FINANCIAL DIRECTOR'S REPORT

"We're delivering on our growth aspirations through the acquisition of Moab Khotsong and the Hidden Valley re-investment plan."

Frank Abbott Financial director

KEY OUTCOMES

FY18

- Successfully acquired and integrated Moab Khotsong
- Hidden Valley re-investment plan delivered safely, on schedule and within budget
- R1.8 billion generated in cash flow through the group's hedging strategy

Moab Khotsong acquisition

On 1 March 2018, Harmony acquired the Moab Khotsong and Great Noligwa mines and related infrastructure (collectively Moab Khotsong) from AngloGold Ashanti. In the four months to year end, Moab Khotsong contributed:

REVENUE
R1.7 billion (US$140 million)

OPERATIONAL FREE CASH FLOW
R460 million (US$36 million)

NET PROFIT
R208 million (US$17 million)

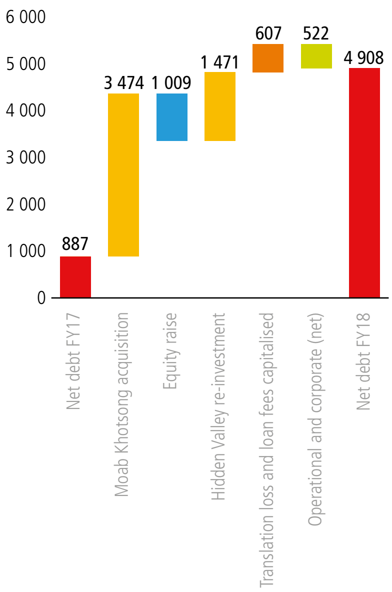
The acquisition has enhanced group production, underground recovered grade, all-in sustaining unit costs and operating free cash flow. Work continues on further optimising operational performance at Moab Khotsong so as to enhancing synergies.

The acquisition purchase price was a cash consideration of the rand equivalent of US$300 million (R3.5 billion), of which US$100 million was funded using the existing US$350 million syndicated facility and the remaining US$200 million was funded using a bridge loan.

The group successfully conducted a two-part share placement to raise up to R1.3 billion (US$100 million), the proceeds of which, together with internally generated cash resources, were used to repay the bridge loan. US$150 million of the bridge loan was repaid during the financial year and the remaining outstanding balance of US$50 million was settled post financial year end.

At 30 June 2018, the group's net debt/EBITDA ratio stood at 1.0x (0.3x at 30 June 2017), largely as a result of the debt drawn to fund the Moab Khotsong acquisition. A ratio of 1.0x compares favourably to South African and international gold mining peers, and the group will target a ratio of less than 1.0x. A reduced ratio will be achieved through continued implementation of our strategy to increase margins and repay debt.

Funding quality growth
(R million)



Cash certainty

Realised cash gains from the hedging programmes in FY18 were as follows:

- Currency hedges – R698 million (US$54 million)
- Commodity hedges – R1.1 billion (US$87 million)

The hedging programmes are topped up as and when opportunities arise to lock-in attractive margins for the business. A meaningful proportion of the group's expected production and foreign currency export proceeds have already been secured at beneficial margins.

Open hedging contracts as at 30 June 2018:

		FY2019		FY2020		Total
		H1	H2	H1	H2	
Rand gold						
Forward contracts	000oz	105	94	77	24	300
	R000/kg	660	623	631	640	639
Dollar gold						
Forward contracts	000oz	48	38	10	–	96
	US$/oz	1 290	1 336	1 382	–	1 318
Total gold contracts	**000oz**	**153**	**132**	**87**	**24**	**396**
Currency hedges rand dollar						
Zero cost collars	$m	147	105	–	–	252
	Floor (R/US$)	14.11	13.11	–	–	13.69
	Cap (R/US$)	15.09	13.78	–	–	14.54
Forward contracts	$m	67	134	36	36	273
	R/US$	13.51	13.69	14.68	15.03	13.95
Total rand dollar	**$m**	**214**	**239**	**36**	**36**	**525**
Dollar silver						
Zero cost collars	000oz	480	180	90	–	750
	Floor (R/US$)	17.10	17.30	17.40	–	17.19
	Cap (R/US$)	18.10	18.30	18.40	–	18.19

Impairment

An impairment of R5.3 billion (US$386 million) was recognised during the year, driven largely by cost inflation coupled with a subdued forecast gold price of R535 000/kg (US$1 250 at R/US$13.30) and the resulting effect on margins.

Given the lower prices paid for resources in recent times, particularly among South African gold resource companies, lower resource multiples were used to value our outside life-of-mine resources, resulting in reduced resource valuations. This affected our undeveloped Target North property as well as a certain portion of the Doornkop operation's outside life-of-mine resources.

