铁货 IRC

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 2018 31% INCREASE IN PRODUCTION OVER THE SAME PERIOD LAST YEAR

CONFERENCE CALL

A conference call will be held today at 09h00 Hong Kong time to discuss the third quarter trading update. The number is +852 2112 1888 and the passcode is 4709026#. Presentation slides to accompany the call are available at www.ircgroup.com.hk. A replay call will be available from 29 October 2018 at www.ircgroup.com.hk/html/ir_call.php.

Friday, 26 October 2018: The Board of 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 2018.

HIGHLIGHTS

K&S

- Production and sale volumes increased by 31% and 39% respectively comparing to the same period last year
- Average production capacity at 77%, up 4% points from 2Q2018;
- Technical issues of Drying Unit being resolved in preparation of production in winter

Kuranakh

- Care and maintenance process satisfactory
- Strategic assessment of the option to restart

Corporate

- Advanced stage of negotiation with various parties regarding the refinancing of ICBC loan; credit committee of a leading Russian bank granted approval for a new facility to refinance the ICBC loan
- The span of the Amur River Bridge connected; the Bridge expected to complete in mid-2019

THIRD QUARTER TRADING UPDATE
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2018

	3Q 2018	3Q 2017	Change	*2Q 2018*	*Change*
Iron Ore concentrate					
– Production (tonnes)	**616,907**	469,937	+31%	*580,933*	*+6%*
– Sales (tonnes)	**631,636**	453,601	+39%	*555,677*	*+14%*

In the third quarter of 2018, the ramping up of K&S continued with the production of 616,907 tonnes of iron ore concentrate, representing an increase of 31% over the same period last year. 631,636 tonnes of iron ore concentrate were sold, 39% higher than that of 3Q2017. During the quarter, K&S increased its production capacity from 73% in 2Q2018 to 77%. To cope with the increasing production volume, the mining contractor upgraded its equipment and increased the mining scale, resulting in the mining and blasting volumes having increased by 47% and 10% respectively over the last quarter. Apart from ramping up the production capacity, K&S is also working on resolving the technical issues of the Drying Unit in preparation of production in winter. It is expected that the production volume would be slightly reduced in the 4Q2018 to allow the plant to carry out certain planned rectification and maintenance works, and the ramping up would continue in the latter part of 4Q2018 after the works are complete.

On the corporate level, apart from discussing with ICBC to restructure the loan, IRC is also continuing the discussions with various parties regarding the refinancing of the ICBC loan. The Company has reached an advanced stage in its negotiations with a finance provider and is making good progress on these negotiations in respect of refinancing arrangements. During the quarter, the credit committee of a leading Russian bank has granted approval, subject to the entry into legally binding agreements, for a new facility to refinance the ICBC loan.

Kuranakh continues to be in care and maintenance with no production or sales from the mine during the third quarter of 2018. IRC are conducting a strategic review to consider the reopening of the mine in light of the recent stabilisation in the bulk commodity market.

Commenting on the performance of the third quarter, Yury Makarov, Chief Executive Officer of IRC said, *"During the third quarter, IRC continued to make progress on operational and corporate levels. K&S continues to fine tune the production process and to increase the production capacity. The mine is also gearing up to operate in the winter time with the use of the Drying Unit. The credit committee of a leading Russian Bank has granted approval for a new facility to refinance the ICBC loan. The terms of this facility would alleviate the cash flow position of the Group and provide a solid financial platform to consolidate our position. We are also pleased to note the good progress in the construction of the Amur River Bridge. Scheduled to complete in mid-2019, the Bridge would shorten the transportation distance and help reduce the operating cost of K&S. IRC is using its best endeavours and working hard to make progress on all fronts."*

