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

**THIRD QUARTER TRADING UPDATE
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2023
10.5% DECREASE IN PRODUCTION DUE TO ORE QUALITY AND EXTERNAL ISSUES**

Thursday, 19 October 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 Third Quarter Trading Update for the three months ended 30 September 2023 (“**Q3 2023**”).

HIGHLIGHTS – Q3 2023

K&S

- 10.5% decrease in production volume over the previous quarter (i.e. the three months ended 30 June 2023) (“**Q2 2023**”), mainly due to issues with ore quality, poor weather and mining contractors;
- Sales volume decreased by 16.6% over Q2 2023, in line with the production decrease in the quarter. Despite such decrease, sales volume in the first nine months of 2023 (“**9M 2023**”) was 0.8% higher than that of the same period in 2022 (“**9M 2022**”); and
- Continuous preparation of the Sutara deposit with the aim of starting the mining operation at Sutara in the first half of 2024.

Corporate & Industry

- Cash balance increased to US\$47.8 million (30 June 2023: US\$45.2 million) and net debt decreased to US\$22.6 million (30 June 2023: US\$28.0 million), mainly due to positive net cash inflow (excluding servicing of loans and sales proceeds of the Vessel) of US\$1.4 million and the receipt of the remaining sales proceeds of the Vessel of c.US\$6 million;
- The sales of the Vessel had been completed after receipt of the remaining sales proceeds of c.US\$6 million in Q3 2023. The transaction has given rise to a one-off gain of c.US\$0.5 million;
- Average Platts 65% iron ore index marginally increased by 0.8% over Q2 2023 to US\$125 per tonne;
- Russian Rouble depreciated by 14% to an average of RUB94 per US Dollar; and
- Temporary export duties, calculated with reference to RUB/USD exchange rates, have been introduced for the fourth quarter of 2023 (“**Q4 2023**”). Based on the prevailing exchange rates and other assumptions, the export duty for IRC is expected to be c.US\$3 million for Q4 2023.

THIRD QUARTER TRADING UPDATE FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2023

SUMMARY OF PERFORMANCE

	Q3 2023	Q2 2023	Change	Q3 2022	Change	9M 2023	9M 2022	Change
Platts 65% Fe (average price per tonne)	US\$125	US\$124	0.8%	US\$116	7.8%	US\$130	US\$148	-12.2%
Iron ore concentrate								
– Production (tonnes)	579,290	647,486	-10.5%	691,814	-16.3%	1,888,111	1,950,660	-3.2%
– Sales (tonnes)	566,635	679,167	-16.6%	649,180	-12.7%	1,941,184	1,926,228	0.8%

During Q3 2023, 579,290 tonnes of iron ore concentrate was produced, 10.5% lower than that in Q2 2023. Production in Q3 2023 was hampered by the lower yield of iron ore concentrate from ore due to the lower-than-expected content of Fe_{magn} in the ore processed. Besides, the region where K&S is located experienced exceptionally heavy rain, especially in August 2023. With the excessive moisture, the ore became muddy which sometimes clogged the machinery of the plant and production was inevitably affected. The underperformance of the mining contractors resulting from the low readiness of the equipment due to technical issues also contributed to the production shortfall during Q3 2023.

In line with the decrease in production, sales volume of 566,635 tonnes recorded for the quarter were 16.6% lower when comparing with that in Q2 2023. Despite such decrease, sales volume for 9M 2023 of 1,941,184 tonnes were 0.8% higher than the same period last year.

As reported in the previous trading updates, the Group successfully traded a Vessel (as defined below) and the transaction was completed in Q3 2023 after receiving the remaining sales proceeds of c.US\$6 million. The transaction has given rise to a one-off gain of c.US\$0.5 million.

Cash balance increased to US\$47.8 million (30 June 2023: US\$45.2 million) and net debt decreased to US\$22.6 million (30 June 2023: US\$28.0 million), mainly due to positive net cash inflow (excluding servicing of loans and sales proceeds of the Vessel) of US\$1.4 million and the receipt of the remaining sales proceeds of the Vessel of c.US\$6 million as mentioned above.

