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*Kenmare Resources plc (“Kenmare” or “the Company”)*

Preliminary Results

For the year ended 31 December 2013

(LSE/ISE: KMR)

12 March 2014

Kenmare Resources plc, which operates the Moma Titanium Minerals Mine (the “Mine” or “Moma”) in Mozambique, today announces its preliminary results for the twelve months to 31 December 2013.

## Overview

- Phase II expansion complete with new dredge, Wet Concentrator Plant B (“WCP B”) and all processing plants becoming operational during 2013
- Ore mined up 22% to 23,951,200 tonnes (2012: 19,588,800 tonnes)
- Production of heavy mineral concentrate (“HMC”) up 47% to 1,137,200 tonnes (2012: 772,300 tonnes)
- Production of ilmenite up 25% to 720,100 tonnes (2012: 574,500 tonnes)
- Production of zircon down 33% to 31,400 tonnes (2012: 46,900 tonnes)
- Revenues US\$137.9 million (2012: US\$234.6 million) excluding capitalised revenues of US\$23.6 million
- EBITDA of US\$29.0 million (2012: US\$98.9 million)
- Loss after tax of US\$44.1 million for 2013 after foreign exchange and financing charges (2012: US\$49.5 million profit)
- Total assets increased to US\$1.1 billion (2012: US\$994 million)
- Debt restructuring completed in February 2014

## Michael Carvill, Managing Director, said:

*“2013 saw the end of a long period of investment in Moma. With the expansion complete and commissioned, and with the capital cost behind us, the Moma Mine will reap the benefits of this investment not only in 2014 but for years to come. We are continuing to improve the efficiency of our business and drive down our cost per tonne, whilst tackling the challenges of maintaining consistent power to our operations.”*

## Results presentation

A presentation for analysts will be held at 8:00am GMT on 12 March 2014 at the offices of Buchanan, 107 Cheapside, London EC2V 6DN.

Participation by way of conference will be possible. Participant dial-in numbers are as follows:

UK: 0808 237 0040  
Alternative number: +44 (0) 203 428 1542  
Conference ID# 20122025#

A live webcast of the presentation will be available on Kenmare’s website at <http://mediaserve.buchanan.uk.com/2014/kenmare120314/registration.asp>. A recording will be available from 11:00am GMT on 12 March 2014 on the same links.

## For more information:

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## Chairman's Statement

The past year saw Kenmare complete its investment programme in the Moma Titanium Minerals Mine, one of the world's largest producers of titanium feedstock and zircon. This was achieved during a challenging commodity price environment, which impacted cash flow and profitability, yet will ultimately position Kenmare well for the expected recovery in the feedstock market.

The Phase II expansion has increased production capacity by 50%, providing us with the ability to meet 8% of global titanium feedstock demand and 4% of global zircon demand. This project commenced in 2010 and is now operating and contributing to the output of the Mine. Most of the new facilities included in the expansion were installed by the middle of the year and the second half of 2013 was a period of commissioning and ramp up. I am pleased to say that while not without its issues, this process has gone well. The major items of equipment installed in the expansion have demonstrated an ability to perform at nameplate throughput capacity.

### Operations

During the year, Kenmare mined 23,951,200 tonnes of ore and produced 1,137,200 tonnes of HMC. 720,100 tonnes of ilmenite product was produced along with 31,400 tonnes of zircon, including 10,300 tonnes of secondary zircon product. Zircon production was lower than expected, mainly due to an extended shut down as part of the expansion.

Our new dredge and WCP B have operated at nameplate throughput capacity, and the average throughput levels for the first couple of months of 2014 were at nameplate capacity. Our new feed preparation plant, the Wet High Intensity Magnetic Separation ("WHIMS") Plant, has been performing at planned throughput levels and the Auxiliary Ilmenite Plant reached nameplate recovery levels within a couple of weeks of being commissioned.

However, sustained operation of these plants at nameplate utilisation levels is subject to ongoing optimisation work and has been hampered by the difficulties the Mozambique state electrical utility, Electricidade de Moçambique ("EdM"), has been experiencing in delivering stable transmission of power. As previously noted, electrical power to the Mine has been highly volatile over recent months, as a result of a combination of increased base load, electrical storm activity, and increased power demand in the Southern Hemisphere summer months, which has pushed demand towards the transmission network's capacity limits, mainly at peak periods.

Kenmare has been working proactively with EdM in a number of areas to resolve these issues:

- **Current and near term**  
A load management plan is being implemented by EdM, which is designed to prevent the load on the northern transmission network rising above stability limits at peak times. This programme has contributed to improvements in network stability. Additionally, Kenmare is working with EdM on a number of projects for the optimisation of the operation of the network to limit the frequency of supply interruptions.
- **Short and medium term (one-year horizon)**  
EdM is enhancing the transmission capacity of the network by adding a set of series capacitors. These capacitors are expected to increase the capacity at Nampula from 118MW to approximately 170MW. This should allow several years' load growth before capacity limits are approached again.
- **Medium and long term (five-year horizon)**  
EdM is in the financing stage of a major project to add a new 400kV line to the northern network, which should resolve power transmission issues for the long term future. EdM plans for this project to be completed by 2018.

I reported last year that Kenmare was installing a synchronous condenser (referred to as a "Dip Doctor"), designed to minimise voltage dips and sustain power. This was installed during the year and, when operating, is effective in reducing the effect of these dips. However, due to operational difficulties and storm damage, the availability of the Dip Doctor during January and February 2014 was lower than planned.

