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## Letter from the Chairman



It is my pleasure to present the 2019 Annual Report to our shareholders. During the year, the Company completed the Lynas NEXT expansion program at both Mt Weld and Lynas Malaysia which resulted in strong operational and financial performance throughout the year. At the same time, the Company successfully managed considerable regulatory and market challenges and we were delighted to announce the Lynas 2025 growth plan to shareholders on May 21, 2019.

We were pleased to deliver continued positive results for our shareholders during FY19. Some key highlights of the year were as follows:

- Lynas recorded its second consecutive annual net profit as a Rare Earths
  company in FY19 of \$80.0 million. Additionally, cash flows exceeded \$100m
  for the second consecutive year, with cash flows from operating activities
  of \$104.1m in FY19 (\$118.5m in FY18). In FY19, total sales revenue after
  commissions remained steady at \$363.5m (\$374.1m in FY18) despite significant
  market volatility.
- The completion of Lynas NEXT initiatives resulted in continued improvements in the production process and demonstrated the Company's capacity to produce at higher rates during the year. Record annual production rates were achieved for both total REO and NdPr during the period. Production of Neodymium-Praseodymium (NdPr) was 5,898 tonnes in FY19 compared to 5,444 tonnes in FY18. Total production of rare earth oxide (REO) in FY19 was 19,737 tonnes compared to 17,753 tonnes in FY18.
- The Lynas 2025 growth plan will enable the Company to expand production capacity to 10,500mt per annum of NdPr products and to relocate cracking and leaching operations to Western Australia. Furthermore, Lynas announced the signing of an MOU to form a joint venture with Blue Line Corporation for the establishment of heavy rare earths separation capability in the United States.
- Lynas continued an excellent safety record with the Company-wide 12-month
  rolling Lost Time Injury Frequency Rate at 0.9 per million hours worked, as at the
  end of June 2019. Most importantly, Lynas Malaysia recorded 365 days LTI free
  in July 2019. Maintaining our excellent safety record requires daily attention as
  this remains a key priority for our business.
- We were also pleased to record another year with no environmental exceedances, reflecting our zero harm approach to all facets of our business. During the year, our upgraded kiln waste gas treatment circuits enabled Lynas Malaysia to meet new air quality standards, which included an 80% reduction in some of the air emission parameters.



"The completion of Lynas NEXT initiatives resulted in continued improvements in the production process and demonstrated the Company's capacity to produce at higher rates during the year."

- During the year, 3rd party audits of our environmental performance consistently ranked our business as best practice. This includes the Department of Environment audit in early 2019 which found 21 best practices, 1 observation and zero non-conformances, the 2019 AELB audit which delivered a ranking of Very Satisfactory (i.e. the best available ranking) and the awarding of a Gold Medal from EcoVadis.
- The Rare Earths market was volatile in FY19, driven by the US-China trade tensions, concerns regarding security of supply and risks associated with single sourcing. This has generated further interest in Lynas as a secure and sustainable supplier.
- Total Group debts reduced to \$193.0 million at June 30, 2019, down from \$225.1 million at June 30, 2018. New terms for the existing JARE loan facility were agreed with JARE on June 27, 2019. The revised terms extend the facility to 2030, with a more favourable interest rate, demonstrating the ongoing support of the Group's lenders.
- The Company's share price recorded strong growth during the year, from \$2.34 on July 1, 2018 to \$2.57 on June 30, 2019 and its market capitalization growing to around \$1.72 billion at the end of the period.
- Lynas continued to consolidate its position as the world's second largest Rare Earths producer and the largest supplier of Neodymium-Praseodymium (NdPr) to the free market.

Trade tensions between the United States and China have brought Rare Earths back into the spotlight during the year. This has translated into increased interest in Lynas as a proven sustainable and secure Rare Earths supplier, with the ability to mitigate sourcing risks through long term agreements. In line with this, Lynas continues to focus on serving customer demand and supporting development of the market outside China. Lynas' ability to provide customers with the environmental assurance from mine to market was reinforced by receiving the gold medal award from Eco Vadis in its CSR assessment of our Malaysian operations. In addition, our workplace health and safety and environmental management ISO standards were maintained during the year at both operations.

Following the May 2018 election, the new government of Malaysia undertook a review Lynas' operations. In December 2018, the Pakatan Harapan government's scientific Executive Review Committee published its report that found Lynas Malaysia's operations are low risk and compliant with relevant regulations. This finding is consistent with the findings of three previous scientific reviews, including by the International Atomic Energy Agency.

Following year end, on August 22, 2019, Lynas Malaysia's operating licence was renewed for an initial period of 6 months. This renewal is excellent news and the terms of the renewal provide a clear pathway for our continued operation.



"This has generated further interest in Lynas as a secure and sustainable supplier." On behalf of my Board colleagues, I would like to extend our sincere thanks to our CEO Amanda Lacaze, the leadership team, and to all of the Lynas team for their hard work and focus. This ensured the Company delivered a strong performance despite a number of challenging conditions. This has led to Lynas' sustained position as the second largest Rare Earths company.

The Board also thanks you, our shareholders, for your support this year. We look forward to continuing to leverage Lynas' unique position, strategic customer relationships and growing demand for Lynas Rare Earth materials that will continue to support the Company's growth.

O. M. Haumal Mike Harding

Chairman



## **CEO** Review



The completion of the Lynas NEXT capacity building program during FY19 ensured that we delivered record production and strong financial results despite challenging conditions.

I am delighted to report that Lynas achieved our second full year profit as a Rare Earths company and another year of record Rare Earth Oxide production.

For the second consecutive year, cash flows from operating activities exceeded \$100m and this enabled the Company to further reduce debt and invest in Lynas NEXT activities.

These results reflect the sustained operational improvements delivered by our team this year. Our ability to produce NdPr at the higher Lynas NEXT rates was proven ahead of schedule, and we introduced new separated Nd and Pr products as part of our product range.

It is a testament to the hard work and dedication of our entire team that these improvements were accomplished in a year that presented some extremely challenging regulatory and market conditions.

During the year, the increased awareness of the global significance of Rare Earths reinforced Lynas' unique position as the only significant rest of world Rare Earths miner and producer. Our Lynas 2025 growth plan, announced to shareholders on May 21, 2019, will assist us to meet the forecast demand growth and consolidate our position as a preferred supplier of Rare Earth materials for digital age technologies.

## Key Financial Highlights

- Net profit after tax (NPAT) of \$80.0m (FY18: \$53.1m)
- Profit from operating activities (EBIT) was \$56.4m (FY18: \$81.0m)
- EBITDA of \$100.7m (FY18: \$121.9m)
- Net sales revenue steady at \$363.5m (FY18: \$374.1m)
- Cash flows from operating activities of \$104.1m (FY18: \$118.5m)
- Total Group debts reduced to \$193.0m (FY18: \$225.1m).

The ongoing support from our senior lender, JARE, was demonstrated through the agreement of new loan terms to the existing loan facility. The revised terms extend the facility to 2030, with a more favourable interest rate, to support the Company's Lynas 2025 growth plan.

"During the year, the increased awareness of the global significance of Rare Earths reinforced Lynas' unique position as the only significant rest of world Rare Earths miner and producer."

## Record Production & Unique Market Position

The Company achieved record Rare Earth Oxide (REO) and NdPr production in FY19. This was the result of Lynas NEXT improvements as well as quality improvements to La and Ce during the period. Ready for sale production of Neodymium-Praseodymium (NdPr) was 5,898 tonnes in FY19 compared to 5,444 tonnes in FY18. Total ready for sale production of Rare Earth Oxide (REO) was 19,737 tonnes in FY19 compared to 17,753 tonnes in FY18.

Net sales revenue was steady at \$363.5m compared to \$374.1m in FY18, as a result of lower market pricing during the year and a higher proportion of La and Ce sold compared to previous years, which delivered a lower average price. Due to Rare Earth market volatility, in the second half of the year we chose to reserve NdPr production for the current and future needs of our strategic customers. This led to a small inventory build by year end. As demand from outside China customers grows, we will continue to focus on serving these markets.

Our strong results and the current geopolitical and macroeconomic issues, have strengthened Lynas' unique position as the only significant rest of world miner and producer of sustainable Rare Earth materials.

## World-Class Operating Environment

I am very pleased to report that as a result of our unrelenting focus on workplace health and safety, Lynas Malaysia achieved 365 days LTI free in July 2019. This is a credit to our team and their commitment to our safety culture.

The safety of our people, our communities and the environment will always be our first priority. We demonstrate this through our ISO certifications, and by ensuring compliance with licence conditions and international standards throughout our operations in Western Australia and Malaysia.

This year we formalised our commitment to the United Nations principles of human rights, labour, environment and anti-corruption by becoming a signatory to the United Nations Global Compact, the world's largest corporate sustainability initiative. Additionally, on July 12, 2019, our Malaysian operation was awarded a gold medal in the latest EcoVadis CSR assessment, positioning us in the top 5% of all businesses evaluated. Further detail on these matters is included in the Lynas 2019 Sustainability Report.

## Challenging Regulatory & Market Conditions

Following the election of the Pakatan Harapan government in May 2018, a review of Lynas Malaysia's operations was undertaken in November 2018. In December 2018, the Pakatan Harapan government's scientific Executive Review Committee published its report which found that Lynas Malaysia's operations are low risk and compliant with relevant regulations. These findings are consistent with three previous national and international scientific reviews.



"The safety of our people, our communities and the environment will always be our first priority." Following extensive consultation with the Malaysian government, on August 22, 2019, Lynas Malaysia's operating licence was renewed for an initial period of 6 months. Subject to meeting specified conditions over the next six months, this renewal provides a clear pathway for our continued operation. As outlined in our ASX announcement on August 16, 2019, these conditions include obtaining consent from the Pahang State Government for the location of a Permanent Disposal Facility (PDF) for WLP residue and relocating cracking and leaching to Western Australia within 4 years. Our plan to relocate cracking and leaching to Western Australia was announced on May 21, 2019 as part of the Lynas 2025 growth plan.

While the trade tensions between the United States and China intensified interest in Rare Earth materials, the average China domestic price of NdPr (VAT excluded) decreased from US\$40.8/kg in July 2018 to US\$36.9/kg in May 2019, before increasing, albeit briefly, to US\$45.8/kg in June 2019.

The NdPr magnet market is currently weakened by the Chinese economy and temporary slow growth of the automotive market. However, the catalyst market is focused on long-term security of supply and we have now pre-sold Lanthanum production for the next 12 months.

Lynas is well positioned to benefit from the future demand growth of Rare Earth materials. In addition to our Lynas 2025 growth plans, we continue to prioritise long term strategic customer agreements and we are investing in R&D to grow our product suite, particularly higher quality, higher priced Ce and La materials.

## Lynas 2025: Growing with the Market

Following on from Lynas NEXT, we announced our five-year growth plan, Lynas 2025: Growing with the Market, at our first Investor Day on May 21, 2019.

Key elements of the Lynas 2025 growth plan are as follows:

- A larger business to meet forecast demand growth: increase capacity to 10,500 tpa of NAPR
- A diversified industrial footprint with processing facilities in optimal locations: cracking and leaching closer to our resource in Western Australia and downstream processing close to our customers
- Continuing to be the supplier of choice to non-Chinese customers with a fit for market product portfolio: proposed new Heavy Rare Earths facility in the United States and further product development
- Enhancing earnings: improved portfolio pricing and continued flow sheet and cost efficiencies
- A \$500m capital plan: self-funded with the support of our senior lender, JARE.

On May 20, 2019, we announced the signing of an MOU with a skilled partner in the United States, Blue Line Corporation, for a joint venture to develop Rare Earths separation capacity. The proposed Heavy Rare Earths separation facility in Hondo, Texas, will add to our downstream processing capability to meet current and future customer needs. The joint venture plans to separate Dysprosium (Dy), Terbium (Tb), and potentially some other Heavy Rare Earths from our SEG product at the Texas facility. As demand for Dy and Tb increases, this is a great opportunity to add value to our business and to further serve the needs of our customers.



"Lynas is well positioned to benefit from the future demand growth of Rare Earth materials."

Another part of our Lynas 2025 growth plan is the relocation of our cracking and leaching plant to Western Australia. We have received strong public support from the Western Australian Minister for Mines and Petroleum, and the local communities in both of the short-listed locations, Mt Weld and Kalgoorlie.

We look forward to updating you as we progress the implementation plans for Lynas 2025.

## Summary

This was another strong year for Lynas. Our excellent financial results and record production demonstrate the resilience we have developed, given the significant market and regulatory challenges faced during the year.

I would like to thank all of our people for their hard work and dedication during the year. We are fortunate to have a leadership team who share an unwavering commitment to our people and to our Company's success and I extend my sincere thanks to them. I would also like to thank my Board colleagues for their support and guidance through a particularly complex year.

I would also like to thank you, our shareholders, for your continued support of our business. I look forward to keeping you updated on our progress in the 2020 financial year.

Amanda Lacaze

**Chief Executive Officer and Managing Director** 

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and
Controlled Entities

# Consolidated Financial Report

For the year ended June 30, 2019



## **Corporate Directory Information**

## ABN 27 009 066 648

## Directors

Mike Harding Kathleen Conlon Amanda Lacaze Philippe Etienne John Humphrey Grant Murdoch

## **Company Secretary**

Andrew Arnold Ivo Polovineo

## **Registered Office**

Suite 3, 5 Tully Road East Perth WA 6004 Telephone: +61 8 6241 3800 Fax: +61 8 9242 7219 Email: general@lynascorp.com

## **Share Register**

Boardroom Pty Ltd Level 12, Grosvenor Place 225 George Street Sydney NSW 2000 Telephone: +61 2 9290 9600 Fax: +61 2 9279 0664 Email: enquiries@boardroomlimited.com.au

## **Auditors**

Ernst & Young 11 Mounts Bay Road Perth WA 6000

## Internet Address

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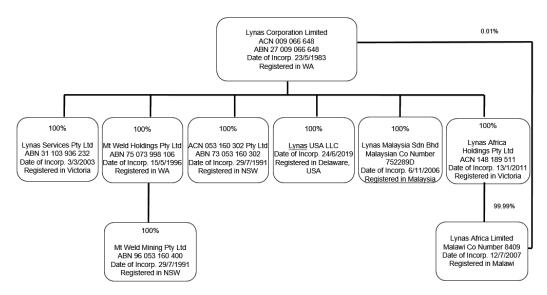
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#### **Directors' Report**

The Board of Directors (the "Board" or the "Directors") of Lynas Corporation Limited (the "Company") and its subsidiaries (together referred to as the "Group") submit their report for the year ended June 30, 2019. In order to comply with the provisions of the *Corporations Act 2001*, the Directors report as follows:

#### Corporate information

Lynas Corporation Limited is limited by shares and is incorporated and domiciled in Australia. The Group's corporate structure is as follows:



#### **DIRECTORS**

The names and details of the Company's Directors who were in office during or since the end of the financial year are as set out below. All Directors were in office for this entire period unless otherwise stated.

Mike Harding MSc (MecEn) - Chairman

Mr Harding joined the Company as Non-Executive Chairman on January 1, 2015 and has significant experience with industrial businesses, having previously held management positions around the world with British Petroleum (BP), including as President and General Manager of BP Exploration Australia.

Mr Harding is currently Chairman of Downer EDI Ltd, Chairman of Horizon Oil Limited, and a Non-Executive Director of Cleanaway Waste Management Limited (formerly Transpacific Industries Group Ltd). He is a former Chairman of Roc Oil Company Limited and a former Non-Executive Director of Santos Limited and Clough Limited.

Mr Harding is a member of the Health, Safety and Environment Committee and Nomination, Remuneration and Community Committee.

Amanda Lacaze BA, MAICD - Managing Director

Ms Lacaze was appointed as Managing Director and Chief Executive Officer of the Company on June 25, 2014 following her appointment as a Non-Executive Director of the Company on January 1, 2014.

Ms Lacaze brings more than 25 years of senior operational experience to Lynas, including as Chief Executive Officer of Commander Communications, Executive Chairman of Orion Telecommunications and Chief Executive Officer of AOL|7. Prior to that, Ms Lacaze was Managing Director of Marketing at Telstra and held various business management roles at ICI Australia (now Orica and Incitec Pivot). Ms Lacaze's early experience was in consumer goods with Nestle.

Ms Lacaze is currently a Non-Executive Director of ING Bank Australia Ltd and is a member of Chief Executive Women and the Australian Institute of Company Directors. Ms Lacaze holds a Bachelor of Arts Degree from the University of Queensland and postgraduate Diploma in Marketing from the Australian Graduate School of Management.

Kathleen Conlon BA (Econ) (Dist.), MBA, FAICD - Non-Executive Director

Ms Conlon was appointed as a Non-Executive Director from November 1, 2011. Ms Conlon is currently a Non-Executive Director of REA Group Limited, Aristocrat Leisure Limited and The Benevolent Society and a former Non-Executive Director of CSR Limited. She is also a member of Chief Executive Women, former President of the NSW division of the Australian Institute of Company Directors and a former member of the National Board of the Australian Institute of Company Directors. Ms Conlon is also a former Chairperson of the audit committee of the Commonwealth Department of Health. Prior to her Non-Executive Director career, Ms Conlon spent 20 years in professional consulting where she successfully assisted companies to achieve increased shareholder returns through strategic and operational improvements in a diverse range of industries.

Ms Conlon is one of the pre-eminent thought leaders in the area of operations and change management, both in Australia and globally. In 2003, Ms Conlon was awarded the Commonwealth Centenary medal for services to business leadership.

Ms Conlon is the Chair of the Nomination, Remuneration and Community Committee and a member of the Health, Safety and Environment Committee.



Philippe Etienne MBA, BSc (Phys) (Pharm) - Non-Executive Director

Mr Etienne joined the Company as a Non-Executive Director on January 1, 2015. He is a Non-Executive Director of Cleanaway Waste Management Limited (formerly Transpacific Industries Group Ltd) and ANZ Terminals Pty Ltd. Mr Etienne was also the former Managing Director and Chief Executive Officer of Innovia Security Pty Ltd.

Previously, he was Chief Executive Officer of Orica Mining Services and was a member of Orica Limited's Executive Committee. Mr Etienne is a graduate of the Australian Institute of Company Directors. His career includes senior executive positions with Orica in Australia, the USA and Germany including strategy and planning and responsibility for synergy delivery of large scale acquisitions.

Mr Etienne is the Chair of the Health, Safety and Environment Committee and a member of the Audit and Risk Committee.

John Humphrey LLB - Non-Executive Director

Professor Humphrey joined the Company as a Non-Executive Director on May 15, 2017. His key areas of expertise include mergers and acquisitions, corporate finance and corporate governance.

Professor Humphrey is a consultant to King & Wood Mallesons. He was the Dean of the Faculty of Law at Queensland University of Technology until June 2019. He has held non-executive director positions at other listed companies over many years and is currently Chairman and Non-Executive Director of Auswide Bank Ltd (formerly Wide Bay Australia) and Spotless Group Holdings Ltd. His previous positions include Non-Executive Director of Horizon Oil Ltd, Deputy Chairman of King & Wood Mallesons, Non-Executive Director of Downer EDI Ltd, Villa World Ltd, and Sunshine Broadcasting Network Ltd. He has also served as a member of the Australian Takeovers Panel.

Professor Humphrey is a member of the Audit and Risk Committee and Nomination, Remuneration and Community Committee.

Grant Murdoch, M COM (Hons), FAICD, FCA - Non-Executive Director

Mr Murdoch joined the Company as a Non-Executive Director with effect from October 30, 2017. Mr Murdoch has more than 38 years of chartered accounting experience. From 2004 to 2011, Mr Murdoch led the corporate finance team for Ernst & Young Queensland and was an audit and corporate finance partner with Deloitte from 1980 to 2000. Mr Murdoch has extensive experience in providing advice in relation to mergers, acquisitions, takeovers, corporate restructures, share issues, pre-acquisition pricing due diligence advice, expert reports for capital raisings and initial public offerings.

Mr Murdoch is currently a Non-Executive Director and chair of the audit committee of the listed entities ALS Limited, OFX Group Ltd and Redbubble Limited. He was previously a director and the chair of the audit committee for QIC from 2011 to 2017. He is also a senator of the University of Queensland (as well as chair of the risk committee and member of the finance committee), an adjunct professor at the University of Queensland Business School and a director of UQ Holdings Limited. Mr Murdoch has a Master's degree in Commerce (Honours) from the University of Canterbury, New Zealand, is a graduate of the Kellogg Advanced Executive Program and the Advanced Leadership Program at Northwestern University. He is a fellow of both the Institute of Chartered Accountants in Australia and New Zealand and of the Australian Institute of Company Directors. He is a member of the AICD State Council for Queensland for the Australian Institute of Company Directors.

Mr Murdoch is the Chair of the Audit and Risk Committee.

#### Resignations

There were no resignations of directors during the year and before the date of this report.

## **COMPANY SECRETARIES**

Andrew Arnold

Mr Arnold was appointed as General Counsel and Company Secretary to the Group on July 23, 2008, following 15 years as a lawyer at Deacons, including six years as a Partner. During that time Mr Arnold also spent two years on secondment at Riddell Williams, Seattle. In his role at Deacons he had been overseeing the legal work of the Group since 2001. Mr Arnold is the responsible person for communication with the Australian Securities Exchange (ASX) in relation to listing rule matters.

Ivo Polovineo

Mr Polovineo, appointed as Joint Company Secretary on October 20, 2014, was previously Chief Financial Officer and Company Secretary for Sino Gold Mining Limited, formerly an ASX 100 company. He was with Sino Gold for 12 years as part of the executive team. Mr Polovineo is a Fellow of the Institute of Public Accountants (FIPA) with 35 years' experience as a CFO and Company Secretary including 25 years in the resources sector. Mr Polovineo is also Company Secretary of Variscan Mines Limited, Silver City Minerals Limited and Thomson Resources Ltd.

#### Remuneration of key management personnel

Information about the remuneration of key management personnel is set out in the remuneration report of this Directors' Report. The term 'key management personnel' refers to those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any Director of the Company.

## Nature of operations and principal activities

The principal activities of the Group are:

- · Integrated extraction and processing of Rare Earth minerals, primarily in Australia and Malaysia; and
- Development of Rare Earth deposits.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Except as disclosed in the review of operations the factors and business risks that affect future performance and the subsequent events, there have been no significant changes in the state of affairs of the Group during the current financial year.

#### Performance review

The Directors together with management monitor the Group's overall performance from implementation of the strategic plan through to the operating and financial performance of the Group.

#### Review of operations

#### Highlights

- Lynas recorded a net profit after tax of \$80.0m (FY18: \$53.1m), representing the second consecutive annual net profit for the Rare Earths Group. Profit from operating activities was \$56.4m (FY18: \$81.0m) despite financial performance being affected by difficult regulatory environment and subdued market conditions compared to the prior year.
- Lynas has continued to consolidate its position as the world's second largest Rare Earths producer and the largest supplier of Neodymium-Praseodymium (NdPr) to the free market, with strong customer relationships in all key jurisdictions. In FY19, the Group achieved record total sales volumes of 19,154 REOt (FY18: 17,672 REOt). Net sales revenue was steady at \$363.5m (FY18: \$374.1m)
   This result reflects lower market pricing in FY19 and a higher proportion of La and Ce in the sales volume compared to previous years, delivering a lower average price.
- The Lynas NEXT expansion program was substantially complete at Lynas Malaysia and at Mt Weld, Western Australia.
- Improvements in the production process from the Lynas NEXT program enabled Lynas to successfully demonstrate the Group's
  capacity to produce at higher rates during the year. Ready for sale production of Neodymium-Praseodymium (NdPr) was 5,898 REOt
  in FY19 compared to 5,444 REOt in FY18. Total ready for sale production of rare earth oxide (REO) in FY19 was 19,737 REOt
  compared to 17,753 REOt in FY18. These results included equipment shutdowns associated with Project NEXT and a temporary
  shutdown due to regulatory reasons in December 2018.
- Cash flows from operating activities exceeded \$100m for the second consecutive year. Positive operational cash flows of \$223m over
  the past 24 months have allowed the Group to invest in expansion activities and reduce debt.
- New terms were agreed with JARE on June 27, 2019 regarding the existing JARE loan facility. The revised terms extend the facility
  to 2030, with a more favourable interest rate, demonstrating the ongoing support from the Group's lenders.
- Convertible Bond holders converted a further US\$1.6m of the issued bonds during the year, reducing the principal amount of the outstanding convertible bonds to US\$13.7m at June 30, 2019.
- The new Nd and Pr separation circuit was successfully commissioned as part of Lynas NEXT and first production and sales of separated Nd and Pr were delivered.
- Commenced Mining Campaign 3 at Mt Weld.

#### Mt Weld

The Lynas mine at Mt Weld, Western Australia continued to operate safely and efficiently throughout the year.

Overburden removal for Mining Campaign 3 was substantially completed at Mt Weld, Western Australia during the period, and ore is now being mined and stockpiled. A locally based company who conducted the previous two mining campaigns is the contractor for this mining campaign.

Several Lynas NEXT improvements were completed at Mt Weld during the financial year including:

- A major update of the Mt Weld Mineral Resources and Ore Reserves Statement was announced on August 6, 2018 with a 70% increase in Mineral Resource and a 60% increase in Ore Reserve. Transition and fresh mineralisation were included for the first time as Inferred Resource. The Duncan deposit was included in the Ore Reserve for the first time. The updated Ore Reserve has confirmed a 25+ year life at Lynas NEXT rates (7000t NdPr/annum).
- · The construction of the third Tailings Storage Facility (TSF3) was completed and has been commissioned.
- A sump has been excavated in the eastern diversion channel and two of the four planned aquifer re-injection wells have been drilled and installed.
- Commissioning of the Pre-Rougher Stack Cell, one of the Lynas NEXT initiatives, commenced at the start of May 2019. The Stack Cell incorporates froth washing to reduce entrainment. The Stack Cell concentrate meets specifications and is being sent to final concentrate. Reclamation of Duncan ore from the stockpile for crushing and screening has commenced.
- Duncan ore will be included in the concentrator feed blend from the start of July 2019 and should reach Malaysia late in the first quarter
  of FY20. The Duncan ore zone is an extension of the high grade Central Lanthanide Deposit (CLD) with higher levels of Heavy Rare
  Earths including Dy.

#### Lynas Malaysia

Production from the Lynas Malaysia plant continued to grow reaching a total of 19,737 tonnes including 5898 tonnes of NdPr. Safety performance continue to improve. At the end of the year, we had achieved 365 days LTI free. This good performance has continued into FY20.

Key Lynas NEXT initiatives completed during FY19 include:

- The upgrade of the kiln waste gas treatment circuits was completed. There is now a dedicated spray tower for each of the four kilns, all with a new design spray system which reduces emissions to below the new regulatory limits.
- The new Solvent Extraction (SX) circuits to increase the production of La and Ce were optimised. This included the additional SX circuits to remove impurities.
- One of the four SX5 trains was converted to be the first part of a two-stage circuit to separated Nd and Pr.
- Product Finishing (PF) circuits were upgraded for the increased production of La and Ce, and the production of separated Nd and Pr.
   The first production of Nd oxide was delivered in December 2018 with the first Pr oxide produced in February 2019.
- Since commissioning, a key production focus has been the stabilisation and optimisation of the new SX and PF circuits to meet a range of product specifications (over a dozen in total).
- A third, larger water storage pond was constructed as part of the Lynas NEXT project and has now been commissioned. This will
  reduce the impact of any future water supply disruptions at the Lynas Malaysia plant.



Management of residues from the Malaysian plant continues to be an area of focus. Lynas stores all residues produced in storage facilities. These are PDF compliant above ground, engineered cells that have been approved by the regulators. Lynas also invests in research to develop new and improved options to reduce and reuse residues. The Group is required to pay security deposit instalments to the Malaysian Government's Atomic Energy Licencing Board ("AELB") totalling US\$50.0 million in the form of cash and cash-backed bonds, in accordance with the conditions of the Full Operating Stage Licence for the Lynas Malaysia plant. During FY19, the Group deposited a further US\$7.8m in cash-backed bonds. This amount is available for dealing with residues in the future, should it be required. The total amount deposited in cash and cash-backed bonds is currently US\$42.2m. Security bonds or guarantees are international best practice in the mining and minerals processing industry future as a monetary safeguard to fund residue management or site remediation if the need arises.

The Lynas Malaysia plant produces two solid residues as follows:

- WLP Iron phosphate, classified as very low level radioactive material in accordance with IAEA guidelines, regulated by the AELB.
- **NUF** Magnesium rich gypsum which is non-radioactive and non-toxic. Regulated by the Department of Environment (DOE) as a "scheduled waste" under Malaysian regulations.

Lynas Malaysia's Rare Earths processing plant in the Gebeng Industrial Estate has operated safely for over six years and Lynas has achieved a high level of acceptance among our local communities. The company has undertaken extensive community engagement and education programs including community days, site visits and supported assistance programs for students, the elderly and disadvantaged members of our local communities. Lynas has also communicated important information regarding the Group's operations in Gebeng via national media and social media. In December 2018, the Pakatan Harapan government's scientific Executive Review Committee published its report that found Lynas Malaysia's operations are low risk and compliant with relevant regulations. This was the latest of four national and international scientific reviews to have found that Lynas Malaysia is low risk and compliant with laws and regulations.

On August 15, 2019, the Group announced final approval of the long term solution for NUF residue that was originally announced on February 14, 2019. The long term solution includes commercialisation options for NUF and long term NUF disposal.

On August 22, 2019, the Group confirmed the renewal of the Lynas Malaysia operating licence for an initial period of 6 months. During that 6 month period, the Group is required to obtain consent for the location of a Permanent Deposit Facility (PDF) for WLP residue. In addition, the Group is required to relocate Cracking & Leaching, the first stage of its operations currently located in Malaysia, to Western Australia within 4 years. The Group plans to implement that relocation as part of the Lynas 2025 growth plan.

#### Malawi Deposit

Since fiscal year 2012, no further capital investment has been made on the Kangankunde Rare Earths ("KGK") resource development in Malawi and the project remains on hold while the Malawi deposit remains the subject of an ongoing title dispute. As announced on January 22, 2019, the Malawi government has purported to cancel the Group's Malawi mining lease and the Group is initiating judicial review proceedings in the Malawi courts challenging that decision.

## Lynas 2025 Growth Plan

On May 21, 2019, the group announced its Lynas 2025 Growth Plan. The key elements of the Lynas 2025 Growth Plan include expanding production capacity to 10,500mt per annum of NdPr products, relocating cracking and leaching operations to Western Australia and the proposed establishment of heavy rare earths separation capability in the United States of America via the proposed Joint Venture with Blue Line Corporation.

## **Wesfarmers Limited**

On March 26, 2019, Wesfarmers Limited (Wesfarmers) announced an unsolicited, conditional, indicative, non-binding proposal to acquire the shares of Lynas Corporation Limited. Subsequently, on August 22, 2019, Wesfarmers announced that it does not intend to pursue its proposal.

## Health, Safety and Environment

Certification to the OHSAS 18001 (Occupational Health and Safety Management Systems), ISO 14001 (Environmental Management Systems) and ISO 9001 (Quality Management Systems) standards were maintained during the year for both the western Australian and Malaysian operations. The Group undertook ISO recertification audits in July and August 2018 and is currently undertaking recertification audits for 2019.

The 12-month rolling lost time injury frequency rate as at June 30, 2019 was 0.9 per million hours worked (2018: 2.2 per million hours). The Company continued to carefully manage all residues, air, water and solid, and consistently met or exceeded its licence requirements in both of its operating locations.

