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 2023 ORE QUALITY & MINING CONTRACTORS ISSUES CONTINUED TO AFFECT PRODUCTION

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 1096607#. Presentation slides to accompany the call are available at www.ircgroup.com.hk. A replay call will be available from 8 March 2024 at http://www.ircgroup.com.hk/en/ir_presentations.php

Thursday, 7 March 2024: The Board ("**Board**") of Directors ("**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 2023 ("**Q4 2023**").

HIGHLIGHTS – Q4 2023

K&S

- 0.1% decrease in production volume over the previous quarter (i.e. the three months ended 30 September 2023) ("**Q3 2023**"), as issues with ore quality and mining continued to affect production;
- Sales volume increased by 3.7% over Q3 2023, mainly due to comparison being made against a relatively lower base of Q3 2023;
- Despite various production issues, sales and production volumes for the full year 2023 were only 1.5% and 4.0% respectively lower than those of 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$52.8 million (30 September 2023: US$47.8 million) and net debt decreased to US$14.9 million (30 September 2023: US$22.6 million), mainly due to positive net cash inflow (excluding servicing of loans and payments of Windfall Tax and Temporary Export Duties) of US$15.2 million;

- Average Platts 65% iron ore index increased by 10.4% over Q3 2023 to US$138 per tonne. However, on a full year basis, average Platts 65% iron ore index lost 5% and decreased from US$139 per tonne in 2022 to US$132 per tonne in 2023;

- Russian Rouble slightly appreciated by 1% in Q4 2023 to an average of RUB93 per US Dollar; on a full year basis, Russian Rouble depreciated by about 19% in 2023;

- Temporary export duties, calculated with reference to RUB/USD exchange rates, was introduced in Q4 2023 and will remain effective for 2024. c.US$2.7 million was paid in Q4 2023; Windfall tax at the reduced rate of US$2.8 million was also paid; and

- Mandatory unconditional cash offers launched by Axioma Capital FZE LLC ("**Axioma**") during Q4 2023 was completed on 22 February 2024; Axioma now holds 56.76% of IRC.

FOURTH QUARTER TRADING UPDATE FOR THE THREE MONTHS ENDED 31 DECEMBER 2023

SUMMARY OF PERFORMANCE

	Q4 2023	Q3 2023	Change	Q4 2022	Change	**12M 2023**	12M 2022	Change
Platts 65% Fe								
(average price per tonne)	**US$138**	US$125	10.4%	US$111	24.3%	**US$132**	US$139	-5.0%
Iron ore concentrate								
– Production (tonnes)	**578,718**	579,290	-0.1%	619,184	-6.5%	**2,466,829**	2,569,845	-4.0%
– Sales (tonnes)	**587,413**	566,635	3.7%	640,251	-8.3%	**2,528,596**	2,566,480	-1.5%

During Q4 2023, 578,718 tonnes of iron ore concentrate were produced, 0.1% lower than that in the previous quarter. Production in Q4 2023 continued to be hampered by the lower yield of iron ore concentrate from ore due to the lower content of Fe_{magn} in the ore processed. Also contributing to the production shortfall was the underperformance of the mining contractors resulting from the low readiness of the equipment due to technical issues. The shortage of mining fronts at the pit site also affected the mining efficiency.

Sales volume of 587,413 tonnes was 3.7% higher when compared with that in Q3 2023, mainly because the comparison was made against a smaller reference point, as sales volume in the last quarter was relatively low due to production issues.

For the full year of 2023, despite the aforesaid ore quality issues, underperformance of mining contractors, as well as the electrical issues experienced in May 2023 leading to a temporary suspension in production, K&S still managed to operate at an average capacity of c.78% with production and sales volumes decreased marginally by 4.0% and 1.5% respectively over the full year of 2022.

Cash balance increased to US$52.8 million (30 September 2023: US$47.8 million) and net debt decreased to US$14.9 million (30 September 2023: US$22.6 million), mainly due to positive net cash inflow (excluding servicing of loans and payments of Windfall Tax and Temporary Export Duties) of US$15.2 million.