We have also been enhancing our standard operating procedures and equipment to minimise downtime caused by voltage fluctuation. This has been very successful in our mining and wet concentrator plants, where typical downtimes after a stoppage have been very significantly reduced to less than an hour. The expanded Mineral Separation Plant (“MSP”) is inherently more sensitive to voltage fluctuations and for the time being is taking longer to recover. Accordingly, we are dedicating additional resources to resolving this issue.

Kenmare has been exploring the use of diesel generator units to supply power to the MSP. These would ensure stable power supply to the MSP through the summer months of December to March, when we encounter most of our voltage stability problems. They would also act as a standby facility in case of unanticipated failure of the transmission system during the rest of the year. More stable power supply would increase both quantum and predictability of production.

We will continue to update the market on developments in relation to power supply in future announcements.

## **Market**

The pigment industry, which is the main market for TiO<sub>2</sub> feedstocks, experienced solid demand growth of approximately 9% in 2013, albeit from a low base following a major contraction of approximately 12% in 2012. However, this growth was met from the drawdown of significant quantities of pigment inventories that accumulated during 2012. As a result, low pigment plant operating rates prevailed throughout 2013, creating weak feedstock demand. Although pigment inventories reduced to more manageable levels and plant operating rates improved as the year progressed, the pricing environment for feedstocks remains challenging and prices are now at more than 50% below peak 2012 levels. We view the reduction in inventories as an important step in the market cycle, which when further advanced will allow for a return to sustainable pricing.

Notwithstanding a 9% growth in pigment demand in 2013, the market has not yet recovered to 2011 levels. Based on the close historical correlation between pigment demand growth rates and global GDP growth rates, we therefore expect pigment demand to continue to grow at above historical growth rates in order to return to long term trendline. Indeed, pigment producers reported strong Q4 2013 sales volume growth compared to the same period in 2012, and some report a reduction of pigment inventories to normal seasonal levels. Consequently, we are seeing signs of improved market conditions for our products. Ilmenite sales volumes for 2014 have started reasonably well as we see a more regular offtake pattern from core customers starting to emerge. The pigment industry is gearing up for an increase in demand for the spring painting season in the Northern Hemisphere, and after two subdued years, expectations remain high for an improved 2014. The resumption of demand growth in the more traditional markets of North America and Europe and continued urbanisation and economic growth in emerging economies are expected to provide a solid platform of support for offtake of Moma ilmenite production in the future. These factors should also result in an improving pricing environment for titanium feedstocks as the year progresses, but need to be balanced against the new supply that will enter the market.

The zircon market faced similar challenges to the titanium feedstock market in 2013 as the industry coped with uneven market demand conditions in different geographical regions and an overhang of inventory held by zircon producers. Zircon markets in Europe remained subdued while China and North America were more resilient. Ceramic grade zircon prices have fallen from peaks levels of around US\$2,500 per tonne in 2012 to current levels of approximately US\$1,000 per tonne.

The largest application for zircon is for the production of ceramics. There has been some innovation in the ceramics industry to reduce the quantity of zircon used, driven by high prices and shortages in previous years. In the face of reduced offtake, some participants in the zircon mining industry have curtailed output. The market has therefore stabilised at this lower level and inventories are being depleted. Lower prices are reversing some of the thrifting and substitution in ceramic tile production given zircon’s superior properties, but manufacturers remain cautious, fearing another price spike if supply tightens again in the future. Therefore the price recovery in zircon is expected to be gradual.

The zircon market is expected to see a return to growth in 2014 given the improved outlook for the global economy and ongoing urbanisation trends in large emerging economies, where there is a preference for ceramic wall and floor tiles. Good growth can also be expected in specialty chemicals, zirconium metal and chemical zirconia,

while digital printing in the ceramics industry also offers some interesting possibilities for increased zircon consumption.

Despite the challenging market conditions for titanium feedstocks and zircon in 2013, Kenmare was well supported by our customers. We expect to see an improving demand environment for titanium feedstocks and zircon in 2014 with continued strong support from our existing customer base and increased sales to new customers.

## **Finance**

Kenmare generated earnings before interest, tax, depreciation and amortisation (“EBITDA”) of US\$29.0 million during 2013 (2012: US\$98.9 million). Reported revenue for the year was US\$137.9 million, excluding the capitalisation of US\$23.6 million of revenue relating to product produced during the ramp-up and commissioning phase of the expansion facilities (2012: nil). Including the capitalised amount, total revenue for 2013 was US\$161.5 million, compared with US\$234.6 million the previous year. A total of 677,900 tonnes of total products were sold in 2013, which was similar to the previous year (2012: 680,800 tonnes), whilst the weighted average product price achieved in 2013 dropped by 31%, resulting in the revenue reduction.

Cost of sales for the year amounted to US\$113.7 million (2012: US\$134.5 million), including depreciation and amortization of US\$24.3 million (2012: US\$18.5 million). Other operating costs amounted to US\$19.5 million (2012: US\$19.7 million). US\$28.9 million of costs relating to product produced during the ramp-up and commissioning of the expansion plant has been capitalised in property, plant and equipment.

The operating profit for the year amounted to US\$4.7 million (2012: US\$80.4 million). Loan interest and finance fees of US\$40.5 million (2012: US\$28.7 million) include costs associated with a corporate facility established in 2013 with Absa Bank Limited (“Absa”), a member of Barclays, and the fair value of the costs associated with issue of warrants as part of the placing noted below. A foreign exchange loss of US\$6.5 million (2012: US\$0.6 million loss) arose during the year, principally due to losses on Euro-denominated loans. The tax charge for 2013 was US\$2.0 million (2012: US\$3.3 million), resulting in a loss after tax of US\$44.1 million (2012: US\$49.5 million profit) for the year.

