

CHIEF EXECUTIVE OFFICER'S REVIEW



Peter Steenkamp
Chief executive officer

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Harmony is a global mining company with a significant production profile and gold and copper reserves. Good progress was made in the past financial year in delivering on our growth strategy through the acquisition of Newcrest Mining Limited's 50% in Hidden Valley and, post year-end, our recent acquisition of AngloGold Ashanti Limited's Moab Khotsong mine complex. We remain committed to ensuring operational excellence, cash certainty and effective capital allocation.

OVERVIEW

Our financial focus has been on reducing the company's debt burden and investing in growth opportunities. Improvements both in the gold price and in the gold recovered grades contributed to our profitability and enabled us to make interim and final dividend payments. Details of our financial performance are provided in the *Financial director's report*.

Currently, our strategic targets are to achieve annual production of 1.5Moz of gold by June 2019, at a unit cost of less than US\$950/oz. We continued to hedge our gold price and currency exposures during the 2017 financial year. This provided the cash-flow certainty needed for our capital investment and growth strategy.

SAFETY AND HEALTH

Harmony is fully committed to the health and safety of our employees, in the workplace and at home. Despite our combined best efforts, five of our people lost their lives in the service of the company during the 2017 financial year. Those whose lives were lost were Lekhabu Seattle, Samuel Mayakala, Enoch Magrwanini, Tsekiso Kelane and Sakhele Xungu. We regret to report that, post year-end we had five fatalities at Kusasaletu following a seismic event. We extend our personal, heartfelt condolences to their families, colleagues and friends. For further information, see *Safety and health*.

All safety incidences are fully investigated, and the lessons learned incorporated into mine safety procedures across the group.

The establishment of health facilities at our operations, operated by qualified medical personnel, has made an important contribution to the overall health of our employees. Where more specialised care is required, an employee is transferred to specialist treatment facilities.

OPERATIONAL REVIEW

Operational excellence was key in improving safety performance, and we achieved annual production guidance for a second consecutive year, and increased the underground grade mined for a fifth consecutive year. Harmony produced 1.09Moz of gold (exceeding production guidance of 1.05Moz) and achieved an underground recovered grade of 5.07g/t (FY16: 5.02g/t). Our group-wide all-in sustaining cost was R516 687/kg (US\$1 182/oz).

Our successful hedging strategy realised gains of R1.7 billion (US\$128 million) enabling Harmony to invest in the Hidden Valley stages 5 and 6 open-pit cut-back and infrastructure reinvestment programme and to reduce net debt by 18% to R887 million (8% to US\$68 million). Harmony returned cash to shareholders by paying dividends of R439 million (US\$33 million).

South Africa

During the year, the company commenced the merger of its Tshepong and Phakisa mines to form the combined Tshepong operations. This merger will increase efficiencies, reduce operating cost at the two mines and increase production volumes.

Kusasaletu showed a notable improvement in gold produced, following the decision to shorten the life of mine and focus on higher grade areas. Production increased by 14% with a 25% increase in underground recovered grade to 7.23g/t.

Target 1's production was hampered by unfavourable mining conditions in the higher grade areas. Lower gold production at Target 1 was offset by higher production at other mines, resulting in South African gold production for FY17 being in line with that of the previous year.

There is significant potential at Masimong and Tshepong on the B Reef, which is currently being mined as a high-grade secondary reef to the Basal Reef. The same B Reef channel is expected to exist at Phakisa and underground exploration drilling to delineate the high-grade payshoots in the B Reef channel has begun.

Papua New Guinea

The major strategic development during the past year was the acquisition in October 2016 of the remaining 50% interest in the Hidden Valley mine from Newcrest Mining Limited (Newcrest). This gave Harmony full ownership of the mine. The acquisition was in line with our aspiration to grow our production ounces to 1.5Moz and provides further critical mass to our Papua New Guinea production platform. A net investment of approximately US\$180 million will be made in the stage 5 and 6 cut-backs and infrastructure re-investment, with approximately US\$68 million of that amount spent in FY17. The remaining investment, consisting of mine waste stripping, plant refurbishments and upgrades as well as mining equipment replacements will take place in FY18. Commercial levels of production are targeted for the June quarter of FY18. Hidden Valley is expected to produce 180 000oz gold and 3Moz silver per annum in FY19.

The Wafi-Golpu joint venture parties continued to progress activity in line with the work plan previously communicated, including engagement with the Papua New Guinea Government on the application for a special mining lease for the Wafi-Golpu project.

The current study work is focused on assessing:

- self-generation power supply options
- reassessment of block cave levels and increased mining rates due to increased knowledge obtained from further drilling undertaken during the year
- deep-sea tailings placement options to compare with terrestrial tailings storage options

The joint venture parties are targeting a complete update of the feasibility study during the latter part of FY18. The focus of this work will be to further optimise the business case and confirm any amendments necessary to the supporting documents for the special mining lease application. Timing of first production is dependent on the updated study outcomes and the granting of the special mining lease.

In July 2017, national elections were held in Papua New Guinea at which the prime minister was re-elected. We look forward to working with the Papua New Guinea government to achieve the appropriate regulatory and fiscal framework and the stability necessary to progress the Wafi-Golpu project.

LABOUR

The relationship between the company and its employees has been supportive with the exception of two unprocedural work stoppages at Kusasaletu. The three-year wage agreement will come to an end in June 2018 and a new agreement will be negotiated. For more employee-related initiatives, refer to *Employees and communities* in this annual report.

MINING CHARTER AND SOCIAL RESPONSIBILITY

Harmony is fully compliant with the 2014 Broad-Based Black Socio-Economic Empowerment Charter targets for the South African mining and minerals industry and we have exceeded the 26% ownership requirement. Refer to the *Mining Charter compliance scorecard*.

A new Mining Charter was published in June 2017. Its implementation has been postponed by the Minister of Mineral Resources, pending judgement in the review application brought in the High Court of South Africa by the Chamber of Mines, of which Harmony is a member. We remain optimistic that a workable solution will be found.

CONCLUSION

It is with much sadness that I turn to the tragic death of Simphiwe Kubheka at the end of September 2017. Simphiwe, the regional manager: Tshepong operations, will be remembered for the significant contribution he made to Harmony. I extend my sincerest condolences to his family, friends and colleagues. He will be sorely missed.

Harmony's people work as a team in progressing our business. Everyone has played their part and to all I extend my sincere thanks. Thank you to our chairman, Patrice Motsepe, and the board for providing me with invaluable support during this past year for which I extend my sincere appreciation.

Peter Steenkamp
Chief executive officer

26 October 2017