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铁货 IRC

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 2018 PRODUCTION INCREASED 53% OVER THE SAME PERIOD LAST YEAR

CONFERENCE CALL

A conference call will be held today at 09:00 a.m. Hong Kong time to discuss the second quarter trading update. The number is +852 2112 1888 and the passcode is 4122526#. Presentation slides to accompany the call are available at www.ircgroup.com.hk. A replay call will be available from 30 July 2018 at www.ircgroup.com.hk/html/ir_call.php.

Friday, 27 July 2018: The Board of 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 2018.

HIGHLIGHTS

K&S

- Production and sales volumes in 2Q2018 increased by 53% and 47% respectively comparing with the same period last year
- Record high monthly production and sales volumes of 201,000 tonnes and 192,000 tonnes respectively
- Average production capacity at 73% in 2Q2018, up 12% points from the 1Q2018 production capacity of 61%
- Successfully operated at 105% of K&S' designed capacity during a 24-hour production run; operated at more than 90% capacity continuously for 72 hours
- Additional mining fleet on site to support the ramp-up programme

Kuranakh

- Care and maintenance process satisfactory

Corporate

- ICBC June repayment made after obtaining a bridge loan
- ICBC waivers obtained

SECOND QUARTER TRADING UPDATE
FOR THE THREE MONTHS ENDED 30 JUNE 2018

	Quarterly					Half-yearly		
	2Q 2018	**2Q 2017**	**Change**	**1Q 2018**	**Change**	**1H2018**	**1H2017**	**Change**
Iron Ore concentrate								
– Production (tonnes)	**580,933**	380,661	+53%	478,816	+21%	**1,059,749**	697,431	+52%
– Sales (tonnes)	**555,677**	376,821	+47%	490,972	+13%	**1,046,649**	698,707	+50%

In the second quarter of 2018, the ramping up of K&S continued with the production of 580,933 tonnes of iron ore concentrate, representing an increase of 53% over the same period last year. 555,677 tonnes of iron ore concentrate were sold, 47% higher than that of 2Q2017. As the railway congestion issue was gradually being resolved and the Drying Unit was no longer needed in production, K&S managed to ramp up the production capacity from 61% in 1Q2018 to 73% in 2Q2018. To cope with the increasing production volume, the mining contractor of K&S had brought additional mining equipment to site to optimise the production progress. Moreover, the plant had successfully operated at 105% of its designed capacity, demonstrating the plant's potential capability to produce more than 3.2 million tonnes of iron ore concentrate per annum.

On the corporate level, a bridge loan had been obtained to service the ICBC June repayment. ICBC had also granted waivers from the obligation of the Group to maintain the debt service reserve account and to comply with certain financial covenants.

Kuranakh continues to be in care and maintenance with no production or sales from the mine during the second quarter of 2018.

Commenting on the performance of the second quarter, Yury Makarov, Chief Executive Officer of IRC said, *"During the second quarter of 2018, we have achieved a number of milestones. First of all, after resolving some of the bottlenecks, K&S managed to make steady progress by increasing the production capacity and achieving the monthly production record. Secondly, we noted the potential of K&S with the plant being able to operate at higher than its designed capacity. Last but not least, with the bridge loan provided by our major shareholder, we were able to repay the June instalment of the ICBC loan. ICBC also showed their support to IRC by granting the covenant waivers and waiving the need to maintain the deposit account.*

There are, however, a number of potential challenges which we should not overlook. The global economy has been rattled by the escalating trade tension between the U.S. and China, bringing some uncertainties to the market and affecting our achieved selling price. The general inflation in Russia due to weaker Rouble rate, the delay in the construction of the Amur River Bridge, and the increasing railway tariff are also putting pressure on our cost. Despite these issues, which are out of our control, K&S remains cash-positive and IRC is determined to rise to the challenge and strive forward. We aim to ramp up K&S to full capacity later this year as we continue to resolve the outstanding production bottlenecks."

MARKETING, SALES AND PRICES

Iron Ore

K&S sold 555,677 tonnes of iron ore concentrate to its customers in China and Russia in 2Q2018, representing a growth of 47% over the same period last year and 21% over 1Q2018. The selling price of the product was determined with reference to the international Platts spot price of 65% Fe iron ore concentrate. The achieved selling price in the first half of 2018 will be published in the 2018 interim results announcement of the Group, due for release at the end of August 2018.

