Kenmare Resources plc

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

29 April 2016

Publication of 2015 Annual Report

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, today announces the publication and filing of its Annual Report for the fiscal year ended 31 December, 2015 and advises that the Annual Report is available on the Company's website at www.kenmareresources.com

Overview

- Power outage of 57 days in Q1 2015 significantly impacted production for the year
- Production of Heavy Mineral Concentrate ("HMC") down 15% to 1,100,600 tonnes (2014: 1,287,300 tonnes)
- Production of ilmenite down 11% to 763,500 tonnes (2014: 854,600 tonnes), production of zircon up 2% to 51,800 tonnes (2014: 50,800 tonnes)
- Shipments of finished product flat at 800,400 tonnes (2014: 800,000 tonnes)
- Revenues of US$142.6m (2014: US$174.3m)
- EBITDA of US$11.5m negative (2014: US$9.4m positive)
- Cash flow from operating activities of US$3.0m (2014: US$18.8m negative)
- Loss after tax of US$60.6m (2014: US$100.8m)
- Total cash cost per tonne of finished product decreased 13% from 2014 to 2015 and decreased by 27% between H1 2015 and H2 2015
- Proposed capital raising and debt restructuring, announced separately, would provide a robust balance sheet and significantly reduce financial gearing

Statement from Michael Carvill, Managing Director:
"Kenmare's balance sheet has been over reliant on debt for this stage of the commodity cycle, which has been of unprecedented duration and depth. The cost of debt service and the risk it poses to the Company intensified the decline in our share price during 2015.

Kenmare has proposed a radical deleveraging plan which will create a robust balance sheet and allow the Company to benefit from the expected recovery in titanium feedstock prices and sales volume growth. Kenmare, as the largest supplier of traded ilmenite in the world and with a good competitive position on the cost curve, will benefit from this recovery.

We are very grateful for the support of the cornerstone investors, whose expected long term investment in Kenmare is positive for all stakeholders and we look forward to launching the capital raise in the near future."

Annual Report
A copy of the Annual Report has been submitted to the Irish Stock Exchange and the UK National Storage Mechanism, and will shortly be available for inspection at the following locations:

Company Announcements Office,
Irish Stock Exchange,
28 Anglesea Street,
Dublin 2,

Ireland.
Tel: + 353 1 6174200

and

http://www.morningstar.co.uk/uk/NSM

Results conference call
A conference call for analysts will be held at 9:30am GMT on 29 April 2016. Participant dial-in numbers are as follows:

UK:	08082 370 030 or 020 31 394 830
Ireland:	01 696 8154 or 1800 936 842
Rest of the world:	+44 (0) 203 139 4830
Participant ID#	49796939#

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CHAIRMAN'S STATEMENT

Dear Shareholder,

Market Environment

The mining industry in 2015 continued to suffer from the profound cyclical downturn in all commodity markets. Mineral sands producers suffered further price reductions from already depressed levels. Weighted average FOB prices for Kenmare's products declined 16% in 2015 compared to 2014.

However, global supply of ilmenite reduced significantly through the year, as higher cost producers progressively shut down. In particular, ilmenite supply as a by-product of iron ore mining in China and Russia has reduced substantially. Global demand for merchant ilmenite now outstrips production, with inventories being drawn down to fill the gap. Stocks of ilmenite warehoused in Chinese ports are at the lowest levels they have been for the past four years and the price of domestically produced ilmenite in China has been steadily rising through Q1 2016, as supply has tightened. We expect that these factors will bring positive pricing momentum back to the mineral sands sector during 2016.

Operations

Exceptional flood events in northern Mozambique in Q1 2015 badly damaged the power transmission infrastructure. Moma was without grid power for 57 days, reducing production substantially, with mined ore down 19% and heavy mineral concentrate ("HMC") production down 15% for the year, compared to 2014. These weather events were the first of such severity in 30 years. Kenmare has worked strenuously with the Mozambican state electrical utility, Electricidade de Moçambique, ("EdM") to ensure that grid infrastructure repairs have included extensive flood defence upgrades, which have now been completed.