#### **Financial and Operational Performance**

#### **Revenue and Sales Volumes**

Sales by tonnage and value		FY16	FY17	FY18	FY19	Percentage change
Sales volume	(REOt)	12,514	14,616	17,672	19,154	8%
Cash receipts from customers	(A\$m)	202.6	260.4	383.1	367.5	(4%)
Sales revenue	(A\$m)	191.0	257.0	374.1	363.5	(3%)
Average selling price	(A\$/kg)	15.3	18.0	21.6	19.0	(12%)

The improved sales volumes reflected continued improvement in production rates, consistent demand for NdPr products above current capacity to supply and further quality improvements for Cerium (Ce) and Lanthanum (La) products.

#### Market Prices

The average China domestic price of NdPr (VAT excluded) decreased from US\$40.8/kg in July 2018 to US\$36.9/kg in May 2019, before increasing, albeit briefly, to US\$45.8/kg in June 2019.

The US-China trade tensions have brought Rare Earths back into the spotlight, raising concerns regarding security of supply and risks associated with single sourcing. This has translated into renewed interest in Lynas as a secure and sustainable supplier able to mitigate sourcing risks through long term agreements, in line with the strategy that Lynas has presented to the market for several years. However, the roll-out of this strategy varies depending on market segments:

- While most magnet buyers seek long term security of supply with multiple supply chains, demand is currently weakened by the Chinese economy and the temporary slow growth of the automotive market. Additional contracts in this sector will be negotiated into the future.
- In the catalyst market, negotiations have proceeded more quickly as buyers address the best sourcing strategies for their long term business. As an example, Lynas has now pre-sold most of its Lanthanum supply for the next 12 months.

Lynas is primarily focused on serving customer demand and supporting development of the market outside China. Demand in these markets remains strong and Lynas is making excellent progress towards its objective of selling all production to outside China markets.

In FY19, Lynas has increased its investment in R&D with a key focus on producing higher quality, higher priced Ce and La materials. This R&D includes proprietary developments and customer specific projects. The markets for these materials are known and customers are keen for Lynas to bring these products to market. It is expected this will occur over the next 2 years.

#### **Costs and Production Volumes**

Costs by tonnage and value		FY16	FY17	FY18	FY19	Percentage change
Ready for sale production volume total	(REOt)	12,631	16,003	17,753	19,737	11%
Ready for sale production volume NdPr	(REOt)	3,896	5,223	5,444	5,898	8%
Cost of sales (Cash)	(A\$m)	(220.5)	(242.2)	(253.0)	(273.1)	8%
Average cost of sales per REOt sold	(A\$/kg)	17.5	15.1	14.3	13.8	(3%)

Record annual production rates were achieved for both total REO and NdPr during the period. In addition, the Group achieved a slight reduction in the average cost of sales per REOt sold during the year. This continues a downward trend for several years and the Group continues to develop processes to increase efficiency and reduce costs.

## Cash and Cash flows

In A\$m	FY18	FY19
Net operating cash inflows	118.5	104.1
Net investing cash outflows	(53.5)	(40.6)
Net financing cash outflows	(86.8)	(16.8)
Net cash flows	(21.8)	46.7
Cash and cash equivalents	42.3	89.7

Net operating cash flows in excess of \$100m were maintained for the second consecutive year as a result of increased sales and production volumes and a continued focus on cost management. Net investing cash outflows included a deposit paid as security to the AELB of \$10.3m and payments for property, plant and equipment and others of \$32.3m, including costs allocated to non-current assets as part of Mining Campaign 2 and 3. These outflows have been offset by proceeds from interest received of \$2.0m. Net financing cash outflows decreased significantly with repayments of the JARE loan facility of \$7.0m (FY18: \$65.5m) and a further \$9.8m (FY18: \$27.7m) in interest on borrowings.

## **Debt and Capital**

		FY17	FY18	FY19
JARE loan	A\$m	260,072	207,449	174,919
Convertible bonds	A\$m	233,287	17,663	18,062
Total borrowings		493,359	225,112	192,981
Financial income	A\$m	0.2	1.2	2.3
Financial expenses	A\$m	(47.3)	(49.7)	(22.0)
Interest forgiven on JARE loan	A\$m	-	20.8	-
Gain on extinguishment of debt	A\$m	37.3	-	43.4



US\$1.6m of convertible bonds were converted during the year, leaving an outstanding principal of US\$13.7m at June 30, 2019. The A\$ equivalent present value of the bonds increased due to accretion of interest and exchange rate movements over the period.

Principal repayments of US\$3.0m (AU\$4.4m) in January 2019 and a further US\$1.9m (A\$2.6m) in June 2019 were made on the JARE loan facility. The new terms of the JARE facility announced on June 27, 2019 resulted in a \$43.4m gain on the extinguishment of the old facility and recognition of the new facility. The financial expenses have decreased by 56% as a result of lower interest expense based on lower principal balances for both the JARE facility and the convertible bonds.

During the year ended June 30, 2019, the Company issued shares as shown below:

	Number (000's)
Shares on issue June 30, 2018	662,547
Issue of shares pursuant to conversion of convertible bonds	2,120
Issue of shares pursuant to exercised performance rights	3,135
Shares on issue June 30, 2019	667,802

In addition to the ordinary shares on issue there were the following unlisted convertible bonds and warrants on issue:

	Number (000's)
Unlisted convertible bonds (Conversion price: \$1.00 at a set exchange rate of A\$1.00 = US\$0.75)	13,652
Unlisted warrants (Exercise price: \$0.50)	23,256

Subsequent to June 30, 2019, all unlisted warrants were exercised as described in Note E.10.

#### Performance rights

As at June 30, 2019, the Company had the following options and performance rights on issue:

	Number (000's)
Performance rights	9,044

#### Earnings per share

For the year ended June 30	FY18	FY19
Basic earnings per share (cents per share)	8.84	12.04
Diluted earnings per share (cents per share)	8.29	11.47

#### Dividends

There were no dividends declared or paid during the year ended June 30, 2019 (2018: nil) and no dividends have been declared or paid since June 30, 2019.

## Risk management

The Group takes a proactive approach to risk management. The Directors are responsible for ensuring that risks and opportunities are identified on a timely basis and that the Group's objectives and activities are aligned with these risks and opportunities.

The Group believes that it is crucial for Directors to be a part of this process, and as such has established an Audit and Risk Management Committee and a Health, Safety and Environment Committee.

#### FACTORS AND BUSINESS RISKS THAT AFFECT FUTURE PERFORMANCE

Lynas operates in a changing environment and is therefore subject to factors and business risks that will affect future performance. The following factors and business risks could have a material effect on Lynas' future results from an operations and financial position:

#### Rare earth prices

Lynas' revenue is affected by market fluctuations in Rare Earth prices. This is because the product prices used in the majority of Lynas' sales are calculated by pricing formulae that reference published pricing for various Rare Earths materials. The market price has been volatile in the past because it is influenced by numerous factors and events that are beyond the control of Lynas. These include:

- (i) Supply side factors
  - Supply side factors are the most significant influence on price volatility for Rare Earth materials. Supply of Rare Earth materials is dominated by Chinese producers. The Chinese Central Government regulates production via quotas and environmental standards. Over the past few years, there has been significant restructuring of the Chinese market in line with China Central government policy. However, periods of over supply or speculative trading of Rare Earths can lead to significant fluctuations in Rare Earth pricing.
- (ii) Geopolitical Factors
  - Recently Rare Earths have been the focus of significant attention, including as a result of the recent trade tensions between the US and China.

The table below illustrates how China domestic prices of NdPr (excluding VAT) have moved over FY19:

	September 2018 Quarter	December 2018 Quarter	March 2019 Quarter	June 2019 Quarter
US\$/kg	40.8	39.3	38.5	39.1

Lynas' approach to reducing pricing volatility for its customers includes:

- Promoting fixed pricing to its direct customers, set for periods relevant to customer operations;
- Developing long term contracts that aim to reduce price variations for end users and OEMs such as car makers and wind turbine
  manufacturers.

Lynas achieved a small price premium compared to the NdPr market price, supported by:

- Sustained demand from the Japanese market and selected customers in China;
- The recognition by the market that Lynas is now well established as the second largest producer of Rare Earths in the world;
- End users placing more importance on being able to trace the origin of rare earths from a sustainable and auditable source of production to their end products, which Lynas can fulfil.

#### Market competition

Lynas' rare earths supply contracts and profits may be adversely affected by the introduction of new mining and separation facilities and any increase in competition in the global rare earths market, either of which could increase the global supply of rare earths and thereby potentially lower prices.

#### Exchange rates

Lynas is exposed to fluctuations in the US dollar as all sales are denominated in US dollars. The Company borrows money and holds a portion of cash in US dollars, which provides the Group with a partial natural hedge.

Accordingly, Lynas' income from customers, and the value of its business, will be affected by fluctuations in the rates by which the US dollar is exchanged with the Australian dollar.

Lynas is exposed to fluctuations in the Malaysian ringgit (MYR) as the currency that dominates the Group's cash operating outflows is MYR. In addition, most of the Group's non-current assets are Lynas Malaysia assets which are denominated in MYR.

Adverse movements in the Australian dollar against the US dollar and the MYR may have an adverse impact on Lynas. The following table shows the average USD/AUD and MYR/AUD exchange rates over the past five years:

	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
	\$	\$	\$	\$	\$
USD/AUD	0.7156	0.7391	0.7545	0.7283	0.8382
MYR/AUD	2.9521	2.9837	3.2331	3.0098	2.8828

A devaluation in the Chinese Yuan would increase attractiveness in Chinese exports and China's internal supply. Fluctuation in the Chinese Yuan against the US Dollar therefore increases the foreign exchange exposure of the Group as well. Refer to Note C.5 to the Financial Statements for details of the Company's foreign currency exposure and sensitivity analysis.

#### Operating and development risks

Lynas' operations and development activities could be affected by various unforeseen events and circumstances, such as hazards in exploration, the ability of third parties to meet their commitments in accordance with contractual arrangements, the realisation of tonnages and grades of ore and performance of processing facilities against design specification. Factors such as these may result in increased costs, lower production levels and, following on from that, lower revenue levels. Any negative outcomes flowing from these operational risks could have an adverse effect on Lynas' business, financial condition, profitability and performance.

Lynas undertakes regular reviews of its operational, development and business interruption risks. Lynas seeks to minimise the potential damage flowing from these risks by obtaining business interruption insurance for certain events and, where available, indemnities from suppliers and contractors.

#### Debt facilities

Lynas has financing arrangements in place which are subject to acceleration and enforcement rights in the event a default were to arise under them. To date, the Japan Australia Rare Earths B.V. (JARE) loan facility has been secured over all the assets of the Group, other than Malawi assets. Pursuant to the amendments announced on June 27, 2019, JARE agreed to release the following securities within 2 months: (i) Deed of Charge - All Assets (Malaysia) and (ii) Malaysian Real Property Mortgage.

Enforcement may involve enforcement of security over the assets of Lynas and its material subsidiaries, including appointing a receiver. The principal amount of the JARE facility was US\$145.0m as at June 30, 2019. The principal amount will be due for repayment in fixed loan repayments between December 31, 2021 and June 30, 2030, as detailed in Note C.3 to the Financial Statements.

In addition, the principal amount of the convertible bonds was US\$13.7m as at June 30, 2019. Unless the convertible bonds are fully converted into ordinary shares in Lynas prior to maturity, the principal amount will be due for repayment on September 30, 2020.

In the event significant uncertainty arises in relation to Lynas' ability to fully repay, refinance or reschedule the outstanding balances of the JARE loan facility and the convertible bonds by their respective maturity dates of June 30, 2030 and September 30, 2020, the Group's ability to continue as a going concern may also be affected.



Regulatory and title risk

Changes in legislative and administrative regimes, taxation laws, interest rates, other legal and government policies in Australia and Malaysia may have an adverse effect on the assets, operations and ultimately the financial performance of Lynas and the market price of Lynas shares.

Lynas' mining and production activities are dependent on the granting and maintenance of appropriate licences, permits and regulatory consents and authorisations (including those related to interests in mining tenements and those related to the operation of the Lynas plants in Australia and Malaysia), which may not be granted or may be withdrawn or be made subject to limitations at the discretion of government or regulatory authorities. Although such licences, permits and regulatory consents and authorisations may be granted, continued or renewed (as the case may be), there can be no assurance that such licences, permits and regulatory consents and authorisations will be granted, continued or renewed, or as to the terms of renewals or grants. If there is a failure to obtain or retain the appropriate licences, permits and regulatory consents and authorisations, or if there is a material delay in obtaining or renewing them or they are granted subject to onerous conditions or withdrawn, then Lynas' ability to conduct its mining and production activities may be adversely affected.

The Group requires various licences and approvals for its operations at both sites, and such licences and approvals customarily require renewal on a periodic basis.

#### Health, safety and environment

Lynas is subject to extensive laws and regulation in respect of the health and safety of our people and communities, and the protection and rehabilitation of the environments within which we operate. Lynas must comply with known standards, existing laws and regulations which may entail greater or lesser costs and delays depending on the nature of the activity to be permitted and the implementation of the regulations by the permitting authority. Changes in weather patterns and unanticipated or severe weather events could also have an adverse impact on Lynas' operations and market conditions.

Health, safety and environment matters are a key focus area for Lynas. The Group is committed to providing and maintaining a healthy and safe work environment and to comply with all relevant environmental legislation and other relevant requirements. Sanctions for non-compliance with these laws and regulations may include administrative, civil and criminal penalties, revocation of permits and corrective action orders. These laws sometimes apply retroactively. In addition, a party can be liable for environmental damage without regard to that party's negligence or fault. Given the sensitive nature of this area, Lynas may be exposed to litigation and foreseen and unforeseen compliance and rehabilitation costs despite its best efforts.

#### Political risks and government actions

Lynas' operations could be affected by government actions in Australia, Malaysia and other countries or jurisdictions in which it has interests. Lynas is subject to the risk that it may not be able to carry out its operations as it intends, including because of a change in government, legislation, regulation or policy. Lynas also may not be able to ensure the security of its assets located outside Australia, and is subject to risks of, among other things, loss of revenue, property and equipment if action was taken by governments, political or social groups or activists, or regulators, or if there was an increase in taxes or government royalties. The emergences of such risks, and their consequences, is difficult to predict and any combination of one or other of the above may have a material adverse effect on Lynas.

The change of government in Malaysia that occurred in May 2018 created additional political focus on the business, which creates additional risks for the business. In order to continue operating the business as currently projected, Lynas will need to continue to receive new licences, renewals of existing licences and variations of the terms of existing licences. Examples may include increases to concentrate import volumes, additional residue storage approvals and periodic renewals of licences. Such amendments would require approval from the relevant regulatory authorities acting in accordance with government policy and licence conditions.

## BASIS OF REPORT

The report is based on the guidelines in The Group 100 Incorporated publication Guide to the Review of Operations and Financial Condition.

## **ENVIRONMENTAL REGULATION AND PERFORMANCE**

The Group is bound by the requirements and guidelines of the relevant environmental protection authorities for the management and rehabilitation of mining tenements owned or previously owned by the Group. Mining tenements are being maintained and rehabilitated following these guidelines. There have been no known breaches of any of these conditions.

We continue to focus on ensuring positive relationships with regulators and local communities, and compliance with regulatory requirements in both jurisdictions in which we operate.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Except as disclosed in the review of operations, the factors and business risks that affect future performance and the subsequent events, there have been no significant changes in the state of affairs of the Group during the year ended June 30, 2019.

## CORPORATE GOVERNANCE STATEMENT

The Corporate Governance Statement of the Group, current on the date that the Directors' Report is signed in accordance with a resolution of Directors made pursuant to s.298 (2) of the Corporations Act 2001, is located on the Group's website, <a href="www.lynascorp.com">www.lynascorp.com</a>.

## SHARES ISSUED UPON EXERCISE OF PERFORMANCE RIGHTS

During the financial year 3,134,524 Performance Rights were exercised as set out in Note E.7 to the Financial Statements.

#### INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During or since the end of the financial year, the Group has paid a premium in respect of a contract insuring all Directors and Officers of the Group against liabilities incurred as a Director or Officer of the Group, to the extent permitted by the *Corporations Act 2001*, that arise because of the following:

- (a) a wilful breach of duty; or
- (b) a contravention of sections 182 or 183 of the Corporations Act 2001, as permitted by section 199B of the Corporations Act 2001.

The total amount of insurance contract premiums paid was \$711,543 (2018: \$526,086). This amount is not included as part of the Directors' remuneration in Note E.7 to the Financial Statements.

#### INDEMNIFICATION AND INSURANCE OF AUDITOR

During or since the end of the financial year, the Group entered into an agreement with its auditors, Ernst & Young, indemnifying them against any claims by third parties arising from their report on the Annual Financial Report, except where the liability arises out of conduct involving a lack of good faith. No payment has been made to indemnify Ernst & Young during or since the financial year.

#### **NON-AUDIT SERVICES**

During the year Ernst & Young, the Group's auditor, has performed certain other services in addition to the audit and review of the Financial Statements

Details of amounts paid or payable to the auditor for non-audit services provided during the year are outlined in Note E.3 to the Financial Statements. The Directors have considered the non-audit services provided during the year by the auditor, and are satisfied that the provision of non-audit services by the auditor during the year is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- (a) All non-audit services were subject to the corporate governance procedures adopted by the Group and have been reviewed by the Audit and Risk Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- (b) The non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards.

Committee membership

During the financial year, the Group had the following Committees of the Board of Directors: Audit & Risk Committee, Health Safety & Environment Committee, and Nomination, Remuneration and Community Committee.

Directors acting on the Committees of the Board during the year ended June 30, 2019:

Audit & Risk	Health, Safety & Environment	Nomination, Remuneration & Community
G. Murdoch <sup>(c)</sup>	P. Etienne <sup>(c)</sup>	K. Conlon <sup>(c)</sup>
P. Etienne	K. Conlon	M. Harding
J. Humphrey	M. Harding	J. Humphrey

(c) Chair of Committee

As summarised in the Corporate Governance Statement, the Audit & Risk Committee consists of independent Directors.

The number of Directors' meetings held during the year and the number of meetings attended by each Director was as follows:

	Directors' Meetings	Audit & Risk	Health, Safety & Environment	Nomination, Remuneration & Community
Number of meetings held:	12	5	5	4
Number of meetings attended:				
M. Harding	11	-	4	3
A. Lacaze	12	-	-	-
K. Conlon	11	-	5	4
P. Etienne	12	5	5	-
J. Humphrey	12	5	-	4
G. Murdoch	12	5	-	-

#### **AUDITOR'S INDEPENDENCE DECLARATION**

We have obtained an independence declaration from our auditors, Ernst & Young, which follows the Directors' Declaration.



#### **ROUNDING OF AMOUNTS**

The Company is of a kind referred to in Corporations Instrument 2016/191 issued by the Australian Securities and Investments Commission, in relation to the "rounding off" of amounts. Amounts in the Directors' Report and Financial Statements have been rounded off, in accordance with the Instrument, to the nearest thousand dollars, unless otherwise stated.

#### **COMPETENT PERSON'S STATEMENTS**

## Competent Person's Statements- Mineral Resources

The information in this report that relates to the 2018 Mineral Resources is based on information compiled by Mr Alex Whishaw under the guidance of Dr Andrew Scogings. Mr Wishaw and Dr Scogings are full-time employees of CSA Global. Mr Wishaw is a member of the Australasian Institute of Mining and Metallurgy. Dr Scogings is a Member of the Australian Institute of Geoscientists and an RPGeo (Industrial Minerals). Dr Scogings has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as Competent Person as defined in the 2012 Edition of the Australasian Code for the Reporting of Exploration Results, Mineral Resources, and Ore Reserves (JORC Code). Dr Scogings consents to the disclosure of information in this report in the form and context in which it appears.

#### Competent Person's Statements- Ore Reserves

The information in this report which relates to the Ore Reserves estimate accurately reflect information prepared by Competent Persons (as defined by the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves). The information in this report that relates to the Mt Weld Rare Earths Project is based on information resulting from Feasibility works carried out by Auralia Mining Consulting Pty Ltd. Mr Steve Lampron completed the Ore Reserve estimate. Mr Steve Lampron is a Member and Chartered Professional (Mining) of the Australasian Institute of Mining and Metallurgy and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity that he is undertaking to qualify him as a Competent Person as defined in accordance with the 2012 Edition of the Australasian Joint Ore Reserves Committee (JORC). Mr Steve Lampron consents to the inclusion in this report of the information in the form and context in which it appears.

## Sustainability Report Financial Year Ended June 30, 2019

The Lynas Group has always had a strong focus on the sustainability of all aspects of our business. We impose high standards upon ourselves and we are passionate about having a positive effect on our people, our customers and suppliers, our communities and the environment. The products we sell are traceable to our mine in Western Australia and our customers receive product assurance certificates to confirm that the Rare Earths they purchase from Lynas are sourced from our mine in Mt Weld, Western Australia, and processed at our plant in Gebeng, Malaysia. Our products are used in industries where environmental provenance and sustainability of business practices are of high importance. Life Cycle Assessments conducted in conjunction with customers provide environmental assurance on the Lynas Rare Earths used in customer products. Our local communities also expect us to consistently comply with high standards in this area.

The Lynas Sustainability Report for FY19 will be sent to shareholders at the same time as our Annual Report 2019 is sent to shareholders. In addition, a copy of the Lynas Sustainability Report for FY19 will be available on the Group's website, <a href="www.lynascorp.com">www.lynascorp.com</a>.



#### Remuneration Report - Audited

Dear Shareholder,

I am pleased to present our Remuneration Report for the year ended June 30, 2019 (FY19).

As with other areas of the business, during FY19 we continued to refine and simplify executive remuneration and the Board is confident that this is aligned with shareholder outcomes.

Lynas achieved excellent results for our shareholders in FY19, including significant improvements in market capitalisation, debt reduction, profitability and cash flow. We successfully completed the Lynas NEXT project on time and on budget. In addition, we negotiated a ten-year extension of the JARE senior loan facility with an interest rate of 2.5% p.a. and minimal principal repayments until 2025. Further details are provided in Section D of the Financial Report. There were no increases in the fixed pay of the Executives from FY14 to FY17. In FY18, the fixed pay of the Executives was increased in line with CPI, other than the fixed pay of the VP People & Culture which was increased to reflect her expanded role in the business. The fixed pay of the Executives did not increase in FY19. In addition, the fees paid to Non-Executive directors have not increased since FY11. Total remuneration for Directors and Executives in FY19 is shown in the table on page 24.

We believe that the incentive structure is well aligned with shareholder outcomes and STI payments have been made only where specific objectives that underpin improved performance have been delivered. These have included:

- Improved production

Kathle Carl

- Strong cash management and financial performance in FY19

In FY19, the only remuneration paid to Non-Executive Directors was fees (i.e. no options or similar benefits were issued).

We hope that the report will assist your understanding of our remuneration objectives and policies. We welcome your feedback on how we can further improve the remuneration report in the future.

Yours sincerely,

Kathleen Conlon

Chair

Nomination, Remuneration and Community Committee

## Directors' Report - Remuneration Report - Audited

This report sets out the remuneration arrangements of Directors and KMP of the Group in accordance with the *Corporations Act 2001* and its regulations.

#### A. Explanation of Key Terms

The following table explains some key terms used in this report:

Executives At as June 30, 2019, the Chief Executive Officer and Managing Director ("CEO"), the Chief

Financial Officer ("CFO"), the VP Production, the VP Sales & Marketing, the General

Counsel & Company Secretary, the MD Malaysia and the VP People & Culture.

Key Management Personnel ("KMP") Those people who have authority and responsibility for planning, directing and controlling

the major activities of the Group, directly or indirectly, including the Directors (whether

executive or otherwise) and the Executives.

Lynas Malaysia Lynas Malaysia is located in Gebeng in the State of Pahang, Malaysia, and is the Group's

facility for the cracking and separation of concentrate into separated rare earths products.

Long Term Incentive ("LTI") LTI is the long term incentive component of Total Remuneration. LTI usually comprises

Options or Performance Rights with a three-year vesting period that are subject to specified vesting conditions. Further details of the vesting conditions are in Section D. Options and Performance Rights cannot be exercised unless the vesting conditions are satisfied.

Performance Right A Performance Right to acquire a share in the future at nil cost, subject to the

satisfaction of specified vesting conditions. Performance Rights are issued for the benefit of

selected Executives as part of their LTI remuneration.

Short Term Incentive ("STI") STI is the short term incentive component of Total Remuneration. An STI could be in the

form of cash or Performance Rights and it is only received by the Executive if specified goals

are achieved.

Total Remuneration Total Remuneration comprises fixed pay (including superannuation, non monetary benefits

and Long Service Leave (LSL) where applicable) plus STI and (if applicable) LTI.

Total Shareholder Return ("TSR")

Total Shareholder Return is the total return from a share to an investor (i.e. capital gain plus

dividends).

The KMP during the financial year ended June 30, 2019 were as follows:

#### Non-Executive Directors:

M. Harding Chairman

K. Conlon

Non-Executive Director, and Chair of the Nomination, Remuneration & Community

Committee

P. Etienne Non-Executive Director, and Chair of the Health Safety & Environment Committee

J. Humphrey Non-Executive Director

G. Murdoch Non-Executive Director, and Chair of the Audit & Risk Committee

#### **Executives:**

A. Lacaze CEO and Managing Director

G. Sturzenegger CFO

K. Leung VP Production

P. Le Roux VP Sales & Marketing

A. Arnold General Counsel & Company Secretary

M. Ahmad MD Malaysia

M. Afzan Afza VP People & Culture

Except as noted, the named person held their current position for the whole of the financial year and since the end of the financial year.



## Directors' Report - Remuneration Report - Audited

#### **B. Our Remuneration Philosophy**

The Group's objective is to provide maximum stakeholder benefit by attracting, retaining and motivating a high quality board of directors and executive management team. Remunerating Directors and Executives fairly and appropriately, consistent with relevant employment market conditions, is an important part of achieving this goal. We align rewards to sustainable value through creating links between the achievement of organisational goals, both long and short term in nature, with the non-fixed elements of individual remuneration.

To help the Group achieve this objective, the Committee links the nature and amount of the remuneration paid to the Executives to the Group's financial and operational performance.

Total remuneration (that is, fixed remuneration plus STI and LTI) is paid at market rates except in exceptional cases where skills are scarce or particularly valuable, in which case we pay as necessary. Our market is defined by location and function, i.e. Malaysia, Western Australia (WA), resources and the global rare earths market. In addition, our senior expatriate executives are remunerated at market rates necessary to attract expatriates with their skills and experience to work in our main office in Gebeng near Kuantan, in regional Malaysia. Those expatriate executives have been key drivers of the business' strong performance in FY19, as described in Section D below.

STI awards create an "at risk" component with a value equal to 50% of total fixed remuneration for senior Executives (with 25% available to be paid in cash and 25% available to be paid in Performance Rights).

LTI awards for senior Executives are subject to TSR and financial growth hurdles (such as EBITDA growth or EBIT growth), and are granted equal to approximately 25% of total fixed remuneration for senior Executives, and 50% of total fixed remuneration for the Chief Executive Officer.

External advisors and remuneration advice

The Committee engages external advisors to provide advice and market related information as required.

During the year, the Committee did not receive any remuneration recommendations (as defined in the Corporations Act 2001).

#### C. Role of the Nomination, Remuneration and Community Committee

The Board is responsible for determining and reviewing remuneration arrangements for Directors and Executives. The Committee assesses, on a regular basis, the appropriateness of the nature and amount of KMP remuneration. In fulfilling these duties and to support effective governance processes, the Committee:

- consists of independent Non-Executive Directors and is chaired by an independent chair;
- · has unrestricted access to management and any relevant documents; and
- engages external advisers for assistance to the extent appropriate and necessary (e.g. detailing market levels of remuneration).

## D. Our Executive Remuneration Framework

#### Structure

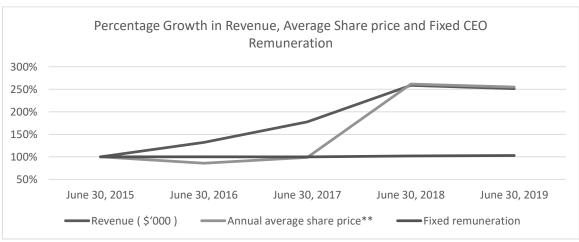
Executive remuneration consists of the following key elements:

- fixed pay (base salary, superannuation, non-monetary benefits and LSL (where applicable)); and
- variable remuneration, being:
  - o STI; and
  - o LTI.

The Group provides no retirement benefits, other than statutory superannuation.

#### Fixed pay

Despite the significantly improved performance of the business in recent years, there has only been a marginal increase in CEO fixed pay since 2015, being a CPI increase of 3% in FY18.



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Ms Lacaze's package reflected the difficulty in recruiting a suitable candidate in June 2014 to undertake the challenging role of Lynas CEO, at a time of uncertainty regarding the Group's future. The package also reflects the Group's requirement for an expatriate CEO with the skills and experience necessary to manage the Group, and the need to attract and retain such a CEO in our main office in Gebeng near Kuantan, in regional Malaysia. Since June 2014, Ms Lacaze has led a significant turnaround in the Group's performance, reflected in the improved operating metrics summarised above. There remains significant work to be done in the business by a CEO with Ms Lacaze's skill set, including strengthening the Company's position in the volatile global market for Rare Earth products and maintaining the Company's improved relations with lenders, customers, investors, regulators, local communities and other key stakeholders.

Lynas is an ASX 200 company. During FY18, Lynas engaged KPMG-3dc to provide market data benchmarking for the CEO's remuneration package against an ASX101-200 listed company peer group. Following the review of the data obtained, Lynas has concluded that the CEO's remuneration is reasonable.

Unusually for an ASX 200 company, Lynas' principal administrative office is not based in a major city – it is based on the outskirts of the regional city of Kuantan on the east coast of Malaysia. This creates additional issues for the company in attracting and retaining candidates of the calibre required to lead the company, including periods of separation from family, remoteness from major cities, and the need for salary to allow for accommodation, a motor vehicle, spousal travel and related matters. These factors are all relevant in the benchmarking of the CEO's package.

The Board of Lynas initially set Ms Lacaze's fixed remuneration to attract an appropriately qualified executive to accept the role given the circumstance of the Company at that point in time and that Ms Lacaze would be expected to work in the regional city of Kuantan (away from her home in Sydney).

Ms Lacaze does not receive additional expatriate benefits beyond the fixed pay, short-term benefits and non-monetary benefits listed in the tables in Section H. The overall amount of remuneration paid to Ms Lacaze is consistent with current market practice, which has been confirmed by our adviser KPMG-3dc.

#### Variable remuneration

Our structure for STI awards and LTI awards is described in Section B above. In summary:

Fixed pay	<u>Variable remuneration</u>
= base + super	= STI (Cash and Deferred) + LTI

#### STIs

For Executives, up to 50% of fixed pay is available for STI awards.

The goals and measures of the STI programme (including individual, team and company performance goals and measures), the relative weightings of those measures and goals, and STI target amounts are determined and approved at the commencement of each review period by the Remuneration Committee. During the financial year ended June 30, 2019 the STI Program had 3 goals as follows:

- 1. EBIT 40%
- 2. NdPr production volume 30%
- 3. Team / Individual Performance 30%

Three bands of performance were specified at the beginning of FY19 for the above STI goals, with awards to be made equal to 80%, 100% or 120% of the available STI award pool for each goal, depending on which performance band was achieved. Awards would be prorated if performance fell between the 80%, 100% or 120% targets.

