

## Gold and global debt – an outlook

The Association of Mining Analysts (AMA) in London recently hosted a gold seminar entitled “Gold – a new era or more toil ahead?”. A number of speakers were invited to present their cases, including DRD’s Chairman and CEO, Mark Wellesley-Wood. Peter Warburton of Economic Perspectives presented the case for gold and global debt developments, and has kindly agreed to let us publish some excerpts from his presentation.

Of particular interest were his three positive gold price scenarios, namely:

1. The inflationary scenario
2. The money meltdown scenario
3. The debt deflation scenario

The inflationary scenario centres around the fact that debts are monetised, such that the public sector runs large budget deficits, financed by money and swaps cash for its bonds while banks are coerced to buy government bonds. In this scenario, private sector debtors are bailed out by monetary expansion and gold is bought because supply is limited.

In the money meltdown scenario debt problems tend to migrate to the banking system, such that banks and insurance companies suffer huge capital losses and fear of insolvency motivates bank runs. In this case, central banks restore confidence by acquiring gold for their reserves and gold is held in preference to bank deposits.

In the final scenario, that of debt inflation, debt problems are concentrated in investments. Financial asset values swoon and investors in big securities lose big. The banks also suffer losses, but retain their depositors’ confidences. In the debt deflation scenario, there is a diversion of private savings to tangibles and gold ultimately benefits from this financial fragility.

Warburton goes on to add that in each of these scenarios, there is a risk to gold investment. In the inflationary scenario, the risk lies in the fact that bullion markets are closed, and central banks are setting the gold price. In the money meltdown case, the emergency public order clauses invoked to allow confiscation of private gold holdings represents a real risk. Finally, in the debt deflation scenario, the reality of emergency “public interest” clauses could see central banks selling gold and lease rates could be depressed to shore up the equity market. Warburton maintains that while all three scenarios are possible, the third scenario is the most likely to occur at the present time.

Peter Warburton is the author of *Debt and Delusion*. He can be contacted on [peter.j.warburton@ntlworld.com](mailto:peter.j.warburton@ntlworld.com)

### A word from Mark

I always remember the following quote from one of my old Maths books: “He uses statistics like a drunken man uses lampposts – for support rather illumination.”

And this reminds me of the behaviour of the World Gold Council which draws statistics on gold consumption from all over the world but seemingly never has a conclusion from all this data. If there was one, then the stunning relationship could be drawn that, when prices are low gold jewellery is important but, to drive prices higher, then investment buying needs to come in to the market. As a producer, three guesses which type of demand I want to stimulate?

The debate as to whether gold is money or a metal seems to have been settled. But the marketing men just don’t seem to cotton on.

DRD shareholders should take comfort in knowing that we do not waste your money on current marketing initiatives. We would like to see improved gold

prices – I make the distinction that marketing is about selling more at higher prices, not lower ones. After all any fool can sell badly. Here are a few ideas:

**Marginal sales:** Any storeowner will tell you that the extra 20% makes the margin. Sure he is attentive and friendly to the 80% who visit his store regularly, but he is keenly interested in the 20% non-regulars who might shop elsewhere, or who have just popped in for the first time. That’s where the margin lies and for gold that means investment buying.

**Barriers to Entry:** A storeowner will also tell you that you have to make it easy for customers to visit his store. Provisions of parking, free cups of coffee, pleasant surroundings, even fragrances help shoppers relax. Making it easy for individuals to access the gold market, to store gold, to trade it, all have the equivalent effect.

**Product Life Cycle:** Gold has a long life cycle, but the customer base rotates. People’s memories about inflation and their propensity to acquire physical assets in a world of paper require constant repositioning, communication and reinforcing.

**Product differentiation:** The fortunate aspect of gold is that it is already a value proposition. It protects your wealth and looks appealing. It is not a commodity like aluminium or a product; so don’t turn it into one.

**Displacement Selling:** As an investment, gold competes with stocks, bonds, and property. It needs to be positioned with asset managers as an investment product with all the support these marketers put into their products. The financial pages are littered with schemes to relieve you of your savings. Where are the ‘Buy Gold’ stories?

**Competitor Knocking:** Lobby those central banks! Aren’t they answerable to anybody? After all it’s your money they have wasted.