As we have commented on in previous annual reports, power stability has been a root limitation on mining activities in recent years. We are now pleased to report that, after repairs and reinforcements to the grid, and separately, completion of planned power line infrastructure upgrades by EdM, transmission capacity on the line to Moma has increased and stability is much improved. Despite the challenges presented through 2015, in Q3 the Mine produced at an annualised run rate of a million tonnes per annum of ilmenite, highlighting the operational improvement evident when the Mine has a stable power supply.

Comprehensive and ongoing efforts by the Moma site team has resulted in a reduction in absolute operating costs of 21% in 2015 compared to 2014, while maintaining operational integrity and HSE standards. Unfortunately but inevitably, this required a retrenchment in numbers and a reduction in employee allowances for the remaining staff.

I would like to express my sincere appreciation for the efforts everyone in the Group has made to adjust costs sufficiently to ensure the survival of the Mine despite dire market conditions. These changes have not only allowed us to stay in business, but to provide a platform for success as the market improves. Unfortunately, advisor fees incurred relating to the debt restructuring and approach by Iluka Resources Limited ("Iluka") have been very significant.

We expect that further cost reductions, in combination with higher production as a result of increased power stability, should continue to positively impact performance through 2016.

Financial Results

Kenmare's financial results improved significantly in the second half of the year as production increased and cost reduction initiatives bore fruit. Total cash operating cost per tonne of finished product decreased by 27% between H1 and H2 2015, though only decreased 13% compared to financial year 2014, as a result of the lower production in the first half of the year.

Kenmare generated earnings before interest, tax, depreciation and amortisation ("EBITDA") of negative US$11.5 million in 2015 (2014: US$9.4 million positive). This negative EBITDA relates mainly to the first half of 2015 (H1 EBITDA: US$10.6 million negative) as a result of lower production increasing unit costs in the period. The improvement in EBITDA in H2 to a negative US$0.9 million benefitted from full period operating cost reductions, favourable foreign exchange movements and higher production.

Approach by Iluka Resources Limited

Kenmare was approached in June 2014 by Iluka with a preliminary conditional proposal to acquire Kenmare via a scheme of arrangement. Kenmare engaged in extensive good faith discussions with Iluka, with the objective of obtaining a firm offer that could be put to shareholders as a whole. However, after a number of revisions by Iluka to its conditional proposal, Iluka withdrew from making an offer on 7 December 2015.

Financing

Significant loan amendments were agreed with our Lenders on 29 April 2015 (the "April 2015 Amendment"), which provided inter alia: a "new money commitment" of up to US$50 million (subject to covenants and tests); deferral of principal, some interest payments and loan fees; the appointment of a Lender Approved Non-Executive Director and enhanced reporting to Lenders; and a requirement for Kenmare to present a plan for a material deleveraging event satisfactory to Lenders. Only US$10 million of the "new money commitment" has been drawn as the balance remains subject to Lender approval and waiver of covenants.

A material deleveraging plan was delivered to Lenders on 28 January 2016. While we are working closely and constructively with Lenders towards the implementation of a deleveraging plan, formal notification of approval from the Lenders has yet to be obtained. Consequently, events of default continue to exist, though none have been declared by the Lenders.

Proposed Recapitalisation of Kenmare

On 7 December 2015, Kenmare announced a proposed recapitalisation and restructuring of the balance sheet, including an investment of US$100 million by the State General Reserve Fund ("SGRF") of Oman. During Q22016, we have signed a conditional subscription and relationship agreement with King Ally Holdings Limited to invest US$100 million on a similar basis to SGRF.

