
QUARTERLY REPORT
FOR THE PERIOD ENDING 30 SEPTEMBER 2013

HIGHLIGHTS

- Lynas' global operations (employees and contractors) were Lost Time Injury free during the quarter. The 12-month rolling Lost Time Injury Frequency Rate as at the end of September 2013 was 0.8.
- September quarter production and sales increased versus the prior quarter, but remained at a low level due to previously announced ongoing work programs in the cracking and leaching units of the Lynas Advanced Materials Plant (LAMP). Total tonnes produced for the quarter were 253 tonnes, on an REO equivalent basis, and total tonnes shipped were 218 tonnes, on an REO equivalent basis.
- The average selling price increased to around US\$22.70/kg REO (revenue basis), from around US\$8.00/kg REO (revenue basis) in the prior quarter, largely due to a more favourable product mix that included neodymium/praseodymium product sales. The "basket price" averaged US\$21.80/kg on a China domestic basis during the quarter.
- As previously announced at the end of September, work programs to debottleneck the cracking units of the LAMP have been completed. The programs are ongoing in the leaching units with a targeted completion date by the end of 2013.
- As announced on 16 September, Lynas executed a deed of amendment on the US\$225m Sojitz / JOGMEC loan facility such that the terms and conditions of the facility are restructured to better suit the expected production and sales ramp up profile at the LAMP. The Company had \$93m of unrestricted available cash on hand as at 30 September 2013.

OPERATIONS

WESTERN AUSTRALIA OPERATIONS

Commissioning and ramp up of the Phase 2 Concentration Plant continued during the quarter.

Operations continued at over 80% of design capacity. The Plant will continue to operate on a campaign basis until demand from the LAMP ramps up and concentrate stocks run down.

At the end of the quarter, 18,425 dry tonnes of concentrate containing 6,724 tonnes of REO were bagged ready for export.

MALAYSIA OPERATIONS

PRODUCTION AND SHIPMENTS

Total tonnes produced for the September 2013 quarter were 253 tonnes on an REO equivalent basis, an increase of 76% from the prior quarter. Total tonnes shipped in the September quarter were 218 tonnes on an REO equivalent basis, an increase of 86% from the prior quarter.

As previously reported, a series of work programs involving equipment changes and materials handling to improve the capability of the cracking and leaching units of Phase 1 of the LAMP to operate continuously at nameplate production capacity were planned in the second half of 2013.

The work programs in the cracking area are now complete and are working. The remaining work programs in leaching are continuing as scheduled. Lynas is achieving improved operational performance in the cracking and leaching units of the LAMP. Completion of the entire work program is required to properly assess the full extent and sustainability of improved operational performance.

Production is expected to build up through the December quarter with a target of completing these changes by the end of 2013.

CUSTOMER PRODUCT QUALIFICATION

Lynas has made significant progress on product qualification with most customers.

By the end of September, the Company had achieved more than 25 product qualifications across the customer portfolio.

PRODUCTION COSTS

Lynas continues to consider and implement measures to reduce its production costs and the Company reiterates cash cost guidance of \$14-15/kg REO at a 22,000tpa REO production rate. Unit cash costs are estimated to be 70% variable costs and 30% fixed costs at a 22,000tpa REO rate. It should be noted that unit cash costs will be higher until market conditions permit the LAMP to be ramped up towards that 22,000tpa REO level.

SYNTHETIC MINERAL PRODUCTS PROGRAM

Lynas continues to make good progress on the commercialisation of the synthetic mineral products from the LAMP. Market trials and product testing continue across the range of synthetic gypsum products with further work being done with potential customers in agriculture and building materials, as well as relevant regulatory agencies.

During the quarter, the Company filed applications to the relevant authorities in Malaysia regarding obtaining the necessary regulatory approvals.

Two products containing the solid by-product of concern have already been independently tested and proven to be non-leachable, non-radioactive and non-toxic.

