FINANCIAL DIRECTOR'S REVIEW

Frank Abbott Financial director

PERFORMANCE OVERVIEW FOR FY15

During the financial year under review, Harmony restructured its high-cost operations to optimise profitability. In particular:

- Target 3 was placed on care and maintenance at the end of the first quarter of FY15
- We embarked on a life-of-mine optimisation process at the South African operations to ensure a greater focus on profitability and the mining of higher grade areas. This process resulted in the restructuring of Kusasalethu, where the old mine levels were closed and a Section 189A process was completed in the third quarter of FY15
- Doornkop's life-of-mine plan was shortened and focused on higher grade areas
- Restructuring at Hidden Valley resulted in a revised mine plan to reduce costs that placed greater emphasis on operational improvements
- Masimong restructuring involved reducing development rates and a greater focus on mining higher-grade areas

The 8% decrease in production recorded for the year was mainly due to stoppages at Kusasalethu, the suspension of mining at Target 3 when it was placed on care and maintenance at the end of September 2014, and a decrease in production at Hidden Valley. The average underground grade remained stable in FY15. The Harmony group's revised business plans for FY16 resulted in an impairment of R2.1 billion (US$174 million) for the Hidden Valley operation following the reduction in the life of mine. Other impairments include R1.0 billion (US$85 million) following the restructuring and downsizing at Doornkop that was aimed at establishing a smaller but more profitable mine.

Harmony maintained a solid balance sheet. The strong cash flows generated from operations enabled Harmony to fund the majority of its own capital expenditure despite operational and market challenges experienced during the year.

KEY DRIVERS OF FINANCIAL PERFORMANCE IN FY15

	FY15	FY14	Change %
Gold produced (kg)	**33 513**	36 453	(8)
Gold produced (oz)	**1 077 466**	1 171 987	(8)
Underground recovered grade	**4.75**	4.77	–
Gold sold (kg)	**34 332**	36 288	(5)
Gold sold (oz)	**1 103 793**	1 166 682	(5)
Gold price received (R/kg)	**449 570**	432 165	4
• Gold price received ($/oz)	**1 222**	1 299	(6)
• Exchange rate (R/US$)	**11.45**	10.35	11
Cash operating costs and capital (R/kg)	**442 895**	397 964	(11)
Cash operating costs and capital (US$/oz)	**1 203**	1 196	(1)
All-in sustaining costs (R/kg)	**458 626**	413 433	(11)
All-in sustaining costs (US$/oz)	**1 246**	1 242	–

The **average gold price received** in rand terms increased by 4% as the weakening of the rand against the US$ offset the continued decrease in the US$ gold price.

All-in sustaining costs (R/kg) increased by 11% to R458 626/kg (0% to US$1 246/oz). The increase is mainly attributable to the decrease in gold sales and the increase in production costs.

EXTRACT FROM THE INCOME STATEMENT

	FY15	FY14	Change %
Revenue	**15 435**	15 682	**(2)**
Production costs	**12 632**	11 888	**6**
Impairment of assets	**3 471**	1 439	**>(100)**
Employment termination and restructuring costs	**251**	274	**8**
Gross loss	**3 618**	406	**>(100)**
Exploration expenditure	**263**	458	**43**
Loss on scrapping of property, plant and equipment	**491**	–	**(100)**
Other expenses (net)	**378**	208	**(82)**
Taxation credit	**704**	279	**>100**
Net loss for the year	**4 536**	1 270	**>(100)**

Revenue for FY15 of R15 435 million is 2% lower (or US$1 348 million, 11% lower) than FY14 mainly as a result of the 5% decrease in the volume of gold sold, which was offset partially by a 4% increase in the average rand gold price received.

Production costs were well controlled and only increased by 6% to R12 632 million (reduced by 4% to US$1 103 million), despite higher-than-inflation price increases in electricity, labour costs and the cost of consumables.

A total **impairment** of R3.5 billion (US$285 million) was recognised, which consisted of R2.1 billion (US$174 million) for Hidden Valley, R1.0 billion (US$85 million) for Doornkop, R278 million (US$23 million) for Phakisa and R43 million (US$3million) for Freddies 9. The impairment of Hidden Valley was recorded following the reduction in its life of mine as the lower gold price and increasing costs continue to adversely impact its profitability.

Employment termination and restructuring costs of R251 million (US$22 million) in FY15 are a result of the restructuring of under-performing operations.