This capital raising envisages at least US$275 million of additional equity will be subscribed in aggregate, with US$100 million from each cornerstone investor, and the balance from existing major shareholders. This plan would see debt being reduced to no more than US$100 million, which in combination with significantly improved terms on any remaining debt, will dramatically reduce our on-going debt servicing costs and improve flexibility. The transaction will also provide the Company with an enhanced working capital position, should the recovery in titanium feedstock prices take longer than we expect. Lenders have indicated their support for this plan and are working cooperatively to agree the terms of the remaining debt.

This recapitalisation plan is of course not guaranteed at the time of writing this Annual Report, and is subject to the usual financial market uncertainties over the coming weeks and months prior to execution. However, assuming successful execution of this plan, we firmly believe the recapitalisation will be in the best interest of all stakeholders, despite the dilution of current shareholders' ownership in Kenmare. The balance sheet will then be much stronger and the Company well positioned to exploit the eventual recovery in the product market.

Board & Corporate Governance

The Kenmare Board has benefited from the appointment of John Ensall as Lender Approved Non-Executive Director from 27 July 2015. John has materially supplemented the skills available to the Board in areas that are highly relevant to the current financial situation of the Company, and has played a constructive role as Chairman of the Strategic Options Committee, which was created in July 2015.

Conclusion

We believe that the mineral sands business has now passed its cyclical low and is beginning to rebound. We cannot be sure how strong or how quickly the product markets will recover, but Kenmare is highly geared to any upturn and benefits from long life resources. Kenmare benefits from the production of specific ilmenite products with significantly improving demand characteristics as new smelter capacity comes on stream.

On behalf of the Board, I would like to express appreciation for the hard work and dedication of Kenmare's staff during an exceptionally difficult year. Major cost and headcount reduction programmes have been designed and executed with sensitivity and without compromise of HSE or other standards.

Finally, as Chairman, I would like to sincerely thank the whole Board for their immense and effective efforts on behalf of the Company in exceptionally difficult circumstances during 2015, which has required a major increase in the time demanded of each Board member. We are now able to cautiously look forward to a more stable and sustainable future with the planned execution of the recapitalisation plan during 2016.

Steven McTiernan
Chairman

MANAGING DIRECTOR'S REVIEW

Kenmare's balance sheet has been over reliant on debt for this stage of the commodity cycle, which has been of unprecedented duration and depth. The cost of debt service and the risk it poses to the Company intensified the decline in our share price during 2015.

In response, Kenmare has proposed a radical deleveraging plan which will create a robust balance sheet and allow the Company to benefit from the expected recovery in titanium feedstock prices and sales volume growth.

Recapitalisation

The planned recapitalisation is expected to consist of two investments of US$100 million each from two cornerstone investors and an additional US$75 million placing. Of the funds raised, US$200 million will be used to pay down debt. Lenders will write-off at least US$65 million (principal and accrued interest), leaving a residual debt of US$100 million which will extend until February 2022 and accrue interest at LIBOR plus 4.75%-5.50%. No capital repayments will be due until February 2018. Lender approvals have not yet been obtained and the proposed recapitalisation is subject to their approval, definitive documentation and various conditions, including the approval by shareholders at an EGM, and the raising of a minimum of US$275 million. All shareholders will have the opportunity to participate on the same terms as the cornerstone investors and the Lenders are encouraging such participation by extinguishing four dollars of debt for every three dollars raised.

In the meantime, Kenmare has entered an ilmenite off-take agreement for 2016 with a long established customer. This customer has prepaid, in 2016, for certain deliveries of ilmenite which will occur later in the year. These funds have provided Kenmare bridging financing to allow the recapitalisation to be delivered.

Safety and Risk

Total injuries, measured using the All Injury Frequency Rate ("AIFR"), continued to fall, from2.46 in 2014, to 1.87 in 2015, representing a 24% reduction and an absolute reduction from 36 injuries in 2014 to 23 in 2015. Nine lost time injuries occurred in 2015, with the Lost Time Injury Frequency Rate ("LTIFR") reaching 0.47, a deterioration in performance from 2014 (0.37). Kenmare has responded swiftly with a renewed focus on safety practices and behaviours.

