

# CHIEF EXECUTIVE OFFICER'S REVIEW



*“Over the past few months, the Covid-19 pandemic has had an enormously harmful impact on economies and the mining industry globally.”*

## PETER STEENKAMP

Chief executive officer

At Harmony, we were well prepared to deal with the challenges of Covid-19 by the time South Africa declared a national state of disaster on 15 March 2020, and ahead of the state of emergency declared on 14 April 2020 in Papua New Guinea.

Our surface operations in South Africa and Hidden Valley in Papua New Guinea were able to continue operating during the restrictions. By having the necessary precautionary measures in place, we were able to recall our employees smoothly as restrictions were lifted. As a result, the fourth quarter's performance was better than we had initially anticipated. By the end of August 2020, all our employees, including those from outside South Africa, were back at work and production was restored to 100%.

We were also able to raise, by way of an equity offer, US\$200 million in part-settlement of the acquisition of the Mponeng and Mine Waste Solutions assets from AngloGold Ashanti. The gold price, which rose 25% in rand terms and 14% in US dollar terms in FY20, provided strong support through these difficult times.

### SAFETY AND HEALTH

We continued applying our safety strategy throughout the year with a pleasing improvement in our fatal injury frequency rate from 0.12 to 0.08 per million hours worked. Our South African underground operations recorded 3 million fatality-free shifts; Hidden Valley, Moab Khotson, Harmony One plant and Free State operations all recorded 2 million each; and Target 1, Tshepong operations, Joel and the Free State plants, 1 million each.

Our Covid-19 standard operating procedures were informed by guidelines from local government authorities and global organisations, particularly the World Health Organization. We also consulted with

relevant government departments and organised labour. We had essential preventative measures in place before lockdown. Our objective at the outset was to protect our people from the pandemic as they returned to work.

Tragically, six colleagues died in work-related incidents during FY20: Siyabonga Ntika (rock-drill operator), John Thabang Mamogale (metallurgical assistant), Elphas Nkosi (supervisor), Tshepong Lebjao (locomotive operator), Sibusiso Mngomezulu (winch operator) and Papa Ernest Dael (development team member). We extend our heartfelt condolences to their families, friends and colleagues.

We will continue the safety journey we began in 2016, with focus on leadership, risk management, attaining a proactive safety culture, adopting measures to prevent repeat incidents, rewarding safe behaviour and zero tolerance for non-compliance.

For additional information, see [Safety and health](#).

### ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) PERFORMANCE

Harmony's ESG achievements in FY20 were recognised by various ratings organisations. In the FTSE4Good Index, we outperformed both the gold and basic materials sectors on four ratings – ESG overall, environment, social and governance. We retained our position in the Bloomberg Gender-Equality Index and, in the MSCI Emerging Markets Index, we improved our rating from CCC to B. In the Carbon Disclosure Project (CDP) ratings, we achieved A for climate change and B for water.

Our total spend on environmental management and stewardship in FY20 was R159 million (US\$10 million) – R126 million (US\$8 million) in South Africa and R33 million (US\$2 million) in Papua New Guinea. Our total social spend (local economic development plus corporate social investment) for the year was R112 million (US\$7 million) – R76 million (US\$5 million) in South Africa and R36 million (US\$2 million) in Papua New Guinea.

For additional information, see [Stakeholder engagement and material issues](#), [Environmental management and stewardship](#) and [Socio-economic development – uplifting communities](#).



■ Tshepong

## OPERATIONAL REVIEW

### South African operations

Total gold production from the South African operations of 32 991 kilograms (1.06Moz) was 15% lower than FY19, mainly due to the Covid-19 lockdown. In the first half of FY20, our operations performed well against their plans, except for Kusasaletu. Production in the second half was disrupted by reduced electricity supply and the Covid-19 lockdown. The underground operations recorded in the fourth quarter of FY20 of 5.72g/t, was well above our revised grade guidance for FY20 of 5.50 to 5.57g/t.

### Papua New Guinea

Gold production for the year was 22% lower at 4 872 kilograms (156 639oz). Production at our Hidden Valley operation continued to be affected by the planned move from stage 5 to stage 6 mining in the pit during the year. The mine imposed its own site-lockdown for several weeks from the onset of the pandemic but was able to maintain production at a reduced rate.

## GROWTH

The acquisition of Mponeng and Mine Waste Solutions was concluded in September 2020 and we assumed operational control of both from 1 October 2020. This acquisition reaffirms our belief in the sustainability of gold and operating in South Africa.

These assets – similar to Moab Khotsong acquired two years ago – will be integrated into the Harmony family. With approximately 350 000 ounces immediately added to our annual production, we will further evaluate unlocking any surface synergies with our existing assets.

We have resumed our capital projects – including Target North drilling, exploration at Kalgold, the Tshepong and Joel decline projects and the Great Noligwa shaft pillar. These were halted at the onset of the pandemic as one of the measures to protect our balance sheet.

