

Conference Call Transcript

2 February 2017

INTERIM RESULTS ANALYST

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 are currently in listen only mode and there will be an opportunity to ask questions later during the call. If you should need assistance during the conference please signal an operator by pressing star and then zero. Please also note that this 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

Thank you Chris, and good morning everybody. Welcome to this conference call. I think just before we start some introductions. I think we had a very good six months from the 1st July to December. We are very pleased with the results. Basically we achieved everything we set ourselves to do. Just a few salient features. First of all our safety rates improved, specifically on the fatality side. Actually the last quarter we had no underground fatality which is quite a big achievement for Harmony. We declared an interim dividend of 50 cents (ZAR). Our headline hearings are 150 cents (ZAR). We had an 8% increase in gold production. Our grade continued to trend up and we are very pleased by that because our management of the grade from the operational side has been very good. Hedging continued to have quite an inflow of cash for the company. We had R627 million in the six months that we actually made out of hedging activities. And our all-in sustainable cost of R510,000 per kilogram is about a 4% increase year on year. And remember in this particular six months we actually started with the new wage increases and also the winter tariffs in electricity. So that is basically some highlights of the six months. We will take any questions.

Operator

Thank you, 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 Adrian Hammond of Standard Bank. Please go ahead.

Adrian Hammond

Morning gentlemen. Just a couple of questions on your costs being reported. Some changes I see. You've got a new cost line called total costs and capital versus all-in sustaining. Could you just explain what the difference is between those two? And then in your recon of headline earnings you've got profit on sale. It's a marginal amount. What does that relate to please? Thanks.

Peter Steenkamp

Can you maybe take that question?

Frank Abbott

Yes. In the case of the total costs and capital what we've included is the deferred stripping of Hidden Valley.

Adrian Hammond

Right. What does it not include that all-in does?

Frank Abbott

Sorry, what is included is the deferred stripping at Hidden Valley. It doesn't include it in all-in sustaining costs. The deferred stripping has to do with the capital investment. It is not actually linked to current production.

Adrian Hammond

Okay. Great. Just on the profit on sale, what is that?

Peter Steenkamp

The gain.

Frank Abbott

Oh. The gain on the sale of Hidden Valley. Is that your question?

Adrian Hammond

No, it's not that one. I understand that. There was another line item of R43 million.

Frank Abbott

Where are we reading that?

Adrian Hammond

Note five on page 20, profit on sale of EPE.

Frank Abbott

We sold a hospital in the [unclear].

Adrian Hammond

All right. Okay. Okay, great. And then are you changing your capex guidance for the year?

Frank Abbott

No, no we're not.

Peter Steenkamp

It is still the same, Adrian.

Adrian Hammond

And what is that?

Peter Steenkamp

On slide 27 on the results presentation it will be on that. Do you have the results presentation in front of you?

Adrian Hammond

No, I don't. Sorry. I will refer to that. Thanks.

Peter Steenkamp

Okay. Actually up to FY20 is all in there.

Adrian Hammond

Okay, great. Thank you very much.

Peter Steenkamp

Thanks Adrian.

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.

Peter Steenkamp

Marianne is so chuffed with the reporting that there are no questions.

Operator

We do have a follow-up question from Adrian. Please go ahead.

Adrian Hammond

Okay, Adrian. Peter, since I have the floor, I just wanted to ask on the operational side of things. Obviously you had a good performance on the production, but I look at your all-in sustaining costs and they went up quite a substantial amount, 14%. What is driving that? And then secondly where in your operations do you think most of your concern lies or where you think there could be improvements going forward? Thanks.

Peter Steenkamp

Adrian, yes. The 14% is in Dollar terms. That is really the exchange rate. If you look at the Rand it was 4%. Obviously during these six months we had the labour increases which were around about 7% for our unionised labour. That is a three-year deal that we signed. It turned out to be around about 7% for that. We also had some of the winter tariff during the period in terms of electricity. Obviously at the moment we are in the lower part of that curve. Our royalties have also changed because we have got a sliding scale on the royalties, and because we made more profit we paid higher royalties. And then we also paid a little bit more bonus because of the performance than we had in the past. But all in all if you look at the operating cost, the stores cost and those type of things, they are fairly well maintained. We have still got our finger on that pulse. The second part of your question, Adrian, was on the...

