

**KENMARE**

## H1 2014 Results

London & Edinburgh Roadshow 27-29 August

 **London**  
Stock Exchange

**LISTED**

**PREMIUM**



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# 1 Overview



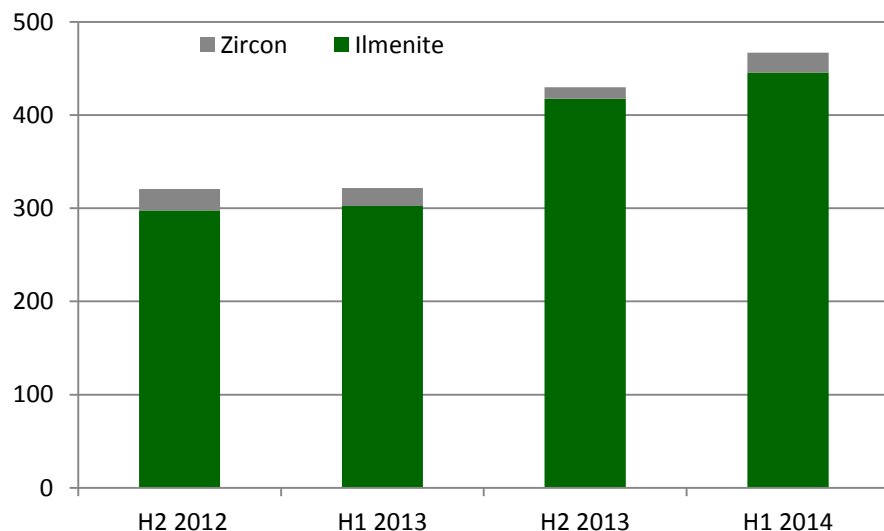
# Kenmare Resources H1 2014 Overview

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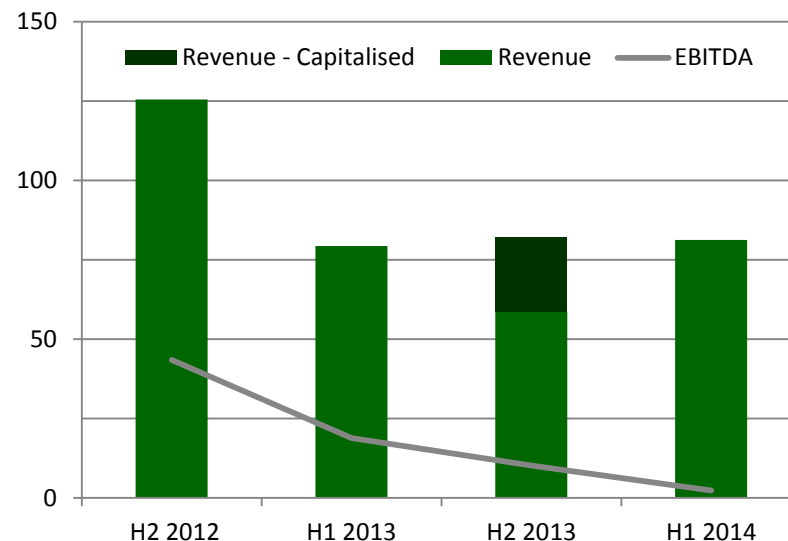
- Continued production increases in H1 2014 vs H1 2013 (HMC +26%, Ilmenite +47%, Zircon +12%)
- Product price weakness and a lower zircon sales mix have constrained revenue growth (US\$81.2m H1 2014 vs US\$79.3m H1 2013)
- Management focus on mine optimisation and reducing costs
- Total cash costs per tonne of finished products reduced by 14% on H1 2013
- Group debt amendments aimed at conserving cash and provide greater flexibility
- Conditional proposal from Iluka Resources for a share for share exchange was received and rejected by the board

# Key Performance Indicators

Production (Half-Yearly) 000t



Revenue & EBITDA (Half-Yearly) US\$m



- HMC production increased 26% to 604,200 tonnes (H1 2013: 480,000 tonnes)
- Ilmenite production increased 47% to 445,600 tonnes (H1 2013: 302,600 tonnes)
- Zircon production increased 12% to 21,400 tonnes (H1 2013: 19,100)
- Closing final product stocks at June 2014 177,900 tonnes (Dec. 2013: 107,100 tonnes)
- 2014 sales volumes up 36%, but lower prices and product mix keep revenues flat
- Total cash costs per tonne of finished goods reduced by 14% on H1 2013

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## **Summary Results**

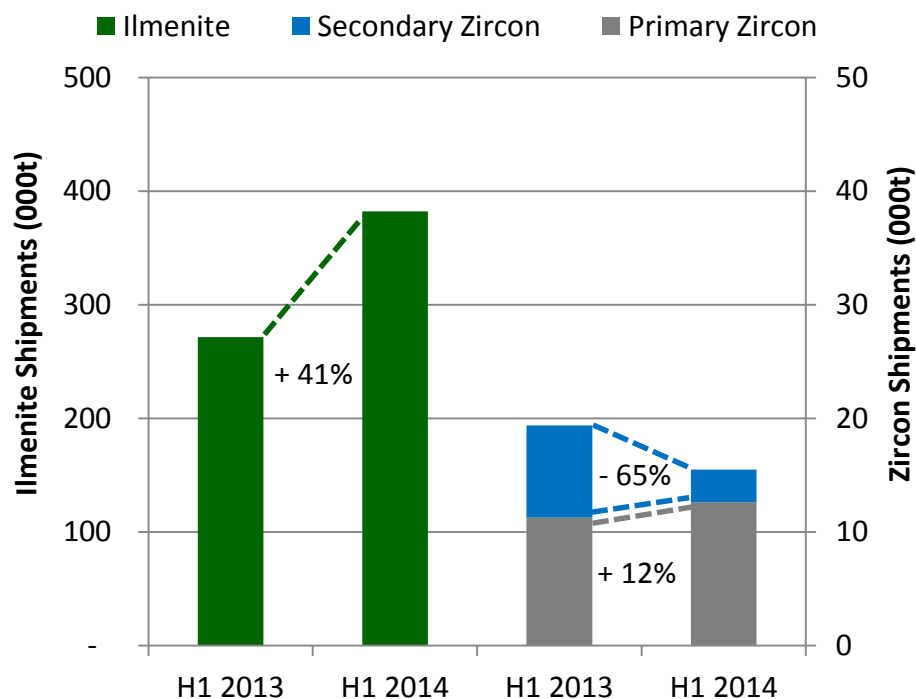
# H1 2014 Income Statement Review

	H1 '14	H1 '13	<u>Comment</u>
	US\$m	US\$m	
Revenue	81.2	79.3	Sales volumes up 36%, but lower prices and product mix keep revenues flat
Cost of Sales & Opex	<u>(99.1)</u>	<u>(72.4)</u>	Costs (incl. US\$8.1m extra depreciation) up - volume related
Operating (loss)/profit	(17.9)	6.9	
Net finance costs	(16.2)	(17.5)	Project loans & Absa debt costs
Foreign exchange gain/(loss)	<u>2.0</u>	<u>1.4</u>	Retranslation euro debt
Loss before tax	(32.1)	(9.2)	
Tax credit/(charge)	<u>0.3</u>	<u>(1.0)</u>	Deferred tax asset as a result of the loss
Loss after tax	<u>(31.8)</u>	<u>(10.2)</u>	

