



Market Release

Newcrest Mining Limited

27 October 2005

Chairman's and Managing Director's Address to 2005 Annual General Meeting

Chairman's Address

The year 2004-05 was another important one for Newcrest as the Company continued on its path of strong organic growth.

There were a number of significant achievements, some disappointments and the emergence of some important challenges for the future. I will talk about these in more detail in a little while. First of all I would like to speak about some broader issues that have had an impact on the Australian resources sector, and the gold industry in particular, during the past year.

Australia is currently participating in one of the strongest resources booms in living memory. This is generally considered good news for mining companies and other companies that service the mining industry, as prices for many commodities have risen strongly. However, it has created an environment that has had a direct bearing on some aspects of Newcrest's performance during the past year, and will continue to have implications for the Company.

Most noticeably there has been a direct and tangible impact on construction costs, with steel, concrete, transport and other project input costs rising sharply. With so many projects under construction or in development across Australia, we have also seen an acute shortage of experienced project managers, as well as skilled tradesmen and technicians.

Those pressures have been most apparent at the Company's development and construction projects, but they have also been evident at its existing mining operations where the costs of diesel and many other key inputs, including technical mining personnel, have been on the rise.

By contrast, during the past two years the gold price has risen by around 25 percent. While today's price of around US\$470 per ounce is generally regarded as strong, its run up has been relatively modest compared with many other commodities.

As a consequence, gold producers, like Newcrest, have seen their construction and operating costs rising at a rate considerably faster than their revenues during the past year or so, and this has placed unexpected pressure on margins. Many companies, including Newcrest, have also had to compete more innovatively for talent and management skills and have had to work hard to ensure that the talent and skills that they have accumulated are not lost to other faster growing parts of the resources sector.

It is impossible to say how long this situation will continue, but the consensus view would appear to be that it will continue for some time yet. As a result a key strategic focus of management, and the Board, must be to ensure that Newcrest can continue to compete effectively, in the broader resources sector, for both physical and human resources.

Against that background I'd like to now take a few moments to look at the Company's performance during the 2004-05 year.

Total gold production for the year increased by 52 percent to more than 1.1 million ounces and total copper production increased by 14 percent to almost 100,000 tonnes. At the same time costs were maintained at a low and very competitive level, thereby preserving the Company's cost advantage when measured against other major gold producers. I have reported to shareholders in previous years that it is fundamental to Newcrest's strategy that it be amongst the world's lowest cost gold producers. This will ensure that even in times of low gold prices the Company should remain profitable. Earnings for the period increased strongly with earnings before income tax (EBIT) of \$253 million. An increase of 11 percent in the after tax profit, to \$136.1 million was also recorded.

For many companies those would be results to be proud of, and in Newcrest's case they were good results; but they could have been better, as the late start up of Telfer clearly had a negative impact.

Operationally, we were able to complete the construction and commissioning of the new Cracow mine in Queensland and this is now running smoothly. We continue to remain optimistic that further mineralisation will be identified at Cracow with the potential to improve both the size and the life expectancy of this operation.

In Indonesia, we progressed the exciting discovery at Kencana with gold reserves now estimated at almost a million ounces, and gold resources estimated to be more than two million ounces. Development of that high grade deposit is now well under way and it is expected that it will be producing its first gold before the end of this financial year. The Kencana discovery will sustain our Gosowong operation for a number of years to come. We are maintaining an aggressive exploration program in the area and are quietly confident that further discoveries can be made.

At Cadia Valley the Ridgeway mine continued to perform strongly but the expected slight drop off in grade has started to become evident. By any measure Ridgeway is a great mine, and an impressive technical achievement by the Company's mining engineers, but its very best days of high production at exceptionally low cash costs may be behind it. We have begun work to develop the Ridgeway Deeps, which will extend the existing mining operation deeper into the Ridgeway ore body. This is expected to ensure the viability of the operation for another five to six years extending the mine life to at least 2018.

