

## **LGL Scheme Meeting – 23 August 2010**

### **Chairman's Address, Dr Ross Garnaut**

#### **Outline of Proposal**

As you all will be aware, we are here today to consider the proposed merger of LGL with Australian gold miner Newcrest Mining Ltd, through a scheme of arrangement that was announced on May 4.

Your directors are unanimously of the view that this is a good deal for LGL shareholders and we wholeheartedly recommend the transaction, which values LGL at over A\$10 billion.

Under the Newcrest proposal, LGL shareholders will receive one Newcrest share for every 8.43 LGL shares they own, plus 22.5 Australian cents cash per share.

Based on Newcrest's closing share price on May 3, the offer is equivalent to \$4.03 per LGL share.

That represents a 33% premium to LGL's closing share price on 31 March 2010, the last trading day prior to LGL announcing it had rejected a proposal from Newcrest.

Based on Newcrest's closing price of A\$35.78 on Friday, the offer is equivalent to \$4.47 per LGL share, which represents a premium of 47% over the closing price on March 31.

So the offer clearly provides an attractive premium for our shareholders.

As you will know, your Board agreed to the offer after extensive deliberations with Newcrest, and after they had increased their offer twice. We also only agreed to the transaction on the basis that we could complete a process of testing the market by making information available to others who would be free to make an alternative bid up to the time of shareholders' acceptance of the Newcrest offer.

This process ensured that our shareholders received the highest possible price.

We completed the process of providing information to potential bidders in June. I can confirm that we had serious interest from alternative buyers who visited the operations and

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were provided extensive information on the company. In the final event, none made a formal alternative offer.

When we announced the merger agreement on May 4, there was uncertainty about Australian taxation arrangements that had the potential to affect the value of Newcrest's shares and therefore of the offer. Since then, the Australian government has announced changes that make it clear that any additional Commonwealth resources taxes arising out of that episode will not apply to Newcrest.

That is good news for LGL shareholders as it removes a risk to the value of the Newcrest offer.

Your Board today is confident that the proposal being put before shareholders is the best available offer for the company, and we unanimously support the transaction.

The merger will create a A\$25 billion company, with a portfolio of high quality, long-life, tier one gold assets.

### **The combined group**

Combining Newcrest and LGL brings together a portfolio of complementary operating and development projects. Newcrest already holds significant assets in PNG, and in Queensland, that sit well with LGL's operations in PNG and Queensland. The combined portfolio will include:

- Three large, low-cost, long-life producing assets still with upside potential (Cadia, Lihir Island & Telfer)
- Five shorter life, high margin mines (Gosowong, Bonikro, Hidden Valley, Mt Rawdon, Cracow)
- Significant brownfield growth potential (Gosowong, Bonikro, Hidden Valley)
- Two large established resource growth options (Wafi-Golpu, Namosi)
- Significant greenfield growth potential in Cote D'Ivoire
- Complementary mix of pure gold and gold-copper assets
- First quartile cash costs
- Room to develop Newcrest's resources with high copper content, such as at Wafi/Golpu, without losing its gold premium.

As I said at the AGM earlier this year, we always recognized the logic of the combination with Newcrest.

As an independent company we had made great progress in recent times. The Lihir mine was technically challenging, and its successful establishment in the early years of Rio Tinto management was a considerable technical achievement. Value to shareholders has

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increased considerably since 2005, when we introduced independent management to the company and embarked on a major program of restructuring and expansion.

In the period since the AGM last year, we have announced a fourth consecutive year of record production, with output of 1.13 million ounces in 2009 from three operating mines. In the first six months of this year, we produced 474,000 ounces, and we are on track to achieve full year production of more than 1 million ounces again.

That compares with 600,000 ounces in 2005.

So we were confident that LGL was positioned for a great future.

However, through joining with Newcrest, we can immediately deliver strong returns to our shareholders with certainty, while simultaneously achieving greater diversification, reducing costs and improving our risk profile. Our LGL shareholders can remain exposed to the high potential value of the LGL assets through ownership of Newcrest shares.

For many of our employees, particularly in operations, the merger provides great career opportunities within a large, well established, well run organisation which operates ethically and treats employees fairly and with respect.