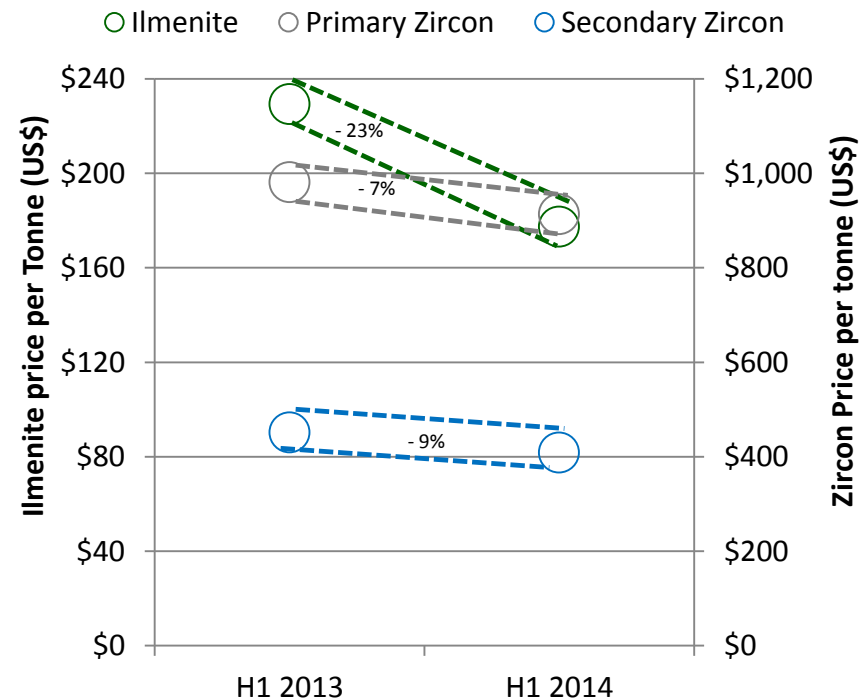
- Sales volumes up 36%
- Lower ilmenite (23% on H1 2013) and zircon (~8% on H1 2013) prices due to challenging market conditions
- Cost of sales & opex increased , principally as a result of higher sales volumes.
- Cash cost per tonne produced down 14% as a result of increased production and cost saving initiatives
- Finance cost changes incl. cost of warrants on equity issue (-US\$0.9m); increased interest due to increased Sub Debt (+US\$1.2m); Absa Corporate facility interest (+US\$0.5m) & other finance fees (-US\$2.1m)
- EBITDA: US\$2.2m (2013: US\$18.9m), principally due to reduced prices

# H1 2014 Revenue Review

Volume/Mix Movement



Pricing Movement



- Total revenue increased by US\$1.9m (2%) on H1 2013
- Sales volumes increase by 36%, but lower proportion of zircon in mix than in H1 2013:
  - Ilmenite up by 41%
  - Total zircon down by 20%, but primary zircon up 12%
- Selling prices down by 23% for ilmenite and ~8% for zircon on H1 2013