The Board set an STI target for EBIT in the financial year ended June 30, 2019 and that target was not met. Accordingly, no STI award was made for EBIT in respect of the financial year ended June 30, 2019.

The table below summarises the STI targets and outcomes for NdPr Production Volume in the financial year ended June 30, 2019.

Goal	Target - 80% of award	Target - 100% of award	Target - 120% of award	Outcome	Performance	Payout
NdPr Production	5,657 REOt	6,286 REOt	6,915 REOt	5,898 REOt	93.8%	87.7%

In addition, the remainder of the STI award pool was available based on Team / Individual Performance goals. The Board resolved to make a discretionary award for Team / Individual Performance in FY19 in light of the unique and difficult challenges successfully addressed during the year. This included managing the political issues in Malaysia and managing a defence against the unsolicited takeover proposal received in March. In Malaysia, the issues faced by the Group in FY19 included dealing with a small but vocal group of opponents to the business in Malaysia, resolving complex regulatory and legal issues arising from new conditions imposed in the Malaysian operating licence, and managing a large number of stakeholders in Malaysia and internationally, including community members, customers, shareholders, lenders, regulators and politicians. The outcome was that on August 22, 2019, the Group confirmed the renewal of the Malaysian operating licence, as described in the Subsequent Events section.



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The strong performance of the Group in FY19 included the following:

- (a) The increase in Lynas market capitalisation from \$1.55 billion on July 1, 2018 to \$1.72 billion on June 30, 2019.
- (b) The increase in the share price from \$2.34 on July 1, 2018 to \$2.57 on June 30, 2019.
- (c) Continuing reductions in costs per kg of NdPr produced, in line with targets.
- (d) A significantly improved cash position. Total cash has increased from \$42.3 million on July 1, 2018 to \$89.7 million on June 30, 2019.
- (e) The successful completion of the Lynas NEXT project on time and on budget. The Lynas NEXT project was funded from operating cashflow.
- (f) A ten-year extension of the JARE senior loan facility with an interest rate of 2.5% p.a. and minimal principal repayments until 2025.
- (g) Renewal of the Lynas Malaysia operating licence in August 2019 following a period of regulatory uncertainty in Malaysia.

The overall outcome was that the Board resolved to make an STI award at the 80% level in respect of the financial year ended June 30, 2019. That award will be made 50% in cash and 50% in Performance Rights with a 12 month vesting period.

#### LTIs

LTI options and Performance Rights are granted to KMPs and other selected employees to provide greater alignment to strategic business objectives. Each Performance Right usually has a three-year vesting period, and is usually exercisable between three and five years after they were granted provided the award recipient is still employed with the Group (unless this requirement, in limited circumstances, is waived by the Board), and any relevant performance conditions are achieved.

#### LTI Performance Rights that Vested or were Forfeited During FY19

The following LTI Performance Rights were forfeited during FY19:

1,210,133 LTI Performance Rights, granted as part of the FY17 LTI plan, were conditional on the Company's cumulative NdPr production from July 1, 2016 to June 30, 2019 in accordance with the following table:

Minimur	n NdPr Production from PF: July 1, 2016 to June 30, 2019	Number of LTI Performance Rights to Vest
a)	13,903 tonnes	504,222
b)	15,448 tonnes	1,008,444
c)	16,993 tonnes	1,210,133

Awards would be prorated if performance fell between band (a) and (b) or between band (b) and (c).

The actual NdPr production from Product Finishing in the period July 1, 2016 to June 30, 2019 was 16,565 tonnes, which falls between band (b) and band (c). Accordingly, of the 1,210,133 Performance Rights with an NdPr production condition that were available for vesting in the financial year ended June 30, 2019, using a pro-rata calculation:

- (a) 1,154,269 will vest; and
- (b) 55,864 will be forfeited.

In addition, 1,008,445 LTI Performance Rights, granted as part of the FY17 LTI plan, were conditional on Total Shareholder Return (TSR) being at least at the 51st percentile of ASX 300 Metals and Mining Index companies over a three-year vesting period expiring on August 30, 2019 in accordance with the following sliding scale:

- (a) If the Lynas TSR is at least at the 51st percentile, 50% of the TSR portion will vest.
- (b) If the Lynas TSR is at least at the 76th percentile, 100% of the TSR portion will vest.
- (c) If the Lynas TSR is between the 51st percentile and the 76th percentile, a pro rata amount of between 50% and 100% of the TSR portion will vest (with the relevant percentile being rounded up or down to the nearest 5%, for ease of calculation).

That TSR hurdle cannot be measured until after August 30, 2019. The Lynas share price in August 2016 was approximately \$0.685. The Lynas share price on June 30, 2019 was A\$2.57 (both figures are calculated on a post-consolidation basis). If the Lynas share price remains around current levels, then it seems likely that the 1,008,445 Performance Rights will vest.

### LTI Performance Rights Awarded During FY19

In addition, during FY19, the Group issued to selected senior managers a total of 690,004 LTI Performance Rights with a three year vesting period. A summary of the performance hurdles attached to the LTI Performance Rights awarded during the financial year ended June 30, 2019 is set out below:

- (i) 50% will be conditional on the Company's average annual EBIT growth in the period from July 1, 2018 to June 30, 2021, using the period from July 1, 2017 to June 30, 2018 as the base figure, in accordance with the following sliding scale:
  - (a) If the average annual EBIT growth from July 1, 2018 to June 30, 2021 is at least 7% per annum, then 50% of the EBIT portion will vest.
  - (b) If the average annual EBIT growth from July 1, 2018 to June 30, 2021 is at least 10% per annum, then 100% of the EBITDA portion will vest.
  - (c) If the average annual EBIT growth from July 1, 2018 to June 30, 2021 is at least 15% per annum, then 120% of the EBITDA portion will vest.

Awards would be prorated if the EBIT growth outcome falls between bands (a) and (b) or between bands (b) and (c). The EBIT figure that will be used to measure the outcome will be an adjusted EBIT figure (after removing non-cash expenses such as employee share based payments). The EBIT for the base period from July 1, 2017 to June 30, 2018 was \$81.0 million.

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- (ii) 50% will be conditional on the company's Total Shareholder Return (TSR) being at least at the 51st percentile of ASX 200 companies calculated over the 3-year vesting period, in accordance with the following sliding scale:
  - (a) If the Lynas TSR is at least at the 51st percentile, 50% of the TSR portion will vest.
  - (b) If the Lynas TSR is at least at the 76th percentile, 100% of the TSR portion will vest.
  - (c) If the Lynas TSR is between the 51st percentile and the 76th percentile, a pro-rata amount of between 50% and 100% of the TSR portion will vest (with the relevant percentile being rounded up or down to the nearest 5%, for ease of calculation).

The Directors believe that the above performance hurdles are important measures of long-term success for the Group that are fully aligned with the interests of shareholders. After several years of ramping up NdPr production to the current levels while tightly managing costs, the Company's EBIT growth over the next 3 financial years will be an important measure of the success of the improvements to the business implemented by Lynas.

The TSR hurdle compares shareholder returns from Lynas to shareholder returns from ASX 200 companies over the 3-year vesting period. Lynas is currently a member of the S&P ASX 200 Index, and TSR performance at the 51st percentile or above of ASX 200 companies is considered to be an appropriate hurdle that is directly aligned with shareholder returns.

#### Strategic Performance Rights

At the 2017 Lynas AGM, Lynas shareholders approved an award of 2,932,923 Strategic Performance Rights. The Strategic Performance Rights had a two-year vesting period expiring in the first employee share trading window after August 28, 2019. This grant of Strategic Performance Rights was a specific incentive to implement the two-year Lynas NEXT growth plan for the business that was announced at the 2017 AGM. The senior leadership team have led the company through the turnaround process and they developed specific plans to continue to grow shareholder value that were reflected in the vesting conditions for the Strategic Performance Rights.

The outcomes on the vesting conditions for the Strategic Performance Rights were as follows:

Vesting Condition	Outcome	Award
The recipient remaining employed by Lynas during the 2 year vesting period and performing at an acceptable level	Met in respect of each of the relevant senior managers.	100%
Delivering the Lynas NEXT targets on time and on budget. Specifically:		
(a) The LAMP demonstrating its capacity to consistently produce 600 tonnes of NdPr products per month	Partially Met.  The Lynas NEXT Project was delivered on time and on budget. The LAMP demonstrated that it can produce 600 tonnes of NdPr products per month during September and October 2018 and during March 2019.  Despite the above, in assessing this goal, the Board used a conservative metric of assessing the average monthly uplift in NdPr production from the previous capacity of 440 tonnes per month. From September 2018 to June 2019, the LAMP delivered an average 66% of the uplift from 440 tonnes per month to 600 tonnes per month. This calculation excludes the period November 2018 to January 2019, during which production volumes were reduced by regulatory constraints.	66%
(b) A consistent uplift in NdPr recoveries at the LAMP in accordance with Lynas NEXT targets	Consistently exceeded in the period September 2018 to June 2019.	100%
(c) The LAMP has demonstrated that it can consistently produce separated Nd and Pr.	Met	100%
Overall Award		91.5%

In accordance with the above table, 91.5% of the Strategic Performance Rights are expected to vest in the first employee share trading window after August 28, 2019 as follows:

- (a) 2,683,629 Strategic Performance Rights will vest; and
- (b) 249,294 Strategic Performance Rights will be forfeited.

#### Clawback Policy

In circumstances where the Group becomes aware of any material misstatement in its financial statements due to: (i) non-compliance with a financial reporting requirement; (ii) the KMP's misconduct; or (iii) the misconduct of any other Lynas personnel under the supervision of the relevant KMP, the Board has authority under the clawback policy to:

- (a) require a KMP to repay some or all of any STI award or LTÍ award granted to the KMP from July 1, 2013 ("Relevant Award"), to the extent such award has vested;
- (b) forfeit the reference units representing all or a part of the KMP's Relevant Award, to the extent such award remains unvested; or
- (c) withhold the payment or allocation of all or a part of the KMP's Relevant Award, to the extent such award has not been paid or given to that KMP.

The Board has not enacted any clawback in FY19.



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#### E. Service Agreements

The CEO and Managing Director has an executive services agreement with the Group containing reasonable commercial conditions. Subject to the following provisions, the agreement is for an indefinite duration. The key provisions of the agreement are:

Notice by CEO:	Ms Lacaze must give three months' written notice of an intention to resign.
Notice by Group:	The Group may terminate the agreement by giving six months' written notice.  The Group may terminate Ms Lacaze's employment at any time without notice if serious misconduct has occurred.
Treatment of incentives on termination:	On resignation, any unvested Options and Performance Rights may be forfeited subject to the discretion of the Board. Upon termination of Ms Lacaze's employment by the Group other than as a result of misconduct, Ms Lacaze will be entitled to retain a pro–rata portion of any unvested Options and Performance Rights held by her on the date of termination. For example, where 50% of the vesting period has been served, Ms Lacaze will be entitled to retain 50% of the unvested Options or Performance Rights. Ms Lacaze will also be entitled to retain any Options or Performance Rights that have vested prior to the date of termination.
Termination benefits:	In accordance with the <i>Corporations Act 2001</i> , the maximum termination payment payable to Ms Lacaze is equal to her base salary for one year (i.e. excluding any LTI component).

Employment conditions for all other KMPs are on the following terms:

- each may give three month's written notice of their intention to resign;
- the Group may terminate the employment by providing three to six months' written notice;
- on resignation or termination (other than as a result of misconduct), unvested incentives will be treated in the same manner set out above in respect of Ms Lacaze; and
- the Group may terminate employment at any time without notice if serious misconduct has occurred.

#### F. Linking Remuneration and Group Performance

Refer to Section D above for a summary of how Executive remuneration is linked to Group performance. In particular, there were no increases in the fixed pay of the Executives from FY14 to FY17 despite the improving performance of the business in recent years as summarized in Section D above. In FY18, the fixed pay of the Executives was increased in line with CPI. There has been no increase in fixed pay in FY19.

In recent years, LTI grants have been subject to hurdles that are aligned with the interests of key stakeholders in the Group. For example, in the financial year ended June 30, 2019, LTI grants were subject to a TSR hurdle and an EBIT growth hurdle, as detailed in Section D above. The reference period for some of these hurdles has not yet expired. In addition, as detailed in Section D above, some Performance Rights were forfeited in FY19 due to non-satisfaction of vesting conditions.

Individual performance reviews link total remuneration to individual and business unit performance. From July 1, 2012 the mix of fixed pay and variable remuneration has been adjusted by the introduction of a formal STI plan. The introduction of the STI plan reflects the transition of the Group from a development phase to an operational phase, and it recognises that we have important short term goals based on successful rampup, production volumes, cash flows, costs and safety and community programmes.

Separately, changes in the share based remuneration from one year to the next reflect the impact of amortising the accounting value of Options and Performance Rights over their vesting period and the impact of forfeitures which can relate to both the current and prior periods in a given fiscal period. In certain periods, a negative value may be presented which results when the forfeitures recognised in a period are greater than the accounting amortisation expense for the current portion of the vesting period.

For further context the following table provides reported financial information on which remuneration has been based. As noted elsewhere the Group has moved from a development phase and is now in its operational phase, as evident in the revenue metrics noted below.

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	June 30, 2012	June 30, 2013	June 30, 2014	June 30, 2015	June 30, 2016	June 30, 2017	June 30, 2018	June 30, 2019
Revenue ( \$'000 )	-	950	64,570	144,596	190,956	256,976	374,105	363,541
Profit / (loss) before tax (\$'000)	(97,879)	(141,014)	(345,431)	(118,559)	(94,117)	(24,263)*	53,404	80,225
Profit / (loss) after tax (\$'000)	(87,770)	(143,555)	(345,488)	(118,685)	(94,082)	(534)*	53,119	80,030
Shareholder capital (\$'000)	823,161	994,645	1,034,634	1,083,898	1,088,469	1,094,403	1,395,417	1,398,264
Annual average share price**	\$12.97	\$6.52	\$2.95	\$0.78	\$0.67	\$0.77	\$2.04	\$1.99
Closing share price at financial year end**	\$8.45	\$3.75	\$1.30	\$0.34	\$0.53	\$1.05	\$2.34	\$2.57
Basic earnings / (loss) per share (cents)***	(51.20)	(51.30)	(154.10)	(38.20)	(27.00)	(0.15)	8.84	12.04
Diluted earnings / (loss) per share (cents)***	(51.20)	(51.30)	(154.10)	(38.20)	(27.00)	(0.15)	8.29	11.47

<sup>\*\*</sup> The share prices for the years ended June 30, 2011 to June 30, 2017 comparative periods have been restated to reflect the 10 to 1 share consolidation of Lynas Corporation Ltd shares, which was completed on December 4, 2017.

#### G. Non-Executive Director Remuneration

#### Objective

Remuneration of Non-Executive Directors ("NEDs") is set at a level that enables the Group to attract and retain talented and motivated people at a cost which is acceptable to shareholders. In setting remuneration, the Group takes into account, among other factors:

- fees paid to NEDs of companies of a similar size/industry;
- the time commitment required for NEDs to properly fulfil their duties;
- the risks and responsibilities associated with the roles; and
- the relevant commercial and industry experience required.

#### **NED Skill Set**

The Group has focussed on ensuring that its Directors reflect the broad mix of skills, experience, expertise and diversity necessary to oversee the emergence of the Group as a significant participant in the volatile global market for Rare Earth products. The Group is now the second largest NdPr producer in the world and the largest supplier of NdPr to the free market.

The Group considers it important for the following skills and experience to be represented on the Board:

- Experience as a Chief Executive;
- International business experience:
- Financial and accounting experience;
- Operational experience in the chemical and resources industries;
- Strategy and strategic marketing experience;
- Corporate governance, regulatory and risk management experience.

The Board's skills matrix is based on the above sets of skills and experience. The Nomination, Remuneration & Community Committee remains focussed on Board renewal, notwithstanding that the Board considers that each of the above skills is currently reflected in the skills and experience of the existing members of the Board.

Further details of the skills and experience of the members of the Board are provided in the Directors section of the Directors' Report. Information about the diversity of the Board is set out under Recommendation 1.5 of the Group's Corporate Governance Statement at <a href="www.lynascorp.com">www.lynascorp.com</a>.

## **Remuneration Structure**

The Company's Constitution and the ASX Listing Rules specify that the maximum aggregate remuneration of NEDs must be determined from time to time by a general meeting. The last determination was at the AGM held on November 20, 2012, and an aggregate pool of \$1,250,000 was approved. The aggregate fees for NEDs for the period did not exceed this amount.

## **Components of Non-Executive Director Remuneration**

Each NED receives a fee for being a Director of the Company, and (other than the Chairman of the Board) each NED receives a fee for each committee of which they are members. The NED fees, including committee fees, include statutory superannuation contributions where appropriate.

<sup>\*\*\*</sup> The basic and diluted earnings per share for the years ended June 30, 2011 to June 30, 2017 comparative periods have been restated to reflect the 10 to 1 share consolidation of Lynas Corporation Ltd shares, which was completed on December 4, 2017.



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## Base Fees

The base fees for NEDs have not increased since FY11. The base fees for NEDs for the financial year ended June 30, 2019 were:

- Chairman \$250,000 per annum;
- Non-Executive Director \$100,000 per annum.

## Committee Fees

Board Committee	Chair \$	Member \$
Audit & Risk Committee	30,000	15,000
Nomination, Remuneration & Community Committee	25,000	12,500
Health, Safety & Environment Committee	25,000	12,500

The remuneration for NEDs for the financial years ended June 30, 2018 and June 30, 2019 is set out in Section H of this report.

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## H. Details of Remuneration

	Short term benefits		Post-emple	oyment benefits		Long terr	n benefits		
Name	Cash salary and fees	Other short term employee benefits	Non- monetary benefits	Termin- ation payments	Superannuation and other pension payments	Long service leave	Share- based payments (net) (1)	Performance related % of Total	Total
FY19	una reco	benente	Derionto	paymento	paymento	icave	(HOL)	Total	Total
Executive Director									
A. Lacaze	1,216,813	269,572	73,126	_	20,531	20,869	1,623,563	59%	3,224,474
A. Lacazo	1,210,010	203,372	70,120		20,331	20,000	1,020,000	3370	5,224,474
Non-Executive Directors									
K. Conlon	140,000	-	-	-	13,300	-	-	0%	153,300
M. Harding	275,000	-	-	-	20,531	-	-	0%	295,531
P. Etienne	140,000	-	-	-	13,300	-	-	0%	153,300
J. Humphrey	127,500	-	-	-	12,814	-	-	0%	140,314
G Murdoch	130,000	-	-	-	12,350	-	-	0%	142,350
Executives									
A. Arnold	499,034	102,935	-	-	-	-	502,631	55%	1,104,600
G. Sturzenegger	543,543	111,330	-	-	-	-	509,392	53%	1,164,264
K. Leung	495,302	112,525	29,707	-	20,531	10,956	551,592	54%	1,220,613
P. Le Roux	393,595	116,896	109,827	-	74,120	-	563,315	54%	1,257,754
M. Ahmad	344,274	130,152	-	-	68,527	-	431,015	58%	973,968
M. Afzan Afza	283,620	93,795	-	-	67,938	-	324,435	54%	769,788
Total	4,588,681	937,204	212,660	_	323,942	31,825	4,505,943	51%	10,600,259
FY18									
Executive Director									
A. Lacaze	1,206,829	330,904	63,830	-	20,049	13,104	2,092,560	65%	3,727,276
Non-Executive Directors									
K. Conlon	140,000	-	-	-	9,975	-	-	0%	149,975
W. Forde <sup>(2)</sup>	58,295	-	-	-	5,538	-	-	0%	63,833
M. Harding	268,750	-	-	-	20,049	-	-	0%	288,799
P. Etienne	133,750	-	-	-	12,706	-	-	0%	146,456
J. Humphrey	115,000	-	-	-	10,925	-	-	0%	125,925
G Murdoch <sup>(3)</sup>	84,508	-	-	-	8,028	-	-	0%	92,536
Executives									
A. Arnold	490,640	133,839	3,778	-	-	-	334,095	49%	962,352
G. Sturzenegger	504,663	128,727	-	-	-	-	529,315	57%	1,162,705
K. Leung	491,152	138,046	29,609	-	20,049	7,918	385,832	49%	1,072,606
P. Le Roux	388,562	149,254	81,887	-	59,958	-	584,543	58%	1,264,204
M. Ahmad	319,940	146,221	-	-	80,682	-	404,505		951,349
M. Afzan Afza	226,400	55,826			47,980		324,790	58%	654,995
Total	4,428,489	1,082,817	179,104		295,939	21,022	4,655,640	54%	10,663,011

<sup>(1)</sup> Represents the impact of amortising the accounting value of Options and Performance Rights over their vesting period including the impact of forfeitures recognised during the period. At times a negative value may be presented which results when the forfeitures recognised in the period (which may relate also to earlier periods) are greater than the accounting expense for the current portion of the vesting period.

(2) Resigned on November 28, 2017.

(3) Appointed on October 30, 2017.



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## I. KMP equity holdings

(i) Shareholdings
The following table outlines the shares held directly, indirectly and beneficially by directors and KMP as at June 30, 2019.

Name	Balance at beginning of year	Purchased during the year	On exercise of performance rights	Sold during the year	Other	Balance at end of year
A. Lacaze	1,486,962	-	212,391	-	-	1,699,353
K. Conlon	85,619	30,000	-	-	-	115,619
P. Etienne	16,630	50,000	-	-	-	66,630
M. Harding	11,174	53,994	-	-	-	65,168
J. Humphrey	20,000	30,000	-	-	-	50,000
G Murdoch	72,500	70,000	-	-	-	142,500
A. Arnold	212,266	-	450,464	(270,280)	-	392,450
G. Sturzenegger	220,559	-	473,433	-	-	693,992
K. Leung	158,018	-	462,480	(201,938)	-	448,560
P. Le Roux	227,374	-	494,484	(138,457)	-	583,401
M. Ahmad	101,466	-	397,294	(111,244)	-	387,516
M. Afzan Afza	47,054	-	275,368	(130,422)	-	192,000
Total	2,659,622	233,994	2,795,914	(852,341)	-	4,837,190

<sup>(</sup>ii) Share Based Remuneration – Performance Rights

Performance Rights are issued on the same terms as Options, except there is no consideration payable on exercise. As at year end the Group had on issue to directors and KMP the following Performance Rights to acquire ordinary fully paid shares:

Series	Grant date	Number	Date vested and exercisable	Expiry date	Exercise price	Value per right at grant date
AJ	November 23, 2015	947,894	September 18, 2018	September 18, 2020	\$ 0.00	\$ 0.900
AK	November 23, 2015	882,353	September 18, 2018	September 18, 2020	\$ 0.00	\$ 0.800
AM	August 30, 2016	1,195,319	August 30, 2019	August 30, 2021	\$ 0.00	\$ 0.650
AO	November 30, 2016	558,140	August 30, 2019	August 30, 2021	\$ 0.00	\$ 0.680
AP	November 30, 2016	465,117	August 30, 2019	August 30, 2021	\$ 0.00	\$ 0.500
AR	August 28, 2017	476,715	August 28, 2020	August 28, 2022	\$ 0.00	\$1.360
AS	November 28, 2017	1,748,362	August 28, 2019	August 28, 2019	\$ 0.00	\$2.060
AU	November 28, 2017	231,066	August 28, 2020	August 28, 2022	\$ 0.00	\$2.060
AV	November 28, 2017	192,555	August 28, 2020	August 28, 2022	\$ 0.00	\$1.620
AW	November 28, 2017	809,107	August 28, 2019	August 28, 2019	\$ 0.00	\$2.060
AX	August 31, 2018	270,681	August 31, 2019	August 31, 2019	\$ 0.00	\$2.187
AY	August 31, 2018	199,446	August 31, 2021	August 28, 2023	\$ 0.00	\$2.187
AZ	August 31, 2018	166,205	August 28, 2021	August 28, 2023	\$ 0.00	\$1.431
ВА	November 27, 2018*	120,055	August 28, 2019	August 28, 2019	\$ 0.00	\$2.187
ВВ	November 27, 2018*	176,920	August 28, 2021	August 28, 2023	\$ 0.00	\$2.187
вс	November 27, 2018*	147,433	August 28, 2021	August 28, 2023	\$ 0.00	\$1.463
Total		8,587,368				

<sup>\*</sup> Series BA to BC were approved by the Board on August 31, 2018, subject to approval at the AGM. These performance rights were subsequently approved at the AGM on November 27, 2018, with the date of grant being approved as August 31, 2018.

#### Fair value of Performance Rights

The fair value of each Performance Right is estimated on the date it is granted using volume-weighted average share price, Monte Carlo and Binomial valuation methodologies. The following assumptions were considered in the valuation of Performance Rights granted during the year ended June 30, 2019:

	Series AX	Series AY	Series AZ	Series BA	Series BB	Series BC
Grant date	Aug 31, 2018	Aug 31, 2018	Aug 31, 2018	Nov 27, 2018	Nov 27, 2018	Nov 27, 2018
5 day VWAP	\$2.187	\$2.187	\$2.187	\$2.187	\$2.187	\$2.187
Exercise price	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Dividend yield	Nil	Nil	Nil	Nil	Nil	Nil
Expected volatility	51.1%	51.1%	51.1%	55.1%	55.1%	55.1%
Risk-free rate	1.995%	1.995%	1.995%	2.09%	2.09%	2.09%
Expiry date	Aug 31, 2019	Aug 31, 2021	Aug 31, 2021	Aua 28. 2019	Aug 28, 2021	Aug 28, 2021

#### Directors' Report - Remuneration Report - Audited

No dividends have been paid in the past and so it is not appropriate to estimate future possible dividends in arriving at the fair values. The life of the Performance Right is up to 5 years from date of grant (as specified above) and is therefore not necessarily indicative of exercise patterns that may occur.

The resulting weighted average fair values for all Performance Rights granted for the benefit of Directors and KMP during the year are:

Grant date	Number of performance rights	Fair value per instrument at valuation date	Exercise price per instrument	First exercise date	Last exercise or expiry date
August 31, 2018	270,681	\$2.187	\$ 0.00	August 31, 2019	August 31, 2019
August 31, 2018	199,446	\$2.187	\$ 0.00	August 31, 2021	August 31, 2023
August 31, 2018	166,205	\$1.431	\$ 0.00	August 31, 2021	August 31, 2023
November 27, 2018	120,055	\$2.187	\$ 0.00	August 31, 2019	August 31, 2019
November 27, 2018	176,920	\$2.187	\$ 0.00	August 31, 2021	August 31, 2023
November 27, 2018	147,433	\$1.463	\$ 0.00	August 31, 2021	August 31, 2023
Total	1,080,740				

Except as specified in the table above, all Performance Rights granted for the benefit of Directors and KMP have three-year vesting periods. The Performance Rights are exercisable up to five years after issue date, subject to achievement of the relevant performance hurdles.

The following tables outline the Performance Rights granted for the benefit of Directors and KMP during the 2019 and 2018 financial years and those Performance Rights which have vested at each respective year-end.

June 30, 2019	Balance at beginning of year	Other: share consol	Granted	Grant date	Exercised	Forfeited	Net change	Balance at end of year
A. Lacaze <sup>(1)</sup>	4,409,551	-	444,408	Nov 27, 2018	(212,391)	(110,930)	121,087	4,530,638
K. Conlon	-	-	· -	· -	-	-	-	-
P. Etienne	_	_	_	_	-	-	_	-
M. Harding	-	-	-	_	_	-	-	
J. Humphrey	-	-	-	_	_	-	-	
G. Murdoch	_	_	_	_	_	_	_	-
A. Arnold	1.071.860	_	107.768	Aug 31, 2018	(450,464)	(22,407)	(365, 103)	706.757
G. Sturzenegger	1,105,510	_	116,558	Aug 31, 2018	(473,433)	(23,850)	(380,725)	724,785
K. Leung	1,175,424	_	117.809	Aug 31, 2018	(492,480)	(24,479)	(399,150)	776,274
P. Le Roux	1,185,072	_	122,385	Aug 31, 2018	(494,484)	(24,511)	(396,610)	788,462
M. Ahmad	933,342		95.696	Aug 31, 2018	(397,294)	(19,939)	(321,537)	611,805
M. Azhan Afza	661,714	-	76,116	Aug 31, 2018	(275,368)	(13,820)	(213,072)	448,642
Total	10,542,473		1,080,740		(2,795,914)	(239,936)	(1,955,110)	8,587,363
June 30, 2018								
A. Lacaze <sup>(1)</sup>	38.324.227	(34,491,804)	1,445,119	Nov 28, 2017	(528,368)	(339,623)	(33,914,676)	4,409,551
K. Conlon	30,324,227	(34,491,004)	1,443,113	1100 20, 2017	(320,300)	(339,023)	(33,314,070)	4,403,331
		_	-	-	-	-	-	-
P. Etienne	-	-	-	-	-	-	-	-
P. Etienne M. Harding	-	-	-	- - -	- - -	- - -	- - -	- - -
P. Etienne M. Harding J. Humphrey	- - -	- - -	-	] ]	- - -	- - -	- - -	- - -
P. Etienne M. Harding J. Humphrey G. Murdoch <sup>(2)</sup>	- - - - -	- (0.363.469)	- - - - 472.065	- - - - -	- - - - - - - - - - - - - - - - - - -	- - - - - - - - - - - - - - - - - - -	- - - - - - - - - - -	- - - - - - -
P. Etienne M. Harding J. Humphrey G. Murdoch <sup>(2)</sup> A. Arnold	10,403,856	(9,363,468)	473,065	- - - - - Aug 28, 2017	(251,969)	- - - - (189,623)	(9,331,995)	- - - - 1,071,861
P. Etienne M. Harding J. Humphrey G. Murdoch <sup>(2)</sup> A. Arnold G. Sturzenegger	7,373,530	(6,636,177)	468,157	Aug 28, 2017	(100,000)	-	(6,268,020)	1,105,510
P. Etienne M. Harding J. Humphrey G. Murdoch <sup>(2)</sup> A. Arnold G. Sturzenegger K. Leung	7,373,530 11,077,776	(6,636,177) (9,969,998)	468,157 518,970	Aug 28, 2017 Aug 28, 2017	(100,000) (261,701)	(189,623) (189,623)	(6,268,020) (9,902,352)	1,105,510 1,175,424
P. Etienne M. Harding J. Humphrey G. Murdoch <sup>(2)</sup> A. Arnold G. Sturzenegger K. Leung P. Le Roux	7,373,530 11,077,776 7,614,314	(6,636,177) (9,969,998) (6,852,882)	468,157 518,970 527,549	Aug 28, 2017 Aug 28, 2017 Aug 28, 2017	(100,000) (261,701) (103,909)	(189,623)	(6,268,020) (9,902,352) (6,429,242)	1,105,510 1,175,424 1,185,072
P. Etienne M. Harding J. Humphrey G. Murdoch <sup>(2)</sup> A. Arnold G. Sturzenegger K. Leung P. Le Roux M. Ahmad	7,373,530 11,077,776 7,614,314 6,999,153	(6,636,177) (9,969,998) (6,852,882) (6,299,236)	468,157 518,970 527,549 400,191	Aug 28, 2017 Aug 28, 2017 Aug 28, 2017 Aug 28, 2017	(100,000) (261,701) (103,909) (121,483)	-	(6,268,020) (9,902,352) (6,429,242) (6,065,811)	1,105,510 1,175,424 1,185,072 933,342
P. Etienne M. Harding J. Humphrey G. Murdoch <sup>(2)</sup> A. Arnold G. Sturzenegger K. Leung P. Le Roux	7,373,530 11,077,776 7,614,314	(6,636,177) (9,969,998) (6,852,882)	468,157 518,970 527,549	Aug 28, 2017 Aug 28, 2017 Aug 28, 2017	(100,000) (261,701) (103,909)	(189,623)	(6,268,020) (9,902,352) (6,429,242)	1,105,510 1,175,424 1,185,072

<sup>(1) 444,408</sup> performance Rights approved by the Board were granted to A. Lacaze on August 31, 2018 and subsequently approved by the shareholders of the Company at the AGM on November 27, 2018.

