Australian Shareholders' Association
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Not so rare earth prices tumble in a year of mixed fortunes

Company/ASX Code	Lynas Rare Earths Limited/LYC
AGM time and date	10.00 am (AEDT) 29 November 2023
Location	The Mint, 10 Macquarie St, Sydney, NSW
Registry	Boardroom Pty Limited
Type of meeting	Hybrid
Monitor	Keith Mellis and Julieanne Mills
Pre-AGM Meeting	Online meeting with Chair Kathleen Conlon, Chair elect John Humphrey, Company Secretary Sarah Leonard & VP Corporate Affairs Jennifer Parker

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

1. How we intend to vote

No.	Resolution description	
1	Adoption of Remuneration Report	Against
2	Re-election of John Humphrey as a Director	For
3	Re-election of Grant Murdoch as a Director	For
4	Re-election of Dr Vanessa Guthrie as a Director	Undecided
5	Election of John Beevers as a Director	For
6	Authorisation of Issue of Performance Rights	For
7	Authorisation of Performance Rights to Amanda Lacaze	Undecided

2. Summary of Issues and Voting Intentions for AGM

Whereas FY22 was a record year in many ways, FY23 revenues, profits and share price tumbled in a period of falling rare earth (RE) prices and rising costs. The speed of the global transition to clean energy, the volatile impact of China policy on RE pricing and the continuing effect of global inflation remain significant external challenges for LYC. Internally, management is charged with the implementation of its strategic growth initiatives, namely the expansion of the Mt Weld mine, opening and ramp-up of the Kalgoorlie plant and construction of the 2 plants in the US. The Kalgoorlie plant has still not commenced operation at the date of this report and, with the planned temporary shut-down of most Malaysian operations in November, hope for good news at the AGM if not earlier. With the recent renewal of the Malaysian licence without restriction, management will now face the significant challenge of sourcing raw material to maximise the combined processing capacity of Malaysia and Kalgoorlie.

Based on FY22 research the remuneration of Directors, KMP and other senior executives was increased substantially for FY23. The increase obviously includes a significant premium for the uniqueness of the LYC business and we are informed there are few peers in Australia against which to compare the Company.

Based on the above, shareholders can assess FY23 in two ways depending on their perspective. With a big picture macro lens the year can be seen as a further investment in people and plant on the journey to becoming a significant player in the non-China rare earth supply chain. Conversely, with a small picture micro lens the year-end can be viewed as a disappointing destination following negative returns for shareholders and substantial remuneration increases for management. From its review of FY23 ASA has various issues which it has set out below under its comments on the Remuneration Report (RR) and as a result of which will vote its proxies against resolution 1. ASA is currently undecided on resolution 7 granting Performance Rights (PR) to the CEO and will await responses to questions it will raise at the AGM before deciding.

The CEO's Outlook comments in the Annual Report (AR) provide shareholders with no specific guidance for FY24 and is disappointing. Forecasting the future is difficult and entails the consolidation of a number of volatile assumptions, some of which are understandably confidential. However, how are shareholders kept informed and how do they hold management accountable if no guidance whatsoever is provided against which performance can be assessed? ASA would like management to provide some meaningful guidance to shareholders at the AGM. We also understand the need to fund future expansion and therefore payment of dividends is unlikely in the short term. However, management would not disclose its dividend policy to ASA so we will raise this again at the AGM because shareholders have the right to know.

3. Matters Considered

Accounts and reports (no vote required):

The AR, Corporate Governance Statement (CGS) and ESG Report can be found on the LYC website at https://lynasrareearths.com.

