

CHIEF EXECUTIVE OFFICER'S REVIEW

THE MAJOR ISSUES OF FY15 AND BEYOND



Graham Briggs
Chief executive officer

Our strategy remains unchanged: a company that creates value by increasing its margins and generating the cash necessary to develop Golpu in Papua New Guinea – ensuring positive shareholder return in the long term. We have restructured underperforming operations, cut corporate costs, curtailed capital expenditure and reduced our employee numbers. We are now well-positioned to continue to produce safe, profitable ounces.

SAFETY AND HEALTH

I am pleased to report a significant improvement in our safety performance with Harmony recording its first ever fatality-free quarter for the South African operations in the second quarter of FY15. Harmony's safety performance in terms of all parameters measured improved over the year. However, we are not content with our performance, as nine lives were tragically lost at our mines during the year under review.

The colleagues we mourn are Mhanjelwa Cebani, a rockdrill operator at Doornkop, Mosoeu Ntsutheleng, a team leader at Kusasalethu, and Mariselunes Thibello, a rock drill operator at Bambanani, who were involved in fatal falls of ground: Mmaneo Florisa Muso from Tshepong, Michael Chobeng from Masimong and Maxwell Wari from Hidden Valley who were involved in transport accidents; Bernardo Ernesto Cuambe, an engineering assistant at Unisel, who was involved in a headgear accident; and security officers, Sello Jacob Bobejaan and Thapelo Andries Mofokeng who succumbed to gas and smoke inhalation from a self-made heating device inside their security cubicle at the Brand 1 ventilation shaft. To their families, their friends and their colleagues, I send our most sincere condolences.

We continue to strengthen our resolve to make our mines accident free. Following each incident in which an injury – whether fatal or not – occurs, an incident report detailing “lessons learnt” is circulated to all operations to enable them to scrutinise their own systems and procedures. This enables them to pro-actively identify potential shortcomings and to take remedial action where necessary to prevent a recurrence of any such incident.

To achieve zero harm, visible felt leadership is enforced at all levels. This is based on our commitment to safety as a priority that is embedded in our organisational culture. Initiatives implemented at the operations encourage safer behaviour throughout the company. Emphasis on health and safety campaigns has been reinforced, via communication initiatives and regular visits underground by senior management. The focus of these visits was training and coaching.

In terms of the delivery of health services, Harmony has moved away from the historic mine-hospital approach that was curative in nature to one that is more pro-active and focused on prevention. This approach entails providing decentralised primary healthcare-based services, called health hubs, as close as possible to where people are – that is at the operations. This health hub concept has been rolled out to the entire group and has delivered significant benefits, including decreased absenteeism, hospitalisation and medical mortality.

At an industry level in South Africa, we participate in an industry working group to address issues relating to compensation and medical care for occupational lung disease. The gold mining companies involved in the working group have engaged with all stakeholders to co-operate in the design and implementation of a comprehensive

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solution that is fair to past, present and future employees, and one that is also sustainable for the sector. Harmony has been working for many years to eliminate the incidence of occupational lung disease. Various measures have been implemented to improve the management of dust underground – and these efforts continue.

RESTRUCTURING FOR SUSTAINABILITY AND PROFITABILITY

Among the challenges with which Harmony has had to contend has been that of sustaining operations – particularly those of mines that have fallen into losses, squeezed between accelerating costs and falling gold prices. Losses at two of our mines – Kusasalethu and Doornkop – have combined to pull Harmony's overall performance down.

Restructuring at Kusasalethu will contribute to restoring the mine's profits. We have closed the older, lower grade mine and are now mining in the higher grade, new areas. Doornkop, which operated at a loss in each of the past year's four quarters, presented and continues to present a significant challenge. Following several meetings with organised labour, Harmony and the unions have agreed to a new, revised operational plan for Doornkop that will return the mine to profitability, thus saving a significant number of jobs. The outcome of the Doornkop discussions is testimony to what can be achieved when all parties engage with the same aim in mind – to find a sustainable solution to ensure the mine's viability and at the same time securing the majority of jobs.

At Masimong, with its marginal grades, the mine has been restructured for profitability by reducing development rates and concentrating on higher-grade areas. This strategy will reduce the mine's remaining operational life expectancy to about two years and, while this is short, they are expected to be two profitable years.

At the Hidden Valley mine we have reduced the waste stripping to increase our profitability. Due to the lower metal prices we revised Hidden Valley's life of mine plan and focused on further cost savings. Post year-end, on 18 July 2015, a road accident occurred at Hidden Valley, fatally injuring one employee. The mine was closed for several weeks while intensive safety audits were conducted. This is likely to impact the production of the first quarter of FY16.