At June 30, 2019, 1,830,247 performance rights issued to A. Lacaze had vested and were exercisable (June 30, 2018: nil), while no performance rights had vested but were not exercisable (June 30, 2018: nil).

<sup>(2)</sup> Appointed on October 30, 2017.



# **Directors' Report**

# SUBSEQUENT EVENTS

On July 31, 2019, 23,256,258 unlisted warrants were exercised at a price of \$0.50 per warrant, resulting in the issuance of 23,256,258 ordinary shares and the receipt by the Group of \$11,628,129. These warrants had been issued to the bond holder group as part of the amendments to the terms of the convertible bonds that were approved by shareholders at the 2016 AGM of shareholders.

On August 22, 2019, the Group confirmed the renewal of the Lynas Malaysia operating licence for an initial period of 6 months. During that 6 month period, the Group is required to obtain consent for the location of a Permanent Deposit Facility (PDF) for WLP residue. In addition, the Group is required to relocate Cracking & Leaching, the first stage of its operations currently located in Malaysia, to Western Australia within 4 years. The Group plans to implement that relocation as part of the Lynas 2025 growth plan.

With the exception of the above, there have been no other events subsequent to June 30, 2019 that would require accrual or disclosure in this financial report.

The Directors' report is signed in accordance with a resolution of Directors made pursuant to s.298 (2) of the Corporations Act 2001.

On behalf of the Directors,

D. M. Hanna

Mike Harding Chairman

Sydney, August 29, 2019

# **Directors' Declaration**

The Directors declare that:

- (a) in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable:
- (b) in the Directors' opinion, the attached financial report is in compliance with International Financial Reporting Standards, as stated in the Basis of preparation note to the Financial Statements;
- (c) in the Directors' opinion, the attached financial report and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Group; and
- (d) the Directors have been given the declarations required by s.295A of the Corporations Act 2001.

At the date of this declaration, the Company is within the class of companies affected by Corporations Instrument 98/1418. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

In the Directors' opinion, there are reasonable grounds to believe that the Company and the companies to which the Corporations Instrument applies, as detailed in Note E.6 to the Financial Statements will, as a Group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

Signed in accordance with a resolution of the directors made pursuant to s.295 (5) of the Corporations Act 2001.

On behalf of the Directors,

D. M. Hanne

Mike Harding Chairman

Sydney, August 29, 2019





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# Auditor's Independence Declaration to the Directors of Lynas Corporation Limited

As lead auditor for the audit of the financial report of Lynas Corporation Limited for the financial year ended 30 June 2019, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Lynas Corporation Limited and the entities it controlled during the financial year.

Ernst & Young

Gavin Buckingham

your Buckingham

Partner Perth

29 August 2019



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# Independent Auditor's Report to the Members of Lynas Corporation Limited

# Report on the Audit of the Financial Report

# Opinion

We have audited the financial report of Lynas Corporation Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act* 2001, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2019 and of its consolidated financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards and the Corporations Regulations 2001.

# **Basis for Opinion**

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

# **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

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# 1. Accounting for the JARE debt facility

# Why significant

As described in Note C.3, the Group agreed to amendments to the Japan Australia Rare Earths B.V. (JARE) debt facility on 27 June 2019. The amendments were assessed as a substantial modification of the existing financial liability, which requires de-recognition of the existing financial liability, recognition of the amended financial liability at fair value and measurement of the resultant impact on the statement of comprehensive income.

Accounting for substantial modifications to financial liabilities gives rise to complex and judgmental accounting outcomes in respect of assessing whether a substantial modification has occurred, estimating the fair value of the amended facility and measuring the impact to the statement of comprehensive income upon de-recognition. Accordingly, this was considered to be a key audit matter.

Refer to Note A.2 and Note C.2 within the financial report for the amounts recorded on the consolidated statement of financial position as at 30 June 2019 and related disclosures.

# How our audit addressed the key audit matter

Our procedures included the following:

- Reperformed the Group's assessment of whether a substantial modification occurred, ensuring the calculations were performed in accordance with the requirements of Australian Accounting Standards and that key terms related to the existing and amended facilities agreed to the signed contracts.
- With assistance from EY Valuation specialists, assessed the reasonability of the discount rate utilized to estimate the fair value of the amended facility at initial recognition.
- Recalculated the gain recognised on extinguishment.
- Considered the adequacy of the disclosures and classification of the facility included within the financial report.



# 2. Rehabilitation Provisions

# Why significant

The Group incurs obligations for asset and site restoration and rehabilitation, which includes requirements under its Full Operating Stage License in Malaysia to manage water leached purification (WLP) and neutralisation underflow (NUF) residues arising from the production process. As at 30 June 2019 the Group's consolidated statement of financial position includes provisions of \$111m in respect of such obligations as disclosed in Note D.5.

Estimating the costs associated with these obligations requires considerable judgement in relation to when the activities will take place, the time required for rehabilitation to be effective, the costs associated with the activities and economic assumptions such as discount rates and foreign currency rates. Given the significant judgements and assumptions involved, the Group is required to continually reassess and confirm that the assumptions used are appropriate.

Due to the significant degree of estimation and judgment used to determine the rehabilitation provision this was considered to be a key audit matter.

# How our audit addressed the key audit matter

Our procedures included the following:

- Assessed the appropriateness of the changes in cost estimates and the assumptions underpinning the cost estimates against the prior year calculations, which were prepared by external experts.
- Understood changes in license conditions with respect to the management of WLP and NUF residues and assessed the appropriateness of changes in assumptions and calculations within the rehabilitation cost estimates as a result of these changed conditions.
- Tested the mathematical accuracy of the rehabilitation models and assessed the appropriateness of the inflation and discount rate assumptions.
- Performed site inspections at Mount Weld and the Lynas Advanced Materials Plant and understood changes to the disturbed areas since the previous annual reporting period.
- Considered the adequacy of the disclosures relating to the Group's provisions for restoration and rehabilitation included in the financial report.

# Information Other than the Financial Statements and Auditor's Report

The directors are responsible for the other information. The other information comprises the information included in the Group's 2019 Annual Report other than the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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# Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

# Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

# Report on the Audit of the Remuneration Report

# Opinion on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Lynas Corporation Limited for the year ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.

# Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Gavin Buckingham

Partner Perth

29 August 2019



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# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended June 30

In A\$'000	Note	2019	2018
Revenue	A.1	363.541	374,105
Cost of sales	A.1	(273,052)	(253,001)
Gross profit		90,489	121,104
General and administration expenses	A.1	(33,611)	(34,270)
Net foreign exchange loss		(273)	(5,101)
Other expenses		(168)	(694)
Profit from operating activities		56,437	81,039
Net gain on extinguishment of debt	A.2	43,434	-
Financial income	A.2	2,312	22,025
Financial expenses	A.2	(21,958)	(49,660)
Net financial income / (expenses)		23,788	(27,635)
Profit before income tax		80,225	53,404
Income tax expense	A.4	(195)	(285)
Profit for the year		80,030	53,119
Other comprehensive income for the year net of income tax that may be reclusubsequently to profit or loss	assified		
Exchange differences on translation of foreign operations		10,712	46,922
Total other comprehensive income for the year, net of income tax		10,712	46,922
Total comprehensive income for the year attributable to equity holders of the	e Company	90,742	100,041
Earnings per share			
Basic earnings per share (cents per share)	A.3	12.04	8.84
Diluted earnings per share (cents per share)	A.3	11.47	8.29

The Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the notes to the financial statements.



# **Consolidated Statement of Financial Position**

# As at June 30

In A\$'000	Note	2019	2018
Assets			
Cash and cash equivalents	C.1	89,710	42,292
Trade and other receivables	D.1	12,873	12,365
Current tax assets	Б.1	12,073	12,303
Prepayments		1,958	2,358
Inventories	D.2	58,332	51,658
Total current assets	D.Z	162,891	108,673
Total current assets		102,091	100,073
Inventories	D.2	4,705	4,109
Property, plant and equipment	B.1	626,462	594,416
Deferred development expenditure	B.1	32,931	18,726
Other non-current assets	D.3	51,816	38,707
Total non-current assets		715,914	655,958
Total assets		878,805	764,631
1000		0.0,000	70-1,001
Liabilities			
Interest payable		413	452
Trade and other payables	D.4	37,029	35,012
Borrowings	C.2	29,308	-
Employee benefits	D.5	2,182	2,142
Provisions	D.5	-	357
Tax payable		-	52
Total current liabilities		68,932	38,015
Trade and other payables	D.4	467	580
Interest payable		1,690	1,607
Borrowings	C.2	163,673	225,112
Employee benefits	D.5	550	354
Provisions	D.5	111,145	64,485
Total non-current liabilities		277,525	292,138
Total liabilities		346,457	330,153
Net assets		532,348	434,478
Equity			
Share capital	C.4	1,398,264	1,395,417
Accumulated losses		(856,331)	(936,361)
Reserves	C.5	(9,585)	(24,578)
Total equity attributable to the equity holders of the Company		532,348	434,478

The Consolidated Statement of Financial Position should be read in conjunction with the notes to the financial statements.

# **Consolidated Statement of Changes in Equity**

In A\$'000	Share capital	Accumula ted losses	Foreign currency translation reserve	Equity settled employee benefits reserve	Warrant reserves	Other reserves	Total
Balance at July 1, 2018	1,395,417	(936,361)	(109,619)	45,091	34,094	5,856	434,478
Other comprehensive income for the year	-	-	10,712	-	-	-	10,712
Total profit for the year	-	80,030	-	-	=	-	80,030
Total comprehensive income for the year	-	80,030	10,712	-	-	-	90,649
Conversion of convertible note	2,847	-	-	-	-	(791)	2,056
Employee remuneration settled through share-based payments		-	-	5,072	-	-	5,072
Balance at June 30, 2019	1,398,264	(856,331)	(98,907)	50,163	34,094	5,065	532,348
Balance at July 1, 2017 (Restated)	1,094,403	(989,480)	(156,541)	39,970	40,413	83,390	112,155
Other comprehensive income for the year	-	-	46,922	-	-	-	46,922
Total profit for the year	-	53,119	-	-	-	-	53,119
Total comprehensive income for the year	-	53,119	46,922	-	-	-	100,041
Conversion of convertible note	288,191	-	-	-	-	(77,534)	210,657
Exercise of warrants	12,825	-	-	-	(6,319)	-	6,506
Employee remuneration settled through share-based payments		-	-	5,121	-	-	5,121
Balance at June 30, 2018	1,395,417	(936,361)	(109,619)	45,091	34,094	5,856	434,478

The Consolidated Statement of Changes in Equity should be read in conjunction with the notes to the financial statements.



# **Consolidated Statement of Cash Flows**

For the year ended June 30

In A\$'000	Note	2019	2018
Cash flows from operating activities			
Receipts from customers		367,538	383,136
Payments to suppliers and employees		(254,196)	(256,656)
Royalties paid		(8,949)	(7,868)
Income taxes paid		(280)	(132)
Net cash from operating activities		104,113	118,480
Cash flows from investing activities			
Payments for property, plant and equipment and development expenditure		(32,279)	(24,220)
Security bonds paid		(77)	(1,575)
Security bonds refunded		14	267
Interest received		2,002	1,127
Deposit as collateral for AELB		(10,291)	(29,139)
Net cash used in investing activities		(40,631)	(53,540)
Cash flows from financing activities			
Interest and other financing costs paid		(9,840)	(27,714)
Proceeds from the issue of share capital		-	6,506
Repayment of long-term borrowing (JARE loan facility)		(6,973)	(65,542)
Net cash used in financing activities		(16,813)	(86,750)
Net increase / (decrease) in cash and cash equivalents		46,669	(21,810)
Cash and cash equivalents at the beginning of the year		42,292	63,925
Effect of exchange rate fluctuations (net) on cash held		749	177
Closing cash and cash equivalents	C.1	89,710	42,292
saon equitationte	• • •	55,7.15	12,202

The Consolidated Statement of Cash flows should be read in conjunction with the notes to the financial statements.

# Notes to Consolidated Financial Statements For the year ended June 30, 2019

# **About this Report**

Lynas Corporation Limited (the "Company") is a for-profit company domiciled and incorporated in Australia.

The financial report of Lynas Corporation Limited as at and for the year ended June 30, 2019 comprises the Company and its subsidiaries (together referred to as the "Group"). The financial report was approved by the Board of Directors (the "Directors") on August 29, 2019.

The Group is principally engaged in the extraction and processing of rare earth minerals, primarily in Australia and Malaysia.

The address of the registered office of the Company is Suite 3, 5 Tully Road, East Perth WA 6004, Australia.

# Basis of preparation

#### Statement of compliance

The financial report is a general purpose financial report and has been prepared in accordance with Australian Accounting Standards ("AASs") adopted by the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*.

The financial report also complies with International Financial Reporting Standards and Interpretations ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial report was approved by the Board of Directors (the "Directors") on August 29, 2019.

#### Going concern

The financial report has been prepared using the going concern assumption.

As detailed in Note C.3, on June 27, 2019, the Group announced a 10 year extension of the JARE loan facility. The new terms of the JARE loan facility include a maturity date of June 30, 2030 (previously June 30, 2020) and an interest rate of 2.5% p.a. (previously 3.75% p.a.).

As noted in Subsequent Events section (Note E.10), on August 22, 2019, the Group confirmed the renewal of the Lynas Malaysia operating licence for an initial period of 6 months. During that 6 month period, the Group is required to obtain consent for the location of a Permanent Deposit Facility (PDF) for WLP residue. In addition, the Group is required to relocate Cracking & Leaching, the first stage of its operations currently located in Malaysia, to Western Australia within 4 years. The Group plans to implement that relocation as part of the Lynas 2025 growth plan.

#### **Basis of measurement**

The financial report has been prepared under the historical cost convention, except for the borrowings which are at amortised cost.

Information as disclosed in the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the current year is for the 12 month period ended June 30, 2019. Information for the comparative year is for the 12 month period ended June 30, 2018.

# Consolidation of subsidiaries

Subsidiaries are entities controlled by the Company or the Group. Control is achieved when the Company or Group has power over the investee, is exposed, or has the rights to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns. In assessing control, potential voting rights that are presently exercisable are taken into account. The financial statements of subsidiaries are included in the financial report from the date control (or effective control) commences until the date that control ceases. As per Note E.4 all entities within the Group are 100% owned and controlled.

Intra-group balances and unrealised items of income and expense arising from intra-group transactions are eliminated in preparing the financial report. Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same manner as gains, but only to the extent that there is no evidence of impairment.

# Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191 issued by the Australian Securities and Investments Commission, in relation to the "rounding off" of amounts. Amounts in the Directors' Report and Financial Report have been rounded off, in accordance with the Instrument, to the nearest thousand dollars, unless otherwise stated.

# Currency and foreign exchange

The financial report of the Company and the Group is presented in Australian Dollars ("AUD"), which is both the Company's and the Group's presentation currency.

Items included in the financial report of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

# Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency of the respective entities at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated to the functional currency of the respective entities at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency of the respective entities at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on translation are recognised in the statement of comprehensive income as a component of the profit or loss



# Notes to Consolidated Financial Statements For the year ended June 30, 2019

#### Foreign operations

The results and financial position of those entities that have a functional currency different from the presentation currency of the Group are translated into the Group's presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the reporting date of the statement
  of financial position:
- income and expense items for each profit or loss item are translated at average exchange rates;
- items of other comprehensive income are translated at average exchange rates; and
- · all resulting exchange differences are recognised as a separate component of equity.

# Foreign exchange risk management

As a result of the Group's international operations, foreign exchange risk exposures exist on purchases, assets and borrowings that are denominated in foreign currencies (i.e. currencies other than the functional currency of each of the Group's operating entities). The currencies in which these transactions are primarily denominated are the AUD, USD and MYR.

The Group takes advantage of natural offsets to the extent possible. Therefore, when commercially feasible, the Group borrows in the same currencies in which cash flows from operations are generated. Generally the Group does not use forward exchange contracts to hedge residual foreign exchange risk arising from receipts and payments denominated in foreign currencies. However, when considered appropriate the Group may enter into forward exchange contracts to hedge foreign exchange risk arising from specific transactions.

The Group's primary exposure to foreign exchange risk is on the translation of net assets of Group entities which are denominated in currencies other than AUD, which is the Group's presentation currency. The impact of movements in exchange rates is recognised primarily in the other comprehensive income component of the Group's statement of comprehensive income.

Certain subsidiaries within the Group are exposed to foreign exchange risk on purchases denominated in currencies that are not the functional currency of that subsidiary. In these circumstances, a change in exchange rates would impact the net operating profit recognised in the profit or loss component of the Group's statement of comprehensive income. Details of this exposure is detailed in the capital risks in Section C of this report.

# Notes to Consolidated Financial Statements For the year ended June 30, 2019

# A. Earnings for the Year

This section includes the results and performance of the Group. It includes segmental information and details about the Group's tax position.

# A.1 Segment revenue and expenses

AASB 8 Operating Segments ("AASB 8") requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Operating Decision Makers (CODM) in order to allocate resources to the segment and to assess its performance.

At year end, the Group's CODM are the Board of Directors of the Company, the Chief Executive Officer, the Chief Financial Officer, the VP Production, the VP Sales & Marketing, the General Counsel & Company Secretary, the MD Malaysia and the VP People & Culture. Information reported to the Group's CODM for the purposes of resource allocation and assessment of performance currently focuses on the operation of the Group's integrated rare earth extraction and process facilities.

The Group has only one reportable segment under AASB 8 being its rare earth operations. The CODM does not review the business activities of the Group based on geography.

All of the Group's revenue is derived through the sale of Rare Earth products and is sold to non-Australian customers.

The accounting policies applied by this segment are the same as the Group's accounting policies. Results from operating activities represent the profit earned by this segment without allocation of interest income and expense and income tax benefit (expense). The CODM assess the performance of the operating segment based on adjusted EBITDA. Adjusted EBITDA is defined as net profit before income tax expense, net of financial expenses, depreciation and amortisation and adjusted to exclude certain significant items, including but not limited to such items as employee remuneration settled through share-based payments, restructuring costs, unrealised gains or losses on derivatives, gains or losses on the sale of non-strategic assets, asset impairments and write downs.

78% (FY18:77%) of the Group's non-current assets are located in Malaysia and the remaining 22% (FY18: 23%) are in Australia.

#### Recognition and measurement

#### Revenue

#### Rare Earth Product sales:

The Group derives revenue from the sale of rare earth products, which are governed by a sales contract with their customers. Revenue is recognised in relation to rare earth sales at the time control transfers to customers at the date of loading/shipment. Sales made under CIF incoterms, where the Group is responsible for freight and shipping, are generally recognised at the point in time when the rare earth products are loaded onto the vessel for shipment. In these sales, the freight and shipping service represents a separate performance obligation to the sale of the rare earth products. For those sales not made under CIF incoterms, this timing is upon the delivery of the rare earth products.

# Provisionally priced sales:

Certain of the Group's sales are provisionally priced, where the final price depends on the sale price of products sold to a third party outside of the Lynas transaction. Adjustments to the sales price occur based on movements in market prices up to the secondary point of sale. Under AASB 15 any fair value adjustments on receivables subject to Quotational Pricing (QP) are recognised in other revenue and not included in revenue from contracts with customers. There are no receivables on these terms at June 30, 2019.

# Shipping services:

As noted above, a portion of the Group's rare earth product sales are sold on CIF incoterms, whereby the Group is responsible for providing freight and shipping services after the date that it transfers control of the rare earth products to the customer. Under AASB 118, freight and shipping services were not accounted for as separate services. Instead all the revenue relating to the sale was recognised at the date of loading and presented as revenue from sale of rare earth products. Under AASB 15, it has been concluded that freight and shipping represent a separate performance obligation and that the Group acts as principal. As a result, a portion of the transaction price is now required to be allocated to this performance obligation and will be recognised over time on a gross basis as the services are provided. The Group has concluded that for the FY19 period the amount is insignificant and therefore not disclosed separately in Note A.1.

# Royalties

Obligations arising from royalty arrangements are recognised as current liabilities and included as part of the cost of goods sold in the statement of comprehensive income as a component of profit or loss.

# Financial Income and Expenses

Financial income comprises interest income and gains on derivative financial instruments in respect of financing activities that are recognised in the statement of comprehensive income as a component of the profit or loss. Interest income is recognised as it accrues using the effective interest method.

Financial expenses comprise interest expense, impairment losses recognised on financial assets (except for trade receivables) and losses in respect of financing activities on derivative instruments that are recognised in the statement of comprehensive income as a component of the profit or loss. All borrowing costs not qualifying for capitalisation are recognised in the statement of comprehensive income as a component of the profit or loss using the effective interest method.



# Notes to Consolidated Financial Statements For the year ended June 30, 2019

For the year ended June 30, 2019

For the year ended June 30, 2018

L. A@1000	Rare Earth Operations	Corporate/ Unallocated	Total Continuing	Rare Earth Operations	Corporate/ Unallocated	Total Continuing
In A\$'000  Business segment reporting			Operations	•		Operations
business segment reporting						
Revenue from contracts with customers	358,297	-	358,297	374,105	_	374,105
Other revenue:	222,=21		,	.,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,		,
Price adjustments	5,244	-	5,244	-	-	-
Total revenue	363,541	-	363,541	374,105	-	374,105
Cost of color (aval depresistion)	(233,651)		(233,651)	(219,083)		(219,083)
Cost of sales (excl depreciation) Cost of sales (depreciation)	(39,401)	-	(39,401)	(33,918)	-	(33,918)
Gross profit	90,489		90,489	121,104		121,104
Gross pront	50,465	-	90,469	121,104	-	121,104
Employee and production costs net of	(0.400)	(2.242)		(0.444)	/a =	//a aa=\
costs recovered through production	(3,122)	(8,013)	(11,135)	(3,444)	(9,541)	(12,985)
Depreciation expenses net of cost	(3,677)	(1,227)	(4,904)	(5,703)	(1,240)	(6,943)
recovered through production	, , ,		,	,	,	
Other general and administration expenses	(11,852)	(5,720)	(17,572)	(10,695)	(3,647)	(14,342)
Total general and admin expenses	(18,651)	(14,960)	(33,611)	(19,842)	(14,428)	(34,270)
Other expenses		(168)	(168)		(694)	(694)
Net foreign exchange loss	-	(273)	(273)	-	(5,101)	(5,101)
Profit / (loss) before interest and tax						
("EBIT")	71,838	(15,401)	56,437	101,292	(20,223)	81,039
Net gain on extinguishment of debts	-	43,434	43,434	-	-	-
Other financial income			2,312			22,025
Financial expenses			(21,958)			(49,660)
Profit before income tax			80,225			53,404
Income tax expense			(195)			(285)
Profit for the year			80,030			53,119
Reconciliation of EBIT to Earnings before interest, tax, depreciation and amortisation ("EBITDA")	74.000	(45.404)	50.407	404.000	(00,000)	04.000
EBIT	71,838	(15,401)	56,437	101,262	(20,223)	81,039
Depreciation and amortisation  EBITDA	43,077 <b>114,915</b>	1,227 <b>(14,174)</b>	44,304 <b>100,741</b>	39,621 <b>140,883</b>	1,240 (18,983)	40,861 <b>121,900</b>
EBITDA	114,915	(14,174)	100,741	140,003	(10,903)	121,900
ncluded in EBITDA:						
Non-cash employee remuneration settled through share based payments						
comprising: Share based payments expense for the year	-	5,234	5,234	-	6,935	6,935
Impact of options and performance rights forfeited during the year	-	(162)	(162)	-	(1,815)	(1,815)
Other non-cash transactions	(42)		(42)	-		
Adjusted EBITDA	114,873	(9,103)	105,769	139,522	(12,502)	127,020
Total assets	823,155	55,650	878,805	753,696	10,935	764,631
Total liabilities	(193,156)	(153,301)	(346,457)	(140,938)	•	•
ו טנמו וומטווונופט	(193,130)	(100,001)	(340,437)	(140,930)	(109,215)	(330,153

Other general and administration expenses include statutory, consulting, insurance, IT, marketing and general office costs.

# Notes to Consolidated Financial Statements For the year ended June 30, 2019

# A.2 Financial income and expenses

	For the year en	ded June 30
In A\$'000	2019	2018
Net gain on extinguishment of debt <sup>(1)</sup>	43,434	_
Interest income on cash and cash equivalents	2,312	1,178
Interest forgiven on JARE loan	· <u>-</u>	20,847
Total financial income	45,746	22,025
Interest expense on financial liabilities:		
Interest expense on JARE loan facility	(8,773)	(8,825)
Interest expense on convertible bond facility	(435)	(2,124)
Unwinding of discount on convertible bond facility	(1,477)	(7,655)
Unwinding of discount on JARE loan facility	(7,152)	(7,630)
Non-cash adjustment to financial liabilities	1,484	(22,411)
Unwinding of discount on restoration and rehabilitation provision	(907)	(793)
Discount unwinding on AELB deposit	356	332
Financing transaction costs and fees	(471)	(554)
Unrealised foreign exchange loss on intercompany balance	(4,583)	-
Total financial expenses	(21,958)	(49,660)
Net financial benefit / (expenses)	23,788	(27,635)

<sup>(1)</sup> During the year ended June 30, 2019 Lynas restructured its debt facility with JARE, resulting in a net gain due to the derecognition of the old facility and recognition of the new facility as detailed in Note C.2.

# A.3 Earnings per share

# Recognition and measurement

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share adjusts the amount used in the determination of the basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares. Potential ordinary shares are treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share from continuing operations.

The earnings and weighted average number of ordinary shares used in the calculations of basic and diluted earnings per share are as follows:

	As at J	une 30
In A\$'000	2019	2018
Net earnings attributed to ordinary shareholders	80,030	53,119
Earnings used in calculating basic earnings per share	80,030	53,119
Net earnings impact of assumed conversions of diluted EPS	1,336	1,213
Earnings used in calculating diluted earnings per share	81,366	54,332
Number of ordinary shares on issue ('000)	667,801	662,547
Weighted average number of ordinary shares used in calculating basic earnings per share ('000)	664,803	600,689
Weighted average number of ordinary shares used in calculating diluted earnings per share ('000)	709,451	655,555
Basic earnings per share (cents per share)	12.04	8.84
Diluted earnings per share (cents per share)	11.47	8.29

The following dilutive shares are included in share base for the calculation of dilutive earnings per share:

	Number (000's)
Unlisted convertible bonds (Conversion price: \$1.00 at a set exchange rate of A\$1.00 = US\$0.75)	18,203
Unlisted warrants (Exercise price: \$0.50)	17,402
Performance rights	9,044
Total	44,649



# Notes to Consolidated Financial Statements For the year ended June 30, 2019

# A.4 Income taxes

# A.4.1 Income tax expense

	For the year ende	ed June 30
In A\$'000	2019	2018
Current tax		
Current tax expense in respect of the current year	195	285
Adjustments recognised in the current year in relation to the current tax in prior years	-	-
	195	285
Deferred tax		
Deferred tax expense recognised in the year	-	-
Total income tax expense relating to the continuing operations	195	285

# A.4.2 Reconciliation of income tax to tax expense

	For the year e	nded June 30
In A\$'000	2019	2018
Profit before tax for continuing operations	80,225	53,404
Income tax expense calculated at 30% (2018: 30%)	24,067	16,021
Add / (deduct): Effect of expenses that are not deductible and income that is not assessable in determining	5.651	24,837
taxable profit Effect of restatement of prior year accounts	-	23,649
Effect of foreign exchange gains and losses	3,787	16,474
Deferred tax relating to the origination of and reversal of temporary differences	(15,198)	(30,362)
Effect of previously unrecognised tax losses bought to account	(1,244)	(2,288)
Effect of difference in tax rate in Malaysia	(13,156)	(40,178)
Other adjustments	(3,712)	(7,868)
Total current year income tax expense	195	285

# A.4.3 Movements in deferred tax balances

In A\$'000	Balance at June 30, 2018	Recognised in profit or loss	Recognised in equity	Recognised in OCI	Balance at June 30, 2019
Temporary differences					
Inventory	_	(872)	_	_	(872)
Development expenditure	(8,601)	(5,575)	_	_	(14,176)
Property plant and equipment	1,754	559	-	-	2,313
Borrowings	19,942	(8,466)	-	-	11,476
Trade payables	119	(1)	-	-	118
Provisions	10,148	2,340	-	-	12,488
	23,362	(12,015)	-	-	11,347
(Unrecognised) / recognised deferred tax assets	(23,362)	12,015	-	-	(11,347)
Net deferred tax asset / (liability) recognised		-	-	-	-

In A\$'000	Balance at July 1, 2017 (Restated)	Recognised in profit or loss	Recognised in equity	Recognised in OCI	Balance at June 30, 2018
Temporary differences					
Development expenditure	(7,927)	(674)	_	_	(8,601)
Property plant and equipment	1,011	743	_	-	1,754
Borrowings	28,269	(8,327)	_	-	19,942
Costs of equity and debt raisings	3	(3)	-	_	, <u>-</u>
Trade payables	93	26	-	_	119
Provisions	8,264	1,884	-	-	10,148
	29,713	(6,350)	-	-	23,362
(Unrecognised) / recognised deferred tax assets	(29,713)	6,350	-	-	(23,362)
Net deferred tax asset / (liability) recognised	_	-	-	-	-

# Notes to Consolidated Financial Statements For the year ended June 30, 2019

# A.4.4 Unrecognised deferred tax assets

	As at June 30			
In A\$'000	2019	2018		
Deductible temporary differences and unused tax losses for which no deferred tax assets have been recognised are attributable to the following:				
Gross revenue losses				
Australia	128,523	143,878		
Malaysia	167,441	167,441		
Malawi	229	298		
Gross capital losses				
Australia	2,145	2,145		
Malaysia	305,537	323,365		
Deductible temporary differences (tax effected)	11.347	23.362		

#### Recognition and measurement

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the statement of comprehensive income as a component of the profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised with the associated items on a net basis. Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method of providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the carrying amounts for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future and the Group is in a position to control the timing of the reversal of the temporary differences. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time the liability to pay the related dividend is recognised. Deferred income tax assets and liabilities in the same jurisdiction are offset in the statement of financial position only to the extent that there is a legally enforceable right to offset current tax assets and current tax liabilities and the deferred balances relate to taxes levied by the same taxing authority and are expected either to be settled on a net basis or realised simultaneously.

# Tax consolidation

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from July 1, 2002 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Lynas Corporation Limited. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity in the tax-consolidated group).

Entities within the tax-consolidated group have entered into a tax sharing agreement with the Company. The tax sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the Company default on its tax payment obligations or if an entity should leave the tax-consolidated group. The effect of the tax sharing agreement is that each member's liability for tax payable by the tax-consolidated group is limited to the amount payable to the head entity under the tax funding arrangement.

