

NEWCREST



Market Release

29 October 2003

Chairman's and Managing Director's Address to 2003 Annual General Meeting

Chairman's Address

The 2002/03 year was a successful one for Newcrest, and I am pleased to say another positive year for shareholders.

Significant achievements included:

- The Ridgeway mine settled down to a steady rhythm of production, establishing itself as one of Australia's best gold mines.
- Realisation of the potential of Telfer advanced, with construction of one of Australia's largest new mining projects now well underway.
- There was a marked improvement in the Company's financial performance and a strong improvement in underlying profitability.
- The exploration team continued its outstanding rate of success.
- Momentum was maintained in making Newcrest one of the world's most efficient and low cost producers of gold and copper.

As stated in the Annual Report, 2002/03 was a year of "Moving Forward" and Tony Palmer will shortly speak to you in detail about these achievements.

Before explaining what your Board sees as the path ahead for Newcrest let me speak to you for a moment about the past.

Historically, mining companies have enjoyed price/earnings ratios which were roughly twice the norm of other companies; the market recognized that mining companies could quickly and substantially increase their value through successful exploration.

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A J Palmer
Managing Director and
Chief Executive Officer



What stockmarkets did not realise was that most companies actually found nothing: for them exploration was a high re-current cost with little or no significant return on that investment. This realisation became widespread during the 1990's when most mining companies began to wind back their exploration efforts.

Either coincidentally, or as a result of that change, the market in Australia began to revalue mining stocks based on actual and prospective returns to shareholders. Today they are assigned price/earnings ratios similar to the market average.

This sensible re-calibration has not yet occurred elsewhere, especially in North America. In my view this is not sustainable and the more realistic valuation being placed on mining companies by the Australian market will eventually be adopted globally.

Newcrest has maintained its exploration effort and discovery rate but the widespread decline in exploration by mining companies in the past decade has caused many of them to turn to mergers and acquisitions for their growth. As the M & A market became crowded, takeover premiums have risen and the more active acquirers now include billions of dollars of goodwill in their assets.

Newcrest has not participated in this M & A activity because as a successful explorer organic growth is much more efficient. During the past decade Newcrest's discovery cost has been approximately A\$15 per resource ounce, whereas recent M & A activity has taken place at a multiple many times that number.

As M & A premiums have risen some companies are necessarily returning to exploration for growth opportunities. But the exploration tap cannot just be turned on and off: as for most endeavours requiring a great deal of thought and knowledge, successful exploration demands a sustained commitment. This has been no more evident than at Newcrest where the consistent exploration effort has provided the Company's entire resource inventory of gold and copper. Your Board believes this is unique among the world's major gold companies and intends to persist with this strategy.

The price of the gold and copper is determined elsewhere. Newcrest is a price taker and cost reduction is the major variable to improve economic performance. In recent years your Board has rigorously followed a strategy to make Newcrest one of the world's lowest cost producers of gold and copper. In the 2002/03 year (NAGIS) costs were reduced yet again, from \$253 per ounce to \$217 per ounce. This is the seventh year in a row of cost reduction and places Newcrest firmly in the lowest quartile of world producers.

The lowering of costs through greater efficiency will continue. It is worthy of note that during this period of cost reduction, employee numbers at Newcrest have increased.

Consistent with this strategy, increases in production are only sought if they are at low cost. In the year in review Ridgeway's production of ore lifted from 4 mtpa to 5 mtpa, the group's gold production increased by 11%, and costs decreased.

When the first stage of the new Telfer project is commissioned in mid 2004 the substantial increase in gold and copper production will be at low cost.

Cadia Valley and Telfer are now established as major goldfields and together will provide a strong platform of production, at competitive costs, for at least the next ten years or more.

As well as the new development at Telfer, the smaller deposits at Toguraci near Gosowong in Indonesia and at Cracow in Queensland are planned to be brought into production in the next two years. These operations will make meaningful contributions to overall production levels and financial performance because of their higher grades.

As each of the new operations is brought into production your Board anticipates a marked step up in the Company's financial results. Profit, and therefore dividends, for 2003/04 are expected to be at similar levels to 2002/03. A significant contribution from Telfer in 2004/05 will substantially improve profits, an improvement that will be sustained.

In March this year the Board approved borrowings of \$575 million and more recently



the leasing of mobile and power station equipment for Telfer. This creates a debt to equity ratio of 1 to 1 which is high but manageable given forecast cash flows.

