

# CHAIRMAN'S LETTER



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Dr Patrice Motsepe Chairman

## Dear shareholders and stakeholders

During the financial year under review Harmony continued its increase in production volumes for the third consecutive year.

Gold production increased by 13% and the underground recovered grade increased by 8% in the past year, resulting in our all-in sustaining unit costs reducing to R509 000/kg. The newly acquired Moab Khotsong operations included in our portfolio from 1 March 2018 contributed significantly to our improved performance in FY18.

We acquired the Moab Khotsong operations and completed our reinvestment in Hidden Valley, as part of the strategy to increase our production profile and improve margins and cash flow. These operations will increase our annual production by 450 000 ounces, reduce unit costs and improve our cash flows.

We are thankful for the support from our shareholders who participated in the equity capital raise of R1.26 billion (US\$100 million) to partially fund the Moab Khotsong acquisition.

Harmony released an updated feasibility study in March 2018 for the Wafi-Golpu copper-gold project in Papua New Guinea which confirmed a large orebody with high grades, low operating costs and significant free cash flows. We are looking forward to its contribution to our production and cash flows when it becomes operational.

Further details of the company's operational and financial performance are provided in the *Chief executive officer's review* and the *Financial director's report*.

## SAFETY AND HEALTH

Harmony's principal focus is on the safety and health of all our employees. We remain committed to achieving a target of zero harm.

Regrettably, 13 of our employees tragically lost their lives at our mines during the year. I send my heartfelt condolences to their families, friends and colleagues.

Harmony's safety risk management strategy, its values and visible leadership underpins its determination to achieve zero harm. A co-operative approach involving all stakeholders ensures that the appropriate infrastructure and systems are in place, including relevant planning, communication and training. We encourage employees to halt work when a workplace is considered unsafe. For further information in this regard, see the *Safety and health* section of the report.

Our company is an active participant in industry-wide health and safety initiatives. This year we reached an agreement with lawyers representing claimants in the silicosis class action. The settlement which is still subject to High Court ratification, represents a fair and just outcome for all stakeholders.

## OUR EMPLOYEES

The acquisition of Moab Khotsong increased our total number of employees to approximately 38 500 in South Africa and 2 200 in Papua New Guinea. Our employees reside mainly in the communities neighbouring our mining operations and we paid R9.5 billion (US\$740 million) in salaries during the year.

Harmony invested R418 million (US\$32.5 million) in employee training. Employees were trained in critical skills, mentorship, hazard identification, risk assessment, mineral resource management and various other courses. We also awarded 101 bursaries to students studying at South African universities.

## HARMONY'S COMMITMENT TO ITS HOST COMMUNITIES

Our commitment to involve and benefit the communities neighbouring our mines and to contribute to their development and growth is important for the long-term success of the company.

Harmony has given particular attention to the needs of the people living near our mines in the Free State in recent years. Harmony introduced an innovative community skills and development training programme in Welkom and the broader Matjhabeng area. It is aimed at empowering women and a whole new generation of young people. The programme's objective is to train participants in the skills that will help them to find jobs, not only in the mining sector but also in the broader economy. By the end of June 2018, 60 community members had participated in this initiative.

Enterprise development is a key focus area of our sustainable development strategy. Successful supplier days were held in the communities surrounding Doornkop, Joel, Kalgold and Kusasalethu. The purpose of these supplier days is to conduct structured and proactive engagement sessions within each municipal district, exposing local small, micro and medium enterprises

(SMMEs) to procurement and development opportunities within Harmony.

We paid R429 million (US\$33 million) in taxes and royalties in South Africa and Papua New Guinea. In addition, we spent R5.1 billion (US\$400 million) on local procurement and R74 million (US\$6 million) on socio-economic initiatives in our host communities in both countries.

## THE SOUTH AFRICAN MINING INDUSTRY

The gold mining industry remains a key contributor to the South African economy. In the 2017 calendar year, the gold mining industry contributed R54.5 billion to the South African gross domestic product (GDP) and exported R82.7 billion worth of products as part of the country's R1.1 trillion exports. The gold mining industry employs approximately 112 000 people and in 2017 paid R29.5 billion in employee wages, salaries and benefits. Those employed by the gold mining industry in turn support an estimated 1.1 million dependants<sup>1</sup>.

In addition to creating employment and contributing to GDP and the fiscus, the South African mining industry invested

approximately R2 billion in community development initiatives and created opportunities for SMMEs (small, medium and micro enterprises) through preferential procurement, supplier development and enterprise development<sup>1</sup>.

Between 2007 and 2016, gross fixed investment by the South African mining industry slowed mainly due to a downturn in the commodity cycle, rapidly rising mining costs, uncertainty relating to the regulatory dispensation and the discussions on the Mining Charter between the government and the mining industry<sup>1</sup>.

It is important that the South African mining industry continues to be globally competitive and attractive to domestic and international investment.

The new mining dispensation including the mining charter must ensure that the South African mining industry maintains and enhances investor confidence.

The mining industry should continue to create broad public awareness of its developmental and upliftment role which benefits workers, neighbouring communities and other stakeholders.

<sup>1</sup> Statistics provided by the Minerals Council South Africa.

## MY GRATITUDE

I would like to thank all our employees, our host communities and all other stakeholders for their support and cooperation during the past financial year.

I would also like to thank our chief executive officer, Peter Steenkamp and his management team for their leadership, hard work and contribution to the success and growth of Harmony.

We are pleased to welcome back Max Sisulu as an independent non-executive director. Max previously served on the Harmony board.

Our board of directors remains committed to robust corporate governance and ethical conduct. I am grateful and value the guidance and advice provided by our high-calibre, skilled and experienced directors.

I am confident that Harmony will build on the momentum achieved during this past year and will continue to create value for its shareholders and all our stakeholders.

**Dr Patrice Motsepe**  
Chairman

25 October 2018



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