In Papua New Guinea, we have applied to the Mineral Resources Authority to extend Hidden Valley's mining lease – which expires in 2025 – by a further five years. The Wafi-Golpu project is a game-

changer for Harmony, both in terms of replacing ounces and increasing margins. Together with our joint-venture partner, Newcrest Mining Limited, we remain committed to progressing negotiations on a special mining lease for Wafi-Golpu. We are therefore encouraged by recent statements from the prime minister of Papua New Guinea that the project is a national priority to be urgently advanced.

## OUR PEOPLE

The wellness, commitment, skill and expertise of our employees form the basis of the success and growth of our economy. This proved even more true in a most challenging year. With stable employee relations and supportive representative unions, we were able to maintain our focus on development, training and providing opportunities, despite the distractions and demands associated with Covid-19. More than ever, our relationships with our stakeholders were strengthened during the year.

## LOOKING AHEAD

In FY21, we will pursue our strategy to produce safe, profitable ounces and improve margins. We look forward to bringing to account additional production from our new assets and will provide updated guidance for the year once we have completed their integration.

## CONCLUSION

In what proved to be the most extraordinary of years, I am most grateful for the continued support of Harmony's board, executives and employees, our shareholders, trade unions, regulators and communities. With hope, resilience and strength, I am confident Harmony is prepared for FY21.

**Peter Steenkamp**  
**Chief executive officer**  
 23 October 2020

# HOW WE PERFORMED

## FIVE YEAR SUMMARY

		FY20	FY19	FY18	FY17	FY16
<b>Operating performance</b>						
Ore milled	000t	25 429	25 976	22 441	19 401	18 373
Gold produced <sup>1</sup>	kg	37 863	44 734	38 193	33 836	33 655
	000oz	1 217	1 438	1 228	1 088	1 082
Operating costs	R/kg	553 513	439 722	421 260	436 917	392 026
	US\$/oz	1 099	965	1 018	1 000	841
All-in sustaining costs	R/kg	651 356	550 005	508 970	516 687	467 611
	US\$/oz	1 293	1 207	1 231	1 182	1 003
Underground grade	g/t	5.45	5.59	5.48	5.07	5.02
<b>Financial performance</b>						
Revenue	R million	29 245	26 912	20 452	19 494	18 667
Production costs	R million	22 048	20 324	15 084	15 042	13 583
Production profit	R million	7 197	6 588	5 368	4 452	5 084
Operating margin	%	25	24	26	23	28
Net profit/(loss) for the year	R million	(850)	(2 607)	(4 473)	362	949
Total headline earnings/(loss) per share	SA cents	(154)	204	171	298	221
Capital expenditure	R million	3 610	5 036	4 687	4 280	2 439
Exploration spend <sup>2</sup>	R million	205	148	135	241	191
Dividend paid	R million	–	–	154	439	–
Net debt	R million	(1 361)	(4 922)	(4 908)	(887)	(1 083)
<b>Market performance</b>						
Average gold price received	R/kg	735 569	586 653	570 709	570 164	544 984
	US\$/oz	1 461	1 287	1 380	1 304	1 169
Total market capitalisation	R billion	43.3	17.1	10.6	9.5	22.9
	US\$ billion	2.5	1.2	0.8	0.7	1.6
Average exchange rate	R/US\$	15.66	14.18	12.85	13.60	14.50
<b>Reserves</b>						
Gold and gold equivalents	Moz	36.5	36.5	36.9	36.7	36.9
Geographical distribution of gold reserves						
– South Africa	%	48	47	46	44	45
– Papua New Guinea	%	52	53	54	56	55
<b>Safety</b>						
Number of fatalities		6	11	13	5	10
Group FIFR – fatal injury frequency rate	per million hours worked	0.08	0.13	0.16	0.07	0.13
Group LTIFR – lost-time injuries frequency rate	per million hours worked	<sup>4</sup> 6.33	<sup>3</sup> 6.16	6.26	7.21	6.23
Total – injuries and accidents (TIA)	number of incidents	623	696	769	768	679
<b>Health (South Africa)</b>						
– Shifts lost due to injury		25 205	25 388	23 769	24 026	22 416
– Silicosis cases certified <sup>5</sup>		<sup>3</sup> 67	58	<sup>4</sup> 179	<sup>3</sup> 108	<sup>3</sup> 64

<sup>1</sup> Gold production of 2 068kg (66 499oz) capitalised in FY18 (FY17: 364kg, 11 713oz). Zero gold production capitalised in FY20, FY19 and FY16