Demands on future cashflows will include debt reduction, capital for new mine developments and dividend payments. It is not possible now to anticipate the level of distribution beyond the 2003/04 year. If Telfer meets forecast, Cadia Valley Operations maintain their current performance and Cracow commences as planned, debt repayments will be comfortably met and significant funds will be available to be returned to shareholders through dividends and the capital appreciation that accompanies the development of new mines. Any revenue from Toguraci will provide further comfort.

Further, the Board sees no need and has no intention currently to raise additional funds either by way of debt or equity. If Telfer is able to be completed ahead of schedule, funding arrangements are robust enough to accommodate that possibility.

The other important element of the funding arrangements is to have in place the right hedging strategy to ensure that, even in times of low commodity prices, the Company has sufficient funds to carry out its plans.

During the 1990s, Newcrest hedged most or all of its production. The gold contango was high, Newcrest was a high cost producer and hedging was at times the major contributor to profit.

In recent years the situation has changed; the gold contango has declined and Newcrest has become a low cost producer.

The policy now is to use hedging to underwrite major capital expenditures such as construction at Telfer, to take advantage of the contango if opportunities arise, and to do this with simple instruments such as vanilla forwards or puts. An increasing amount of the Company's production will be exposed to the spot gold price.

The results that Newcrest is now beginning to deliver have been generated from the strategy that the Board has followed, and from the dedication, hard work and expertise of the

people of Newcrest in carrying out that strategy.

Newcrest has now developed, in its people and management, the skills to find, build and operate new mines equal to or better than any other major gold company in the world. We intend to maintain that position.

At last year's AGM I outlined the Company's direction for the following three years; namely to consolidate Cadia Valley and Telfer as key production areas, to lift annual production to somewhere between 1.5 and 2 million ounces, to lower costs and increase margins, and to introduce one or two smaller high grade operations. We have made substantial progress during the last year in achieving that objective. I have every confidence that at next year's AGM the Board shall be able to report on another year of growth and achievement by the people of Newcrest.

I shall now ask Tony Palmer to speak to you in more detail regarding the Company's achievements. After he has done that I shall resume the formal business of the meeting.

Managing Director's Address

I am grateful to have this opportunity to speak to the AGM about some of the work your management team has done in the last year, because some of that work has and will add value to the company in a significant way.

Financial Results

The financial performance of the Company is well documented in the Annual Report. The profit after tax for the year was \$92.2 million and was a pleasing result especially when compared to a loss of \$53 million in the previous year. Both years are affected by accounting adjustments relating to financial instruments and when these exchange rate and hedge accounting adjustments are ignored, the underlying profit from operations tripled to \$66.3 million compared to \$20.9 million last year. Cash flow from operations for the past year increased by 108.7 million to \$199 million.

The improved profit and cash flow results from operations reflect the emergence of the Ridgeway mine and I will talk some more



about that in a moment or two. The Cadia Valley Operations should consolidate Company profits at last year's higher levels well into the future and when Telfer is commissioned it will have a significant add-on effect on to profits in 2004/05 and beyond.

I draw your attention to the graph shown behind me that shows that our cash cost of production has been falling now for 7 years in a row and has now reached levels just less than half what it was in 1997. This cash cost puts Newcrest among the most efficient gold miners in the world and is a vindication of the strategies our Chairman spoke of earlier.

Over the next few years strict management of cash is particularly critical to the successful completion of Telfer. Cash flows are being closely monitored and all parts of the Company are contributing to this effort. As part of this process, steps were taken to provide a more predictable revenue outcome from the hedge book for the 2003/04 year. We are continuing to seek other opportunities to simplify the balance of the existing hedge book where market conditions permit. Any restructuring will conform to the new Board hedging policy, which is to protect the recovery of significant capital investment. In doing so, the Company will hedge no more than 80% of expected production in any one year and, of this, no more than 50% will be in the form of committed forward sales. The balance would be in the form of purchased put options leaving the Company more than 50% exposed to upside in the gold price. In the absence of significant capital recovery, it would be expected that hedging would fall to very modest levels.

In accordance with the new Board policy, an additional 2.8 million ounces of hedging has been undertaken to ensure the Company's capacity to repay debt and return shareholders funds invested in the Telfer project even if gold prices fall to bottom of cycle levels. This Telfer hedging has been undertaken in the form of simple forward sales and does not exceed 50% of expected production over the first 5 years of Telfer production, though the pre-existing hedgebook does have some commitments in excess of the 50% level.

Even with the inclusion of Telfer hedging, only 27% of the Company's current reserves are hedged.

