FINANCIAL DIRECTOR'S REPORT

Frank Abbott
Financial director

"Good production results for the year combined with market conditions contributed to positive earnings"

Harmony's FY17 earnings were positively impacted by the rand gold and currency hedges. Our low net debt position has created balance sheet flexibility that allows for growth.

The key outcomes achieved during FY17 were the following:

- Strengthening our balance sheet by paying down our debt
- Funding growth by acquiring our joint venture partner's 50% interest in Hidden Valley and investing in the capitalisation of the asset
- Rewarding our shareholders with an interim and final dividend totalling 85 SA cents (7 US cents) for the year

HEDGING

Hedging programmes are topped up as and when opportunities arise to lock in attractive margins for the business.

Given the increasingly volatile nature of our gold and foreign exchange markets over recent times, after careful consideration the board approved the implementation of a gold and currency hedging programme to lock in attractive margins for the business. Over the past year this has proven successful with the hedging programme contributing meaningfully to the group's overall revenue and earnings.

A summary of all the open hedging contracts as at 30 June 2017 is as follows:

		FY18				FY19				Total
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
CURRENCY										
US$/ZAR	US$m	111	132	120	59					**422**
	Floor	15.00	14.40	14.00	14.00					**14.41**
	Cap	16.30	15.50	15.00	15.00					**15.53**
COMMODITY										
ZAR/gold	'000oz	54	54	54	54	54	27	27		**324**
	R'000/kg	686	700	713	728	697	630	643		**693**
US$/gold	'000oz	4	3	12	15	15	15			**64**
	US$/oz	1 265	1 270	1 272	1 275	1 278	1 281			**1 276**
Total gold	'000oz	58	57	66	69	69	42	27		**388**
US$/silver	'000oz	40	60	180	210	240	240			**970**
	Floor	17.10	17.10	17.10	17.10	17.10	17.10			**17.10**
	Cap	18.10	18.10	18.10	18.10	18.10	18.10			**18.10**

(i) Currency hedging

The foreign currency hedging is in the form of zero cost collars with a maximum term of 12 months, which establish a minimum (floor) and maximum (cap) rand/US dollar exchange rate at which to convert US dollars to rands. The nominal value of the hedging contracts as at 30 June 2017 was US$422 million (FY16: US$500 million).

The realised gain from contracts maturing in FY17 amounted to R1 003 million (US$74 million) and is included in gains on derivatives in the income statement as hedge accounting is not applied to these contracts.

(ii) Gold hedging

Rand gold hedging is in the form of gold forward sale contracts with a maximum term of 24 months. The nominal value hedged at 30 June 2017 was 324 000 ounces spread over 21 months at an average forward sale price of R693 437/kg.

Cash flow hedge accounting is applied to these contracts. A gain of R728 million (US$54 million) was realised on the contracts that matured in FY17 (6 563kg at R662 772/kg) and is included in revenue.

During June 2017 US$ gold forward sale contracts with a maximum term of 24 months were entered into for Hidden Valley for which hedge accounting is not applied. The nominal value hedged at 30 June 2017 was 64 000oz at an average of US$1 276/oz.

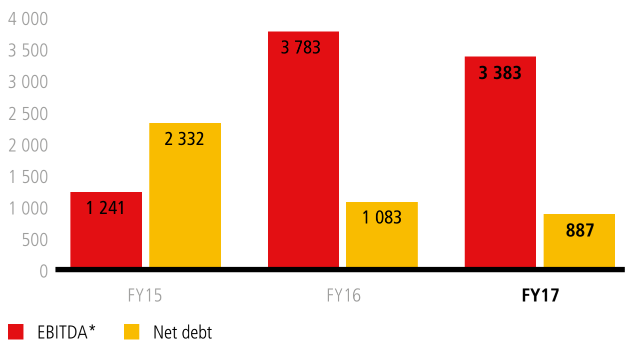
(iii) Silver hedging

Harmony also entered into silver zero cost collars during June 2017 for the silver from Hidden Valley; hedging instruments not exceeding 25% of the group's two-year silver production may be entered into. The nominal value hedged at 30 June 2017 was 970 000oz spread over 18 months. Hedge accounting is not applied to these contracts.

BALANCE SHEET FLEXIBILITY

Our low net debt position creates balance sheet flexibility that allows for growth. The net debt/EBITDA ratio decreased from 1.88 in FY15 to 0.26 in FY17.