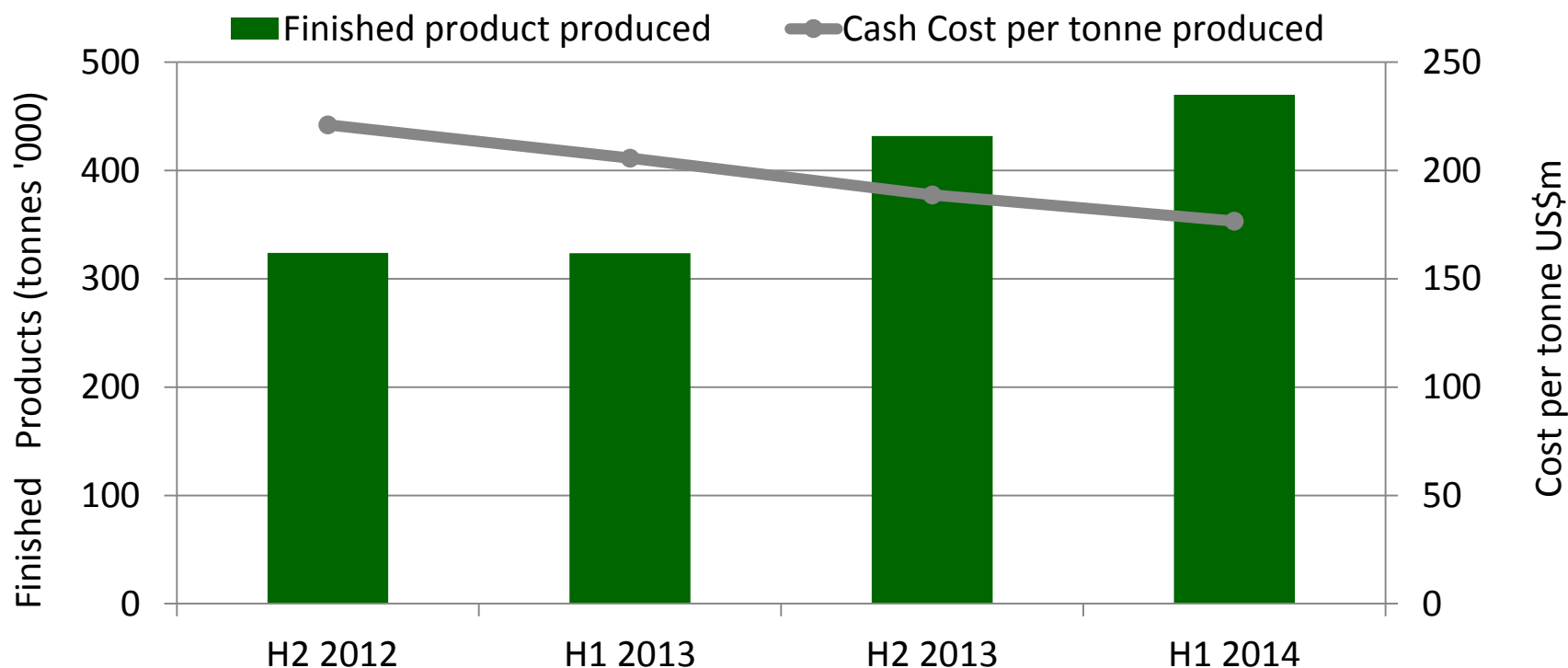


# H1 2014 Cash Operating Costs Review

	H1 2014 US\$m	H1 2014 US\$m	H1 2013 US\$m	H1 2013 US\$m
Cost of sales	82.8		62.2	
Other operating costs	<u>16.2</u>	99.0	<u>10.2</u>	72.4
Freight (CIF charged to customers)		<u>(4.2)</u>		<u>(1.6)</u>
Total costs less freight		94.8		70.8
<u>Non-cash costs</u>				
Depreciation	20.1		12.0	
Share-based payments	<u>1.7</u>	(21.8)	<u>1.6</u>	(13.6)
<u>Inventory movements</u>				
Finished product movements		10.0		9.4
Adjusted cash operating costs	<b>+ 25%</b>	<u>83.0</u>		<u>66.6</u>
Final Products Production	<b>+ 45%</b>	<u>469,800</u>		<u>323,600</u>

- Analysis above reconciles Income Statement to cash operating cost to run business
- Total cost per tonne of finished product produced decreased 6%
- Total cash cost per tonne of finished product produced decreased by 14%

# Half Yearly 2012 – 2014 Cash Operating Costs



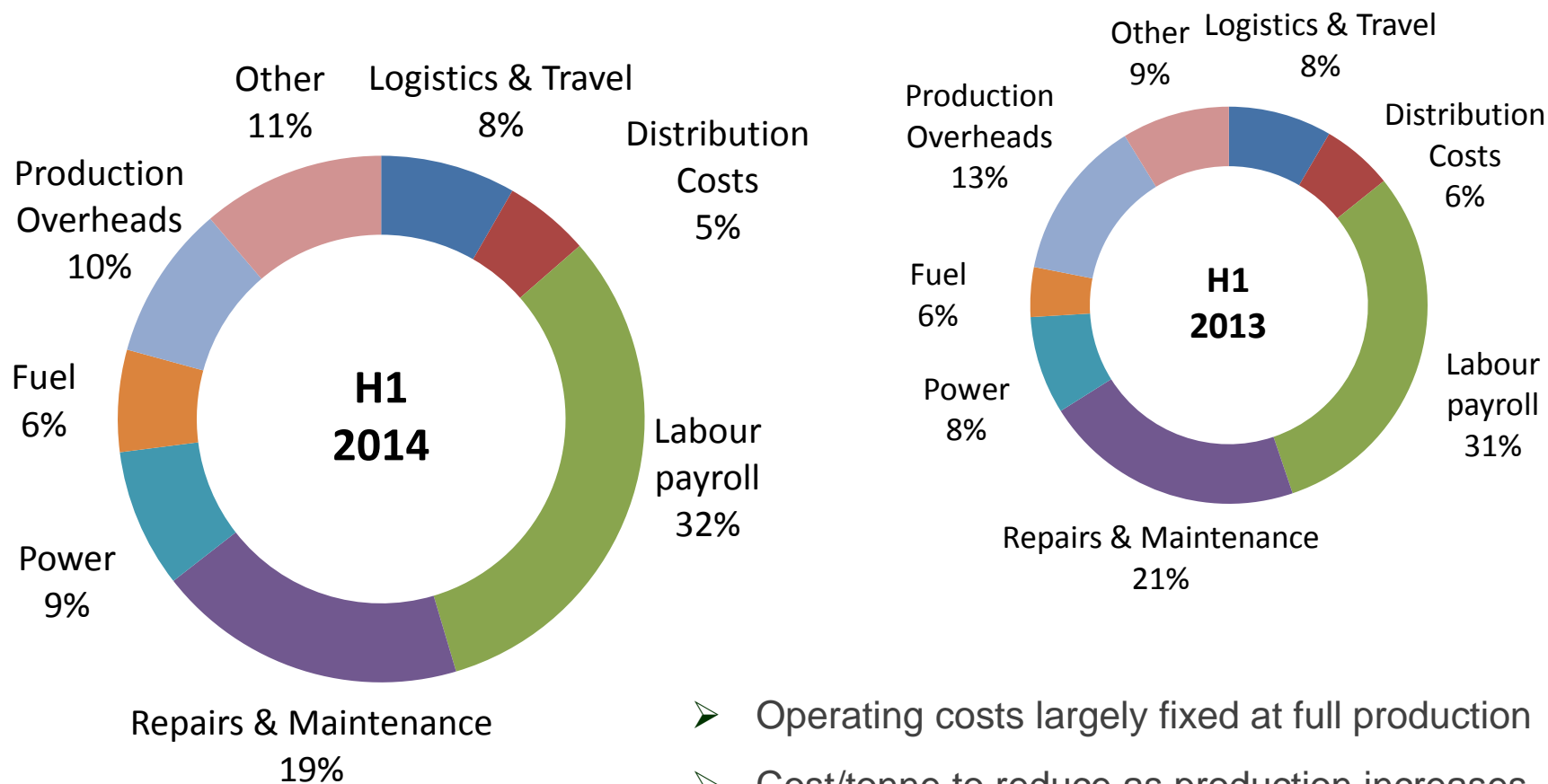
- Cost/t for total finished products (ilmenite, zircon & rutile) is US\$177/t in H1 2014
  - This represents drop of 20% since H2 2012
- Cost per tonne decreasing due to:
  - Increasing production
  - Continued management focus driving cost efficiencies