PHASE 2 EXPANSION AT THE LAMP

Construction and pre-commissioning activities for the Phase 2 expansion of the LAMP to 22,000 tonnes per annum REO production capacity were completed during the quarter. The project remains Loss Time Injury (LTI) free after more than 6.4 million hours worked. Commissioning activities were 94% complete at the end of the quarter.

Following receipt of pending regulatory approvals of completion, operations are scheduled in November 2013. The usage of the additional Phase 2 capacity will be determined by various factors, primarily being market conditions.

SUSTAINABILITY

The 12-month rolling Lost Time Injury Frequency Rate for Lynas global operations (employees and contractors) as at the end of September 2013 was 0.8.

(Note: Frequency rate definition based on Australian Standard: AS1885.1 – 1990, Workplace Injury and Disease Recording Standard)

Western Australia

Certification to the OHSAS 18001 (Occupational Health and Safety Management Systems), ISO 14001 (Environmental Management Systems) and ISO 9001 (Quality Management Systems) standards was maintained after Bureau Veritas Surveillance Audit during the quarter.

The WA operation continued to engage with and support the local communities. Lynas support for “The Young Indigenous Art and Literacy Awards” has allowed the program to include Laverton and Mt Margaret. Mt Margaret is a small Aboriginal community 20km south west of Laverton.

Malaysia

During the quarter, Lynas Malaysia was externally audited by Bureau Veritas against the OHSAS 18001 (Occupational Health and Safety Management Systems), ISO 14001 (Environmental Management Systems) and ISO 9001 (Quality Management Systems) standards and completed the first step in the certification process successfully.

During the quarter, Lynas released data showing the LAMP is fully compliant with environmental regulations. The environmental monitoring data concluded:

1. The LAMP’s operation has not caused any increase in discernible radiological risk.
2. Waste water quality discharges from the LAMP comply with the Standard B of the Environmental Quality (Industrial Effluent) Regulations 2009, and
3. All air emission parameters monitored showed levels compliant with the Standard C of the Environmental Quality (Clean Air) Regulations 1978.

Lynas hosted a total of 322 visitors at the LAMP in the September quarter. These included local community groups, university students and government agencies.

FINANCE

CASH POSITION

A summarised cash flow for the quarter ended 30 September 2013 is set out below.

CASH FLOW	A\$M
OPENING CASH BALANCE 1 JULY 2013	141.4
INFLOWS	
Cash receipts from the sale of goods	3.2
Interest income	1.0
Security deposits refunded	12.4
TOTAL INFLOW OF FUNDS IN THE QUARTER	16.6
OUTFLOWS	
Mt Weld Concentration Plant – Phase 1	-
Malaysian Advanced Materials Plant – Phase 1	(1.0)
Mt Weld Concentration Plant – Phase 2	(0.1)
Malaysian Advanced Materials Plant – Phase 2	(1.4)
Other capital expenditure	(0.2)
Security deposits paid	(4.7)
Interest expense and other costs of finance	(9.1)
Ongoing operational, production and administration costs	(40.0)
Royalty costs	(0.3)
TOTAL OUTFLOW OF FUNDS IN THE QUARTER	(56.8)
Net exchange rate adjustment	(0.2)
CLOSING CASH BALANCES 30 SEPTEMBER 2013	101.0
Summary of Cash Balance	
Cash on Hand and at Call (incl. Term Deposits)	93.0
Funds for Phase 2 Construction (Restricted Cash)	8.0
CLOSING CASH BALANCES 30 SEPTEMBER 2013	101.0

Net cash outflow during the period reflected the low levels of production and sales at the LAMP. As the work programs at the LAMP are progressively implemented and completed, Lynas expects this to lead to an increase in production, sales and cashflow in future periods.

Total cash at 30 September 2013 of A\$101.0m was represented by unrestricted cash of A\$93.0m plus restricted cash of A\$8.0m (which is available principally to fund the Phase 2 capital expenditure programme related to the Rare Earths Project). Interest income received in the quarter from unrestricted and restricted cash totalled A\$1.0m.