STAKEHOLDER RELATIONS

Stakeholder engagement is vital – in both South Africa and Papua New Guinea. In South Africa, several meetings were held during the year with various government officials to address issues of mutual interest, to influence legislation and to guide policy development. This included on-going meetings with the former Minister of Mineral Resources, Advocate Ngoako Ramatlhodi, to discuss gold industry and company issues.

We continue to participate in stakeholder and community forums that seek to address the challenges that the gold industry faces – whether with community members, our own employees, government or the Chamber of Mines.

In Papua New Guinea, our teams continue to engage with landowners in a constructive and professional manner. Government acknowledges the significant contribution from mining companies in the country and I find it encouraging that they are always willing to meet with management.

SOUTH AFRICA'S GOLD INDUSTRY

The South African gold sector – although viewed by critics as having reached a mature stage – continues to deliver a large fraction of the country's export earnings and employment opportunities.

Harmony brings a number of skills to the mining of narrow, deep-level and low-grade reefs, which will serve the industry well for some decades to come. That being said, the industry's future success and sustainability will depend on a great degree of cooperation and dedication across each mine as well as on government creating an economic environment that is conducive to profitable mining.

POWER IN SOUTH AFRICA

The electricity grid in South Africa has been under pressure since November 2014 and the national power supplier, Eskom, has announced that load shedding will continue in the medium term. Our primary concern is that load shedding can impact production and the safety of workers underground during a power outage. Various initiatives have been implemented to ensure that our employees remain safe, that production continues and that energy is managed efficiently. These initiatives range from optimising and managing our electricity consumption, especially during peak times, the installation of modern efficient equipment, the potential inclusion of renewable energy as a power source and co-generation as well as own generation. For more on this, see the Environmental Performance section on page 100.

CHIEF EXECUTIVE OFFICER'S REVIEW **REVIEW** CONTINUED

SOUTH AFRICA'S CHANGING LABOUR ENVIRONMENT

At Harmony, we live our five values – safety, accountability, achievement, being connected and honesty. Our pro-active communication campaign focuses on keeping our employees informed about the state of the mine they work at as well as about the health of Harmony. We engage with all unions – whether formally recognised or not – and considerable emphasis has been given to direct engagement with employees and unions over the past two years. A particular emphasis during the year was on fostering an understanding of the economic circumstances of the sector as a whole and of Harmony's mines specifically.

During FY15, operational restructuring involving a reduction in employee numbers was undertaken at Masimong, Doornkop and Kusasalethu in South Africa. The Ernest Oppenheimer hospital and Target 3 mine in the Free State were closed. Mitigating alternatives to retrenchment were implemented, including transfers to other operations, voluntary separation, early retirement and re-skilling. Year-on-year, the total number of employees (including contractors) in South African fell by 11% to 31 012 in FY15.

South Africa's gold mining sector entered into biennial wage talks in June 2015. The manner in which negotiations had previously been managed was something of the past, as mining companies sought to move away from the previous positional approach to negotiations – with both sides setting out initial demands and offers and then moving towards a happy medium. Harmony and the other participating gold-mining companies sought rather to explain the industry's current difficulties and challenges so that talks could start with both sides knowing each other's position.

High wage increases and industrial action will result in the downscaling of operations and the closure of vulnerable mines. Job losses would be inevitable. As much as we at Harmony wish to sustain employee numbers, it is simply not possible if the very sustainability of our company is to be undermined. Mines and shafts will close as their resources are exhausted or become unviable, and that will mean fewer job opportunities. This is a situation that is faced not only by Harmony, but by the rest of South Africa's gold mining sector. Slowing, halting or lessening the process of job losses can only be achieved through honest co-operation between employers and employees.

We have reached a three-year wage agreement with the National Union of Mineworkers, United Association of South Africa and Solidarity, effective from 1 July 2015. Increases range from 6% for miners, artisans and officials to 10.4% for category 4 employees. Although it has been a protracted negotiation process, I believe that we have achieved what we set out to do – reaching an agreement which ensures that we remain sustainable as a company and as an industry, and at the same time limiting job losses.

MINING CHARTER AND SOCIAL RESPONSIBILITY

As calendar year 2014 came to an end, we were confident that we had achieved all of the empowerment targets. We believe that our performance in terms of each of the nine pillars of the Mining Charter illustrates that we have done more than just comply.

