



CEO'S REVIEW

It is very likely that, when the history of DRDGOLD is written one day, the 2006 financial year will be described as something of a watershed. During the past 12 months, the company has undergone a major change which has led to the creation of DRDGOLD SA; the Australasian assets have been consolidated into Emperor Mines through a reverse listing; and black economic empowerment BEE partner Khumo Gold has acquired a 15% stake in DRDGOLD SA, making DRDGOLD compliant in terms of the ownership at operational level requirement of the South African Mining Charter. Through this re-organisation and a streamlining of operations, DRDGOLD has achieved a solid platform for growth. The year under review has been exceptionally challenging but at the same time hugely exhilarating and rewarding, and we end the period feeling optimistic about the future.

SAFETY AND HEALTH

It is with deep regret, however, that I must acknowledge the death of seven employees in work-related accidents during the year. This is fewer compared with previous years (10 employees died in FY05), but it remains a completely unacceptable performance. Zero fatalities remain our target.

Those who died were Enoque Matues Mapossa and Castigo Nhuzwane, both employees at Blyvoor; ERPM employees Alfonso Magumane, Phalali Silase and Samuel Majoyisa, and Sharveen Prasad and Sireli Mansawa, who worked at Vatukoula.

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We are deeply saddened by their deaths and extend our condolences to their families, friends and colleagues. DRDGOLD will continue to strive to better manage the risks that lead to this kind of tragic and unnecessary loss.

There can be no doubt that changing people's behaviour is integral to securing a safe working environment. To this end, Blyvoor and ERPM have ongoing safety campaigns in place and there is a quarterly safety competition in which the South African underground operations participate.

Another key element is to have ways of measuring performance to determine strengths and weaknesses. The risk barometer method of determining the amount of risk that employees are exposed to has been implemented successfully on all operations both in South Africa and in Australasia, while a major group-wide risk assessment audit, which began in FY04, is in the process of being finalised. From this, DRDGOLD will be able to gain an in-depth understanding of all risk factors and develop appropriate steps to manage these.

We are particularly proud of Blyvoor, which won the West Rand Mine Managers' Association Inter-mine Safety Competition for the eighth consecutive year. The competition, based on the Lost Time Injury Rate, recognises the best rate per million man-hours in a calendar year.

In terms of the occupational diseases associated with the gold mining industry such as tuberculosis (TB), noise-induced hearing loss and silicosis from exposure to dust, the focus continues to be on prevention, detection, treatment and, where applicable, on compensation.

The belief nowadays, and rightly so, is that employees in the gold mining industry are entitled to enjoy good health and to live for many years after they retire. In line with this thinking, more and more attention is being given to occupational health issues. While we welcome these developments it should be noted that they present very real challenges, particularly with regard to the South African operations where ageing infrastructure places limitations on what can be achieved in applying more stringent procedures.

DRDGOLD remains committed to the philosophy that during the course of business no activities are undertaken that may compromise the health and safety of its employees.

GOLD MARKET

If FY06 has been eventful for DRDGOLD, it has been momentous for the gold market which reached a 26-year high of US\$730/oz on 12 May. Of course, the metal started climbing more than five years ago, recording yearly increases of 22% and 23% along the way, but in the first half of 2006, when the price soared from US\$550/oz to over US\$700/oz in a matter of weeks, a gain of 37% was recorded.



There was a considerable correction after that, but the price started trending upwards again in June and there is no reason to doubt that it will rise further.

The performance of the gold market is a vindication of DRDGOLD's long-held view that the metal is primarily an investment vehicle. It is a source of some satisfaction that so much of what we predicted has come true. This company has been a fairly vociferous critic of the World Gold Council (WGC), sceptical of the value of its marketing initiatives because of our firm belief that gold is money first and foremost, and that jewellery has only a minor role to play in influencing the market.

Indeed, one of the reasons for the significant rise in the gold price has been the phenomenal growth in Exchange Traded Funds (ETFs), securities that allow investors to buy and sell gold in the form of listed paper without the trouble of storing or insuring the product. These funds now hold some 16.6 Moz of gold in vaults – that is almost double the annual gold output (10.5 Moz in 2005) of South Africa, the world's biggest gold producer.

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Stated in different terms, ETFs accounted for 5.2 Moz, or 11.1% of the 46.7 Moz of gold bought by investors in 2005. These investment vehicles have facilitated institutional investors' move into gold, bringing a new group of players into the market. Gold is back in portfolios, achieving the kind of value balance that the central banks were so against a decade ago.