FOREX

The currency composition of the Group's unrestricted cash at 30 September 2013 was A\$78.9m, US\$12.7m and MYR1.5m, while the currency composition of the restricted cash was A\$0.5m, US\$3.9m and MYR9.7m. During the quarter the A\$ appreciated by 2% against the US\$ and 3% against the Ringgit resulting in an exchange rate adjustment for the quarter of \$0.2m.

EXPENDITURE ON PHASE 1 AND 2 OF THE RARE EARTHS PROJECT

The forecasted total cost for the respective projects remained unchanged during the quarter.

CASH RECEIPTS FROM SALES

During the quarter the Company's cash receipts from sales were \$3.2m reflecting low sales volume due to low levels of production but a higher average sales price. The higher average sales price reflects a more favourable production mix, achieved mainly through the higher output and sale of neodymium/praseodymium products during the quarter.

RESEARCH & DEVELOPMENT TAX CLAIM

In September, the Company submitted a research & development tax incentive claim for expenditure principally incurred in connection with the Mt Weld concentration and processing plant. If the claim is successful, the Group would receive a cash refund of up to \$14m during the last quarter of the 2013 calendar year.

APPENDIX - RARE EARTHS MARKET

GLOBAL DEMAND OUTLOOK

Based on forecast demand in key end markets including; the automotive, renewable energy, electronics, lighting and oil refining sectors, Lynas believes that the global rare earths market could grow at 5-6% per annum to 2020, with demand for some elements growing at even higher rates. Long term volume visibility and security, and where necessary, long term price visibility, is important to justify the investment by both customers and producers to drive this growth potential.

