

SOCIAL AND ETHICS COMMITTEE: CHAIRMAN'S REPORT



Modise Motloba
Chairman: social and
ethics committee

“Our moral obligation to our host communities extends beyond providing direct employment opportunities and financial benefits”

Dear stakeholder,

It is with considerable pleasure and satisfaction that I report on the social and ethics committee's activities for the year to 30 June 2017. This committee is constituted in terms of the requirements of section 72(8) of the Companies Act 71 2008 (the Act), and its associated regulations. It is a sub-committee of the board and fulfils its functions on behalf of Harmony and its subsidiary companies in relation to social and economic development, environmental stewardship, governance and ethics, public safety, health, labour and employment matters. Operational safety is the responsibility of the technical committee. For more information on the composition of the social and ethics committee, refer to the *Corporate governance* section of this report.

Despite a year in which gold prices recorded significant declines during the first half and which failed to reach the year's opening levels by year's end, Harmony persisted in its commitment to the sustainability of its business throughout FY17 as well as to delivering on its social and economic responsibilities and to making a lasting, positive impact on its host communities, its employees and other stakeholders.

APPROACH

Sustainability at Harmony is underpinned by our values, which are intrinsic to our operating philosophy and practices. They remain key in our decision-making. We subscribe to the five-capitals model (natural, human, social, manufactured and financial capitals) which underpins our approach to sustainable socio-economic investment. We aim to improve and advance each capital so that we create value

during the lives of our mines and beyond by leaving positive, lasting and felt legacies. Our approach is allied to our commitment to the Sustainable Development Goals, introduced under the auspices of the United Nations in September 2015. This set of goals is aimed at ending poverty, protecting the planet, and ensuring prosperity for all. They are part of a new global sustainable development agenda, and are also aligned with the National Development Plan in South Africa, which is taken into account when formulating local economic development projects.

The social and ethics committee is confident that, during the past financial year, it complied fully with the legal, regulatory and other responsibilities assigned to it by the board.

ACTIONS IN FY17

The committee, which undertakes its duties with accountability both to the board and to the company's stakeholders, met five times and attended one site visit during the past financial year. The committee's key activities are summarised in *Corporate governance*.

PUBLIC SAFETY AND HEALTH

The committee maintained responsibility for public safety and reviewed its strategic interventions while reinforcing robust controls over access to our mines and the surrounding properties. Despite our emphasis on securing our decommissioned shafts, we continued to be affected by the highly dangerous practice of illegal mining with unlawful access being gained to old mine workings. In May 2017, the threat to our own employees and as well as to the illegal miners themselves was

fatally displayed by an underground explosion that cost the lives of 25 people. We further tightened security, but it is an inescapable fact that our operations are under sustained threat from illegal operators.

Additional community and employee interventions were added to our existing programmes to further raise awareness of safety conditions and hazardous environments. Community interventions continued to focus on primary healthcare and HIV/Aids awareness as well as on providing local people in the Free State with access to world-class hospital facilities that had previously been provided for the exclusive use of our own employees.

During the year, Harmony transferred ownership and management of the Ernest Oppenheimer Hospital in the Free State to a private-sector healthcare provider. The hospital and its modern facilities had exceeded the company's own needs and have now become available to members of local communities needing top-class health care.

EMPOWERMENT AND TRANSFORMATION

Our moral obligation to our host communities extends beyond providing direct employment opportunities and financial benefits. We also drive social sustainability through local economic-development programmes as well as by local procurement.

It bears repeating that, although the period for complying with the targets of the Mining Charter came to an end in December 2014, Harmony, in the spirit of transformation and exceeding compliance, continued to deliver in line with the tenets of the Charter, advancing in particular housing and living conditions, procurement and human resources. We measured ourselves against the 2014 targets and are pleased to confirm that we achieved and exceeded these targets during this past financial year. (See the *Mining Charter compliance scorecard* in this report).

During the year, however, the mines minister sought to introduce a third version of the Mining Charter, a version Harmony and other members of the Chamber of Mines contend was prepared with insufficient discussion with the mining industry and which contained provisions that could affect the very sustainability of our operations.

The proposed new Charter was gazetted in June 2017, just before the end of our financial year and, through the Chamber of Mines, we and other mining companies sought an urgent interdict to prevent the proposed Charter's implementation without further substantive discussions between the minister, the Department of Mineral Resources and the industry. The minister has responded with a written undertaking to the Chamber of Mines that he will not implement the new Mining Charter. He has also agreed to an expedited process to have the new Charter reviewed by a full bench of judges, a review that is scheduled to be heard mid-December 2017. This written undertaking allowed the Chamber to withdraw its urgent application for an interdict and we anticipate further frank discussions in the interim.

We at Harmony remain committed to the sustainable transformation of the mining industry, but remain committed to the view that this can only be achieved through open negotiations, between the industry and the regulators. We look forward to participating in discussions with the minister and the Department of Mineral Resources.

When it comes to investing in and transforming our workforce, we have met and exceeded all the group-wide targets, with the appropriate number of historically disadvantaged South Africans employed at all levels of management. For more on this, see *Employees and communities*.



Sports academy



Merafong digital hub



Free State surface operations

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Societal development remains an important objective and, with this in mind, as a group we invested R27 million (US\$1.9 million) in local economic development directed both at communities around our continuing operations and at those associated with mines that have closed. Among the legacy projects implemented during FY17 was our donation of office facilities that were superfluous to our needs in the Free State to Police and Prisons Civil Rights Union. The facilities are being converted into a training campus for the union and will also provide necessary accommodation for staff and trainees. The new facility will not only introduce new educational opportunities to the area, but will lead to the creation of social amenities and job opportunities for local people.

