

Conference Call Transcript

2 February 2017

INTERIM RESULTS MEDIA

Operator

Good day ladies and gentlemen and welcome to the Harmony Gold Mining Company Ltd conference on the interim results for the six months ended 31 December 2016. All participants will be in listen only mode and there will be an opportunity to ask questions later during the conference. If you should need assistance during the call please signal an operator by pressing star and then zero. Please also note that the call is being recorded. I would now like to turn the conference over to the CEO, Mr Peter Steenkamp. Please go ahead sir.

Peter Steenkamp

Good morning ladies and gentlemen. I'm not sure if there are any ladies on the call.

Marian van der Walt

There is.

Pete Steenkamp

There is. Okay. First of all thank you very much for joining us this morning. I think Harmony is very pleased to have these six months results. We achieved all that we set out to do in the six months from 1st July to the 31st December. I think we certainly mined more safe, profitable ounces and increased our margins. Some salient features. Our safety rates were improving and we're very grateful for that. We declared an interim dividend of 50 cents. The headline earnings are 150 cents (ZAR) for the period. We got an 8% increase in gold production, a 3% increase in grade, and we are very grateful for the grade trending up. It means that our discipline underground in terms of where we're mining is still intact. Our hedging programme gave us R627 million during the six months. We repaid most of our debt and I think we are now out of this thing of repaying debt. We've done all of that. And our all-in sustaining cost only increased by 4% in South Africa Rand. Obviously it is more in US Dollars because of the exchange rate difference between the two different periods that we report on. So all in all I think it is a fairly satisfactory performance and we will take any questions.

Operator

Thank you very much sir. Ladies and gentlemen, at this time if you do wish to ask a question please press star and then one on your touchtone phone. If you decide to withdraw your question please press star and then two to remove yourself from the queue. Again if you wish to ask a question please press star and then one now. Our first question is from Kevin Crowley of Bloomberg News. Please go ahead.

Kevin Crowley

Good morning everyone. Peter, can you just confirm this is your first profit since 2013. Is that right?

Peter Steenkamp

It's not the first time. No, it's not. We had a profit in the previous six months.

Kevin Crowley

Okay. And in the first half of the year?

Peter Steenkamp

Yes.

Kevin Crowley

Okay. All right. And how much of your headline earnings were used for hedging? You said there was R627 million. Does that flow straight through to your headline earnings figure?

Frank Abbott

Yes it does, but after tax of course. We deduct tax. So it is not the full amount that flows to headline earnings.

Kevin Crowley

Okay. Can you give me a sense of what percentage of your headline earnings was due to the hedging?

Frank Abbott

In our headline earnings we would have hedging profit that comes through our revenue line. That is on gold sold. And then of course it would be on the currency which is in line three in that R700 million. Now, the total amount that we've got in the R700 million is R130 million due to the currency because we've still got a Dollar loan and the Rand strengthened over this period. And then R600 million is due to the currency hedge of which R400 million is already realised. And then if you look at our tax line then you can see R63 million. A large portion of that tax is attributable to the hedge. And I will give you the figure now. 41% of normal earnings.

Kevin Crowley

So 41% of normalised earnings is due to the currency hedge. Is that right? The currency and gold hedges.

Peter Steenkamp

I'm not quite with you.

Kevin Crowley

What was the 41% number?

Peter Steenkamp

That's the tax. I will just give you the actual tax amount.

Frank Abbott

You can work on 28%.

Peter Steenkamp

You can work on 28% of the hedging profit.

Kevin Crowley

Okay. Great. Okay. And Peter, you talked about your intention to make an acquisition to replace some ounces. How is that going?

Peter Steenkamp

We are fairly satisfied in terms of what we've done. As I said before we have identified some targets. We are working on those targets. We have got nothing more to report than that. We are progressing quite well as far as that's concerned.

Kevin Crowley

Okay. And can you say the location if it is in South Africa or Africa or outside?

