Australian Shareholders' Association

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Record Revenue and Net Profit as the World Transitions to Cleaner Energy Sources

Company/ASX Code	Lynas Rare Earths Limited (LYC)
AGM date	29 November 2022
Time and location	10.00 am (AEDT) Fullerton Hotel, 1 Martin Place, Sydney, NSW
Registry	Boardroom Pty Limited
Type of meeting	Hybrid using Lumi AGM platform
Poll or show of hands	Poll on all items
Monitor	Keith Mellis
Pre AGM Meeting?	Yes, online meeting with Chair Kathleen Conlon and VP Corporate Affairs Jennifer Parker

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

Summary of issues for meeting

Despite pandemic effects the Company has returned 2 consecutive years of record revenue and profit, mostly attributable to the rapid price rise in RE materials. The management challenge is now the timely implementation of the growth strategies contained in the Lynas 2025 Plan, which include construction of the Kalgoorlie facility, expansion of capacity at Mt Weld and construction of the US separation facilities. With accumulated losses likely to be eliminated in FY23, perhaps it is time for shareholders to look forward to dividends.

Proposed Voting Summary

No.	Resolution description	
1	Adoption of Remuneration Report	For
2	Re-election of Kathleen Conlon as a Director	For
3	Grant of Performance Rights to Amanda Lacaze, CEO and MD	For
4	Approval of Increase in Director Fee Pool	For

Summary of ASA Position

Consideration of accounts and reports (AR) - No vote required

<u>Governance and culture</u>

Lynas reported that it had followed in full and all year the recommendations set out under the 8 principles of the ASX Corporate Governance Council. In particular:

1. The Board has 5 independent directors plus the MD/CEO, with gender parity. Board tenure ranges from 2 to 11 years, workloads are not unreasonable and shareholdings are acceptable in relation to tenure.

2. The whole organisation is 23% female and the target for both FY23 and FY24 is 30%.
3. Company values are set out on AR page 7.
4. Material business risks and uncertainties are set out on AR pages 20-30. The list is comprehensive and shareholders should consider probability and likely effect.
5. Biographies for each director are detailed in the Directors' Report but no individual assessment is provided against each skill in the matrix at 2.2 of the Company's Corporate Governance Statement.

ASA has been advised there is no policy requiring KMP to have minimum shareholdings in Lynas.

Financial performance

During FY22 Lynas continued to operate its Tier 1 RE mine and concentration plant at Mt Weld in WA and produced separated Rare Earth (RE) materials in its processing facility in Malaysia. Despite water supply problems at the Malaysian plant and cost increases and labour disruption arising from the Covid pandemic, the Company recorded a record NPAT of $541m (FY21 $157m). Revenue increased 88% to $920m with sales volume down 7% but the average sales price doubled to $60 per kg. Gross profit margin increased from 38% in FY21 to 62% this year. Lynas experienced water supply problems in Malaysia in 1Q FY23 and as a result production and sales volumes were down on the previous 3 quarters. The average selling price was reduced to $49, which reflected a significant change in the sales mix.

Net profit was boosted by a $5.1 million tax credit which related mostly to the recognition of deferred tax benefits. The current year tax charge of only $6.3m was again minimal due to the availability of prior year tax losses. It should be noted that all Australian tax losses have now been utilised. Accumulated operating losses reduced from $716m to $175m at 30 June 2022, so no dividends in the current year. In September 2022 a new loan agreement was signed with Japan Australia Rare Earths which released certain capital restrictions including the payment of dividends. Total shareholder return for FY22 was 53% as a result of the year-end share price rise to $8.73.

Key events

1. Award of a US$120m follow-on contract for the construction of the HRE separation facility for US DOD, to be co-located with the LRE facility contracted last year, probably in Texas. The HRE cost will be funded by US. The overall facility is targeted for operation by 2025

2. Construction of the Kalgoorlie processing facility 40% complete at FY22 year-end. An update on construction is expected at the AGM. Project cost is now forecast at $575m.

3. Announcement in FY23 of a $500m capacity expansion at Mt Weld mine and concentration plant, to be funded from cashflow and completed by 2024

4. Confirmation of a "large endowment of RE elements" from the results of the 1km drilling under the Mt Weld pit

Key Board or senior management changes

The only change to Key Management Personnel during the year was the retirement of K Leung as Vice President, Up-stream. No replacement will be made following a restructure.

Other ASA focus issue

ESG

Lynas is committed to clean energy through its products which are critical inputs in the manufacture of electric vehicles and wind turbines. Its ESG report can be viewed at www.lynasrareearths.com/investors-media/reporting-centre/esg-reports. During FY22 Lynas adopted the Science Based Target initiatives, launched its greenhouse gas (GHG) policy and produced its report in accordance with Global Reporting Initiative standards.

Initiatives and targets to reduce GHG emissions, water consumption and achieve gender diversity can be viewed on pages 13, 14 and 17 of the ESG report. GHG emissions performance is set out on page 23 for scope1 and 2 emissions. Scope 3 reporting is still under development and there is an evaluation status on page 42 of the report. It will be noted that Mt Weld scope 1 emissions increased in FY22 by 39%.

The Restoration & Rehabilitation Provision decreased in FY22 as a result of the payment of $56m relating to the Malaysia PDF. The provision was again considered by the auditors to be a significant item and drew specific audit attention.