The adjoining Cadia Hill open pit mine performed according to budget for the year and continued to make a solid contribution to the Company's performance. Further interpretive work on the adjacent Cadia East underground deposit resulted in an initial ore reserve estimate of 6 million ounces of gold and 630,000 tonnes of copper. Work has proceeded during the year to determine how best to develop and bring this deposit into production. It gives us confidence that the Cadia Valley Operations will continue to make a major contribution to the Company's performance for many years to come.

While these achievements have been significant they have, to some extent, been overshadowed by the important and ongoing development of the very large Telfer project in Western Australia.

On a positive note I am very pleased to report that commercial production resumed at this site in February this year. After almost three years in the planning and construction phase, and approaching a billion and a half dollars of capital expenditure, it was gratifying to have Telfer resume its position as one of the Company's key operating sites. On a less positive note the Board was disappointed that we were unable to bring the first phase of the project, the open pit mining operation and treatment plant, into production within the schedule and budget put forward by management and approved by the Board. As I mentioned earlier in my address, the current resources boom in Australia has clearly added to the cost and time necessary to bring such a large development into production. The site was also affected by some unusually severe cyclone related rain events during construction. However it would be wrong to suggest that those were the only causes of the late start up of the operation and the higher than budgeted construction costs.

Even though Telfer is once more producing substantial amounts of gold and copper, and is well on the way to re-establishing itself as one of Australia's major gold mines, much remains to be done before it realises its potential. Since resuming operations earlier this year we have encountered a number of complex metallurgical issues which have impacted on the performance of the concentrator - and ultimately the production and financial performance of the site. Those issues relate primarily to the association of arsenic and cobaltite with the gold, and the amount of coarse gold in the ore. We have been working hard to address those issues and are conducting a number of work programs to improve the performance of the concentrator.

An explanation of those issues, and the work being undertaken to address them, was contained in the Company's last Quarterly Report to the ASX, which was released on 19 October.

Current estimates are that resolution of these issues should begin to be felt by January 2006 and lead to a strong run up in production, and therefore the financial performance of the site, soon after that. If we can achieve this, full year production of around 800,000 ounces of gold should be possible. We are also working hard to bring the second phase of the project, the underground mine, into production by the fourth quarter of calendar 2006. Only once both the open pit and underground are in full steady state production, and current metallurgical issues resolved, will this project deliver the substantial and enduring benefits that Newcrest requires of it.

Commitments to growth and low cost production have been a feature of the Board's strategy in recent years and will remain so. In the past eight years Newcrest has built and brought into operation no less than five new mining projects. The Cadia Hill open pit mine was commissioned in 1998, the Gosowong open pit mine was commissioned in 1999, the Ridgeway underground mine was commissioned in 2001, the Cracow underground mine was commissioned in 2004 and the Telfer open pit operation was commissioned in February 2005.

The successful implementation of this growth strategy has delivered benefits to all shareholders with the Company's market capitalisation during that period rising from a few hundred million dollars to, around 6 billion dollars now. During that same period the Company's mineral inventory has increased from 20 million ounces to 61 million ounces of gold and from 1.4 million tonnes to 4.9 million tonnes of copper.

The Company now has a more stable and diversified base and is placed firmly amongst the world's leading gold producers.

The aggressive pursuit of new growth opportunities will continue - the Telfer and Kencana underground mines are expected to come into production in calendar 2006. As I have indicated earlier we are also planning for the development of new mines at Ridgeway Deeps, and Cadia East.

The Company's growth rate has made heavy demands on capital, and substantial borrowings have been made. However revenue from the new developments has enabled significant repayment of debt - for example, the Company's investment in Ridgeway was recovered in just two years. The Company's debt levels, expressed as its debt to equity ratio, have been around 50 percent. This is high, but acceptable, given the Company's growth profile and substantial resource base. But increased capital costs and slower than expected ramp up of revenues at Telfer have resulted in the Company's gearing moving even higher. It is the Board's view that an immediate priority is to bring debt levels down to a more manageable long term level. The strong cash flows which we expect to see generated from our current projects, particularly Telfer, will need to be used primarily to repay debt over the next few years. Only once that has been achieved can dividends be realistically increased from their current modest levels.

What then are the immediate challenges for the Company.