The FY18 impairment was made up as follows:

Operation	Impairment R million
Target North*	1 458
Tshepong operations	988
Target 1	699
Kusasalethu	579
Unisel	487
Masimong	329
Doornkop*	317
Other assets	319
Joel	160
Total impairment	**5 336**

* *Impairment primarily driven by lower resource multiples*

- Tshepong operations and Joel presented a decrease in recovered grade as per their respective updated life-of-mine plans
- Drilling results at Target 1 pointed to lower grade estimates within certain blocks that have now been excluded from the life-of-mine plans
- Kusasalethu's old mine was excluded from the operation's FY19 life-of-mine plan
- Unisel took on a reduced life-of-mine plan as the mining focus was re-directed to higher-grade areas
- Masimong depleted its higher-grade Basal Reef and its life-of-mine plan was thus reduced

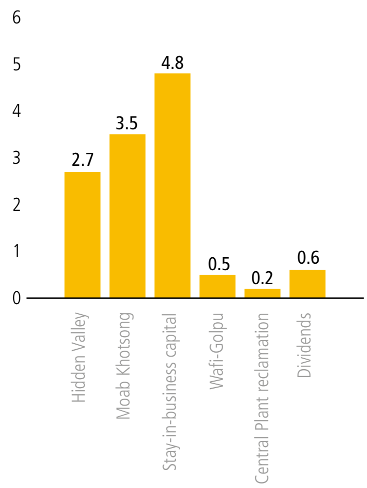
Continuous evaluation of the group's orebodies and the exclusion of lower-grade mining areas enabled the group to effectively allocate capital and resources in line with its strategy to produce safe, profitable ounces and to increase margins.

Capital allocation

Capital expenditure in FY18 increased by 16% to R4.3 billion (23% to US$333 million) of which R1.5 billion (US$116 million) was spent at Hidden Valley.

Capital expenditure at our South African operations increased by 16% or R366 million (22% or US$38 million). Capital expenditure of R4.6 billion (US$343 million) is planned for FY19.

FY17 and FY18 capital allocation
(R billion)



The group's focus is to sustain the current revamped portfolio while simultaneously evaluating organic growth opportunities with particular emphases on Moab Khotsong, Hidden Valley and Wafi-Golpu. Key milestones in FY19 will be the completion of prefeasibility studies for the Mispah tailings, Hidden Valley extension and the Zaaiplaats projects.

FINANCIAL DIRECTOR'S REPORT CONTINUED

Financial performance

Our FY18 performance was substantially affected by the addition of Moab Khotsong and the hedging programmes that continued to contribute to favourable cash margins.

Key drivers of financial performance FY18

		FY18	FY17	Change %
Gold produced	kg	**38 193**	33 836	13
	oz	**1 227 934**	1 087 852	13
Underground grade recovered	g/t	**5.48**	5.07	8
Gold price received	R/kg	**570 709**	570 164	–
	US$/oz	**1 380**	1 304	6
Production profit	Rm	**5 356**	4 452	20
	US$m	**416**	327	27
All-in sustaining costs	R/kg	**508 970**	516 687	1
	US$/oz	**1 231**	1 182	(4)
Net debt	Rm	**4 908**	887	>(100)
	US$m	**356**	68	>(100)
Net debt/EBITDA ratio	times	**1.0x**	0.3x	
Average exchange rate	R/US$	**12.85**	13.60	(6)

Income statement – extract

	FY18	FY17	Change %
Revenue	**20 359**	19 264	6
Production costs	**14 991**	14 812	(1)
Impairment of assets	**5 336**	1 718	>(100)
Corporate administration and other expenditure	**813**	517	(57)
Gains on derivatives	**99**	1 025	(90)
Net profit/(loss) for the year	**(4 473)**	362	>(100)
Headline earnings per share (SA cents per share)	**171**	298	(43)

Revenue and production costs were impacted mostly by the inclusion of Moab Khotsong for four months of FY18, with the benefits of that being offset by Hidden Valley's stages 5 and 6 development, resulting in revenue and production costs being capitalised to property, plant and equipment.

Revenue increased 6% by R1.1 billion (US$168 million) to R20.4 billion (US$1.6 billion). Moab Khotsong contributed R1.7 billion (US$140 million), which was offset by Hidden Valley (R1.1 billion (US$80 million)) in comparison to the previous year.

Production costs included R1.0 billion (US$79 million) as a result of the addition of Moab Khotsong. This was offset by Hidden Valley operating costs which were lower by R1.1 billion (US$84 million).

Corporate, administration and other expenditure increased by 57% to R813 million (66% to US$63 million), relating mostly to the once-off financing and integration costs associated with the acquisition of Moab Khotsong.

Gains on derivatives recorded a net gain of R99 million (US$8 million) in FY18 compared with a net gain of R1 billion (US$75 million) in FY17. The gain was largely due to the foreign exchange hedging contracts following favourable exchange rate movements in FY17, a substantial portion of which was realised in FY18.

Headline earnings were impacted by lower gains on derivatives, as discussed above, as well as a foreign exchange translation loss of R682 million (US$53 million) compared with a foreign exchange gain of R194 million (US$14 million) in FY17.

Frank Abbott
Financial director
25 October 2018