High environmental standards were maintained, with effective community and educational programmes continuing in the local area, and the process of further localisation of the workforce moved forward. During the flooding crisis in the region in early 2015, Moma and its airstrip was used as a base for major humanitarian relief and aid efforts, in which Kenmare participated.

Power Supply

The greatest obstacle to maximising production in recent years has been weakness in electricity supply from EdM. Kenmare has improved power quality at Moma by installing a synchronous condenser ("Dip Doctor") and hiring diesel generators, but these mine site improvements cannot fully compensate for power outages or the breach of grid transmission capacity limits.

Extreme weather events in Q1 2015 brought down sections of the EdM transmission network, and northern Mozambique and Moma were without grid power for several weeks. We are pleased that EdM has responded to these events effectively, with significant investment not only to repair and reinforce the transmission line, but also to increase the transmission network serving Moma by 50MW (42%) in December 2015. A further increase in transmission capacity of 10MW is expected to be commissioned in H1 2016.

Generation capacity in northern Mozambique is also being addressed by EdM, with a ship-based 100MW mobile power generation plant positioned nearby at Nacala since April 2016. The plant is currently being commissioned and will both provide significant additional capacity and stabilisation of the network voltage. We have already seen considerable improvement in power quality and reliability in the first few months of 2016 and as these improvements settle down, we believe power will no longer be a fundamental constraint on Moma's ability to produce.

Mining

Severe and exceptional storms in 2015 resulted in the mining operation being without power for 57 days. Repairs have been completed and flood defences have been installed along the transmission lines, so that if similar events occur again they should not have such a significant effect on operations. Due principally to the downtime caused by the power interruption, ore mined in 2015 declined by 19% from the previous year to 27.5 million tonnes. However, because of an increase in grade, HMC produced declined by 15% to 1,100,600 tonnes. Mining output is expected to benefit from a significantly more stable power supply, with HMC also benefitting from an increase in grade from the latter part of Q2 2016 onwards. A focused programme of organisational and management improvements has also been put in place with the aim of reducing downtime and ensuring steady production.

Mineral Processing

The mineral separation plant ("MSP") was constrained by the availability of HMC in the first half of the year, caused by storm-related power outages. These outages were initially mitigated by bringing forward maintenance and using the diesel generators to continue operating the MSP to process stockpiled HMC. However, due to the length of the outage, HMC stockpiles ran out, resulting in reduced finished product production.

Due to the constraints on HMC production, the output of ilmenite fell 11% year on year. Total ilmenite production at 763,500 tonnes in 2015 was lower than the anticipated range of 900,000 to 1,000,000 tonnes. Zircon production for the full year was 51,800 tonnes, which represented a 2% increase on 2014, despite the lower tonnage of HMC available for processing. There was an improvement in recovery rates for zircon as improvement projects were implemented to recover additional secondary zircon product. Primary and secondary zircon production is expected to rise in 2016, with higher HMC production.

Operating cost

The Company has been very focused on reducing our operating costs. A retrenchment programme introduced in February 2015 reduced the number of employees on site by 162, while a reduction in the shift allowance for the remaining shift workers has resulted in a significant labour cost saving. All other aspects of the business, from electricity usage to supplier contracts, have been revisited to lower costs. This has resulted in an absolute cash cost reduction of 21% in 2015, down to US$136.4 million compared with the previous financial year. We are continuing to push down our costs to the extent possible and expect that as volume increases through 2016, with the benefit of improved power and product recoveries, our unit cost per tonne will continue to reduce.

Supply/Demand Balance

During 2015 15% of Kenmare's ilmenite was sold to China, with most of our remaining sales going to long term customers outside China on multi-year volume contracts. However, the market in China influences global prices given the size of the market and spot nature of sales there.