Looking ahead, the most immediate and pressing task is to resolve the current metallurgical issues at Telfer and deliver a strong second half of production. At the same time we must ensure that the Telfer underground is brought into full production by the fourth quarter of calendar 2006. We must also continue to press on with new development projects such as Kencana, Ridgeway Deeps and Cadia East and at the same time work to identify those that are still over the horizon. We have previously reported that we are assessing whether the Company should sell its 22.2 percent interest in the Boddington Joint Venture, and this work will continue.

Beyond that, an active exploration program both in Australia and overseas will be maintained as a means of continuing to grow the Company. Growth by acquisition will be pursued if value can be obtained.

We will also endeavour to protect the intellectual capital and talent that has been built up in Newcrest's management and staff to provide a strong underpinning for the Company's future performance. As I have indicated earlier, this will be a particular challenge whilst the resources boom continues in Australia.

I will now call upon the Company's Managing Director Mr Tony Palmer to talk to you in greater detail about the performance of each of the Company's major operating sites and the continuing evolution of Newcrest as an organisation.

Managing Director's Address

I thought I would spend a bit of time running through a bit more detail on where we are in Exploration, Operations and Projects and then finish up with an overview of where Newcrest is going in terms of organisation development. The vital question of how to attract and retain people to Newcrest has become even more important than usual because of the resources boom that Ian referred to in his address so I'll take this chance to give you an idea of how we are attempting to handle the whole issue.

Exploration

In the last year or so, the global gold mining sector has rediscovered exploration after a period of time stretching back to the late nineties when the major gold players all got involved in a consolidation process to grow both their reserve base and annual production and, as a result, really turned their backs on exploration for a time.

This consolidation produced half a dozen major gold companies that now face a real challenge to replace the gold they mine each year, let alone to be in a position to expand their reserve base such that production growth would be possible.

The upshot of all this has been the recent increased emphasis on exploration. Thus the Newcrest exploration team is finding the competition for ground is hotting up because junior explorers and prospectors now have much higher expectations for farm in deals than has been the case in the recent past.

But there have been precious few quality discoveries in the gold business notwithstanding this much greater emphasis on exploration in recent times. So we can be very proud of the efforts of the team in Indonesia at Kencana as I believe Kencana has the potential to be a world class deposit.

Over the next twelve months or so we will begin to mine this ore body and we will have the opportunity to intensively drill the potential extensions to the south of the known resources from the decline we are currently developing into Kencana. Gosowong is already a field where well over 3 million pre-mining ounces of very high grade ore has been found and we are hopeful of adding to that number as the work at Kencana unfolds.

This year we have also been successful in adding to the reserves in the Cadia East area and the Cracow field and this has seen our Ore Reserves rise from 28 million ounces last year to 34 million ounces this year – a 20 percent increase over the year.

The Cadia East area is one that has the potential to be in production for decades to come and to supply feed for the existing plant once the Ridgeway and Cadia Hill ore bodies are worked out. The story there will unfold as we continue to develop the underground opening that was commenced this year to gain the necessary access for drilling sites over the next two to three years.

Overall, Newcrest has what is perhaps an 'immature' Mineral Resource inventory with not much more than half of it converted to reserves as of today. I am confident that our ongoing efforts in close spaced drilling and feasibility studies will result in a greater proportion of conversion of Mineral Resources to Ore Reserves into the future.

In addition to this exploration in and around our existing operations, Newcrest continues its green field programme in Australia and in both North and South America. In the years since Newcrest was formed, the exploration team has spent in excess of AUD 600 and discovered over 50 million ounces of gold in the resource category which computes to an average of about AUD 13 an ounce. Our team has a modus operandi which sees them drill holes both early and deep which is designed to accelerate the ability to decide whether or not a particular property has real potential to turn up an ore body and to walk away if it doesn't. Whilst a lot of good work has been done this past year, we were not able to come up with a new minable position, though we don't expect that success in green fields exploration will come every year.