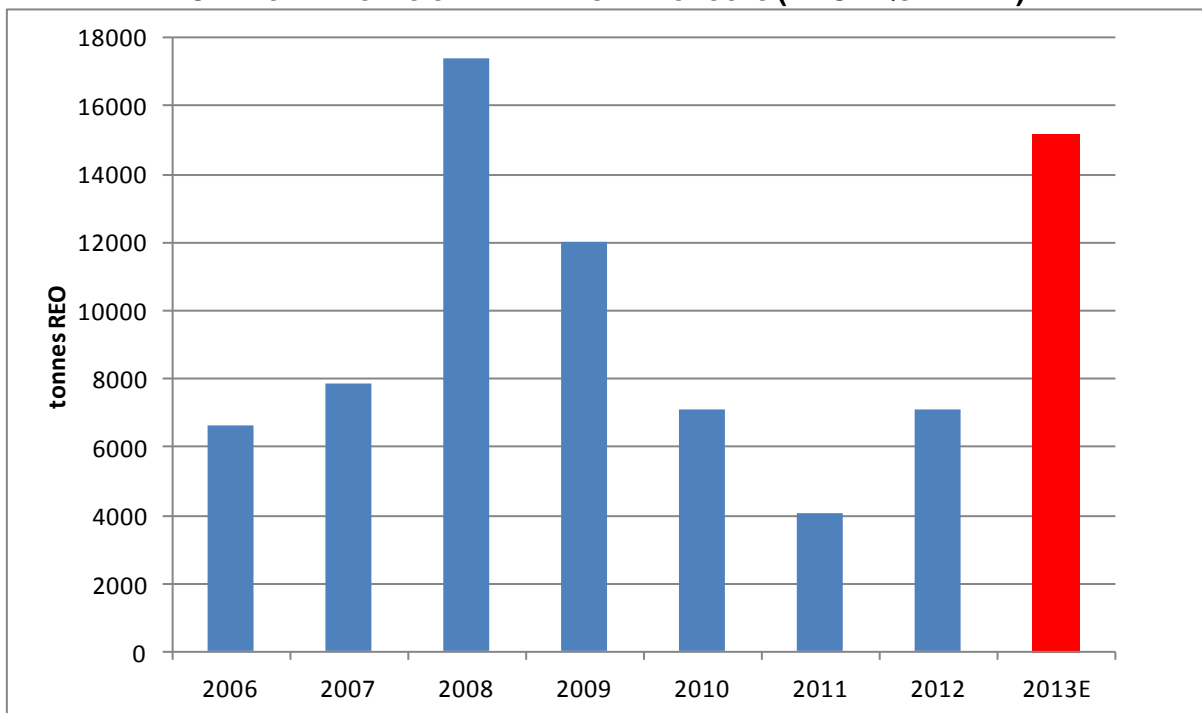
Lanthanum

Lynas believes the lanthanum market outlook is robust. Demand growth is being driven by the switch to lanthanum-rich metal in nickel metal hydride batteries for hybrid electric vehicles (HEVs), at a time when the major application using lanthanum, fluid cracking catalysts, is demonstrating steady growth. Around 70% of lanathnum products are consumed outside China.

As evidence of improving market conditions, the chart below shows that Chinese exports of lanthanum products in the first half of 2013 have increased to levels, on an annualised basis, that are higher than the annual averages during 2006-2009.

Lynas expects stronger lanthanum demand to put upward pressure on prices.

CHINESE EXPORTS OF LANTHANUM PRODUCTS (REO EQUIVALENT)



Source: Chinese customs statistics. Note: 2013 data annualised. Lanthanum products include metal, oxide, carbonate and chloride

Magnets

Rare earth permanent magnets are expected to be the major growth sector. The automotive market is an important demand driver for rare earth magnets. Almost all conventional autos use numerous electric motors with rare earth magnets to reduce weight and improve fuel efficiency. Consequently, Lynas expects increased magnet consumption per vehicle to continue.

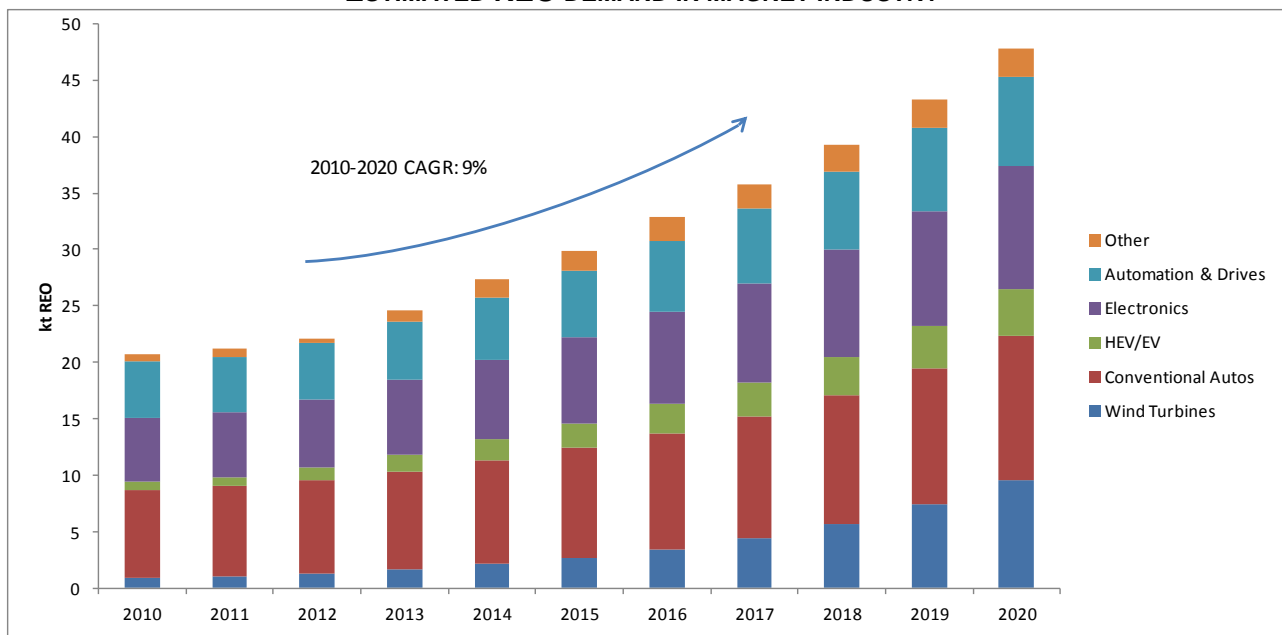
The HEV and electric vehicle (EV) market will also drive strong growth for rare earth magnets. HEV/EVs use additional rare earth magnets per vehicle compared with conventional autos as they are also used in the vehicle's drive-train.