Exploration expenditure of R263 million (US$23 million) for FY15 relates mainly to the various projects in Papua New Guinea, of which most was spent on Golpu. The amount of spend reflected in the income statement decreased from the prior year as the Golpu project's stage 1 exploration expenditure was capitalised following the approval of the project's updated prefeasibility study by the Harmony and Newcrest boards in December 2014.

Loss on scrapping of property, plant and equipment of R491 million (US$42 million), recorded mainly for Kusasalethu and Masimong, relates to the abandonment of unprofitable mining areas arising from the life-of-mine optimisation process, which placed greater emphasis on mining of profitable and higher grade areas.

Other expenses includes R382 million (US$33 million) (2014: R155 million (US$15 million)) for the foreign exchange translation loss on the US$-denominated loan facilities.

The **taxation credit** in FY15 resulted from the reduction in the average deferred tax rates at the South African operations following completion of the annual life-of-mine plans.

The **net loss** for the year was mainly due to the impairments of Hidden Valley and Doornkop, the loss on the scrapping of property, plant and equipment following the life-of-mine optimisation process and reduced production.

NET DEBT

	FY15	FY14
Borrowings		
Long-term	**(3 399)**	(2 860)
Short-term	**–**	–
Total borrowings	**(3 399)**	(2 860)
Cash and cash equivalents	**1 067**	1 829
Net debt	**(2 332)**	(1 031)

In FY15, the syndicated US$300 million loan facility was settled and Harmony entered into a new US$250 million revolving credit facility. Translation losses of R382 million (US$33 million) were recorded on the loans owing to the weakening of the rand against the dollar. The facility matures in February 2018.

A total of R400 million (US$35 million) was drawn down on the R1.3 billion Nedbank revolving credit facility during the year. The facility matures in December 2016.

Cash and cash equivalents declined to R1 067 million (US$88 million) from R1 829 million (US$172 million).

EXTRACT FROM THE CASH FLOW STATEMENT

	FY15	FY14
Cash generated by operating activities	**2 006**	2 268
Cash utilised by investing activities	**(2 908)**	(2 640)
Cash generated by financing activities	**148**	144
Net decrease in cash and cash equivalents	**(762)**	(260)

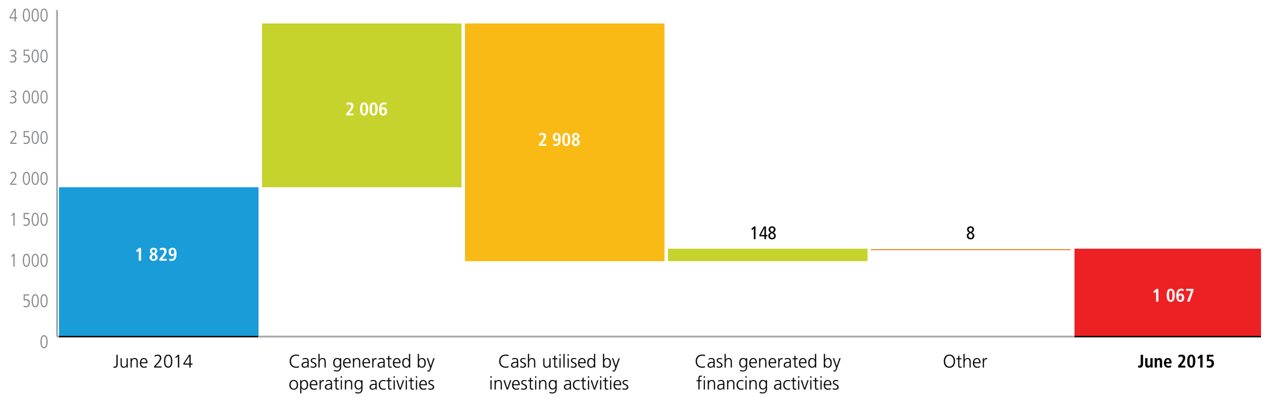
Cash generated by operating activities decreased by 12% to R2 billion (or 20% to US$176 million) mainly due to the decrease in revenue and increased production costs (as noted).

Cash utilised by investing activities: Capital expenditure increased by 7% to R2 822 million (or 4% to US$246 million) in FY15 from R2 648 million (US$256 million) in FY14. Harmony's focus is on capital expenditure that supports safe production and a sustainable future.