In October 2013, the Board decided to raise additional equity for the Company and a placing was completed, raising gross proceeds of approximately US\$105.9 million. The proceeds of the placing were partially used to discharge certain near-term payment obligations in respect of the mine expansion of approximately US\$20 million and to repay US\$20 million of the Absa corporate facility.

A key post balance sheet event was the successful completion of a long process to re-profile deferred subordinated debt payment obligations. The deferred subordinated debt balance at 31 December 2013 was US\$143.3 million, and before this re-profiling there was a requirement for Kenmare to bring this deferred subordinated debt current by 1 August 2015. After discussions with our lender group, agreement has been reached to reschedule all subordinated debt that remains deferred as at 31 July 2014; repaying half of this debt in August 2019 and the balance in nine semi-annual payments running from August 2015 to August 2019. Given the current subdued nature of our product market, the re-scheduling of the subordinated debt payment obligations at an early stage was an important step in matching debt obligations with the Company’s ability to generate cash and, assuming recovery in product prices, will enable us to start paying dividends to shareholders in due course.

## **Board Structure & Corporate Governance**

I reported last year that the Board had been strengthened by the appointment of two new Non-Executive Directors, Steven McTiernan and Gabriel Smith, both of whom bring considerable sectoral and financial experience to the Board. In December, Jacob Deysel resigned as a director. The Board thanks Jacob for his contribution to the Board and look forward to continue working with him as Kenmare’s Chief Operating Officer. This year we commissioned independent advice from external firms on the design of an updated executive remuneration framework and on our senior management structure, in line with the Board’s drive to ensure that the Company achieves best-practice in corporate governance.

## **Outlook**

Kenmare now owns a mine capable of producing 8% of the world's consumption of titanium feedstocks and 4% of global zircon. The resource base will last over 100 years and, in conjunction with an ongoing focus on cost control now that the expansion has been delivered, allows for low-cost mining operations. Through an equity placement and debt restructuring, the balance sheet has been re-engineered to better suit the subdued market environment in which we are operating. Despite power supply difficulties, the expansion has demonstrated its ability to run at nameplate throughput capacity. Hence the Company is well placed to benefit from the expected demand recovery in titanium feedstock and zircon markets, and we look forward to gaining the benefit from the major investment which our shareholders have supported for many years.

*Justin Loasby*  
Chairman

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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.

**KENMARE RESOURCES PLC**  
**PRELIMINARY RESULTS**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2013**

	<b>Notes</b>	<b>2013</b> <b>US\$'000</b>	<b>2012</b> <b>US\$'000</b>
Revenue		137,868	234,638
Cost of sales		<u>(113,733)</u>	<u>(134,472)</u>
Gross profit		24,135	100,166
Other operating costs	3	<u>(19,474)</u>	<u>(19,730)</u>
Operating profit		4,661	80,436
Finance income		299	1,706
Finance costs		(40,535)	(28,714)
Foreign exchange loss		<u>(6,512)</u>	<u>(641)</u>
(Loss)/profit before tax		(42,087)	52,787
Income tax charge	6	<u>(2,033)</u>	<u>(3,301)</u>
(Loss)/profit for the year and total comprehensive profit for the year		<u>(44,120)</u>	<u>49,486</u>
Attributable to equity holders		<u>(44,120)</u>	<u>49,486</u>
		Cent per share	Cent per share
(Loss)/earnings per share: Basic	4	<u>(1.71)</u>	<u>2.01</u>
(Loss)/earnings per share: Diluted	4	<u>(1.71)</u>	<u>2.00</u>

**KENMARE RESOURCES PLC**  
**PRELIMINARY RESULTS**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2013**

	Notes	2013 US\$'000	2012 US\$'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	967,110	887,513
Deferred tax asset	6	<u>143</u>	<u>2,176</u>
		<u>967,253</u>	<u>889,689</u>
<b>Current assets</b>			
Inventories		44,196	22,422
Trade and other receivables		19,241	35,746
Cash and cash equivalents	7	<u>67,546</u>	<u>46,067</u>
		<u>130,983</u>	<u>104,235</u>
<b>Total assets</b>		<u>1,098,236</u>	<u>993,924</u>
<b>Equity</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Called-up share capital	8	225,523	205,168
Share premium		431,380	349,780
Retained (losses)/earnings		(14,238)	29,801
Other reserves		<u>21,547</u>	<u>20,848</u>
<b>Total equity</b>		<u>664,212</u>	<u>605,597</u>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Bank loans	9	157,377	177,380
Obligations under finance lease		1,158	1,508
Provisions		<u>22,423</u>	<u>9,050</u>
		<u>180,958</u>	<u>187,938</u>
<b>Current liabilities</b>			
Bank loans	9	197,802	147,032
Obligations under finance lease		350	286
Provisions		548	276
Other financial liability		5,851	-
Trade and other payables		<u>48,515</u>	<u>52,795</u>
		<u>253,066</u>	<u>200,389</u>
<b>Total liabilities</b>		<u>434,024</u>	<u>388,327</u>
<b>Total equity and liabilities</b>		<u>1,098,236</u>	<u>993,924</u>

