

## **Lynas AGM 2017**

### **CEO's Address**

Good Morning All. I would like to add my welcome to Mike's to all who are able to join us here today and those who are viewing the recording of today's proceedings.

Mike has talked about our achievements over the past 3 years. We stand today as the 2<sup>nd</sup> largest producer of NdPr in the world and the largest supplier to the free market. We have significantly improved all aspects of our operations and recently announced that we expect to achieve a sustainable production rate of 500 tonnes / month of NdPr from April 2018 – some 114% of design with no significant capital investment.

The last 6 months in particular, have shown us what life looks like with a reasonable market price. We have taken this opportunity to satisfy a number of historic liabilities, including unpaid interest from 2014, 2015 and certain interest liabilities from 2016. In addition, as indicated in the September quarter Quarterly Report, we will be making 2 deposits with the AELB (totalling US\$23.37m) in this quarter. After this quarter, a total of US\$34.4 million will have been deposited, with further deposits totalling US\$15.6 million due over the next two years.

After several years of difficult conditions our business is now in good shape.

But enough about the past, I would now like to introduce you to Lynas NEXT.

### **Slide 9**

As the name suggests, Lynas NEXT is the next step in our journey to being a market leading stable, specialty materials business. As we embark on Lynas NEXT we will retain all the advances that we have made over the past 3 years; we will retain our strong operating disciplines, we will retain our strong cost disciplines and we will retain our focus on our customers who have come to regard us as a reliable supplier of high quality materials.

With Lynas NEXT, we will increase our production as demand for our materials, particularly NdPr grows. On completion of this programme, we will produce 600 tonnes/month of NdPr, almost 40% above original nameplate. CAPEX associated with this programme of work is low at \$35m, of which \$22.5m is additional to already planned expenditure. In addition to increasing throughput, we will improve our product mix, including adding separated Nd and Pr, additional separated La and Ce and more grades of La and Ce products. A key element of the project is to invest in activities which will improve plant reliability and recoveries at our Kuantan facility and activities to improve our understanding of our Mt Weld resource and improved water use at Mt Weld.

Lynas NEXT includes activities to improve the quality of our business, with a particular focus on reducing revenue volatility by de-emphasising our reliance on market benchmark pricing, which as we all know can be highly unpredictable. We will achieve this by agreeing long term supply agreements with key customers and by increasing the proportion of products produced to meet differentiated customer specifications.

### **Slide 10:**

The Rare Earths market is growing. The key growth driver is demand for magnetic materials. The key segments driving this demand growth are electrification of vehicles, growth in direct drive wind turbine manufacture, and the continued growth of consumer electronics and automation.

With Lynas NEXT, Lynas grows with the market and plays a major role in supporting development and adoption of new technologies. In this next phase, we will invest in industry engagement, particularly with the automotive market and Applications R&D.

### **Slide 11:**

It is often said that Rare Earths are not particularly rare – and this is true for many of the materials we produce, most especially Cerium. But what is rare is to find them in concentrations which are economic to develop. And it is particularly rare to find them in high grade deposits like ours at Mt Weld.

One of the potential limiting factors to growth of the market is customer concerns regarding resource security. As we plan to increase our throughput, it once again brings our resource into perspective. Our 2015 Resource and Reserve Update stated that “The Ore Reserves represent more than 25 years of economic, continuous operations based on the estimated production of 22,000 tonnes per annum REO of finished products.”

An increase in production to 7200 tonnes/annum NdPr, implies over 26,000 tonnes/annum of total REO. As we plan to implement this change, it is important to understand the capability of our Resource to support the increased production. Therefore, the first step in the Lynas NEXT programme has been to invest in additional drilling to upgrade our understanding of the Mt Weld ore body. We have today announced the first results of the first part of a planned 6 part drilling programme.

The preliminary results were released to the ASX today, and they confirm our expectations of a depth extension of the Rare Earths mineralization.

Slide 11 shows the results in summary:

- To date, the Mt Weld concentrator has been processing a blend of Li/CZ ore (**shown in gold** in Figure 1) from the Central Lanthanide Deposit (CLD).
- The Apatite (AP) ore (**shown in red** in Figure 1) is directly below the CZ ore. It will be treated later and will require modifications to the existing flotation circuit.
- The base of the AP ore zone has been limited by the penetration of the historic “AC” (air core) drilling. Most of the holes finished in ore.
- An AP Depth Extension Exploration program is currently underway using “RC” (reverse circulation) drilling to define the extension of the AP ore zone beneath the current Life of Mine (LOM) pit design.
- The preliminary results of this program and the results from the Grade Control drilling for the recent mining campaigns confirm depth extension of AP ore zone.
- The New Base of AP ore is deeper than before (**dotted red line** in Figure 1).
- A significant depth extension to the base of the AP ore zone will potentially add a significant amount of Mineral Resources and Ore

Reserves to the 2018 resource and reserve update planned for release next year following the finalization of drilling and analysis.