# Cost Efficiency Initiatives

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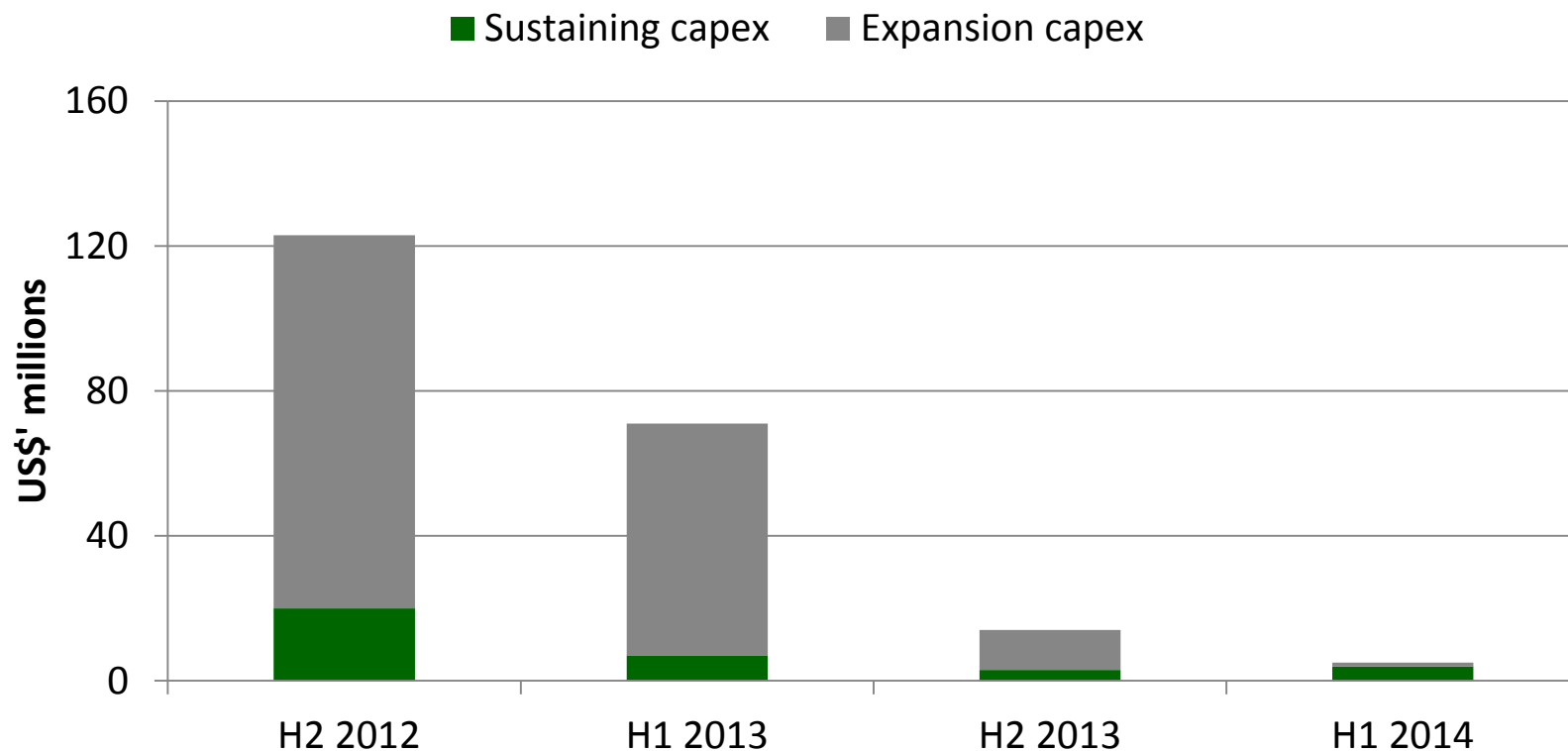
- Finished products up 45% and HMC up 26% in H1 2014 on H1 2013, but adjusted cash operating costs up by 25%.
- Cost efficiencies realised in the following areas:
  - Labour: Reduced numbers of short-term contracts, catering cost reductions and lower recruitment costs
  - Engineering: Efficiencies in plant maintenance and reduced dry mining costs
  - Production Overheads: Reduced machine rentals, external drilling and on-site contractors
  - Freight & Travel: More efficient transportation of materials and reduction in vehicle rentals
- Cost Savings - next steps: Organisational structure review to optimise headcount and further review of supplier & contractor arrangements underway

# H1 2014 Cash Operating Costs



- Operating costs largely fixed at full production
- Cost/tonne to reduce as production increases

# Half Yearly 2012 – 2014 Capex



- Long period of investment completed in 2013 and Phase II expansion brought into production
- Sustaining capex tightly controlled in H1 2014, tracking below forecast

# Balance Sheet Review at 30 June 2014

	30/6/2014	31/12/2013	<u>Comment on 2014 &amp; movement</u>
	US\$m	US\$m	
Property, plant & equipment	952.1	967.1	US\$5.1m capital additions
Deferred tax asset	0.4	0.1	Additional deterred tax asset
Inventories	53.2	44.2	Increased finished product stock quantities
Trade & other receivables	17.5	19.2	Function of sales prior to period end
Cash	<u>37.3</u>	<u>67.5</u>	
Total assets	<u>1,060.5</u>	<u>1,098.1</u>	
Equity & reserves	634.2	664.2	H1 2014 result
Bank loans	349.6	355.2	Interest accrued less principal and interest repayments
Creditors & provisions	<u>76.7</u>	<u>78.7</u>	
Total equity & liabilities	<u>1,060.5</u>	<u>1098.1</u>	

- Property, plant & equipment additions sustaining capital, following long period of expansion investment
- Debt amendment in July 2014 enables group to conserve cash and provide greater flexibility during the period of low product prices.



# Group Debt

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- Group Debt at 30 June 2014: US\$349.6m (2013: US\$355.2m)
- Average project interest rate at June 2014 was 9.2%
- Senior: US\$81.2m, floating @ LIBOR + 3.5% to 5.3%, fixed @ 5.45% to 7.45%.
- Subordinated: US\$258.3m, floating @ LIBOR + 6% to 9%, fixed @ 11%. A further 2% margin will accrue on the Deferred Bullet due by 2019 from 1 August 2015.
- Project loan amendment July 2014:
  - Senior debt principal repayments and subordinated debt principal and interest repayments due 1 Aug 2014, 1 Feb 2015 and 1 Aug 2015 will be paid only to extent group cash exceeds US\$80m (cash sweep). The deferred portion becomes payable on 31 December 2015.
  - Increased reporting to lenders, including 2015 budget required by January 31.
- US\$20m Absa/Barclays corporate facility extended by 12 months to 31 March 2016

# Group Lenders at 30 June 2014

	Loan Balance US\$m	Maturity
<b>Senior Project Loans</b>		
AFDB	21.1	2018
Absa (ECIC)	23.9	2015
EAIF	2.6	2018
EIB	10.7	2018
FMO	8.6	2016
KfW IPEX-Bank (Hermes)	6.6	2015
KfW IPEX-Bank (MIGA)	7.7	2018
	<b>81.2</b>	
<b>Subordinated Project Loans</b>		
EIB	158.8	2019
EAIF	53.0	2019
FMO	46.5	2019
	<b>258.3</b>	
	<b>339.5</b>	
Project loan amendment fees	(9.5)	Amortised over life of loans
<b>Total Project Loans</b>	<b>330.0</b>	
 Absa corporate facility	 19.6	 2016
<b>Total Group Loans</b>	<b>349.6</b>	