# Key estimates and judgements

# Recognition of deferred tax assets

Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies. In making the assessment, the Group has given specific due consideration to:

- The pioneer period status (tax holiday) in relation to the Malaysian operations through to 2026, subject to renewal in 2019:
  - Tax losses generated during this period will be utilised prior to the tax exemption being applied, with any unused losses available for utilisation by the Group once the pioneer period expires. However, these tax losses do not provide any benefit to the Group during the pioneer period as no tax would be otherwise due on pioneer product activities over this time.
  - Tax losses generated prior the pioneer period will remain available for use offsetting non-pioneer profits during the pioneer period for a period of 7 years after incurring the loss. Pre-pioneer period losses in Malaysia consist of MYR 368m in capital losses and MYR 257m in business losses. There is uncertainty if these losses will be utilised as they will have expired at the conclusion of the pioneer period under the 7 year carry forward period.
- There remains uncertainty at June 30, 2019 regarding the Operating Licence renewal in Malaysia, and the renewal received subsequent to year end extends through to March 2020. Until a longer term licence has been received, there is ongoing uncertainty around the quantum and the probability that the Group would have future taxable profits in these jurisdictions against which these tax losses can be utilised.

Based on these factors, the Group has not recognised a deferred tax asset in excess of the deferred tax liability at June 30, 2019.



# Notes to Consolidated Financial Statements For the year ended June 30, 2019

# **B. Production and Exploration Assets**

This section includes information about the recognition, measurement, depreciation, amortisation and impairment considerations of the core producing and exploration assets of the Group.

# B.1 Property, plant and equipment and mine development

#### Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses (if any).

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of property, plant and equipment acquired in a business combination is determined by reference to its fair value at the date of acquisition. The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of the cost of that equipment.

#### Assets under construction

Assets under construction are transferred to the appropriate asset category when they are ready for their intended use. Assets under construction are not depreciated but tested for impairment at least annually or when there is an indication of impairment.

# Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of an item of property, plant and equipment are capitalised until such time as the assets are substantially ready for their intended use. The interest rate used equates to the effective interest on debt where general borrowings are used or the relevant interest rate where specific borrowings are used to finance the construction.

#### Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the statement of comprehensive income as a component of the profit or loss as incurred.

#### **Depreciation**

Depreciation is recognised in the statement of comprehensive income as a component of the profit or loss or capitalised as a component of inventory in the statement of financial position (which is subsequently released to the profit or loss through the cost of goods sold on the sale of the underlying product) using a method that reflects the pattern in which the economic benefits embodied within the asset are consumed. Generally, this is on a straight-line basis over the estimated useful life of each part or component of an item of property, plant and equipment.

The estimated useful lives for the material classes of property, plant and equipment are as follows:

Leasehold land	30 to 99 years	Buildings	5 to 30 years
Plant and equipment	2 to 30 years	Fixtures and fittings	2 to 15 years
Leasehold improvements	3 to 30 years	Motor vehicles	8 vears

Depreciation methods, useful lives and residual values are reassessed on an annual basis.

Gains and losses on the disposal of items of property, plant and equipment are determined by comparing the proceeds (if any) at the time of disposal with the net carrying amount of the asset.

# Development expenditure

Once an area of interest has been established as commercially viable and technically feasible, expenditure other than that relating to land, buildings and plant and equipment is capitalised as development expenditure. Development expenditure includes previously capitalised exploration and evaluation expenditure, pre-production development expenditure and other subsurface expenditure pertaining to that area of interest. Costs related to surface plant and equipment and any associated land and buildings are accounted for as property, plant and equipment.

Development costs are accumulated in respect of each separate area of interest. Costs associated with commissioning new assets in the period before they are capable of operating in the manner intended by management, are capitalised. Development costs incurred after the commencement of production are capitalised to the extent they are expected to give rise to a future economic benefit.

When an area of interest is abandoned or the Directors decide that it is not commercially viable or technically feasible, any accumulated costs in respect of that area are written off in full in the statement of comprehensive income as a component of the profit or loss in the period in which the decision to abandon the area is made to the extent that they will not be recoverable in the future.

Development assets are assessed for impairment if the facts and circumstance suggest that the carrying amount exceed the recoverable amount. For the purpose of impairment testing, development assets are allocated to the cash-generating units ("CGUs") to which the development activity relates.

# **Notes to Consolidated Financial Statements** For the year ended June 30, 2019

#### B.1 Property, plant and equipment and mine development (cont'd)

Overburden and other mine waste materials are often removed during the initial development of a mine in order to access the mineral deposit. This activity is referred to as development or pre-production stripping. The directly attributable costs associated with these activities are capitalised as a component of development costs. Capitalisation of development stripping ceases and amortisation of those capitalised costs commences upon extraction of ore. Amortisation of capitalised development stripping costs occurs on a unit of production basis with reference to the life of mine of the relevant area of interest.

Removal of waste material normally continues through the life of a mine. This activity is referred to as production stripping and commences upon the extraction of ore.

# Amortisation of development

Amortisation of development is recognised either in the statement of comprehensive income as a component of the profit or loss or capitalised as a component of inventory in the statement of financial position (which is subsequently released to the profit or loss through the cost of goods sold on the sale of the underlying product) on a units of production basis which aims to recognise cost proportionally to the depletion of the economically recoverable mineral resources. Costs are amortised from the commencement of commercial production.

# Key estimates and judgements

#### Development Expenditure

Development activities commence after project sanctioning by the appropriate level of management and the Board. Judgement is applied by management in determining when a project is economically viable. In exercising this judgement, management is required to make certain estimates and assumptions similar to those described above for capitalised exploration and evaluation expenditure. Any such estimates and assumptions may change as new information becomes available. If, after having commenced the development activity, a judgement is made that a development asset is impaired, the appropriate amount will be written off to the statement of comprehensive income.

#### Stripping Asset

As with many mining operations similar to Mt Weld, overburden and other mine waste materials are often removed during the initial development of a mine in order to access the mineral deposit. The extraction of the ore body itself will also include a waste component extracted during the mining campaign. The costs of extraction of both these elements form the stripping costs. Judgement is required to identify a suitable allocation basis to apportion the stripping costs between inventory and any stripping assets for each component

The Group considers that the ratio of the expected volume of waste to be stripped for an expected volume of ore to be mined for a specific component of the ore body, to be the most suitable production measure. An identifiable component is a specific volume of the ore body that is made more accessible by the stripping activity.

<u>Pre-Production Stripping</u>
The Group has determined that the overburden removal where no ore is recovered forms part of a pre-production stripping asset and has been determined to provide more accessibility to the total ore body and is amortised on this basis.

# Production Stripping ratio

The Group has adopted a policy of deferring production stage stripping costs and amortising them on a units-of-production basis. Judgement is required in determining the contained ore units for each mining campaign.

Estimation of mineral reserves and resources – refer to B 2



# Notes to Consolidated Financial Statements For the year ended June 30, 2019

# B.1 Property, plant and equipment and mine development (cont'd)

			Propert	y, Plant	and Equip	ment			Developm	nent Exp	enditure
In A\$'000	Leasehold land	Buildings plant and equipment	Fixtures and fittings	Motor vehicles	Assets under construction	Rehabilitation asset	Leasehold improvements	Total	Development expenditure	Stripping asset	Total
As at June 30, 2019											
Cost	30,245	902,620	7,460	1,129	6,105	105,120	21,301	1,073,980	39,759	18,078	57,837
Accumulated impairment losses	-	(196,505)	(407)	-	(253)	-	(7,730)	(204,895)	(18,299)	-	(18,299)
Accumulated depreciation	(4,190)	(219,477)	(5,487)	(829)	-	(8,432)	(4,208)	(242,623)	(5,840)	(767)	(6,607)
Carrying amount	26,055	486,638	1,566	300	5,852	96,688	9,363	626,462	15,620	17,311	32,931
Opening cost	29,304	866,403	7,867	1,158	26,476	59,582	20,595	1,011,385	38,862	4,078	42,940
Opening accumulated impairment and depreciation	(2,977)	(388,214)	(5,876)	(809)	(264)	(7,840)	(10,989)	(416,969)	(23,514)	(700)	(24,214)
Opening carrying amount	26,327	478,189	1,991	349	26,212	51,742	9,606	594,416	15,348	3,378	18,726
Additions	-	1,270	30	-	22,119	-	75	23,494	693	14,000	14,693
Disposals	-	-	(2)	-	-	-	-	(2)	-	-	-
Depreciation expense	(580)	(39,598)	(491)	(91)	-	(992)	(611)	(42,363)	-	-	-
Amortisation expense	-	-	-	-	-	-	-	-	(421)	(67)	(488)
Transfers of assets under construction	-	43,096	-	-	(43,113)	-	17	-	-	-	-
Change in rehabilitation obligations	-	-	-	-	-	44,757	-	44,757	-	-	-
Impairment expense (reversal)	-	-	-	42	-	-	-	42	-	-	-
Foreign currency translation	307	3,682	38	-	634	1,181	276	6,117	-	-	-
Carrying amount at June 30, 2019	26,054	486,639	1,566	300	5,852	96,688	9,363	626,462	15,620	17,311	32,931

Restrictions on the title of property plant and equipment and development assets are outlined in Note C.3.

# Lynas Corporation Limited and Controlled Entities Notes to Consolidated Financial Statements For the year ended June 30, 2019

# B.1 Property, plant and equipment and mine development (cont'd)

		Pr	operty, P	lant and	Equipme	ent			Developn	nent Ex	penditure
In A\$'000	Leasehold land	Buildings plant and equipment	Fixtures and fittings	Motor vehicles	Assets under construction	Rehabilitation asset	Leasehold improvements	Total	Development expenditure	Stripping asset	Total
As at June 30, 2018											
Cost	29,304	866,403	7,867	1,158	26,476	59,582	20,595	1,011,385	38,862	4,078	42,940
Accumulated impairment losses	-	(190,791)	(393)	(42)	(264)	-	(7,506)	(198,996)	(18,122)	-	(18,122)
Accumulated depreciation	(2,977)	(197,423)	(5,483)	(767)	-	(7,840)	(3,483)	(217,973)	(5,392)	(700)	(6,092)
Carrying amount	26,327	478,189	1,991	349	26,212	51,742	9,606	594,416	15,348	3,378	18,726
Occident	55.040	700 450	0.700	0.47	4 400		40.070	202.272	38,844	4,078	40.000
Opening cost Opening accumulated	55,848	799,452	6,782	947	1,468	-	18,379	882,876			42,922
impairment and depreciation	(5,540)	(323,468)	(5,112)	(721)	(234)	-	(9,401)	(344,476)	(22,438)	(499)	(22,937)
Opening carrying amount	50,308	475,984	1,670	226	1,234	-	8,978	538,400	16,406	3,579	19,985
Additions	-	-	-	-	27,262	-	-	27,262	-	-	-
Disposals	-	(2,193)	-	(4)	(56)	-	-	(2,253)	-	-	-
Depreciation expense	(1,302)	(35,534)	(530)	(113)	-	-	(548)	(38,027)	-	-	-
Amortisation expense	-	-	-	-	-	-	-	-	(1,078)	(201)	(1,279)
Transfers of assets under construction Transfer of rehabilitation	-	2,207	760	227	(3,482)	-	288	-	-	-	-
asset from buildings, plant and equipment	(25,658)	-	-	-	-	25,658	-	-	-	-	-
Transfer of rehabilitation asset from deferred development	-	-	-	-	-	20,781	-	20,781	-	-	-
Change in rehabilitation obligations	-	-	-	-	-	3,068	-	3,068	-	-	-
Foreign currency translation	2,979	37,726	91	13	1,255	2,235	888	45,186	20	-	20
Carrying amount at June 30, 2018	26,327	478,189	1,991	349	26,212	51,742	9,606	594,416	15,348	3,378	18,726

Restrictions on the title of property plant and equipment and development assets are outlined in Note C.3.



# Notes to Consolidated Financial Statements For the year ended June 30, 2019

# **B.2 Impairment of non-current assets**

The carrying amounts of the Group's non-financial assets are reviewed at least annually to determine whether there is any indication of impairment. If any such indicators exist then the asset or CGU's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amounts are estimated at least annually and whenever there is an indication that they may be impaired.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its recoverable amount. A CGU is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in the statement of comprehensive income as a component of the profit or loss. Impairment losses recognised in respect of a CGU are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of the other non-financial assets in the CGU on a pro-rata basis.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. In assessing the fair value less cost to sell, the Company uses a variety of methods and assumptions that are based on market conditions and risks existing at each reporting date. The methods used to determine fair value include a discounted future cash flows analysis and adjusted EBITDA (forecasted) multiplied by a relevant market indexed multiple.

In respect of assets other than goodwill, impairment losses recognised in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's revised carrying amount will not exceed the carrying amount that would have been determined net of depreciation or amortisation if no impairment loss had been recognised.

#### Recognised impairment

No impairment loss or reversal of prior period impairment loss was recognised in 2019 (2018: Nil).

#### Key estimates and judgements

#### Reserve estimates and mine life

Reserves are estimates of the amount of product that can be economically and legally extracted from the Group's mining tenements. In order to calculate reserves, estimates and assumptions are required to be formulated about a range of geological, technical and economic factors including quantities, grades, production techniques, recovery rates, production costs, transportation costs, refining costs, commodity demand, commodity prices and exchange rates. Estimating the quantity and/or grade of reserves requires the size, shape and depth of the ore bodies or field to be determined by analysing geological data such as drilling samples. This process may require complex and difficult geological judgement and calculation to interpret the data.

As the economic assumptions used to estimate reserves change from period to period, and because additional geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in reported reserves may affect the Group's financial results and financial position in a number of ways, including:

- asset carrying values may be affected due to changes in the estimated future cash flows; and
- depreciation and amortisation charges in the statement of comprehensive income may change as result of the change in the useful
  economic lives of assets.

# Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's (CGU) fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where applicable, the value in use calculation is based on a 25-year discounted cash flow (DCF) model. The cash flows are derived from the two-year budget and forecast model that is extrapolated over 25 years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to product price movement, the discount rate used for the discounted cash flows model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

# Notes to Consolidated Financial Statements For the year ended June 30, 2019

# C. Cash, Borrowings and Capital

This section includes information about cash and cash equivalents, borrowings and capital position of the Company at the end of the reporting period.

# C.1 Cash and cash equivalents

	,	As at June 30		
In A\$'000	20	2019 2018		
Cash at bank and on hand	89,7	10	42,292	
Total cash and cash equivalents	89,7	89,710 42,292		

# Recognition and measurement

Cash and cash equivalents comprise cash on hand, deposits held at call with banks, restricted cash and other short-term highly liquid investments with maturities of less than three months.

# Fair value and foreign exchange risk

The carrying amount of cash and cash equivalents approximates their fair value.

The Group's cash and cash equivalents include A\$73.7m in currencies other than Australian dollars, primarily US\$27.2m (June 30, 2018: US\$3.8m) and MYR 96.9m (June 30, 2018: MYR 89.1m).

# Reconciliation of the profit for the year with the net cash from operating activities

	For the year ende	d June 30
In A\$'000	2019	2018
Profit for the year	80,030	53,119
Adjustments for:		
Depreciation and amortisation	42,851	40,861
Employee remuneration settled through share-based payments	5,072	5,120
Net financial (income) / expenses	(23,788)	27,635
Loss on disposal of property, plant and equipment and other non-cash transactions	169	694
Income tax expense	195	285
Foreign exchange loss included in profit for the year	273	5,360
Change in trade and other receivables	(108)	(6,006)
Change in inventories	(7,270)	(17,804)
Change in operating trade and other payables	6,453	8,539
Change in other assets and liabilities	-	150
Change in provisions (excluding additional rehabilitation obligation)	236	527
Net cash from operating activities	104,113	118,480



# Notes to Consolidated Financial Statements For the year ended June 30, 2019

# C.2 Interest Bearing Liabilities

	As at Jur	ne 30
In A\$'000	2019	2018
Current borrowings		
JARE loan facility <sup>(1)</sup>	29,308	_
Total current borrowings	29,308	-
Non-current borrowings		
JARE loan facility	145.611	207,449
Convertible bond facility	18,062	17,663
Total non-current borrowings	163,673	225,112
JARE loan facility	174,919	207,449
Total JARE loan facility carrying amount	174,919	207,449
Principal value of convertible bond facility (2)	23,130	23,519
Jnamortised equity component (2)	(5,068)	(5,856)
Total convertible bond facility carrying amount	18,062	17,663

- (1) The revised terms of the JARE loan include a condition whereby an early repayment of AU\$30m is required if the Malaysian operating licence is not renewed by December 31, 2019. Subsequent to June 30, 2019, the operating license was renewed and therefore this amount is no longer current.
- (2) The principal balance reflects the full value of the convertible bonds. On initial recognition, part of this value is recognised as a component of equity.

# Recognition and measurement

# Interest bearing loans and borrowings

Subsequent to initial recognition interest bearing loans and borrowings are measured at amortised cost using the effective interest method.

# Compound financial instruments

Compound financial instruments issued by the Group comprise convertible notes that can be converted to share capital at the option of the holder, with the number of shares to be issued being fixed.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar financial liability that does not have the equity conversion option. The equity component is recognised initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the financial liability component. Any directly attributable transaction costs are then allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to the initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

Interest related to the financial liability is recognised in the statement of comprehensive income as a component of the profit or loss. On conversion the financial liability is reclassified to equity and no gain or loss is recognised in the statement of comprehensive income.

# Key estimates and judgements

Interest bearing loans and borrowings are measured at amortised cost using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability to the amortised cost of the liability. The Group has applied judgement and determined the appropriate rate for a similar instrument to be 6.5%. When the Group revises the estimates of future cash flows, the carrying amount of the financial liability is adjusted to reflect the new estimate discounted using the original effective rate. Any changes are recognised in the profit or loss.

# Fair value and foreign exchange risk

The fair value of borrowings, which have been determined for disclosure purposes, is calculated by discounting the future contractual cash flows at the current market interest rates that are available for similar financial instruments. The fair value methodology adopted was categorised as Level 2 in the fair value hierarchy. These have been determined as follows:

	As at June 3	30, 2019	As at June 30, 2018		
	Carrying amount (AUD '000)	Fair value (AUD '000)	Carrying amount (AUD '000)	Fair value (AUD '000)	
JARE loan facility	174,919	174,919	207,449	210,825	
Convertible bond facility	18,062	18,290	17,663	17,885	
	192,981	193,209	225,112	228,710	

# Notes to Consolidated Financial Statements For the year ended June 30, 2019

# Terms and debt maturity schedule

				As at June 30, 2019		As at June 30, 2019		As at June 30, 2018	
	Currency	Nominal interest rate	Date of maturity	Face value (USD '000)	Carrying amount (AUD '000)	Face value (USD '000)	Carrying amount (AUD '000)		
JARE loan facility Convertible bond facility (2)	USD USD		June 2030 Sept 2020	156,505 <sup>(1)</sup> 14,015	174,919 18,062	161,505 <sup>(1)</sup> 15,647	207,449 17,633		
				170,520	192,981	177,152	225,082		

<sup>(1)</sup> The face value of the JARE loan facility includes US\$145.0m in principal and US\$11.5m in interest deferred until October 2020.

#### Reconciliation of liabilities arising from financing activities

	June 30, 2018	Cash flows	Non-Cash Movements						June 30, 2019
	Opening Balance	Proceeds / (Repayments)	Effective Interest	Foreign Exchange	Adjust- ment <sup>(1)</sup>	Other (2)	Derec- ognition	Recog- nition	Closing Balance
JARE loan facility (Current)	_	_	-	-	_	_	_	29,308	29,308
JARE loan facility (Non-Current)	207,449	(6,973)	7,152	12,210	(1,484)	-	(218, 354)	145,611	145,611
Convertible bond facility	17,663	-	1,477	978	-	(2,056)	-	-	18,062
Total	225,112	(6,973)	8,629	13,188	(1,484)	(2,056)	(218,354)	174,919	192,981

	June 30, 2017	Cash flows	Non-Cash Movements				June 30, 2018
	Opening Balance	Proceeds / (Repayments)	Effective Interest	Foreign Exchange	Adjustment	Other (2)	Closing Balance
JARE loan facility (Current)	19,516	(20,262)	_	746	-	-	_
JARE loan facility (Non-Current)	240,556	(45,280)	7,630	6,356	16,758	(18,571)	207,449
Convertible bond facility	233,287	-	7,655	(3,191)	5,653	(225,741)	17,663
Total	493,359	(65,542)	15,285	3,912	22,411	(244,312)	225,112

<sup>(1)</sup> Adjustments to the carrying values of the JARE loan during the year ended June 30, 2019 relate to changes in the cash flow profile used to measure the carrying value of the loan.

# C.3 Financing Facilities

Japan Australia Rare Earths B.V. (JARE) Ioan facility

An extension of the JARE loan facility was announced on June 27, 2019. As part of this extension, new terms were agreed to as detailed below.

The maturity date of the JARE loan facility has been extended to June 30, 2030 (previously June 30, 2020). The interest rate on this facility is 2.5% p.a. at June 30, 2019 (June 30, 2018: 3.75% p.a.). Conditions linking the interest rate to the NdPr sales price in the previous facility have been removed.

Interest liabilities will be paid directly to the lenders at December 31 and June 30 each year. The payment of interest in respect of the period commencing on January 1, 2016 and ending on December 31, 2016 is deferred to October 31, 2020 (with no penalty, and no additional interest).

There are a series of fixed repayments in the facility which have replaced the "Cash Sweep" mechanism in the former facility. The details of the fixed repayments are as follows:

Repayment date	Amount
Each half-year from Dec 31, 2021 to Dec 31, 2023	US\$2m on each date
June 30, 2024	US\$5m
Each half-year from Dec 31, 2024 to Dec 31, 2027	US\$10m on each date
Each half-year from June 30, 2028 to June 30, 2030	US\$12m on each date

Japan will have the following priority supply rights until 2038:

- Any fundraising will not hinder Lynas' ability to support Japanese industries diversifying their rare earths supply sources, in accordance with the Availability Agreement announced on March 30, 2011.
- 2. Lynas shall ensure that in the event of competing demands from the Japanese market and a non-Japanese market for the supply by the Borrower or Lynas Malaysia for NdPr produced from the Lynas Malaysia plant, the Japanese market shall have priority of supply up to 7,200 tonnes per year subject to the terms of the Availability Agreement and to the extent that Lynas will not have any opportunity loss.
- 3. JARE has rights of negotiation with Lynas in priority to non-Japanese market customers for the priority supply to the Japanese market of additional NdPr and Nd products produced by the Lynas 2025 Project.

<sup>(2)</sup> The face value of the Convertible bond facility includes US\$13.7m in principal and US\$0.3m in interest deferred to maturity date. The carrying amount of the convertible bond facility reflects the current value of the debt component of the instrument.

Other non-cash movements in the convertible bond facility relates to conversions of the convertible bonds, including interest paid.



# Notes to Consolidated Financial Statements For the year ended June 30, 2019

Lynas will continue to prioritize the needs of Japanese customers for the supply of Heavy Rare Earths products produced by the Blue Line JV, to the extent possible under any agreement with the U.S.

To date, the JARE loan facility has been secured over all of the assets of the Group, other than the Malawi assets. Pursuant to the amendments announced on June 27, 2019, JARE agreed to release the following securities within 2 months: (i) Deed of Charge - All Assets (Malaysia) and (ii) Malaysian Real Property Mortgage.

#### Mt. Kellett convertible bonds

As at June 30, 2019, the Company had on issue 13,652,136 convertible bonds, each with a face value of US\$1.00. The bonds are convertible at any time prior to maturity of the bonds at the election of the bondholder. During the year, US\$1.59m convertible bonds were converted into shares. The average conversion price paid upon conversion of convertible bonds during the year was \$1 per share, with a conversion exchange rate of AUD 1.00 = US\$0.750. The number of ordinary shares into which the US\$1.59m of bonds were converted during the year was 2.12m shares.

The maturity of the bonds is September 30, 2020 and the coupon rate on the convertible bonds is 1.875% p.a. (June 30, 2018: 1.875% p.a.) in line with the interest calculation below. The conversion price remains at \$1, with a conversion exchange rate at AUD 1.00 = US\$0.750. If all of the 13,652,136 unconvertible bonds were converted into ordinary shares, 18.203m ordinary shares would be issued.

The bonds may be converted by the bondholder issuing a notice of conversion to the Company. If the bonds are not converted prior to the maturity date, the face value of the bonds is repayable to the bondholder on the maturity date. Prior to the maturity date, the Company is liable to pay interest on the convertible bonds, as detailed below. A bondholder may, at any time following the occurrence of a defined "Redemption Event", require the Company to redeem some or all of the convertible bonds held by the bondholder. The Redemption Events include, for example, an insolvency event occurring in relation to a Group Company, a Group Company ceasing (or threatening to cease) to carry on all or part of its business which is likely to be materially adverse to the Group as a whole, a cross default by the Group in relation to certain other financial indebtedness (including the JARE loan facility), and a change in control of any member of the Group.

The convertible bonds are unsecured. The convertible bond terms include customary covenants which restrict the Group from incurring any financial liabilities or creating any security interests which in each case would rank senior to or pari passu with the convertible bonds, subject to specified exceptions which include the JARE loan facility.

If, on the last day of any calendar month ("test date") the weighted average sale price of NdPr products sold by the Group in the immediately preceding 6 calendar months is US\$38.0 per kilogram or greater, the interest rate increases to 1.875% p.a., effective on and from the day after the test date. The interest rate will remain 1.875% p.a. until there have been 6 consecutive test dates on which the weighted average sale price of NdPr products sold by the Group in the immediately preceding 6 calendar months is less than US\$38.0 per kilogram, in which case the interest rate will revert to 1.25% p.a. effective on and from the day after such 6th consecutive test date, and will remain 1.25%p.a. until any test date on which the weighted average realized sale price of NdPr products sold by the Group in the immediately preceding 6 calendar month is US\$38.0 per kilogram or greater.

The interest incurred from January 1, 2016 to December 31, 2016 was deferred to the maturity date with no penalty and no additional interest. All interest accrued after January 1, 2017 is paid as accrued at interest dates of December 31 and June 30 each year. As a bond is converted prior to the maturity date, the associated interest owed on that bond is paid on conversion.

# C.4 Equity

	As at June 30					
	201	2019		8		
	Number of shares '000	A\$'000	Number of shares '000	A\$'000		
Balance at the beginning of the year	662,547	1,395,417	3,677,743	1,094,403		
ssue of shares pursuant to conversion of convertible bonds	-	-	1,713,333	173,914		
ssue of shares pursuant to exercised warrants	-	-	95,733	9,066		
Subtotal prior to share consolidation	662,547	1,395,417	5,486,809	1,277,383		
0 to 1 share consolidation	-	-	(4,938,124)	-		
Subtotal after share consolidation	662,547	1,395,417	548,685	1,277,383		
ssue of shares pursuant to conversion of convertible bonds	2,120	2,847	108,344	114,275		
ssue of shares pursuant to exercised performance rights	3,135	-	1,642	-		
ssue of shares pursuant to exercised warrants	-	-	3,876	3,759		
Closing balance	667,802	1,398,264	662,547	1,395,417		

All issued ordinary shares are fully paid and have no par value. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share. All shares rank equally with regard to the Group's residual assets in the event of a wind-up.

# Recognition and measurement

Ordinary shares are classified as equity. Costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

Where equity instruments are reacquired by the Group, for example, as a result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the statement of comprehensive income and the consideration paid including any directly attributable incremental costs (net of income taxes) is directly recognised in equity.

# Notes to Consolidated Financial Statements For the year ended June 30, 2019

#### C.5 Reserves

	As at Ju	ne 30
In A\$'000	2019	2018
Equity settled employee benefits	50,163	45,091
Foreign currency translation	(98,907)	(109,619)
Warrant reserve	34,094	34,094
Equity component of convertible bond	5,065	5,856
Balance at June 30	(9,585)	(24,578)

#### **Nature and Purpose**

The equity settled employee benefits reserve relates to performance rights granted by the Group to its employees under the employee share option plan. Further information about share-based payments to employees is set out in Note E.7.

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve

Warrant reserve includes options issued as part of rights issues.

The equity component of convertible bond reserve represents the equity component of the US\$225.0m unsecured convertible bond facility issued in 2012 and amended in 2016, net of the associated deferred tax. This has reduced in line with the conversion of bonds during the year.

#### Key Financial and capital risks associated with cash, debt and capital

Exposure to market, credit and liquidity risks arise in the normal course of the Group's business. The Directors and management of the Group have overall responsibility for the establishment and oversight of the Group's risk management framework.

The Directors have established a treasury policy that identifies risks faced by the Group and sets out policies and procedures to mitigate those risks. Monthly consolidated treasury reports are prepared for the Directors, who ensure compliance with the Group's risk management policies and procedures.

#### Capital risk management

The Directors are responsible for monitoring and managing the Group's capital structure.

The Directors' policy is to maintain an acceptable capital base to promote the confidence of the Group's financiers and creditors and to sustain the future development of the business. The Directors monitor the Group's financial position to ensure that it complies at all times with its financial and other covenants as set out in its financing arrangements.

In order to maintain or adjust the capital structure, the Directors may elect to take a number of measures including, for example, to dispose of assets or operating segments of the business, to alter its short to medium term plans in respect of capital projects and working capital levels, or to re-balance the level of equity and external debt in place.

Capital comprises share capital, external debt and reserves.

# Liquidity risk management

Liquidity risk is the risk that the Group will not meet its contractual obligations as they fall due. The Group's approach to managing liquidity risk is to ensure that it will always have sufficient liquidity to meet its liabilities as and when they fall due and comply with covenants under both normal and stressed conditions.

The Group evaluates its liquidity requirements on an on-going basis and ensures that it has sufficient cash on demand to meet expected operating expenses including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

# Interest rate risk management

The Group's interest rate risk arises from long-term borrowings at both fixed and floating rates and deposits which earn interest at floating rates. Borrowings and deposits at floating rates expose the Group to cash flows interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk. The Group's exposure to interest rate risk is shown below:

In A\$'000	June 30, 2019	Maturity	Interest Rate Risk		June 30, 2018	Interest Ra	ite Risk
	Exposure	Profile	1%	-1%	Exposure	1%	-1%
			Impact on Pro	fit and Equity		Impact on Profi	t and Equity
Floating rate instruments							
Cash and cash equivalents	89,710	< 6 months	449	(449)	42,292	211	(211)
Other non-current assets	3,009	< 6 months	15	(15)	3,232	16	(16)
Convertible bond facility	(17,663)	1-2 years	(88)	88	(20,944)	(105)	105
JARE loan facility	-	-	-	-	(207,449)	(1,038)	1,038
Total	75,056		376	(376)	(182,869)	(916)	916



# Notes to Consolidated Financial Statements For the year ended June 30, 2019

# Foreign exchange risk management

The Group's foreign exchange risks are detailed in the basis of preparation of these financial reports.