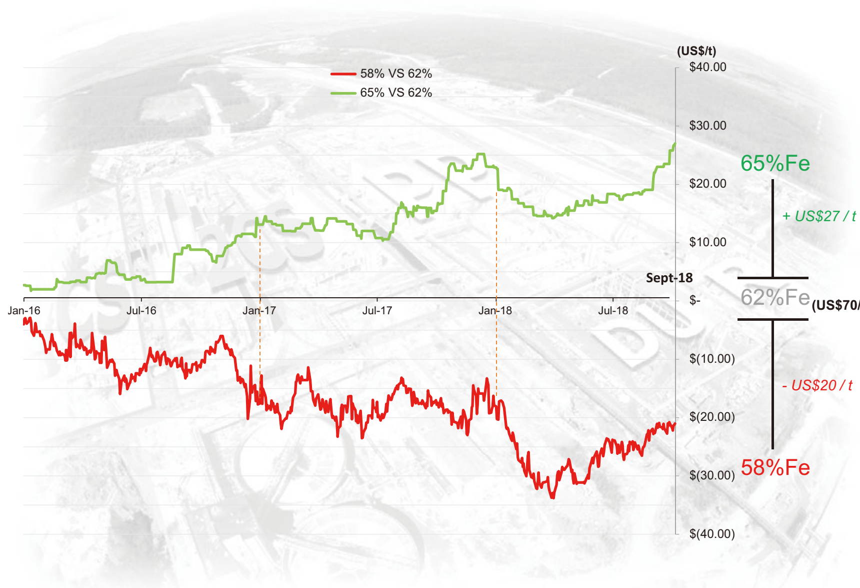
MARKETING, SALES AND PRICES

Iron Ore

K&S sold 631,636 tonnes of iron ore concentrate to its customers in China and Russia in the third quarter, representing a growth of 39% over the same period last year and an increase of 14% over 2Q2018. The selling price of the product is determined with reference to the international Platts spot price of 65% Fe iron ore concentrates. The achieved selling price of IRC in the third quarter of 2018 is not published for commercial reasons.

After short term adjustments on the market iron ore price in the previous quarter, the price of 65% iron ore increased to an average of US$94/t in 3Q2018. The benchmark 62% Fe Platts and 58% Fe spot price indices averaged US$67/t and US$45/t respectively. The premium spread between the high and the low grade iron ores continues to widen and, according to various market analysis, this is due to the stringent environmental protection policy in China. To improve production efficiency and reduce pollution, the Chinese steel mills are preferring higher-grade iron ores and this results in better price and higher demand for good quality ore. The good price premium and market demand are beneficial to K&S as the mine produces high-grade 65% iron ore.

Benchmark 65%Fe vs 62%Fe vs 58%Fe Spot Price



Source: Platts and Bloomberg (as of 30 September 2018)

There were no sales of iron ore concentrate from Kuranakh since the mine has been moved to care and maintenance.

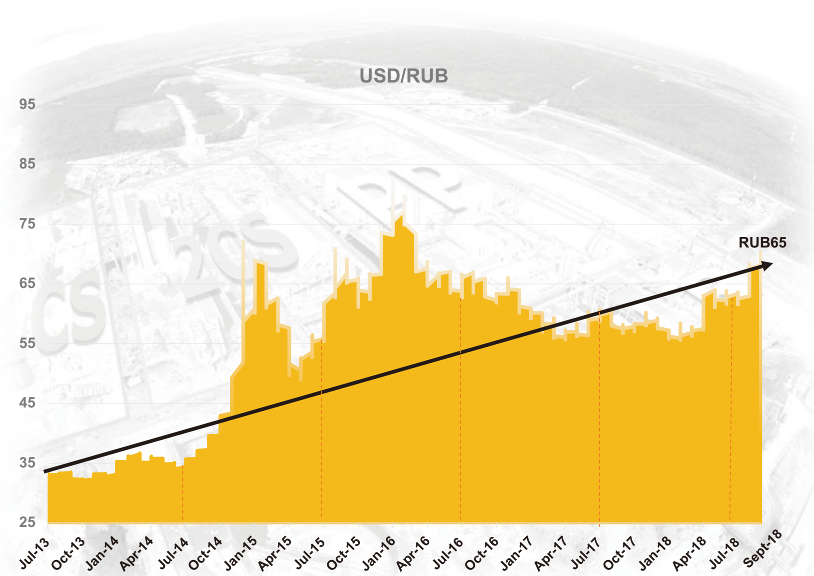
Ilmenite

As Kuranakh has been moved to care and maintenance, there were no sales of ilmenite product during the quarter.

