

Lynas AGM 2016

Chairman's Address

Ladies and gentlemen, on behalf of the Lynas board I would like to welcome all our shareholders today. Annual General Meetings are always important events. Today's AGM is particularly important because we will consider a resolution which, if passed, will reset the financial terms for the business.

I am pleased to be able to report to you today that we continue to make substantial progress on all the key issues that I encountered when I first joined Lynas in early 2015. At my first AGM last year, I listed these matters which included low production rates, high costs, low cash flow and continuing challenges to service our debt.

Last year, we reported good progress on a number of these issues including improved production rates and substantial reductions in operating costs. We reported that we would continue to focus on further improvements on these matters.

Last year, I also pointed to the continuing low rare earths pricing which results in additional sustained challenges to the business including:

- Depressed cash flows; and
- The requirement to once again restructure our debt.

In summary the past twelve months have seen much improvement in our operating performance, with increasing production and reduction in our operating costs. However the sustained low rare earths prices has directly affected our financial performance and subsequent ability to service our debt commitments.

I would now like to briefly update you on each of these improvements. Amanda will provide more detail in her address.

Production

During 2016, 3,897 tonnes of NdPr were produced compared to 2,258 in 2015. Total rare earth oxide production was 12,630 tonnes compared to 8,799 tonnes in the previous year. This reflected a continuing trend of improvements in the production process, throughput rates, and quality of final product. In addition, during the year we commissioned train 4 bringing our NdPr production capacity to 100% of nameplate.

Costs

Costs remained well managed throughout the year with general and admin expenses of A\$22.8m compared to A\$28.4m for 2015. This was a particular pleasing outcome given the increased sales during the year.

Prices

Market prices for the company's rare earth products have been at a sustained low. The in-China NdPr price is currently around US\$31 per kg. This low price directly affects our financial performance and our ability to meet our debt requirements.

Board

Last year Mr Philippe Etienne and myself joined the Lynas board. Subject to your approval today of resolution 4 we intend to review the future skill requirements of the board and renew the board accordingly.

During the past twelve months, the major governance issue facing Lynas was its ability to continue as a going concern. Due to low rare earth prices, and despite a significant improvement in our operational performance, we are break even on an operating cash flow basis. Importantly, this is before we pay interest and principal repayments on our debt facilities. This created uncertainty as to Lynas' ability to service future principal and interest

repayments, including substantial liabilities due in December 2016. This situation was unacceptable to the board. The debt needed to be restructured.

The debt restructuring is covered in detail in resolution 4. I will outline the principles and Amanda will provide more detail in her presentation and the matter can be discussed during resolution 4.

We started the process of seeking a better debt structure to provide Lynas with a better financial platform early this calendar year. We met with many different advisors and investors to understand all the alternatives available to the business. Many alternatives were considered. Ultimately, we concluded that the best outcome for this business was to negotiate improved terms with our existing lenders, who have been supportive partners of this business for several years.

Acknowledging the continued depressed rare earth price, our Lenders have agreed to further substantial changes in the terms of each of the loan facilities.

The key amendments provide Lynas with the following:

1. Up to a four year time period, to 2020, to further improve our business performance and develop possible options to restructure the business.
2. A significant reduction in interest liability, which saves us about A\$70m, at the proposed new rates of 2.5% per annum and 1.25% per annum.
3. Changes to the principal repayment schedule which defers until maturity principal repayments of circa US\$50m – which were previously due by December 2017.
4. In return Lynas has agreed to certain concessions with each lender including warrants and resetting the conversion price for the bond

holders to 10c per share. This reduced conversion price would result in increased shareholder dilution upon a future conversion of the bonds, as detailed in the explanatory memorandum.

Resolution 4 deals specifically with the issue of warrants and the reset of the conversion price. It is important to note that should the bond holders wish to convert, as detailed in the explanatory memorandum a bond holder and its associates cannot acquire more than 20% of the voting shares in the company unless an exception applies. The main exception is further approval by the shareholders at a further meeting.

While Resolution 4 only deals with the conditions for the convertible bond, shareholders should note that a vote in favour of this is a condition precedent to implementing the other terms.

Lynas directors unanimously recommend that you vote in favour of resolution 4. We also have other resolutions to address as outlined in the notice of meeting, namely the remuneration report, the re-election of Kathleen Conlon and the performance rights to the CEO.

Regarding the remuneration report, we confirm that there have been no pay rises for our executives for the past two years. For our STI program, the targets are clear and they are quantified. This year, the cash hurdle was not met, and there was no payout for the cash hurdle. Our hurdles were met for NdPr production, costs and team / individual performance. The team / individual performance hurdle is based on quantified goals related to the production ramp-up, customer relationships, and environmental outcomes.



Finally, I would like to thank our CEO, her executive team and importantly all Lynas employees and contractors who have worked hard this year to deliver improved performance. I would like to recognise the support of our lenders and finally and very importantly, I would like to thank all our shareholders, especially those who have remained through difficult times.

Thank you all.



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