Adrian Hammond

Operationally where do you see the major challenges facing the business now for the South African operations?

Peter Steenkamp

The only operation at the moment that gives us... not grey hair, we know what we're doing there... is Target. Target compared to the previous year had a performance much lower. It was all due to the fact that we had a specific area that we would have mined which we stopped and we had to redirect our direction. I'm talking about our massive mining that we would have done. We redirected our development there. We are in a position where when we actually now went into that we did some in-fill drilling in the quarter. The grade at the bottom part of that massive is not as high as we anticipated. But the top part was good. So we are actually going to mine it now as a normal stoping and then we will trench and see if there is any more gold there. So Target has got three quarters of around about 250kg to 260kg a month. We are restructuring that mine to get back to that. But other than Target our other places are doing well.

Adrian Hammond

Is there any upside from... you're going to be doing a site visit soon. Is there any upside from the synergies between Tshepong and Phakisa? You haven't really talked about it, but you do in your site visit. Is there anything really material?

Peter Steenkamp

We don't have a site visit there any longer because there was not much interest in that.

Adrian Hammond

Oh.

Peter Steenkamp

But we have done the first round of the feasibility. We are continuing with the work. We are putting the two mines together. That's not an issue. But we wanted to bring this mine to full name plate capacity, and that doesn't actually make a lot of sense. So what we want to do is to see what we should be doing to get more gold from the lower levels and actually extend the declines below Phakisa. That we will be

finished by the end of the next six months. But we form a new plan. We have put a new plan in because we actually want to complete that work. We did the feasibility, we did all the work and we decided that is maybe not the way we should be going because we are going to drop the grade. And for that reason we have moved away from that particular plan and redirected the plan to maybe extending the declines in Phakisa which was not part of the plan going forward to get more of the higher grade areas into the plan.

Adrian Hammond

Okay, great. Thanks. And then if I could refer back to Frank. Are the royalties subject to...? Sorry, is the hedge benefit subject to royalties?

Frank Abbott

No, we have got opinion on that. No, it's not subject.

Adrian Hammond

No. Okay. And if current spot prices...

Frank Abbott

The tax is non-mining and it is not part of the revenue for calculation of royalty.

Adrian Hammond

Right. And if spot prices persist what are your calculations for the benefit of the hedge for the next six months' financial results?

Frank Abbott

But you don't have the slides, do you? The total benefit calculated in December – but this is for a longer period than six months – is R2.2 billion.

Adrian Hammond

And when does that period end?

Frank Abbott

It has got two periods. On the currency it ends the end of this year.

Peter Steenkamp

Calendar year.

Frank Abbott

Of the calendar year. That value is about R600 million. And then on the Rand gold hedge it ends in the September quarter 2018 and that value is R1.6 billion.

Adrian Hammond

Got you. And what assumptions is that?

Frank Abbot

The assumptions would have been valued from the day of the 31st.

Peter Steenkamp

31st December.

Frank Abbott

Of December.

Adrian Hammond

Okay. I just want to see how the movements have impacted that valuation. All right.

Peter Steenkamp

It's very much the same as it is now, Adrian, if you look at 31st December and where our current gold price and exchange rate are.

Adrian Hammond

Okay. Excellent. Great. Thanks and well done.

Peter Steenkamp

Thank you.

Operator

Thank you. Ladies and gentlemen, again a final reminder, if you wish to ask a question please press star and then one now. We will pause another moment to see if we have any further questions. Sir, it would appear that we have no further questions. Do you have any closing comments?

Peter Steenkamp

First of all, thank you very much for joining us in the call. Like I said both South Africa and Papua New Guinea we are very satisfied with the momentum that we have gained in both operations. We didn't talk much about Papua New Guinea, but certainly we are very happy with the work that has been done there. We believe that we will stick to our annual guidance that we set at the end of the year both on production and also on cash cost. And we certainly feel very happy with where we are at the moment as a company. Thank you very much.

Operator

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

END OF TRANSCRIPT