Net debt versus EBITDA
(Rm)



** EBITDA excludes impairment and loss on scrapping of property, plant and equipment*

As at 30 June 2017, the available revolving credit facilities (RCF) were as follows:

	USD RCF loan		ZAR RCF loan	Total
	US$	Rm	Rm	Rm
Facilities	250	3 278	1 000	4 278
Drawdown balance at 30 June 2017	140	1 833	300	2 133
Available facilities	110	1 445	700	2 145

On 28 July 2017, Harmony entered into an agreement for a new three-year syndicated facility of US$350 million (US$175 million term loan plus US$175 million RCF). The facility replaces the US$250 million RCF loan and is agreed on similar terms.

EFFECTIVE CAPITAL ALLOCATION

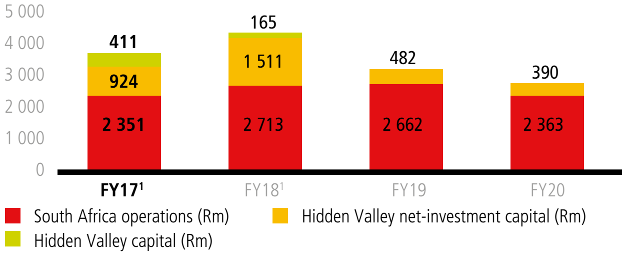
We have a focused capital allocation and prioritisation strategy resulting in a capital and cost structure that fits the production plan.

Capital expenditure increased by 68% in FY17 to R3 686 million (79% to US$271 million) (excluding capitalised Wafi-Golpu exploration expenditure) of which R1 335 million (US$98 million) was spent at Hidden Valley. Capital expenditure for South African operations increased by 13% or R276 million (21% or US$30 million). The planned capital expenditure for FY18 is R4 389 million (US$319 million) of which R1 676 million (US$122 million) relates to Hidden Valley.

Below is the capital expenditure projection to FY20, excluding Wafi-Golpu, which is subject to an ongoing study outcome:

Capital expenditure projections (excluding Wafi-Golpu)

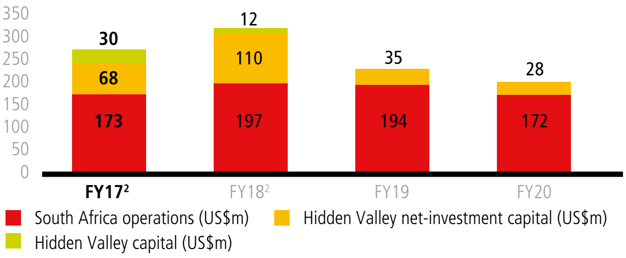
(Rm)



[1] *FY17 includes R156m (FY18: R3m) for the Central Plant retreatment project*

Capital expenditure projections (excluding Wafi-Golpu)

(US$m)



[2] *FY17 includes US$11m (FY18: US$0.2m) for the Central Plant retreatment project*

The exchange rate used is R13.74/US$; FY19 and FY20 excludes deferred stripping for Hidden Valley

PROVISION FOR SILICOSIS SETTLEMENT

We hope to achieve a comprehensive settlement that is fair to past, present and future employees and sustainable for the sector.

Harmony and five other South African mining companies have formed a gold mining industry working group to address issues relating to the compensation and medical care for occupational lung diseases in the gold mining industry in South Africa. In consultation with all stakeholders, the working group is seeking to find a comprehensive and sustainable solution, which deals both with the legacy compensation issues and future legal frameworks.

A pre-tax charge of R917 million (US$70 million) has been recognised in other operating expenses representing Harmony's best estimate of its portion of a possible settlement of the class action claims and related costs within an acceptable range.

The ultimate outcome of these matters remains uncertain, with a possible failure to reach a settlement or to obtain the requisite court approval of the settlement. The provision recorded in the financial statements is consequently subject to adjustment or reversal in the future, depending on the progress of the working group discussions and stakeholder consultations, and the ongoing legal proceedings.

Refer to note 27 in the consolidated financial statements contained in the Financial Report 2017 for further detail.

FINANCIAL PERFORMANCE

Operations are generating operational free cash flow and the hedging strategy secures cash margins.