Demand for titanium dioxide feedstocks was adversely hit by a sudden and acute mid-year 2015 slowdown in China which reversed a tightening trend in the supply/demand balance in the earlier part of the year. The Chinese government responded to the general economic slowdown with accommodating economic measures, but these have taken some time to take hold. The trend is now reversing and house prices are rising in tier 1 and tier 2 cities in China. Consequently, the demand for titanium dioxide pigment feedstocks has started to grow again and pigment producers have been able to raise prices.

The reduction in the value of iron ore has had an inhibiting effect on the mining of titano-magnetite ores in China, which produce ilmenite as a by-product. The economics of mining these ores is largely driven by the iron ore price and with the price of iron ore forecast to remain low for several years, Chinese domestic ilmenite supply is not expected to recover in the medium term. Independent experts assess the reduction of supply of ilmenite from China during 2015 to be between 500,000 to 700,000 tonnes.

In similar vein, a titano-magnetite mine in Siberia, which supplied approximately 200,000 tonnes to the Chinese market in 2015, closed at the end of 2015 and had sold all stockpiled inventories by the end of Q1 2016. Supply of ilmenite from Australia and the US has reduced following the closure of mines. Production from Vietnam has reduced as the low grades present in Vietnam make mining at prices in the market in 2015 uneconomic. Additional production from Mexico and Chinese owned operations in Mozambique has also reduced.

Our assessment of global supply and demand shows that production of sulphatable ilmenite is in deficit and inventory is being consumed. This is most evident in the trend in Chinese port stocks which have almost halved from a peak in March 2015 to the lowest levels recorded in the last three years.

The zircon market is controlled by a small number of major suppliers who generally operate in a disciplined fashion. Unfortunately, competition between producers for increased market share has resulted in some value destruction. Kenmare expects that the logic of disciplined behaviour will prevail and that over time zircon prices will revert to previous levels.

Outlook

The outlook for Kenmare depends on the successful implementation of the recapitalisation as outlined above.

This will produce a Company with a robust balance sheet, low levels of debt with a repayment holiday for the next two years, a reasonable interest rate, and new strategic shareholders joining the shareholder register. The expansion has been bedded down, costs have been substantially reduced, electricity supply, the thorn in the Company’s side for the last several years, has been dramatically improved and many management system improvements have been made.

We are very grateful for the support of the cornerstone investors, whose expected long term investment in Kenmare is positive for all stakeholders and we look forward to launching the capital raise in the near future.

The market for sulphate ilmenite (our largest product) is in supply deficit and inventories appear to be declining. The production of Chinese domestic ilmenite continues to reduce and many projects around the world have either been closed through depletion or because they need vastly better economics to justify their operation. Recovery of the real estate market in China and continued growth in the US provide a basis to expect an increase in demand for our products. I believe that the longest downturn in the history of this industry is approaching its end. Kenmare, as the largest supplier of traded ilmenite in the world and with a good competitive position on the cost curve, will benefit from this recovery.

Keeping Kenmare in business during this downturn has taken huge efforts by the staff and the Board. I would like to thank them all for their efforts.

Michael Carvill
Managing Director

KENMARE RESOURCES PLC
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

	Notes	2015	2014
		US$'000	US$'000
Revenue	3	142,583	174,317
Cost of sales		(168,138)	(173,366)
Gross (loss)/profit		(25,555)	951
Other operating costs	5	(21,780)	(32,415)
Impairment loss	13	-	(64,762)
Operating loss		(47,335)	(96,226)
Finance income	8	543	6,314
Finance costs	9	(37,805)	(34,852)
Foreign exchange gain		22,658	24,113
Loss before tax		(61,939)	(100,651)
Income tax credit/(charge)	10	1,320	(143)
Loss for the financial year and total comprehensive income for the financial year		(60,619)	(100,794)
Attributable to equity holders		(60,619)	(100,794)
		Cent per share	Cent per share
Loss per share: Basic	11	(2.18)	(3.62)
Loss per share: Diluted	11	(2.18)	(3.62)

The accompanying notes form part of these financial statements.

