

## CHAIRMAN'S ADDRESS - AGM 2013

24 OCTOBER 2013

Ladies and Gentlemen,

My name is Don Mercer. I am the Chairman of your Board of Directors and the Chairman of this meeting.

It is now 10.30 and I would like to welcome and thank you for attending the Annual General Meeting of Newcrest Mining Limited.

Before proceeding with the meeting please ensure your mobile phone or pager is turned off – thank you. Also, in the event of an emergency, or if for any reason we need to evacuate this room, you are asked to leave through the doors through which you entered or through one of the marked exits at the back or side of the room, go down either staircase in the foyer and exit the building and gather on the Lorne street side.

The Notice of Meeting has been sent to all shareholders and for the purpose of this meeting will be taken as read.

It is clear that a quorum of members is present and I therefore declare the meeting open.

Let me first introduce your Board of Directors

On my far right is **Phil Aiken**

Phil was appointed as a Non-Executive Director of the Company in April this year. He is a member of the Human Resources and Remuneration Committee and the Safety, Health and Environment Committee. Phil has extensive Australian and international business experience, principally in the engineering and resources sectors, in which he has been involved for over 36 years. He is a chemical engineer and a former Group President at BHP Billiton and President at BHP Petroleum, a former Managing Director of BOC/CIG and a former Chief Executive of BTR Nyllex.

Next to Phil is **Vince Gauci**

Vince was appointed as a Non-Executive Director of the Company in December 2008. He is a member of the Safety, Health and Environment Committee and the Human Resources and Remuneration Committee. He is a mining engineer and has over 40 years experience in the global mining industry and was formerly Managing Director of MIM Holdings Limited.

Next to Vince is **Rick Lee**

Rick was appointed as a Non-Executive Director of the Company in August 2007. He is a member of Newcrest's Audit and Risk Committee and Chairman of the Human Resources and Remuneration Committee. He has qualifications in chemical engineering and economics. Rick has had extensive involvement throughout his career in commodities, metals and financial markets, including gold and natural resources. He was formerly Chief Executive of NM Rothschild Australia, a former Chairman of the Australian Institute of Company Directors. He is also the Non-executive Chairman of PNG oil and gas producer Oil Search Limited.

Next to Rick is **Gerard Bond**

Gerard joined the Company as Finance Director and Chief Financial Officer in January 2012. He was appointed as an executive Director in February 2012. He is a Chartered Accountant and has many years of experience in the global resources and financial sectors with the BHP Billiton Group where he held a number of senior executive roles, and prior to that with Coopers & Lybrand and Price Waterhouse.

Next to Gerard is **Greg Robinson**

Greg joined the Company in November 2006 as Executive Director Finance and became Managing Director and CEO on 1 July 2011. He is a qualified geologist and has extensive experience in the global resources and financial sectors. Greg was formerly with the BHP Billiton Group where he held a number of executive roles and prior to that with Merrill Lynch. He is also a Director of the Minerals Council of Australia.

On my far left is **John Spark**

John was appointed as a Non-Executive Director of the Company in September 2007. He is Chairman of Newcrest's Audit and Risk Committee and also a member of the Safety, Health and Environment Committee. He is a chartered accountant and a registered company auditor and has many years experience, including in the mining and resources sector. He was formerly Managing Partner of Ferrier Hodgson Melbourne. His speciality was insolvency and corporate reconstruction which has seen him run several mining operations in administration, including Pasminco Ltd.

Next to John is **Tim Poole**

Tim was appointed as a Non-Executive Director of the Company in August 2007. He is a member of Newcrest's Audit and Risk Committee and Human Resources and Remuneration Committee. He is a chartered accountant and contributes wide-ranging financial, investment and governance knowledge. He was formerly the Managing Director of Hastings Funds Management.