Commenting on the performance of the third quarter, Denis Cherednichenko, Chief Executive Officer of IRC said, *“IRC has experienced a period of underperformance and it is important to address the key factors that have contributed to this setback. Firstly, we have been impacted by the poor quality of the ore extracted and the inherent nature of the deposits has hindered K&S’s ability to consistently deliver the desired output. Moreover, it is not without frustration that our production was dampened by uncontrollable factors like the bad weather with the heavy rainfall taking its toll on our operation. Last but not least, the subpar performance of our mining contractors has had a detrimental impact on our overall productivity and efficiency.*

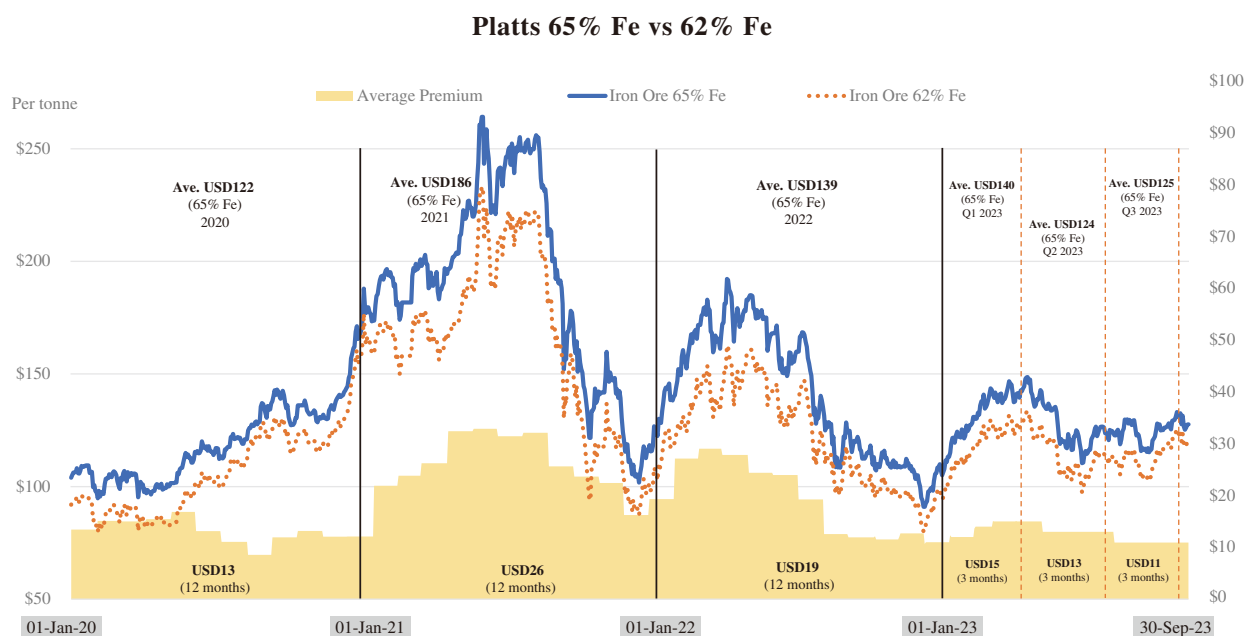
In addition to the aforementioned challenges, we are facing the burden of new tax charges, such as the Russian windfall tax and the temporary export duty, which further exacerbate the complexity of our operating environment. These unforeseen financial obligations have added an additional layer of strain on our profitability and cash flow.

Despite these external factors which are beyond our control, it is essential that we take ownership of the situation. We are committed to addressing these issues swiftly and diligently, and are confident that our resilient spirit and unwavering dedication will guide us in overcoming these obstacles.”

MARKETING, SALES AND PRICES

Iron Ore

During Q3 2023, iron ore prices initially decreased following negative economic signs in China, in particular the poor sentiment of the steel-intensive property market of China. The crisis in China's property sector fuelled concerns that developers may consume less construction steel and this had exerted downward pressure on iron ore prices. Platts 65% iron ore price reached its lowest point of the quarter of c.US\$115 per tonne in mid-August 2023. Towards the end of the quarter, thanks to the support from the Chinese authorities for the property sector through the easing of buying restrictions, iron ore price slightly rebounded and Platts 65% iron ore price recovered to close the quarter at US\$128 per tonne. On average, Platts 65% iron ore price for the quarter was US\$125 per tonne, a marginal increase of 0.8% over the average price level of US\$124 per tonne for Q2 2023. Despite the price recovery, the Q3 2023 average price level was still 5% lower than that for the first half of 2023.



