Conference Call Transcript

2 February 2017

INTERIM RESULTS INTERNATIONAL

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 conference. If you should need assistance during the call 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. Good day to all of you and thank you for joining us. I believe there are quite a few people out there listening to the results. We will go through the results by using the presentation that we've made this morning on the webcast. Just to take note of eh safe harbour statement on the second slide. We will cover the agenda. We will cover the normal type of agenda, but also in this presentation we've got Johannes van Heerden here, CO from South-east Asia with us. He will talk about Hidden Valley, so if there are any questions on Hidden Valley he will be able to field them.

Our key features for the first half of FY17, our aim is to mine safe, profitable ounces. We believe that safe mines are profitable mines. And the better we improve our safety the better our performance will be. One of the biggest things we had in Harmony when we started was these unplanned stoppages, many of them through safety stoppages. We have done quite a lot of work in terms of improving our safety and secondly also improving our maintenance on our major infrastructure. And for that reason we are in actual fact seeing quite a nice uptick in our production. The majority of our mines are exceeding or achieving their plans. Our grade management has really been very good. I'm pleased to say the discipline we put in place not to mine the low cut-offs is really working for us and our grade continues to improve.

And then we've done quite a lot of work as far as growth is concerned. We have concluded the Hidden Valley acquisition during this half of the year. We are actually spending some money on exploration. And we have also done quite a lot of work as far as acquisitions are concerned. We increased our margins. We remained free cash positive over time. Our hedging is still out there to protect our margins and is still doing it very well, and we will talk about that a little bit later. We basically repaid all our debt. We've got a strong balance sheet and a lot of flexibility in the company. And we believe in prudent financial management. We are extremely conservative in terms of how we spend the money. We do not have a lot of money in our pocket to burn. Somebody asked me this morning. We are in actual fact very prudent in terms of where we want to spend the money.

To look at the strategic pillars our safety rates improved during the six months [break in audio] with an 8% increase in gold production. We talked about the grade continues to go up and is sitting at 5.04 g/t at the moment. We had a 4% increase in all-in sustaining cost Rand per kilogram wise but 14% unfortunately in US Dollar because of the exchange rate we had. We made $45 million from the hedging. We had headline earnings of 11 US cents. We are on track to meet our production target for the financial year. And we paid an interim dividend of 4 US cents.

If you turn the page then to slide number eight it gives you the fatality injury frequency rate. You can see the six months has been the lowest it has ever been in Harmony before. If you look at our safety achievements we talked about being fatality-free underground in the December quarter. Tshepong mine, which is one of our bigger flagship mines, recorded 2.5 million fatality-free shifts on the 27th October. That took them 794 days. Doornkop achieved over 2 million fatality-free shifts on the 17th December which took them 872 days. What is also quite encouraging if one looks at the last bullet point on slide number nine is what we call white flag days. If you go to a beach and there is a white flag on the beach it's a safe beach. A white flag means a day with no injuries at all, not even a treat and return accident. And we had many mines that had a full month, calendar month without any injuries. Unicell, Bambanani had it in September, November and December, and also Joel in October. That certainly underscores the notion that we can actually work injury-free and zero harm to people. And certainly if these operations can get it right we can certainly get it right in other operations too.

If you look at our operational results, now starting with slide number 11, our gold produced was 554,000 ounces for the six months. We are well on our way to get to our 1.050 million ounces as our guidance. The gold price in US Dollar terms has dropped 7%. Our recovered grade is 5.04 g/t, up from the previous six months from the 4.883 g/t. Our production profit is $177 million. All-in sustaining costs at $1,136 per ounce.

If you then look at slide number 13 which gives us the operational performance of the different operations in ounces produced you see all of our operations improved except for the last three. And the most significant one is really the Target operation that didn't get to their target. The other two was really off the back of a previous six-month excellent performance. Except for Target all our operations actually made their plans and we are very pleased with that performance.