There are two elements of foreign exchange risk. Firstly, the Group holds cash, trade receivables and trade payables currencies other than the functional currency of the Company in which it is held. Movement in the prevailing exchange rates have an impact on the Group's profit and equity. Secondly, the Group's members are exposed to foreign exchange risk on the translation of its operations that are denominated in currencies other than AUD. The Group's net assets denominated in currencies other than the AUD which have the potential of impacting the other comprehensive income component of the statement of comprehensive income are:

	Carrying	Foreign Exchange Risk			
	Amount	Amount -10%		10%	
In \$A'000's		Profit	Equity	Profit	Equity
As at June 30, 2019					
Net exposure of US\$ financial assets	US\$ 8,377	1,086	-	(1,086)	-
Net exposure of A\$ financial assets	A\$ 244	(24)	-	24	-
Net asset exposure – MYR currency	MYR 373,890	-	(12,875)	-	12,875
Net asset exposure – US\$ currency	USD (79,935)	-	11,139	-	(11,139)
As at June 30, 2018					
Net exposure of US\$ financial assets	US\$ 9,177	1,473	-	(1,473)	-
Net exposure of A\$ financial assets	A\$ 704	(82)	-	82	-
Net asset exposure – MYR currency	MYR 479,304	-	(16,094)	-	16,094
Net asset exposure – US\$ currency	US\$ (143,350)	-	19,059	-	(19,059)

# Notes to Consolidated Financial Statements For the year ended June 30, 2019

# D. Other Assets and Liabilities

This section includes information about the other assets and liabilities position at the end of the period.

# **D.1 Receivables**

	As at Jur	As at June 30		
In A\$'000	2019	2018		
Trade receivables	9,240	5,843		
GST / VAT receivables	2,261	5,645		
Other receivables	1,372	877		
Total current trade and other receivables	12,873	12,365		

The Group's exposure to credit risk is primarily in its trade receivables. As at June 30, 2019 \$0.60m (2018: \$0.24m), of trade receivables were past due but not impaired, of which \$0.45m has been received subsequent to year end. The Group is in regular contact with these debtors and expects the remaining amounts will be collected in full.

#### Recognition and measurement

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for instruments with maturities greater than 12 months from the reporting date, which are classified as non-current assets. The Group's receivables comprise trade and other receivables (including related party receivables) which are stated at their cost less impairment losses.

# Fair Value and foreign exchange risk

Given the short-term nature of trade receivables, the carrying amount is a reasonable approximation of fair value.

All trade receivables are held in currencies other than Australian dollars and therefore exposed to foreign exchange risk.

# **D.2 Inventories**

	As at Jur	As at June 30		
In A\$'000	2019	2018		
Raw materials and consumables	18,627	19,997		
Work in progress	25,003	26,168		
Finished goods	19,407	9,602		
Total inventories	63,037	55,767		
Current inventories	58,332	51,658		
Non-current inventories	4,705	4,109		
Total inventories	63,037	55,767		

During the year ended June 30, 2019 inventories of \$273.1m (2018: \$253.0m) were recognised as an expense. All of which were included in 'cost of sales'.

# Depreciation recognised in inventories

The Group recognised depreciation on its property, plant and equipment and amortisation on its deferred exploration, evaluation and development expenditure and intangible assets for the years ended June 30, 2019 and 2018 respectively in the following categories:

	Recognised in General and Administration Expense		Recognised in Inventory		Total	
In A\$'000	2019	2018	2019	2018	2019	2018
Property, plant and equipment Deferred exploration and evaluation expenditure Intangibles	4,416 488	4,433 2,493 17	37,947 - -	33,594 - -	42,363 488	38,027 2,493 17
Total	4,904	6,943	37,947	33,594	42,851	40,537

On the sale of inventory to customers, the component of the depreciation or amortisation expense capitalised within inventory is reflected in the cost of goods sold in the statement of comprehensive income as a component of the profit or loss. This was \$39.4m in the year ended June 30, 2019 (2018: \$33.9m).



# Notes to Consolidated Financial Statements For the year ended June 30, 2019

#### Recognition and measurement

#### Raw materials, work in progress and finished goods

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based either on the first in first out ("FIFO") or weighted average principles and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured or refined inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Inventory expected to be sold or consumed within the next 12 months is classified as current, with amounts expected to be consumed or sold after this time being classified as non-current.

#### Engineering and maintenance materials

Engineering and maintenance materials (representing either critical or long order components but excluding rotable spares) are measured at the lower of cost and net realisable value. The cost of these inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is determined with reference to the cost of replacement of such items in the ordinary course of business compared to the current market prices.

#### D.3 Other non-current assets

	As at June 30		
In A\$'000	2019	2018	
Security deposits – banking facilities and other, Malaysia	2,993	2,834	
Security deposits – banking facilities and other, Australia	16	398	
Security deposits – AELB, Australia	44,419	31,568	
Security deposits – AELB, Malaysia	4,388	3,907	
	51,816	38,707	

Deposits to the Malaysian Government's Atomic Energy Licensing Board ("AELB") form a component of a total US\$50.0m of instalments due in accordance with the conditions underlying the granting of the Full Operating Stage Licence to the Group for the Lynas Malaysia plant. The total amount deposited as security via a bond for the instalments is US\$31.2m, with a further US\$11.0m paid via cash directly to AELB. The final instalment will be due in late 2019.

# Recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

# Financial assets at amortised cost

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Group's financial assets at amortised cost includes trade receivables, and security deposits included under other non-current financial assets

# **D.4 Trade and Other Payables**

	As at June 30		
n A\$'000	2019	2018	
rade payables	14,119	12,556	
Accrued expenses	14,397	11,994	
Other payables	8,980	11,042	
otal trade and other payables	37,496	35,592	
Current	37,029	35,012	
Non-current	467	580	
Fotal trade and other payables	37,496	35,592	

# Recognition and measurement

Current trade and other payables are non-interest bearing and are normally settled on 30 to 60 day terms. Subsequent to initial recognition trade and other payables are stated at amortised cost using the effective interest method.

Given the short-term nature of trade payables, the carrying amount is a reasonable approximation of fair value.

# Notes to Consolidated Financial Statements For the year ended June 30, 2019

# D.5 Provisions and Employee benefits

	As at Jun	e 30
n A\$'000	2019	2018
Current		
Short term employee benefits	2,182	2,142
Onerous contracts	-	241
Other	-	116
Total current	2,182	2,499
Non-Current		
Long term employee benefits	550	354
Restoration and rehabilitation	111,145	64,485
Total non-current	111,695	64,839

An onerous contract provision relating to the Sydney office was taken up based on the future rental payments net of estimated recoveries from sub-letting. This contract expired in February 2019 with the associated make good provision paid during the year.

#### Recognition and measurement

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefit will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision for the passage of time is recognised as a financial expense in the statement of comprehensive income as a component of the profit or loss.

# Short-term employee benefits

Short-term employee benefits are expected to be settled within one year and measured on an undiscounted basis and are expensed in the statement of comprehensive income as a component of the profit or loss as the related services are provided. A provision is recognised for the amount expected to be paid under short-term cash bonus plans and outstanding annual leave balances if the Group has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be estimated reliably.

# Long-term employee benefits

The liability for annual leave and long service leave for which settlement can be deferred beyond 12 months from the balance date is measured as the present value of expected future payments to be made in respect of services provided by employees. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

# Incentive compensation plans

The Group recognises a liability and associated expense for incentive compensation plans based on a formula that takes into consideration certain threshold targets and the associated measures of profitability. The Group recognises a provision when it is contractually obligated or when there is a past practice that has created a constructive obligation to its employees.

# Restoration and Rehabilitation

The activities of the Group give rise to obligations for asset and site restoration and rehabilitation at the Lynas Malaysia plant and the Mount Weld concentration plant. The key areas of uncertainty in estimating the provisions for these obligations are set out below. Upon cessation of operations, the site including the processing assets, ancillary facilities, utilities and the onsite storage facility will be decommissioned and any materials removed from the location.

The Group has most recently engaged a third party specialist to assist in estimating costs at Lynas Malaysia as at June 30, 2018 and Mt Weld as at June 30, 2019. The Group will continue to review the need to engage third party specialists periodically over time as the operations continue to develop.

The unwinding effect of discounting of the provision is recognised as a financial expense.

The mining/extraction and refining/processing activities of the Group give rise to obligations for asset and site rehabilitation. Rehabilitation obligations can include facility decommissioning and dismantling, removal or treatment of waste materials, land rehabilitation and site restoration. The extent of work required and the associated costs are estimated based on feasibility and engineering studies using current restoration standards and techniques. Provisions for the cost of each rehabilitation programme are recognised at the time that the environmental disturbance occurs.

Rehabilitation provisions are initially measured at the expected value of future cash flows required to rehabilitate the relevant site, discounted to their present value. The value of the provision is progressively increased over time as the effect of discounting unwinds. When provisions for rehabilitation are initially recognised, the corresponding cost is capitalised as an asset, representing part of the cost of acquiring the future economic benefits of the operation. The capitalised cost of rehabilitation activities for the Group's mining operations and refining operations are recognised as a component of property, plant and equipment. Amounts capitalised are depreciated or amortised accordingly.

Where rehabilitation is expected to be conducted systematically over the life of the operation, rather than at the time of closure, a provision is made for the present obligation or estimated outstanding continuous rehabilitation work at each balance sheet date with the costs recognised in the statement of comprehensive income as a component of the profit or loss in line with the remaining future cash flows.



# Notes to Consolidated Financial Statements For the year ended June 30, 2019

At each reporting date the rehabilitation liability is re-measured to account for any new disturbance, updated cost estimates, changes to the estimated lives of the associated operations, new regulatory requirements and revisions to discount rates. Changes to the rehabilitation liability are added or deducted from the related rehabilitation asset and amortised accordingly.

	As at Jun	e 30
In A\$'000	2019	2018
Restoration and Rehabilitation		
Balance at the beginning of the year	64,485	57,186
Provisions made during the year	42,650	3,067
Changes to inflation and discounts rates	2,107	-
Effects of foreign exchange movement	996	3,439
Unwinding of discount on provision	907	793
Balance at June 30	111,145	64,485

# Key estimates and judgements

# Restoration and rehabilitation expenditure

The Group's accounting policy for its restoration and rehabilitation closure provisions requires significant estimates and assumptions such as: requirements of the relevant legal and regulatory framework; the magnitude of possible contamination; and the timing, extent and costs of required closure and rehabilitation activity. These uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision recognised is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for operating sites are recognised in the statement of financial position by adjusting both the closure and rehabilitation asset and the provision.

#### Lynas Malaysia production residues

A requirement of the licence renewal announced on August 15, 2019, is for the Group to obtain consent for the location of a Permanent Deposit Facility (PDF) for WLP residue within 6 months. The Group has included its best estimate of these costs within the Provision for restoration and rehabilitation at June 30, 2019. The current estimate is impacted by assumptions relating to the future location of the PDF, the distance required for the WLP residue to be transported and the size and design of the PDF. In line with the licence conditions, the Group expects these costs to be further refined in FY20.

# Key Financial risks associated with other assets and liabilities

# Credit risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and related entities. The Group's exposure to credit risk is primarily in its trade and other receivables and is influenced mainly by the individual characteristics of each customer. Demographically there are no material concentrations of credit risk.

Management believes that the Group's trade and other receivables are collectible in full, based on historical behaviour and extensive analysis of customer credit risk, including underlying customers' credit ratings if they are applicable.

# Notes to Consolidated Financial Statements For the year ended June 30, 2019

# E. Other Items

This section includes information on items which require disclosure to comply with Australian Accounting Standards and the Australian Corporations Act 2001. This section includes group structure information and other disclosures.

# **E.1 Contingent Liabilities**

An amount of US\$31.2m has been deposited via a bond for instalments required in accordance with the conditions underlying the granting of the Full Operating Stage Licence to the Group for the LAMP in Malaysia. Should criteria as part of this grant not continue to be met, this amount may be utilised to settle obligations. The Group has determined that the possibility of a material outflow related to these contingent liabilities is remote. Refer to Note D.3 for details of bonds.

#### Litigation and legal proceedings

As a result of its operations the Group has certain contingent liabilities related to certain litigation and legal proceedings. The Group has determined that the possibility of a material outflow related to these contingent liabilities is remote.

# Security and guarantee arrangements

Certain members of the Group have entered into guarantee and security arrangements in respect of the Group's indebtedness as described in Note E.6.

# E.2 Operating Leases and other commitments

#### Lease payments

Minimum lease payments made under finance leases are apportioned between the finance charges and the reduction of the outstanding liability. The finance charges which are recognised in the statement of comprehensive income as a component of the profit or loss are allocated to each year during the lease term so as to produce a constant rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for in the years in which the payments are incurred.

Payments made under operating leases are recognised in the statement of comprehensive income as a component of the profit or loss on a straight-line basis over the term of the lease, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent lease payments arising under operating leases are recognised as an expense in the year in which the payments are incurred.

In the event that lease incentives are received to enter into an operating lease, such incentives are deferred and recognised as a liability. The aggregated benefits of the lease incentives are recognised as a reduction to the lease expenses on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. The corresponding liability to the lessor is included within loans and borrowings as a finance lease obligation. Subsequent to initial recognition, the liability is accounted for in accordance with the accounting policy and the asset is accounted for in accordance with the accounting policy applicable to that asset.

Non-cancellable operating lease rentals are payable as follows:

	As at June 30		
In A\$'000	2019	2018	
Less than one year	3,566	3,139	
Between one and five years	3,729	5,667	
More than five years	-	-	
Total	7,296	8,806	

The Group has contracts for several operating leases for business premises located in Perth, Laverton and Kuantan. The Group also has several operating leases for motor vehicles and mobile plant and equipment.

# **Capital commitments**

There were no outstanding commitments which are not disclosed in the consolidated financial report of the Group as at June 30, 2019 other than:

# **Exploration commitments**

	As at June 30	
In A\$'000	2019	2018
Less than one year	373	377
Between one and five years	1,313	1,389
More than five years	1,600	1,637
Total	3,285	3,403



## Notes to Consolidated Financial Statements For the year ended June 30, 2019

These include commitments relating to tenement lease rentals and the minimum expenditure requirements of the Department of Mines and Petroleum attaching to the tenements and are subject to re-negotiation upon expiry of the exploration leases or when application for a mining licence is made. These are necessary in order to maintain the tenements in which the Group and other parties are involved. All parties are committed to meet the conditions under which the tenements were granted in accordance with the relevant mining legislation.

## **Capital commitments**

	As at Jur	ne 30
In A\$'000	2019	2018
Less than one year	3,680	4,255
Total	3,680	4,255

At June 30, 2019 capital commitments relate to on-going capital project costs in Malaysia.

#### Other commitments

	As at Jun	e 30
In A\$'000	2019	2018
Less than one year	13,258	10,523
Between one and five years	-	10,523
More than five years	-	-
Total	13,258	21,046

Other commitments include the following:

- Lynas is required to pay in instalments, a total of US\$50.0m to the Malaysia's AELB in accordance with the conditions underlying the
  granting of Lynas' Full Operating Stage Licence for the Lynas Malaysia plant in Gebeng, Malaysia. The final instalment will be due in
  late 2019; and
- Fees for corporate costs committed to be paid in the next 12 months.

## **E.3 Auditor Remuneration**

The following items of expenditure are included in general and administration expenses:

	For the year ended June 30	
In \$A	2019	2018
Auditor's remuneration to Ernst & Young (Australia), comprising:		
Audit fees	244,725	295,262
Other fees	6,800	51,041
Total auditor's remuneration Ernst & Young (Australia)	251,525	346,303
Auditor's remuneration to Ernst & Young (other locations), comprising:		
Audit fees	127,806	127,363
Tax fees	36,125	3,579
Other fees	-	-
Total auditor's remuneration Ernst & Young (other locations)	163,931	130,942

Other fees paid to EY Australia in FY19 relate to completion of tax returns for expatriate employees. FY18 related primarily to other advisory services.

## E.4 Subsidiaries

			Ownership intere	st as at June 30
Name of Group entity	Principal activity	Country of incorporation	2019	2018
Lynas Malaysia Sdn Bhd	Operation and development of advanced material processing plant	Malaysia	100%	100%
Lynas Services Pty Ltd*	Provision of corporate services	Australia	100%	100%
Mount Weld Holdings Pty Ltd*	Holding company	Australia	100%	100%
Mount Weld Mining Pty Ltd*	Development of mining areas of interest and operation of concentration plant	Australia	100%	100%
ACN 053 160 302 Pty Ltd*	Dormant	Australia	100%	100%

## Notes to Consolidated Financial Statements For the year ended June 30, 2019

Lynas Africa Holdings Pty Ltd*	Holding company	Australia	100%	100%
Lynas Africa Ltd	Mineral exploration	Malawi	100%	100%
Lynas USA LLC	Development of processing opportunities in USA	USA	100%	-

<sup>\*</sup> Entity has entered into a deed of cross guarantee with Lynas Corporation Limited pursuant to ASIC Instrument 2016/785 and is relieved from the requirement to prepare and lodge an audited financial report, as discussed in Note E 26. Entity is also a member of the tax-consolidated group.

## **E.5 Parent Entity Information**

	As at June 30,		
In A\$'000	2019	2018	
Current assets	37,013	1,226	
Total assets	875,234	818,043	
Current liabilities	(30,452)	(452)	
Total liabilities	(194,736)	(226,095)	
Net assets	680,498	591,948	
Share capital	1,398,264	1,395,417	
Accumulated deficit	(1,104,934)	(1,128,688)	
Reserves	387,168	325,219	
Total shareholders' equity	680,498	591,948	
Profit / (loss) of the Company	23,754	(33,204)	
Total comprehensive gain / (loss) of the parent Company	23,754	(33,204)	

## E.6 Entities under a Deed of Cross Guarantee

Pursuant to ASIC Instrument 2016/785 (as amended) dated August 13, 1998, the wholly-owned Australian subsidiaries of Lynas Corporation Limited are relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of financial reports, and Director's reports.

It is a condition of the Class Order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the *Corporations Act 2001*. If a winding up event occurs under any other provision of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound-up. The subsidiaries in addition to the Company subject to the deed are specified in Note E.4.

A statement of comprehensive income and statement of financial position, comprising the Company and controlled entities which are party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee is presented as follows:

## Statement of Financial Position

	As at June 30		
n A\$'000	2019	2018	
Cash and cash equivalents	96,319	34,313	
Trade and other receivables	368,754	339,020	
nventories	13,056	11,719	
Total current assets	478,129	385,052	
Inventories	3,632	3,554	
Property, plant and equipment	124,147	123,154	
Deferred exploration, evaluation and development expenditure	30,865	18,726	
nvestments in subsidiaries	375,080	375,080	
Other assets	16	398	
Total non-current assets	533,739	520,912	
Total assets	1,011,868	905,963	
Trade and other payables	9,277	9,908	
nterest payable	413	452	
Borrowings	29,308	-	
Employee benefits	2,421	1,545	
ntercompany payables	200,348	133,790	
Total current liabilities	241,768	145,694	



## Notes to Consolidated Financial Statements For the year ended June 30, 2019

	As	at June 30
In A\$'000	2019	2018
Provisions	40,348	33,179
Employee benefits	550	354
Borrowings	163,673	225,112
Total non-current liabilities	204,571	258,645
Total liabilities	446,339	404,339
Net assets	565,529	501,624
Share capital	1,398,264	1,395,417
Accumulated deficit	(1,025,001)	(1,065,549)
Reserves	192,266	171,756
Total equity	565,529	501,624
Statement of comprehensive income		
Revenue	107,746	109,873
Cost of sales	(80,906)	(77,612)
Gross profit	26,840	32,261
Other income / (expenses)	47	(10)
General and administration expenses net of recoveries	(14,733)	(14,218)
Profit from operating activities	12,154	18,053
Financial income	44,790	480
Financial expenses	(16,518)	(27,901)
Net financial income / (expenses)	28,272	(27,421)
Profit / (loss) before income tax	40,426	(9,368)
Income tax benefit / (expense)	35	(43)
Profit / (loss) for the year from continuing operations	40,461	(9,411)
Other comprehensive loss, net of income tax		
Exchange differences on foreign currency transactions	92	(24)
Total other comprehensive loss for the year, net of income tax	92	(24)
Total comprehensive income / (loss) for the year	40,553	(9,435)

## E.7 Employee costs and share based payments

The following items are gross employee costs before recoveries included in general and administration expenses:

	For the year end	For the year ended June 30	
In A\$'000	2019	2018	
Wages and salaries	43,035	38,286	
Superannuation and pension contributions	1,400	1,312	
Employee remuneration settled through share-based payments	5,072	5,120	
Other	662	773	
Total employee costs	50,169	45,491	

Share-based remuneration benefits are provided to employees via a variety of schemes which are further set out below.

The fair values of the performance rights granted under these various schemes are recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at the grant date and recognised over the period during which the employees become unconditionally entitled to the performance rights. The fair value at grant date is independently determined using a performance right pricing model that takes into account the exercise price, the term of the performance right, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the performance right.

The fair value of the performance right granted is measured to reflect the expected market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability and production targets). Non-market vesting conditions are included in assumptions about the number of performance rights that are expected to become exercisable. At the end of each reporting period, the Group revises its estimates of the number of performance rights that are expected to become exercisable. The employee benefits expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the statement of comprehensive income as a component of profit or loss, with a corresponding adjustment to equity.

## Notes to Consolidated Financial Statements For the year ended June 30, 2019

## Key management personnel compensation

The aggregate compensation made to the Directors and other members of KMP of the Group is set out below:

	For the year er	ided June 30
In A\$	2019	2018
Short-term employee benefits	5,738,546	5,690,410
Long-term employee benefits	31,825	21,022
Post-employment benefits	323,942	295,939
Share based payments	4,505,943	4,655,640
Total compensation paid to key management personnel	10,600,259	10,663,011

The compensation of each member of the KMP of the Group for the current and prior year is set out within the Remuneration Report. All transactions with these related parted have been considered and included in the report.

The share-based payments amount represents the impact of amortising the accounting value of options and performance rights over their vesting periods including the impact of forfeitures recognised during the period. At times, a negative value may be presented which results from the forfeitures recognised in the period (which may relate also to earlier periods) are greater than the accounting expense for the current portion of the vesting period.

## Employee share options and performance rights

The Group has established an employee share plan whereby, at the discretion of Directors, performance rights may be granted over the ordinary shares of the Company for the benefit of Directors, Executives and certain employees of the Group. The performance rights are granted in accordance with performance guidelines established by the Nomination, Remuneration and Community Committee. Other than short term incentives and Strategic Performance Rights, each performance right is convertible into one ordinary share of the Company during the two years following the vesting date, which is the third anniversary of the grant date. The performance rights hold no voting or dividend rights and are not transferrable.

Performance rights are granted for the benefit of Key Management Personnel ("KMP") and other selected employees to provide greater alignment to our strategic business objectives. KMP are those people who have authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any Executive Director of the Group and the Executives. At year end, the Executives include the Chief Executive Officer, the Chief Financial Officer, the Group's General Counsel & Company Secretary, Vice President for Production, Vice President for Sales & Marketing, MD Malaysia and Vice President for People & Culture.

## Movements in employee performance rights during the year

	For the year ended June 30, 2019		For the year ended June 30, 2018	
	No. of performance rights ('000)	Weighted average exercise price (\$)	No. of performance rights ('000)	Weighted average exercise price (\$)
Balance at beginning of year	11,286,942	0.00	94,790,959	0.00
Adjustment for share consolidation	-	0.00	(85,311,847)	0.00
Balance after share consolidation	11,286,942	0.00	9,479,112	0.00
Granted during the year	1,161,987	0.00	4,579,543	0.00
Expired during the year	-	0.00	-	0.00
Exercised during the year	(3,134,524)	0.00	(1,642,201)	0.00
Forfeited during the year	(270,336)	0.00	(1,129,512)	0.00
Balance at end of year	9,044,069	0.00	11,286,942	0.00
Exercisable at end of year	1,830,247	0.00	-	0.00

During the year ended June 30, 2019 the Group recognised net share based payment expense of \$5.1m (2018: \$5.1m) within the profit and loss component of the statement of comprehensive income. The net expense during the year included the reversal of expenses totalling \$0.2m (2018: \$1.1m) associated with the forfeiture of 270,336 performance rights.

The employee performance rights outstanding at the end of the year had nil weighted average exercise price and a weighted average remaining contractual life of 231 days (2018: 778 days). The performance rights exercised during the year had a share price on exercise date of \$2.19.

## Performance rights granted in the period

The following table summarises the performance conditions attached to performance rights granted during the financial year ended June 30, 2019 with respect to the performance of the Group's employees during the financial year ended June 30, 2018:

	Vesting schedule	For grants made in FY19
TSR hurdle (50%)	50% of the TSR portion will vest for:	51st percentile performance
(performance against ASX 200 Companies during the vesting period)	100% of the TSR portion will vest for:	76 <sup>th</sup> percentile performance
	Pro-rata vesting will occur be	tween each of the above points
EBITDA Production Hurdle (50%) (EBITDA performance July 1, 2018 to June 30, 2021)	50% of the EBIT growth portion will vest for:	Average annual EBIT growth at the end of the period from July 1, 2018 to June 30, 2021 is at least 7% per annum.



## Notes to Consolidated Financial Statements For the year ended June 30, 2019

100% of the EBIT growth portion will vest for:	Average annual EBIT growth at the end of the period from July 1, 2018 to June 30, 2021 is at least 10% per annum.
Additional 20% of the EBIT growth portion, giving a total of 120% of the EBIT growth portion:	Average annual EBIT growth at the end of the period from July 1, 2018 to June 30, 2021 is at least 15% per annum.

In accordance with the Group's policy that governs trading of the Company's shares by Directors and employees, Directors and employees are not permitted to hedge their options or performance rights before the options vest.

The performance rights granted during the financial year had a weighted average fair value of \$1.986 (2018: \$1.910) and were priced using volume-weighted average share prices, Monte Carlo and Binomial valuation methodologies. Where relevant the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioural considerations. Expected volatility is based on the historical share price volatility over the past three years and peer volatility.

	Series AX	Series AY	Series AZ	Series BA	Series BB	Series BC
Grant date	Aug 31, 2018	Aug 31, 2018	Aug 31, 2018	Nov 27, 2018	Nov 27, 2018	Nov 27, 2018
5 day VWAP	\$2.187	\$2.187	\$2.187	\$2.187	\$2.187	\$2.187
Exercise price	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Dividend yield	Nil	Nil	Nil	Nil	Nil	Nil
Expected volatility	51.1%	51.1%	51.1%	55.1%	55.1%	55.1%
Risk-free Rate	1.995%	1.995%	1.995%	2.09%	2.09%	2.09%
Expiry date	Aug 31, 2019	Aug 31, 2021	Aug 31, 2021	Aug 28, 2019	Aug 28, 2021	Aug 28, 2021

## Performance rights still to vest or yet to expire

Performance rights are issued on the same terms as options, except there is no consideration payable on exercise. The following table lists any performance rights which are still to vest, or have yet to expire.

Series	Grant date	Number	Date vested and exercisable	Expiry date	Exercise price	Value per performance right at grant date
AJ	November 23, 2015	947,894	September 18, 2018	September 18, 2020	\$ 0.00	\$ 0.900
AK	November 23, 2015	882,353	September 18, 2018	September 18, 2020	\$ 0.00	\$ 0.800
AM	August 30, 2016	1,195,319	August 30, 2019	August 30, 2021	\$ 0.00	\$ 0.650
AO	November 30, 2016	558,140	August 30, 2019	August 30, 2021	\$ 0.00	\$ 0.680
AP	November 30, 2016	465,117	August 30, 2019	August 30, 2021	\$ 0.00	\$ 0.500
AR	August 28, 2017	476,715	August 28, 2020	August 28, 2022	\$ 0.00	\$1.360
AS	November 28, 2017	2,123,816	August 28, 2019	August 28, 2019	\$ 0.00	\$2.060
AU	November 28, 2017	231,066	August 28, 2020	August 28, 2022	\$ 0.00	\$2.060
AV	November 28, 2017	192,555	August 28, 2020	August 28, 2022	\$ 0.00	\$1.620
AW	November 28, 2017	809,107	August 28, 2019	August 28, 2019	\$ 0.00	\$2.060
AX	August 31, 2018	351,928	August 31, 2019	August 31, 2019	\$ 0.00	\$2.187
AY	August 31, 2018	199,446	August 31, 2021	August 28, 2023	\$ 0.00	\$2.187
AZ	August 31, 2018	166,205	August 28, 2021	August 28, 2023	\$ 0.00	\$1.431
ВА	November 27, 2018*	120,055	August 28, 2019	August 28, 2019	\$ 0.00	\$2.187
ВВ	November 27, 2018*	176,920	August 28, 2021	August 28, 2023	\$ 0.00	\$2.187
вс	November 27, 2018*	147,433	August 28, 2021	August 28, 2023	\$ 0.00	\$1.463
Total		9,044,069				

<sup>\*</sup>Series BA to BC were approved by the Board on August 31, 2018, subject to approval at the AGM. These performance rights were subsequently approved at the AGM on November 27, 2018, with the date of grant being approved as August 31, 2018.

## E.8 Options and warrants

On December 9, 2016 the Group issued 348,843,836 unlisted warrants to the bond holder group. These warrants were issued to the bond holder group as part of the amendments to the terms of the convertible bonds that were approved by shareholders at the 2016 AGM of shareholders. From the date of issue, each warrant is exercisable into one ordinary share at an exercise price of \$0.05\* and has an expiry date of September 30, 2020.

The costs of these equity-settled transactions have been measured by reference to the fair value at the date at which they were granted using

## Notes to Consolidated Financial Statements For the year ended June 30, 2019

The following table discloses how the number of warrants has changed over the year:

	December 2016 Issue
Exercise price	\$0.50*
Expiry date	September 30, 2020
Balance as at June 30, 2018	23,256,258
Balance as at June 30, 2019	23,256,258

<sup>\*</sup>Exercise price has been adjusted to \$0.50 from \$0.05 to reflect the 10 to 1 share consolidation of Lynas Corporation Ltd shares, which was completed on December 4, 2017.

These warrants have been exercised subsequent to June 30, 2019. Refer to Note E.10.

## Options and warrants exercised

No options or warrants were exercised during the year.

## E.9 Other Items

#### New and revised standards and interpretations

#### Standards and Interpretations affecting amounts reported

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year, except for the adoption of new standards and interpretations effective as of July 1, 2019.

Several amendments apply for the first time in the current year. The Group applies, for the first time, AASB 15 Revenue with Contracts from Customers and AASB 9 Financial Instruments. As required, the nature and effect of the changes of these new standards has been outlined below.

#### Standards and Interpretations in issue not yet adopted

The Australian Accounting Standards issued but not yet mandatory for the financial year ending June 30, 2019 have not been adopted by the Group in the preparation of this financial report and are set out below:

Standard/Interpretation	Effective for the annual reporting period beginning on	Expected to be initially applied in the financial year ending
AASB 16 Leases	January 1, 2019	June 30, 2020
AASB 2017-6 Amendments to Australian Accounting Standards –Prepayment Features with Negative Compensation	January 1, 2019	June 30, 2020
AASB 2018-1 Annual Improvements to IFRS Standards 2015 – 2017 Cycles	January 1, 2019	June 30, 2020
AASB 2018-2 Amendments to Australian Accounting Standards – Plan, Amendment, Curtailment or Settlement	January 1, 2019	June 30, 2020
AASB Interpretation 23 Uncertainty over Income Tax Treatments	January 1, 2019	June 30, 2020
AASB 17 Insurance Contracts	January 1, 2021	June 30, 2022

## New and amended accounting standards and interpretations

## **AASB 15 Revenue from Contracts with Customers**

The Group adopted AASB 15 using the full retrospective method of adoption with an initial application date of July 1, 2018 and has not restated comparative information. The effects of adopting AASB 15 are as follows:

## Rare Earth Product Sales:

The Group derives revenue from the sale of rare earth products. There were no changes identified with respect to the timing of revenue recognition in relation to rare earth sales as control transfers to customers at the date of loading/shipment which is consistent with the point in time when risks and rewards passed under AASB 118.