* Source: Platts (as of 30 September 2023)

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 Q3 2023 is not published in this trading update for commercial reasons. The relevant information will be analysed and disclosed in the 2023 annual results announcement.

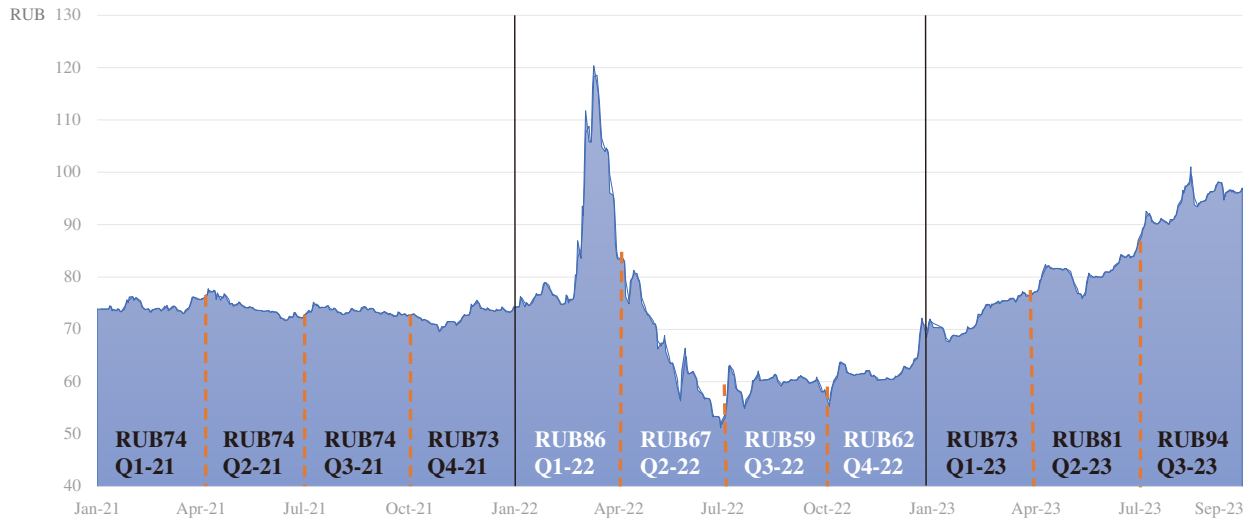
Iron Ore Hedging

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 favourable.

Foreign Exchange Movements and Hedging

The Russian Rouble lost 14% and depreciated to an average of RUB94 per US Dollar in Q3 2023.

The Movement of Russian Rouble against US Dollar



* Source: Bank of Russia (as of 30 September 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 the Russian 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, during Q3 2023, 579,290 tonnes of iron ore concentrate were produced, 10.5% lower than that in the previous quarter. The main factor that caused the underperformance was the lower yield of concentrate from ore due to the lower-than-expected content of Fe_{magn} in the ore processed. The second contributing factor were the extreme weather conditions in August 2023, with the Russian Ministry of Emergency Situations issuing two dangerous weather warnings during the month due to heavy rains. Average moisture content in ore fed to processing in August 2023 was 6.1%, as compared to average ore moisture content of 3.1% in July 2023 and 2.9% for the first half of 2023. The elevated ore moisture content caused ore clogging at the dry magnetic separation stage, resulting in lower throughput and the need to stop the machinery for cleaning. The underperformance of the mining contractors caused by the low readiness of the equipment due to technical issues also contributed to the production shortfall during the quarter. Some of the mining equipment was not operational due to shortage of spare parts and K&S is now actively working with the mining contractors to resolve the issues swiftly.

In line with the decrease in production, sales volume of 566,635 tonnes recorded for the quarter were 16.6% lower when comparing with that in Q2 2023. Despite such decrease, sales volume for 9M 2023 of 1,941,184 tonnes were 0.8% higher than 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 updates, K&S had recommenced the seaborne sales in Q1 2023. However, as the macroeconomy and operating conditions are volatile, as evidenced by the softening of the iron ore price, K&S is suspending the seaborne sales. K&S is exploring sales opportunities of the domestic market. IRC would continue monitoring the market situation and adjust its marketing strategy accordingly.