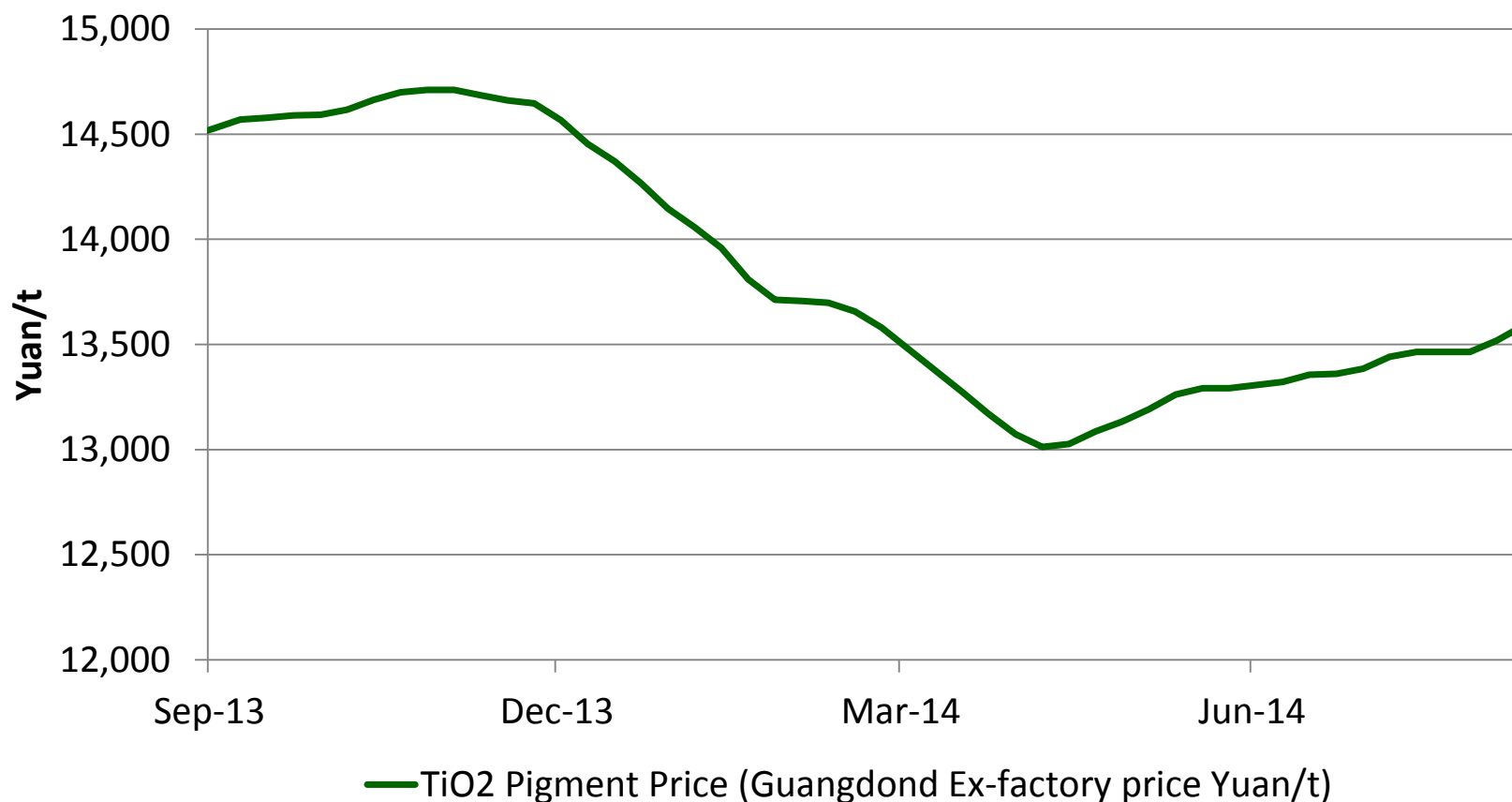
## **Market Overview**

# Pigment Market Review H1 2014

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- Global pigment demand continued to increase in H1 2014 vs H1 2013, despite a long harsh US winter
- Pigment producers have reported a draw down of inventories to more seasonal levels
- As demand has eroded inventories, operating levels for pigment producers are increasing
- Pigment price traction has been damped by increased Chinese pigment export volumes
- Pigment demand growth momentum expected to continue through 2014 and beyond, driven by generally improving macro economics in all regions
- Above trend line growth rate expected in period 2014 to 2020

# Domestic Chinese Pigment Prices



- Domestic Chinese Pigment prices are showing some improvement from the end of Q1 2014

