

CHAIRMAN'S LETTER



Patrice Motsepe
Chairman

**"...WE CAN MAKE A
LASTING CONTRIBUTION
TO THE ECONOMIC AND
SOCIAL DEVELOPMENT
OF ALL STAKEHOLDERS IN
THE COUNTRIES WHERE
WE OPERATE"**

Dear Shareholder

During the past financial year the gold mining industry in South Africa and globally experienced a progressively weakening gold price and rising operating costs. Harmony responded to the lower gold price and higher costs, by restructuring and rationalising its asset portfolio, cutting costs, improving labour productivity, increasing the overall mining grade and focusing on mining only safe and profitable ounces.

Our company is well-positioned to benefit from higher gold prices and increased gold production. The gold mining industry, globally, responded to lower dollar gold prices in much the same way as it did in the preceding year. Shafts have been closed, capital spending has been deferred and management overhead costs have been reduced. While gold's average dollar price dropped by 6% to \$1 222/oz from the previous year's \$1 299/oz, the weakness of the rand against the dollar meant that in South African currency terms the average gold price received increased by 4% to R449 570/kg.

SAFETY

The safety and health of everyone in Harmony is our primary concern. Our efforts to address and consistently improve our safety standards are on-going. The preparedness and quality of our safety measures was shown on 22 February 2015 when an underground fire broke out at Kusasalethu mine and all employees working underground at the time were brought to surface safely, with no-one suffering harm or injuries. The Minister of Mineral Resources at the time, Ngoako Ramatlhodi, and the Chamber of Mines both commended the rescue teams. Some of the rescuers who assisted us came from across the industry, displaying the spirit of comradeship that characterises the South African mining industry.

One of the most positive developments is that there were no fatalities at our South African operations during the second quarter. Our safety record for the year as a whole in terms of fatalities was the best that the South African operations have recorded in more than a decade. Regrettably nine of our colleagues lost their lives in accidents during the 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 the nine who so tragically lost their lives at our operations.

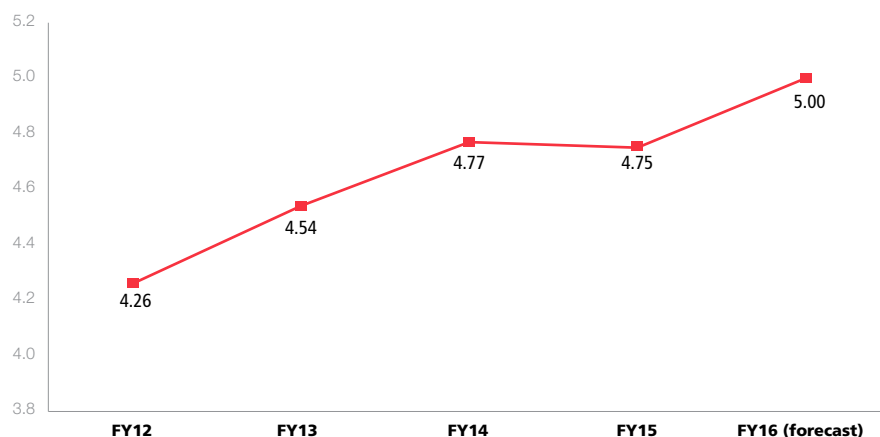
Our aim is to eliminate all work-related injuries and illnesses. All our operations are guided by our occupational health and safety policy, which is based on leading safety practices. This policy was formulated with the cooperation and active participation of management, unions and the Government.

In our drive to continually improve our safety performance, each operation is monitored monthly through a formal review system. Safety is a key performance indicator and a key component of performance reward for the vast majority of our people.

OPERATIONAL PERFORMANCE

Harmony's strategy of developing and operating higher grade, profitable mines resulted in the average underground recovery grades increasing in the past couple of years and remaining steady in FY15. Planned recovered grade for FY16 is 5g/t – see the graph on page 11.