If you turn to slide number 15 which looks at operational cash flows in US Dollar terms, all our operations made money, and then Target is the only operation that didn't make it there. On slide number 16 we look at the underground recovered grade. We look at this last three years and we see where we are now in terms of our first half of the year. We can see we had quite fairly good improvement in grade and a consistent improvement in grade over the last few years. I will now hand over to Frank to talk about the financial results.

Frank Abbott
Thank you, Peter. If we turn to slide 19 you've got extracts from the income statement. And this is for the first half of the 2017 financial year versus the second half of the financial year 2016 in US Dollars. If we look at the revenue there you will see the revenue was $796 million versus $625 million. This was a 13% increase on the previous six months. This was because of a 6% more gold sold. Although we produced 8% more gold we only sold 6% more gold. And also a 7% increase in the gold price. Our production costs went up. What we have done is we split it because we have now got 100% of Hidden Valley. So a portion of Hidden Valley was not included in our costs before. Our costs were $517 million versus $424 million the previous six months. This was largely due to the exchange rate. The Rand strengthened against the US Dollar with 1%. In Rand terms there is an 11% increase for the six months, and this was largely due to the normal salary increases, the electricity increases and also because of more production during the December six months than the year June six months.

If we look at amortisation and depreciation there is an increase to $91 million. We are amortising Kusasalethu now because we shortened the life of the mine. That does result in more amortisation. Exploration expenditure went up to $10 million. This is Papua New Guinea. This is at Kili Teke where we had two drill rigs. We had a foreign exchange gain of $51 million. This consists of $10 million which is a translation difference on the US loan to Rand terms because of the strengthening of the Rand. There was $42 million of hedging profit from our currency hedge of which $28 million realised and we received the cash and $14 million was unrealised. So that added up to the $51 million. Then we've got a gain on purchase. This is when we bought Hidden Valley. And I will explain that on the next slide. Our taxation was $34 million. Net profit was $111 million versus $89 million in the previous six months. And when we add back the exceptional item, which is the gain on the bargain purchase from Hidden Valley, our headline earnings are lower these six months than the previous one at $47 million.

If we page to slide 20, gain on purchase, the accounting standard IFRS 3 business combinations require the acquired asset to be recorded at fair value on the effective date of control. So what we did on the day we acquired the 50% asset from Newcrest, their 50% of Hidden Valley, we fair valued those assets at $39 million. They paid us $22 million towards rehabilitation. And that adds up to a gain of $61 million. Because we only paid $1 for the acquisition we had to book the gain on purchase of $61 million in our income statement.

I would like to page now to slide 22. This is the slide over the 12 month period from December 2015 to now over the 12-month period. And you will see our net debt in December 2016 was $162 million. We paid a dividend which would have increased the net debt position. We had some overhead expenditure which would have increased it further. But then we generated a lot of cash from the operations, $170 million, and we had the hedging gain during this period, $28 million from the currency hedge in this six months, and $5 million from the currency hedge from the previous six months, and $17 million from the Rand gold hedge. That adds up to the $50 million. So you can see that our net debt has come down to $21 million from $162 million in December 2015 to $21 million in December 2016.

If we page over we look at our EBITDA. This is on slide 24 in US Dollars. You can see the EBITDA for the period was $175 million. And in the year 2016 we had two parts. It was $49 million the first six months. So this is substantially more than it was in the corresponding six months. And then the next six months of the 2016 year we had an EBITDA of $212 million. We had $175 million now for the first half and we will see where we get to in the second half. If the gold prices can stay where they are we should have a good second half.

I would like to turn to slide 25 which just shows our currency hedge. As you can see here we had a floor and a cap. The blue line is the floor and the green line is the top of the cap. And you can see the yellow [break in audio] the floor price where we actually got paid. So the first bit, June 2016, we got $5 million and in this period from June to December we actually received $28 million. At the end of December 2016 the unrealised portion of this hedge was $41 million. If we were to go to the bank today they would give us the $41 million.

