Australian Shareholders' Association

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RE stands for Record, not Rare, Earnings

Company/ASX Code	Lynas Rare Earths Limited (LYC)
AGM date	29 November 2021
Time and location	10.00 am (AEDT) Fullerton Hotel, 1 Martin Place, Sydney, NSW
Registry	Boardroom Pty Limited
Webcast	Yes- hybrid using Lumi AGM platform
Poll or show of hands	Poll on all items
Monitor	Keith Mellis assisted by Len Roy
Pre AGM Meeting?	Yes, online meeting with Chair Kathleen Conlon and VP Corporate Affairs Jennifer Parker

The individual involved in the preparation of this voting intention has a shareholding in this company.

Item 1	**FY21 Annual Financial Report (AR)**
ASA Vote	No vote required

Summary of ASA Position

Governance and Sustainability

Matters pertinent to the Board are reviewed below under ASA Focus Issues (FIs). The Board has presented a Corporate Governance Statement (CGS) and an ESG Report and these can be viewed at https://lynasrareearths.com/investors-media. The CGS confirmed compliance for the full year with all the recommendations set out under the 8 principles of the ASX Corporate Governance Council's Principles & Recommendations.

Lynas rightly points out that its products directly contribute to the global energy transition through the manufacture of green technologies such as wind turbines and electric vehicles. The Company has confirmed its commitment to the Science Based Targets initiative, under which it will set its emission reduction targets. Of note, ESG includes its first Modern Slavery Statement and reports that teams at both its locations have implemented new water management solutions. Under Health & Safety it was reported that there was a significant improvement in the total recordable injury frequency rate in FY21 and 99.5% of Malaysian employees have been vaccinated against Covid-19.

Financial Performance

During FY21 Lynas operated a Tier 1 RE mine and concentration plant at Mt Weld in Western Australia and produced separated Rare Earth (RE) materials in its processing facility in Malaysia. Despite ongoing restrictions relating to the Covid pandemic, the Company turned the $19m net loss of FY20 into a record net profit of $157m in the current year. Revenues increased 60% to

$489m with sales volume up 16% (but not yet back to pre-Covid levels) and the average sales price up 39% to $29.80 per kg. The upward price pressure continued into FY22 with 1Q recording a 14% increase over the previous quarter. Unfortunately,the 3rd Covid wave in Malaysia that caused plant shutdowns in 2H21 continued affecting Lynas in 1Q22. Gross profit went from 16% last year to 38% in 2021 and General & Administration expenses declined 50% to $27m as a result of improved production levels which transferred these costs above the line. It should be noted that the first Government Covid subsidy was retained for staff that were stood down whereas the second payment has been refunded to Government.

The taxation charge for 2021 was negligible with the benefit of $46m attributable to prior year losses. With accumulated losses of $715m at 30 June 2021 it is not surprising that there were no dividends again this year. However, shareholders were rewarded with a year- end share price of $5.71, up from $1.94 in FY20, and a market capitalisation of $5.1b compared to net assets of $1.1b.

Key Events

1. The name of the Company was changed from Lynas Corporation Ltd to Lynas Rare Earths Ltd.
2. In an equity raising to fund the proposed Kalgoorlie facility and the Malaysian plant upgrade, 185m shares were issued for $425m. An institutional placement of 92m shares raised $212m which together with their pro-rata entitlement raised a total of $311m. Retail shareholders only participated in the 1 for 7.7 pro-rata accelerated non-renounceable offer of $2.30 per share to the extent of 53% or $60m with the balance going to underwriters. With the conversion of convertible bonds and the exercise of performance rights, issued share capital increased 29% during the year. Management will continue to issue shares to satisfy performance rights until such time as funds are no longer required for growth opportunities. Cash and cash equivalents increased from $102m to $681m at year end.
3. Commencement of preliminary work on the development of a new processing facility in Kalgoorlie to be completed by July 2023. The facility will be close to the Mt Weld mine and in due course will feed downstream operations in Malaysia and US. This is a major initiative under the Lynas 2025 growth vision.
4. Two contracts were signed with US government departments to build 2 separation facilities in US, a Light RE facility and a Heavy RE one. The former attracted a US funding grant of approximately US$30m which will be matched by Lynas.
   Lynas has a $US loan facility with a carrying value of $A171m at 30/6/21. The loan is from Japan Australia Rare Earths B V and is repayable by 30/6/30. It confers priority supply rights of RE products to Japanese customers until 2038 and will do so to the extent possible under any agreement with US.

