



# Market Release

## Newcrest Mining Limited

26 October 2006

## Chairman's Address to 2006 Annual General Meeting

The 2005-06 year was marked by a number of significant achievements, and some on-going difficulties, for Newcrest. The Company continued its key focus on growth through exploration, while at the same time maintaining a strong emphasis on delivery of development projects and consolidation of its mining operations.

Before reporting on the achievements and difficulties of the year, and the outlook for the year ahead, I would like to present a broad strategic overview of the Company's progress over the last ten years. I will also look at some sector wide issues that have been relevant to the Company's performance during the year in review.

Ten years ago construction of the Cadia Hill open pit gold mine began. It was a significant event as it marked a turning point in the Company's history. Over the next few years, all of the Company's then existing mining operations were progressively sold or closed down and a portfolio of new mines – those that the Company operates today - was developed.

When the Company was formed in the early 1990's it acquired a number of mining operations and mining prospects from its founding shareholders, BHP Gold and Newmont Australia. It also acquired the gold exploration activities – and the exploration people – of those two companies.

At that time the Company's mining operations were relatively mature and high cost. It was inevitable that they would become even less competitive over time. Although some early M and A activities were undertaken, it was also clear that exploration offered the best prospects for Newcrest to grow.

When the current Board came into office in 1998 it set the Company on an even more aggressive strategy of growth through exploration and development. Earlier discoveries such as Ridgeway and Gosowong were brought into production quickly, and efficiently. It was determined that the Company needed to position itself as a low cost gold producer, on a sustainable basis. In an industry sector where rationalisation was gathering pace it was clear that the Company needed to rapidly rebuild its production base, its costs competitiveness and its inventory of resources and reserves.

At a time when many mining companies, including some of the world's leading resource houses, were moving away from exploration as a means of growth -preferring instead to buy growth opportunities as required and often at inflated prices - the Newcrest Board made a deliberate decision to leverage off the technical know how and human capability that the Company had built up, particularly in its exploration group. The premise was that for Newcrest successful exploration would provide the most cost effective growth. That decision and the recurrent funding that has been provided has been vindicated with more than 65 million ounces of gold and 5 million tonnes of copper metal discovered by Newcrest since its formation in 1990. Importantly, these discoveries have resulted in the identification of significant gold districts, not just individual deposits.

As I indicated in the Company's 2006 Annual Report, that record marks Newcrest as one of the most successful gold explorers of recent times, far outstripping the world's major producers in the identification of new gold deposits. That success has provided it with a gold inventory that is second in size only to a few international gold producers, and a substantial copper inventory. Most importantly, in keeping with the strategy of pursuing quality not just quantity in its metal inventory, those deposits have enabled the Company to position itself at the lower end of the world's cost curve.

As each new discovery was identified priority was given to bringing that deposit into production at the earliest opportunity. The rate at which new developments were brought on, Cadia Hill in 1998, Gosowong in 1999, Ridgeway in 2001, Toguraci and Cracow in 2004, Telfer in 2005 and most recently Kencana in June this year placed a heavy financial burden on the Company.

The development costs, which approached \$3 billion over that time, could not be funded through the Company's operating cash flows, nor realistically from existing shareholders.

With the anticipated short payback of those new operations the decision was made to fund the new developments through debt. This required the creation of a large hedgebook, to lock in the price to be received from the Company's future gold and copper production, thereby ensuring that the Company's debt repayment obligations could be met.

The external environment in which Newcrest operated during the 2005/06 period had a direct bearing on the Company's performance. In particular the resources sector in Australia continues to suffer an acute shortage of technically skilled operators and managers. The Company has had to compete directly, in terms of remuneration, and innovatively in terms of career and personal development, to retain the skill base that it has built up, and to attract new people to the growing number of Newcrest mines.

At the same time input costs have remained under pressure at the Company's construction sites and at its operating mines. Management has worked hard to maintain the Company's costs competitiveness in the face of those upward cost pressures by introducing margin improvement programs and driving cost improvements wherever possible.

On a positive note, gold rose to a new level in US dollar and Australian dollar terms and the price of copper is at an all time high. This is reflected in the value of the Company's metal inventory and its share price.

Global gold production continues to outstrip the rate at which new discoveries are being made. For many producers current levels of production are not sustainable unless the rate of discoveries can be dramatically increased. Internationally the industry continues to rationalise with a handful of major producers dominating the sector. The effect of this continuing rationalisation is that competition for growth opportunities is as vigorous as it has ever been, placing ever greater importance on the value generated by Newcrest's long term exploration strategy.