During FY23 LYC continued its operation of the extraction and processing of rare earth minerals in Australia and Malaysia. NPAT of $311m was down 42% over FY22 mainly due to a 23% decrease in the average selling price of rare earth oxide (REO). Water supply problems in Malaysia adversely affected production in the first 4 months of the year although REO production and sales volume recovered to marginally increase over the previous year. Australian tax losses were no longer available this year but a tax holiday in Malaysia restricted the charge to $37m, only 10% of pre-tax profit. Retained earnings were positive for the first time at $136m but there is no dividend. The LYC share price took a tumble in 3Q with Tesla's announcement that it would move away from REs but China's influence on RE pricing continued to dominate throughout the year.

Financial performance Summary

(As at FYE)	**2023**	**2022**	**2021**	**2020**	**2019**
NPAT ($m)	310.7	540.8	157.1	-19.4	83.1
Share price ($)	6.85	8.73	5.71	1.94	2.57
Dividend (cents)	0	0	0	0	0
Simple TSR (%)	-22	53	194	-25	10
EPS (cents)	34.05	59.95	18.08	-2.79	12.50
CEO total remuneration, actual ($m)	3.67	5.61	2.85	n/a	n/a

The CEO's actual remuneration consists of salary and associated benefits plus cash component of FY22 STI, together with the value at vesting date of FY22 STI and LTI relating to the 3 year performance period ended FY23.

For FY23, the CEO's total actual remuneration was 37 times the Australian Full time Adult Average Weekly Total Earnings (based on May 2023 data from the Australian Bureau of Statistics).

Governance and culture

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

1. The Board has 6 independent directors plus the MD/CEO. Board tenure ranges from 1 to 12 years (average of 6 years) and there was gender parity prior to the latest appointment. Up to an additional 2 directors will be appointed following the retirement of Kathleen Conlon and the appointments will recognise diversity, location and specific skill needs.
2. Workloads are not unreasonable, with the possible exception of Dr Guthrie who we are informed will address ASA's workload concern during her re-election presentation.
3. The whole organisation is 25% female and the target for both 2024 and 2025 is 30%.
4. Company values are set out on AR page 7.
5. 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.
6. Biographies for each director are detailed in the Directors' Report on pages 10-11. The skills matrix at 2.2 of the CGS identifies the number of directors at one of three skill levels, with Information Technology & Digital the only attribute that does not rate at least one director as 'Highly Skilled'.

ASA has been advised there is no policy requiring KMP to have minimum shareholdings in Lynas. However, 5 out of 6 directors (excluding new appointment) and 3 of 5 executive KMP have significant shareholdings.

Key events

Projects for growth and operating transition continued as follows:

1. Completion of the Kalgoorlie plant by 1/7/23 was delayed and first carbonate production was then targeted for end of September, which also was not met. Projected costs increased from $575m to $780m. Nameplate capacity was increased to 9ktpa from 7ktpa for neodymium and praseodymium (NdPr) equivalent under the revised budget and the target for operating at full capacity is 31/12/24. ASA will raise start-up and ramp-up timing if not addressed at AGM.
2. The Malaysian plant is being extended to be able to receive mixed rare earth carbonate (MREC) from Kalgoorlie. The operating licence without the lanthanide limitation was extended 6 months to 31/12/23 and, following a judicial review and subsequent to Balance Sheet date, the licence has been renewed without the lanthanide restriction.
3. The Mt Weld mine recorded its highest annual concentrate production and the related capacity expansion project progressed, with the target to produce 12ktpa of NdPr equivalent by 31/12/24.
4. A greenfield site was purchased by LYC for construction of both the heavy rare earths (HRE) and light rare earths (LRE) separating facilities for the US government with a target to be operational by 31/12/25. The expenditure based HRE contract is fully funded by the US and has been recently increased to US$258m.
5. New agreements were signed with the Japanese entity, JARE, under which $200m was subscribed for LYC shares, deferred interest was capitalised and priority supply rights were updated. At balance date the loan from JARE was valued at $177m and its shareholding was 31m shares, representing 3.4% of shares issued.

