

Kenmare Resources plc ("Kenmare" or "the Company")

16 January 2017

Q4 & FY 2016 Trading Update & 2017 Guidance

Kenmare Resources plc (LSE:KMR, ISE:KMR), one of the leading global producers of titanium minerals and zircon, which operates the Moma Titanium Minerals Mine (the "Mine" or "Moma") in northern Mozambique, is pleased to provide a trading update for the fourth quarter and year ending 31 December 2016.

Overview

- Record annual, quarterly and monthly (December) production of ilmenite, rutile and zircon
- Heavy Mineral Concentrate ("HMC") production increased 28% to 1,405,500 tonnes (2015: 1,100,600 tonnes)
- Ilmenite production increased 18% to 903,300 tonnes (2015: 763,500 tonnes)
- Zircon production increased 32% to 68,200 tonnes (2015: 51,800 tonnes)
- Total shipments of finished products were up 28%, setting a record of 1,024,200 tonnes shipped (2015: 800,400 tonnes)
- Production guidance of 950,000-1,050,000 tonnes of ilmenite production in 2017, up 5-16% on achieved 2016 production
- Total cash operating costs are expected to be within the guided range of US\$131-141/tonne for FY 2016, subject to completion of the full year financial results
- Demand for ilmenite has grown strongly through 2016, resulting in significant price increases since the market bottomed in Q2 2016
- Net debt declined by 87% at the end of 2016 to US\$44.9m (2015: US\$353.5m)

Statement from Michael Carvill, Managing Director:

"2016 saw Kenmare deliver a record year of both production and shipments of all products. Q4 2016 was another record quarter, continuing the increasing production trend and improving on the record set in the prior quarter. Production in 2017 is expected to rise further as mine optimisation continues, while unit costs of production are anticipated to fall further.

Cash generation at the Mine has shown quarter on quarter improvements since bottoming in Q2 2016. Nevertheless, average Kenmare realised ilmenite prices lagged the spot market increases in 2016 as contracts had been agreed prior to the market resurgence. Spot prices have been steadily rising for the past nine months and Kenmare expects this trend to continue as demand remains strong. Average received prices for H1 2017 will show a significant improvement on 2016, benefitting from new contract prices and higher spot prices."

Production

Production from the Moma Mine in Q4 2016 and FY-2016 was as follows:

	Q4-2016	vs Q4-2015	vs Q3-2016	FY-2016	vs FY-2015
	Tonnes	% Change	% Change	tonnes	% Change
Excavated Ore *	8,510,000	21%	19%	30,010,000	9%
Grade*	5.95%	21%	24%	5.06%	5%
Production					
HMC	474,300	55%	46%	1,405,500	28%
Ilmenite	256,900	35%	6%	903,300	18%
Zircon	20,000	38%	2%	68,200	32%
of which primary	13,400	34%	9%	44,900	14%
of which secondary	6,700	49%	-9%	23,300	88%
Rutile	2,300	35%	-8%	7,800	30%
Shipments	301,800	52%	7%	1,024,200	28%

* Excavated Ore and grade prior to any floor losses.

During 2016, Kenmare mined over 30 million tonnes of ore, up 9% on 2015, at an average grade of 5.06% and produced 1,405,500 tonnes of HMC, a 28% increase. Finished product volumes for the year included 903,300 tonnes of ilmenite, up 18%, and 68,200 tonnes of zircon (including 23,300 tonnes of a lower grade secondary zircon product), up 32%. During the fourth quarter of 2016, Kenmare mined 8,510,000 tonnes of ore, up 21% over the prior quarter, at an average grade of 5.95% and produced 474,300 tonnes of HMC. Mined grades have shown a steady improvement through 2016 but are expected to average at slightly lower level for full year 2017.

HMC production benefitted from improved mining conditions and increased utilisation levels at both mining ponds. Dredge operating times also benefitted from better power stability and consistency in 2016. Mechanical reliability also showed significant improvement in 2016, increasing plant availability, due to improvement projects completed in the year, as well as from enhanced maintenance systems. Further optimisation initiatives should contribute to higher production in 2017.

Total zircon production includes a 14% increase in primary zircon production to 44,900 tonnes (2015: 39,400 tonnes). Secondary zircon volumes increased by 88% to 23,300 tonnes (2015: 12,400 tonnes) as recoveries from waste streams increased. Projects are underway to increase the proportion of primary zircon to further enhance revenues.