Underground recovered grade (g/t)



Tightening margins, due to weak gold prices and rising costs have led to adjustments at our operations. To protect Harmony from the sliding gold price, we restructured some of our mines, right-sized employee numbers and mined only safe and profitable high-grade ounces. Target 3 was closed and Kusasaletu, Masimong, Doornkop and Hidden Valley were restructured. Our large capital investment in Kusasaletu has positioned us to mine the higher grade ore body and increase profitability.

The strategies and interventions by management to restructure and optimise our operations will position Harmony for a more profitable future. The benefits of this restructuring and optimisation will improve productivity, margins and profitability, even in these challenging times. In addition, cost management and cash generation will continue to be our primary focus in the year ahead.

Further details on the company's financial performance are provided in the Financial Director's Review on page 18 and on its operational performance in the section entitled Operational Performance on page 120.

PAPUA NEW GUINEA

We continue to gain invaluable knowledge of Papua New Guinea's people, business, social structure and its exciting and valuable geology. Currently, Harmony's principal objective is to develop the Golpu copper-gold deposit into a producing mine. The results of the updated prefeasibility support our view that this deposit will create significant value for our shareholders and benefit all stakeholders.

Given the subdued market, the updated prefeasibility was based on a reduced capital requirement and lower operating costs. This resulted in an improved rate of return. The updated prefeasibility study covers the first stage (stage 1) of Golpu's development. Stage 1 of the Golpu development, targets the upper higher value portion of the ore body. Work will continue on optimising a second stage mine development (stage 2), which will encompass the rest of the ore reserves. The early stages of the Golpu project will be funded internally. Initial indications are that first production would be in 2020 with full production of 500 000 equivalent gold ounces expected from 2024 to 2029.

The two proposed block caves in stage 1 are designed to access approximately 30% of the tonnes which contain approximately 40% of the metal (gold and copper) of the Golpu reserve. The mining and processing infrastructure would then be utilised to exploit the remaining 70% of the tonnes which contain about 60% of the contained metal (gold and copper) of the Golpu reserve.

Harmony will fund the first three years from operating cash flows and from FY18 onwards, debt financing will also be considered. From FY21 stage 1 will be cash flow positive after capital expenditure. At financial year-end, the Golpu team was in the process of negotiating a pre-mine development agreement – a precursor to commencing with advanced exploration and feasibility support activities – with the Papua New Guinean government. Discussions post year-end have progressed well with a final draft of the proposed agreement circulated to the cabinet of Papua New Guinea for consideration.

CHAIRMAN'S LETTER CONTINUED

During March 2015, we intersected a highly significant zone of copper-gold mineralisation at the Kili Teke exploration prospect which is located west of Golpu, in the Hela Province of the Papua New Guinean Highlands on one of our exclusively owned exploration licence areas. The Kili Teke exploration prospect has the potential to develop into a major copper-gold deposit similar to Golpu.

SOUTH AFRICA

Since June 2015, Harmony and other major South African gold companies have been engaged in wage negotiations with the different worker representative organisations. During October 2015, Harmony concluded a three-year wage agreement with the National Union of Mineworkers, Solidarity and United Association of South Africa, which was extended to the entire workforce in the bargaining unit, as these unions represent the majority of our workforce.

The Tlhakanelo Employee Share Ownership Plan gives all the non-managerial employees of Harmony an opportunity to benefit as shareholders in Harmony's gains. The Tlhakanelo Share Ownership Plan has realised R44 million for the Harmony employees in the financial year under review.

At year-end, Harmony and its industry counterparts were awaiting confirmation from the Department of Mineral Resources that both it and they had achieved the end-2014 empowerment targets set by the Mining Charter.

The differences in interpretation relating to the "once empowered, always empowered" principle should be resolved in a manner that will ensure the long term global competitiveness and attractiveness of the South African mining industry.

Harmony continues to be committed to running its mines and operations for the benefit of its shareholders, workers, communities neighbouring its operations and all other stakeholders.