**KENMARE RESOURCES PLC**  
**PRELIMINARY RESULTS**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2013**

	Notes	2013 US\$'000	2012 US\$'000
<b>Cash flows from operating activities</b>			
(Loss)/profit for the year		(42,087)	52,787
Adjustment for:			
Foreign exchange movement		6,512	641
Share-based payments		551	3,165
Finance income		(299)	(1,706)
Finance costs		31,268	27,157
Depreciation		24,344	18,456
Increase in other financial liability		5,851	-
(Decrease)/increase in provisions		<u>(199)</u>	<u>1,236</u>
Operating cash flow		25,941	101,736
(Increase)/decrease in inventories		(21,774)	3,424
Decrease in trade and other receivables		16,505	3,100
Decrease in trade and other payables		<u>(12,064)</u>	<u>(4,185)</u>
Cash from operations		8,608	104,075
Interest received		299	1,706
Interest paid		<u>(7,549)</u>	<u>(7,014)</u>
<b>Net cash from operating activities</b>		<u>1,358</u>	<u>98,767</u>
<b>Cash flows used in investing activities</b>			
Addition to property, plant and equipment	5	<u>(82,661)</u>	<u>(164,251)</u>
<b>Net cash used in investing activities</b>		<u>(82,661)</u>	<u>(164,251)</u>
<b>Cash flows from financing activities</b>			
Proceeds on the issue of shares	8	106,058	60,046
Expenses on the issue of shares		(4,103)	(2,836)
Repayment of borrowings		(32,395)	(25,875)
Increase in borrowings		32,713	-
Payment of obligations under finance leases		<u>(560)</u>	<u>(560)</u>
<b>Net cash from financing activities</b>		<u>101,713</u>	<u>30,775</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		20,410	(34,709)
Cash and cash equivalents at beginning of the year		46,067	77,256
Effect of exchange rate changes on cash and cash equivalents		<u>1,069</u>	<u>3,520</u>
<b>Cash and cash equivalents at the end of the year</b>		<u>67,546</u>	<u>46,067</u>

**KENMARE RESOURCES PLC**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2013**

	<b>Called- Up Share Capital</b>	<b>Share Premium</b>	<b>Capital Conversion Reserve Fund</b>	<b>Retained Earnings</b>	<b>Share Option Reserve</b>	<b>Total</b>
	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>
Balance at 1 January 2012	196,347	301,391	754	(19,994)	16,856	495,354
Profit for the year	-	-	-	49,486	-	49,486
Share based payments	-	-	-	309	3,238	3,547
Issue of share capital	<u>8,821</u>	<u>48,389</u>	=	=	=	<u>57,210</u>
Balance at 1 January 2013	205,168	349,780	754	29,801	20,094	605,597
Loss for the year	-	-	-	(44,120)	-	(44,120)
Share based payments	-	-	-	81	699	780
Issue of share capital	<u>20,355</u>	<u>81,600</u>	=	=	=	<u>101,955</u>
Balance at 31 December 2013	<u>225,523</u>	<u>431,380</u>	<u>754</u>	<u>(14,238)</u>	<u>20,793</u>	<u>664,212</u>

**Retained Earnings**

Retained earnings comprise accumulated profit and losses in the current and prior years.

**Share Option Reserve**

The share option reserve arises on the grant of share options to certain Directors, employees and consultants under the share option scheme.

**Capital Conversion Reserve Fund**

The capital conversion reserve fund arose from the re-nominalisation of the Company's share capital from Irish Punts to Euro.

## NOTES TO THE PRELIMINARY RESULTS

### Note 1. Basis of Accounting and Preparation of Financial Information

On 11 March 2014, the Directors approved the preliminary results for publication. While the unaudited consolidated financial statements for the year ended 31 December 2013, from which the preliminary results have been extracted, are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, these preliminary results do not contain sufficient information to comply with IFRS. The Directors expect to publish the full financial statements that comply with IFRS as adopted by the European Union in April 2014.

The auditors have not yet issued their audit opinion on the financial statements in respect of the year ended 31 December 2013, but, as in previous years, when issued such opinion is likely to draw attention to the disclosures made in the financial statements concerning the recoverability of property, plant and equipment which are dependent on the successful operation of the Mine and the realisation of the cashflow forecast assumptions as set out in Note 5. They are also likely to note that the financial statements do not include any adjustments relating to these uncertainties and that the ultimate outcome cannot at present be determined.

The financial information presented above does not constitute statutory accounts within the meaning of the Companies Acts, 1963 to 2013. A copy of the accounts in respect of the financial year ended 31 December 2013 will be annexed to the Annual Return for 2014.

The statutory accounts for the year ended 31 December 2012 prepared under IFRS upon which the auditors have issued an unqualified opinion, but with an emphasis of matter drawing attention to the disclosures made in the financial statements concerning the recoverability of property, plant and equipment and investments in and amounts due from subsidiary undertakings, which are dependent on the successful development of economic ore reserves and successful operation of the Mine, have been filed with the Registrar of Companies.

The accounting policies applied are consistent with those adopted and disclosed in the Group's financial statements for the year ended 31 December 2012. There have been a number of amendments to accounting standards and new interpretations issued by the International Accounting Standards Board which were applicable from 1 January 2013; however these have not had a material impact on the accounting policies, methods of computation or presentation applied by the Group.

### Note 2. Segment Reporting

Information on the operations of Moma Titanium Minerals Mine in Mozambique is reported to the Board for the purposes of resources allocation and assessment of segment performance. Information regarding the Group's operating segment is reported below.

