



CLOSURE OF THE NORTH WEST OPERATIONS

An independent commentator's perspective on 'what went down'

When Mark Wellesley-Wood, CEO of DRDGOLD, approached me via his PR firm to write an independent overview of his company in the wake of the liquidation of its earthquake-shattered North West Operations in 2005, I was a bit sceptical. After all, this was a company that seemed to be mired in controversy. Further, I have no direct mining background and little exposure, other than through day-to-day news reports, to the inner workings and personalities that make up the South African mining industry.

However, Wellesley-Wood was not asking for a 'snow-job' report that would gloss over the company's difficulties or try to evade the issues. He wanted the DRDGOLD story to be told holistically so that, at the very least, stakeholders would be provided with a broad view of what triggered the negative waves that flowed over the company, how events unfolded, how management responded and why they responded in the way they did.

In researching and writing the piece I could have full access and the company would live with the results. The outcome is an article entitled "I don't work for Crapco!" which will be circulated to shareholders and other interested parties as an independent report. Besides checking facts and quotes, DRDGOLD has played no role in the article nor brought any influence to bear.



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As a starting point I contacted journalist friends, all expert in the mining industry, and asked them about DRDGOLD and what they thought of Wellesley-Wood. The responses drew a patchwork picture of a company that had experienced major difficulties resulting from the closure of its North West Operations in South Africa. They spoke of an earthquake, of government enquiries, of trade union outrage, of litigation, of legacy issues stemming from earlier mismanagement and of boardroom battles. Of Wellesley-Wood, however, the verdict of the scribes was more or less unanimous – ‘tough’, ‘straight-talking’ and ‘smart’.

What writer could turn down such a story? I agreed to write the report and while I don't claim that it is exhaustive or that it manages to cover all perspectives, I do believe it is a fair reflection of the events that brought DRDGOLD into the spotlight and the reasons why Wellesley-Wood and his executive team responded as they did.

Bad news is a bit like Wordsworth's pebble cast into the pond – the ripples

spread outwards in ever-widening circles, gently across the surface. In the case of DRDGOLD, the pebble was more like the earthquake that triggered the great Asian tsunami. Gentle ripples were more like a tidal wave. Tsunami is probably a good analogy for the negative waves that swept over DRDGOLD as a result of seismic activity at its North West Operations back in early 2005.

Nothing could have prepared the company for the massive earthquake that hit the Klerksdorp/Stilfontein area where DRDGOLD operated two deep-level, marginal mines, Hartebeestfontein and Buffelsfontein. And nothing could have prepared them for the slew of events that the earthquake set in train.

Measuring 5.3 on the Richter Scale, the earthquake that hit the area on 9 March 2005 released huge energy that blew straight up through Hartebeestfontein's No 5 Shaft.

It struck when more than 3 000 miners were underground and it is a miracle that the death toll was contained to two. At the very least it suggests that the company's safety measures at its North Western Operations' mines were up to scratch. Had they not been, many more lives would certainly have been lost.

Controversy immediately arose as to the cause of the earthquake. Scientists had no sure answer. Generally they declared that it was an unnatural seismic event linked to mining operations in the area. The National Union of Mineworkers (NUM) was less equivocal. NUM was quick to blame DRDGOLD for the event and called for the company's mining licence to be revoked.

Government, through its regulatory body, the Department of Minerals and Energy (DME), set up an inquiry that subsequently reported: “It is probable that the seismic event was triggered by strain changes in the rock mass caused by extensive mining in the region.”

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A further DME-instituted investigation, which reported on its findings more than 18 months later, affirmed the inquiry's finding.

DRDGOLD's North West Operations, always marginal, were losing money at the time the earthquake struck and the rand gold price was at its lowest since the 1930s. As a result, the company was haemorrhaging. To hedge its rand-based operations it had bought into offshore gold mines in Papua New Guinea and Fiji, but these were still bedding down and were not without their own problems.

The company had a rescue plan for its North West Operations and at the time of the quake it was already engaged in negotiations with various stakeholders to restructure the mines. However, the earthquake changed everything and DRDGOLD put its North West Operations into provisional liquidation.

It chose this route because, even after the earthquake, management saw a possible way forward. It turned on the quick settlement of the company's insurance claims.

But this was not to be. It took almost a year of tough negotiations with insurers for the earthquake claim to be settled and even then DRDGOLD only received around one fifth of its anticipated payout.

With the closure of its North West Operations mines, the issue of de-watering of these mines surfaced with ensuing litigation against DRDGOLD by a neighbouring mining company and an investigation by the regulatory body, the Department of Water Affairs and Forestry.

This raised major issues for the entire mining industry, as clearly there was a serious disconnect between environmental and corporate law and no mining company wanted a precedent to be established that would add environmental costs at their disused mines. The litigation, however, was dropped when the regulator ruled that all mines operating

in the area have joint responsibility to pump water, even if it emanates from closed mines owned by other mining companies.

Media reports throughout this period of crisis focused almost exclusively on the negative impacts of the earthquake and on the equally negative downstream events that flowed from it. DRDGOLD was good copy. The effect was a generally negative image of the company and its embattled CEO.

Always outspoken and direct, Wellesley-Wood believes DRDGOLD got a rough deal from some of its key stakeholders. He characterises them as 'bad neighbours': employees, neighbouring mining companies, some creditors, and insurers. It may not have been a conspiracy, but in his view their unsympathetic actions in DRDGOLD's time of crisis conspired to force the company's hand, making the liquidation of its North West Operations inevitable.



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Earlier, there may well have been other forces affecting the company's image and its ability to move ahead. Alleged dirty tricks orchestrated by a former executive chairman of DRDGOLD who had strong political influence saw Wellesley-Wood refused re-entry to South Africa after a short visit to the United Kingdom. The ban was overturned at ministerial level, but the company and its CEO took hits as perception turned to reality through media reports of the incident.

Who could have guessed at the machinations behind this incident and who could have known at the time that the forces behind the campaign against the company and Wellesley-Wood would eventually be exposed in one of the biggest corporate scandals in South African history? If Wellesley-Wood was crying wolf or verging on paranoia, later events seem to have vindicated his plaintive cries of foul play.

Today the company is in calmer waters. Executives at DRDGOLD believe the company is getting back on track after surviving the meltdown at its North West Operations and staring down the demons that it unleashed. They believe that, having survived the tsunami, they can survive anything.

And the optimism is premised not only on the fact that they managed to steer

DRDGOLD through the rough waters, it is based on the unshakable belief that gold is a long-term certainty and that they have the flexibility between deep and surface mining and a geographic spread of assets to manage the troughs and valleys between what they see as the inevitable and steep upward march of gold. Time alone will tell.

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The full feature by Kerry Swift appears on the DRDGOLD website, www.drdgold.com