PARTNERING WITH OUR STAKEHOLDERS

At Harmony we realise that, along with others in the mining sector, we can make a lasting contribution to the economic and social development of all stakeholders in the countries where we operate.

Our capacity to benefit all stakeholders is dependent and influenced by our long-term sustainability and profitability.

Our ability to develop and benefit all our stakeholders is influenced by and requires the cooperation and partnership of our employees, neighbouring communities and local and national Government.

One of our important objectives is to help our employees to acquire affordable housing in places where our people wish to live and where social and infrastructural facilities are readily available. Our programme of converting the former multi-occupancy hostels to provide private, married or single accommodation is largely complete and offers accommodation to those employees who choose to reside on mine properties. The workers who prefer to live elsewhere are paid a monthly living-out allowance that stood at R2 000 at the financial year-end.



Doornkop plant

We continue to work in partnership with the Department of Human Settlements to convert old hostels to family units. The Masimong 3 housing project has been completed while the conversion at Merriespruit is in progress. Additional housing and accommodation conversions are being investigated. Also noteworthy is that by December 2014, we had met our target in the hostels of one person per room.

Our approach to interacting with employees and Harmony's communities is based on direct, open and clear communication from which we can learn and understand their aspirations and needs. The full details are described elsewhere in this report, and we combine direct communication with indirect interaction through our employees' representative unions. This is particularly so on a day-to-day basis between mine managers and shaft stewards on issues that are specific to each mine.

CARING FOR THE ENVIRONMENT

The protection and conservation of the environment is an integral part of Harmony's culture and way of doing business. We comply in all respects with our obligations to protect and rehabilitate our mining footprints both during and after the end of mining.

South Africa's National Development Plan supports the development of environmentally sustainable renewable energy initiatives that contribute to the creation of jobs. To this end, in FY14, Harmony commissioned its bio-energy project which is designed to reduce our carbon footprint, rehabilitate our land and create approximately 200 jobs for women and youth from our host communities at full production. Bio-fuel energy will be produced in the form of natural gas from bio-mass grown on our mine properties in the Free State. First gas from this project is scheduled to be produced in April 2016.

THE GOLD MARKET

We at Harmony remain confident in gold's longer-term prospects. At the financial year-end, spot gold was trading in London at \$1 173/oz, almost 12% down on the \$1 327/oz at which it opened the year. It is more prudent to adopt a conservative approach and to expect a weaker gold price over the short to medium term period. While demand in the traditional market of India and China remains strong, speculative demand by investors in the mature Western economies remains vulnerable to when the United States Federal Reserve will raise interest rates.

In anticipation of higher interest rates in the United States, investors have been liquidating their positions in the gold exchange traded funds. Investment sentiment is also coloured by the fact that low inflation rates appear to be here to stay, at least for several years. This may tarnish gold's attraction as a safe-haven hedge.

In contrast, demand for gold to be held as a reserve by central banks has not waned. The central banks of China, Russia and others have been adding to their gold holdings for various reasons that often have more to do with domestic than with global economic issues. At the same time, official holdings by the world's mature economies have stopped declining.

As the dollar has strengthened against other currencies, helped in part by the prospect of higher interest rates in the United States, the metal's price in other currencies has actually increased. This is particularly so in South Africa where most of our operating costs are incurred in the local currency. This affords Harmony considerable flexibility in its operational planning and adds to our confidence in the metal which underpins our business.

THANKS

It gives me great pleasure to acknowledge and to express my gratitude to the directors of Harmony, our management team, employees and all our other stakeholders who contribute to making Harmony the fine company that it is.

I would also like to express my personal gratitude to Graham Briggs who will be retiring as our CEO when a suitable successor is appointed. Graham did a good job as our CEO and will assist with the exciting work in Papua New Guinea.

Harmony is currently facing and dealing with several challenges but I remain confident about its profitability and competitiveness.

Patrice Motsepe
Chairman

23 October 2015