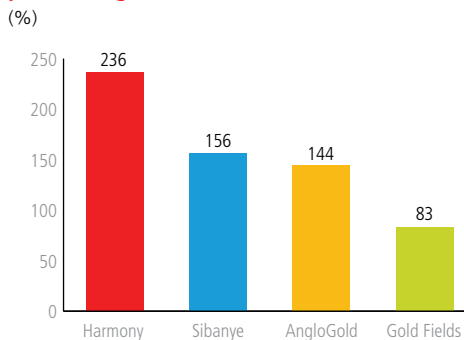


CHAIRMAN'S LETTER



Patrice Motsepe
Chairman

Harmony's share price performance against peers during FY16



Note:
Source – Thompson Reuters

Dear shareholder

The year under review was a successful year.

Our share price increased from a low of R16 at the end of June 2015 to R52 at the end of June 2016. Harmony's share price outperformed all other gold mining companies locally and abroad. This increase was driven by the increase in the gold price, our return to profitability and the good work that our management is doing. The *chief executive officer's review* deals in greater detail with the operational performance of our mines.

Negative sentiment on gold was reversed by a surge in investors buying gold exchange traded funds. A record high of 568 tons of gold was bought through exchange traded funds in the first half of calendar 2016, with interest centred in North America and London¹. The weakening of the exchange rate against the US dollar further contributed to the 21% increase in the rand gold price.

Good production results for the year combined with positive market conditions enabled us to increase our margins, significantly reduce debt, strengthen the balance sheet and declare our first dividend in three years of 50 SA cents per share.

SAFETY

The safety and health of all our employees is our primary concern. We are committed to creating a culture where safety and health is our first priority.

There has been a substantial improvement in the lost-time injury frequency rate from 9.57 in the previous year to 6.50 per million hours worked in the current year.

Regrettably ten of our colleagues lost their lives in accidents during the financial year. We remain committed to zero fatalities at all our operations. I send my personal condolences and those of the entire Harmony to the families, friends and work colleagues of those who lost their lives at our operations.

The causes of all accidents are investigated and analysed thoroughly by our own safety personnel in conjunction with the authorities and employee representatives, and lessons learned are rigorously applied.

FINANCIAL RESULTS

This year we started reaping the benefits of our continued focus on cost management as well as the restructuring and optimisation initiatives implemented by management during the previous year. We achieved a unit cost increase of only 3% year-on-year and an 81% increase in production profit to R5.1 billion.

It is pleasing to see that our capital investments over the past few years have *inter alia* resulted in the improvement of the underground grade to an average of 5.02g/ton for this year. We look forward to this trend continuing into the future.

A higher average rand gold price received together with slightly higher gold production resulted in a net profit of R949 million for the year compared to a loss of R4.5 billion for the previous year. Headline earnings amounted to 221 SA cents per share compared to a headline loss of 189 SA cents during the previous year.

Further details on the company's financial performance are provided in the Financial Director's Review on [page 15](#) and on its operational performance on [page 76](#).

GROWTH STRATEGY

We continuously investigate opportunities to increase our production and reserves. Our acquisition of Newcrest's 50% share in Hidden Valley, in Papua New Guinea, is in line with our overall aspiration to increase our annual production profile to 1.5Moz within three years. We believe that Hidden Valley has the potential to contribute approximately 180 000oz of gold per annum to Harmony's production profile at an all-in sustaining cost of less than US\$950/oz within the next three years.

¹ Thomson Reuters GFMS Gold Survey 2016, quarter 2

Our exploration and development in Papua New Guinea has been successful since our first transaction in 2003. Following the declaration of a maiden resource at our wholly-owned Kili Teke prospect in November 2015, continued drilling proved to be increasingly promising and enabled us to declare an updated resource that has grown by 50% to 6Moz on a gold equivalent basis.

The Golpu gold-copper project in Papua New Guinea, is a world-class asset due to its size, high grades, long-life and low operating costs. We have completed and announced the project's stage 1 feasibility study outcomes as well as the prefeasibility study outcomes for stage 2. The design of the mine allows optionality and flexibility to scale the operation up with a relatively low capital investment. Golpu will create significant value for our shareholders in the long term.

LEVERAGING OF THE ENVIRONMENT FOR SOCIO-ECONOMIC UPLIFTMENT

Harmony is committed to making a lasting contribution to the economic and social development of all stakeholders in the countries where we operate.

Harmony's rehabilitation programme is creating jobs and contributing to building sustainable communities beyond the life of our mines by finding alternative uses of rehabilitated land for agriculture and renewable energy projects. This year we implemented the biogas project, establishing commercially viable vegetable and olive farms in Welkom and launched the Police and Prisons Civil Rights Union (POPCRU) training academy. We also released the Merriespruit 3 community rental units in partnership with the Department of Human Settlement and the Department of Mineral Resources.

I am confident that the South African government is committed to creating a globally competitive dispensation for investment in the mining industry. I uphold this view despite the outstanding issues between the government and the Chamber of Mines. We sometimes take longer than what is necessary to resolve our differences on various multi-stakeholder issues, whether it is the "once empowered always empowered principle" or other socio-economic issues. Our history and culture of multi-stakeholder engagement and seeking solutions which are in the interests of all stakeholders gives rise to my confidence that we will resolve these issues.

Papua New Guinea is also reviewing its current mining legislation with draft legislation tabled for discussion with all stakeholders.

GOLD MARKET

During the first six months of the reporting period, the gold price continued the downward trend that started in 2013, reaching lows of around US\$1 060/oz, with sentiment remaining depressed. This was largely driven by the prospect of rising US interest rates as well as general negative commodity market sentiment.

In stark contrast, the second six months of the reporting period saw a dramatic change in sentiment, with the gold price rising by 25% to US\$1 321/oz by the end of the financial year. Despite weak physical demand, especially from China and India, investment demand surged to push the gold price higher. The impact of Brexit added to uncertainty and provided further impetus to investment demand.

Worldwide mine gold production decreased during the first half of the 2016 calendar year, by 1% to 1 514 tons compared to the corresponding period in 2015. This points to a possible year-on-year decrease in mine production for the first time since 2008, as the long-term impacts of decreased capital and exploration spending begins to filter through. It is pleasing to see that the official sector remains a meaningful net buyer of gold, notably Russia and China².

At Harmony we remain confident of the metal's long term fundamentals as a desirable and scarce store of wealth. However, periods of price volatility in our business can have a significant impact on our margin but can also present short term opportunities to secure an attractive margin. This is reflected by the steps taken by management to conclude a currency hedge for about 35% of our annual dollar flows in February 2016, and then concluding a gold production hedge just after the end of the current financial year for about 20% of two years' gold production.

THANKS

I would like to express my gratitude to all the directors, the management and all the employees of Harmony for their commitment, sacrifices and contributions to the development and growth of the company.

Peter Steenkamp has done an excellent job since being appointed as chief executive officer. I am confident that Harmony will continue to create value for our shareholders and also benefit our diverse range of stakeholders.

Patrice Motsepe
Chairman

26 October 2016

² Thomson Reuters GFMS Gold Survey 2016, quarter 2