Despite the pessimistic forecast of the iron ore market at the beginning of the year, iron ore price had been stable in 1H2018. The average 65% Fe Platts spot price in 2Q2018 was US$86 per tonne, which was comparable to that in 1Q2018 of US$90 per tonne. The 65% Fe Platts spot price closed at c.US$92 per tonne while the benchmark 62% Fe Platts spot price index closed at c.US$65 per tonne. The premium spread between these two indices had widened to c.US$27 per tonne (or 42%). The market's preference of high quality iron ore is also demonstrated by the c.US$21 per tonne price premium of 62% Fe over the 58% one at the end of 2Q2018. Market analysts believe that, due to pollution control measures implemented by the Chinese government, more Chinese steel manufacturers tend to switch to use higher-grade iron ore concentrate. With limited high-grade iron ore concentrate supply in the Chinese domestic market, demand for such product was high. However, it should be noted that the Chinese ports had recorded growing stockpiles in 2Q2018 and this, together with the negative macro environment from the trade war between China and the U.S., could provide downward pressure on the iron ore market price.

Fe Spot Price – 65% vs 62% vs 58%

* Source: Platts and Bloomberg (as of 30 June 2018)

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

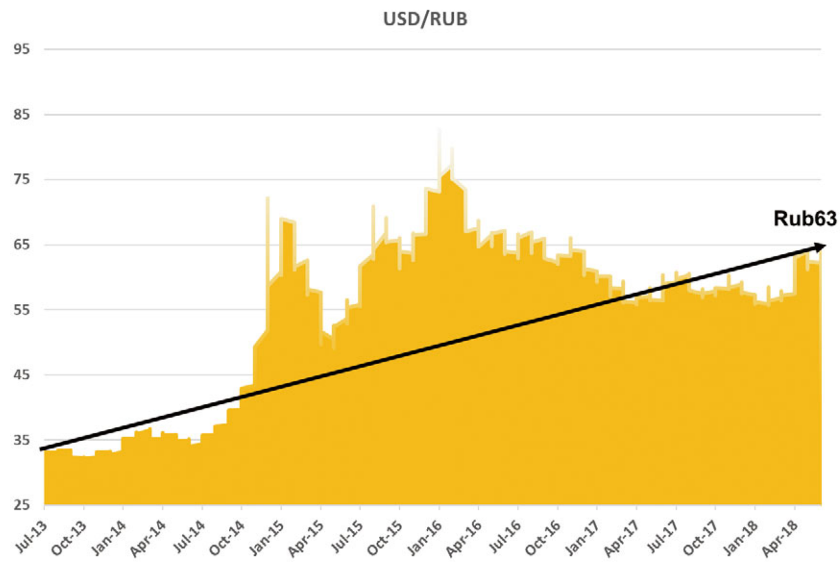
Ilmenite

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

Foreign Exchange

The Rouble continued to remain weak against the US dollar in the second quarter of 2018 with the currency further depreciated to an average of 62 against the dollar (1Q2018: US dollar vs RUB averaged 57). The weakness in the 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 (5 Years)



* *Source: Bloomberg* (as of 30 June 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 stated in the previous announcements, the Trans-Siberian Railway congestion had been affecting shipment of products to K&S' customers. As the Russian railway authority had gradually resolved the congestion issue, K&S was able to ship its products to customers more smoothly and efficiently. Besides, as reported previously, the K&S site team had encountered certain technical issues with the Drying Unit which resulted in the plant not operating at load during winter. With the warm spring weather in 2Q2018, the Drying Unit was no longer required for production. This simplified the production process and also removed one of the bottlenecks in the commissioning programme. The K&S site team will address the technical issues of the Drying Unit in the summer time when the Unit is idle.

After resolving some of the production bottlenecks, K&S managed to ramp up the production capacity from 61% in 1Q2018 to 73% in 2Q2018. The plant also achieved the monthly production and sales records by producing 201,000 tonnes and selling 192,000 tonnes of iron ore concentrate in the month of June. To cope with the increasing production volume, the mining contractor of K&S had brought additional mining equipment to the site. Moreover, in the month of May, during a 24-hour production run, the plant managed to produce approximately 9,200 tonnes of iron ore concentrate, equivalent to 105% of the plant's designed capacity. This achievement demonstrated the plant's potential capability to produce more than 3.2 million tonnes of iron ore concentrate per annum. K&S also managed to operate at more than 90% capacity continuously for 72 hours. The mine is currently operating at an average capacity of 78% and is on track to ramp up to full capacity later this year.