Whilst there has technically been a change in the amount of revenue recognised for rare earths sold under Cost and Freight ("CIF") Incoterms where the Group provides shipping services, management have not deemed this to be material as the costs of insurance and freight (which would be deemed to approximate revenue) represents less than 1% of the total revenue made from rare earth products. These services are now considered to represent a separate performance obligation which is satisfied at a different point in time from the loading of the rare earth products. Therefore, some of the transaction price that was previously allocated to the rare earth products under AAS 118 is now allocated to this new performance obligation under AASB 15.

## Provisionally priced sales:

Certain of the Group's sales are provisionally priced, where the final price depends on the sale price of products sold outside of the Lynas transaction. Adjustments to the sales price occur based on movements in market prices up to the secondary point of sale. Under AASB 15 the accounting for revenue will remain unchanged except that the fair value adjustments on receivables subject to Quotational Pricing (QP) are recognised in other revenue and not included in revenue from contracts with customers. There were no receivables subject to QP adjustments at June 30, 2019.



## Notes to Consolidated Financial Statements For the year ended June 30, 2019

#### Shipping services:

As noted above, a portion of the Group's rare earth product sales are sold on CIF Incoterms, whereby the Group is responsible for providing freight and shipping services after the date that it transfers control of the rare earth products to the customer. Under AASB 118, freight and shipping services were not accounted for as separate services. Instead all the revenue relating to the sale was recognised at the date of loading and presented as revenue from sale of rare earth products. Under AASB 15, it has been concluded that freight and shipping represent a separate performance obligation and that the Group acts as principal. As a result, a portion of the transaction price is now required to be allocated to this performance obligation and will be recognised over time on a gross basis as the services are provided. However as mentioned above the impact of this revenue is not material and management has not separately disclosed this revenue.

## Impact on the financial statements

Other than the additional disclosure requirements it was determined that the adoption of AASB 15 did not have a significant impact on the Group.

#### **AASB 9 Financial Instruments**

The Group adopted AASB 9 as of July 1, 2018.

AASB 9 Financial Instruments replaces AASB 139 Financial Instruments: Recognition and Measurement, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. The hedge accounting changes are not applicable as the Company is not the party to any hedge relationship.

#### Classification and measurement

Under AASB 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the asset. Under AASB 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

On adoption of AASB 9, Lynas has reclassified its financial assets as subsequently measured at amortised cost or fair value depending on the basis above. As a result, the Groups financial assets, being cash and cash equivalents and receivables are classified as 'financial assets at amortised cost." Other non-current assets in the form of term deposits are also classified as "financial assets at amortised cost". There has been no change to the classification or measurement of financial liabilities.

In relation to the reclassification and measurement of financial assets and liabilities, there was no impact to the Statement of Comprehensive Income, Statement of Financial Position or Statement of Changes in Equity, nor has there been any impact on basic or diluted earnings per shares.

## Impairment

The adoption of AASB 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment

The adoption of the ECL requirements of AASB 9 has not had a material impact on an impairment allowance for the Group's receivables. As a result, there has been no impact to the Statement of Comprehensive Income, Statement of Financial Position or Statement of Changes in Equity, nor has there been any impact on basic or diluted earnings per share.

## **AASB 16 Leases**

AASB 16 provides a new lessee accounting model which requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. AASB 16 also contains new disclosure requirements for lessees. This standard applies to annual reporting periods beginning on or after January 1, 2019.

The Group's review of all contracts is in progress, however it is expected that upon adoption of AASB 16 the new standard will have a material impact on the Group's financial statements. The most significant impact being an increase in lease liabilities representing the present value of the operating lease commitments (see Note E.2) and a corresponding increase in property, plant and equipment for the right of use asset net of lease incentives, initial direct costs and other allowable adjustments being recognised on the statement of financial position. This will be unwound and amortised to the statement of comprehensive income over the remaining term of the leases.

The Group anticipates that the remainder of the above amendments and interpretations will not have a material impact on the financial report of the Group in the year or period of initial application.

## E.10 Subsequent events

On July 31, 2019, 23,256,258 unlisted warrants were exercised at a price of \$0.50 per warrant, resulting in the issuance of 23,256,258 ordinary shares and the receipt by the Group of \$11,628,129. These warrants had been issued to the bond holder group as part of the amendments to the terms of the convertible bonds that were approved by shareholders at the 2016 AGM of shareholders.

## Notes to Consolidated Financial Statements For the year ended June 30, 2019

On August 22, 2019, the Group confirmed the renewal of the Lynas Malaysia operating licence for an initial period of 6 months. During that 6 month period, the Group is required to obtain consent for the location of a Permanent Deposit Facility (PDF) for WLP residue. In addition, the Group is required to relocate Cracking & Leaching, the first stage of its operations currently located in Malaysia, to Western Australia within 4 years. The Group plans to implement that relocation as part of the Lynas 2025 growth plan.



## Mineral Resources and Ore Reserves

as at 30 June 2019

## MT WELD RARE EARTH DEPOSIT ORE RESERVES 2019

The Ore Reserve estimation for the Mt Weld Rare Earth Deposit is shown in Table 1.

TABLE 1: MT WELD RARE EARTH DEPOSIT ORE RESERVES 2019

JORC CLASSIFICATION	MILLION TONNES	TREO*	CONTAINED REC
Ore Reserves within Pit boundary			
Proved	13.9	8.7	1,208
Probable	5.1	7.7	390
Designed Pit Total	19.0	8.4	1,598
Ore Reserves on Stockpiles			
Proved	0.5	10.0	50
Probable	0.0	0.0	0
Stockpiles Total	0.5	11.0	50
Total Ore Reserves			
Proved	14.4	8.7	1,258
Probable	5.1	7.7	390
Total	19.5	8.5	1,648

<sup>\*</sup> TREO = total Rare Earth Oxides ( $L_2O_3$ ,  $CeO_2$ ,  $Pr_6O_{11}$ ,  $Nd_2O_3$ ,  $Sm_2O_3$ ,  $Eu_2O_3$ ,  $Gd_2O_3$ ,  $Tb_4O_7$ ,  $Dy_2O_3$ ,  $Ho_2O_3$ ,  $Er_2O_3$ ,  $Tm_2O_3$ ,  $Yb_2O_3$ ,  $Lu_2O_3$ ) + Yttrium ( $Y_2O_3$ ). Totals may not balance due to rounding of figures.

## Note:

The Ore Reserves for the Mt Weld Rare Earth Deposit is as of June 30, 2019. The 2019 Ore Reserve update is based upon depletion of the in-situ ore reserves by mining activities and changes to the stockpiles as a result of mining and processing. Full details of the material change that occurred in 2018 are reported as per the Lynas ASX announcement dated August 6, 2018, titled "Lynas announces a 60% increase to Mt Weld Ore Reserves, one of the world's richest sources of Rare Earths". The stockpiles were estimated using survey volumes of the stockpiles and grades assigned to the stockpiles by the grade control process. The surveys have been carried out by Mr Bradley Hughes, an employee of Lynas Corporation. The grade control during mining was managed by Mr Ronan Fahey, an employee of Lynas Corporation. Mr Steve Lampron, (Auralia Mining Consulting Pty Ltd) has carried out a review and audit of these figures and found them to fall within expected error deviations. The company confirms that all material assumptions and technical parameters underpinning the estimated Ore Reserves set out in the ASX announcement dated August 6, 2018 continue to apply and have not materially changed.

## 2. MT WELD RARE EARTH DEPOSIT MINERAL RESOURCES 2019

The Mineral Resource estimation for the Mt Weld Rare Earth Deposit is shown in Table 2, reported above a cut-off of 2.5% Total Rare Earth Oxides (TREO).

TABLE 2: MT WELD RARE EARTH DEPOSIT MINERAL RESOURCES 2019

JORC CLASSIFICATION	MILLION TONNES	TREO*	CONTAINED REO '000 TONNES
Measured	17.3	7.9	1,370
Indicated	12.0	5.5	660
Inferred	25.9	3.6	930
Total	55.2	5.4	2,980

<sup>\*</sup>TREO = total Rare Earth Oxides (La<sub>2</sub>O<sub>3</sub>, CeO<sub>2</sub>, Pr<sub>6</sub>O<sub>11</sub>, Nd<sub>2</sub>O<sub>3</sub>, Sm<sub>2</sub>O<sub>3</sub>, Eu<sub>2</sub>O<sub>3</sub>, Gd<sub>2</sub>O<sub>3</sub>, Tb<sub>4</sub>O<sub>7</sub>, Dy<sub>2</sub>O<sub>3</sub>, Ho<sub>2</sub>O<sub>3</sub>, Er<sub>2</sub>O<sub>3</sub>, Tm<sub>2</sub>O<sub>3</sub>, Tb<sub>2</sub>O<sub>3</sub>, Lu<sub>2</sub>O<sub>3</sub>) + Yttrium (Y<sub>2</sub>O<sub>3</sub>). Totals may not balance due to rounding of figures. Mineral Resources have been reported above a cut-off of 2.5% TREO

#### Note:

The Mineral Resource estimation for the Mt Weld Rare Earth Deposit is as of June 30, 2019. The information is extracted from the Lynas ASX announcement titled "Lynas announces a 60% increase to Mt Weld Ore Reserves, one of the world's richest sources of Rare Earths", dated August 6, 2018 and is available to view on the company's website. The company confirms that all material assumptions and technical parameters underpinning the estimated Mineral Resources set out in the ASX announcement dated August 6, 2018 continue to apply and have not materially changed. The exception is depletion of stockpiles processed and minor depletion of the in-situ resources from mining.

## 3. NIOBIUM RICH RARE METALS MINERAL RESOURCES

The Mineral Resource estimation for the niobium rich rare metals prospect referred to as the Niobium Rich Rare Metals Project is shown in Table 3. The Rare Metals Project is located at Mt Weld.

TABLE 3: CLASSIFICATION OF MINERAL RESOURCES FOR THE NIOBIUM RICH RARE METALS PROJECT

CATEGORY	MILLION TONNES	Ta <sub>2</sub> O <sub>5</sub> %	Nb <sub>2</sub> O <sub>5</sub>	TLnO %	ZrO %	P <sub>2</sub> O <sub>5</sub> %	Y <sub>2</sub> O <sub>3</sub> %	TiO <sub>2</sub> %
Measured	0	0	0	0	0	0	0	0
Indicated	1.5	0.037	1.4	1.65	0.32	8.9	0.1	5.8
Inferred	36.2	0.024	1.06	1.14	0.3	7.96	0.09	3.94
Total	37.7	0.024	1.07	1.16	0.3	7.99	0.09	4.01

## Notes

- 1. All figures are percentages.  $Ta_2O_5$  Tantulum Oxide,  $Nb_2O_5$  Niobium Oxide, TLnO Total Rare Earth Oxide, ZrO zirconia,  $P_2O_5$  Phosphate,  $Y_3O_3$  yttria, TiO<sub>2</sub> titanium oxide.
- 2. The Mineral Resource estimation for the niobium rich rare metals is as per ASX announcement dated October 6, 2004. Lynas Corp confirms that all material assumptions and technical parameters underpinning the estimated Mineral Resources continue to apply and have not materially changed. Figures in the table may not sum due to rounding.

There have been no changes to the Niobium Rich Rare Metals Project Mineral Resource since the previous reporting period.

## Note on governance arrangements and internal controls:

All Lynas Mineral Resource and Ore Reserve estimations are compiled by experienced competent persons who are engaged as independent external consultants to Lynas. The relevant Competent Person ensures that all aspects of the Mineral Resource estimations or the Ore Reserve estimations (as applicable) meet the JORC code requirements.



## COMPETENT PERSON'S STATEMENTS – MINERAL RESOURCES

The information in this report that relates to the 2019 Mineral Resources is based on information compiled by Mr Alex Whishaw under the guidance of Dr Andrew Scogings. Mr Whishaw is a full-time employee of CSA Global Pty Ltd and is a member of the Australasian Institute of Mining and Metallurgy. Dr Scogings is a Member of the Australasian Institute of Mining and Metallurgy and a Member of the Australian Institute of Geoscientists, and is employed by KlipStone Pty Ltd. Dr Scogings has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the Australasian Code for the Reporting of Exploration Results, Mineral Resources, and Ore Reserves. Dr Scogings consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

The information in this report that relates to the Niobium Rich Rare Metals Project is based on information compiled by Mr Brendan Shand. Mr Shand is a consultant geologist to Lynas Corporation. Mr. Shand is a Member of The Australian Institute of Geoscientists. Mr Shand has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as Competent Person as defined in the 2012 Edition of the Australasian Code for the Reporting of Exploration Results, Mineral Resources, and Ore Reserves (JORC Code). Mr Shand consents to the disclosure of information in this report in the form and context in which it appears.

## COMPETENT PERSON'S STATEMENTS – ORE RESERVES

The information in this Release which relates to the 2019 Ore Reserves estimate accurately reflect information prepared by Competent Persons (as defined by the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves). The information in this public statement that relates to the Mt Weld Rare Earths Project is based on information resulting from Feasibility works carried out by Auralia Mining Consulting Pty Ltd. Mr Steve Lampron completed the Ore Reserve estimate. Mr Steve Lampron is a Member of the Australasian Institute of Mining and Metallurgy and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity that he is undertaking to qualify him as a Competent Person as defined in accordance with the 2012 Edition of the Australasian Joint Ore Reserves Committee (JORC). Mr Steve Lampron consents to the inclusion in the document of the information in the form and context in which it appears.

## Additional Information

Additional information required by the Australian Securities Exchange Ltd and not shown elsewhere in this report. The information is current as at 23 August 2019.

## (A) Distribution of Ordinary Shares

The number of shareholders by size of holding of ordinary shares is:

Holdings Ranges	Holders	Number of Shares	Percentage of Shares
1-1,000	10,592	5,344,221	0.777
1,001-5,000	8,602	22,583,395	3.284
5,001-10,000	2,653	20,631,406	3.000
10,001-100,000	2,921	80,042,375	11.639
100,001 and over	252	559,121,872	81.300
Totals	25,020	687,723,269	100.000
The number of shareholders holding less than			
a marketable parcel of shares	1,793	192,637	

## (B) Distribution of Employee Options/Performance Rights

There are 9,044,071 unlisted employee options / performance rights. The number of beneficial holders, by size of holding, of employee options / performance rights are:

Holdings Ranges	Holders
1 – 1,000	
1,001 – 5,000	1
5,001 – 10,000	1
10,001 – 100,000	2
100,001 and over	10
Total	14

## (C) Distribution Of 1.875% Unsecured Convertible Bonds Maturing 30 September 2020

There are 13,652,135.93 unlisted Convertible Bonds maturing 30 September 2020. The Bonds are convertible at 4\$1.00 per share, based on an exchange rate of 4\$1.00 = US\$0.75. Fractions of a share are rounded down on conversion. The number of holders, by size of holding, of Convertible Bonds maturing 30 September 2020 are:

Holdings Ranges	Holders
1 – 1,000	
1,001 – 5,000	0
5,001 – 10,000	0
10,001 – 100,000	0
100,001 and over	3
Total	3

FCCD DAC holds 8,695,014.40 Convertible Bonds. FCCO DAC holds 3,457,121.53 Convertible Bonds.



## (D) Twenty Largest Shareholders

The names of the twenty largest holders of quoted shares are:

		Listed Ordinar	y Shares
		Number of Shares	% of Shares
1	HSBC CUSTODY NOMINEES	147,639,656	21.468%
2	J P MORGAN NOMINEES AUSTRALIA	120,308,171	17.494%
3	CITICORP NOMINEES PTY LIMITED	83,875,437	12.196%
4	NATIONAL NOMINEES LIMITED	42,324,486	6.154%
5	MERRILL LYNCH (AUSTRALIA)	38,705,732	5.628%
6	BNP PARIBAS NOMINEES PTY LTD	6,958,794	1.012%
7	BNP PARIBAS NOMS PTY LTD	6,213,239	0.903%
8	ARGO INVESTMENTS LIMITED	6,000,000	0.872%
9	CITICORP NOMINEES PTY LIMITED	5,477,106	0.796%
10	JOYKEEP LIMITED	5,000,000	0.727%
11	MEDICH CAPITAL PTY LTD	5,000,000	0.727%
12	HSBC CUSTODY NOMINEES	4,488,964	0.653%
13	BNP PARIBAS NOMINEES PTY LTD	4,172,721	0.607%
14	PM1942 PTY LTD	4,040,000	0.587%
15	THE PAVILION MOTOR INN OF	3,992,500	0.581%
16	HSBC CUSTODY NOMINEES	3,437,503	0.500%
17	HSBC CUSTODY NOMINEES	3,343,453	0.486%
18	MALAY-SINO CHEMICAL INDUSTRIES	3,107,686	0.452%
19	PROVEDORE HOLDINGS PTY LIMITED	2,064,329	0.300%
20	AMP LIFE LIMITED	1,867,169	0.272%
	TOTAL	498,016,946	72.415%

## (E) Substantial Shareholders

The names of substantial shareholders who have notified the Company in accordance with section 671B of the Corporations Act 2001 are:

		RELEVANT INTEREST IN LISTED ORDINARY SHARI	
1	GREENCAPE CAPITAL PTY LTD	56,794,325	
2	AUSBIL INVESTMENT MANAGEMENT LIMITED	44,973,094	
3	FIL LIMITED	41,737,267	

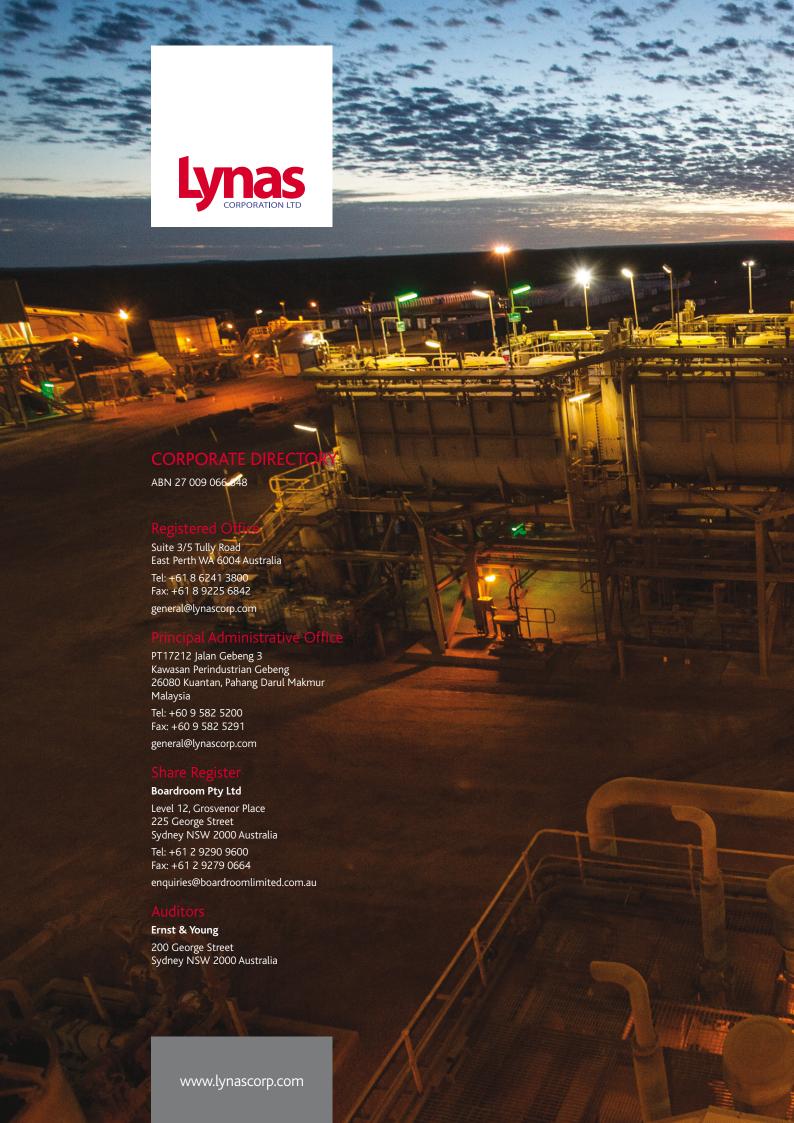
## (F) VOTING RIGHTS

All ordinary shares (whether fully paid or not) carry one vote per share without restriction. No other class of equity securities carries voting rights unless converted into ordinary shares.

## Additional Information

## (G) Schedule of Interests in Mining Tenements

	Tenement	Percentage Held
Mt Weld Rare Earths Project		
Mt Weld	M38/58	100
Mt Weld	M38/59	100
Mt Weld	M38/326	100
Mt Weld	M38/327	100
Mt Weld	E38/2224	100
Mt Weld	E38/2935	100
Mt Weld	L38/224	100
Mt Weld	L38/98	100
Mt Weld	G38/34	100
Mt Weld	G38/35	100



## **Appendix 4G**

# Key to Disclosures Corporate Governance Council Principles and Recommendations

Name of entity:				
Lynas Corporation Limited				
ABN / ARBN:	Financial year ended:			
27 009 066 648	30 June 2019			
Our corporate governance statement <sup>2</sup> for the above period above can be found at: <sup>3</sup> These pages of our annual report:  This URL on our website: <a href="https://www.lynascorp.com/about-us/corporate-governance/">https://www.lynascorp.com/about-us/corporate-governance/</a>				
The Corporate Governance Statement is accurate and up to date as at 29 August 2019 and has been approved by the board.				
The annexure includes a key to where our corp	porate governance disclosures can be located.			
Date:	2 October 2019			
Name of Director or Secretary authorising lodgement:	Andrew Arnold, Company Secretary			

Under Listing Rule 4.7.4, if an entity chooses to include its corporate governance statement on its website rather than in its annual report, it must lodge a copy of the corporate governance statement with ASX at the same time as it lodges its annual report with ASX. The corporate governance statement must be current as at the effective date specified in that statement for the purposes of rule 4.10.3.

Throughout this form, where you are given two or more options to select, you can, if you wish, delete any option which is not applicable and just retain the option that is applicable. If you select an option that includes "<u>OR</u>" at the end of the selection and you delete the other options, you can also, if you wish, delete the "OR" at the end of the selection.

<sup>&</sup>lt;sup>1</sup> Under Listing Rule 4.7.3, an entity must lodge with ASX a completed Appendix 4G at the same time as it lodges its annual report with ASX. Listing Rule 4.10.3 requires an entity that is included in the official list as an ASX Listing to include in its annual report either a corporate governance statement that meets the requirements of that rule or the URL of the page on its website where such a statement is located. The corporate governance statement must disclose the extent to which the entity has followed the recommendations set by the ASX Corporate Governance Council during the reporting period. If the entity has not followed a recommendation for any part of the reporting period, its corporate governance statement must separately identify that recommendation and the period during which it was not followed and state its reasons for not following the recommendation and what (if any) alternative governance practices it adopted in lieu of the recommendation during that period.

<sup>&</sup>lt;sup>2</sup> "Corporate governance statement" is defined in Listing Rule 19.12 to mean the statement referred to in Listing Rule 4.10.3 which discloses the extent to which an entity has followed the recommendations set by the ASX Corporate Governance Council during a particular reporting period.

<sup>&</sup>lt;sup>3</sup> Mark whichever option is correct and then complete the page number(s) of the annual report, or the URL of the web page, where the entity's corporate governance statement can be found. You can, if you wish, delete the option which is not applicable.

## ANNEXURE – KEY TO CORPORATE GOVERNANCE DISCLOSURES

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed	We have NOT followed the recommendation in full for the of the period above. We have disclosed $\dots^4$	whole
PRINC	IPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVE	RSIGHT		
1.1	A listed entity should disclose:  (a) the respective roles and responsibilities of its board and management; and  (b) those matters expressly reserved to the board and those delegated to management.	the fact that we follow this recommendation:  ☑ in our Corporate Governance Statement OR  ☐ at [insert location]  and information about the respective roles and responsibilities of our board and management (including those matters expressly reserved to the board and those delegated to management):  ☑ at www.lynascorp.com	<ul> <li>□ an explanation why that is so in our Corporate Governs Statement <u>OR</u></li> <li>□ we are an externally managed entity and this recomme is therefore not applicable</li> </ul>	
1.2	A listed entity should:     (a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and     (b) provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.	the fact that we follow this recommendation:  in our Corporate Governance Statement OR  at [insert location]	□ an explanation why that is so in our Corporate Governor Statement OR □ we are an externally managed entity and this recomme is therefore not applicable	
1.3	A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.	the fact that we follow this recommendation:  ☑ in our Corporate Governance Statement OR  ☐ at [insert location]	□ an explanation why that is so in our Corporate Governs Statement OR □ we are an externally managed entity and this recomme is therefore not applicable	
1.4	The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.	the fact that we follow this recommendation:  ☑ in our Corporate Governance Statement OR  ☐ at [insert location]	□ an explanation why that is so in our Corporate Governs Statement OR □ we are an externally managed entity and this recomme is therefore not applicable	

<sup>&</sup>lt;sup>4</sup> If you have followed all of the Council's recommendations in full for the whole of the period above, you can, if you wish, delete this column from the form and re-format it.

Corpo	rate Governance Council recommendation	We have followed the recommendation in full for the whole of the period above. We have disclosed	We have NOT followed the recommendation in full for the whole of the period above. We have disclosed $\ldots^4$
1.5	<ul> <li>A listed entity should: <ul> <li>(a) have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them;</li> <li>(b) disclose that policy or a summary of it; and</li> <li>(c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them and either: <ul> <li>(1) the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or</li> <li>(2) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.</li> </ul> </li> </ul></li></ul>	the fact that we have a diversity policy that complies with paragraph (a):  in our Corporate Governance Statement OR  at [insert location]  at a twww.lynascorp.com  and the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with our diversity policy and our progress towards achieving them:  in our Corporate Governance Statement OR  at [insert location]  at [insert location]  at [insert location]  at [insert location]	<ul> <li>□ an explanation why that is so in our Corporate Governance Statement OR</li> <li>□ we are an externally managed entity and this recommendation is therefore not applicable</li> </ul>
1.6	A listed entity should:         (a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and         (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.	the evaluation process referred to in paragraph (a):  ☑ in our Corporate Governance Statement OR  ☐ at [insert location]  and the information referred to in paragraph (b):  ☑ in our Corporate Governance Statement OR  ☐ at [insert location]	<ul> <li>□ an explanation why that is so in our Corporate Governance Statement <u>OR</u></li> <li>□ we are an externally managed entity and this recommendation is therefore not applicable</li> </ul>
1.7	A listed entity should:  (a) have and disclose a process for periodically evaluating the performance of its senior executives; and  (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.	the evaluation process referred to in paragraph (a):  ☑ in our Corporate Governance Statement OR  ☐ at [insert location]  and the information referred to in paragraph (b):  ☑ in our Corporate Governance Statement OR  ☐ at [insert location]	<ul> <li>□ an explanation why that is so in our Corporate Governance Statement OR</li> <li>□ we are an externally managed entity and this recommendation is therefore not applicable</li> </ul>

Corporate Governance Council recommendation	We have followed the recommendation in full for the whole of the period above. We have disclosed	We have NOT followed the recommendation in full for the whole of the period above. We have disclosed $\dots^4$
PRINCIPLE 2 - STRUCTURE THE BOARD TO ADD VALUE		
2.1 The board of a listed entity should:  (a) have a nomination committee which:  (1) has at least three members, a majority of whom are independent directors; and  (2) is chaired by an independent director, and disclose:  (3) the charter of the committee;  (4) the members of the committee; and  (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or  (b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.	[If the entity complies with paragraph (a):] the fact that we have a nomination committee that complies with paragraphs (1) and (2):  in our Corporate Governance Statement OR  at [insert location] and a copy of the charter of the committee:  at www.lynascorp.com and the information referred to in paragraphs (4) and (5):  in our Corporate Governance Statement OR  in our FY19 Financial Report at www.lynascorp.com  [If the entity complies with paragraph (b):] the fact that we do not have a nomination committee and the processes we employ to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively:  in our Corporate Governance Statement OR at [insert location]	□ an explanation why that is so in our Corporate Governance Statement OR □ we are an externally managed entity and this recommendation is therefore not applicable
A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.	our board skills matrix:  ⊠ in our Corporate Governance Statement <u>OR</u> □ at [insert location]	<ul> <li>□ an explanation why that is so in our Corporate Governance Statement OR</li> <li>□ we are an externally managed entity and this recommendation is therefore not applicable</li> </ul>

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed	_	ave NOT followed the recommendation in full for the whole e period above. We have disclosed4
2.3	A listed entity should disclose:  (a) the names of the directors considered by the board to be independent directors;  (b) if a director has an interest, position, association or relationship of the type described in Box 2.3 but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and  (c) the length of service of each director.	the names of the directors considered by the board to be independent directors:  ☑ in our Corporate Governance Statement OR ☐ at [insert location] and, where applicable, the information referred to in paragraph (b): ☑ in our Corporate Governance Statement OR ☐ at [insert location] and the length of service of each director: ☑ in our Corporate Governance Statement OR ☐ at [insert location]		an explanation why that is so in our Corporate Governance Statement
2.4	A majority of the board of a listed entity should be independent directors.	the fact that we follow this recommendation:  ☐ in our Corporate Governance Statement OR  ☐ at [insert location]		an explanation why that is so in our Corporate Governance Statement <u>OR</u> we are an externally managed entity and this recommendation is therefore not applicable
2.5	The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.	the fact that we follow this recommendation:  ☑ in our Corporate Governance Statement OR  ☐ at [insert location]		an explanation why that is so in our Corporate Governance Statement <u>OR</u> we are an externally managed entity and this recommendation is therefore not applicable
2.6	A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.	the fact that we follow this recommendation:  ☑ in our Corporate Governance Statement OR  ☐ at [insert location]		an explanation why that is so in our Corporate Governance Statement OR we are an externally managed entity and this recommendation is therefore not applicable
PRINCIPLE 3 – ACT ETHICALLY AND RESPONSIBLY				
3.1	A listed entity should:  (a) have a code of conduct for its directors, senior executives and employees; and  (b) disclose that code or a summary of it.	our code of conduct or a summary of it:  in our Corporate Governance Statement OR  at www.lynascorp.com		an explanation why that is so in our Corporate Governance Statement

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed	We have NOT followed the recommendation in full for the whole of the period above. We have disclosed $\dots^4$
PRINCIP	LE 4 – SAFEGUARD INTEGRITY IN CORPORATE REPORTING		
4.1	The board of a listed entity should:  (a) have an audit committee which:  (1) has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and  (2) is chaired by an independent director, who is not the chair of the board, and disclose:  (3) the charter of the committee;  (4) the relevant qualifications and experience of the members of the committee; and  (5) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or  (b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.	[If the entity complies with paragraph (a):] the fact that we have an audit committee that complies with paragraphs (1) and (2):  in our Corporate Governance Statement OR  at [insert location] and a copy of the charter of the committee:  at www.lynascorp.com and the information referred to in paragraphs (4) and (5):  in our Corporate Governance Statement OR  in our FY19 Financial Report at www.lynascorp.com  [If the entity complies with paragraph (b):] the fact that we do not have an audit committee and the processes we employ that independently verify and safeguard the integrity of our corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner:  in our Corporate Governance Statement OR  at [insert location]	an explanation why that is so in our Corporate Governance Statement
4.2	The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.	the fact that we follow this recommendation:  ☑ in our Corporate Governance Statement OR  ☐ at [insert location]	an explanation why that is so in our Corporate Governance Statement