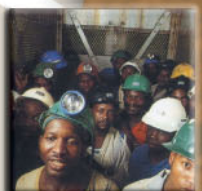
**Market Depth:** Industrial uses for gold may sound unglamorous but for a market with only two principle demand drivers the diversification benefits for any new area of demand is disproportionate. An extra 5% into electronics will do nicely thank you.

**Technology:** Use the Internet! It’s cheap and it empowers people. Linking the gold market and the internet will help disintermediation of the banking system. And that means doing away with banks and doing your own thing – including accessing your own wealth, and not letting some idiot gamble it away in the derivatives market!

That’s enough from me, but when Durban Deep hears someone addressing gold marketing in a professional way then we will be only too pleased to support it.

Until then.

*Mark Wellesley-Wood*



June  
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# DRD to get its own back

*The Rawas deal: Overwhelming shareholder support for share validation*

At a special meeting of DRD shareholders on 7 June 2002, Mark Wellesley-Wood announced that DRD has issued proceedings in the Supreme Court of Western Australia against a number of individuals and companies for the recovery of misappropriated funds.

DRD's former Chief Financial Officer and Chief Executive Officer of the company's Australasian operations, Charles Mostert, a former consultant to DRD, John Stratton, Noble Investments Pty Ltd, Leadenhall Australia Limited, Advent Investors Pty Ltd and Timothy Lebbon were all identified by Wellesley-Wood as defendants.

The claims relate to an agreement made in December 1999 for the acquisition by DRD from Noble, Leadenhall and Advent of 11 150 000 shares in Continental Goldfields Ltd.

Said Mark, "The reason for the action is that we believe the defendants were party to a transaction whereby DRD agreed to pay more than six times the market value for shares it did not want. Any strategic value in the Continental Goldfields assets could only have related to its 13% shareholding in Consolidated African Mining (CAM) to support the Kebble control structure of that company."

At the same meeting, shareholders voted overwhelmingly in support of a resolution to secure validation of 8 252 056 shares by the Hight Court of South Africa. The shares were issued invalidly to various creditors of Laverton Gold and its subsidiary, BT Barisan Tropical Mining, in July and August 1999, ostensibly in exchange for the Rawas gold mine in Indonesia, which ceased operations in

March 2000. The "in favour" vote represented 99.55% of the total DRD shares in issue.

According to Mark, "It was a great pity to have to stand before shareholders to disclose such a dishonest transaction and its consequences." He assured shareholders that measures have been put in place to ensure that such events do not ever happen again.

These include:

- A requirement that at least two non-executive directors approve every Board Resolution;
- A requirement for independent, fair and reasonable opinions for related party transactions;
- Properly documented due diligence procedures;
- An authorisation hierarchy which specifically sets out the powers of executives; and
- Full compliance with King II corporate governance procedures.

## Mark visits Duff Scott Hospital



As part of the drive to focus on health and safety in every aspect of working life at DRD, Mark visited DRD's Duff Scott Hospital on Wednesday, 5 June. Hosted by Dr Griffiths and his team, Mark met and spoke with patients at the hospital, and presented many of them with DRD t-shirts. Said Mark, "Every single DRD employee needs to take responsibility for his or her actions. I hope that by proactively focusing on health and safety, DRD can achieve its targets on a sustainable basis."

## DRD seeks full listing on ASX

DRD, currently South Africa's fourth largest gold producer, announced on 10 June that it intends to seek a full listing on the Australian Stock Exchange (ASX), subject to necessary approvals. At present, DRD shares trade under the status of a foreign entity on the ASX.

Said Mark Wellesley-Wood, DRD CEO and Chairman, "A full listing would provide both existing and new Australian shareholders with greater liquidity as well as assist the company with any potential future acquisitions in the Australasia region."

In Australasia, the company currently owns the Tolukuma Gold Mine in Papua New Guinea and the Daylesford project in Victoria.

Since April this year, DRD has been included in the ASX Top 100 companies by market valuation. The company's current market capitalisation is A\$1.6 billion.



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**WANT A QUICK RESPONSE TO YOUR QUESTIONS ABOUT DRD? Email: [eloffm@drd.co.za](mailto:eloffm@drd.co.za)**

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