Key Board and senior management changes

Chairman Mike Harding retired in September 2020 and was replaced by long serving NED, Kathleen Conlon. Dr Vanessa Guthrie was appointed as a NED in October 2020 and brings a variety of skills and experience to the position. Sarah Leonard, a resources and infrastructure lawyer, was appointed General Counsel & Company Secretary in January 2021.

ASA Focus Issues

Two FIs not commented on elsewhere in this report are:

1. **Directors and Board**. Lynas has 6 directors, of whom 5 are independent, plus the MD/CEO. The Board has achieved gender parity and all NEDs sit on 2 of the 3 Board committees. The Board is supported by a senior management team that almost reflects gender parity. All directors have significant shareholdings for their tenure and there was no change to fees during 2021. There are no unreasonable workloads and Board tenure ranges from 10 years down to 1 year. Although no skills matrix is provided in the AR, one can be found in the CGS under Recommendation 2.2. to assist with re-election considerations.
2. **Risk Management (RM)**. There are 2 relevant Board committees, Audit & Risk Management and Health, Safety & Environment. The Directors reported that an external risk assurance mapping exercise was carried out during the year to support their RM activities. The AR lists on 7 pages the principal risks and uncertainties that could have a material effect on the Company. Notable for their currency are pandemics, price volatility and the effect China has thereon, new competing technologies, storage & transportation of hazardous materials and the timely completion of the new facility to be built in Kalgoorlie. In connection with the hazardous materials risk it is interesting to note that the auditors have treated the Rehabilitation provision as a key audit matter for 2 consecutive years. The risk with the Kalgoorlie facility is associated with the Malaysian plant operating licence which expires in March 2023 and is conditional on the facility being completed on time. During the year the functional currency of Lynas was changed from the US to the Australian dollar. Operating in two main overseas currencies, the Group is exposed to exchange risk (USA dollar and Malaysian ringgit). Advantage is taken of natural currency offsets and generally forward exchange contracts are not used.

Summary

(As at FYE)	**2021**	**2020**	**2019**	**2018**	**2017**
NPAT ($m)	157.1	-19.4	83.1	53.1	-0.5
Share price ($)	5.71	1.94	2.57	2.34	1.05
Dividend (cents)	0	0	0	0	0
Simple TSR (%)	194	-25	10	123	100
EPS (cents)	18.08	-2.79	12.50	8.84	-0.15
CEO actual remuneration*	$2.85m	n/a	n/a	n/a	n/a

*For FY21, the CEO's total actual remuneration was **31 times** the Australian Full time Adult Average Weekly Total Earnings (based on November 2020 data from the Australian Bureau of Statistics). It is made up of FY21 cash and other short term entitlements plus the value at vesting date of FY20 STI and FY19 LTI performance rights.

Item 2	**Adoption of Remuneration Report**
ASA Vote	**For**

Summary of ASA Position

The Remuneration Report clearly sets out the overall framework, which typically includes a fixed component and an 'at risk' component comprising a short term incentive (STI) split between cash and deferred equity on a 50/50 basis, and a long term equity incentive (LTI) based on a 3 year performance period. The equity element of remuneration is satisfied by the issue of performance rights, the determination of which is based on a percentage of fixed remuneration (FR) and the face value of the Company's shares.