Recognising the role of small and medium enterprises in the community, Harmony continued to develop the Phakamani and Leano initiatives, which provide soft loans to entrepreneurs in all our host communities. Although still in its infancy, the initiative has already made several meaningful investments, some of which supported 360 jobs. In Gauteng, Harmony passed full ownership of seven small-business projects near the company's Doornkop property, businesses ranging from vegetable market gardening through clothing manufacture to computer services. The businesses are serving customers over a wide regional area.

BUILDING A HEALTHY AND ENGAGED WORKFORCE

We believe that a healthy workforce coupled with a healthy workplace culture is integral to sustaining our productivity and profitability in today's business climate. Our culture gives priority to safety and health and, to this end, Harmony persisted with its R100 million investment in a proactive healthcare strategy, particularly as concerns the provision of convenient health facilities at or near our mine shafts. These well-staffed facilities not only provide for the immediate health needs of employees but are integral to our strategy of ensuring that our employees participate fully in taking responsibility for their own health and safety as well as that of their colleagues in the workplace.

Consultation and collaboration form the cornerstones of our relationship with our employees, directly and through organised labour. It was against the strong fabric of mutual respect and trust that together we concluded a three-year wage agreement in October 2015. Unfortunately this agreement did not live fully up to expectations and operations at our Kusasaletu mine were affected on two occasions by unprotected work stoppages during FY17. The stoppages ended peacefully after discussions and agreement with the unions representing the mine's employees. Refer to *Operational Performance*.

ENVIRONMENTAL MANAGEMENT

Looking back at the year under review, the committee is satisfied with Harmony's environmental performance. Managing our finite resources responsibly continued to remain high on the agenda, particularly further moves to maximise our mines' use of recycled water and to further restrict their water discharges. Energy conservation was achieved by driving efficiencies, and innovative solutions which resulted in a further 1.6% reduction in electricity consumption. Our performance in these areas has ensured that we have maintained our 'A' rankings for the Carbon Disclosure Project's Climate Change and Water programmes.

Harmony included in the FTSE4Good Index Series



FTSE4Good

FTSE Russell (the trading name of FTSE International Limited and Frank Russell Company) confirms that Harmony has been independently assessed according to the FTSE4Good criteria, and has satisfied the requirements to become a constituent of the FTSE4Good Index Series. Created by the global index provider FTSE Russell, the FTSE4Good Index Series is designed to measure the performance of companies demonstrating strong environmental, social and governance (ESG) practices. The FTSE4Good indices are used by a wide variety of market participants to create and assess responsible investment funds and other products. For further information, see: <http://www.ftse.com/products/indices/FTSE4Good>

Our land rehabilitation programme has continued to advance and has created added value on reclaimed land in the Free State, through the growing and harvesting of plants that thrive under difficult conditions, a project that provides energy bio-mass as well as employment and entrepreneurial opportunities for local people. Plant matter is being processed to generate gas.

ETHICS

I make no apology for repeating what I have said before, that we at Harmony believe ethical conduct is a prerequisite for doing business. There is a direct correlation between sustainable business success and consistent ethical behaviour. The continued success of our company depends on the highest levels of integrity across all aspects of our business. We want all our stakeholders to view Harmony as a company they can trust – therefore we are unequivocal about our values and the way in which these values find expression in our daily behaviour. We have in place a code of conduct and a behavioural code, which simplifies the detail set out in the code of conduct. For more on these codes, refer to *Corporate Governance*.

SILICOSIS

Harmony participates in processes to address legacy issues relating to occupational lung disease. The silicosis working group, initiated by certain South African gold mining companies, continues to work to establish a sustainable, all-inclusive and comprehensive solution for the compensation of the occupational lung diseases covered by the Occupational Diseases in Mines and Works Act. In consultation with all stakeholders, the working group is working towards finding a comprehensive and sustainable solution to address related concerns, both current and legacy.

LOOKING FORWARD TO THE YEAR AHEAD

Harmony's positioning of its operations to benefit from improvements in the gold price began to bear fruit in the second half of FY17 and, should gold's price advance of FY18's first few months be sustained, the rest of the new financial year will see an enhancement of our ability to meet our commitments to all stakeholders. While this has been shown by a resumption of dividend payments, it is also being shown by greater possibilities to benefit our mines' local communities. It would, of course, be tempting providence to make commitments that we might be unable to keep, but those commitments into which we feel able to enter will be made in consultation with the stakeholders involved. On this basis, we shall further strengthen our relationships with local communities whose social needs continue to be discussed and addressed.

This applies equally to our young projects in Papua New Guinea as to our mature operations in South Africa. Our commitment to Papua New Guinea has been underpinned by our acquisition of full ownership of the Hidden Valley project, progress towards the complete permitting of the Golpu venture and in further exploration efforts to locate and prove other gold resources in the country.

As was the case at the start of FY17, FY18 has begun with no finality on the Mineral and Petroleum Resources Development Act amendment bill and the Mining Charter in South Africa. We remain committed to ensuring that legal reform results in sound implementable outcomes and to maintaining our interactions with the South African authorities through the Chamber of Mines and other forums. Harmony has a strong footprint in South Africa and Papua New Guinea and remains committed to all stakeholders and relevant host communities.

THANKS

Continuing the committee's contribution to Harmony's progress towards a sustainable future would not be possible without the wholehearted commitment and contributions of my committee colleagues. I extend my sincere thanks to them for their work during the past year and am assured this will continue in future. The committee is comprised of people committed to ensuring that Harmony matches up to the best safety, health, governance and environmental standards. In this, the committee continues to enjoy the full support of the board. In conclusion, I invite those with suggestions as to how we might better take our responsibilities forward to present them to us. They will be greatly appreciated.

Modise Motloba

Chairman: social and ethics committee

26 October 2017



Target



Free State surface operations



Harmony values bus