The Moma Mine has benefitted from the increased stability and reliability of electricity supplied by Electricidade de Moçambique ("EdM") throughout 2016. The supplementary diesel-powered generators are used to protect power stability against forecast inclement weather through the rainy season, when required.

During 2016, Kenmare shipped 1,024,200 tonnes of finished products (2015: 800,400 tonnes), comprised of 951,900 tonnes of ilmenite, 65,300 tonnes of zircon (including 22,300 tonnes of secondary grade zircon) and 7,000 tonnes of rutile. In Q4 2016, shipments of total finished products were up 52% to 301,800 tonnes (Q4 2015: 198,300 tonnes). Sales comprised 277,700 tonnes of ilmenite, 21,400 tonnes of zircon (including 7,700 tonnes of secondary grade zircon), and 2,800 tonnes of rutile.

Closing stock of HMC at the end of 2016 was 66,500 tonnes, compared with 11,800 tonnes at the start of the year. Closing stock of intermediate magnetic concentrate at the end of 2016 was 53,763 tonnes. Closing stock of finished products at the end of 2016 was 192,300 tonnes (2015: 237,300 tonnes), of which 60,000 tonnes were being held for a customer and which has been paid for.

Costs

Total cash operating costs are expected to be within the guided range of US\$131-141/tonne for FY 2016, subject to completion of the full year financial results. Total cash operating costs include all mine

production, transshipment, taxes, royalties, and corporate costs. Further details of cost savings will be provided on announcement of the full year 2016 results.

In H2 2016, unit costs benefitted from increased production volumes and further absolute costs savings attributable to a continued focus on opportunities to rationalise costs and improve efficiency; positive foreign exchange movements also provided a benefit.

2017 Guidance

Production in 2017 is expected to show further growth as a result of increased utilisation and recovery rates. Operations will also benefit from accumulated stockpiles.

The 2017 guidance on production and operating costs is as follows:

		2017 Guidance	2016 Actual	Variance
Production				
Ilmenite	kt	950,000-1,050,000	903,300	5-16%
Zircon	kt	72,000-83,000	68,200	6-22%
of which primary	kt	47,000-52,500	44,900	5-17%
of which secondary	kt	25,000-30,500	23,300	7-31%
Rutile	kt	9,000-10,000	7,800	15-28%
Costs				
Total cash operating costs	US\$m	130-144	N/R*	
Cash costs per tonne of finished product	US\$/t	120-132	N/R*	

* to be confirmed in full year financial statements

Sustaining capital costs in 2017 are expected to be in line with average medium term guidance of ~US\$20m per annum.

As previously disclosed, grades in the Namalope Zone will decline in the coming years. Work has begun on a series of studies to assess the potential of increasing mining capacity to offset this reduction in ore grade. Approval of capital expenditure by management and the board will be subject to, inter alia, positive outcomes from feasibility studies, attractive financial returns, and supportive market conditions. Should mining capacity not be increased, it is expected that ilmenite production will average approximately 1,000,000 tonnes per annum (plus associated by-products) over at least the next three years.

Market

The outlook for ilmenite prices remains positive for 2017, supported by low product inventories throughout the value chain and combined with increased titanium feedstock consumption, as pigment demand continues to grow in line with global GDP.

China is the world's largest titanium feedstock market, dominated by consumption of ilmenite. Demand for imported ilmenite in China in 2016 has grown by approximately 40%, due to increased demand from the pigment and slag sectors, and a decline in domestic ilmenite production.

Through Q4 2016 demand for titanium feedstock continued to outstrip supply, resulting in higher ilmenite prices, which continue to recover from the very low levels seen in early 2016. Kenmare's realised prices in the second half of 2016 did not fully reflect the improved ilmenite market conditions due to the lag from previously contracted prices agreed during the lower pricing environment. However, Kenmare has agreed higher prices with customers for the first half of 2017 and expects that spot prices will improve further over the course of the year.

Zircon prices were stable in H2 2016, following some weakness in Q2 2016, although global inventories continue to reduce and some major zircon producers have flagged price increases for Q1 2017.

Finance Update

At 31 December 2016, gross bank loans, including accrued interest, amounted to US\$102.6 million (2015: US\$367.8 million) and cash and cash equivalents were US\$57.7 million (2014: US\$14.3 million). Consequently, net debt has declined by 87% to US\$44.9m (2015: US\$353.5m).

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