The former Minister of Mineral Resources, Advocate Ngoako Ramatlhodi, announced the department's assessment of the mining industry's compliance with the Mining Charter during May 2015. Harmony acknowledges the Department of Mineral Resources' account of the mining industry's successes in achieving these targets and that it recognised the role of the mining industry as a driver of growth and development in South Africa.

The Department of Mineral Resources disagreed with the mining industry's overall claims of compliance, particularly that of "once empowered, always empowered". It was then agreed that the mining companies and the department should together approach the court for clarification. The Chamber of Mines – on behalf of the mining industry – filed its application with the High Court on 4 June 2015.

Harmony will continue its journey to bolster its future in South Africa by proactively participating in transforming the South African mining industry. We are committed to identifying opportunities to facilitate ownership by historically disadvantaged South Africans, to transforming our workforce, to investing in developing South Africans and to creating opportunities for small business entrepreneurs. Our achievements in respect of the Mining Charter are reported more fully elsewhere in this Integrated Annual Report 2015.

PAPUA NEW GUINEA

Turning the Golpu deposit in Papua New Guinea into a producing mine with our joint venture partner is Harmony's principal growth project. Completion of the updated prefeasibility study in December 2014 was a major project milestone. The study was based on a vertically dipping ore body containing a resource of 20.2Moz of gold and 9.4Mt of copper. While a feasibility study has still to be completed, indications are that this world-class deposit could be worked from two block caves with first production in 2020 and

full production of 6Mt attained in 2024. Attributable annual production for Harmony will be significant and is estimated to average 500 000 gold equivalent ounces annually from 2024 to 2029. On this basis, the mine would have an initial estimated life of some 27 years, though the deposit remains open ended and may offer further scope for development.

Results of the updated prefeasibility study support our view that Golpu is a spectacular ore body with a large copper component. It is affordable and mineable. Key objectives of the study were to reduce the capital required for the project, lower operating costs and improve the rate of return.

The initial stages of the project will be funded from internal cash flows. Other funding options will be considered for later stages of the project. Given the current volatility in the gold price, we are focused – more than ever – on cost control and cash generation at existing operations to fund Golpu.

Elsewhere in Papua New Guinea, Harmony's exploration targets are centred on highly prospective areas where field work and surface sampling have delivered sound indications of copper and gold.

REPLACING OUNCES

As our current resources are finite, it is vital to have a project pipeline to replace reserves mined. During March 2015, a highly significant zone of copper-gold mineralisation was intersected at the Kili Teke exploration prospect, on one of our exclusively owned exploration licence areas in Papua New Guinea.

Initial diamond drill testing of the Kili Teke prospect is currently underway. Assays received from the first four holes have all returned broad porphyry-style copper-gold intercepts with mineralisation extending to surface. The mineralisation contains higher grade intervals of copper-gold mineralisation up to 202m @ 0.74% copper and 0.57g/t gold. At this stage, the mineralisation remains open through the drill pattern over 500m, and at depth.

In an environment where very little is being spent on exploration and with the paucity of new major copper and gold discoveries, the results from this grassroots prospect are very encouraging. As the extent of the surface copper-gold geochemical footprint is yet to be tested, there is potential to develop this find into a major copper-gold deposit similar to Golpu, Ok Tedi or Frieda River which have resource cut-off grades of around 0.2% copper. New discoveries are one of the best avenues to create shareholder value.

OUTLOOK FOR FY16

Our operational aims in FY16 will be to contain costs and remain South Africa's lowest-cost producer when measured in rands per tonne mined and ensure that every operation is profitable.

In contrast to South Africa where our mines are all mature operations, we are in the process of developing a greenfields project in Papua New Guinea. The feasibility study on stage 1 and the prefeasibility on stage 2 are due to be completed in December 2015. This, together with the completion of a pre-development agreement with the Papua New Guinean government, will add more certainty to the development of a mine at Golpu. Our exploration programme has enjoyed, and continues to enjoy, considerable success in locating copper-gold mineralisation and we shall continue this activity methodically.

I continue to believe in the future of Harmony. Each operation has been positioned to be profitable. Our plans are realistic and can be achieved.

RECOGNITION

During July 2015, I indicated to the board that I wish to retire from my role as chief executive officer and director of the board. Thank you to everyone who has contributed to making Harmony what it is. I am grateful for the support and guidance of our chairman, Patrice Motsepe, of my board colleagues and management team, and of the many people who work on our mines and in our exploration teams.

Graham Briggs
Chief Executive Officer
 23 October 2015