



Letter from Mark GOLD SHARE INVESTING '101'

Conventional wisdom has it that investors buy gold shares because they believe that the gold price is going up, and that the gold shares will go up by more than the gold price, on a relative basis. This is due to the margin impact which causes the revenue line to increase by more than the cost line increase. Sadly for gold share investors, the cost line has been going up by more than the revenue line recently and this has contributed to a slump in all gold share prices.

The March quarter was probably the worst in a long time for the industry as a whole. Not only have currencies been moving up in dollar terms (especially the SA Rand) but higher fuel prices, the cost pull of the China effect and a skills shortage have all taken a big bite out of the margin.

South African producers have borne the brunt of this. Harmony's results showed its costs heading towards \$450/oz, while 'blue chip' Gold Fields rose to \$340/oz. Both of these are now higher cost producers than DRDGOLD, which recorded \$312/oz from its continuing operations for the quarter.

Some two years ago, DRDGOLD was the highest cost producer in South Africa, but, since then we have been working hard to establish a more sustainable base. We saw the writing on the wall and did something about it. It is worth remembering that costs are the only thing management can control in mining – we are price takers.

In September 2003 our costs were \$380/oz; by the end of that year, we undercut Harmony, and have stayed below them since. Now, at \$312/oz, we are below Harmony and Gold Fields, yet our share price has slid back by far more than the others.

Over the last three years our share price has lost approximately 80% of its value. Harmony is down by 60% and Gold Fields by 40%. It appears to me that our relatively superior cost performance has not been recognized by the market, or the South African commentators who dominate the analyst coverage for the stock don't understand that our overseas operations make such a dramatic improvement to our cashflow and competitive position. We are still referred to as "that marginal producer", even though we are now the second-lowest cost South African producer.

I can understand why South African gold shares could lose their lustre, but now DRDGOLD is the best performer on costs over three years and the least exposed to SA, yet has had the worst drubbing by the market.

Clearly the market has some difficulty with understanding this, but now you know.

Regards,

Mark Wellesley-Wood
Chief Executive Officer
25 May 2005

Visit to Porgera

Ilja Graulich, DRDGOLD's General Manager responsible for Investor Relations, gives a first-hand account of a recent visit to the Porgera Mine in Papua New Guinea.

After many hours of travelling through mist, skimming over mountain tops and taking in some of the most stunning scenery, our Twin Otter aircraft landed at Kairik Airport, 2 271m (7 451ft) above sea level. The airport's most notable feature? The runway is uphill. The Otter's passenger list? Analysts and fund managers, invited to accompany me on a visit to the Porgera Mine, the biggest and most profitable gold producer in Papua New Guinea (PNG).

Porgera's history dates back to 1938 when alluvial gold was first discovered in the Enga province of PNG, but it was only in 1990 – extensive exploration work started in 1975 – that the first gold was poured.

What a find Porgera was. To date, more than 13 million ounces of gold have been poured and there is plenty more life in the operation. The current reserve is more than 7.4 million ounces.

The main aim of the visit was to update members of the investment community on the underground potential of the mine. While the surface pit was always known to have a limited life, the underground potential has only come into its own during the last couple of years. The underground section has more than 1.8 million ounces remaining in reserves – but this number belies the hard work done over the last year. Renewed underground exploration, geological modelling and interpretation – together with a higher gold price – have added 1 million ounces in the last year alone. And in the words of David Houghton, well respected gold watcher from Global Mining Research, "...Porgera is a valuable asset with upside



Visitors in the pit at Porgera

potential beyond the current reserve base". DRDGOLD bought into the mine in November 2003, becoming a 20% shareholder in the Porgera Joint Venture. Placer Dome has 75% and manages the operation, while Mineral Resources Enga holds the remaining 5% on behalf of the PNG province of Enga.

DRDGOLD's move to purchase the stake was driven by the investment climate in PNG but also by the prospectivity of the country. DRDGOLD wholly owns and operates the Tolukuma mine in PNG, the true value of which lies in the 7 500km of exploration ground it currently has under licence.

PNG has attracted a number of explorers of late, with more than 35 companies having applied for licences. The epithermal nature of the ore-bodies makes exploration geology challenging, but it can be very rewarding – especially if it results in the discovery of another Porgera. The analysts came away from the visit to Porgera and PNG as a whole with optimism about that country as an investment destination, not only for gold miners but mining companies in general. The potential of PNG stretches beyond gold to copper, natural gas, oil to name but a few. With other majors scouting out the area, thus underpinning the investment potential, DRDGOLD could soon be having welcomed company.

North West Operations liquidation update

The provision liquidation of Buffelsfontein Gold Mines Limited (better known as the North West Operations of DRDGOLD) continues.

DRDGOLD has provided more than R42 million in financial support to the liquidation process since it started. The company is to make some R9 million available for the retraining of employees, in terms of a social plan, who may be retrenched as a consequence of the liquidation.

South Africa's Department of Water Affairs and Forestry recently issued two directives, requiring four mining

companies in the Klerksdorp Goldfields – DRDGOLD, AngloGold Ashanti, Harmony and Stilfontein – to reach agreement on future arrangements for the pumping of underground water emanating from Stilfontein's lease area.