Foreign Exchange

During the third quarter of 2018, Rouble remained weak against the US dollar and further depreciated from an average of RUB62 in the previous quarter to RUB66 in 3Q2018. For the past 12 months, Rouble has devalued for more than 10%. The weakness in Rouble has a positive impact on the Group's operating margins, as the Group's operating costs are mainly denominated in Roubles and revenues mainly in US Dollars.

USD/RUB Currency Chart (from July 2013 to Sept 2018)



Source: Bloomberg (as of 30 September 2018)

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 near to the federal highway connecting to the regional capital of Birobidzhan and 300 kilometres from Khabarovsk, the principal city of the Russian Far East.

K&S Ramp-Up Progress

As mentioned in the last quarter, the congestion issue from the Trans-Siberian Railway had been resolved and K&S is able to ship its products to customers more smoothly and efficiently. Continuing the ramp-up program from the previous quarter, K&S successfully increased the average production capacity from 73% in 2Q2018 to 77% in 3Q2018 with the production of 616,907 tonnes of iron ore concentrate during the quarter. The higher production capacity, coupled with the resolution of the railway congestion, allowed sales to increase by 14% quarter-to-quarter from 555,677 tonnes in 2Q 2018 to 631,636 tonnes in the third quarter. The K&S site team is addressing and resolving the technical issues of the Drying Unit for preparation of production in the coming winter. Due to the need to carry out certain scheduled rectification and maintenance works, currently, the mine is operating at a reduced capacity of 67%. Production volume will increase again in the latter part of 4Q2018 when the works are complete.

Mining

As the mining contractor has increased the mining scale and upgraded the equipment, the mining and blasting activities of K&S increased by 47% and 10% respectively when comparing to those of the last quarter. The increasing excavating and hauling of the open pit continue to replenish the stockpiles which are used for plant feeding. During the third quarter of 2018, a total of 75,058 metres were drilled, 2,861,500 cubic metres were blasted, and 2,342,300 tonnes of ore were mined. 1,842,400 tonnes of ore were fed to primary processing and 1,227,157 tonnes of pre-concentrate were produced. At the end, 616,907 tonnes of iron ore concentrate were produced and 631,636 tonnes were sold, representing an increase of 31% and 39% respectively over the same period last year.

Production and Marketing

K&S	**3Q 2018**	3Q 2017	Changes
Production (tonnes)	**616,907**	469,937	+31%
Sales (tonnes)	**631,636**	453,601	+39%

Update of Estimated Unit Cash Cost

As K&S has not yet reached full production capacity, the cash cost per tonne in 3Q2018 has not yet reached an optimal level and therefore the figure may not truly represent the level of the operating cost at the time when the mine has fully ramped up. Although the increasing production volume will provide economies of scale, K&S is facing the challenges of the general inflation in Russia, the delay in the construction of the Amur River Bridge, and the increasing transportation cost, all of which are beyond the control of IRC. The relevant cash cost information will be analysed and disclosed in the coming 2018 Annual Results announcement.

Impact from Sanctions against Russia

IRC is listed in Hong Kong Stock Exchange with operational mines in Russia Far East. Most of the Group's suppliers and customers are based in China and Russia. As such, K&S has not been subject to any direct negative impact from the sanctions against Russia.

Kuranakh (100% owned)

Kuranakh is located in the north-east Tynda District of the Amur Region of the Russian Far East and comprises both the original Saikta open pit and the later established Kuranakh open pit processing facilities and an onsite railway spur connecting to the BAM and Trans-Siberian Railways.

Continued to be in care and maintenance

As previously announced Kuranakh is under a care and maintenance programme which involves limited costs to keep the mine and plant available for re-opening if the markets permit the investment decision. The Company has reduced the number of staff at Kuranakh to minimum levels for equipment maintenance and security. During the quarter, there was no production or sales.