In November 2023, Axioma launched a mandatory conditional cash offer for all the issued shares of IRC (other than those already owned and/or agreed to be acquired by Axioma) and all outstanding share options of the Company. The offer closed on 22 February 2024 and Axioma's shareholding in IRC has been increased to 56.76%.

Commenting on the performance of the fourth quarter, Denis Cherednichenko, Chief Executive Officer of IRC said, *"Understandably, we are not too excited about IRC's performance in Q4 2023, as K&S's operation continued to be affected by issues with ore quality and mining operation. That being said, we must understand that IRC is currently in a transitional phase as we await the opening of the Sutara pit. During this period, our operations are hindered, as we have expected. However, we are confident that once the Sutara pit is fully up and running, our performance will improve.*

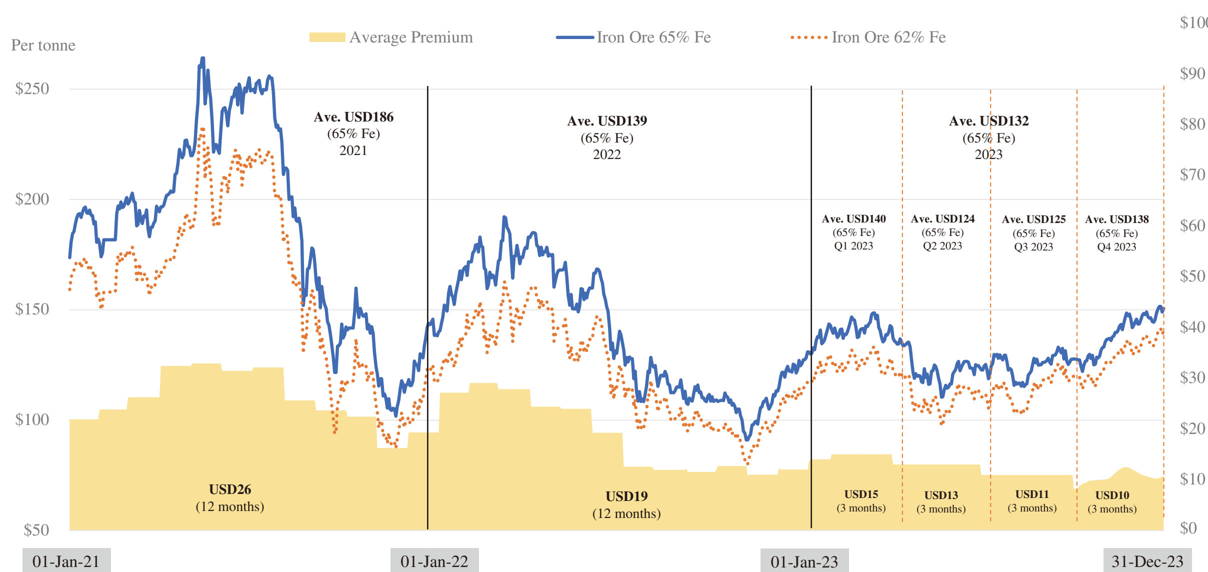
What is encouraging is that, despite the difficult operating environment, we continued to generate positive cash flow and have significantly reduced the net debt balance, putting ourselves in a good position to overcome the challenges ahead."

MARKETING, SALES AND PRICES

Iron Ore

During Q4 2023, iron ore price showed an encouraging increase on the back of China's economic stimulus measures. A series of supportive policies on the property market, coupled with expectations on further economic stimulus acted as tailwinds. Platts 65% iron ore price closed at c.US$151 per tonne in Q4 2023, c.18% higher than that of the last quarter end. On average, Platts 65% iron ore price for Q4 2023 was US$138 per tonne, representing an increase of 10.4% over the average price level of Q3 2023. However, despite the price recovery in Q4 2023, the full year 2023 average price level of Platts 65% iron ore of US$132 per tonne was 5% lower than that of the 2022.

Platts 65% Fe vs 62% Fe



** Source: Platts (as of 31 December 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 Q4 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, due for release by the end of March 2024.