DRDGOLD has supported the growing trend to expand gold ownership and accessibility through its investment in the internet-based gold investment company, NetGold Services, which now holds gold and silver in circulation to the value of around US\$157 million. It is pleasing to note that the value of DRDGOLD's stake has doubled since it was acquired two years ago.

That DRDGOLD does not hedge its gold production means that it is well placed to take advantage of a bull market. Since the closure of its gold hedge book in July 2002, the company has been able to receive the full spot price from its gold sales. This makes it the share of choice for gold 'bugs', enabling them to derive the maximum benefit from rises in the bullion price. Trading figures for DRDGOLD shares and American Depository Receipts (ADRs) tell the story. In 2005, the turnover of issued shares was 400%; the average number of shares traded daily on NASDAQ was 2.8 million while on the JSE Limited it was 292 000. In comparison with those of other companies, DRDGOLD's ADRs trade seventh highest in the world.

The potential for further appreciation in the gold price has never been so promising. It was only in September 2005 that the gold price started to rise in non-dollar terms, so in real terms the gold rally, as opposed to the trend in dollar depreciation, has only just begun.

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There are several reasons for this view. The first is that the United States currency comprises 75% of global reserves. Now, after the massive increase in deficit spending in the United States, the rest of the world is left holding dollars. In some cases there is no wish to retain them, in others they are surplus to requirements for trade. Today, the gold portfolio appears to be the choice of the prudent, the dollar the option of the profligate. The growth in ETFs illustrates the point.

The second is that gold is still relatively cheap compared with other asset classes. In contrast to equities and other commodities such as oil, gold is still a defensive investment and relatively under-priced.

The third, as all gold mining companies are coming to realise in increasing numbers, is that gold is scarce. Deposits are getting deeper and less accessible while energy and labour costs are rising. Given these factors, the industry has been unable to replace its reserves and mine output is set to decline further despite the higher dollar price.

When all aspects are taken into account, there are many more reasons to be bullish than bearish. At DRDGOLD we have great confidence that this gold market will continue to run.

STRATEGY

With the refocusing of the company, DRDGOLD now has shareholdings in two stand-alone businesses: 85% in

DRDGOLD SA and 78.9% in Emperor Mines. The separation of the South African and Australasian operations has given each sector the opportunity to become focused entities, benefiting from the synergies arising out of the consolidation of regional assets.

DRDGOLD SA

In DRDGOLD SA great emphasis has been placed on addressing operational problems. At Blyvoor, the decision was taken to move out of seismically active areas. Although grades will be lower, the mine is now on track to achieve and maintain its targeted 70 000 tonnes a month. Nearly R100 million was spent during FY06 on development and replacement of infrastructure across the operations. These measures, together with the decision to increase gold production from tailings re-treatment facilities, have enhanced DRDGOLD SA's competitive position.

The company's strategy has several facets, one of the most important of which is to raise still further the contribution (currently 50%) that gold from surface sources makes to the production total. There are sound reasons for this: not only are these surface operations less risky than deep-level mining, their costs are substantially lower, at around R80 000 per kilogram, and margins consequently much higher.

Another major focus is to increase gold resources through new projects such as the Sallies and Argonaut prospecting areas adjacent to ERPM as well as through acquisitions, should



viable and cost-effective propositions be identified. While these goals are being pursued, management will continue to give high priority to operational improvements and cost containment initiatives.

The cutting of the cord with Australasia has demonstrated that DRDGOLD SA can function effectively on its own. It does not need to be propped up or to be rescued. The company has generated a strong cash flow, much of which has been re-invested while the growth projects indicate sustainability well into the future.

EMPEROR MINES

The absorption of all of DRDGOLD's Australasian assets into Emperor Mines has elevated that company to the position of fourth largest gold producer listed on the Australian Stock Exchange. This has enabled Emperor Mines to attract the right management to take its business to the next stage of its development, both through organic growth and acquisition. It is pleasing to reflect that DRDGOLD is one of the few South African companies to have created a successful offshoot in Australia.

Emperor Mines' operations have had their fair share of infrastructural challenges in the year under review but these have been tackled with determination. At year end, remediation of the west wall cutback at Porgera was 60% complete and mining of ore in the pit is expected to begin later in calendar 2006. At Tolukuma, the susceptibility of current mining areas to flooding is expected to be substantially relieved by an upgrade

of pumping infrastructure, and greater mining flexibility overall is expected to result from the development of new production areas along the newly discovered Zine structure.

