

CEO's review



It is an honour and a pleasure for me to report on my first year as CEO of DRD GOLD, a year with its share of challenges, but also a year in which significant strides were made in realising our vision for the company. Undoubtedly the most significant development was the progress we made in terms of shifting our company's operating balance increasingly towards surface retreatment operations, while managing our large underground orebody toward lower risk and smaller footprint but without sacrificing the options traditionally associated with these assets.

This strategy gained impetus at the beginning of the year when financial markets across the world were in turmoil and it became clear South Africa would not be spared. Given these realities, we continued with the approach adopted by my predecessor, John Sayers – a conservative, two-fold approach to risk management of increasing our exposure to surface retreatment operations, and proactively managing the volatility associated with underground mining.

A major step with respect to the first part of the strategy was our acquisition of the remaining 50% of ErgoGold from Mintails SA. This was a valuable acquisition for the group, which will benefit from 100% of the production, revenue and profits from Phase 1. Equally important, it affords us opportunities to explore, develop and, in time, exploit surface retreatment synergies between the Crown and ErgoGold operations. A further benefit is the contractual right which Crown has secured from Ergo Mining to deposit its entire tailings flow on to the Brakpan and Withok tailings facilities. This has the potential to extend the life of Crown by several years.

Following this acquisition, we made an offer to purchase the remainder of the South African surface assets of Mintails SA but this was rejected.

The year brought us a number of operational challenges. At ERPM, the combination of safety concerns and operational risk prompted us to close the underground mine. We also felt the brunt of a new approach by the Department of Minerals and Energy (now the Department of Mineral Resources) to suspend entire operations in the event of serious or fatal accidents at our Blyvoor underground operation due to fatalities in the first half of the year. While we hold the view that suspensions due to unsafe standards are entirely justifiable, suspensions due to unsafe conduct deserve a more site-specific approach. We also believe that the best way to avoid an unsafe 'leg-before-wicket' ruling, is to get 'bat on ball', hence our focus on safety practice and standards has been without compromise.

Blyvoor is still working its way through the loss of high-grade panels during the fourth quarter of 2009 at No 5 Shaft after seismic events, and will continue to feel the effects of this incident until at least the third quarter of the 2010 financial year. And at Ergo, as encouraged as we are by the quality of the engineering, the obvious ability to achieve the required volume flows, and notwithstanding the fact that we were working toward steady state by September 2009, we were disappointed by initial recoveries from ErgoGold's second-generation L29 dump.

Add to this the strengthening of the rand, pushing revenue per kilogram of gold down to approximately R50 000 less than it was in the third quarter, and the increase in power costs, and you understand why the six months prior to writing this report have been very challenging.

It is within this environment that we took a decision to bring about the final closure of ERPM, and abandon the care and maintenance programme. It is also because of this that Blyvoor is being right-sized, as we speak.

Safety, health and environment

It is with deep regret that I must advise that five people died in work-related incidents at DRDGOLD's operations during the 2009 financial year. Those who lost their lives were Aron Maqoma, Velelo Mshuwya and Annanias Timbe of Blyvoor, and Pieter Jonker and Fernando Vate of ERPM. My deepest condolences go to their families, friends and colleagues.

These fatalities occurred during the first half of the year. It is encouraging to report that there was no loss of life at any of our operations during the second half of the year. We are very pleased and grateful that Blyvoor recorded its second one million fatality-free shift in two years.

This achievement is particularly noteworthy since it was during this period – in January 2009 – that the electrical sub-station at Blyvoor's No 5 Shaft was destroyed by a lightning strike while 275 employees were working underground. Their lives were saved by their self-rescuer packs, with which we had equipped them during the second quarter.

There can be no doubt that the various operation- and issues-specific safety campaigns as well as the regular hazard assessment audits conducted during the year played a part in this notable achievement.

We are hoping to report further advances in the next financial year through a major drive to change employees' behaviour, designed to create workplaces where every person is aware of safety and takes responsibility for it. The piloting of our group-wide, behaviour-based safety programme at Blyvoor's No 6 Shaft is taking place during August and September 2009. This will be followed by a roll-out to all the operations.

With respect to occupational hygiene, health codes of practice for airborne pollutants, noise and thermal stress have been signed off by all stakeholders and will be submitted to the Department of Mineral Resources. All full-time health and safety representatives at Blyvoor and Crown have underground risk assessment training.

At Blyvoor, quantitative risk assessments for airborne pollutants underground at each of the shafts are at varying stages of completion and a baseline quantitative risk assessment for noise in respect of surface working areas has begun. At this mine 95% of all rock drills and 90% of all fans have been silenced. Monitoring of airborne pollutants and noise at the other operations is ongoing.