Peter Steenkamp

Well it is either continental Africa, South Africa or Papua New Guinea. Those are the three target areas that we go for. Obviously in the six months that we report now we've made the 50% of Hidden Valley acquisition that we already announced. So Papua New Guinea we did some extra ounces to mine in Papua New Guinea going forward.

Kevin Crowley

Okay great. And just lastly, you said you are done paying down debt now. You're almost debt-free now.

Peter Steenkamp

We are more or less debt-free.

Kevin Crowley

Okay. Thanks a lot.

Operator

Thank you. Ladies and gentlemen, again if you wish to ask a question please press star and then one now. We will pause a moment to see if we have any further questions. Our next question is from Elvira Wood of Media24. Please go ahead.

Elvira Wood

With regards to safety you said it is going much better. How did these now-famous or infamous Section 54 interruptions influence you at all, and how do you see the way forward?

Peter Steenkamp

I think Harmony has always said and still maintains the position that we have not been adversely affected by Section 54s. Obviously we haven't had in the last quarter for instance an underground fatality, and that in itself allows you not to have these big interruptions. We've got a very good relationship with the DMR and particularly we operate most of our operations in the Free State region, so with the Welkom office of the DMR. And we have not been affected by Section 54s. From a Harmony perspective we cannot complain anything. We did obviously have small localised little Section 54s from some sections, but not major shutdowns of operations.

Elvira Wood

Thank you very much.

Operator

Thank you. Our next question is from Alan Seccombe of Business Day. Please go ahead.

Alan Seccombe

Morning everyone.

Peter Steenkamp

Morning Alan.

Alan Seccombe

Peter and Frank, could you tell me what Harmony's strategy is now? You say you are almost debt-free. What happens when you become debt-free? Do you just start piling up cash in anticipation of that acquisition and Wafi-Golpu? How does it work once Harmony is just this big cash machine?

Frank Abbott

Thank you. It is important for us to invest in our ore bodies. As you know we have started to do development at Hidden Valley. We are doing the cutbacks on the five and six there. So we are putting our money into Hidden Valley there so that we can actually increase our gold production going forward. And in South Africa of course we are also looking at organic growth opportunities. We are building a plant to treat some of the slimes. And we are looking at other opportunities in the group to invest so that we can improve our gold production.

Alan Seccombe

Frank, is it possible to give us a figure on your capex for the next year or two on these projects?

Frank Abbott

It is slide 27.

Alan Seccombe

Oh. Okay.

Frank Abbott

Can you repeat the question?

Alan Seccombe

The capex profile for the next year or two. I'm trying to figure out. You're becoming a big cash-generating operation so how does Harmony plan spending that? I got the point of all the investments you're making in Hidden Valley and SA.

Frank Abbott

Are you looking at slide 27?

Alan Seccombe

No, I'm not. I haven't opened that yet, no. But I will.

Frank Abbott

Capital allocation, so what we are spending here is on our operations we are spending money on Hidden Valley and on other capital in South Africa. And of course we would be looking at returning money to our shareholders like we've done now.

Alan Seccombe

Okay. So then how would Harmony pay for the acquisition that Kevin was asking about earlier?

Peter Steenkamp

Ja. Alan, I think importantly it obviously depends on what acquisition we make. If it is a very big acquisition then we have a situation of some debt, some cash that we have together and then also go to the market for some money. But it depends on what acquisition we do make. The smaller acquisitions we would probably just fund through our normal other cash or debt structures.

Alan Seccombe

Okay. And then finally, you guys have got your hands around Hidden Valley fully now. How is that progressing? Sorry, I haven't had time to read through your entire results presentation yet.

Peter Steenkamp

Alan, you are lucky, the man who can talk to that sits next to me, Johannes. He can give you feedback.

Johannes van Heerden

Hi Alan.

Alan Seccombe

Hi Johannes. How are you?

Johannes van Heerden

Fine and you?