Operations

When we held the AGM last year, Telfer was on the verge of commencing the commissioning process and it has been a year of intense activity there since that time. We have had a tough time of it thus far at Telfer, with the construction phase running over in both time and money, and then with some commissioning issues that have caused a slower than expected start up.

To start with the construction phase it is a fact that the metallurgical plant took some months longer than we had planned for to reach the stage where it could be commissioned and the reasons for that are many and varied and Ian has mentioned some of them already.

The major impact of the boom in the construction sector of the resource industry has been a real shortage in the necessary skilled labour in every category and put simply, the productivity on the Telfer construction site in 2005 was significantly down on what would be the normally expected standards. Added to this was the real increase in things like the cost of a tonne of fabricated steel during the life of the Telfer project which saw the price of a tonne of steel go from AUD 2900 for the first tonne of steel sent to the job, to about AUD 5900 for the last tonne of steel sent to the job. Overall, the project needed something like 20,000 tonnes of steel so you can see the impact was most significant.

This year, the construction effort on site has been focussed on the establishment of the pyrite plant, the haulage shaft and the necessary underground infrastructure underground. The work on the surface on the pyrite plant and shaft is proceeding in line with the schedule with much improved productivity this year as compared with last year. This is probably because the workforce is much smaller this year, and because we learnt a lot of lessons from our experiences last year. As of today, we are expecting to commence commissioning the pyrite plant by the end of the calendar year, and to be hoisting uncrushed rock through the haulage shaft within a week or two.

Underground, the shortage of experienced mine workers has been a real issue though we remain confident that we can get the underground mine up to its planned 4 million tonnes per annum rate by the end of calendar 2006.

From a commissioning point of view, the metallurgical plant has thrown up some difficulties that have taken time to get on top of. The plant is in fact a copper concentrator which produces a very high gold content copper concentrate though it was planned to recover up to 40 percent of the gold via a gravity concentrator so that part of the gold could be poured into bars for refining in Perth.

First of all, the plant has been producing a copper concentrate that is higher in arsenic than had been expected and whilst we do not expect that the concentrate cannot be sold, we are selling into a market that has a surplus of copper concentrates right now and thus there has been a need to keep the arsenic in the concentrate as low as possible. Unfortunately, it is a fact of nature that the best grade gold in the pit corresponds with the best grade arsenic, and we have been forced to keep away from the best grade gold ore bodies to control the arsenic levels in the concentrate. Once the pyrite plant has been established we will be able to mine the best of the ore from the pit and thus should see much stronger production in the second half of the fiscal year. In the meantime, the lower than planned production in the first half of the current financial year will have a significant effect on the profit after tax as was announced at the September quarter production presentation.

Secondly, the amount of gold won through the gravity circuit was less than 10 percent for the first five or six months of commercial production. This situation has been greatly improved already to about 20 percent or so, and once the pyrite plant is operational, the gold won from gravity will be in line with feasibility expectations at around 40 percent or so. Whilst this underperformance has not led to any significant loss of gold recovered in the plant, it has led to much higher gold in concentrate than was planned. The extra gold is really very coarse gold which has led to difficulties in sampling and we have had to develop new sampling protocols under the guidance of an internationally renowned sampling expert. These new protocols had to be agreed with our Asian Smelter customers to ensure there is no dispute about the amount of gold contained in the concentrate. Once the gold won by gravity is in line with Feasibility expectations, the issue of coarse gold in the concentrate will disappear almost entirely.

Despite the issues of concentrate quality and of coarse gold in the concentrate, the metallurgical plant is settling down very well with availabilities in line with the plan, and with the rest of the plant being very much fit for the purpose. Like any new plant that is being operated by new teams, there is the very real opportunity to lower costs over time and our team is focussed on developing a continuous improvement mentality.

Elsewhere in the operations, the Cadia Hill open pit had a much better year as I predicted at this meeting last year with the open pit fleet maintenance issues largely overcome. In fact, as the pit gets deeper and with the cut back of the north wall now largely complete, there is a drop off in the number of trucks required and we are planning to drop from 28 trucks to 20 by Christmas time. In fact, some trucks have already been decommissioned and sent off to Telfer which has avoided the need to purchase new trucks for Telfer as had been provided for in the Telfer feasibility study.