#### Segment revenues and results

	2013	2012
	US\$'000	US\$'000
Moma Titanium Minerals Mine		
Revenue	137,868	234,638
Cost of sales	<u>(113,733)</u>	<u>(134,472)</u>
Gross profit	24,135	100,166
Other operating costs	<u>(16,062)</u>	<u>(14,032)</u>
Segment operating profit	8,073	86,134
Other corporate operating costs	<u>(3,412)</u>	<u>(5,698)</u>
Group operating profit	4,661	80,436
Finance income	299	1,706
Finance expenses	(40,535)	(28,714)
Foreign exchange loss	<u>(6,512)</u>	<u>(641)</u>
(Loss)/profit before tax	(42,087)	52,787
Income tax charge	<u>(2,033)</u>	<u>(3,301)</u>
(Loss)/profit for the year	<u>(44,120)</u>	<u>49,486</u>

<b>Segment assets</b>		
Moma Titanium Minerals Mine assets	1,028,039	957,805
Corporate assets	<u>70,197</u>	<u>36,119</u>
Total assets	<u>1,098,236</u>	<u>993,924</u>
<b>Segment liabilities</b>		
Moma Titanium Minerals Mine liabilities	403,704	383,287
Corporate liabilities	<u>30,320</u>	<u>5,040</u>
Total liabilities	<u>434,024</u>	<u>388,327</u>
<b>Other segment information</b>		
<b>Depreciation and amortisation</b>		
Moma Titanium Minerals Mine	24,344	18,453
Corporate	<u>-</u>	<u>3</u>
Total	<u>24,344</u>	<u>18,456</u>
<b>Additions to non-current assets</b>		
Moma Titanium Minerals Mine	103,941	190,618
Corporate	<u>-</u>	<u>1,233</u>
Total	<u>103,941</u>	<u>191,851</u>
<b>Revenue from major products</b>		
	2013	2012
	US\$'000	US\$'000
Mineral products (ilmenite, zircon and rutile)	<u>137,868</u>	<u>234,638</u>
<b>Geographical information</b>		
	2013	2012
	US\$'000	US\$'000
Revenue from external customers	63,427	93,923
Europe	43,711	105,462
Asia	30,730	19,469
USA	<u>-</u>	<u>15,784</u>
Rest of World	<u>137,868</u>	<u>234,638</u>
Total		

The Group's revenue from external customers is generated by the Moma Titanium Minerals Mine, the non-current assets of which are US\$962.8 million (2012: US\$888.0 million).

At 31 December 2013, total final product stocks were 107,100 tonnes (2012: 29,600 tonnes).

#### **Information about major customers**

Included in revenues are US\$33.7 million (2012: US\$71.6 million) from sales to the Group's largest customer, US\$32.8 million (2012: US\$33.1 million) from sales to the Group's second largest customer, US\$30.7 million (2012: US\$31 million) from sales to the Group's third largest customer. All revenues are generated by the Moma Titanium Minerals Mine.

### Note 3. Other Operating Costs

	2013 US\$'000	2012 US\$'000
Distribution costs	11,005	9,140
Freight costs	3,364	3,230
Demurrage costs	393	716
Administration costs	3,412	6,644
Repair costs	<u>1,300</u>	<u>=</u>
	<u>19,474</u>	<u>19,730</u>
Included in administration costs are:		
Share-based payments	=	<u>2,471</u>

Freight costs of US\$3.4 million (2012: US\$3.2 million) are reimbursable by customers or factored into the sales price for product delivered to customers on a CIF (cost, insurance and freight) basis. Demurrage costs of US\$0.4 million (2012: US\$0.7 million) are incurred as a result of shipment delays. Distribution costs of US\$11.0 million (2012: US\$9.1 million) during the year represents the cost of running the Mine's finished product storage, jetty and marine fleet. Included in distributions costs is depreciation of US\$3.0 million (2012: US\$1.7 million) increased from 2012 as a result of the capital additions and upgrade to the fleet and enhancement of the jetty in prior years. Administration costs of US\$3.4 million (2012: US\$6.6 million) are the group administration costs and include a share based payment expense of nil (2012: US\$2.5 million). In October 2013 a fire occurred in the trommels section of WCP A. The costs of repair works and replacement parts amounted to US\$1.3 million during 2013.

Total share-based payments for 2013 amounted to US\$0.8 million (2012: US\$3.5 million) of which US\$0.6 million (2012: US\$0.7 million) relate to staff at the Mine and is included as a production cost of inventories, US\$0.2 million (2012: US\$ 0.4 million) relate to staff working on the expansion project and has been capitalised in property, plant and equipment. Due to the number of share options lapsed in 2013 there is a share based payment of nil (2012: US\$2.4 million) included in administration costs in the statement of comprehensive income.

### Note 4. Loss/Earnings Per Share

The calculation of the basic and diluted loss/earnings per share attributable to the ordinary equity holders of the Parent Company is based on the loss after taxation of US\$44.1 million (2012: US\$49.5 million profit) and the weighted average number of shares in issue during 2013 for the purposes of basic earnings per share of 2,583,605,457 (2012: 2,462,602,902) and for diluted earnings per share of 2,583,605,457 (2012: 2,472,580,025). In 2013 the basic loss per share and the diluted loss per share are the same, as the effect of the outstanding share options is anti-dilutive.

## Note 5. Property, Plant and Equipment

	<b>Plant &amp; Equipment US\$'000</b>	<b>Development Expenditure US\$'000</b>	<b>Construction In Progress US\$'000</b>	<b>Other Assets US\$'000</b>	<b>Total US\$'000</b>
<b>Cost</b>					
At 1 January 2012	343,451	248,761	181,439	16,500	790,151
Transfer from construction in progress	12,686	-	(26,149)	13,463	-
Additions during the year	<u>170</u>	<u>1,223</u>	<u>190,458</u>	-	<u>191,851</u>
At 1 January 2013	356,307	249,984	345,748	29,963	982,002
Transfer from construction in progress	419,897	-	(422,193)	2,296	-
Additions during the year	<u>13,042</u>	-	<u>90,640</u>	<u>259</u>	<u>103,941</u>
At 31 December 2013	<u>789,246</u>	<u>249,984</u>	<u>14,195</u>	<u>32,518</u>	<u>1,085,943</u>
<b>Accumulated Depreciation</b>					
At 1 January 2012	45,659	19,455	-	10,919	76,033
Charge for the year	<u>10,468</u>	<u>5,910</u>	-	<u>2,078</u>	<u>18,456</u>
At 1 January 2013	56,127	25,365	-	12,997	94,489
Charge for the year	<u>13,156</u>	<u>7,098</u>	-	<u>4,090</u>	<u>24,344</u>
At 31 December 2013	<u>69,283</u>	<u>32,463</u>	-	<u>17,087</u>	<u>118,833</u>
<b>Carrying Amount</b>					
At 31 December 2013	<u>719,963</u>	<u>217,521</u>	<u>14,195</u>	<u>15,431</u>	<u>967,110</u>
At 31 December 2012	<u>300,180</u>	<u>224,619</u>	<u>345,748</u>	<u>16,966</u>	<u>887,513</u>