Following the recent positive price movements and the stabilisation in the bulk commodity market, IRC are conducting a strategic review to consider the restarting of Kuranakh. Kuranakh used to provide feedstock for the operation of the Steel Slag Reprocessing Plant, a PRC joint venture 46% owned by IRC and currently under care and maintenance. If Kuranakh recommences operation, it could provide the necessary feedstock for the joint venture, allowing the Plant to recommence production.

CORPORATE UPDATE

Cashflow Position and Loan with ICBC and Petropavlovsk

At the end of the third quarter of 2018, the unaudited cash and deposit balance amounted to c.US$19 million while the total debt outstanding balance amounted to c.US$233 million, including ICBC project loan of c.US$204 million and a bridge loan of c.US$29 million from a principal subsidiary of Petropavlovsk PLC.

The Company is in discussions with various parties regarding refinancing the ICBC loan in different forms, including discussion with ICBC to restructure the loan. The Company has reached an advanced stage in its negotiations with a finance provider and is making good progress on these negotiations in respect of refinancing arrangements.

During the quarter, a leading Russian bank informed the Company that its credit committee has granted approval, subject to the entry into legally binding agreements, for a new US$240 million facility. If progressed, the new facility would be utilised to repay the ICBC facility in full of c. US$204 million and the Petropavlovsk bridge loan and guarantee fee in total of c.US$36 million. The Company is now working with all parties involved to process the legally binding documentation and other related matters. The Company will also continue discussions with ICBC and other parties and is looking forward to reporting confirmation of a new long-term project financing for K&S in the near future.

Amur/Heilongjiang River Bridge

The project to build a railway bridge across the Amur River border between Russia and China was first launched by IRC in 2006. The project was sold to Russian and Chinese development funds in November 2014. In early June 2016, the regional government of the Jewish Autonomous Region announced that the Russian part of the Amur River Bridge would commence construction. A contractor agreement has been signed which stipulates the terms and timing of the construction of the Russian part of the Amur River Bridge.

The Russian side of the construction is at its final stage of construction while the Chinese side of the bridge is almost complete. According to the media, the span between the fourth pier, belonging to Russia, and the fifth pier, belonging to China, has been successfully joined. The construction of the bridge is expected to complete in mid-2019.

K&S 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 will benefit from the bridge with reduced transportation distance and shipment time. The bridge can not only save the transportation cost of K&S by up to US$5 per tonne but can also alleviate any railway congestion of the region.

General Nice and Minmetal Cheerglory Strategic Investment

In January 2013, IRC announced a two-stage transaction for a US$238 million subscription for new shares by strategic Chinese investors General Nice and Minmetals Cheerglory.

To date, General Nice has invested approximately US$170 million under the subscription agreement. This represents more than 70% of their total subscription obligation under the strategic investment agreement entered into in 2013. Although full completion of the investment from General Nice and Minmetals Cheerglory has not to date occurred, General Nice has agreed to commence paying interest on the outstanding investment amount of US$38 million from December 2014 onwards, although no interest payments have been made by General Nice to IRC as at 30 September 2018.

A winding up order against General Nice has been made by the court of Hong Kong and IRC is in discussion with its legal counsel about the way forward.

* *Figures in this announcement may not add up due to rounding. All tonnes of the Group unless specify refer to wet metric tonnes. All dollars refer to United States Dollar unless otherwise stated.*

By Order of the Board
IRC Limited
Yury Makarov
Chief Executive Officer

Hong Kong, People's Republic of China
Friday, 26 October 2018

As at the date of this announcement, the Executive Directors of the Company are Mr. Yury Makarov and Mr. Danila Kotlyarov. The Non-Executive Directors are Mr. George Jay Hambro, Mr. Peter Charles Percival Hambro and Mr. Chi Kin Cheng. The Independent Non-Executive Directors are Mr. Daniel Bradshaw, Mr. Chuang-Fei Li, Mr. Simon Murray, CBE, Chevalier de la Légion d'Honneur, Mr. Jonathan Martin Smith and Mr. Raymond Kar Tung Woo.

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