Tantalum Supply and Pricing Situation

On November 27th, 2008, the Perth-based Tantalum and Lithium mining company Talison announced its suspension of the Ta-Ore mining in its Wodgina, Australia mine. The announcement, coming after Talison’s previously announced suspension of mining of Ta-Ore from the Greenbushes, Australia mine in 2007, was not unexpected news to the industry. The supply chain had time to prepare for this action by exploring other sources and regions for supply. In addition to this, Talison’s recent “take or pay” fixed volume contracts with its customers (the powder manufacturers, KEMET’s suppliers) created an abundant supply of ore throughout the supply chain.

KEMET’s direct suppliers, the powder and wire manufacturers, claim to have both inventory and alternate sources for primary ore, as well as secondary Ta-Oxide feedstock materials for Tantalum production. Tin slag is a byproduct of tin extraction and is a large secondary source of Ta-Oxide. Consequently, all KEMET suppliers have committed to our volume requirements for 2009. In addition, they have indicated they have secured their supplies beyond that timeframe.

To conclude, KEMET’s current view on the supply situation is as follows:

The inventory of Ta-Oxide in the supply chain, as well as other ore sources with the capacity for increased output, such as the Kenticha mine in Ethiopia, the Marropino mine in Mozambique, and the Yichun mine in the Jiangxi province of China, our Ta-powder and wire supply for 2009 is secured. We have supply agreements with our major suppliers, at a minimum, through December 2009 for both Tantalum powder and wire. What this means to our customers is that they can be assured that the quantities of Tantalum capacitors to which KEMET has committed, and more, can be fulfilled without any disruption, independent of the Talison move to suspend the Ta-Ore mining in Australia.

The Tantalum Industry has broadly experienced price increases for Ta-Ore in 2008 resulting in significant price increases for Tantalum powder and wire. So far neither the ore prices, nor the Tantalum powder and wire prices, have dropped.

Ore prices increased by 70-80% in 2008 resulting in significant increases in Tantalum powder and wire, and although we have already faced these price increases in 2008 and now for 2009, we predict that pricing for Tantalum raw material may be even more volatile throughout 2009, particular in the spot market, as the alternative sources mentioned above become more established in the supply chain. As a result, relief for Tantalum prices is not anticipated in the near term as the industry works to bring on these new sources of ore. We believe the volatility in prices would be present wherever the Talison mines were on-line or not.

To secure mid- and long-term supply beyond 2010, the industry launched additional Ta-Ore exploration activities in the past, and several projects emerged out of these actions. Such promising new sources of Ta-Ore include the Upper Fir exploration in Canada, the Abu Dabbab exploration in Egypt and the Guyarrah Deposit in Saudi Arabia, to name just a few. According to Paumanok Publications, the latter one is believed to contain more Ta-Ore than the two major mines Greenbushes and Wodgina in Australia together.

With foresight and knowledge of the tantalum ore and powder situation, in 2007 KEMET had already begun a major engagement with a new powder supplier in the US. This supplier has an integrated supply chain model all the way back to its ownership in non-Australian mines. Our plan is to increase the importance of this supplier in our supply chain model, by including it in our portfolio for late 2009 and to have this supplier fully on board for 2010 and beyond.

We have taken this measure not only to secure our material supply for the future and to continue providing Tantalum Capacitors to our valued customers at the first class service level our customers have come to expect, but also to secure Tantalum Capacitor supply at market competitive levels. In particular, we anticipate that our new supplier’s integrated supply chain model will stabilize both supply and pricing for KEMET moving forward. The willingness of certain customers to work with us in qualifying products using these powders is important to the success of KEMET’s plan.