During the year, the Group carried out an impairment review of property, plant and equipment. The cash generating unit for the purpose of impairment testing is the Moma Titanium Minerals Mine. The basis on which the recoverable amount of the Moma Titanium Minerals Mine is assessed is its value-in-use. The cashflow forecast employed for the value-in-use computation is a life of mine financial model. The recoverable amount obtained from the financial model represents the present value of the future pre-tax and finance cash flows discounted at 10%.

Key assumptions include the following:

- A mine plan based on the Namalope and Nataka proved and probable reserves.
- The cash flows assume an average forecast annual production levels at approximately 0.9 million tonnes of ilmenite per annum plus co-products zircon and rutile over the life of the mine plan.
- Product sales prices are based on contract prices as stipulated in marketing agreements with customers, or where contracts are based on market prices or production is not presently contracted, prices as forecast taking into account independent titanium mineral sands expertise and management expectations. The average product sales price real terms growth rate over the mine life plan is 1.5% per annum.
- Operating and capital replacement costs are based on approved budget costs for 2014 and escalated by 2% per annum thereafter.

As a result of this review no impairment provision is required. The discount rate is the significant factor in determining the recoverable amount and a 1% change in the discount rate results in an 8% change in the recoverable amount.

Included in plant and equipment are capital spares of US\$3.7 million (2012: US\$1.0 million).

Share based payments of US\$0.2 million (2012: US\$ 0.4 million) relating to staff working on the expansion project have been capitalised in property, plant and equipment. The mine closure asset increased by US\$13.3 million (2012: nil). The discount rate used to calculate the mine closure provision was 3% based on a 20 year US treasury yield rate. This is a change in assumption from 9% discount rate used as at the 31 December 2012 being the average effective Project borrowing rate. The reason for the change in assumption is to exclude the risk of the Company and only include risk specific to the liability.

Substantially all the property, plant and equipment of the Group is or will be mortgaged, pledged or otherwise secured to provide collateral for the Project senior and subordinated loans.

The carrying amount of the Group's plant and equipment includes an amount of US\$1.2 million (2012: US\$1.2 million) in respect of assets held under finance lease.

Additions to development expenditure include costs associated with a third phase of mine development of nil million (2012: US\$1.2 million). Expansion development costs incurred during the period before the expansion assets are capable of operating at production levels in a manner intended by management are deferred and included in property, plant and equipment.

The recovery of property, plant and equipment is dependent upon the successful operation of the Moma Titanium Minerals Mine and the realisation of the cashflow assumptions as set out in this note. The Directors are satisfied that at the statement of financial position date the recoverable amount of property, plant and equipment exceeds its carrying amount and based on the planned mine production levels that the Moma Titanium Minerals Mine will achieve positive cash flows.

## Note 6. Deferred Tax

	US\$'000
At 1 January 2012	5,477
Charge to income statement	<u>(3,301)</u>
At 1 January 2013	2,176
Charge to income statement	<u>(2,033)</u>
At 31 December 2013	<u>143</u>

At the statement of financial position date, Kenmare Moma Mining (Mauritius) Limited had unused tax losses of nil (2012: US\$12.2 million) available for offset against future profits. A deferred tax asset of US\$0.1 million has been recognised for forecast losses which are expected to be available for offset against future profits. For the year ended 31 December 2012 a deferred tax asset had been recognised of US\$2.2 million in respect of US\$12.2 million of prior year losses. Tax losses of US\$6.8 million (2012: US\$7.6 million) expired in the year. Tax losses may be carried forward for three years. No deferred tax liability is recognised on temporary differences arising in connection with accelerated tax depreciation as the differences are not significant. Revenues (and hence taxable profits) in Kenmare Moma Mining (Mauritius) Limited are determined by reference to cost incurred in producing heavy mineral concentrate plus a margin which is related to prices earned by Kenmare Moma Processing (Mauritius) Limited.

## Note 7. Cash and Cash Equivalents

	2013 US\$'000	2012 US\$'000
Immediately available without restriction	64,479	7,773
Contingency Reserve Account	53	21,408
Project Companies' Accounts	<u>3,014</u>	<u>16,886</u>
	<u>67,546</u>	<u>46,067</u>

The Contingency Reserve Account (the "CRA") is an account established under a cash collateral and shareholder funding deed to provide for shareholder funding to the Project Companies and to secure the obligations of the Company and Congolone Heavy Minerals Limited (a wholly-owned subsidiary undertaking) under the Completion Agreement.

Cash and cash equivalents comprise cash balances held for the purposes of meeting short-term cash commitments and investments which are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value. Where investments are categorised as cash equivalents, the related balances have a maturity of three months or less from the date of investment.

## Note 8. Called Up Share Capital

On 16 October 2013, 250,300,000 new ordinary shares were issued by way of a placing which raised US\$101.9 million net of expenses. The proceeds of the equity raising was used in part to discharge near term payment obligations in respect of the expansion of the Mine and to repay US\$20 million of the Company's Absa corporate facility. The remainder of the proceeds was to be used for working capital. US\$20.4 million of this issue has been credited to share capital. US\$81.5 million of this issue has been credited to share premium.