Iron Ore Hedging

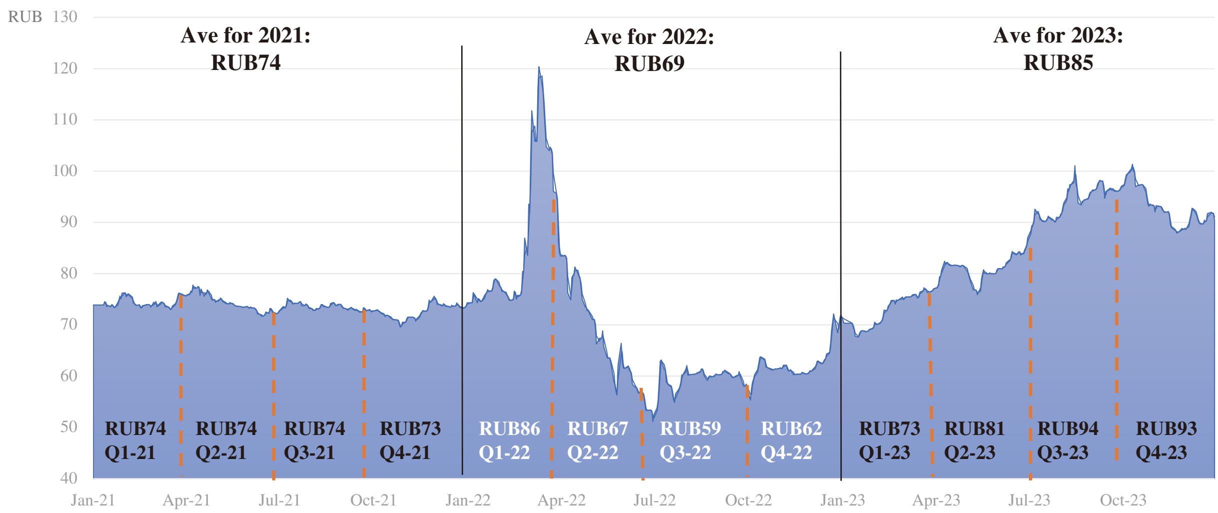
During Q4 2023, IRC has engaged in certain trading of iron ore concentrate and pellets. As the margins of such transactions are relatively low, to avoid the downside risk, hedging transactions have been entered into by buying put options of 62% iron ore index at about US$123 per tonne to US$137 per tonne for about 110 kt of iron ore sales. It should be noted that the hedging is not speculative in nature and is for risk management purposes.

IRC would continue to monitor the price movements and may enter into hedging transactions if the hedging terms are considered favourable.

Foreign Exchange Movements and Hedging

The Russian Rouble remained stable in Q4 2023, marginally appreciated by 1% to an average of RUB93 per US Dollar in Q4 2023. On a full year basis, Russian Rouble depreciated by about 19% in 2023.

The Movement of Russian Rouble against US Dollar



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

The general 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, during Q4 2023, 578,718 tonnes of iron ore concentrate were produced, 0.1% lower than that in the previous quarter. Production in Q4 2023 continued to be hampered by the lower yield of iron ore concentrate from ore due to the lower content of Fe_{magn} in the ore processed. 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.

Also contributing to the production shortfall was the underperformance of the mining contractors resulting from the low readiness of the equipment due to technical issues. Some of the mining equipment was not operational due to shortage of spare parts. The shortage of mining fronts at the pit site also affected the mining efficiency. K&S is now actively working with the contractors to resolve the issues.

Sales volume of 587,413 tonnes was 3.7% higher when compared with that in Q3 2023, mainly because the comparison was made against a smaller reference point, as sales volume in the last quarter was relatively low due to production issues.

For the full year of 2023, despite the aforesaid ore quality issues, underperformance of mining contractors, as well as the electrical issues experienced in May 2023 leading to a temporary suspension in production, K&S still managed to operate at an average capacity of c.78% with production and sales volumes decreased marginally by 4.0% and 1.5% respectively over the same period last year.

K&S continued using the Amur River Bridge for railway shipments to the Chinese customers with about 150 kt of iron ore concentrate being delivered via the Bridge during Q4 2023. Although shipments made via the Bridge do not provide much savings, due to the high bridge tariff, this transportation route helps alleviate the railway congestion issues and allows K&S to ship its products more efficiently to its customers.