Ridgeway

It is now over 40 years since I first joined a mining company as a cadet mining engineer in Broken Hill and, in that time, I have been associated with a great number of mines both underground and open cut.

But I think that Ridgeway is possibly the most successful mine that I have first hand experience with. So perhaps I should spend a moment or two explaining why that is the case.

The obvious answer would be to simply look at the financial results of the Ridgeway mine. Last year, if we assume that the gold was sold at the average spot price for the year of AUD 572 per ounce, and we remember that the mine produced 377500 ounces of gold at a cash cost of A\$85 per ounce, then it can be seen that the mine produced a cash flow of almost A\$185 million. When it is considered that the total capital spent on the mine, including the initial exploration, was A\$380 million the financial returns on the investment are obviously outstanding.

However, I wanted to look behind that financial story and to tell you a bit about what makes Ridgeway special from a technical point of view.

At today's spot prices for Au and Cu, every tonne of the ore in the current years budget at Ridgeway contains gold and copper worth about \$79. The metallurgical performance of the plant at Ridgeway only recovers about 90% of that value, and of course, the copper concentrates have to be shipped to Asia for smelting and that means we only effectively get about two thirds of the value of the copper once the smelting and refining charges are paid.

At the end of all this, Newcrest is therefore theoretically will be paid only \$63 for the metal it sells from Ridgeway production. It isn't so long ago that underground mining methods simply would have meant that an underground mine at Ridgeway simply wasn't viable economically. Modern methods such as the SLC method applied at Ridgeway mean



that the mining costs there are now roughly equivalent to those of an open cut mine with a strip ratio of about 5 to 1 – and in gold mining terms, such strip ratios are quite common.

This has enormous implications for our exploration team as it means that ore bodies that do not out crop can be mined quite effectively if large scale underground methods can be applied. I am sure that resource companies in the future will be faced with challenge of mining large and low grade deep mines if the world's appetite for minerals is to be satisfied, so it is particularly gratifying that Newcrest is showing itself capable of this at its new mine at Ridgeway.

Through the past year, our exploration efforts have given us a strong indication that Ridgeway has the potential to stay in production for quite a lot longer than the initially planned 8 to 10 years, so Newcrest has much to look forward to at Ridgeway.

Cadia

The Cadia Hill open pit is the first of the new age Newcrest mines that has been developed in the past few years. If we reflect back on the FS for Cadia, last year and this current year were always understood to be years when the grade mined would be less than the average. This goes a long way to explaining why the costs at Cadia have been on the increase recently but it does not recognize the effort the management team is putting in to reduce the cost per tonne. Every element of the cost structure has been studied to see where possible savings could be made. The list has been prioritized and the team at Cadia has been successful in making some really worthwhile improvements.

This effort is important not only to help overcome the poorer grade we are currently seeing. We need to remember that at Telfer it is planned to mine over 2 billion tonnes of rock from the open cut, and so any lessons we can learn from our open pit at Cadia can be transferred to Telfer with enormous effect. Cadia Hill will never be the cheapest gold that Newcrest makes, but Cadia Hill led onto the discovery of Ridgeway, and it is the combination of these two mines that has made the development of Telfer possible without the need to look for a JV partner to share the cost.

Cracow

The JV at Cracow has commenced the development of the smallish but high grade veins of gold ore that our exploration team has discovered over the past year or two. Whilst the ore bodies at Cracow do not lend themselves to highly productive methods such as we are using at Ridgeway, the good grade and the fact that there is an existing plant available will mean very profitable gold can be won.

It is planned to actually start the underground opening within a few months now and we expect to see the ore body underground for the first time in a bout a year from now. In the meantime, our exploration team will continue to search for more ore bodies in the area in the hope that significant increases in the ore reserve can be achieved.

Toguraci

On Monday this week the Company announced that our pre strip activities at Toguraci have been temporarily interrupted because of unauthorized mining by some local people.

Toguraci is not the first gold mine to have suffered from this issue and the others have all been satisfactorily resolved with time and a bit of patience. Our local management team has acted in accord with its long standing security plan and has moved to ensure the security of our people and our assets at the Gosowong treatment plant site. Shareholders will recall that the capital spent on the metallurgical plant was written down to zero as the open pit mine at Gosowong was mined.

Newcrest first faced difficult local issues at the time of construction of the Gosowong plant, and with patience and understanding together with not inconsiderable courage, our team was able to successfully complete the construction and commissioning stage.

This latest set back has come after quite a long permitting effort and we are hopeful that the delay will not be a long one.