- The drill holes also intersected Transition (TR) and Fresh Rare (FR) Earth mineralization under the AP zone. Mineralogy and metallurgical testwork will be conducted on this newly discovered mineralization.

These preliminary results are very encouraging and provide us with confidence to pursue the increased throughput planned with Lynas NEXT.

## Slide 12

I know that many who listen to this report and who read the release will focus on the 600 tonne/month target for NdPr production. However, throughput is only one part of the formula for consistent cost effective production and reliable production outcomes.

Our production challenge is a continuous cycle of “Throughput, Quality, Recovery” – a bit like Groundhog Day! Over the past 3 years we did this first at an equivalent 220 tonnes/month NdPr, then 330 tonnes/month, then 440 tonnes/month and then most recently we have been producing 500 tonnes/month, with the exception of our current month with its planned regulatory shutdown of 2 of our kilns. Our talented production team has achieved this throughput increase, whilst also improving quality of initially our NdPr and then our La and Ce products.

Throughout this, they have progressively addressed sub-optimal elements of the original plant design. However, certain elements have continued to challenge their ability to deliver consistent production outcomes. We have seen this particularly in the Cracking and Leaching facility. The ability to run the kilns at 200% of nameplate has shielded us from the effects of certain of the reliability issues. However, these underlying issues must be addressed to support consistent delivery of 600 tonnes/month of NdPr.

We are currently preparing the regulatory approval applications needed to support the increased throughput and the other adjustments to plant configurations. Increased production volumes will underpin higher revenue. Improved cost outcomes will be achieved with better recoveries. Initiatives to improve recoveries across each of our production stages have been engineered into Lynas NEXT.

### **Slide 13**

The 3<sup>rd</sup> key part of the Lynas NEXT production plan are changes to configuration of our assets to improve the portfolio of finished products. This work is primarily in our Solvent Extraction (SX) and Product Finishing (PF) operations. When the work is completed, Lynas will be able to offer separated Nd and Pr, additional separated La and Ce and specific quality La and Ce grades required by our customers.

### **Slide 14**

The Lynas NEXT project has been fully scoped including detailed planning and costing. Work has commenced on the project at both sites. The total cost of the project is low at \$35m. As shown in this figure, we think of this as a final optimisation stage ensuring we reap the full value of the initial investments at Mt Weld and Kuantan.

Of the budgeted \$35m, \$12.5m is expenditure brought forward from our established sustaining and improvement capital plan, including large expenditure items like our 3<sup>rd</sup> Tailings Dam at Mt Weld.

We will see the first expenditure in this quarter, with an expected increase of up to \$5m (depending on delivery of certain aspects of the project) in cash expenditure in this quarter. The bulk of the expenditure will be incurred in the 6 months from January to June 2018.

### **Slide 15**

Moving now to the market and how we plan to win the business of our target customers.

The forecast growth in demand for electrified vehicles is well publicised. This trend has the potential to be highly positive for the Lynas business. Rare Earth Permanent Magnets can be used in the powertrains of electric vehicles – and the forecast growth in this application is a key driver of the overall forecast growth in the Rare Earths market.

However, as with any technology, there are other choices. Slide 15 shows the key technologies that we are seeing in the market at present and their key characteristics.

Slide 15 tells us that we have to do a lot more than just “turn up” if we want to be successful in this market. With our most objective lenses on, we think the benefits of the PMM solution make it the superior choice – and today the choices of key auto companies appears to support that. However, there are significant firms who are using alternate technologies. As part of Lynas NEXT, we are increasing our market facing resources to truly understand these technologies and the ways that we can add value for our customers in this market.

## **Slide 16**

A key part of ensuring adoption of PMM technology by auto makers who are currently making their decisions on their vehicle platforms for the coming 10 years is addressing some of the residual perceptions of the Rare Earths market formed during the 2010/11 Rare Earths “crisis”. At this time Rare Earth materials came to the attention of senior management – and the concerns generated at that time linger in the memories of some customers today.

This provides Lynas with an excellent opportunity to differentiate our offer and our operations from other suppliers.

Lynas will address each of these issues positively, via our communication programmes, and via direct contact with our customers. In the past month, we have used the new corporate video that you have seen here today in meetings with customers and industry bodies – and it has been very effective. You will also see from the displays around the room that we have produced print material that sells the positive messages related to our Lynas operations and we will place this material in press, industry publications and on-line media.

By investing in this market communication, we will be able to ensure that technology choices are made on the basis of the best technology not on outdated assessments of supply options.

## Slide 17

The success of any market is always dependent on demand. And demand for technology inputs is heavily dependent on new applications. During the last 5 years, investment in R&D across the industry has been limited.

Notwithstanding the continued dominance of China in the Rare Earths market, Lynas today stands as a leader in the market. And so, we will focus on driving total market growth, not only by addressing the historic misconceptions that I just referenced but also by starting to invest, carefully in Application development and technology support. In partnership with certain Universities and industry research groups, we will invest carefully in additional research over the coming years to ensure demand for each of the materials we produce.