Next to Tim is **Dick Knight**

Dick was appointed as a Non-Executive Director of the Company in February 2008. He is Chairman of Newcrest's Safety, Health and Environment Committee and a member of the Audit and Risk Committee. He is a mining engineer and has many years experience in executive and Board roles in the mining and resources sector, both in Australia and internationally. He was formerly an Executive Director of North Limited.

Next to Dick is **Lady Winifred Kamit**

Winifred was appointed as a Non-Executive Director of the Company in February 2011. She is a member of the Human Resources and Remuneration Committee and of the Safety, Health and Environment Committee. She is a lawyer and has extensive experience in the mining and resources sector, including as a former director of Lihir Gold Limited. She is a former Senior Partner, and currently a Consultant, at Gadens lawyers in Port Moresby.

Next to Winifred is **Peter Hay**

Peter was appointed as a Non-Executive Director of the Company in August this year. The Board proposes that Peter will assume the role of Chairman upon my retirement at the end of this year. He has extensive experience in business, corporate law, finance and investment banking. He was formerly a Partner and Chief Executive Officer of the legal firm Freehills.

Next to Peter is our Company Secretary and General Counsel, **Scott Langford**.

I believe that your Board brings to Newcrest a broad range and balance of valuable skills, expertise and experience, including a deep involvement in and understanding of the mining and resources sector, as well as business, finance and corporate governance.

Sitting in the front row are our senior managers who will be happy to speak with you after the meeting as well as representatives of the Company's auditors, Ernst and Young.

Before moving to the formal business of the meeting I, and then the Managing Director, would like to address you.

So let me now turn to my overview of the Company's activities.

2013 has been a tough year for Newcrest and its shareholders.

When I stood before you last year, with a profit of \$1.1 billion and a dividend of 35 cents per share, I described the year as “testing”.

However, a far greater test was ahead of us in 2013.

I stand before you this year - my last as Chairman of Newcrest as Peter Hay, if elected, will succeed me when I retire at the end of the year - to explain:

- Firstly, what took place during the year and how that affected the gold sector in general and Newcrest in particular; and
- Secondly, what we are doing to protect your interests as shareholders in the new price environment.
- I'll then address some of the matters raised by shareholders in recent meetings and discussions.

Newcrest's Board and management fully understand that shareholders are disappointed with the Company's performance. We have listened and actions have been taken.

2014 will be a year of further adjustment, but I believe the outlook for Newcrest is positive.

### **The year in summary**

The 2013 financial year began with a slower than anticipated start to production due to a number of challenges, including unreliability of the old plant at Lihir and issues with ground conditions at Gosowong. In late March 2013, we revised production guidance for the year down by approximately 10 per cent.

In that announcement and in the March 2013 quarterly report issued in April, the Company advised of the actions it had been and would be taking in response to performance disappointment and the external environment which had seen a softening of gold prices. These included:

- a stronger orientation to generate free cash flow
- reducing headcount, and
- focusing on low cost ore sources.

A piece of good news was that our two major projects, Cadia East Panel Cave 1 and the Lihir plant upgrade, were delivered on time and within 8 per cent of budget – a significant achievement.

And then the gold price, which had been on a downward trend, fell sharply in April and continued to decline finishing the financial year at US\$1200 per ounce compared with nearly US\$1800 in October 2012.

A fall of that extent and for an extended period was a game changer. It meant that the Company needed to:

- revise operational plans to meet a new price environment, resulting in an altered view of production;
- cut back capital expenditure; and
- reduce costs further.

Ultimately the steep decline in the gold price during the June quarter, combined with the contraction of multiples for gold equities and other market factors, led to our write down of the carrying value of some of our assets including a significant amount of the goodwill associated with Lihir.

No final dividend was declared, with shareholders receiving only the interim dividend of 12 cents for the year.

On June 7<sup>th</sup> we released a detailed statement to the ASX informing the market of these changes.

We were one of the early movers in this regard. Greg will speak more extensively in his address about the action the Company took, but, importantly, during this adjustment process we sought to preserve growth options for when market conditions improve.