Key drivers of the FY17 financial performance:

		FY17	FY16	Change %
Gold produced	kg	**33 836**	33 655	1
	oz	**1 087 852**	1 082 035	1
Underground grade recovered	g/t	**5.07**	5.02	1
Gold sold	kg	**34 150**	33 642	2
	oz	**1 097 944**	1 081 615	2
Gold price received	R/kg	**570 164**	544 984	5
	US$/oz	**1 304**	1 169	12
Production profit	Rm	**4 452**	5 084	(12)
	US$m	**327**	350	(7)
All-in sustaining costs[1,2]	R/kg	**516 687**	467 611	(10)
	US$/oz	**1 182**	1 003	(18)
Operational free cash flow margin	%	**6**	16	
Exchange rate	R/US$	**13.60**	14.50	(6)

[1] *FY16 restated to include capitalised stripping*
[2] *Excludes share-based payment charge*

Extract from the income statement:

	FY17 Rm	FY16 Rm	Change %
Revenue	**19 264**	18 334	5
Production costs	**14 812**	13 250	(12)
Amortisation and depreciation	**2 519**	2 170	(16)
(Impairment)/reversal of impairment	**(1 718)**	43	>(100)
Gains on derivatives	**1 025**	446	>100
Silicosis settlement provision	**917**	–	>(100)
Gain on bargain purchase (Hidden Valley transaction)	**848**	–	>100
Taxation	**510**	(632)	>100
Net profit for the year	**362**	949	(62)
Headline earnings per share (SA cents per share)	**298**	221	35

- Revenue increased by 5% in FY17 from R18.3 billion (US$1.3 billion) in FY16 to R19.3 billion (US$1.4 billion) mainly as a result of the inclusion of the realised gains on the rand gold hedges as part of revenue. The average gold price received was R570 164/kg (US$1 304/oz) compared to R544 984/kg (US$1 169/oz) received in FY16. A stable production performance resulted in a 2% increase in gold ounces sold year on year
- Production costs increased by 12% in FY17 compared to the previous year mainly as a result of the following:
  - A R749 million (US$55 million) increase in labour costs due to annual increases and a special bonus paid to all employees
  - A R358 million (US$26 million) increase in consumables due to additional expenditure on support, chemical reagents and repairs and maintenance during the year
  - As a result of the acquisition of Newcrest's 50% interest, Hidden Valley recorded a R132 million (US$10 million) increase in working costs during FY17
- Amortisation and depreciation increased by R349 million (US$26 million) in FY17 mainly due to the increase in the carrying values of depreciable assets at Doornkop following the reversal of the impairment recorded in FY16. Also contributing is the increase of on-reef reserve tonnes mined at Doornkop, Kusasalethu and Joel as well as a shorter life of mine at Kusasalethu
- Impairment of assets in FY17 includes an impairment of R785 million (US$60 million) at Target 1 resulting from the exclusion of low-grade areas from the life-of-mine plan. This, together with general pressure on margins, resulted in a decrease in the profitability of the operation over its life and contributed to the decrease in the recoverable amount. An impairment of R678 million (US$52 million) was recorded at Kusasalethu owing to the decrease in the value of the resources. In addition, an impairment of a portion of the goodwill balance for the Tshepong operations of R255 million (US$19 million) was recorded. Goodwill is tested as part of the value attributed to a cash generating unit together with the property, plant and equipment carrying values
- Gains on derivatives of R1.0 billion (US$75 million) was recorded in FY17 compared to the gain of R446 million (US$30 million) in FY16 resulting mainly from the realised gain on the foreign exchange hedging contracts
- The gain on bargain purchase relates to the Hidden Valley acquisition in FY17. Refer to note 10 in the consolidated financial statements contained in the Financial Report 2017 for further detail
- The current taxation expense increased by R365 million (US$28 million) in FY17 compared to the previous year. This was mainly due to the utilisation of the unredeemed capital balance and assessed loss in the Freegold subsidiary during FY16. Together with the gains on derivatives, which are taxed as non-mining income at a rate of 28%, this contributed to the increase in normal tax for FY17
- The weighted average deferred tax rates for most South African companies decreased as a result of decreased forecast profitability of these operations. The deferred tax rate for the Freegold subsidiary decreased from 20.0% to 12.5% and for the Randfontein subsidiary (consisting of Doornkop and Kusasalethu) decreased from 10.1% to 3.8%. The effect of these decreases resulted in the credit to the income statement in FY17
- The reconciliation of basic earnings per share to headline earnings per share is as follows:

	SA cents
Basic earnings per share	**82**
Impairment of assets*	386
Loss on scrapping of property, plant and equipment*	28
Profit on sale of property, plant and equipment*	(8)
Loss on liquidation of subsidiary	3
Gain on bargain purchase (Hidden Valley transaction)	(193)
Headline earnings per share	**298**

* *Net of tax*

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26 October 2017