

Lynas AGM 2015

CEO's Address

I am very pleased to welcome all shareholders and visitors to today's Annual General Meeting of Lynas Corporation.

As a company which provides detailed quarterly updates to the market, in addition to the normal half yearly and annual accounts, it is difficult to come up with new and interesting information for you today.

However, I see today as an important opportunity to delve a little more deeply into our business performance and most importantly for you to see, understand and get to know better the people who are running the business.

Today I will:

- Recap our performance in FY15
- Provide some more depth regarding our Mt Weld operations
- Provide a view on the market and our priorities for FY16

Let me start with a review of the FY15 year including the results to 30th September 2015. FY15 was not an easy year. Nothing came easily. And that is not surprising – we were a turnaround start up. Either of those tasks on its own is difficult – the simultaneous challenge is extremely difficult.

Our priority in FY15 was to recast the business to sustainable and profitable settings. It meant getting production on track, costs under control and implementing a sustainable debt structure to support further business growth.

In short, we needed to focus on the fundamentals of our business.

We have kept you briefed on progress. This morning I am going to share a few charts with you that illustrate that progress.

I am pleased to advise:

- We now have Safe, Stable, predictable production at target rates

- We have increased sales with a portfolio of quality customers
- We have reset our cost base
 - o Fewer people, with clear accountabilities
 - o Improved business processes delivering lower input costs and operational efficiency
 - o Poor performers gone
- Excellent relationships with both lenders, who have agreed to restructured and highly supportive debt arrangements
- Cash flow positive for 2 quarters in a row

In FY15, we achieved our key objectives related to our internal operations; production, cost and debt. And that has created a sound base for further improvements in our business.

Did we have a secret weapon?

No, we had a whole team of hard working people aligned to achieve a single outcome.

The improvements in our business are a result of the efforts of the whole team – not just the executive leadership but also the extended management team.

Some of my direct team are here today and I would encourage you to talk to them after the meeting concludes. You don't very often get to see the people who are running your business so I thought I would take this opportunity to introduce them to you so you know them just a little.

Starting with the executive team - Our executive team comprises the following:

Gaudenz Sturzenegger, CFO

Kam Leung, VP Production

Pol Le Roux, VP Sales and Marketing

Gillian Kidson, VP Business Processes and Quality

Mimi Azfan, VP People and Culture

Mike Vaisey, VP Research and Technology

Andrew Arnold, General Counsel and Company Secretary

Dato Mashal Ahmad, Head of government and regulatory affairs in Malaysia

I share their names with you so you can know the team who is working to deliver better outcomes for your company. Every member of the executive team has substantially reorganised their lives so that they can deliver these improved outcomes from our Kuantan base.

Neither they nor I am looking for sympathy for the changes they have made in their lives. Each of us has made the choice to do these jobs and we each accept the demands that places on our lives.

But I believe that actions speak much louder than words. I could stand here, as many CEOs do, and assure you of the commitment of the executive team. But their actions validate this commitment in a way that my words could never match.

And, as I said before it is not just the executive team that has demonstrated this commitment but also the wider team. My presentation shows just a few of them – our Area managers, and our production superintendents and supervisors.

I am now going to spend a few minutes talking about our Mt Weld operations. There has been much focus over the past few years on developments at the LAMP in Malaysia which has sometimes meant there is less focus on the originating source of value ie Mt Weld.

At Mt Weld we mine on a campaign basis and do first stage processing in our concentrator.

Our key challenges at Mt Weld are all about our resource, water and distance.

Last month we released an updated Resource and Reserve statement and I think it is important that all shareholders understand the effect of that statement.

As some are keen to remind us, Rare Earths are not rare in the earth's crust. In fact, Cerium is one of the most abundant materials on the earth. But it is rare to find them in sufficient concentration to be economic to mine. Lynas' deposit in Mt Weld, Western Australia, is widely acknowledged as the highest grade developed Rare Earths mine in the world and the Rare Earths mix in our deposit is best suited to today's market. Our deposit has 24% PrNd which are the most valuable products in today's market.

In October, the Mt Weld Mineral Reserves and Ore Reserve update confirmed the physical robustness and quality of the Mt Weld deposit. Despite a reduction in assumed selling price of 50%, the review confirmed the Ore Reserves represent more than 25 years of continuous operation at a rate of 22,000 tonnes per annum REO.

Our job is to manage this valuable resource to provide best returns. This means optimising use of all material. This year, we have implemented new processing to ensure we use not just the easy to process CZ ore but also the more challenging Li ores. This also means managing our processing operations to minimise losses – and we do this at both Mt Weld and Kuantan.

Managing the timing and structure of our mining campaigns is crucial to optimising resource use and to minimising cost. This year, we will be working extensively on this ahead of our next mining campaign likely in FY17.

