



Payments to Governments 2018

Kenmare Resources plc

Registered number: 37550

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Report on payments to governments 2018

Introduction

This report details payments to governments made by Kenmare Resources plc (the “Company”) and its subsidiary undertakings (the “Group”) for the financial year ended 31 December 2018.

This report has been prepared in accordance with the requirements of Part 2A of the Transparency (Directive 2004/109/EC) Regulations, 2007 (as amended) (“Part 2A”) and Part 26 of the Companies Act 2014 (“Part 26”). Part 2A and Part 26 enact in Ireland domestic rules in line with Directive 2013/34/EU (the “EU Accounting Directive (2013)”) and apply to large Irish incorporated companies, like the Company, that are involved in the exploration, discovery, development, and extraction of minerals.

Kenmare Resources plc

Kenmare Resources plc is an Irish incorporated company with a premium listing on the London Stock Exchange and a secondary listing on Euronext Dublin. The principal activity of the Group is the operation of the Moma Titanium Minerals Mine (the “Moma Mine”). The Moma Mine is located on the northern coast of Mozambique and is one of the world’s largest producers of minerals sands products, accounting for production of approximately 7% of the global titanium feedstocks, and supplying to customers operating in over 15 countries across the globe. The products the Group produces are key raw materials, ultimately consumed in everyday “quality-of-life” products such as paints, plastics and ceramic tiles.

The Group consists of the parent company (Kenmare Resources plc) and its subsidiary undertakings. The mining operations at the Moma Mine are carried out by the Mozambique branch of Kenmare Moma Mining (Mauritius) Limited Mozambique Branch (“KMML”) and downstream processing is undertaken by the Mozambique branch of Kenmare Moma Processing (Mauritius) Limited (“KMPL”), both of which are wholly-owned subsidiary undertakings of the Company. KMML and KMPL account for 100% of the Group’s turnover and 94% of the Group’s total assets. Therefore, all revenues and operating costs of the Group’s mining and processing operations are recorded by KMML and KMPL within the same tax jurisdiction, namely Mozambique.

The parent company, Kenmare Resources plc, conducts no direct exploration or mining activities. The Group’s corporate costs are recorded by the parent company.

Scope of Report

Disclosure of payments to governments is required in respect of payments arising from the exploration, discovery, development and extraction of minerals; the payments included within this report therefore relate to the Group’s mining and processing activities at the Moma Project in Mozambique.

Groups are required to prepare a consolidated report disclosing payments made by the parent company and its subsidiary undertakings. Accordingly, this report reflects payments made by the Group companies conducting mining and processing activities, namely KMML and KMPL. The Group owns 100% of these entities and the amounts reflect 100% of the payments made by these subsidiary undertakings.

Payments

The payments disclosed in this report are on a cash basis.

The payments made to governments are required to be analysed into the following categories:

- Production entitlements
- Taxes - taxes levied on the income, production or profits of companies, excluding taxes levied on consumption, value added taxes, personal income taxes, sales taxes, property taxes or municipal charges.

KMML is subject to a corporation tax rate of 35% of the taxable profits of its Mozambique branch. Taxable profits of the branch are calculated by reference to the cash costs of producing heavy mineral concentrate (“HMC”) net of allowable tax deductions and increased by a defined margin.

KMML’s Mozambique branch produces one product from its mining activities, namely HMC. This HMC is sold to KMPL which processes it into finished products (ilmenite, zircon, rutile and mineral sands concentrate), which are exported worldwide to third party customers. The cash costs of mining include the costs of mine face preparation, dredging and dry mining operations, wet contractor plant operations, rehabilitation and support services.

The margin applied to the cash costs of mining is stipulated in the Mineral Licensing Contract, dated 21 January 2002. The contract is between KMML and the Ministry of Mineral Resources and Energy (MIREME) of the Republic of Mozambique, acting for and on behalf of the Government of the Republic of Mozambique, which details the terms and conditions for the exploration, development and production of heavy minerals in the areas of Moma, Congolone and Quinga. The margin is determined by dividing the prices for sale of finished products to third party customers earned by KMPL in the year by the prices earned in the prior year, adjusted for inflation and applying this factor to the prior year margin. For the fiscal year ending 31 December 2018 the margin was 40.9%.

During 2018 KMML had a corporation tax charge of US\$1.1 million. This charge was paid in full in 2019.

KMPL has the benefit of operating within an Industrial Free Zone (“IFZ”) and as an IFZ company, it is exempted from corporation tax.

- Royalties – typically amounts levied based on production levels or revenues.

KMML is subject to a mining royalty of 3% based on HMC sold to KMPL. The royalty is calculated by multiplying the cash costs of producing HMC, plus the margin as detailed above by 3%.

KMPL is subject to a revenue royalty of 1% on revenue recognised.

- Dividends
- Bonuses - signature, discovery and production bonuses.
- Fees - licence fees, rental fees, entry fees and other considerations for mining licences or concessions.

- Infrastructure improvements - payments to governments for infrastructure other than in circumstances where the infrastructure is expected to be primarily dedicated to operational activities throughout its useful life. Payments that form part of the Group's social investment activities (which are primarily organised and administered by Kenmare Moma Development Association) are excluded. Such payments would include contributions in respect of local schools, healthcare or community facilities, or improvements to the general environment of local communities.

Government

“Government” means any national, regional or local authority of a country, and includes a department, agency or undertaking that is a subsidiary undertaking where the authority is the parent undertaking.

All payments referred to this report are made to the Government of Mozambique or its agencies; in particular, they are made to Autoridade Tributária Unidade dos Grandes Contribuintes–Nampula, a department of the Mozambican tax authority.

Materiality

Under Part 2A and Part 26, a payment need not be disclosed if it is a single payment of less than the equivalent of €100,000 or a series of related payments in a single year whose total is less than the equivalent of €100,000.

Analysis by project/entity

An analysis of payments by project is required where payments are attributable to specific projects. Projects are defined as operational activities which are governed by a single contract, licence, lease, concession or similar legal agreement, and form the basis for payment liabilities with a government. Where agreements are substantially interconnected in operating and geographical terms, with substantially similar terms, those agreements should be treated as a single project. Payments may be disclosed at an entity level where payments are made in respect of obligations imposed at that entity level rather than at a project level. Payments below are disclosed at the entity level for KMML and KMPL, which between them operate the Moma Mine, which is treated as one project for purposes of this Report.

Rounding

The amounts shown in this report have been rounded to the nearest US\$1,000.

Payments to governments – 2018

	Production entitlements	Taxes	Royalties	Dividends	Bonuses	Fees	Infrastructure improvements	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Country summary								
Government of Mozambique	-	-	5,486	-	-	-	-	5,486
Total	-	-	5,486	-	-	-	-	5,486
Entity report								
KMML	-	-	2,933	-	-	-	-	2,933
KMPL	-	-	2,553	-	-	-	-	2,553
Total	-	-	5,486	-	-	-	-	5,486

During 2018 KMML had a corporation tax charge of US\$1.1 million. This charge was paid in full in 2019.

This report for Kenmare Resources plc (registered number 37550) was approved by the Directors of the Company on 21 June 2019 and signed on their behalf by

Michael Carvill
Director

Tony McCluskey
Director