Alan Seccombe

Good thanks.

Johannes van Heerden

It is going really well up at Hidden Valley. You will see in the presentation everything is going according to plan. We are actually slightly ahead of plan. The key activity for us up there is to start and continue our waste stripping. To that effect during the quarter we mobilised additional equipment which is being delivered to site and on site. We signed up some more operators and fitters to maintain that equipment. And we are preparing ourselves for the shut that will commence in the September quarter of this year to basically do some maintenance projects. And after that we will basically be back into production again. So everything is going really well. Everything is in plan. And what you will see is also we have built a very robust plan. When you look at the detail that is provided the assumptions are very conservative. With our operating experience there we have really made sure that we build a plan that we believe we can achieve again.

Alan Seccombe

Excellent. Thanks Johannes, and good luck with that.

Johannes van Heerden

Thanks.

Operator

Thank you. Our final question is from Ed Stoddard of Reuters. Please go ahead.

Ed Stoddard

Hi. Good morning guys. Nice, the results. There are two things I want to double check. The one is when was the last time you declared an interim dividend? And the second thing I want to ask is for the comparable period last year you had headline losses of 103 cents right. In these results you compare to the second half of last year, but the first half of last year it was a headline loss of 103 cents wasn't it?

Peter Steenkamp

That's correct. In 2015 the first six months.

Ed Stoddard

It was a headline loss of 103 cents. So when was the last time you declared an interim dividend?

Peter Steenkamp

In 2012 was the last time we declared.

Marian van der Walt

FY2013.

Peter Steenkamp

Ja, FY2013.

Frank Abbott

And then we paid a final dividend last year if you can remember.

Ed Stoddard

Yeah.

Peter Steenkamp

And this is our second dividend now. There was a bit of a gap, but we've started. Previously when we paid a dividend we used to pay an interim and a final dividend.

Ed Stoddard

Right. But the last interim dividend was for the six months to December 31st 2012, correct?

Peter Steenkamp

That's right, yes.

Ed Stoddard

Okay. Okay. I think that helps clarify one of Kevin's earlier questions. Thanks.

Peter Steenkamp

Thanks Ed.

Operator

Thanks very much. Gentlemen, we have no further questions. My apologies, we do have a follow-up question from Kevin.

Kevin Crawley

Sorry, just lastly I wondered if you could just repeat what your conditions are for an acquisition. I think you said in the past you've given a target for the number of ounces you're looking to get hold of.

Peter Steenkamp

Okay. Philip, would you maybe just...?

Phillip Tobias

The criteria that we have defined we are looking at at least 2 million ounces of reserve at around 100,000 to 200,000 ounces per annum produced and less than \$950 an ounce all-in sustaining cost, giving us at least a life of mine of ten years. That is basically what we're looking at. And we spoke about the location. South Africa, Papua New Guinea and the rest of Africa.

Kevin Crawley

Okay, great. Thanks a lot. And sorry, who was that speaking?

Marian van der Walt

That was Phillip Tobias, our one Chief Operating Officer, Kevin.

Peter Steenkamp

He is looking after all the new business and growth for the company.

Kevin Crawley

Okay, great.

Peter Steenkamp

He is the Chief Operating Officer in charge of that.

Kevin Crawley

Okay, great. Thanks very much.

Operator

Thank you. Gentlemen, we have no further questions now. Would you like to make some closing comments?

Peter Steenkamp

Thank you very much. Just to say that both in South Africa and Papua New Guinea I think we have built up some decent momentum. We are maintaining our annual guidance of just over 1 million ounces for the year at a cost of \$1,100 per ounce. We are very happy with the progress that we've made so far. Most of our operations have done exceptionally well. And we are very comfortable that we've got good momentum on all of our operations now. Thank you very much.

Operator

Thank you very much, sir. Ladies and gentlemen, that concludes the conference and you may now disconnect your lines.

END OF TRANSCRIPT