At Vatukoula, implementation of both a new mine plan focused on high-grade Philip Shaft sources and the new Accelerated Development and Training Programme is intended to result in a significant performance turnaround. In essence, all three operations are well positioned for 2007.

In terms of its strategy the new Emperor Mines team has set itself some tough targets. Firstly, it has set out to strengthen the company's position as the fourth largest producer in Australia. Secondly, the aim is for Emperor Mines to become a 'must hold' for gold investors by growing production by 100 000 ounces a year to become a 350 000-ounce-a-year producer in 2007. The company seeks to achieve these goals by identifying and acquiring further operating mines in the Australasia-Pacific region and through an ambitious brown- and greenfields exploration programme. To bolster its performance, Emperor Mines is seeking to lower its average cash costs and will continue winding down its hedging programme to maximise its exposure to the gold price.

DRDGOLD

Through the splitting of the company's South African and Australasian operations, the structure of DRDGOLD has been simplified, providing shareholders with valuation transparency. Apart from the activities surrounding the restructuring exercise and the BEE transaction, much effort in

FY06, as will be clear from what has been said so far, was concentrated on attending to difficulties at the operational level.

Having addressed these fundamentals and strengthened its base, DRDGOLD is in a good position to pursue expansion. This has not formed a significant part of the company's business until recently. Indeed, we were known as a rescuer of struggling South African mines, a turnaround agent rather than an agent for growth. As we have improved the quality of our asset portfolio and become less of a marginal operator, we have been able to focus more of our cash flow into our existing orebodies and into discovering new deposits.

Central to DRDGOLD's strategy is growth, seeking to replace ounces at the lowest cost possible. Never before has this company had so many drills 'turning' in South Africa and abroad and this drilling will continue at full throttle for at least the next 12 months. There are excellent opportunities particularly in the Pacific Rim where, through Emperor Mines, we hold very large land positions.

We believe that DRDGOLD is seriously undervalued in the market. Given the company's offshore gold vehicle, its minimal debt, its liquidity, its 'no hedging' policy in a gold bull market and its promising growth prospects, we are setting our sights on achieving a market re-rating. This will not be before time.

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RELATIONSHIPS WITH GOVERNMENTS

At the end of an eventful year, it is opportune to acknowledge the assistance and co-operation that DRDGOLD has received from the governments of the countries in which it has operations.

In South Africa, the company was granted prospecting rights for the Sallies and Argonaut prospecting areas under the new Mineral and Petroleum Resources Development Act of 2002. These applications were very efficiently handled by the Department of Minerals and Energy and DRDGOLD was delighted with the short turnaround time.

In Fiji, the Accelerated Development and Training Programme I have already mentioned, involves employees undergoing a comprehensive assessment and retraining exercise to equip them with the skills they will require as the mine enters another phase of its long life. The Government of Fiji has supported the programme by making a grant of F\$300 000 to the Workers' Relief Fund. Although the mine has always had cordial relations with the government, this is the first time that a financial commitment of this nature has been made. It suggests that the government appreciates the role that Vatukoula, the country's second largest private employer, plays in the economy of Fiji.

In PNG there is a close relationship between the mining ministry and the company which is of great value to both parties. Whether the issue is about permits or supplying information to third parties, DRDGOLD has always enjoyed support from the ministry and is grateful for its pragmatic approach. It has certainly made it easier for the company to do business in that country.

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RISK MANAGEMENT

DRDGOLD takes the issue of risk management seriously and has employed third-party consultants, International Mining Industry Underwriters (IMIU), for the past five years to benchmark its operations against others throughout South Africa and more than 300 different mining companies worldwide. The mining risk assessment model used by IMIU focuses on three chief areas: the adoption of risk reduction measures; the maximum foreseeable loss; and the risk exposure profile.

The latest survey was completed in the first quarter of 2006 and the results are encouraging. Scores for the operations in terms of their risk reduction initiatives ranged from 70% to 78%. In a comparison of the numbers of risks present in a company, DRDGOLD, when measured against eight peers in the gold mining industry, ranked second-best. A matrix prepared to illustrate the insurance competitiveness of DRDGOLD's mining operations compared with other mining operations around the world shows the company's position to be in the acceptable zone of the insurability index.

The losses suffered after the earthquake at the former North West Operations in March 2005 showed that these assets had been under-insured and illustrated the need for a re-evaluation of all the company's properties to bring them in line with replacement values. DRDGOLD commissioned a company to carry out this valuation exercise in the year

under review. The brief was to estimate the new capital replacement value of the infrastructure as well as the costs associated with recovery programmes. This exercise has been completed which means that DRDGOLD SA is in a more secure financial position in the event of a major incident at one of its operations.