Summary

(As at FYE)	**2022**	**2021**	**2020**	**2019**	**2018**
NPAT ($m)	540.8	157.1	-19.4	83.1	53.1
Share price ($)	8.73	5.71	1.94	2.57	2.34
Dividend (cents)	0	0	0	0	0
Simple TSR (%)	53	194	-25	10	123
EPS (cents)	59.95	18.08	-2.79	12.50	8.84
CEO actual remuneration ($m)	5.61	2.85	n/a	n/a	n/a

The CEO's remuneration consists of FY22 salary plus cash component of FY21 STI together with the value at vesting date of FY21 STI and FY20 LTI performance rights. For FY22 the CEO's total actual remuneration was 58 times the annualised Australian Full time Adult Average Weekly Total Earnings (based on May 2022 data from the Australian Bureau of Statistics).

Adoption of Remuneration Report

The remuneration framework is summarised in Appendix 1. There were no significant changes to it during FY22 and there were no changes to KMP target or maximum incentive opportunities. The STI for FY22 was achieved in full. The TSR and EBIT hurdles for the LTI relating to the 3 years to 30 June 2022 were achieved in full whereas two-thirds of the 2025 Project target hurdle was met producing an overall 89% achievement rate. However, there is no disclosure of financial outcomes for STIs awarded to KMP. The LTI award is not known until after production of the AR. There were no changes to Directors' fees in FY22.

An independent remuneration bench-marking exercise was conducted by the Company during FY22 which concluded that the leadership team entitlement was significantly below its peer group. As a result, fixed remuneration has been revised for FY23 and there will be changes to the incentive plans. The maximum remuneration opportunity for the 3 Australian resident executive KMP for FY22 was compared by ASA with research data available for companies across combined industries with a market capitalization of between \$5b and \$10b. All 3 executives were found to be positioned around 50th percentile and therefore their package was deemed reasonable for FY22.

As there were no relevant changes this year the ASA remains of the opinion that the LTI performance period should be a minimum of 4 years and the TSR vesting levels are too generous. The lack of transparency with certain STI hurdles is still an issue with the majority thereof unquantified. The ASA would also like to see the disclosure of actual take-home pay for KMP.

Conclusion

The Company's FY22 performance supports entitlements under the framework and remuneration levels appear reasonable. The differences with ASA policy were again pointed out to Lynas and the Company agreed to consider the disclosure of financial outcomes for incentives for FY23. Based on these ASA will support this Resolution.

Re-election of Kathleen Conlon as a Director

Kathleen Conlon (KC) is Chair of the Company and was appointed a director on 1 November 2011. KC's biographical details are set out in the AR page 10. KC is a member of 2 of the 3 Board committees and attended all meetings for all 3 committees during FY22. Her additional workload is reasonable, sitting on the board of 2 listed companies and a society.

The Board has 5 independent non-executive directors and 1 executive director. At the 2022 AGM KC will have been a director for 11 years. The tenure of other non-executive directors ranges from 2 to 7 years.

ASA generally requires the Chair of a company to be independent and also will not classify as independent a director who has served more than 12 years on the board. KC will have served 12 years at 2023 AGM. We will support this resolution at a very important stage in the Company's development but will not classify KC as independent when she is next up for re-election.

Grant of Performance Rights to Amanda Lacaze, CEO and MD

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

- 39,045 PRs, value \$343,661, relating to the 50% equity component of the STI for FY22. Refer comments above under Resolution 1 for details of the STI performance.
- 257,608 PRs, value \$2,267,414, in respect of the LTI for FY23 and covering the 3 year performance period to FY25.

The LTI grant has been calculated at 150% (FY22 75%) of the CEO's fixed remuneration for FY23 of $1.511m (FY22 $1.314m) and the performance conditions, both with 50% weightings, are as follows:

1. Relative total shareholder return, with the ASX50-150 index (FY22 ASX200 index) representing the peer group, and the award commencing at the 51st percentile.
2. Strategic targets- US HRE and LRE plants, Mt Weld capacity and overall production capacity. Refer NOM page 9 for details.

The ASA position on remuneration is referred to under Resolution 1 above. The 3 strategic targets, which are all to be delivered by 30 June 2025, are extremely important to the growth of Lynas. The market capitalisation of the Company has been around $7-8b, which has ranked it between 50th and 100th position on ASX. For these reasons ASA supports this grant of performance rights to the CEO.

Increase in Director Fee Pool

The current fee pool of $1.25m was last reviewed in 2012 and fees in 2020. A Company bench-marking exercise indicated that current fees and the pool are well below the 25th percentile for peer group companies. Total fees paid in FY22 were $0.958m and the proposal is to adjust fees to $1.273m for FY23, an increase of 33%. The Board has indicated that it intends to increase its size by one or two members. The proposal is to increase the fee pool by 76% to $2.2m to enable fee increases and provide for the appointment of additional directors.

ASA has referred to available research data across combined industries and in relation to companies with a market capitalisation of between $5b and $10b and is of the opinion that the proposed aggregate fees of the Chair and NEDs will position them between 25th and 50th percentiles. The proposed increase, intention to appoint additional directors and provide capacity for future increases supports the ASA decision to vote in favour of this resolution.

Appendix 1
Remuneration framework detail

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. There were no changes to this framework for FY22.

For the STI there are 3 financial performance hurdles, each with a 20% weighting, and one non-financial hurdle with 3 (FY21 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 2 (FY21 1) project targets, weighted 70% and 30%.

The table below details the CEO's target and maximum remuneration opportunities for FY22, with 'at risk' components exceeding fixed remuneration. The 'at risk' element will rise in FY23 with the increase in the CEO's STI and LTI opportunities, which is referred to above under comments regarding Resolution 3.

CEO rem. Framework for FY22	Target $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.357	44.4	1.357	42.6
STI - Cash	0.339	11.1	0.407	12.7
STI - Equity	0.339	11.1	0.407	12.8
LTI-Equity	1.018	33.4	1.018	31.9
Total	3.053	100.0	3.189	100.0