limited Liability Company (“**MIC**”) amounted to US\$73.1 million as of 30 June 2023. The repayment profile of the loan is as follows:

IRC’s Loan Facilities Repayment Profile

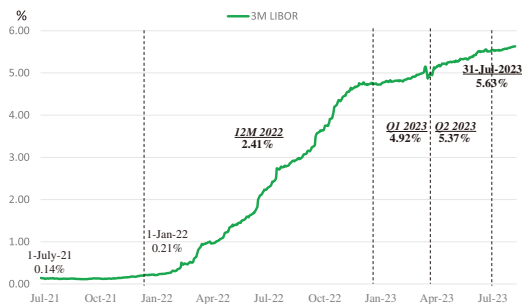


Source: IRC Limited (as of 30 June 2023)

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 5.37% in Q2 2023 (2022: 2.41%). The significant reduction in the loan principal has 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.

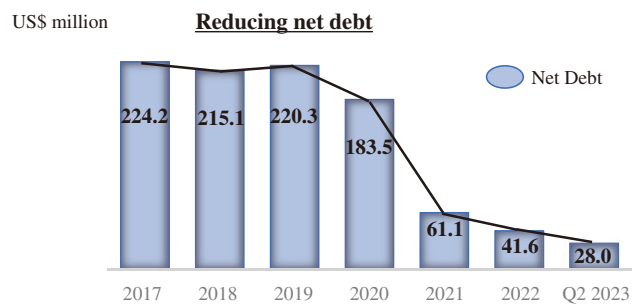
Cash balance at the end of Q2 2023 increased to US\$45.2 million (31 March 2023: US\$24.1 million) and net debt decreased to US\$28.0 million (31 March 2023: US\$51.7 million), primarily due to positive net operating cash inflow and improved receivables turnover totalling c.US\$8.9 million and cash inflows of c.US\$17.0 million relating to the vessel transaction.

The Movement of 3 Months LIBOR



Source: Bloomberg (as of 30 June 2023)

Low Net Debt of IRC



Source: IRC Limited (as of 30 June 2023)

Russian Windfall Tax

As reported in the Q1 2023 Trading Update, the Russian authorities are implementing a windfall tax, being a one-off tax payment for the profits of Russian companies for the years ended 31 December 2021 and 2022. It is noted that the President of Russia has signed the Federal Law No. 414 introducing the windfall tax and it was published on the Russian Government’s website on the 4th of August 2023. According to the information currently available, the windfall tax rate will be 10% of the difference between a company’s average profit for 2021-2022 and average profit for 2018-2019. Companies can get a 50% discount if the tax payment is made before 30 November 2023.

Based on the current preliminary estimation, IRC would need to pay a windfall tax of c.RUB507 million (equivalent to c.US\$5.2 million), or c.RUB254 million (equivalent to c.US\$2.6 million) if payment is made by 30 November 2023. The aforementioned information in relation to the windfall tax regime is based on the assumption that the windfall tax regime will be implemented in accordance with the information currently available, and preliminary review and assessment by the Board with reference to the latest available financial and other information of the Group. The Company will continue to closely monitor relevant developments and will, if necessary, make further announcement(s).

Amur/Heilongjiang River Bridge

As reported in the Company’s previous trading update, the Amur River Bridge (the “Bridge”) commenced operation towards the end of 2022 with limited capacity and K&S had made successful trial shipments via the Bridge. During the first half of 2023, more shipments had been made 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.

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 the 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 approximately 3,155 thousand wet metric tonne.

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

Hong Kong, People's Republic of China
Monday, 14 August 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.

IRC Limited

6H, 9 Queen's Road Central, Hong Kong
Telephone: +852 2772 0007
Email: ir@ircgroup.com.hk
Website: www.ircgroup.com.hk

For further information, please visit www.ircgroup.com.hk or contact:

Johnny Yuen

Finance Director (HK) & Company Secretary
Telephone: +852 2772 0007
Email: jy@ircgroup.com.hk