The use of rare earth magnets in wind turbines is expected to be another major growth market over the long term. The latest generation of direct-drive wind turbines, using rare earth magnets, allow the gearbox to be removed from the turbine, greatly reducing the weight and maintenance costs by a huge quantum, making them ideal for large wind farms (e.g. offshore). Lynas expects direct drive turbines could account for at least 15% of global rare earth magnet consumption by the end of the decade.

Rare earth magnets continue to be the preferred choice in major consumer and industrial electronic applications due to their high magnetic strength and small comparative size. Key applications include smart phones, acoustics, hard disk drives, industrial automation and drives.

Lynas believes demand for rare earths used in permanent magnets has the potential to growth by at least 9% per annum over the medium term.

ESTIMATED REO DEMAND IN MAGNET INDUSTRY



Source: Lynas estimates and industry sources

GLOBAL SUPPLY OUTLOOK

Environmentally sustainable rare earths production involves significant capital and operating expenditure to safely manage waste gases, water and solid residues. Such investment requires relatively large scale operations to justify the cost. China has put in place various production control measures, such as quotas, and regularly enforces these through periodic inspections and audits of producing companies. In the future, it is expected that the industry will be dominated by several large enterprises in a rationalisation similar to that seen in other commodity industries in China.

The velocity of new supply is now likely to be very slow and there are very few funded projects worldwide. New supply, over time, is likely to come from existing producers expanding capacity. As evidence, Lynas expects to be able to supply an additional 11,000tpa REO from its Phase 2 expansion as and when market conditions warrant bringing this supply to market.

RARE EARTHS PRICES

Compared with the prior quarter, the average Mount Weld distribution (basket price) increased by 14% to US\$21.80/kg on a China domestic basis. Since the end of September, the “basket price” on a China domestic basis has increased further to US\$22.89/kg.

Rare Earths Prices (US\$/kg)			
Rare Earths Oxide	China domestic		
	Average Price Over Quarter		
Purity 99% min	Q3 2012	Q2 2013	Q3 2013
Lanthanum Oxide	10.82	5.43	4.75
Cerium Oxide	10.98	5.44	4.65
Neodymium Oxide	68.88	45.30	52.55
Praseodymium Oxide	67.13	57.91	80.68
Samarium Oxide	9.88	5.88	5.24
Dysprosium Oxide	596.94	246.74	345.69
Europium Oxide	1028.38	636.24	720.93
Terbium Oxide	874.03	481.80	622.35

Source: Metal Pages

Disclaimer: The Rare Earths market data on pages 7-9 have been sourced from independent analysis of end application demand, along with Lynas estimates of quantities of Rare Earths end use in various key applications as well as official China sources (e.g. Xinhua). Although Lynas believes that the outcomes expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance. Forward-looking statements are based on assumptions and contingencies which are subject to change without notice. Factors that could cause actual results to differ materially from those in forward-looking statements include new Rare Earths applications, the development of economic Rare Earths substitutes, and general economic, market or business conditions. While Lynas has made every reasonable effort to ensure the veracity of the information presented, Lynas does not guarantee the accuracy and reliability of the estimates, forecasts and conclusions contained herein. Accordingly, the Rare Earths market data in this presentation should be used for general guidance only. There can be no guarantee that actual outcomes will not differ materially from forward-looking statements.