For the local communities in which we operate, they can be assured that Newcrest has an excellent track record as a good corporate citizen, committed to delivering on its promises, sharing the benefits of its mining projects equitably, and operating in a way that is sensitive to diverse cultural needs and practices.

### **Positive Legacy**

Mining is one of the bedrocks of the economies within which LGL operates, IN Papua New Guinea, Cote d'Ivoire and Australia. When mining projects are well run - that is safely, profitably, and with properly managed environmental and community impacts – they can produce significant returns for shareholders, can inject major benefits into local communities, and can provide important opportunities for developing countries to improve their economies and societies.

I feel strongly that at LGL, we have established a good track record for managing mining projects, and will leave a genuine positive legacy.

We have had our challenges over the years, since the company was floated in 1995. The gold price environment has not always been favourable – certainly not as favourable as the current US\$1228/oz. (In 1999, the price was close to US\$250/oz. Those were certainly tough times.) We have faced significant technical difficulties associated with mining in the crater of an extinct volcano – difficulties which have been comprehensively overcome. We have had natural disasters to manage like the 2005 landslide which tragically killed two

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people. We have tried to meet community expectations as best we could, as well as the needs of government, employees and shareholders.

At Lihir Island, our project has been a great success and will continue to generate wealth and enhance society in the region for a long time to come.

The Lihir project has played a special role in the development of the Papua New Guinea mining industry and economy. It is the fourth world scale project in modern times. Amongst the three that came before, one project was a tragedy of local community impact; one involved immense environmental problems; one was associated in the early years with large problems of relations with Government. The Lihir project demonstrated that with careful management and close co-operation with communities and governments, large-scale mining in PNG is consistent with exemplary outcomes for relations with communities and governments and for the environment.

This Newcrest commitment of more than \$10 billion, mostly for the Lihir asset, is a large vote of confidence in the PNG investment environment.

Over the years, the Lihir project has involved massive investment in the PNG economy and created thousands of jobs. Since 1997, some K4 billion has been injected into the PNG economy in the form of taxes, royalties and levies and through direct payments to employees and local communities.

In 2009 alone, our total community expenditure covering all operations was US\$44.8 million, with the bulk of that spent here in PNG.

LGL commenced paying taxes to the PNG government this year, having finally moved into a profit position as far as tax accounting is concerned, after suffering many years of tax losses. We expect high profitability will make the Lihir operations the second largest taxpayer in PNG in 2011. We have started paying sustainable dividends to shareholders.

The LGL Board has always adopted responsible environmental management. Our environmental track record has been exemplary. The effects of the project on the local biodiversity are the subject of close and continuous monitoring and careful management. LGL won the Mining Journal Outstanding Achievement Award for Sustainable Development in 2005, in recognition of the reduction in greenhouse gas emissions from development of geothermal power.

At the AGM, I paid tribute to a number of people for their contribution to the project over the years. There are many. They include the former employees and executives of the company whose hard work made it all happen; the many leading members of government who have played such a strong role in supporting the project here in PNG and more recently in Cote d'Ivoire; community leaders who have worked so closely with us over the years to make the Lihir project a success, and to the people of our local communities at

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Lihir Island and at Bonikro in West Africa, who have seen at first hand the value and benefits of the mines we have developed.

Right from the beginning of LGL, Directors and executives have seen the people who live on Lihir Island as full partners in this project. There could and can be no successful Lihir projects unless the people for whom Lihir is home, and their successors through the generations, think well of what has happened at their home.

We have been guided through the years by wise and thoughtful leaders such as Mark Soipang. In that context, we are saddened to learn that the former President of the NRLLG, Clement Dardar, passed away late last week. My condolences to his family and many friends. I thank the leaders and members of the Lihir communities for their co-operation, guidance and friendship.

I have been privileged to have with me an excellent group of directors. They have all worked effectively to ensure that LGL operates with the highest ethical standards, as efficiently as possible, and in the best interests of all our stakeholders. Thanks to Peter Cassidy, Winnie Kamit, Bruce Brook, Alister Maitland and Mike Etheridge for your wise counsel and support, and with particular thanks to Geoff Loudon, who at Niugini Mining was instrumental in the discovery of the deposit at Lihir Island, and who has been with me on the board of the company since it was floated.

I thank you all for the opportunity to work with you over the years, and I wish you all well.

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