Exploration

As Ian Johnson has mentioned, any success that has come Newcrest's way has started from our exploration team, so it is good to report



that the team has had another very successful year.

Perhaps the highlight has been the discovery of the Kencana ore body just south of Gosowong and to the east of Toguraci. The quality of the drilling results there would seem to indicate that our team there will be able to get straight onto the Mining of Kencana just as soon as the Toguraci ore body is worked out. We still cannot be certain of just how much gold is in the ground at Kencana, as we have not been able to identify the bottom or the lateral extent of the mineralisation there at this time.

The Kencana result is exciting not only because of the quality of results there, but also because of the effect it has had on the exploration potential of the COW we have at Gosowong.

We now believe that we have many more tonnes of ore underneath the Ridgeway ore body than was originally the case when the board committed to the development of that mine. This can only improve the ROCE as time goes on and I can still say that we do not know where the ore body bottoms out.

In addition to the success at Ridgeway deeps, the area to the east of the Cadia Hill open pit continues to return good exploration success and over the next 2 to 3 years, I am hopeful of converting a lot of that success into hard reserves that we can plan to mine in the years ahead.

Another success for our exploration team has been the unfolding story underground at Telfer, but I will leave that to Bruce Price to tell you about in a moment or two.

All of the exploration success I have mentioned thus far is what we call brown fields exploration success – that is exploration done in the shadow of the head frame. And this exploration is extremely important because it presents the opportunity to extend the life of our mines in a way that should add to the return on capital over time. I say this because any new ore body in, say, the Cadia valley will be able to tap into the almost \$1 billion of infrastructure already invested in the area.

But equally important for the company's future well being and growth prospects is the effort we make on green fields exploration. Over the past 10 years, Newcrest has spent in excess of \$600 million on exploration and found over 50 million ounces of resources as a result. The arithmetic tells us that the average cost of each resource ounce is about \$13 and that is a very competitive figure.

Greenfields exploration will turn up opportunities for us to develop new mines in a 5 to 10 year time span. We need to be patient and to understand that even when a new ore body has been found, there are studies to be done and permits to be arranged and it all takes time. One thing is certain, however, and that is that if we do not do our green fields exploration, then we have no chance of developing a new ore body in that time span.

The Newcrest Exploration team is active in places like the Ashburton area in WA, and Nevada in the US of A and in both places, we have excellent people looking at highly prospective ground. Both areas have favourable attitudes to mining and this is very important.

Sustainability

No account of the last year's activities would be complete without reference to the fatal accident that happened on the pastoral leases we control at Cadia.

Damian Pusterla was electrocuted whilst working to remove a shed from the paddock that is affected by the subsidence caused by the Ridgeway mine. Damian's death came as a terrible blow to us all, and we can only hope that his wife, Julie, and her young family Lauren, Brendan and Lilly have been able to find some peace at this tragic time.

Our management team has strengthened its resolve to make the Newcrest work place as safe as it can be, and we are embarking on a major new initiative to try and eliminate lost time incidents from our work place altogether. It is a challenge we will not shirk from.

At Newcrest we are proud of our environmental performance. In the last five years we have gained regulatory approval for seven projects. That is an enviable record. It



has only been possible because of the high standards of environmental performance demonstrated by our operating sites. Along the way we have built long-term and lasting relationships with our regulators and local communities, relationships which we believe will grow and prosper with us.

However, it is not enough to have a good environmental performance; we need to make sure that our key stakeholders know about it. Last year we produced our first Sustainability Report. This report highlighted our social, environmental and economic performance. People often forget the third element of sustainability; economics. A financially sound and profitable company is essential in meeting our longer-term environmental and social goals. This year we will produce our second Sustainability Report and we will continue to develop it to ensure that our stakeholders understand our commitment to environmental stewardship and social responsibility.

We are proud of our environmental reputation. It is important to us and to many of our stakeholders and we will continue to enhance it in the coming years.

Telfer

Telfer is one of the great undeveloped gold reserves in the world with published reserves of over 18 million ounces as it stands today. But none of us think that we know the full story about Telfer's ore reserves yet, and I look forward to the on going success of our exploration team in and around the Telfer mine in the years ahead.

Newcrest is really the only major gold company with a growth story, and we should be very proud of the fact that the growth is based on new ore bodies that our own geologists have found. When Telfer is commissioned next year, it will transform Newcrest, over doubling the current gold production, and so it is enormously important to the company. Bruce Price has been instrumental in successfully building the mines at Ridgeway and Gosowong and is now totally involved with the Telfer development.