If we page to slide 26 this is our gold hedge, the Rand gold hedge. You can see the black line. This is our Rand gold hedge. And this runs to September 2018. And we were able to hedge it at a very good price, about R700,000 per kilogram on average. For this period what we received on this hedge realised was $17 million – the yellow part – and the unrealised mark to market value at the end of December was $116 million.

If we page over to slide 28 what we show there is our capital expenditure for the next few years. You can see that in the year 2017 the blue portion is additional capital, and that's capital we are spending at Hidden Valley. That is to do the cutback for stages five and six. And in year 2018 we will spend further capital on stage five and six, after which the mine would be producing at 180,000 ounces per year of gold going forward. [Unclear] is this capital we will be spending on Wafi-Golpu after we've completed the permitting phase. If I could ask Peter to take over. Thank you.

Peter Steenkamp
Thank you, Frank. I will also ask Johannes maybe to talk us through the Hidden Valley project.

Johannes van Heerden
Thanks Peter. On slide 30 we basically give an update on where we are in terms of the plan. During the quarter we acquired Hidden Valley. The effective date of control was 25th October. From that period onwards we mobilised the team and focussed on commencing stage five waste stripping. That is obviously critical. As part of that process we acquired additional equipment and we also recruited additional people to man that equipment. You will see that the plan basically amounts to waste stripping and then also treating ore stockpiles for a period up to June. After that there is going to be a five-month mill shutdown which allows us to do some refurbishment on the plant as well as to generate enough ore to feed into the plant post start-up.

Then on slide 31 we talk to some of the parameters that we've included in the plan. We believe we've got a robust plan that builds on conservative parameters on the outcomes that we've achieved in the past at the mine. So we are very comfortable in our ability to deliver to this plan. As Frank has noted, once we have completed this pre-strip phase the mine will be financial production from FY19 onwards and generating 180,000 ounces of gold and approximately 3 million ounces of silver per annum. The mining rate as well as the milling rate is a very achievable target. And you will see all of the above will allow us to produce gold at an all-in sustaining cost of between $850 and $950 per ounce on average.

On slide 32 we basically demonstrate what the stage five and six cutbacks look like. As you see we are mining 1.4 million ounces of reserve there. But the opportunity is to increase it potentially through also a stage seven cutback. That will allow us to mine an additional 1.3 million ounces, expand the mine life by a further five years. Key parts of that study programme would be looking at additional tailings storage facilities as well as the drill programme to confirm the grades in the stage seven ore body. As part of this expansion or growth opportunity we've also started up a regional exploration programme approximate to the mine.

Peter Steenkamp
Thanks Johannes. I will then continue. I think we really relieved on our strategy. Our safety is improving. We have repaid most of our debt that we set ourselves out to do at the beginning of this calendar year. We had shareholder returns. We had two dividend of 50 South African cents or 4 US cents each in the past 12 months. We have got growth opportunities. The Hidden Valley acquisition adds 180,000 ounces by financial year 2019 onwards. There is a lot of brownfields exploration that we are doing in the areas both in South Africa and also in Papua New Guinea. And the Golpu permitting is processing well. And we are still pursuing acquisition assets and we've got a team that is working on that constantly.

If you look at the value uplift in Harmony, first safer and more predictable ounces. I'm very glad to say that we are very proud of what we have achieved as far as that's concerned. We maintained the increase in grade. We are on track to produce in line with the guidance that we set up in the beginning of the financial year with robust margins. We've got a strong balance sheet which allows for dividends. We have got a growth portfolio and a share price uplift should continue from there. Thank you very much. We are prepared to take any questions you would like to pose to us.

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

Peter Steenkamp
I think first of all thank you very much for being on this call. From Harmony's perspective both operations both in South Africa and Papua New Guinea are maintaining the momentum. We are very

proud of the momentum that we created there. We believe that our annual guidance of approximately 1.05 million ounces will be achieved at a cash cost of $1,100 per ounce. I think we've got a very strong performance of the team. The team is very motivated to do well going forward, and the momentum is in a good space as I said before. So I think we can continue with the strong operational performance. Thank you very much for joining us on the call.

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

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