In the meantime, the four companies are to share the monthly pumping cost of some R4 million. For a number of years, until the provisional liquidation of the North West Operations, DRDGOLD has shouldered the cost of pumping on its own.

New GM for ERPM



Phillip Watters

Phillip Watters has been appointed General Manager of East Rand Proprietary Mines Limited (ERPM), part of the Crown Gold Recoveries Joint Venture in which DRDGOLD has a 40% interest. Phillip has been acting GM for some months following the transfer of Louis Lamsley to DRDGOLD's North West Operations.

A 30-year veteran of the South African mining industry, Phillip began his career as a learner miner at Blyvooruitzicht mine in Carletonville, now part of DRDGOLD's South African Operations.

He worked subsequently for Anglo American at its Western Deep Levels mines and for Goldfields of South Africa at its Doornfontein, West Driefontein and Libanon mines. After a two-year stint at Rustenburg Platinum Mines, he joined ERPM in 2002 as Mine Overseer.

Following the near-closure of the mine's underground operations last year, Phillip says his greatest challenge is to keep the workforce motivated and focused on meeting monthly production and cost targets.

"In the continuing low Rand gold price environment, there is no place for complacency in a mature operation like ERPM," he says. "Every part of our business requires constant micro-management, which is what makes working here so stimulating."

Meet our new company secretary – Themba Gwebu

Themba Gwebu, previously DRDGOLD's Assistant Legal Advisor, was recently appointed Company Secretary in place of Andrea Townsend, who resigned.

Themba, who joined the company a year ago, says of his new job: "It involves considerable administration and a measure of management. I have to ensure that company policies are in compliance with corporate legislation, monitor implementation and report on this." Internally, Themba has to guide the Board of Directors in terms of their duties and responsibilities.

On a South African level, legislation with which DRDGOLD

must comply includes the Corporate Governance Act, the Competition Act, the Labour Relations Act and Insider Trading Act. In a global context, compliance with a welter of country-specific legislation is essential.

Prior to joining DRDGOLD, Themba worked both in private legal practice and in the State judiciary. His experience of both spheres, he believes, stands him – and DRDGOLD – in good stead. In his new position, he says he looks forward particularly to learning more about company governance and management.



Themba Gwebu

ERPM gets more State assistance

The management of East Rand Proprietary Mines Limited (ERPM) heard recently that it has been successful in securing further financial assistance from the South African government in 2005.

With its underground mining operations teetering on the brink of closure for much of 2004, suspension of a State subsidy for the pumping of underground water from the

Central Witwatersrand Basin was a bitter blow. Then, late in 2004, the mine was granted significant reliefs by the State in the form of a R12 million pumping subsidy to the end of March 2005 and a R7 million grant towards the cost of the first phase of a three-phase plugging programme to isolate its highly productive Far East Vertical Shaft from rising underground water. Now, underground mining at ERPM has been given another couple of shots in the arm from the State – the pumping subsidy has been increased to around R1.4 million a month until the end of June 2005 and a grant has been approved for a further R8.4 million towards the second phase of the R29 million plugging programme.

Improving face advance at Blyvooruitzicht

"In a team environment, people understand and believe that thinking, planning, decisions and actions are better when done co-operatively. People recognise, and even take ownership of the belief that 'none of us is as good as all of us.'" These are the words of Shift Boss Martin Coertzen of Blyvoor number 5 shaft S section's 35/26 working place.

"I have three goals for myself – safety, quality and production. I always focus on these goals to achieve my targets. Mining is very difficult; you need to be able to have clear goals and strategies. Rather than create problems for myself, I always look for solutions," explains Martin.

Section's 35/26 working place consists of six panels, including both stoping and ledging operations. In the past

year the section has consistently achieved 16.6m face advance a month, a good average when compared to other sections. The current average for the shaft is around 10m.

"In recent months, this crew has been able to make 20m face advance a month. I am very proud of them, not only because they have achieved excellent production results, but also because they also have a good safety track record. In the past year they had only one reportable accident," says Mine Overseer Schalk Scheepers.

According to Team Leader Eric Chambale, the good results are because "we work as a team and coach each other. We meet every day before the shift starts and discuss the day's work. We also get good support from management".



Shift Boss Martin Coertzen and the stope team at Blyvoor number 5 shaft

New addition to DRDGOLD communications

DRDGOLD recently bolstered its communications functions with the transfer of East Rand Proprietary Mines Limited (ERPM) Communications Officer Magauta Modisane to corporate office where she joins General Manager: Investor Relations Ilja Graulich.

Magauta, who began her career in broadcast journalism and later qualified in public relations, will assist Ilja in the full spectrum of communications work but will have particular responsibilities in respect of internal communications.

She joined the mining industry at ERPM some two years ago, having worked previously in various government and non-government organizations.



Magauta Modisane



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WANT A QUICK RESPONSE TO YOUR QUESTIONS ABOUT DRDGOLD?

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