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed	ave NOT followed the recommendation in full for the whole e period above. We have disclosed4
4.3	A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.	the fact that we follow this recommendation:  ☑ in our Corporate Governance Statement OR  ☐ at [insert location]	an explanation why that is so in our Corporate Governance Statement OR we are an externally managed entity that does not hold an annual general meeting and this recommendation is therefore not applicable
PRINCIPI	.E 5 – MAKE TIMELY AND BALANCED DISCLOSURE		
5.1	A listed entity should:  (a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and  (b) disclose that policy or a summary of it.	our continuous disclosure compliance policy or a summary of it:  in our Corporate Governance Statement OR  at www.lynascorp.com	an explanation why that is so in our Corporate Governance Statement
PRINCIPI	E 6 – RESPECT THE RIGHTS OF SECURITY HOLDERS		
6.1	A listed entity should provide information about itself and its governance to investors via its website.	information about us and our governance on our website:  at www.lynascorp.com	an explanation why that is so in our Corporate Governance Statement
6.2	A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.	the fact that we follow this recommendation:  in our Corporate Governance Statement OR  at [insert location]	an explanation why that is so in our Corporate Governance Statement
6.3	A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.	our policies and processes for facilitating and encouraging participation at meetings of security holders:  in our Corporate Governance Statement OR  at [insert location]	an explanation why that is so in our Corporate Governance Statement OR we are an externally managed entity that does not hold periodic meetings of security holders and this recommendation is therefore not applicable
6.4	A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.	the fact that we follow this recommendation:  ☑ in our Corporate Governance Statement OR  ☐ at [insert location]	an explanation why that is so in our Corporate Governance Statement

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed	We have NOT followed the recommendation in full for the whole of the period above. We have disclosed $\dots^4$
PRINCIP	LE 7 – RECOGNISE AND MANAGE RISK		
7.1	The board of a listed entity should:  (a) have a committee or committees to oversee risk, each of	[If the entity complies with paragraph (a):] the fact that we have a committee or committees to oversee risk	an explanation why that is so in our Corporate Governance Statement
	which:  (1) has at least three members, a majority of whom are independent directors; and  (2) is chaired by an independent director, and disclose:  (3) the charter of the committee;  (4) the members of the committee; and  (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or  (b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.	that comply with paragraphs (1) and (2):  ☑ in our Corporate Governance Statement OR  ☐ at [insert location]  and a copy of the charter of the committee:  ☑ at www.lynascorp.com  and the information referred to in paragraphs (4) and (5):  ☐ in our Corporate Governance Statement OR  ☑ in our FY19 Financial Report at www.lynascorp.com  [If the entity complies with paragraph (b):]  the fact that we do not have a risk committee or committees that satisfy (a) and the processes we employ for overseeing our risk management framework:  ☐ in our Corporate Governance Statement OR  ☐ at [insert location]	
7.2	The board or a committee of the board should:  (a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and  (b) disclose, in relation to each reporting period, whether such a review has taken place.	the fact that board or a committee of the board reviews the entity's risk management framework at least annually to satisfy itself that it continues to be sound:  in our Corporate Governance Statement OR  at [insert location]  and that such a review has taken place in the reporting period covered by this Appendix 4G:  in our Corporate Governance Statement OR  at [insert location]	an explanation why that is so in our Corporate Governance Statement

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed	We have NOT followed the recommendation in full for the whole of the period above. We have disclosed $\dots^4$
7.3	A listed entity should disclose:     (a) if it has an internal audit function, how the function is structured and what role it performs; or     (b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.	[If the entity complies with paragraph (a):] how our internal audit function is structured and what role it performs:  □ in our Corporate Governance Statement OR □ at [insert location] [If the entity complies with paragraph (b):] the fact that we do not have an internal audit function and the processes we employ for evaluating and continually improving the effectiveness of our risk management and internal control processes: □ in our Corporate Governance Statement OR □ at [insert location]	an explanation why that is so in our Corporate Governance Statement
7.4	A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.	whether we have any material exposure to economic, environmental and social sustainability risks and, if we do, how we manage or intend to manage those risks:   in our Corporate Governance Statement OR  at [insert location]	an explanation why that is so in our Corporate Governance Statement

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed	We have NOT followed the recommendation in full for the whole of the period above. We have disclosed $\dots^4$				
PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY							
8.1	The board of a listed entity should:  (a) have a remuneration committee which:  (1) has at least three members, a majority of whom are independent directors; and  (2) is chaired by an independent director, and disclose:  (3) the charter of the committee;  (4) the members of the committee; and  (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or  (b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.	[If the entity complies with paragraph (a):] the fact that we have a remuneration committee that complies with paragraphs (1) and (2):  in our Corporate Governance Statement OR  at [insert location] and a copy of the charter of the committee:  at www.lynascorp.com and the information referred to in paragraphs (4) and (5):  in our Corporate Governance Statement OR  in our FY19 Financial Report at www.lynascorp.com  [If the entity complies with paragraph (b):] the fact that we do not have a remuneration committee and the processes we employ for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive:  in our Corporate Governance Statement OR at [insert location]	□ an explanation why that is so in our Corporate Governance Statement OR □ we are an externally managed entity and this recommendation is therefore not applicable				
8.2	A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.	separately our remuneration policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives:  in our Corporate Governance Statement OR  at [insert location]	<ul> <li>□ an explanation why that is so in our Corporate Governance Statement <u>OR</u></li> <li>□ we are an externally managed entity and this recommendation is therefore not applicable</li> </ul>				
8.3	A listed entity which has an equity-based remuneration scheme should:     (a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and     (b) disclose that policy or a summary of it.	our policy on this issue or a summary of it:  in our Corporate Governance Statement OR  at www.lynascorp.com	<ul> <li>□ an explanation why that is so in our Corporate Governance Statement <u>OR</u></li> <li>□ we do not have an equity-based remuneration scheme and this recommendation is therefore not applicable <u>OR</u></li> <li>□ we are an externally managed entity and this recommendation is therefore not applicable</li> </ul>				

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed	We have NOT followed the recommendation in full for the whole of the period above. We have disclosed $\dots^4$				
ADDITIO	ADDITIONAL DISCLOSURES APPLICABLE TO EXTERNALLY MANAGED LISTED ENTITIES						
-	Alternative to Recommendation 1.1 for externally managed listed entities:  The responsible entity of an externally managed listed entity should disclose:  (a) the arrangements between the responsible entity and the listed entity for managing the affairs of the listed entity;  (b) the role and responsibility of the board of the responsible entity for overseeing those arrangements.	the information referred to in paragraphs (a) and (b):  in our Corporate Governance Statement OR  at [insert location]	an explanation why that is so in our Corporate Governance Statement				
-	Alternative to Recommendations 8.1, 8.2 and 8.3 for externally managed listed entities:  An externally managed listed entity should clearly disclose the terms governing the remuneration of the manager.	the terms governing our remuneration as manager of the entity:  in our Corporate Governance Statement OR  at [insert location]	an explanation why that is so in our Corporate Governance Statement				

## Lynas Corporation Limited ACN 009 066 648 Corporate Governance Statement – Financial Year Ended 30 June 2019

The Board of Directors of the Company is responsible for the corporate governance of the Group. The Board guides and monitors the business and affairs of the Group on behalf of the shareholders by whom they are elected and to whom they are accountable. The Board has approved this Corporate Governance Statement. This Corporate Governance Statement is current as at August 29, 2019.

In accordance with the ASX Corporate Governance Council's (the "Council's") Principles and Recommendations (3rd edition), the Corporate Governance Statement must contain certain specific information and also report on the Group's adoption of the Council's best practice recommendations on an exception basis, whereby disclosure is required of any recommendations that have not been adopted by the Group, together with the reasons why they have not been adopted. The Group's corporate governance principles and policies are therefore structured with reference to the Council's best practice recommendations.

The Group's corporate governance practices were in place throughout the financial year ended June 30, 2019, and complied with all of the Council's Principles and Recommendations throughout the financial year.

Details of the Group's corporate governance practices in place throughout the financial year ended June 30, 2019 are as follows.

## Principle 1 - Lay solid foundations for management and oversight

## Recommendation 1.1 - Functions reserved to the Board and delegated to Senior Executives

The Group has established the functions reserved to the Board and the functions delegated to senior executives. The functions reserved to the Board include:

- (1) oversight of the Group, including its control and accountability systems;
- (2) appointing and removing the Chief Executive Officer ("CEO") (or equivalent), including approving remuneration of the CEO and the remuneration policy and succession plans for the CEO;
- (3) ratifying the appointment and, where appropriate, the removal of the Chief Financial Officer ("CFO") (or equivalent) and the Company Secretary;
- (4) input into the final approval of management's development of corporate strategy and performance objectives;
- (5) reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct and legal compliance;
- (6) monitoring senior management's performance and implementation of strategy, and ensuring appropriate resources are available;
- (7) approving and monitoring the progress of major capital expenditure, capital management and acquisitions and divestitures:
- (8) approving and monitoring financial and other reporting;
- (9) appointment and composition of committees of the Board;
- (10) on recommendation of the Audit, Risk Management, Safety, Health and Environment Committee, appointment of external auditors; and
- (11) on recommendation of the Nomination, Remuneration and Community Committee, initiating Board and Director evaluation.

The functions delegated to senior executives include:

- (1) implementing the Group's strategic business plan;
- (2) managing the business to agreed capital and operating expenditure budgets;
- (3) identifying and exploring opportunities to build and sustain the business;
- (4) allocating resources to achieve the desired business outcomes;
- (5) sharing knowledge and experience to enhance success;
- (6) facilitating and monitoring the potential and career development of the Group's people resources;
- (7) identifying and mitigating areas of risk within the business;
- (8) managing effectively internal and external stakeholder relationships and engagement strategies;
- (9) sharing information and making decisions across functional areas;

- (10) determining the senior executives' position on strategic and operational issues; and
- (11) determining the senior executives' position on matters that will be referred to the Board.

In addition, the functions reserved for the Board are summarised in the Group's Board Charter, a copy of which is available on the Group's website, <a href="https://www.lynascorp.com">www.lynascorp.com</a>.

#### Recommendation 1.2 - Information in Relation to Board Candidates

The Nomination, Remuneration and Community Committee of the Board ensures that appropriate checks are undertaken before a person is appointed as a Director, or before a person is put forward to shareholders as a candidate for election as a Director. If the Nomination, Remuneration and Community Committee concludes that it would be appropriate to consider the appointment of an additional Director, an extensive process is undertaken to identify suitable candidates, usually involving an external search firm. That process involves identifying the skills and experience required of the candidate, compiling lists of potential candidates, identifying a short list of candidates to be interviewed, conducting interviews, obtaining and checking information in relation to the character, experience, education, criminal record and bankruptcy history of the short-listed candidates, and selecting a recommended candidate.

The Group provides shareholders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a Director by providing all material information concerning the proposed Director in the Explanatory Memorandum that accompanies each Notice of Meeting at which candidates are proposed for election or re-election.

## Recommendation 1.3 - Written Agreements with Directors and Senior Executives

The Group has signed letters of appointment with each non-executive Director, and service contracts with the CEO and the other senior executives. Further details are set out in the Remuneration Report. The letters of appointment with the non-executive Directors cover topics including:

- (1) the term of appointment;
- (2) the time commitment envisaged, including committee work;
- (3) remuneration;
- (4) disclosure requirements;
- (5) the requirement to comply with key corporate policies;
- (6) the Group's policy on non-executive Directors seeking independent professional advice;
- (7) the circumstances in which the Director's office becomes vacant;
- (8) indemnity and insurance arrangements;
- (9) rights of access to corporate information; and
- (10) confidentiality obligations.

## Recommendation 1.4 - Company Secretary

The Company Secretary is accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board. The role of the Company Secretary includes:

- (1) advising the Board and its committees on governance matters;
- (2) monitoring that Board and committee policy and procedures are followed;
- (3) coordinating the timely completion and despatch of Board and committee papers;
- (4) ensuring accurate minutes are taken of Board and committee meetings; and
- (5) helping to organize and facilitate the induction and professional development of Directors.

## Recommendation 1.5 - Diversity

The Group has established a policy concerning diversity. The Group recognises the need to set diversity measures in each of its operating locations taking into account the differing diversity issues within each geographic location in which it operates. A copy of the Diversity Policy is available from the Group's website, <a href="www.lynascorp.com">www.lynascorp.com</a>. The policy includes requirements for the Board to establish measurable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them.

Below are the measurable objectives set by the Board for achieving gender diversity together with the progress made in achieving those objectives:

(1) Ensuring that recruitment of employees and Directors is made from a diverse pool of qualified candidates. Where appropriate, a professional recruitment firm shall be engaged to select a diverse range of suitably qualified candidates.

The Group continues to ensure that professional recruitment firms provide a broad selection of suitably qualified candidates together with prioritising local employment in the areas in which it operates. Further information on the skill set of the Directors is provided in the Remuneration Report.

(2) Increasing the number of women in operations and in other key areas of the workforce.

The Group has been very focussed on promoting the development of women within its business. The Group's female employees increased to 117 at the end of FY19 (the number was 113 at the end of FY18). In addition, the Group has focussed on encouraging a wide range of ethnic backgrounds among its employees, and the workforce includes people from a large number of backgrounds and cultures. The Group believes that its current diversity levels are good compared to other companies in its industry. The Group's policies of favouring local employment and promoting education in its local communities will continue to contribute to the diversity of its workforce.

- (3) Identifying programmes that assist in the development of a broader pool of skilled and experienced candidates including:
  - (a) initiatives focused on skills development, such as executive mentoring programmes; and
  - (b) career advancement programmes to develop skills and experience that prepare employees for senior management and Board positions.

The Group has in place a formal talent management process including mentoring and succession planning.

(4) Taking action to correct inappropriate workplace behaviour and behaviour that is inconsistent with the diversity objectives of the Group.

The Group has in place a Code of Conduct as well as an Harassment & Discrimination Policy which defines inappropriate behaviour and the potential resultant disciplinary actions. A formal employee grievance process has been established to assist in identifying issues such as inappropriate workplace behaviour and behaviour that is inconsistent with the values and diversity objectives of the Group.

The Group provides the following statistics on gender diversity as at June 30, 2019 (prior year: June 30, 2018):

- (1) Proportion of women employees in the whole organisation: 15.9% (2018 16.5%).
- (2) Proportion of women employees in senior executive positions: 30.4% (2018 28.6%).
- (3) Proportion of women on the Board: 33.0% (2018 33.0%).

The Group defines "senior executive positions" as members in the leadership team who have the authority and responsibility for planning, directing and controlling major activities of the group.

The Group is not a "relevant employer" under the Workplace Gender Equality Act, because the Group had less than 100 employees in Australia during the year ending June 30, 2019.

## Recommendation 1.6- Process for evaluating the performance of the Board

In accordance with the Charter of the Nomination, Remuneration and Community Committee, the Committee is responsible for the:

- (1) evaluation and review of the performance of the Board against both measurable and qualitative indicators established by the Committee;
- (2) evaluation and review of the performance of individual Directors against both measurable and qualitative indicators established by the Committee;
- (3) review of and making of recommendations on the size and structure of the Board; and
- (4) review of the effectiveness and programme of Board meetings.

An evaluation of the performance of the Board, its committees and individual Directors took place during 2019. In 2019, the Board evaluation was conducted via a written survey of Directors and senior managers. The survey results and action items were then discussed during a Directors feedback session.

## Recommendation 1.7 - Performance evaluation of Senior Executives

The Group has established detailed written Key Responsibility Areas and Key Performance Indicators (KPIs) for each senior executive. The performance of senior executives is periodically reviewed against their KPIs, at least once every 12 months, as part of the Group's formal performance review procedures. The Group has adopted a formal procedure whereby each senior

executive meets with his/her direct supervisor to review performance against KPI's during the review period. The results of that review are recorded in writing for follow up during subsequent meetings, and for internal reporting purposes.

Induction procedures are in place to allow new senior executives to participate fully and actively in management decision making at the earliest opportunity.

An evaluation of senior executives took place during the financial year. The evaluation was in accordance with the above process.

#### Principle 2 - Structure the board to add value

## Recommendation 2.1 - Nomination Committee

The Group has established a Nomination, Remuneration and Community Committee.

The Group's Nomination, Remuneration and Community Committee complies with each of the requirements of Recommendation 2.1 as follows:

- (1) The Committee consists of a majority of independent Directors. The members of the Committee are Ms Conlon, Mr Harding and Mr Humphrey Further details, including the relevant qualifications and experience of the members of the Committee, are provided in the Directors section of the Directors' Report.
- (2) The Committee is chaired by Ms Conlon, who is an independent Director and who is not Chair of the Board.
- (3) There were four formal meetings of the Committee during the financial year ending June 30, 2019. In addition, there were several informal meetings. Further details, including the attendances of members, are provided in the Directors Meetings section of the Directors' Report.
- (4) At all times during the financial year ending June 30, 2019, the Committee had at least three members.

The Group has adopted a Charter for its Nomination, Remuneration and Community Committee. A copy of the Committee Charter is available from the Group's website, <a href="www.lynascorp.com">www.lynascorp.com</a>.

#### Recommendation 2.2 - Board Skills

The Nomination, Remuneration and Community Committee recognizes that it is important that the Board has an appropriate mix of skills, experience, expertise and diversity. The Board considers it important for the following skills and experience to be represented:

- Experience as a Chief Executive;
- International business experience;
- Financial and accounting experience;
- Operational experience in the chemical and resources industries;
- Strategy and strategic marketing experience;
- Corporate governance, regulatory and risk management experience.

The Board's skills matrix is based on the above sets of skills and experience. The Nomination, Remuneration and Community Committee remains focussed on Board renewal, notwithstanding that the Board considers that each of the above skills is currently reflected in the skills and experience of the existing members of the Board. Further details of the skills and experience of the members of the Board are provided in the Directors section of the Directors' Report. Information about the diversity of the Board is set out under Recommendation 1.5 above.

## Recommendation 2.3 – Independence of Directors

The Council defines independence as being free from any interest, position, association or relationship that might influence, or could reasonably be perceived to influence, in a material respect his or her capacity to bring an independent judgement to bear on issues before the board and to act in the best interests of the Group and its shareholders generally.

During the financial year ended June 30, 2019 the Board had a majority of independent Directors. In accordance with the definition of independence above, and the materiality thresholds set, J. Humphrey, K. Conlon, M. Harding, P. Etienne and G. Murdoch were viewed as independent Directors.

A. Lacaze's appointment as Chief Executive Officer of the Group was effective from June 25, 2014 (previously, a Non-Executive Director from January 1, 2014). As the Chief Executive Officer of the Group, Ms Lacaze is not an independent Director of the Group in accordance with the definition above.

The length of service of each Director who held office as at June 30, 2019 is as follows:

Name	Term in office
K. Conlon	7 years 8 months
A. Lacaze	5 years 6 months
M. Harding	4 years 6 months
P. Etienne	4 years 6 months

J. Humphrey 2 years 1 month
G. Murdoch 1 year 8 months

## Recommendation 2.4 - Majority of Independent Directors

As noted above in relation to Recommendation 2.3, at all times during the financial year ended June 30, 2019, the Board had a majority of independent Directors.

## Recommendation 2.5 - The Chair should be an independent Director and not the same person as the CEO

M. Harding was the Chairman of the Board throughout the financial year ended June 30, 2019. Mr Harding is an independent Director and he is not the CEO. Accordingly, the Group was compliant with Recommendation 2.5 throughout the financial year ended June 30, 2019.

#### Recommendation 2.6 - Director Induction and Professional Development

The Group has adopted a Board Induction Policy that summarizes the key matters to be addressed in the induction of each new Director. Among other things, the Induction Policy deals with information to be provided to new Directors, the Chair's role, key contacts, remuneration, indemnities, insurance, access to information, and disclosure.

The Nomination, Remuneration and Community Committee regularly reviews the skills and experience of the Directors and assists Directors to identify professional development opportunities to develop and maintain the skills required to perform their roles effectively.

## Principle 3 - Act ethically and responsibly

## Recommendation 3.1 - Code of Conduct

The Group has established a code of conduct for its directors, senior executives and employees concerning the:

- (1) practices necessary to maintain confidence in the Group's integrity;
- (2) practices necessary to take into account the Group's legal obligations and the expectations of stakeholders; and
- (3) responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

A copy of the code of conduct is available from the Group's website, www.lynascorp.com.

## Conflict of Interest Policy

The Group has established a Conflict of Interest Policy to:

- (1) protect the integrity of the decision-making processes within the Group by avoiding ethical, legal, financial or other conflicts of interest;
- (2) establish internal procedures so that all employees understand their obligation to avoid actual, potential or perceived conflicts of interest;
- (3) provide guidance to employees for dealing with any conflicts of interest in an open and transparent manner;
- (4) provide guidance to employees for recognising and reporting on related party transactions; and
- (5) establish internal procedures to ensure that related party transactions are referred to the Group's shareholders where required.

A copy of the conflict of interest policy is available from the Group's website, www.lynascorp.com.

## Principle 4 - Safeguard integrity in corporate reporting

## Recommendation 4.1 - Audit Committee

The Group has established an Audit and Risk Committee.

The Group's Audit and Risk Committee complies with each of the requirements of Recommendation 4.1 as follows:

- (1) The Committee consists only of Non-Executive Directors. The members of the Committee are Mr Murdoch, Mr Humphrey and Mr Etienne. Further details, including the relevant qualifications and experience of the members of the Committee, are provided in the Directors section of the Directors' Report.
- (2) Five meetings of the Committee were held during the financial year ending June 30, 2019. Further details, including the attendances of members, are provided in the Directors Meetings section of the Directors' Report.

- (3) All of the members of the Committee are independent Directors.
- (4) The Committee is chaired by Mr Murdoch, who is an independent Director and who is not Chair of the Board.
- (5) At all times during the financial year ending June 30, 2019, the Committee had at least three members.

The Group has adopted a Charter for its Audit and Risk Committee. A copy of the Committee Charter is available from the Group's website, <a href="https://www.lynascorp.com">www.lynascorp.com</a>.

## Recommendation 4.2 - Statement from the Chief Executive Officer and the Chief Financial Officer

Before the Board approves the Group's financial statements for a financial period, the Board receives a declaration from the Chief Executive Officer and the Chief Financial Officer in accordance with section 295A of the *Corporations Act 2001* that, in their opinion, the financial records of the Group have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Group, and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

## Recommendation 4.3 - Auditor Attendance at AGM

The Group holds an Annual General Meeting of shareholders ("AGM") in October or November of each year. The Group ensures that its external auditor attends the AGM and is available to answer questions from shareholders relevant to the audit.

## Principle 5 - Make timely and balanced disclosure

## Recommendation 5.1 – ASX Listing Rule Disclosure Requirements

The Group has established a written policy designed to ensure:

- (1) compliance with ASX Listing Rules continuous disclosure obligations; and
- (2) accountability at a senior executive level for that disclosure.

A copy of the Group's Continuous Disclosure Policy is available from the Group's website, www.lynascorp.com.

## Principle 6 - Respect the rights of shareholders

## Recommendation 6.1 - Information on the Group's Website

The Group provides information about itself and its governance to its shareholders via the Group's website, <a href="www.lynascorp.com">www.lynascorp.com</a>. Information about governance is available in the Corporate Governance section of the Group's website.

## Recommendation 6.2 - Investor Relations Program

The Group has an investor relations program to facilitate effective two-way communication with shareholders. The Group's investor relations program includes the following:

- (1) an email link on the Group's website, www.lynascorp.com for shareholders to ask questions;
- (2) actively engaging with shareholders at the AGM;
- (3) periodic meetings with institutional investors, analysts and financial media representatives; and
- (4) recorded CEO interviews at the time of the release of quarterly reports, which are accessible via <a href="www.asx.com.au">www.asx.com.au</a> and the Group's website, <a href="www.lynascorp.com">www.lynascorp.com</a>.

## Recommendation 6.3 - Encouraging Shareholder Participation at AGMs

The Group's processes to encourage shareholder participation at AGMs include:

- (1) providing an email link on the Group's website, www.lynascorp.com for shareholders to ask questions ahead of AGMs;
- (2) live streaming the Group's AGM; and
- (3) providing a facility for online lodgement of proxies.

In addition, the Group has adopted a Shareholder Communications Policy for:

- (1) promoting effective communication with shareholders; and
- (2) encouraging shareholder participation at AGMs.

A copy of the Group's Shareholder Communications Policy is available from the Group's website, <a href="https://www.lynascorp.com">www.lynascorp.com</a>.

## Recommendation 6.4 - Electronic Communications

The Group gives shareholders the option to receive communications from, and to send communications to, the Group and its share registry electronically. The Group periodically sends communications to those shareholders who have provided an email address. There is a facility on the Group's website, <a href="https://www.lynascorp.com">www.lynascorp.com</a> for shareholders to subscribe to receive emailed copies of the Group's ASX announcements. In addition, there is an email link on the Group's website, <a href="https://www.lynascorp.com">www.lynascorp.com</a> for shareholders to communicate with the Group electronically. The Group's share registry, Boardroom Pty Ltd, has similar arrangements that are accessible via its website <a href="https://www.boardroomlimited.com.au">www.boardroomlimited.com.au</a>.

## Principle 7 - Recognise and manage risk

## Recommendation 7.1 - Risk Management Committee

The Group has established an Audit and Risk Committee to oversee risk.

The Group's Audit and Risk Committee complies with each of the requirements of Recommendation 7.1 as follows:

- (1) The Committee consists only of Non-Executive Directors. The members of the Committee are Mr Murdoch, Mr Humphrey and Mr Etienne. Further details, including the relevant qualifications and experience of the members of the Committee, are provided in the Directors section of the Directors' Report.
- (2) Five meetings of the Committee were held during the financial year ending June 30, 2019. Further details, including the attendances of members, are provided in the Directors Meetings section of the Directors' Report.
- (3) All of the members of the Committee are independent Directors.
- (4) The Committee is chaired by Mr Murdoch, who is an independent Director and who is not Chair of the Board.
- (5) At all times during the financial year ending June 30, 2019, the Committee had at least three members.

The Group has adopted a Charter for its Audit and Risk Committee. A copy of the Committee Charter is available from the Group's website, <a href="www.lynascorp.com">www.lynascorp.com</a>.

## Recommendation 7.2 – Risk Management Framework

The Group has adopted a Risk Management Policy and a Risk Management Framework for oversight and management of its material business risks. The Audit and Risk Committee reviews the Group's Risk Management Framework at least annually to satisfy itself that it continues to be sound. Such a review has taken place in the financial year ending June 30, 2019.

#### Recommendation 7.3 - Internal Audit

During the financial year ending June 30, 2019, the Group did not have an internal audit function. The Group is implementing an internal audit function during the financial year ending June 30, 2019. The processes that the Group employed during the financial year ending June 30, 2019 for evaluating and continually improving the effectiveness of its risk management and internal control processes include the following:

- (1) The Group's Risk Management Policy and Risk Management Framework clearly describe the roles and accountabilities of the Board, the Audit & Risk Committee, the Health Safety & Environment Committee and management.
- (2) The Audit & Risk Committee and the Health Safety & Environment Committee oversee the Group's material business
- (3) Those members of the Group's management team who are accountable for risk management, safety, health, environment and community matters manage the Group's material business risks.
- (4) The Audit & Risk Committee oversees financial risks pursuant to its Charter. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators.
- (5) The members of the Group's finance department manage financial risks.
- (6) The Group has adopted the following policies for the oversight and management of material business risks: Risk Management Policy, Environmental Policy, Community Policy and Occupational Health and Safety Policy.

Copies of the following documents referred to in this section are available from the Group's website, www.lynascorp.com:

- (1) Audit & Risk Committee and Health Safety & Environment Committee Charters;
- (2) Risk Management Policy;
- (3) Environmental Policy;
- (4) Community Policy; and
- (5) Occupational Health and Safety Policy.

## Recommendation 7.4 - Economic, Environmental and Social Sustainability Risks

The categories of risk to which the Group has exposure include economic, environmental and social sustainability risks. The Group manages these risks as follows:

- (1) The Group seeks to reduce the impact of fluctuations in rare earths prices and demand by building strategic relationships with customers and other parties in the Group's key markets. The Group seeks to reduce the impact of exchange rate variations by having both revenue under its sales contracts and its debt repayment obligations denominated in US dollars, and by broadly matching the currencies in which funds are held with the currencies of anticipated outgoings.
- (2) The Group manages environmental risks by adopting environmental management programs for each of its sites. The Group has detailed environmental monitoring at each of its sites, and the Group has invested significant amounts in environmental controls such as the Group's Malaysian waste gas treatment plant, waste water treatment plant and solid residues commercialisation programs. These measures have ensured that the Group has complied with all applicable environmental standards at each site.
- (3) The Group recognises that a strong mutual relationship with each community in which it operates is necessary for successful operations. In addition, the Group recognises the importance of maintaining its reputation with all of its stakeholders including shareholders, regulatory authorities, communities, customers and suppliers. The Group has adopted a Community and Stakeholder Engagement Plan and the Group engages in community programs that build relationships with each of the communities in which the Group operates.

## Principle 8 - Remunerate fairly and responsibly

## Recommendation 8.1 - Remuneration Committee

The Group has established a Nomination, Remuneration and Community Committee.

The Group's Nomination, Remuneration and Community Committee complies with each of the requirements of Recommendation 8.1 as follows:

(1) The Committee consists of a majority of independent Directors. The members of the Committee are Ms Conlon, Mr Harding and Mr Humphrey. Further details, including the relevant qualifications and experience of the members of the Committee, are provided in the Directors section of the Directors' Report.

- (2) The Committee is chaired by Ms Conlon, who is an independent Director and who is not Chair of the Board.
- (3) There were four formal meetings of the Committee during the financial year ending June 30, 2019. In addition, there were several informal meetings. Further details, including the attendances of members, are provided in the Directors Meetings section of the Directors' Report.
- (4) At all times during the financial year ending June 30, 2019 the Committee had at least three members.

The Group has adopted a Charter for its Nomination, Remuneration and Community Committee. A copy of the Committee Charter is available from the Group's website, <a href="www.lynascorp.com">www.lynascorp.com</a>.

## Recommendation 8.2 - Remuneration of Executive Directors, Executives and Non-Executive Directors

The remuneration of Executive Directors and senior executives during the financial year consisted of the following:

- (1) Fixed remuneration, superannuation payments and termination payments.
- (2) Performance Rights granted for the benefit of the relevant individuals pursuant to the Group's employee incentive plans.
- (3) Non-monetary benefits.

Details of the remuneration of Executive Directors and senior executives during the financial year are set out in the Remuneration Report section of the Directors' Report.

The remuneration of Non-Executive Directors during the financial year consisted only of cash fees and superannuation payments.

Details of the remuneration of Non-Executive Directors during the financial year are set out in the Remuneration Report section of the Directors' Report.

The fixed remuneration paid to Executive Directors and senior executives is clearly distinguished from the cash fees paid to Non-Executive Directors.

The Group complies with Recommendation 8.2 by clearly distinguishing the structure of Non-Executive Directors' remuneration from that of Executive Directors and senior executives. During the financial year ended June 30, 2019 no Options or Performance Rights were issued to Non-Executive Directors.

## Recommendation 8.3 – Use of Derivatives and Similar Transactions

In accordance with the Group's share trading policy, Directors and employees must not at any time enter into transactions in associated products which limit the economic risk of participating in unvested entitlements under equity-based remuneration schemes. A copy of the share trading policy is available from the Group's website, <a href="https://www.lynascorp.com">www.lynascorp.com</a>.