Key mining data of K&S for Q3 2023

K&S	Q3 2023	Q2 2023	Changes
Mining (tonnes)	2,578,600	2,478,400	4.0%
Drilling (metres)	168,117	156,613	7.3%
Blasting (cubic metres)	4,296,400	4,203,100	2.2%
Rock mass moved (cubic metres)	4,712,800	5,267,800	-10.5%
Ore fed to the primary processing plant (tonnes)	2,179,600	2,200,100	-0.9%
Pre-concentrate produced (tonnes)	1,441,868	1,536,700	-6.2%

The reduction in rock mass moved reflected the underperformance of the third-party mining contractors. The lower amount of pre-concentrate produced was mainly due to the inferior ore quality and poor weather conditions 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 the third quarter of 2023, K&S made significant progress on the Sutara project. A power line to Sutara was successfully completed and put into operation, while work on the substation construction continued. Simultaneously, the construction of the modular crushing and screening complex commenced. Progress was also made on the permanent reinforced-concrete bridge over the Sutara River and the overpass on the federal highway. Ongoing operations at the Sutara deposit include stripping and dewatering.

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 September 2023, approximately US\$27.4 million had been incurred. The remaining sum of US\$23.0 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, Russia Producer Price Index grew 10.6% year-on-year in August 2023, compared with a growth of 4.1% year-on-year in the previous month. Inflation has a negative impact on K&S's operational costs as most of these costs are paid in Russian Rouble.

The high inflation rates have significantly impacted K&S's operating costs across various fronts. One of the major areas affected is energy costs, as rising inflation has led to an increase in fuel and electricity expenses. Moreover, the general increase in prices across the economy has led to a surge in other expenses such as raw materials, equipment, and maintenance costs. Furthermore, K&S is currently grappling with a shortage in the labour market, making the staff recruitment and retention processes increasingly challenging and driving up labour costs.

The relevant cash cost information for 2023 will be analysed and disclosed in the 2023 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

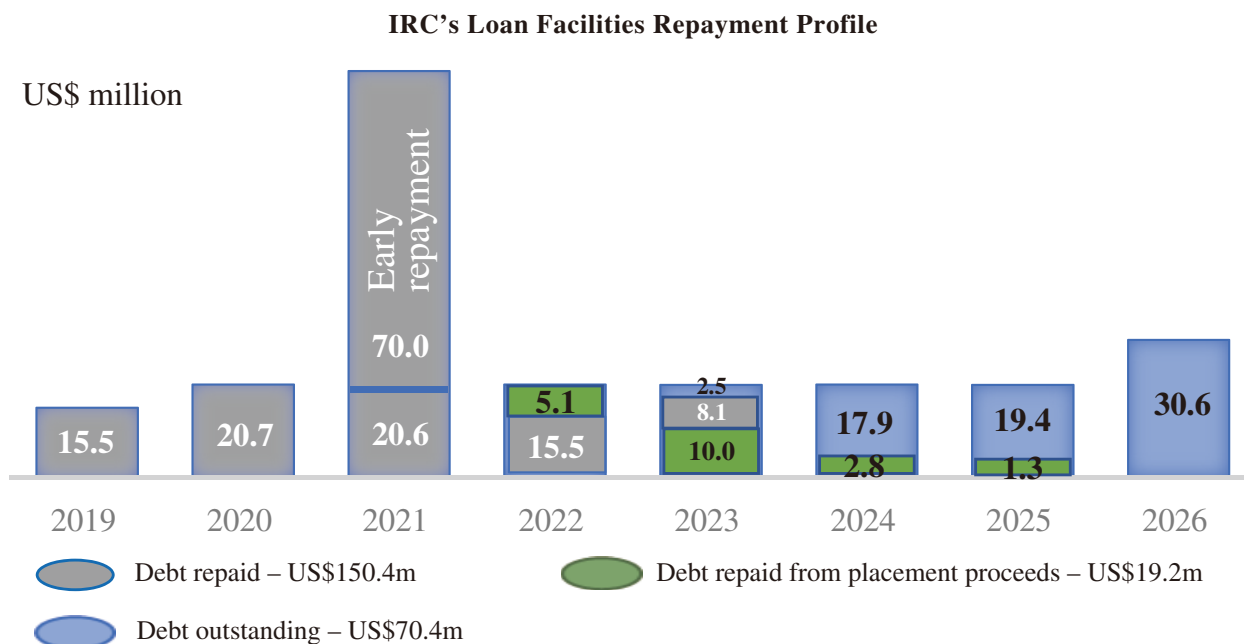
Trading of a Vessel

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\$20.5 million 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\$23.2 million 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 Group has been receiving the sales proceeds by instalments and c.US\$17 million had been received in the first half of 2023. The transaction was completed in Q3 2023 after receiving the remaining sales proceeds of c.US\$6 million. The transaction has given rise to a one-off gain of c.US\$0.5 million.