## Slide 18

The last overhang from the Rare Earths crisis, is the establishment of a published reference price for Rare Earth materials. Given the dynamics of the market inside China, this has delivered a volatility in pricing that is not consistent with the demand profile for the materials.

Our aim is to build a company that has control of its production and costs, but also of its revenue. In this way, we can deliver assured returns to our shareholders over time. To do this, we need to de-emphasise the influence of the published price in our pricing agreements with customers. The right time to do this is now – when demand is accelerating and pricing is relatively higher

We are doing this by engaging at various stages through the Rare Earths value chain and by focusing on our key benefits:

- Ability to commit to **long term contracts** which guarantee **supply** – our resource is a long life resource and we are able to continue to grow our processing capability
- Preparedness to offer predictability of **price**. We have no desire to see the extreme high prices that prevailed earlier this decade with their subsequent destructive market impacts. We are offering and will continue to offer long term pricing based on value to our customers.

- Assurance of environmental care and continuous improvement in the manufacture of our materials – and this is essential for companies who are selling brands and products with implicit and explicit environmental benefits at their heart.

Customer response to Lynas' preparedness to offer long term contracts has been very positive. We are well advanced in negotiations with a number of key users of Rare Earth materials.

We have reached agreement, in principle, with Bosch, a leading supplier to the automotive industry. Under this agreement Lynas will provide long term secure supply of NdPr to meet Bosch' needs thus supporting their ability to engage with end users on new technology solutions. Subject to finalizing documentation we will provide further detail on this agreement in the near future.

Lynas expects to make further announcements relating to commercial agreements in the coming months, including agreements that have been struck with users at various stages of the supply chain as we explore different "go to market" strategies to satisfy our customers' needs and to positively influence the dynamics of the total market.

We are not yet distanced from the referenced published price– but we have started the process of separation.

The other key part of the Lynas NEXT project is to deliver a product portfolio that allows us to continue to increase the value of the material we sell. The new product mix, which includes separated Nd and Pr for the first time, more separated La and Ce and new grades of La and Ce will allow us to enter new segments that we do not serve today. As we enter these segments seeking higher purity materials and more specific grades, we will improve our average received price, create barriers to entry and build the basis for long term loyal relationships with our customers.

## Slide 19

With the Lynas NEXT Sales & Marketing programme, we seek to establish ourselves as the supplier of choice to key target customers in the automotive market. We have strong relationships with our Japanese customers and high market share in the Japanese market. We will continue to work hard to earn the business of our Japanese customers. We are now adding to that by focusing on growing our share of the large “rest of world market”.

## **Slide 20**

I have mentioned sustainability several times through this presentation. Sustainable business practices underpin our ability to make the long term promises and commitments that we are making to the market.

In each instance where we have engaged directly with end users, their questions have been equally related to our business practices – and not just sustainability as it relates to the environment. We are able to confidently provide fact-based assurances on our employment practices, our safety performance and our engagement with our local communities.

Lynas leads the market in each of these areas. We approach each of our customers confident that we meet and exceed best practice in each area. Slide 20 provides a few examples.

## **Slide 21**

At Lynas, we are all very excited about our Lynas NEXT programme. The whole team is engaged in this programme which underpins our ability to grow profitably with the market and to strengthen and derisk our business.

The programme will deliver a further 100 tonnes/month of NdPr by January 2019. This will be key to improving our market position and to growing our revenue line.

But it is only one part of building our more resilient business. When the production work is complete, we will have a more reliable plant in Malaysia, with improved recoveries, delivering a higher value product mix. As the market facing strategies take effect, we will deliver a business with high

share with key target customers, in a growing and healthy Rare Earths market.

The experience and success we have achieved as a team over the past years demonstrate our ability to expertly mine and process our unique Rare Earth ore. We have an excellent resource, a reliable and well-performing processing facility, an engaged customer portfolio and an experienced and dedicated management team.

Lynas has earned its leading position in the industry, and is now able to reap the benefits of the strong demand and improved market conditions.

### **Competent Person's Declaration and Compliance Statements**

Exploration information in this Announcement is based on, and fairly represents, information compiled by Mr. Brendan Shand who is a consultant geologist to Lynas Corporation. Mr. Shand is a Member of The Australian Institute of Geoscientists and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity that he is undertaking, to qualify as a Competent Person as defined in the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr. Shand consents to the inclusion in this document of the information in the form and context in which it appears.

### **Qualifying Statement**

This release may include forward-looking statements. These forward-looking statements are based on a number of assumptions made by the Company and its consultants in light of experience, current conditions and expectations concerning future events which the Company believes are appropriate in the present circumstances. Forward-looking statements are necessarily subject to risks, uncertainties and other factors, many of which are outside the control of Lynas Corporation, which could cause actual results to differ materially from such statements.