Mining

After the winter period, the mining contractor increased the mining scale to match with the increasing production volume of K&S. The process of drilling and blasting increased by 54% and 90% respectively in compare to last quarter. The increasing excavating and hauling of the open pit continues to replenish the stockpiles, which are used for plant feeding. During the second quarter of 2018, a total of 87,331 metres were drilled, 2,612,800 cubic metres were blasted and 1,597,200 tonnes of ore were mined. 1,725,800 tonnes of ore were fed to primary processing and 1,238,949 tonnes of pre-concentrate were produced. Finally, 580,933 tonnes of iron ore concentrate were produced and 555,677 tonnes were sold, representing an increase of 53% and 47% respectively over the same period last year.

Production and Marketing

K&S	**2Q 2018**	2Q 2017	Changes
Production (tonnes)	**580,933**	380,661	+53%
Sales (tonnes)	**555,677**	376,821	+47%

Since the start of K&S' trial production and up to the end of June 2018, K&S has cumulatively produced and sold over 2.5 million tonnes of iron ore concentrate.

Update of Estimated Unit Cash Cost

In view of the fact that K&S has not yet reached full production capacity, the cash cost per tonne in 2Q2018 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 railway tariff, all of which are beyond the control of IRC. The relevant cash cost information will be analysed and disclosed in the coming 2018 Interim Results announcement.

Impact from sanctions against Russia

IRC is listed in Hong Kong with its operations mainly located in the Russia Far East. Most of the Group's customers and suppliers are based in China or 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.

CORPORATE UPDATE

Loans from ICBC and Petropavlovsk PLC, and the Group's Cashflow Position

In June 2018, the Company received a bridge loan of c.US$30 million from a principal subsidiary of Petropavlovsk PLC, the major shareholder of the Company and the guarantor of the ICBC loan. The loan was to finance the payment of the June instalment of the ICBC loan, which was made within the required time frame.

The unaudited cash and deposit balance at the period ended 30 June 2018 was c.US$10 million. The total debt outstanding was c.US$234 million as at 30 June 2018, including c.US$204 million due to ICBC and c.US$30 million due to Petropavlovsk.

During 2Q2018, the Company obtained certain waivers from ICBC. They included a waiver from the obligation of the Group to maintain the debt service reserve account of c.US$26 million and a waiver from obligations of K&S and Petropavlovsk PLC to comply with certain financial covenants. IRC is in discussions with various parties regarding refinancing 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 reasonable progress on these negotiations in respect of refinancing arrangements.

Appointment and retirement of directors

In accordance with the terms of the bridge loan between the Company and Petropavlovsk, Mr Peter Charles Percival Hambro, being a nominee of Petropavlovsk, has been appointed as a Non-Executive Director of IRC with effect from 26 July 2018.

The Company's 2018 Annual General Meeting ("AGM") was held on 25 June 2018, The resolution relating to the election of Mr Benjamin Tze For Ng as Non-Executive Director was not passed and Mr Ng retired as a Non-Executive Director with effect from the conclusion of the AGM.

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 getting to the final stage while the Chinese side of the bridge is almost completed. According to a government report, due to some technical issues, there are some delays in the construction and the bridge is now expected to be operational in 2019. The operating capacity of the Bridge is 20 million tonnes per annum, which will comfortably cover K&S' full capacity of 3.2 million tonnes of iron ore concentrate per annum.

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 project with reduced transportation distance and shipment time. The bridge could halve the transport costs of K&S and further confirm IRC's success as a Sino-Russian iron ore producer.

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, our strategic partner and second largest shareholder, 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 June 2018.

IRC continues to be in discussions with General Nice, Mr Cai Sui Xin (Chairman of General Nice) and Minmetals Cheerglory about completion of General Nice's subscription obligations and the settlement of the interest due to date and other potential alternative options.

A winding up order against General Nice was made by the court of Hong Kong on 16 July 2018 and the Company is now 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, 27 July 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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