As reported in the previous trading updates, K&S had recommenced the seaborne sales in the first quarter of 2023. However, as the macroeconomy and operating conditions are volatile, K&S has suspended 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 Q4 2023

K&S	**Q4 2023**	Q3 2023	Changes
Mining (tonnes)	**2,020,900**	2,578,600	-21.6%
Drilling (metres)	**124,416**	168,117	-26.0%
Blasting (cubic metres)	**2,934,500**	4,296,400	-31.7%
Rock mass moved (cubic metres)	**5,209,700**	4,712,800	10.5%
Ore fed to the primary processing plant (tonnes)	**2,359,900**	2,179,600	8.3%
Pre-concentrate produced (tonnes)	**1,627,000**	1,441,868	12.8%

The reduction in mining, drilling and blasting works reflected the underperformance of the third-party mining contractors. Despite a higher volume of pre-concentrate produced, actual production volume in Q4 2023 remained comparable to that of the last quarter, mainly due to the inferior ore quality.

K&S – Sutara Development

In Q4 2023, K&S continued to develop the Sutara project. Progress was made at the construction of the substation, with the manufacturing of the equipment completed. Simultaneously, the construction of the modular crushing and screening complex, the permanent reinforced-concrete bridge over the Sutara River and the overpass on the federal highway continued. The roadbed of the permanent access road to Sutara was completed; road surface dressing commenced.

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 the first half of 2024 and processing of Sutara ore will start in mid-2024, after necessary permits are obtained. The mining and production schedule for 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 31 December 2023, approximately US$29.2 million had been incurred. The remaining sum of US$21.2 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. According to market report, in November 2023, annual inflation in Russia stood at 7.48% year-on-year, up from 6.69% a month earlier and just shy of analysts' expectations of 7.6%. The data suggests that annual inflation will exceed the central bank's expectation of year-end inflation at the upper end of the 7.0%-7.5% range, which is well above its 4% target. On a monthly basis, the consumer price index rose 1.11% in November after a 0.83% increase in October, the data showed, coming just below analyst forecasts of a 1.2% increase. That was the fastest monthly rise since April 2022.

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 the increase in mining rates charged by the third party mining contractors. Energy costs are also higher, as rising inflation has led to an increase in fuel and electricity expenses in the first half of 2023, although the energy costs level was more stable in the second half of 2023. 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 Stock Exchange of Hong Kong Limited 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

Mandatory Conditional Cash Offers

On 1 November 2023, the Company was informed by Axioma that Axioma and OIKKU FINANCE LIMITED ("**Oikku**") had entered into a sale and purchase agreement pursuant to which Oikku had agreed to sell and Axioma had agreed to purchase 401,812,360 shares of IRC, representing approximately 4.72% of the total issued share capital of the Company, at a consideration of HK$47,413,858.48, which is equivalent to HK$0.118 per share. The acquisition was completed on 1 November 2023 (the "**Completion**").

Immediately prior to the Completion, Axioma was interested in 2,205,900,000 shares in IRC, representing approximately 25.89% of the total issued share capital of the Company. Immediately after the completion of the acquisition, Axioma was interested in 2,607,712,360 shares of IRC, representing approximately 30.61% of the total issued share capital of the Company.

Pursuant to the relevant requirements under the Hong Kong Code on Takeovers and Mergers, Axioma made a mandatory conditional cash offer (the "**Share Offer**") of HK$0.118 per share for all the issued shares of IRC (the "**Offer Shares**"), other than those already owned and/or agreed to be acquired by Axioma. Axioma also made a cash offer (the "**Option Offer**") of HK$0.0001 per share option (the "**Offer Options**") to cancel all outstanding share options (collectively, the "**Offers**"). The first closing date of the offer was 12 January 2024.