Key board or senior management changes

The only Board change during FY23 was the appointment of Mr J Beevers who was appointed a non-executive director on 1 May 2023. Mr C Jenney joined the KMP team on 3 October 2022 as Vice President-Major Projects. It was announced on 10 October 2023 that Kathleen Conlon has announced her intention to retire as Chair and independent non-executive director appointed from conclusion of the 2023 AGM.

Sustainability/ESG

LYC has reported against the Task Force for Climate-related Financial Disclosures since 2020. The ESG reporting is simple and clear with minimal reporting of metrics. LYC has been recognised for its sustainability, by Eco Vadis, ranking them in the top 5% of global chemical companies.

Sustainability is one of LYC core values. Life cycle assessments of greenhouse gas emissions (GHGe) are considered in the decision making process for new capital projects. Lynas is the largest supplier and processor of separated rare earths outside China, their products will be needed for the growth in global decarbonisation and they are increasing production for forecast demand. Their products are used in wind turbines and hybrid and electric vehicles. R&D collaborations continue with universities in Malaysia and Australia to develop new innovations for their products and processes.

Strategic decisions have considered the material climate risks of water and energy in the new plans for Kalgoorlie and Mt Weld. Lynas is adding 1.5 MW of solar power at their Malaysian site and will purchase 80% renewable power in Malaysia from 2025. Mt Weld is targeting 70% renewables with a gas hybrid renewable power plant by 2024. We would like more detail on this. There is a target of 80% renewable power at Mt Weld and Kalgoorlie sites from 2025.

Scenario Analysis was conducted externally in 2023 utilising three IPPC representative temperature pathways over the 2030 and 2050 time frame. LYC withdrew from their commitment to SBTi targets in January 23 arguing that the chemicals industry guidance is not yet available. LYC has continued to increase their GHGe, it reported scope 1 & 2 total emissions of 127,869 tonnes of CO2-e, an increase of 17,629 on FY22 largely due to Mt Weld expansion and the Kalgoorlie build. Lynas has started reporting some of their Scope 3 emissions. Emissions average is 30kg CO2 equivalent per kg of REO.

Water is a significant climate related risk with an increased chance of drought at the Kalgoorlie and Mt Weld sites and increased pressure from additional production. The use of recycled grey town water in Kalgoorlie and the development of a new recycled water treatment plant for Mt Weld, is expected to increase tailings recycling by up to 90% and reduce groundwater use. They have continued to reduce water usage to 5.03m3/tonne of processed ore in FY23. Recycled water increased to 30.7% at Mt Weld in FY23. Additionally, there are plans for a bore water desalination plant at Mt Weld.

LYC has high rates of employee engagement but only a 59% participation rate. They have a relatively low turnover rate of 8.7%. Employees are from wide diversity of ethnic backgrounds. They are making progress with diversity, achieving 25% of all female employees and senior executives in FY23 from 16.7% in 2021 and they are aiming for 30% by the end of FY24.

Unfortunately, safety has gone backwards in FY23 and first quarter FY24 is worse again. All employees are eligible for bonuses if safety and business targets are met. Employees, other than those eligible for STI/LTIs, are eligible for an employee bonus scheme.

Rehabilitation is again a key audit matter and estimating and providing enough funds for the future is an important ESG consideration. Their rehabilitation plans are described in their ESG report and seem to be progressing well.

The announcement of the ability to process MREC in Malaysia is welcome for Lynas. Waste is an issue that has attracted activist attention. Lynas continues to explore options for use of this waste. There is a Malaysian government requirement that 0.5-1% of Malaysian gross sales are spent on R & D into the removal of radioactive materials from residue.

While the levels of radioactivity appear to be relatively harmless it has caused problems with their Malaysian licensing, and in turn delays, legal costs and uncertainty for the company. Management has been handling the uncertainties and providing for optionality around outcomes. The Permanent Deposit Facility in Malaysia is well progressed and is now beginning to be used for water leached purification waste.