I mentioned at the outset that the 2005/06 year had been marked by a number of significant achievements for the Company. The new Telfer open pit mining operation completed its first full year of production. Although the total number of ounces produced was lower than expected, the mechanical operation of the mining fleet and process plant has moved into a more steady state. This is enabling management to focus on remaining metallurgical and mining issues. Construction of Telfer's new underground mine was completed during the year and production commenced. This is now ramping up and should achieve nameplate capacity by March 2007. At Gosowong mining of the Toguraci pit was nearing completion and the exciting new Kencana underground mine was brought into production. Group gold production increased by more than 30% to approximately 1.5 million ounces and copper production exceeded 100,000 tonnes for the full year.

Newcrest's pipeline of projects continued to grow. In particular the Ridgeway Deeps feasibility study is now well underway and the Cadia East pre-feasibility study has commenced. These two new projects, when built, will carry the Cadia Valley operations through to the end of the next decade.

During the year Newcrest sold its stake in the Boddington Joint Venture, in which is held only a minority interest, so that it could focus on the more attractive Company owned or majority owned projects. The proceeds of the sale resulted in a full year profit after tax of almost \$350 million dollars and an operating profit of \$131 million. The sale proceeds were used to reduce the Company's debt levels.

During the year a number of key management and Board changes occurred. The Company was fortunate to secure the services of Ian Smith as its new Managing Director and Chief Executive Officer. Ian has a broad background in the mining sector. He is undertaking a review of all aspects of the Company's operations and management systems and I am confident will lead the Company well on its continuing growth profile.

In September this year Mr Ian Renard, who had been a Director of the Company since 1998, retired so that he could focus on his other commitments. Ian chaired Newcrest's Audit Committee for almost eight years and made a substantial contribution to the Company during his time as a Director.

Mr Don Mercer has been nominated, and has agreed to take on the role of Chairman of the Board upon his election by shareholders later in this meeting. These changes will, I am sure, herald a new era for the Company.

The achievements of the year were delivered against a backdrop of a number of ongoing difficulties. Metallurgical and mining issues at the Telfer open pit operation resulted in lower than anticipated gold and copper production, and increased costs. A great deal of work has been done to improve the performance of the Telfer site. I am confident that performance of this operation will progressively improve and it will take its place as a major profit centre.

The resources boom has resulted in continuing upward cost pressures at all of the Company's operations.

The shortage of technical and mining skills has remained an issue throughout the year and is expected to do so for some time. The Company has boosted its training and development programs and its graduate intakes and is working hard to retain its existing people.

Because of the lower than anticipated gold production from the Telfer operation, only 33,000 ounces was able to be sold onto the spot market after meeting hedgebook commitments. With an average price of gold delivered under Newcrest's hedgebook of \$564 per ounce the Company has not been able to participate in current higher commodity prices and this has had a substantial impact on the full year profit result. The copper hedgebook also limited the Company's ability to participate in higher copper prices. This situation will progressively improve as the number of ounces of gold sold forward in each year decreases and total forecast annual production increases. The remaining copper hedging accounts for less than one half of this year's anticipated production and will have been fully delivered by year end. The Company's market capitalisation is now above \$7 billion and further hedging will not be required to finance new developments.

The outlook for the Company in 2007 and beyond remains strong. The commitment to exploration is ongoing and further discoveries should be made. At current production levels the Company holds in excess of 20 years of production in reserves and more than 30 years in resources – a position unmatched by any other major gold producer.

Cadia Valley operations are proceeding well and the next phase of growth for this district is already underway. At Gosowong the Kencana mine and continuing exploration success will make this an important contributor to the Company for a number of years to come.

Cracow, although relatively small, has the potential to develop into a significant new gold producing district for the Company. At Telfer, the ramping up of the underground mine will make a substantial improvement to overall gold and copper production. Further work will improve the understanding of the supergene ore which is being mined from the open pit during the next eighteen months and should enable further improvements to be made to open pit production.

The effects of the hedgebook will progressively diminish enabling the Company to participate more in spot commodity prices and maximise the effect of its low cost of production. Reduction of debt will also remain a priority.

The extraordinary growth that the Company has enjoyed over the last ten years and the creation of a portfolio of new mines has re-positioned the Company within the Australian gold sector, and internationally. Newcrest is now poised for its next stage of growth. The hedge commitments and the debt used to fund that growth will be largely worked through in the next two to three years. This provides shareholders with a Company very competitively positioned and with a strong capacity to grow even further in the gold and copper industries.

I will now ask the Managing Director, Mr Ian Smith, to report in more detail on the Company's main operations.

*For further information, please contact:*

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