In the midst of these adjustments, the company was accused by some market participants of “selectively briefing” analysts – claims which attracted interest from the ASX and also from the regulator, the Australian Securities and Investments Commission (ASIC).

The Newcrest Board takes these allegations very seriously.

We commissioned an independent review from former Australian Securities Exchange Chairman, Dr Maurice Newman, whose report to the Board we released publicly in early September.

In his report Dr Newman says “My sense is that the Company takes its continuous disclosure obligations very seriously and, by and large, has in place processes to reinforce this.” We have committed to implementing all of his recommendations, a number of which were already in place either in part or in full. At this point, that implementation is well underway.

To this date, we understand that the ASIC investigation continues, and the Company will continue to cooperate with ASIC.

At the financial year end

- As a result of the announced asset write downs, impairments and restructuring costs, we recorded a statutory loss of \$5,778 million and our underlying profit was \$451 million.
- Our reputation had taken a battering and the perception was that we were a “troubled” miner.

But,

- We had produced 2.1 million ounces of gold;
- We delivered our major projects on schedule and within 8% of budget; and
- We took decisive action to manage the business within the lower gold price environment whilst preserving growth options.

Shareholders have been understandably disappointed by the lower share price, profit and dividends than last year.

I have visited or spoken to many of the Company's major shareholders over the past two months. Shareholders have provided frank feedback which we have been considering in the period leading up to this meeting.

The concerns voiced by shareholders fall into four main categories.

1. Gold and the disappointing performance of Newcrest and all gold companies in the lower price environment
2. Newcrest's merger with Lihir and its management of the Lihir gold mine in Papua New Guinea
3. Operating management of Newcrest's priority assets and delivery of production targets, and
4. The desire to see Newcrest's gearing return to previous conservative levels.

### **Newcrest strategy**

The Board considered this feedback in the context of the Company's strategy, which has seen Newcrest evolve into a global major.

The strategy was developed seven years ago at a time of board and management renewal. At that point Newcrest was a mid-tier, Australian focused company with three mines in Australia and one in Indonesia. It was severely restricted by hedging contracts which had protected the Company during the period of very low gold prices, but which were capping the price the Company received when the spot price for gold was considerably higher and expectations were for further rises.

The Company raised capital to close out these hedge contracts and to reduce debt, giving it full exposure to rising gold prices and the financial freedom to pursue its

strategy of increasing production. We sought predominantly long-life, low cost mines.

Such a focus would build on a core Newcrest asset; the large, long life low cost Cadia mines. The strategy was that economies of scale and longevity would be the cornerstone of the new Newcrest and underpin production growth and returns for shareholders in future decades.

The acquisition of Lihir, the significant investment in the Cadia East project and the divestment of the two smaller mines in Queensland, Cracow and Mt Rawdon, have shaped the Newcrest of today, now one of the world's largest gold producers.

### **Which brings me to Lihir.**

The Lihir gold mine in the islands to the north of Papua New Guinea in the New Ireland Province, is one of the world's great ore bodies. It is a world class, long life asset. It is a sound strategic fit for Newcrest. This is evidenced by the fact that already Newcrest has increased the reserves estimate by around 25% to 32.7 million ounces before depletion. Ore bodies like Lihir are rare and even more rarely available.

Lihir had been operating for 15 years and its past owners had struggled to realize its potential. Newcrest was confident that it would be able to apply its technical expertise to the operation and with its greater balance sheet strength make the necessary capital investments that were underway and would be required in the future.

Importantly, while the implied merger price for Lihir was significant, the primary form of consideration was Newcrest shares, which were themselves trading strongly, in line with gold stocks around the world. Lihir's shares at the time were trading relatively less well due to a variety of issues. In that sense we think that the timing of the merger was opportune.

Newcrest continues to be of the view that Lihir is a quality asset.

Nevertheless the challenges of the Lihir ore body, the process technology and integrating Lihir into the Newcrest culture and way of working have been considerable. Addressing these challenges is taking longer than we had hoped. Also challenging has been the speed at which reliability issues associated with the old Lihir plant have arisen.