A small percentage of at risk remuneration is measured against climate and ESG progress and metrics. In particular, FY23 STIs included hurdles for safety, GHGe and diversity whereas the current year LTI has introduced a renewable energy target at Mt Weld.

4. Rationale for Voting Intentions

Adoption of Remuneration Report (RR)

The unchanged remuneration framework for executive KMP is set out in Appendix 1. As a result of significant increases based on benchmarking in FY22, the CEOs STI and LTI at target opportunity doubled to 100% of fixed remuneration (FR) and 150% FR respectively. A lift in the maximum STI to 125% FR increased the maximum potential to $5.7M from $3.2M in FY22. While this does not necessarily reflect the final outcome given the movement in share price and hurdles that need to be met, it is indicative of the large increase in potential. Is this justifiable, it is a large jump?
Under the FY23 STI plan the CEO was awarded a performance success rate of 78% of fixed remuneration (FR) which equates to $1.176m in cash and equity. Other executive KMP achieved a rate which will result in a bonus of 59% of FR. With regard to the FY21 LTI performance, the RTSR goal (50%) was met in full but the Kalgoorlie project completion date was not achieved and therefore there was no award.
Board fees increased with the Chair receiving a 44 % uplift to $375k and other directors an uplift of 38% to $166k plus a minimum increase of 50% to committee fees. These increases bring Board remuneration in line with other similar companies.
The RR should be informative, transparent and understandable for all investors. The Lynas RR sets out the framework but does not clearly present the actual or potential financial impacts. It does not satisfy guidelines considered by ASA to be important to shareholders in the following respects:

- No disclosure of CEO take-home pay
- No table of target and maximum opportunities for executive KMP
- Lack of transparency with most of the STI hurdles, citing confidentiality
- A link between remuneration and group performance is made on AR page 44 and provides performance data for 5 years. The list is difficult for shareholders to relate to in a year when net profit has fallen 43%, shareholders' return is negative and executive remuneration has soared. In addition, the STI financial conditions include EBITDA and NdPr production yet neither are included in the table
- The LTI performance period is only 3 years, whereas ASA prefers a minimum of 4 years. Two of the four strategic targets applying from FY23, although very important to future growth, have a 30 month timeline.
- FY23 STI and FY21 LTI outcomes are shown as a percentage whereas dollar quantification would be more readily understood.
- RTSR vesting levels are too generous, commencing with 50% at 51st percentile and reaching 100% at 76th. ASA prefers 30% at 51st and maximum not achieved until 85th percentile.

The RR could and should be more readily informative for shareholders. Because of the substantial remuneration increases granted in just one year together with the disclosure shortcomings and differences with ASA policy listed above, ASA will vote its proxies against this resolution and may vote against the grant of Performance Rights (PRs) to the CEO in respect of the issues set out below under resolution 7 comments.

Election and re-election of directors

Resolution 2 seeks the re-election of Mr John Humphrey, who has been elected to succeed Kathleen Conlon as Chair at the AGM. Mr Humphrey was appointed in May 2017, is Chair of the Nomination, Remuneration and Community Committee (which we assume he will relinquish on becoming Chair) and has considerable legal and non-executive director experience. ASA will support this resolution.

Resolution 3 seeks the re-election of Mr Grant Murdoch, who was appointed in October 2017. Mr Murdoch is Chair of the Audit, Risk and ESG Committee and has considerable experience in audit and corporate finance. ASA will support this resolution.

Resolution 4 seeks the re-election of Dr Vanessa Guthrie AO, who was appointed in October 2020. Dr Guthrie holds a PhD in geology and has qualifications in environment, law and business management and has substantial experience in the mining and resources sectors. Dr Guthrie is a Deputy chair of Orica, Lead independent director of ADBRI, non-executive director of Santos, Trox Holdings, Cricket Australia and Infrastructure Australia. She is also Pro-Chancellor of Curtin University and sits on the Lynas Audit Risk and ESG, and Health Safety and Environment committees. ASA is concerned with Dr Guthrie's workload, especially in times of emergency and would like her to address the AGM on this issue before it makes a decision on this resolution. Dr Guthrie has 15,000 LYC shares.