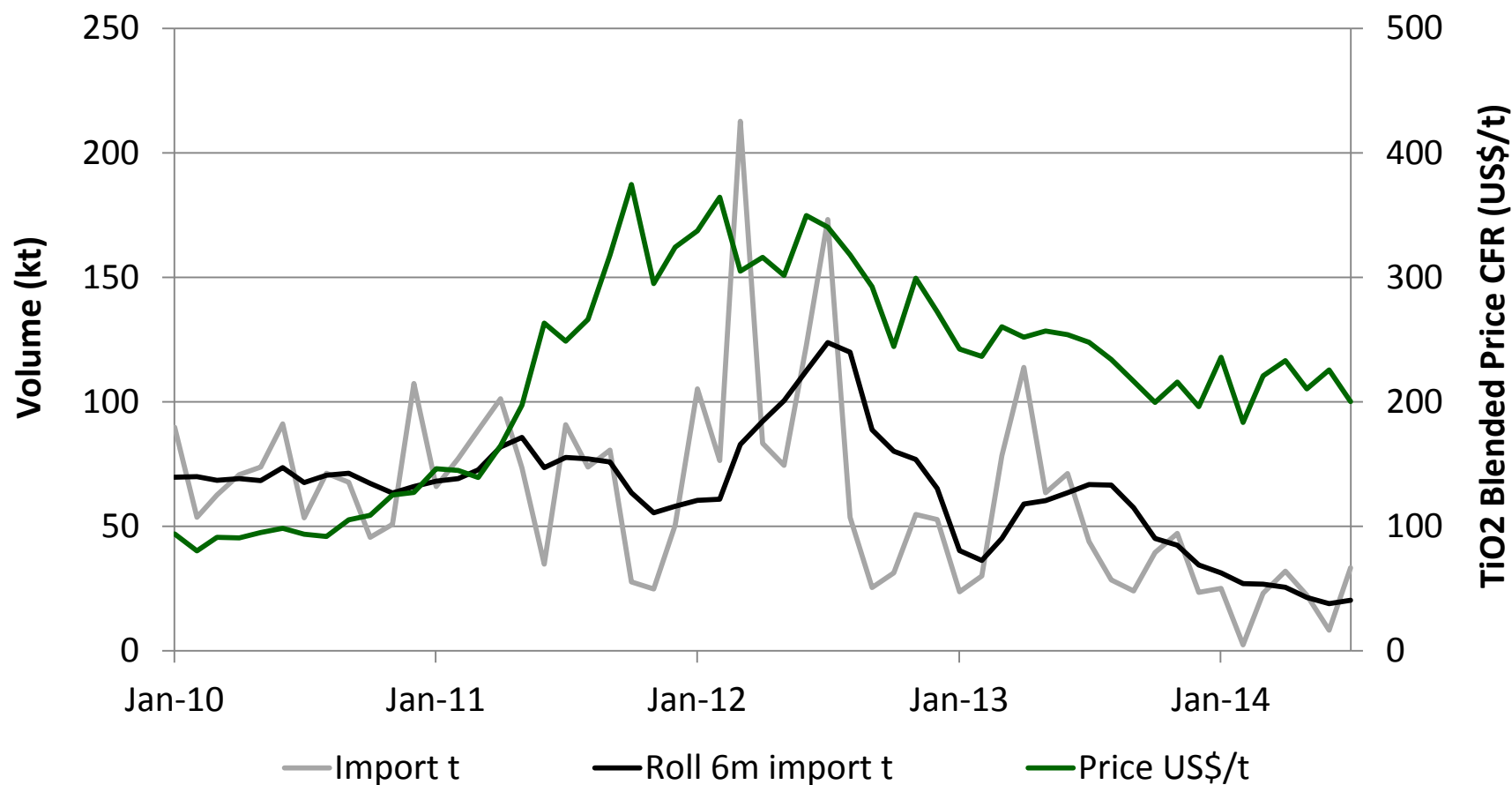
# TiO<sub>2</sub> Feedstock Market Review H1 2014

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- Low pigment plant operating rates and the need to draw down feedstock inventories led to weak feedstock offtake in H1 2014
- Global consumption of ilmenite improved in H1 2014
- However, this was overshadowed by an overhang of ilmenite inventories and increased supply from new entrants to the market
- Feedstock prices continued to weaken over the period
- Chinese offtake is significant but is growing more slowly
- Significant new chloride slag capacity is being built in the Middle East and China and will consume >1mtpa of ilmenite at steady state
- Kenmare is well positioned to serve this high growth market given our high quality ilmenite for slagging
- Higher pigment plant operating rates should also contribute to higher feedstock demand



# Chinese Titanium Ore Imports From Vietnam



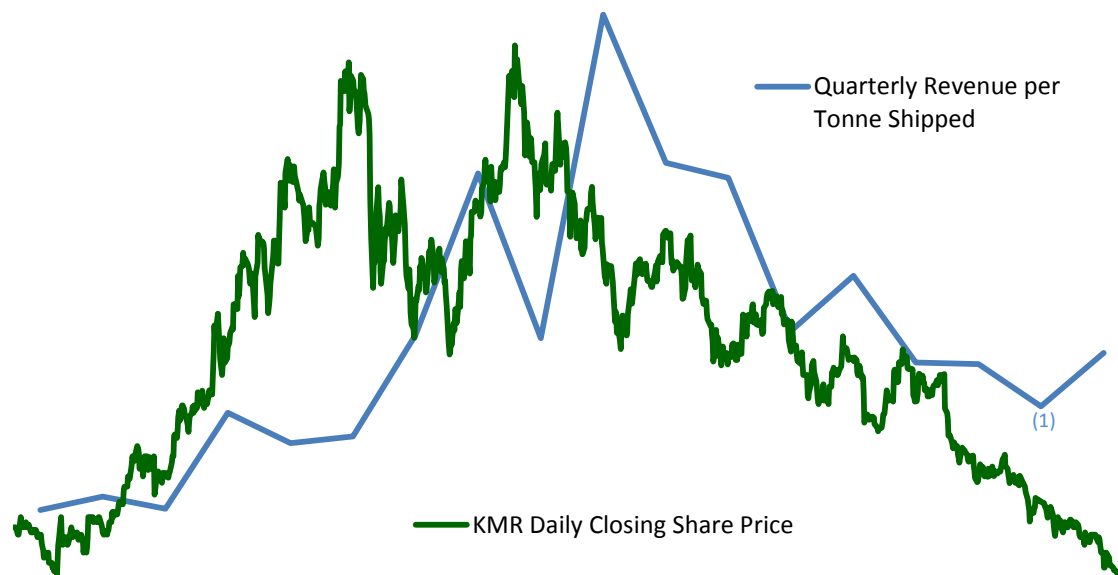
- Price reduction has driven a rapid fall off in production in Vietnam

# Zircon Market Review H1 2014

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- Zircon demand conditions remained stable throughout H1
- Gradual demand recovery is underway in China, the US and parts of South America
- Recovery in the principal European zircon consuming countries of Spain and Italy remains slower
- Prices declined modestly in H1 but have firmed more recently
- Significant drawdown of producer inventories continues
- Overall market still expected to grow at above trend line in 2014 and beyond