The company spent a total of R29.2 million on environmental issues during the year under review. Slimes clean-up, vegetation of dumps, site rehabilitation and contributions to the operations' environmental rehabilitation trust funds were the main items.

For a full account of DRDGOLD's performance in the areas of safety, health and environment please refer to our Sustainable

Development Report for 2009 which is available on our website www.drdgold.com.

Operating performance

DRDGOLD's total gold production for the year decreased by 23% to 247 690 ounces, while total operating costs for continuing operations were 40% higher at R219 024 per kilogram (R/kg).

One of the two major reasons for the lower gold production was the cessation of underground mining at ERPM in the second quarter. The other was the downward adjustment to volumes that had to be made at Crown from September 2008 when contractors expressed concern about diminishing capacity at the Crown Tailings Deposition Facility. This facility will be decommissioned and a R212-million pipeline is being considered to link the Crown plants to Ergo's tailings deposition site at Brakpan.

Volume flows from the first circuit at ErgoGold were encouraging but metallurgical performance was disappointing. It became clear that we had underestimated the complexity of the metallurgy of the second-generation L29 dump and this has necessitated a number of engineering modifications to the elution plant. However, ErgoGold's second feeder line, from the Elsburg Tailings Complex, started in early August 2009 and we expect to achieve steady state at ErgoGold in the near future.

Blyvoor's gold production was affected by the loss of high-grade panels referred to above and it will take six months to repair these. In the meantime, mining from No 4 Shaft has increased and Mine Reef development is continuing in order to improve flexibility. Higher volumes are being achieved on surface following the commissioning of a new pipeline to the plant from the slimes operation transfer pump.

Average cash costs for the year amounted to R274 066/kg for our underground operations and R164 549/kg for our surface operations.

Financial performance

Revenue from continuing operations for the year went up by 4% to R1 910.7 million, the result of a 30% increase in the average rand gold price received for the year to R250 589/kg from R192 143/kg in 2008. Operating profit, however, was down by 27% at R223.4 million after accounting for total operating costs, which rose by 4% to R1 687.4 million. Higher depreciation charges and retrenchment costs resulted in a 61% decline in gross profit from operating activities to R76.7 million. The negative effect of increased administration expenses and general costs was offset by a profit on financial liabilities measured at amortised cost, negative goodwill and higher finance income, leaving profit before tax from continuing operations 5% lower at R82.2 million. After deduction of tax of R46.2 million and deferred tax, net profit was R110.7 million. This compares with the previous year's profit of

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R1 225.1 million, which reflected a profit on the sale of the company's Australasian assets.

The directors declared a final dividend of 5 South African cents per share for the year, which amounts to a final dividend payout of R18.9 million.

Gold market

Gold performed well in the year under review, moving from an average spot price of \$869 per ounce (\$/oz) in the first quarter to an average spot price of \$924/oz in the fourth quarter. Gold ended calendar 2008 with a positive 5.4% gain, outperforming every major equity and commodity in the world. The investment sector with Exchange Traded Funds (ETFs) performed strongly amidst market uncertainties. At their peak in 2008, holdings in these funds amounted to 29.7 million ounces, and by the end of 2009 these holdings had grown to 54.5 million ounces.

The first three quarters of the year were spectacular for DRDGOLD – the last quarter was a reminder of how exposed we are when the rand strengthens against the dollar, rand gold receipts fall, and

operating costs rise. While the average rand gold price received for the third quarter was R292 369/kg, it fell to R244 927/kg in the fourth quarter. As a consequence, we aim to manage our business profitably at a gold price of R250 000/kg, and measure the extent to which we ought to expand resources towards the preservation of optimality against this measure.

Outlook

It goes without saying that, with the contribution of our underground assets diminishing, the success of Ergo has become essential for the success of our business. It is only off a stable and profitable platform that we believe DRDGOLD can focus on growing organically, and also on spreading its wings into neighbouring territories to pursue assets with a similar risk exposure.

Unit costs are the biggest challenge at our remaining underground operation, Blyvoor. A weakening of the rand could change things very quickly for the better but we cannot run an operation on possibilities, only on certainties, hence the drive towards right-sizing it now.

Our cautious management approach has seen us through a difficult year. We will continue to keep a tight rein on costs and to manage risks and margins so that our company remains stable and in the best shape possible to take up new opportunities when the tide turns.



Niël Pretorius
Chief Executive Officer
16 September 2009

Average R/kg and \$/oz
price received – 2009