On 12 January 2024, Axioma received (i) valid acceptances in respect of a total of 439,794,283 Offer Shares under the Share Offer, representing approximately 5.16% of the entire issued share capital of the Company; and (ii) valid acceptance in respect of a total of 91,714,426 Offer Options under the Option Offer, representing approximately 51.27% of the Offer Options. Following these acceptances, Axioma was interested in an aggregate of 3,047,506,643 shares, representing approximately 35.77% of the entire issued share capital of the Company. Axioma decided to extend the closing date to 20 February 2024 in order to provide additional time for the shareholders and optionholders to consider the Offers.

As at 8 February 2024, Axioma received (i) valid acceptances in respect of a total of 1,861,159,159 Offer Shares under the Share Offer, representing approximately 21.85% of the entire issue share capital of the Company; and (ii) valid acceptances in respect of a total of 91,714,426 Offer Options under the Option Offer, representing approximately 51.27% of the Offer Options. Following these acceptances, Axioma was interested in an aggregate of 4,468,871,519 Shares, representing approximately 52.45% of the entire issued share capital of the Company. Accordingly, the Offers had become unconditional on 8 February 2024 and the Offers remained open for acceptances until 22 February 2024.

As at 22 February 2024, Axioma had received (i) valid acceptances in respect of a total of 2,228,445,577 Offer Shares under the Share Offer, representing approximately 26.15% of the entire issue share capital of the Company; and (ii) valid acceptances in respect of a total of 91,714,426 Offer Options under the Option Offer, representing approximately 51.27% of the Offer Options. Following these acceptances, Axioma was interested in an aggregate of 4,836,157,937 shares, representing approximately 56.76% of the entire issued share capital of the Company. The remaining 43.24% shareholding is held by public shareholders. The Offers closed on 22 February 2024.

The Share Options under the Option Offer which were not accepted would (to the extent not exercised) automatically lapse upon the close of the Offers. Accordingly, on 22 February 2024 upon the close of the Offers all outstanding Share Options lapsed and the Company has no outstanding Share Options.

The table below sets out the shareholding structure of the Company (i) immediately after the Completion and before the commencement of the Offers; and (ii) immediately upon the close of the Offers:

Shareholders	**Immediately after the Completion and before the commencement of the Offers**		**Immediately upon the close of the Offers and as at the date of this announcement**	
	Number of Shares	*Approximate % (Note 1)*	*Number of Shares*	*Approximate % (Note 1)*
Axioma and parties acting in concert with it				
– The Offeror *(Note 2)*	2,607,712,360	30.61	4,836,157,937	56.76
MIC Invest Limited Liability Company	1,419,942,876	16.67	–	–
Public Shareholders	4,492,002,021	52.72	3,683,499,320	43.24
Total	8,519,657,257	100.00	8,519,657,257	100.00

Notes:

1. The percentage had been calculated on the basis of 8,519,657,257 issued shares of IRC as at the date of this announcement.

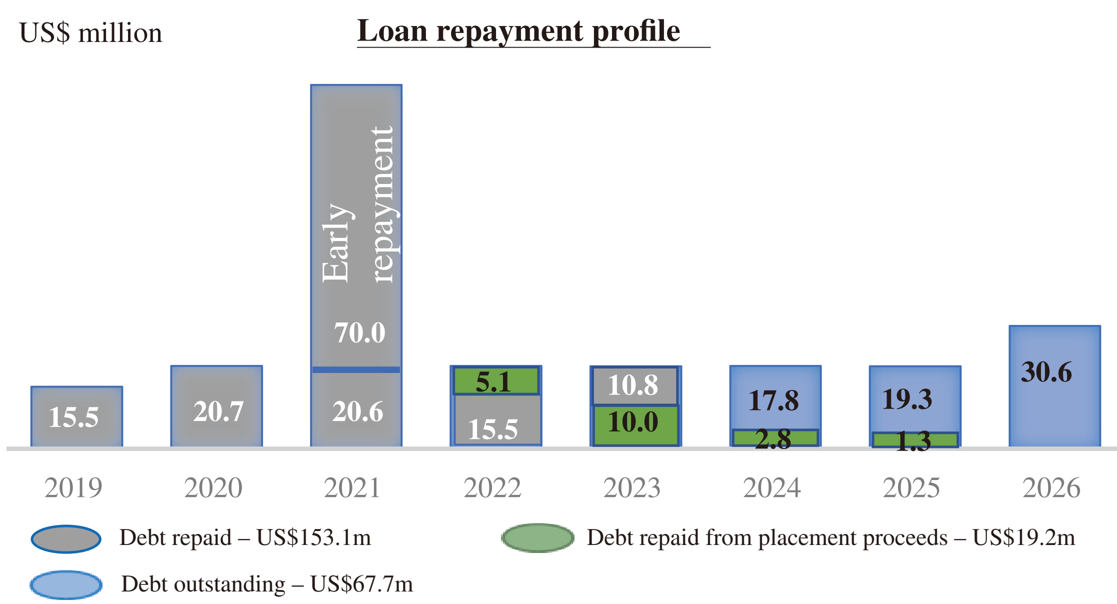
2. Axioma is wholly, ultimately and beneficially owned by Mr. Nikolai Levitskii, being a non-executive Director and the chairman of the Board. As such, Mr. Nikolai Levitskii is deemed or taken to be interested in the shares of IRC held by Axioma by virtue of the Securities and Futures Ordinance (Chapter 571 laws of Hong Kong).