In addition to ordinary shares, participants in the placing were issued warrants on the basis of one warrant to subscribe for one ordinary share in the Company for every five placing shares. In total 50,060,000 warrants were issued. The warrants, which are not listed or admitted to trading and which have limited transferability rights, have an exercise price of Stg£29.09p, an exercise period of five years, commencing thirteen months from the date of issue. A financial liability of US\$5.9 million based on the fair value of the warrants at the statement of financial position date has been recorded as the cost of issuing the warrants with an equivalent value included in finance costs in the statement of comprehensive income.

466,666 new ordinary shares were issued during 2013 as a result of share options exercised and resulted in US\$0.04 million being credited to share capital and US\$0.08 million credited to share premium.

On 25 July 2012, 120,000,000 new ordinary shares were issued by way of a placing which raised US\$56.7 million net of expenses. The primary purpose of this equity raising was to fund an expansion of the existing mine operations to increase production capacity from 800,000 tonnes per annum of ilmenite plus co-products to 1.2 million tonnes per annum of ilmenite plus co-products. US\$8.7 million of this issue has been credited to share capital. US\$48.0 million of this issue has been credited to share premium. 1,408,330 new ordinary shares were issued during 2012 as a result of share options exercised and resulted in US\$0.1 million being credited to share capital and US\$0.4 million credited to share premium.

## Note 9. Bank Loans

	2013 US\$'000	2012 US\$'000
Project Loans		
Senior Loans	94,617	106,891
Subordinated Loans	<u>247,330</u>	<u>217,521</u>
Total	341,947	324,412
Project Loan amendment fees	<u>(6,166)</u>	=
Total Project Loans	335,781	324,412
Corporate Loan	<u>19,398</u>	=
Total Bank Loans	<u>355,179</u>	<u>324,412</u>
The borrowings are repayable as follows:		
Within one year	197,802	147,032
In the second year	58,435	39,993
In the third to fifth years inclusive	84,569	86,725
After five years	<u>14,373</u>	<u>50,662</u>
	355,179	324,412
Less: amount due for settlement within 12 months	<u>(197,802)</u>	<u>(147,032)</u>
Amount due for settlement after 12 months	<u>157,377</u>	<u>177,380</u>
<u>Project Loans</u>		
Balance at 1 January	324,412	327,108
Loan interest accrued	27,980	26,429
Loan interest paid	(5,564)	(7,014)
Loan repayment	(12,395)	(25,875)
Loan amendment fees	(6,629)	-
Loan amendment fees amortised	463	-
Foreign exchange movement	<u>7,514</u>	<u>3,764</u>
Balance at 31 December	<u>335,781</u>	<u>324,412</u>
<u>Corporate Loan</u>		
Balance at 1 January	-	-
Loan drawdown	40,000	-
Loan interest accrued	2,041	-
Loan interest paid	(1,985)	-
Loan repayment	(20,000)	-
Loan arrangement fee	<u>(658)</u>	=
Balance at 31 December	<u>19,398</u>	=

### Project Loans

Project loans have been made to the Mozambique branches of Kenmare Moma Mining (Mauritius) Limited and Kenmare Moma Processing (Mauritius) Limited (the "Project Companies"). The Project loans are secured by substantially all rights and assets of the Project Companies, and, amongst other things, the shares in and intercompany loans to the Project Companies.

### Amendments to Project Loans

#### Project Loan Amendment 14 February 2014

On 14 February 2014, the Company, Congolone Heavy Minerals Limited and the Project Companies entered into an Amendment Agreement with Project Lenders (the "February 2014 Amendment"). The key terms of the February 2014 Amendment are detailed below.

## **Completion**

Under the prior terms of the Project Loans, the Company and Congolone Heavy Minerals Limited guaranteed the Project Loans during the period prior to Completion (achievement of both “Technical Completion” and “Non-Technical Completion”). Upon Completion, the Company’s and Congolone Heavy Mineral Limited’s guarantee of the Project Loans would terminate. Failure to achieve Completion by the Final Completion Date (subject to extension for force majeure) would constitute an event of default under the Project loan agreements. Prior to 14 February 2014, the Final Completion Date was 28 February 2015.

On 5 September 2011, Technical Completion was achieved. Non-Technical Completion occurs upon the meeting certain financial, legal and permitting requirements, including filling of specified reserve accounts to the required levels as well as certification in respect of the Project Companies having sufficient funds available to repay deferred Subordinated Loan amounts on the next scheduled payment date.

As a result of the February 2014 Amendment:

- The event of default relating to failure to achieve Completion by the Final Completion Date is removed. As a result, it will no longer be necessary to be able to repay all deferred Subordinated Loan obligations by the 1 August 2015 payment date:
- It is no longer a condition to Completion that the Project Companies are in a position to repay all deferred Subordinated Loan obligations on the next payment date:
- The achievement of Completion remains a condition to the Project Companies making restricted payments to the Group (and therefore a condition to distributions to shareholders by the Company); and
- The guarantee of the Project Loans by the Company and Congolone Heavy Minerals Limited will remain in place following Completion.