STAFF RETENTION

There is a war for talent these days and it is a competitive threat that almost all business concerns have to face. Mining companies are particularly vulnerable because there is a dearth of mining engineers and geologists – the pipeline is just not filling up at present. That aside, the resources sector is booming so capable people are being lured from their positions with attractive offers.

We are pleased that our workforce has remained stable in South Africa and that we have been able to attract new talent in Australia. Nevertheless, we have recognised the need to work at retaining our existing employees. Our human resources division has undergone a substantial overhaul in the past 18 months, with all aspects revamped, from remuneration and reward schemes to career development programmes. We want to empower people who work for DRDGOLD to reach fulfilment in their careers and in so doing to make a contribution to the company achieving its goals.

In terms of keeping staff, we firmly believe that it is not all about pay. It has much to do with how people are treated. The onus on the company is to select employees carefully, making



sure that the positions they are being put into are suited to their abilities, their personalities and their interests. If you get 'the right people' on board 'the right bus' and in 'the right seats', you will have a happy busload. It sounds simple but of course it is one of the most difficult things to achieve.

The upliftment of employees is particularly important in South Africa where so much lost ground has still to be made up in the wake of apartheid. To help address this at DRDGOLD SA, a leadership group comprising predominantly Historically Disadvantaged South African (HDSA) employees has been established. The members receive individual coaching and mentoring from senior managers and from experts outside the company with a view to furthering their careers within the company.

With regard to current senior management, John Sayers, who has been Finance Director at a number of South African corporations, joined DRDGOLD last year as Chief Financial Officer. In Australia, we were fortunate to recruit Brad Gordon as Chief Executive Officer and Clyde Moore as Chief Financial Officer of Emperor Mines. Brad, who came from the former Placer Dome, has had senior experience at the Porgera and Vatukoula mines. Clyde has had a long career in investment banking, most recently at the Australian and New Zealand Banking Group (ANZ). Under their leadership, talented Australasians are now joining the staff of Emperor Mines, turning it into a company better geared up to do business in the Australasian market.

It is always heartening when existing employees are promoted to senior

positions. A case in point is Niel Pretorius who was appointed Group Legal Counsel in early 2003 and is now the Chief Executive Officer of DRDGOLD SA; another is Craig Barnes, previously Group Financial Accountant for DRDGOLD, who is now an executive director of DRDGOLD SA and that company's Chief Financial Officer. We look forward to seeing more 'rising stars' in the years to come.

LOOKING AHEAD

We end FY06 with a sense of achievement. We have created two fit-for-purpose business entities which provide sound building blocks for DRDGOLD going forward. The amalgamation of the South African operations prepared the way for our BEE deal which was concluded at fair value and met all the requirements of the South African Mining Charter for equity participation, essential for the conversion of the company's mineral rights under South Africa's new mining legislation. It has also laid the foundation for Khumo Gold to acquire a further stake in DRDGOLD SA (up to 26%) which would make the company compliant in terms of the Mining Charter's equity requirements until 2014.

Having concluded these transactions, DRDGOLD is now considering how to build a third business in Africa along similar lines. The former General Manager of Blyvoor, Mark Munroe, has been given the task of leading this new business initiative. It took four years to reach our goals in Australasia; we expect the results may be faster in Africa.

DRDGOLD's current operations are less marginal than before and are now on a more secure footing. The upshot is that they have recorded better results in FY06 – financially, operationally and from a safety perspective. They also offer the potential for expansion.

All of these developments, along with a slightly weaker rand and a high gold price, are promising for FY07. A note of caution must be sounded, however. South Africa's fluctuating exchange rate makes it not only difficult to manage a business but hazardous because it means that long-term planning is very difficult. The violent swings in the value of the Rand in the past five years or so have probably damaged the South African economy as a whole. The country needs to export to earn foreign currency and to do so it needs a competitive exchange rate. The recovery of countries in South-east Asia since the late 1990s shows what can be achieved with greater liberalisation and more competitive exchange rates.

The Wits Basin remains a significant asset and South Africa still has an important role to play in developing future gold reserves. DRDGOLD's reserves at depth are one of the best untapped sources to meet the expected gold shortfall in the future. The company will be there to participate in this, provided the right economic conditions are created.

Mark Wellesley-Wood
Chief Executive Officer
17 October 2006