Cash generated by financing activities: During the year, there was a net cash outflow of US$20 million (R204 million) on the US$ loan facilities and we raised borrowings of R400 million (US$35 million) on the Nedbank ZAR facility.

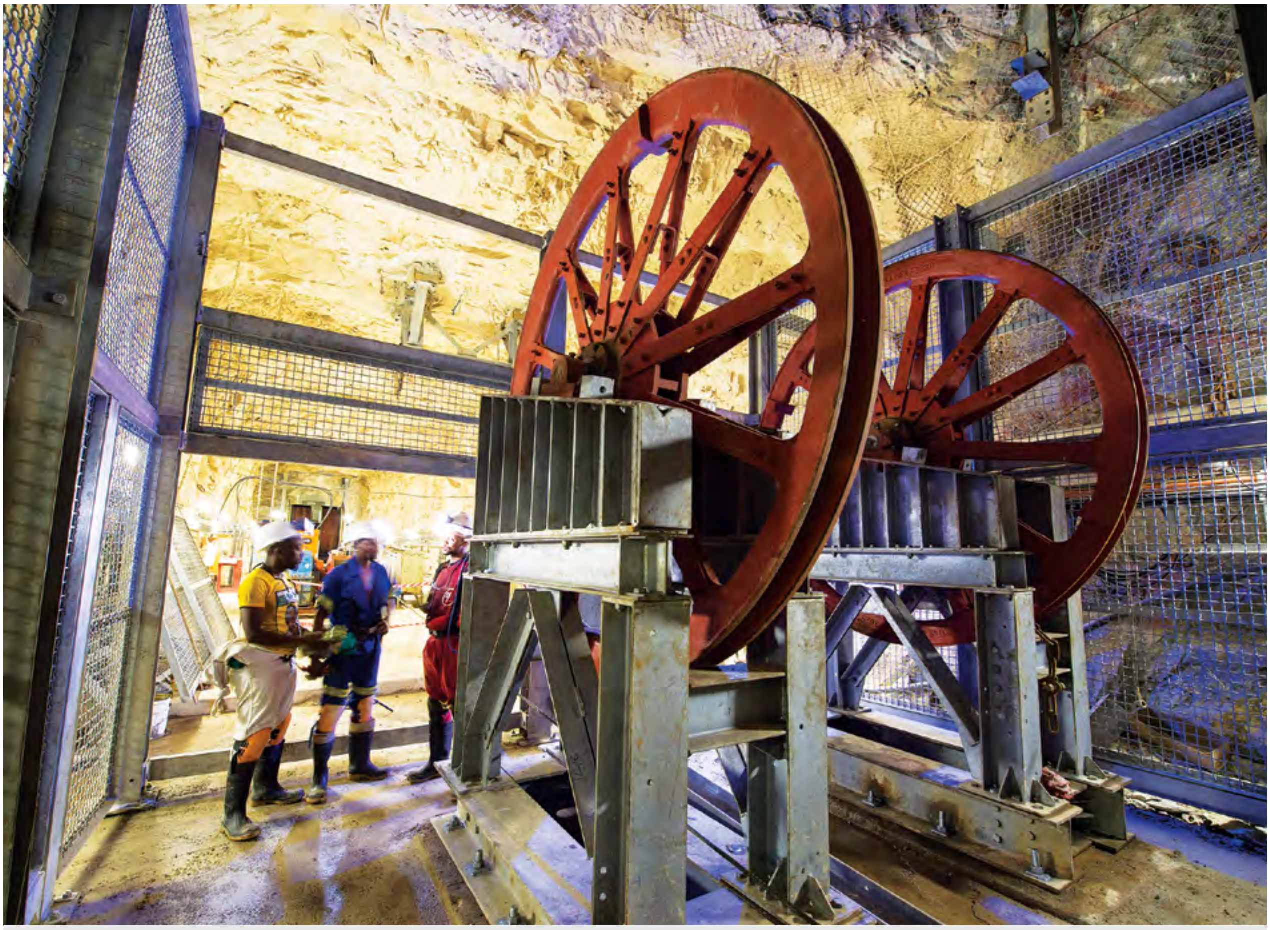
For more on this, refer to the consolidated financial statements in the Financial report 2015. Which is available at www.har.co.za/15/download/HAR-FR15.pdf.

Change in cash FY15 (Rm)



OUTLOOK

We believe that in restructuring and optimising our operations to focus on the mining of higher grade ore to grow gold production, we will increase margins and generate free cash flow.



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