Group’s Cashflow Position and Loan Facility

IRC drew down the loan in the aggregate of US\$240 million in 2019 and such loan is currently due to MIC invest Limited Liability Company (“**MIC**”). As of 30 September 2023, IRC has repaid US\$169.6 million and the total debt due to MIC amounted to US\$70.4 million. The repayment profile of the loan is as follows:

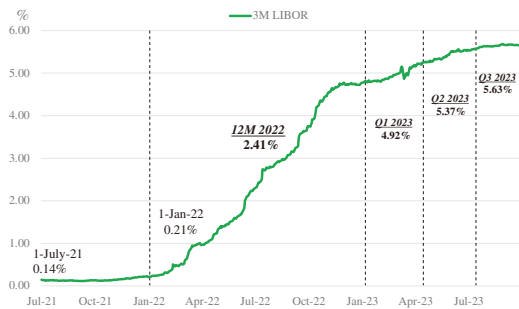


Source: IRC Limited (as of 30 September 2023)

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 5.63% in Q3 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.

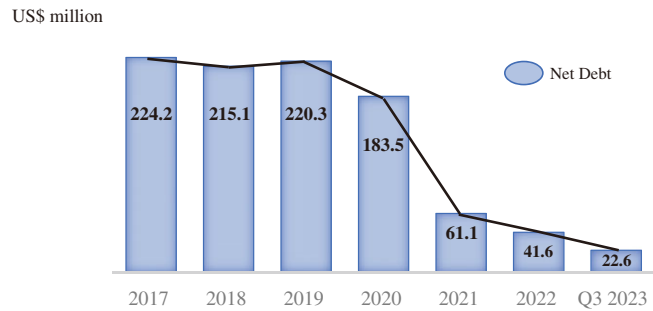
Cash balance at the end of Q3 2023 increased to US\$47.8 million (30 June 2023: US\$45.2 million) and net debt decreased to US\$22.6 million (30 June 2023: US\$28.0 million), primarily due to positive net cash inflow (excluding servicing of loans and sales proceeds of the Vessel) of US\$1.4 million and of c.US\$6 million relating to the Vessel transaction.

The Movement of 3 Months LIBOR



Source: Bloomberg (as of 30 September 2023)

Low Net Debt of IRC



Source: IRC Limited (as of 30 September 2023)

Russian Windfall Tax

As reported in the previous trading updates, 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\$5.0 million), or c.RUB254 million (equivalent to c.US\$2.5 million) if payment is made by 30 November 2023.

The Group intends to settle the windfall tax at the reduced rate and is expected to pay c.RUB254 million (equivalent to c.US\$2.5 million) by 30 November 2023.

Temporary Export Duties

Russia has published the Government Decree No. 1538 of 21 September 2023 in the Official Gazette introducing a temporary export duty based on the RUB exchange rate for exports outside the Eurasian Economic Union. The export duty applies to most exports, except for oil, gas, grain, and exports in the shipbuilding industry. The applicable export duty rates would depend on the RUB/USD exchange rates. The temporary export duty applies from 1 October 2023.

Based on the current preliminary estimation using the prevailing exchange rate, iron ore price and other assumptions, IRC would need to pay a total of c.US\$3 million temporary export duty for the period from 1 October 2023 to 31 December 2023. It is not clear as to whether the temporary export duties regime will be extended beyond 31 December 2023 or not. Also, there are media reports suggesting that there are potential plans to link the calculation of the temporary export duties to the movement in commodity prices and RUR/USD rates. The aforementioned information in relation to the temporary export duty is based on 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 9M 2023, more shipments had been made via the Bridge. Currently, although most of K&S's shipments are made via the normal railway route, 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
Thursday, 19 October 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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