# Product Revenue/t -v- Kenmare Share Price

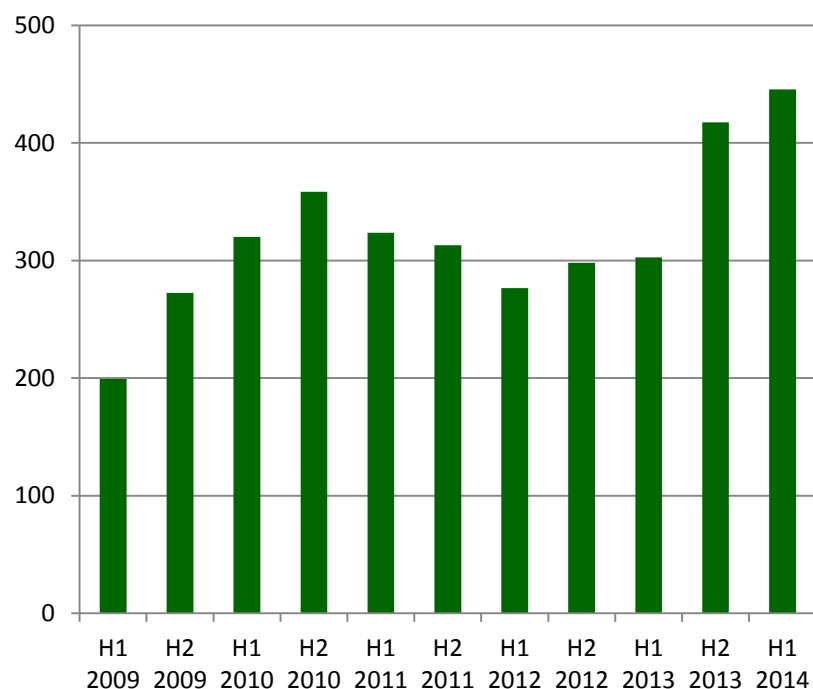


- Kenmare share price performance is closely linked to pricing of final products

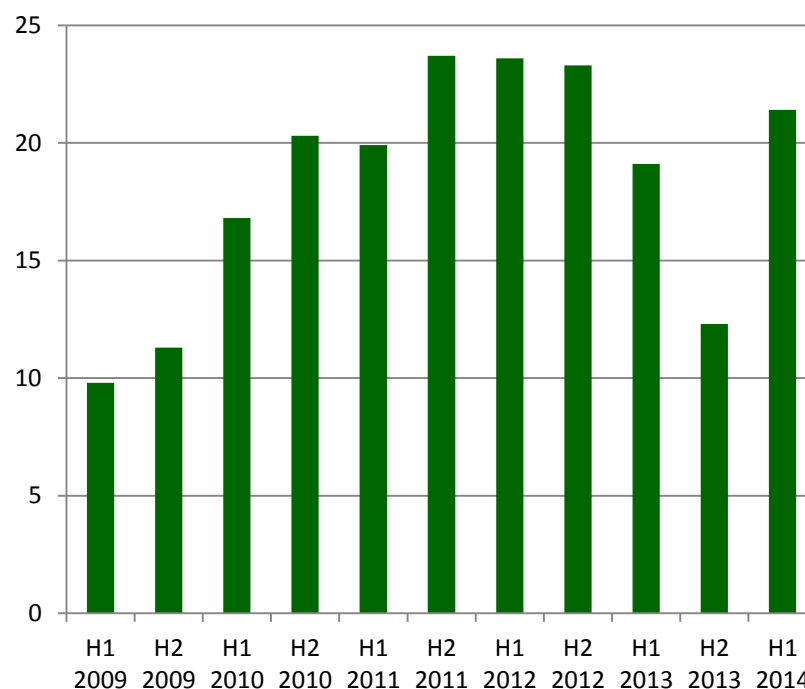
# **Operations**

# Production continues to increase

## Ilmenite Production 000t



## Zircon Production 000t



- Currently implementing a plan to reduce power disruptions in the short, medium and long term
- Diesel-powered electricity generating plants installed and tested

# Health & Safety and Environmental Performance

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## Health and Safety

- Safety of employees is top priority for management
- LTIFR of 0.97 at 30 June 2014
- Kenmare striving for zero harm at Moma
- In Q2 2014 there was a 64% reduction in total injuries from Q2 2013
- July is the second consecutive month with no LTI's

## Environment

- Compliance with Mozambique Law, MIGA & AfDB Environmental Standards
- Substantially Compliant with IFC Performance Standards (April 30, 2006)
- Rehabilitated land is being handed back to communities



# Mozambique

## Key highlights

- Stable political environment – supportive government with which Kenmare has a favorable fiscal arrangement
- Diversified economy with extensive agricultural and natural resources as well as hydroelectric potential and tourism sector
- Growth is underpinned by robust investment inflows in large projects in the mining and Oil & Gas sectors
- Mozambique continues to encourage foreign investment through open-market policies
- Kenmare's community relations 2013 – 2015 strategic plan being implemented in co-operation with the government



# Kenmare Resources – Long Life, Low Cost

## **Moma – A low cost, long life asset**

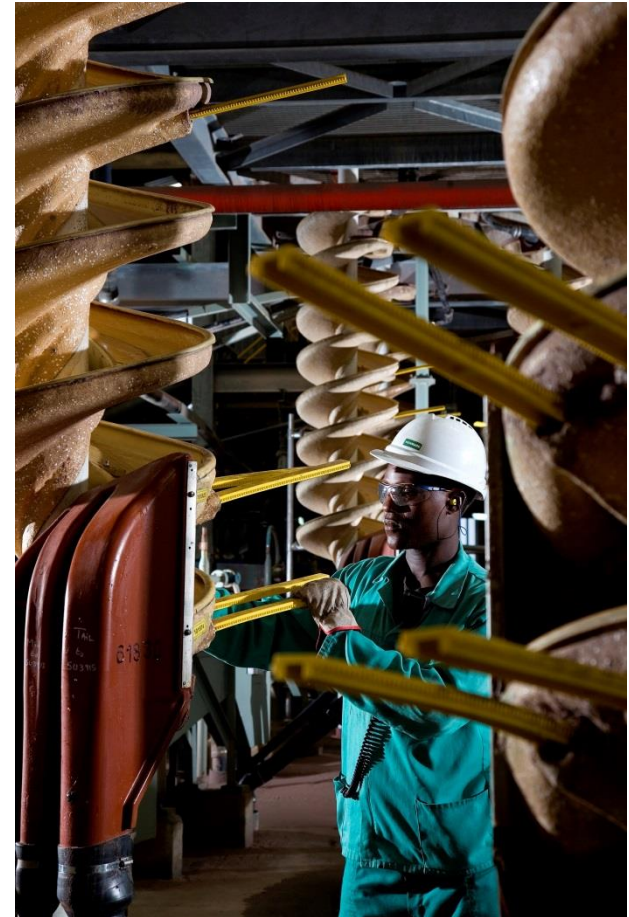
- A world leading producer of titanium minerals
- 8% of global titanium feedstock supply
- Life of mine over 100+ years
- Low cost dredge-mineable mine with port facilities on site

## **Established producer**

- US\$1bn+ invested into Moma Mine since operations began
- Positive EBITDA since 2010

## **Mineral Sands – Exposure to global GDP growth**

- Exposure to emerging market urbanisation and developed world GDP



# **Appendix**

# Kenmare Resources at a Glance

Location of mine	Moma Mine, North-east Coast Mozambique
Products (market share) <sup>(1)</sup>	Titanium feedstock (approximately 8% global supply)
Mine life	One of the world's largest known titanium minerals deposits with 100+ years at expanded production levels
Equity listing	Primary: London Stock Exchange: Premium Listing Secondary: Irish Stock Exchange
Market capitalisation	c. US\$577m <sup>(2)</sup>
In Mozambique since	1987
Operations commenced	2007
Number of employees	1,564



- The Moma Mine produces titanium minerals ilmenite & rutile, used as feedstocks to produce titanium dioxide pigment & the relatively high-value zirconium silicate mineral, zircon
  - Titanium dioxide pigment has a high refractive index & brilliant white colour, which makes it an excellent reflective optical coating. It is used in paints, paper & plastic production
  - The primary applications for zircon are in the manufacture of opacifiers for ceramics & for refractory products used in the steel & foundry industries
- Currently ramping up completed expansion project, which is expected to increase production capacity by 50%
  - Production capacity: c.1.2 mtpa ilmenite, 75 ktpa zircon, 21 ktpa rutile
  - Moma Mine expected to produce ~8% of global titanium feedstock supply

(1) Expected market share in 2014 based on Kenmare's estimate.