## **Subordinated Debt**

Under the prior terms of the Project Loans, if cash is insufficient to pay scheduled interest and principal on the Subordinated Loans, no payment default occurs; instead, scheduled interest is capitalised and both capitalised interest and scheduled principal are deferred and become payable on the next semi-annual payment date, subject again to the availability of cash at such time. Included in loan amounts due within one year is US\$143.3 million (2012: US\$118.6 million) in relation to subordinated loans. As a result of the February 2014 Amendment:

- Subordinated Loans that, as of 31 July 2015, are deferred and unpaid will be termed-out as follows:
  - 50% of the amount of such Subordinated Loans will be repaid in one installment on 1 August 2019 (the “Deferred Bullet”).
  - The balance is to be paid in nine equal semi-annual instalments ending on 1 August 2019.
- Commencing 1 August 2015, the Project Companies will no longer be able to defer Subordinated Loan obligations (other than in respect of additional margin elements described below) in the manner described above, so that non-payment of scheduled interest and principal would result in a payment default;
- No restricted payments (i.e. distributions to group companies) may be made by the Project Companies until Subordinated Lenders receive US\$50 million in payments;
- The additional 1% margin on Subordinated Debt agreed under the Deed of Waiver and Amendment entered into in 2009 will continue to accrue after Completion; any such additional margin accrued shall not be payable prior to repayment of all Senior Debt; and
- An additional 2% margin will accrue on the Deferred Bullet until such Deferred Bullet is repaid or prepaid; any such additional margin accrued shall not be payable prior to repayment of all Senior Debt.

## **Prepayment of Subordinated Debt**

The terms of the Project Loans contain detailed provisions for the mandatory and voluntary prepayment of Senior Debt and Subordinated Debt. As a result of the February 2014 Amendment:

- Mandatory prepayments of Subordinated Debt will be equal to 50% of cash available for distribution, as opposed to 25% of cash so available prior to the February 2014 Amendment;
- Mandatory prepayment of Subordinated Debt will commence earlier than previously provided for (previously such prepayments were to commence upon final repayment of Senior Debt; as a result of the February 2014 Amendment, such prepayments are to commence on the first payment date after Completion on which no further mandatory prepayments of Senior Debt are to be made); and
- The Project Companies will have an additional right of prepayment to enable the satisfaction of the additional condition to restricted payments (namely that Subordinated Lenders receive up to US\$50 million of payment prior to the making of such a payment).

### **Expansion Costs**

As a result of certain amendments in December 2011, December 2012 and the July 2013 Amendment described below, the terms of the Project Loans had permitted the expansion to be partly funded from the internal operating cash flows of the Project Companies. As a result of the February 2014 Amendment, any remaining expansion-related costs generally cease to be able to be funded from Project Companies operating cash flows; instead, such costs are generally to be funded by the Company from group cash reserves.

### **Fees and Expenses**

In connection with the February 2014 Amendment:

- The Project Companies paid each Subordinated Lender a risk fee equal to 1% of the principal amount of Subordinated Debt outstanding as at 31 December 2013; and
- Lenders were paid work fees totalling US\$180,000, as well as legal fees and out-of-pocket travel costs incurred by the Lenders in negotiating the amendment.

### **Project Loan Amendment 31 July 2013**

On 31 July 2013, the Company and the Project Companies entered into an Amendment Agreement with Project Lenders (the "July 2013 Amendment"). Among other things, the July 2013 Amendment provided as follows:

- A deferral by Senior Lenders of senior principal (US\$13 million) due on 1 August 2013 until 1 August 2014; and an agreement that no Subordinated Loans would be paid prior to such date;
- An extension of the Final Completion Date to 28 February 2015. As a result, the effective date on which deferred Subordinated Loan obligations needed to be repaid was extended from the 1 August 2014 payment date to the 1 August 2015 payment date. The extension described in this bullet was superseded by the February 2014 Amendment;
- An extension of the ability to apply Project operating cashflows to fund remaining expansion costs with the effect that up to US\$58 million of available cash flows accruing after 30 June 2013 were able to be reserved in specified bank accounts until the earlier of the date on which the outstanding completion certificates are delivered and 31 December 2014; and such reserved cash together with the US\$5.4 million balance in such accounts as at 30 June 2013 were able to be applied to expansion capital costs until the later of 31 December 2014 and the date on which the outstanding completion certificates are delivered; this was subject to certain limits on the amounts that may be so applied on or after 1 July 2013, including, other than in respect of certain specified costs, the amount that may be applied in respect of expansion costs shall not exceed US\$40.4 million (including US\$5.4 million already reserved as at 30 June 2013). The amendments described in this bullet were superseded by the February 2014 Amendment; and
- In consideration of such amendments, payment to Lenders of a risk/deferral fee in quarterly instalments, in the case of Senior Lenders, to a total of 1.25%, and in the case of Subordinated Lenders, to a total of 2.25%, in each case of the principal amount outstanding as at 31 July 2013; as well as work fees totalling US\$180,000, legal fees and out-of-pocket costs incurred by the Project Lenders in negotiating the amendment, and fees payable in connection with certain political risk and other guarantees and insurance policies applicable to the Senior Loans.

The Project Loan amendment fees adjust the carrying amount of the Project Loans and are to be amortised over the remaining term of the modified Project Loans.

### **Corporate Loans**

On 28 February 2013, the Company and Absa entered into an agreement establishing a corporate loan facility of US\$40 million maturing on 20 March 2014. This facility was fully drawn in June 2013. In November 2013 US\$20 million of the loan was repaid from the proceeds of the October 2013 equity raising as detailed in Note 8. On 16 December 2013 the Company and Absa entered into an amendment to the corporate facility whereby the facility was amended to US\$20 million and maturity was extended to 31 March 2015. The amended corporate loan facility permits for amounts drawn under it to be repaid and redrawn prior to the maturity date. The corporate loan facility bears interest at 1 month LIBOR plus a margin of 9%; this margin increases to 12% in certain circumstances. Absa, a member of Barclays plc, is an existing lender to the Project Companies.

### **Note 10. 2013 Annual Report and Accounts**

The Annual Report and Accounts will be posted to shareholders before 30 April 2014.