KENMARE RESOURCES PLC
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015

	Notes	2015 US$'000	2014 US$'000
Assets			
Non-current assets			
Property, plant and equipment	13	834,961	865,217
Deferred tax asset	14	1,320	-
Other receivables	17	649	1,021
		836,930	866,238
Current assets			
Inventories	15	46,228	62,452
Trade and other receivables	17	20,268	27,118
Cash and cash equivalents	18	14,352	21,795
		80,848	111,365
Total assets		**917,778**	**977,603**
Equity			
Capital and reserves attributable to the Company's equity holders			
Called-up share capital	19	214,941	225,523
Share premium	20	431,380	431,380
Retained losses	21	(175,651)	(115,032)
Other reserves	22	32,804	22,896
Total equity		503,474	564,767
Liabilities			
Non-current liabilities			
Bank loans	23	-	261,634
Obligations under finance lease	24	264	743
Provisions	25	22,100	21,624
		22,364	284,001
Current liabilities			
Bank loans	23	341,943	76,040
Obligations under finance lease	24	479	415
Provisions	25	1,714	2,387
Other financial liabilities	26	22	520
Trade and other payables	27	47,782	49,473
		391,940	128,835
Total liabilities		414,304	412,836
Total equity and liabilities		**917,778**	**977,603**

The accompanying notes form part of these financial statements.

On behalf of the Board:

M. Carvill Director T. McCluskey Director

29 April 2016

KENMARE RESOURCES PLC
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

	Notes	2015 US$'000	2014 US$'000
Operating activities			
Loss for the financial year before tax		(61,939)	(100,651)
Adjustment for:			
Foreign exchange movement		(22,658)	(24,113)
Share-based payments	5	(674)	1,349
Finance income	8	(45)	(184)
Finance costs	9	37,805	34,852
Depreciation	6	35,820	40,850
Impairment loss	13	-	64,762
Decrease in other financial liabilities	26	(498)	(5,331)
(Decrease)/increase in provisions	25	(742)	528
Operating cash flow		(12,931)	12,062
Decrease/(increase) in inventories	15	16,224	(18,256)
Decrease/(increase) in trade and other receivables	17	7,222	(7,532)
(Decrease)/increase in trade and other payables	27	(1,901)	1,780
Cash from/(used in) operations		8,614	(11,946)
Interest received	8	45	184
Interest paid	23	(5,700)	(7,046)
Net cash from/(used in) operating activities		2,959	(18,808)
Investing activities			
Additions to property, plant and equipment	13	(5,564)	(5,187)
Net cash used in investing activities		(5,564)	(5,187)
Financing activities			
Repayment of borrowings	23	-	(13,001)
Decrease in borrowings	23	(7,330)	(8,268)
Payment of obligations under finance leases	24	(560)	(560)
Net cash used in financing activities		(7,890)	(21,829)
Net decrease in cash and cash equivalents		(10,495)	(45,824)
Cash and cash equivalents at the beginning of the financial year		21,795	67,546
Effect of exchange rate changes on cash and cash equivalents		3,052	73
Cash and cash equivalents at the end of the financial year	18	**14,352**	**21,795**

Detailed notes to the Financial Statements for the year ended 31 December 2015 are available in the 2015 Annual Report and Accounts.

This announcement contains some "forward-looking statements" that represent Kenmare's expectations for its business, based on current expectations about future events, which by their nature involve risks and uncertainties. Kenmare believes that its expectations and assumptions with respect to these forward-looking statements are reasonable. However, because they involve risk and uncertainty, which are in some cases beyond Kenmare's control, actual results or performance may differ materially from those expressed or implied by such forward-looking information.