(2) US\$ equivalent as at 22 August 2014

# Operations Review

## The Moma Mine

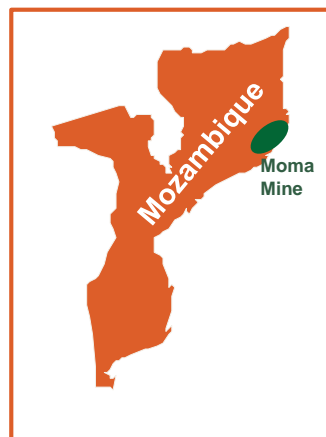
- Kenmare's expanded operating capacity is 1.2mtpa of ilmenite, plus co-products zircon & rutile
- Mining performed by three dredges floating in two artificial mining ponds
- These dredges slurry & pump mineralised sands from the mining face into two floating wet concentrator plants
- A heavy mineral concentrate is produced, which is pumped into a nearby minerals separation plant. It is then separated into final products for export via Kenmare's own product trans-shipment vessels
- These vessels are self-propelled, self-discharging & capable of carrying mineral from the jetty to the trans-shipment point, where product is loaded on to the customer's vessel



## Operating Characteristics

- >4mt have been shipped to date
- Coastal location; no overland transport
- Surface mineralisation (no overburden)
- Principally low cost dredge mining
  - Wet mining plants are designed to produce a high grade of heavy mineral concentrate (distinct from more well known dry mining which use trucks, excavators, scrapers, or loaders to recover ore to a mining unit plant)
- Limited infrastructure requirements
  - The ability to mine & export directly from the Moma site using a dedicated shipping terminal contributes to placing Kenmare toward the bottom of the industry production cost curve
- Low cost hydro power supply
- Significant co-product revenue offers diversification of customers, & a higher product price portfolio
- Ilmenite products are suitable for both sulphate & chloride pigment markets direct without further beneficiation
- Substantial further mineral resources providing long mine life

# Mozambique Overview



## Quick facts (2013)

Capital	Maputo
Government type	Presidential Democratic Republic
Ratings	<b>S&amp;P</b> (B / Stable) <b>Fitch</b> (B+ / Positive)
Nominal GDP	US\$15.3bn
Total Debt / GDP	46.7%
Net FDIs / GDP	10.0%
GDP Growth	6.6%
Population	24 million

## Key highlights

- Stable political environment – supportive government with which Kenmare has a favorable fiscal arrangement
- Diversified economy with extensive agricultural and natural resources as well as hydroelectric potential and tourism sector
- Growth is underpinned by robust investment inflows in large projects in the mining sector
- Mozambique continues to encourage foreign investment through open-market policies

## International natural resources companies operating in Mozambique

There are currently over 60 natural resources companies operating in Mozambique, with several international names having local operations:





# KMAD - Community Relations

## 2013 – 2015 Strategic Plan Agreed

### Current Projects

- Health post started operating in March 2013 & ambulance allocated for community service
- Nataka school completed & 2 new schools under construction
- Water supply to the Natuco vegetable project finalised
- 2 new community projects started
- Water system set up in Topuito village
- Discussions & planning started with government on construction of vocational school



# Reserves & Resources

## Reserves & resources table as at 31 December 2013

Ore Reserve Zone	Category	Ore (Mt)	% THM*	% Ilmenite in THM	% Ilmenite in ore	% Rutile in ore	% Zircon in ore	THM (Mt)	Ilmenite (Mt)	Rutile (Mt)	Zircon (Mt)
Reserves											
Namalope	Proved	241	4.3	82	3.5	0.077	0.25	10	8.4	0.18	0.60
Namalope	Probable	134	3.5	81	2.9	0.067	0.20	4.8	3.8	0.09	0.27
Nataka	Probable	445	3.2	84	2.7	0.047	0.16	14	12	0.21	0.73
<b>TOTAL RESERVES</b>	<b>Proved &amp; Probable</b>	<b>820</b>	<b>3.6</b>	<b>82</b>	<b>3.0</b>	<b>0.059</b>	<b>0.19</b>	<b>29</b>	<b>24</b>	<b>0.48</b>	<b>1.6</b>
Mineral Resources zone	Category	Sand (Mt)	% THM*	% Ilmenite in THM	% Ilmenite in sand	% Rutile in sand	% Zircon in sand	THM (Mt)	Ilmenite (Mt)	Rutile (Mt)	Zircon (Mt)
Congolone	Measured	167	3.3	77	2.5	0.060	0.24	5.4	4.2	0.1	0.4
Namalope	Measured	85	3.7	80	3.0	0.068	0.22	3.2	2.5	0.1	0.2
Namalope	Indicated	142	3.1	78	2.4	0.058	0.17	4.3	3.4	0.1	0.2
Pivilli	Inferred	227	5.4	80	4.3	0.13	0.35	12	9.8	0.3	0.8
Mualadi	Inferred	327	3.2	80	2.6	0.061	0.21	10	8.4	0.2	0.7
Nataka	Inferred	5,800	2.8	82	2.3	0.047	0.15	160	130	2.7	8.6
Mpitini	Inferred	287	3.6	80	2.9	0.070	0.24	10	8.3	0.2	0.7
Marrua	Inferred	54	4.1	80	3.3	0.19	0.19	2.2	1.8	0.1	0.1
Quinga North	Inferred	71	3.5	80	2.8	0.14	0.28	2.5	2.0	0.1	0.2
<b>TOTAL RESOURCES</b>		<b>7,160</b>	<b>2.9</b>	<b>81</b>	<b>2.4</b>	<b>0.054</b>	<b>0.17</b>	<b>210</b>	<b>170</b>	<b>3.9</b>	<b>12</b>