Newcrest's review of the carrying value of its assets, which I mentioned earlier, resulted in most of the "goodwill" recognised on the Lihir asset being written down.

For perspective, the Lihir transaction was essentially a merger of two companies by share exchange, treated for accounting purposes as an acquisition as though our shares were cash. Gold company shares at that time were generally trading at a

significant premium to their physical asset values. The difference between the physical values and share prices in a transaction such as ours is largely booked as goodwill.

By definition, for a mining company goodwill will always be ultimately written off as the assets to which it relates are “diminishing assets”. Goodwill is required to remain on the balance sheet until it can be written down as a result of factors affecting the value of the underlying assets such as depletion of reserves or a sustained fall in the gold price, the latter of which occurred.

I pause here to make the point that the accounting standards require us to write down assets, but perversely we are not able to write anything up to reflect increased value. The balance sheet, on that basis, is not necessarily a good indicator of “fair value”.

As we have previously noted in Company presentations, the Lihir asset at the time of the merger comprised about 32 per cent of the combined company’s value, and it remains around that same level today.

Shareholders have yet to see the full financial benefit of the Lihir merger; but I believe they will.

We consider that Newcrest is well placed to tackle the complexity and challenges of Lihir. Much has already been done in this regard. Greg will speak more on that shortly.

However we acknowledge that challenges still exist. For example:

- We are currently negotiating a new agreement with the landowners for the distribution of mine benefits
- There remains about a nine month period of old plant refurbishment activity ahead while the new plant is still ramping up.

The obvious question therefore is: If you knew what you now know, would you do the Lihir transaction again?

The answer is: Yes, absolutely.

Is it difficult and complex?

Yes.

Would you do anything differently?

Yes. With the benefit of hindsight, we may have done some things differently. For example we might have managed and prioritised some of the reliability issues in different ways. But this is a short term thing in the context of a very long life operation and does not materially affect the value of the asset.



To have a gold mine with a mine life exceeding 30 years and a gold endowment averaging 2.1 grams per tonne is enormously valuable to shareholders over time. Contrast this with another of our mines, Cadia East, where the gold grade averages 0.5 grams per tonne (plus associated copper).

### **Turning now to the gold price falls and the gold sector**

After years of a rising market, the recent rapid and sustained decline in gold prices has affected the entire industry. Across the gold sector, here in Australia and internationally, there have been major adjustments:

- mine plans have changed to focus, as we have done, on lower cost ounces, potentially reducing overall production volumes
- postponement of projects – toughest of course for those still in the build phase
- sales of assets
- reductions in employee numbers
- asset write downs to adjust carrying values to reflect new valuations – amounting now to more than US\$35 billion across the gold industry.

While there had been softening of the gold price in the preceding months, the fall that occurred in the June quarter of 2013 was the largest in 30 years.

In advance of that fall, Newcrest had already begun to take action. These actions were described in our March quarterly and included reviewing activities and reducing headcount, that higher cost ounces were under review and that the Company would be very careful, in fact the word Greg Robinson used was “stingy”, with capital. However further major remedial action was required in the face of the extended price collapse.

Newcrest has not been alone in taking corrective action – many other gold miners have made significant adjustments.

Ultimately it is the low-cost producers with production flexibility and optionality that will outperform in this kind of volatile environment. This is where Newcrest is positioning itself.

By the time the gold price fell in April, Newcrest had substantially completed a period of major investment – including the acquisition, subsequent expansion and reinvestment in reliability at Lihir, and the Cadia East project. Through this investment, the Company now finds itself with 65% of its gold sales coming from predominantly longer life, lower cost assets. And that proportion is expected to grow as the relative production contribution from the Lihir and Cadia assets increases in the coming years.

### **Moving now to the other shareholder feedback**

We have already discussed the gold price fall and Lihir.

## **Regarding management focus on performance and priority assets**

Greg will talk about the Company's assets in his address shortly.