For the STI there are 3 financial performance hurdles, each with a 20% weighting, and one non-financial hurdle with 4 target areas together attracting the other 40%. Specifics for two of the three financial hurdles are not disclosed on confidentiality grounds whilst the non-financial hurdles are not quantified. No STI is available if the Company suffers a fatality during the year, which it didn't. The LTI has two equal weight performance hurdles, relative TSR based on the ASX 200 index and completion of the Kalgoorlie facility by July 2023 (the latter hurdle replaced the FY20 EBIT growth hurdle). Compared against ASA policy for the LTI, the performance period should be a minimum of 4 years, the non- financial hurdle should not represent more than 30% of the award and the TSR vesting levels are too generous.

There were 5 NEDs and 6 executive KMPs in FY21 and the remuneration expense for all KMPs increased 10% to $7,342K, on a comparable basis with 2020, mainly due to the increase in accounting value of share based payments. Actual take-home pay is not disclosed. The STI achieved for FY21 has been determined at 104.5%, with all hurdles met at target or between target and maximum opportunity. The FY19 LTI was not achieved in respect of the EBIT hurdle but was met in full under the TSR hurdle. Changes to LTI provisions during FY21 saw the CEO entitlement increase from 50% to 75% of FR and other executive KMPs increase from 25% to 37.5% of FR.

Conclusion:

The ASA is comfortable with the LTI conditions on the basis that timely completion of the Kalgoorlie plant is critical to future growth and for taking over the leeching and cracking process from the Malaysian plant. In this instance, the 3 year performance period is acceptable. However, there is concern with the overall lack of transparency with the STI conditions with only 20% of the total opportunity with a specific hurdle. ASA is not uncomfortable with the key areas targeted for the STI and will raise the transparency concern again with management. The CEO's total package is reasonable for a company of this size and, using this as a benchmark for all KMP, ASA will support this resolution for FY21.

The table below details the CEO's target and maximum remuneration opportunity, with the 'at risk' components representing 55%. The fixed component for other executive KMPs is structured to be between 51% and 53% of their total package.

CEO Remuneration framework 2021

	Target $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.274	44.4	1.274	42.7
STI - Cash	0.318	11.1	0.382	12.7
STI - Equity	0.318	11.1	0.382	12.7
LTI - Equity	0.956	33.4	0.955	31.9
Total	2.866	100	2.993	100

Item 3	**Re-election of Philippe Etienne as a Director**
ASA Vote	**For**

Summary of ASA Position

Mr Etienne was appointed as a non-executive director in 2015 and is chair of the Health, Safety & Environment committee. Mr Etienne is a director on the boards of 2 other listed companies, therefore his workload is considered reasonable, and he holds 75,284 shares in Lynas. His professional experience is set out in the AR.

ASA supports the re-election of Mr Etienne.

Item 4	**Grant of Performance Rights (PRs) to Amanda Lacaze, CEO and MD**
ASA Vote	**For**

Summary of ASA Position

This resolution seeks approval for the following grants, which have been determined based on the face value of Lynas shares.

- 50,410 PRs, value $332,906, in respect of 50% of the STI for FY21. Refer item 2 above for details of the STI performance conditions and award.
- 149,272 PRs, value $985,788, in respect of the LTI for FY22 and covering the 3 year performance period to FY24.

The LTI grant has been calculated at 75% of the CEO's fixed remuneration of $1,314,385 and the performance conditions, both with 50% weightings, are as follows:

1. Relative total shareholder return, with the ASX200 index representing the peer group, with the award commencing at the 51st percentile.
2. Lynas 2025 Project targets, delivering by 30 June 2024:
   - Sustainability of the Kalgoorlie facility operations at nameplate capacity (70% weighting).
   - Development of the capacity to separate heavy rare earths (30% weighting). The timing for this hurdle has been extended 2 years due to delays related to the Covid pandemic.

The ASA position on remuneration is set out under item 2 above. Accordingly, ASA supports this grant of performance rights to the CEO.