3. Certain percentage figures in the above table are subject to rounding adjustments. Accordingly, figures shown as totals may not be an arithmetic aggregation of the figures preceding them.

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$172.3 million and the total debt due to MIC Invest Limited Liability Company ("**MIC**") amounted to US$67.7 million as of 31 December 2023. The repayment profile of the loan is as follows:

IRC's Loan Facilities Repayment Profile

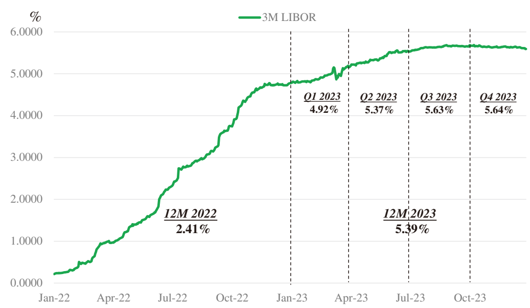


Source: IRC Limited (as of 31 December 2023)

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 average three-month LIBOR interest rate remained at a high level of 5.64% in Q4 2023 (Q3 2023: 5.63%). The 2023 full year average three-month LIBOR rate of 5.39% was significantly higher than that of last year (2022: 2.41%). Fortunately, 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.

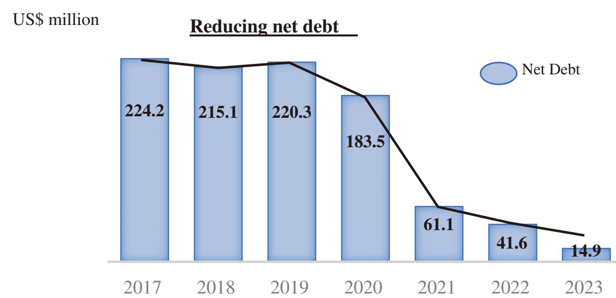
Cash balance increased to US$52.8 million (30 September 2023: US$47.8 million) and net debt decreased to US$14.9 million (30 September 2023: US$22.6 million), mainly due to positive net cash inflow (excluding servicing of loans and payments of Windfall Tax and Temporary Export Duties) of US$15.2 million.

The Movement of 3 Months LIBOR



Source: Bloomberg (as of 31 December 2023)

Low Net Debt of IRC



Source: IRC Limited (as of 31 December 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 4 August 2023. The windfall tax rate is 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.

IRC needed to pay a windfall tax of c.RUB507 million (equivalent to c.US$5.6 million), or c.RUB254 million (equivalent to c.US$2.8 million) if payment was made by 30 November 2023. The Group settled the windfall tax at the reduced rate and paid c.RUB254 million (equivalent to c.US$2.8 million) during Q4 2023.

Temporary Export Duties

Russia has published the Government Decree No. 1538 of 21 September 2023 in the Official Gazette which introduces 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 to 31 December 2024.

IRC paid a total of c.US$2.7 million temporary export duty for the period from 1 October 2023 to 31 December 2023.

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 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 as it is ramping up its operational level.

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 specified, 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, 7 March 2024

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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