In terms of management, Sandeep Biswas will join Newcrest in January as Chief Operating Officer, responsible for the suite of Newcrest mines. Sandeep is a chemical engineer, who was most recently Chief Executive Officer of Rio Tinto's Pacific Aluminium which incorporated bauxite, alumina, refining and smelting operations in Australia and New Zealand. Sandeep has operational experience across a range of commodities and has worked for MIM Holdings, WMC Resources, Anaconda Nickel and Rio Tinto in various countries including Canada and in Europe.

We are indeed fortunate to have secured a COO of the calibre of Sandeep, not just as COO but also because it is expected that Sandeep will succeed Greg as CEO in the latter half of calendar 2014.

## **To Newcrest's financial position**

We believe that Newcrest remains well placed financially. It has an acceptable balance sheet and still enjoys an investment grade credit rating.

Gearing did increase to a level of 29.1 per cent at the end of financial year 2013. The increase was mainly due to the ongoing investment in projects at Cadia East and Lihir as well as the recent impairments. It is a priority objective of the Board to reduce gearing levels.

Low gearing is required to ensure maximum flexibility and options for an unhedged gold producer like Newcrest. It provides a buffer for the Company to weather significant adverse events such as the gold price fall that occurred in 2013.

## **Employee effort and remuneration**

I take this opportunity to publicly thank our workforce. Managing in an environment where the gold price is progressively and rapidly falling requires flexibility, resilience, intelligence and hard work. Across the Company extraordinary efforts were delivered by a great many people. Some of these people have regrettably lost their jobs as activities and consequently roles were removed.

Despite their efforts, Newcrest executives and management will receive nil or substantially reduced incentive rewards this year – reflective of the Company's performance and the external environment. To that end, they also share with shareholders a financial disappointment. No salary increases have been granted this year for Executives and Australian employees.

Newcrest's Remuneration Report will be discussed and voted upon further into the meeting at agenda item 3.

We continue to place a high priority on employee safety, community and other stakeholder relationships and environmental management. These continue to be a priority regardless of the external changes.

### **Board matters**

On 9 October Newcrest announced that Peter Hay, if elected, would succeed me as Chairman of Newcrest when I retire at the end of the year.

It has been a privilege to lead Newcrest as Chairman for the past seven years. Your Board has been hardworking, diligent, productive. It is a very different company now compared with seven years ago. The transformation represents the efforts of the Executive, led initially by Ian Smith and more recently by Greg Robinson, and the broader team at Newcrest. I am proud of them all.

Along with Philip Aiken, Peter Hay was one of two new Non-Executive Directors to be appointed to the Board during the year. They add to the capability of the Board. Philip has extensive experience in the resources sector, both within Australia and internationally. Peter brings experience in the business, corporate law and investment banking sectors. If elected as a Director, he will be an able Chairman.

These appointments were part of the Board's continuing renewal and succession planning.

We will hear from both Peter and Phil later in the meeting.

### **Looking ahead**

We continue to believe the outlook for gold is positive. However, we may be wrong. As I have said before, predicting the gold price is a personal judgement.

Experienced investors view gold shares as a fundamental part of their portfolio, as a hedge against external uncertainty.

The strategic picture going forward is very changeable, but the underlying potential of Newcrest does not change – we will manage to the circumstances of the external environment at any given time.

Looking forward the focus for the Board and the Company will be on:

- Restoring our reputation and delivering reliable low cost production
- Strengthening the Company's balance sheet so that it is positioned to withstand further gold price deterioration and/ or take advantage of opportunities
- Supporting our big world class assets in Lihir and Cadia, and also progressing Wafi-Golpu, and
- Positioning the Company to generate returns for shareholders in any reasonable external environment.

Despite the testing year past, Newcrest is a strong company. It has responded decisively to external volatility. It has quality assets, management and technical capability, and the flexibility to make more changes should the gold price decline further.

We also have a range of options for growth and better margins for when conditions improve.