Resolution 5 seeks the election of Mr John Beevers, who joined the Board on 1 May 2023, and sits on Nominations, Remuneration and Community, and Health, Safety and Environment committees. Mr Beevers has substantial experience in the resources, mining services and chemical industries together with broad international experience. He currently sits on the Orica Ltd and Syrah Resources board. He was CEO of Orica Mining services prior to his role as CEO and then executive chair at GroundProbe. He currently has no shareholding. ASA will support this resolution.

Authorisation of Issue of Performance Rights

Resolution 6 seeks to renew the 3 yearly approval last granted by shareholders at the 2020 AGM, which provides exception to the 15% share issue listing limit for the issue of securities under an employee incentive scheme. ASA supports this resolution as it is not unusual but will enquire at the AGM as to why LYC regards it necessary.

Grant of Performance Rights (PRs) to Amanda Lacaze, CEO/ MD

Resolution 7 seeks approval for the following grants, which have been determined based on the face value of LYC shares.

- 83,418 PRs, value $587,930, relating to the 50% equity component of the STI for FY23.
- 322,526 PRs, value $2,273,158, in respect of the LTI for FY24 and covering the 3 year performance period to FY26

The LTI grant has been calculated at 150% of the CEO's fixed remuneration for FY24 of $1.515m (FY23 $1.511m) and the performance conditions, with weightings shown in brackets, are as follows:

1. Relative total shareholder return, with the ASX50-150 index representing the peer group (50%)

2. Strategic target: sustaining production capacity at Mt Weld starting at 10.5ktpa and attracting half of the opportunity up to the maximum at 12ktpa (40%)

3. Sustainability target: installing renewable energy capacity to meet more than 50% of Mt Weld's needs (10%)

ASA recognizes the importance of the strategic condition in 2 above to future growth. There was insufficient time to address all LTI issues at our pre-AGM meeting with the Chair and LYC undertook to provide clarification promptly in writing. As this has not been received we will raise the following at the AGM in order to determine our voting position:

- Why is there a need to have STI and LTI conditions in FY23 for both US plant and Mt Weld expansion initiatives?
- All 4 LTIs FY23 relate to the 3 year performance period ending 30/6/25 yet the US plant has an operating target of 31/12/25. How will this work?
- The Mt Weld expansion uplift to 12ktpa of NdPr equivalent by end of CY24 was one of the 4 LTI strategic targets commencing FY23. For the 3 year period ending 30/6/26 production capacity only has to be sustained at 10.5ktpa by the end date for part of the condition to be achieved. How can this be regarded as a long term challenge if the condition has been previously met at a higher rate?
- Has a cost control been included in LTIs following the substantial Kalgoorlie overrun? If not, why not?

Appendix 1
Executive remuneration framework

The RR sets out the overall framework, which typically includes a fixed component and an 'at risk' component comprising a STI split between cash and deferred equity on a 50/50 basis, and a 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 and the full price 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 5 target areas together attracting the other 40%. Specifics for two of the three financial hurdles are not disclosed on confidentiality grounds whilst the 'height' of the non-financial hurdles is not apparent. 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 50-150 index and 4 strategic project targets, with varying completion dates.

The CEO's total package for FY23 is set out in the table below and reflects an increase at target of 73% over FY22 with the 'at risk' component increasing from 56% to 71% of total remuneration.

CEO rem. Framework for FY 2023	Target $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.513	28.6	1.513	26.7
STI - Cash	0.756	14.3	0.946	16.7
STI - Equity	0.756	14.3	0.946	16.6
LTI - Equity	2.270	42.8	2.270	40.0
Total	5.295	100	5.675	100