Our process at Mt Weld is highly water intensive and we don't get much water from the sky. So managing the use of our water is not only crucial to cost management but also crucial to continuing operations. This year the team has delivered really significant improvements in water usage, including improved water recycling and tailings management. Our big capital investment this year is building the new tailings storage facility.

And of course, distance is a continuing challenge. Our workforce at Mt Weld is all fly in fly out. We have implemented new schedules that enhance our workforce efficiency and we have switched from road to rail transport significantly reducing our logistics costs. Further reductions in unit costs of energy, chemicals and other inputs have been achieved and we have an ongoing programme to continue to incrementally reduce costs.

Our commitment to safety and the environment starts at Mt Weld and continues in Kuantan. In June, Lynas' commitment to delivering Rare Earths with assured environmental practices from mine to market was further substantiated by the IAEA Report confirmation that Lynas' Malaysian LAMP plant is low risk. We also announced in October that the Malaysian Court challenge by the Save Malaysia Stop Lynas Group had been dismissed by the High Court of Malaysia, in relation to the original Temporary



Operating Licence under which Lynas operated the LAMP. This was the last of the original legal challenges.

Lynas has now been operating in Malaysia for 3 years. Our activities are measured by accredited 3rd parties. They measure radioactivity at the plant, and at various distances from the plant. In all cases, there is no increase in background radiation. It has proven difficult for opponents to maintain a “scare” campaign in the face of this hard data. Finally, a few words about our current and future priorities.

FY15 was the year of getting our fundamentals right and we are proud of our achievements. We can now confidently present ourselves to the market as a sustainable and reliable supplier of quality products.

The coming year is all about our market facing activities.

The Rare Earths market has some very particular challenges. As many of you would know from our various reports, the selling prices of Rare Earths are at historic lows as a consequence of a variety of influences including Chinese government policy and relatively subdued customer demand.

The Rare Earths market should be a highly attractive market. Rare Earth metals are functional materials which deliver value added functionality in high growth end use markets. They are important in markets that capture consumers’ imaginations and which are in line with growing consumer trends.

This should lead to extended growth in demand and value.

At Lynas, we face the dual challenges of building our business with key target customers but also taking a leading position in contributing to industry growth for Rare Earths materials as current growth rates are lower than expected.

Our objective is to separate our selling price from the volatility of published prices and to create product and pricing options that differentiate us from our competitors. This is not a simple task but one we believe we can successfully execute – over time.



A first step in this is one which clearly differentiates us from illegal producers. We are in the process of introducing a simple system to trace material origin through the value chain. We believe the recent VW scandal is a timely reminder to all suppliers of the consequences of ignoring consumer expectations and a timely reminder to improve purchasing practices.

A second challenge is accelerating market growth.

Rare Earths permanent magnets are the best choice for small/medium motors and are the best solution for e-cars. This photo shows an ABS motor. The one on the left is based on ferrite magnets. It is twice the weight and twice the size. Rare Earths permanent magnets also deliver more efficient solutions for wind turbines.

But use is still sub-optimal even in these key markets.

Why?

Put simply - lack of end formulator confidence. Product designers and formulators remain concerned about:

- Security of supply
- Predictability of pricing

At Lynas, we understand the most important precondition for the use of a material is confidence in continued supply. For products with a long lead time to launch and a relatively long life cycle – think automotive, this means years not months.

Within our business we have one very good example of a long term contract which has served both our business and our customer's business well. We have a long term contract with a key customer for the supply of Cerium. Our contract has a mutually beneficial pricing mechanism which has been exercised in both directions.

But the greatest value to both our firms has been the guaranteed off take/supply. For Lynas this has allowed us to grow production knowing that we have a key customer for our highest volume, lowest value product. And it has worked for our customer who can confidently engage in long term contracts with their customers. There is no uncertainty of supply in this value chain.

Agreements of this type used to be more common in the industry before 2010. It appears they became unfashionable when market participants thought it better to “bet” on the market price than focus on value.

Similarly, we have engaged productively with several end users regarding options to limit price volatility. We have one contract with a direct customer who was seeking to introduce a new technology. Their customer required a fixed price for a 2 year period. This has allowed our customer to grow their business – and ultimately that is good for us too. We are continuing to work with a number of customers who are seeking price predictability up to 2017 – via a variety of pricing mechanisms.

We believe working in partnership with these customers and together focusing on value creation will deliver greater growth for their businesses and for ours, than continuing to play at the Rare Earths price casino.

We have a number of other strategies that we are executing to improve the resilience of our revenue line and to grow our business. As we execute successfully, we will keep you updated.

We are facing a new set of challenges in FY16. Our focus last year was improving our internal operations. Our focus in FY16 is to continue to improve our operations whilst tackling the challenges of the market in which we compete.

Our whole team brings energy, experience and commitment to these tasks. There is no doubt we will continue to encounter challenges. We are meeting them with strong leadership, expertise and discipline.

Thank you again for attending today. We would now like to invite any questions.