<sup>2</sup> As per income statement

		FY20	FY19	FY18	FY17	FY16
<b>People</b>						
Total number of employees and contractors <sup>6</sup>		<b>39 714</b>	39 773	40 686	33 201	30 547
South Africa: Employees		<b>31 502</b>	31 201	32 520	26 478	25 861
Contractors		<b>5 841</b>	6 159	5 951	4 512	4 580
Papua New Guinea: Employees		<b>1 589</b>	1 675	1 397	1 300	76
Contractors		<b>782</b>	738	818	911	30
Employment equity (historically disadvantaged South Africans in management) <sup>7</sup>	%	<b>464</b>	<sup>3</sup> 62	<sup>3</sup> 60	<sup>3</sup> 61	<sup>3</sup> 60
Number of people in single rooms <sup>8</sup>		<b>47 350</b>	8 019	<sup>3</sup> 6 739	<sup>3</sup> 7 266	<sup>3</sup> 7 252
Number of people sharing accommodation		<b>0</b>	0	<sup>3</sup> 0	<sup>3</sup> 0	<sup>3</sup> 0
Number of people in critical-skill positions trained		<b>481</b>	<sup>3</sup> 109	<sup>3</sup> 106	<sup>3</sup> 75	<sup>3</sup> 68
<b>Community</b>						
South Africa – local economic development	R million	<b>465</b>	<sup>3</sup> 56	<sup>3</sup> 20	<sup>3</sup> 27	<sup>3</sup> 18
Papua New Guinea – socio-economic investment	R million	<b>36</b>	14	1	3	1
Total group community spend	R million	<b>101</b>	70	20	30	19
Group procurement	R million	<b>14 321</b>	12 060	9 416	8 385	7 878
<b>South Africa</b>						
Preferential procurement (BEE-compliant spend)	R million	<b>4 5084</b>	<sup>3</sup> 6 340	<sup>3</sup> 5 120	<sup>3</sup> 4 461	<sup>3</sup> 3 794
Total discretionary spend	R million	<b>7 682</b>	8 470	6 436	5 685	4 978
Preferential procurement spend	%	<b>66</b>	75	80	78	76
<b>Papua New Guinea</b>						
Total spend	R million	<b>3 900</b>	3 590	2 980	2 700	2 900
Expenditure in country	R million	<b>2 470</b>	2 200	1 600	1 000	1 800
Expenditure in Morobe Province	R million	<b>697</b>	1 100	1 100	725	734
<b>Environment</b>						
Mineral waste (volume disposed) <sup>10</sup>	000t	<b>4 51 817</b>	<sup>3</sup> 52 691	<sup>3,10</sup> 50 798	<sup>3,9</sup> 38 392	<sup>9</sup> 26 170
Total electricity use (purchased)	000MWh	<b>4 3 171</b>	<sup>3</sup> 3 326	<sup>3</sup> 2 518	<sup>3,9</sup> 2 629	<sup>9</sup> 2 597
<b>CO<sub>2</sub> emissions</b>						
– Scope 1	000t CO <sub>2</sub> e	<b>4 126</b>	<sup>3</sup> 133	<sup>3</sup> 131	<sup>3</sup> 111	<sup>3</sup> 56
– Scope 2	000t CO <sub>2</sub> e	<b>4 3 316</b>	<sup>3</sup> 3 193	<sup>3</sup> 2 442	<sup>3</sup> 2 513	<sup>3</sup> 2 581
– Scope 3	000t CO <sub>2</sub> e	<b>4 570</b>	<sup>3</sup> 533	<sup>3</sup> 440	<sup>3</sup> 445	<sup>3</sup> 615
Water used for primary activities	000m <sup>3</sup>	<b>4 19 692</b>	<sup>3</sup> 23 158	<sup>3</sup> 15 473	18 125	15 083
Funding/guarantees for rehabilitation and closure	R million	<b>4 266</b>	3 752	3 717	3 072	2 933

<sup>3</sup> Assured by independent assurance providers in previous years – refer to <https://www.harmony.co.za/invest/annual-reports>. All assured indicators exclude the results of Moab Khotsong from 1 March 2018 to 30 June 2018, except for the LTIFR and TIA safety indicators.

<sup>4</sup> Assured by independent assurance providers in the current year. Please refer to the Assurance Report and to the Glossary of Terms on the website, [www.har.co.za](http://www.har.co.za).

<sup>5</sup> The number of cases of pure silicosis confirmed by the South Africa's Medical Bureau of Occupational Diseases. Previously we assured silicosis cases submitted to the Medical Bureau of Occupational Diseases

<sup>6</sup> FY18 includes employees from the Moab Khotsong operations. Excludes employees from the Wafi-Golpu Joint Venture. FY16, excludes employees from the Morobe Mining Joint Venture, which are included from FY17, following Harmony acquiring full ownership of Hidden Valley

<sup>7</sup> The increase in compliance indicators is due to alignment of Harmony's reporting with the Department of Labour's classification guidelines – (EEA9). For previous years, indicators were based on Patterson grade D-F only, whereas C band employees are now classified as Junior Management and have been included in the employment equity percentage

<sup>8</sup> The number of single rooms only represent hostels which are 100% converted.

<sup>9</sup> Increases recorded in FY17, a result of the acquisition in full of Hidden Valley which is now included at 100% versus 50% in preceding years

<sup>10</sup> The year-on-year increase in mineral waste in FY18 was due to waste stripping of the cutbacks at Hidden Valley