Ridgeway had another excellent year with the highlight being a decision to go owner mining starting in April of this year. Its early days yet, but we have seen a pleasing drop in the cost per tonne of mining and in fact the cost per tonne of ore mined at Ridgeway compares very favourably with the costs associated with an open cut operation. In addition, the new team has embraced our drive to further improve our safety record and we have seen better and better results on the safety front. I always hesitate to talk about safety results – I guess I am a bit superstitious – but the results being achieved at Ridgeway are very gratifying.

At both Cadia and Ridgeway, there have been real and material increases in the recovery of the gold and copper through the metallurgical treatment plant that have added real value to shareholders, and these have come about because of some innovative thinking from our team of metallurgists.

The Cracow project has been successfully constructed within the capital estimate, and the commissioning of the plant has gone off most satisfactorily. The ore won from stoping underground will continue to build up as the stoping areas are made available by the ongoing decline development. The recent drilling results from the Kilkenny structure is offering some real hope that there will be an Ore Reserve established there in time and this will offer the opportunity to increase the life of the mine.

The Gosowong operation has been busy mining the Toguraci open pit which I reported last year had just commenced mining. The Toguraci ore body has performed in line with expectations and will continue to fill the metallurgical plant for the bulk of the current financial year by which time we should be seeing the first of the ore from the underground operation at Kencana.

The company's team on site at Gosowong continue to work with the local villagers to make sure our community development money is wisely spent and in accordance with the wishes of the local people. The Kencana ore body offers the opportunity for the Gosowong mine to last for much longer than was initially thought so our relationships with the local villagers will continue to be of paramount importance.

All of our sites continue to work very hard at keeping their rehabilitation efforts at the very least in line with our statutory obligations. Newcrest, in line with the vast majority of mining companies these days, is very proud of its efforts on the environment front, and the people involved at each mine are in regular contact with each other to make sure they embrace best practice in all that they do. The Newcrest Sustainability Report has been posted on the Newcrest web site and I urge you all to take some time to have a look at it. This report will be updated in a couple of months from now so that is something to keep an eye out for.

People

I mentioned earlier that one of the effects of the resource boom has been to create a real shortage of people that have any experience in the mining industry. I recently had some work done on the make up of the Newcrest team and discovered that 41 percent of Newcrest people have been with the company for less than *one* year and that the average length of service with Newcrest is only 2.5 years.

We are also suffering a turnover of about 20 percent per annum and that is way higher than is ideal so there is a real opportunity to save money and improve productivity across the board by reducing these turnover figures over time.

We have been forced to give higher than usual pay increases to our mining people, and to try and make our rosters at the mine sites more user friendly simply to keep up with the trends at other mines in the country because if we don't we will just not get the people we need to run our business. So attraction and retention of people is high on the list of things that we must address to achieve our aims.

On a more positive note, we have been rolling out a leadership programme to all of our leaders that has as its foundation a set of values that came out of a workshop that some of our people attended. The values agreed are that:

1. We act with honesty and integrity
2. We seek high performance in ourselves and others
3. We work together
4. We value innovation and problem solving
5. We care about people

I believe that over time, Newcrest will become a better place to work as more and more people embrace these five values; that our productivity will go up and that our safety performance will continue on its current strong improvement.

There is lots of evidence that this is already happening with the real improvements in Metallurgical performance at the Cadia Valley and the continued good work underground at Ridgeway I mentioned and with the excellent work that is going into *Target Zero* which is the name of our OH & S project and which is designed to get us to be up with the world's best over time.

I have been most gratified at the efforts of a whole host of our people this past year who have achieved a great deal at all of our sites. Starting up new mines is always a challenge and this past year has seen Newcrest commissioning two new mines – being Telfer and Cracow. In addition, we have introduced owner mining at Ridgeway and ventured underground at Kencana whereas all previous Gosowong operations had been based on open cuts. That is a lot of change to face in a year – let alone in a year where there is fierce competition for people, and our team has done a sterling job and I would like to take this opportunity to thank them one and all.

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