Chief executive officer’s review

2009

Chief executive officer's review, Graham Briggs

It is very rewarding to reflect on another 12 months that demonstrated a focused, energetic pursuit of the strategic objectives we set more than two years ago to stabilise the company, to rediscover the 'Harmony magic' and to restore sustained profitability. A key signal of this has been our decision to pay a dividend to shareholders of 50 SA cents per share for FY09, the first dividend declared by Harmony in five years. This was on the back of a doubling in headline earnings to 262 SA cents (29 US cents) per share.

Key features of our financial and operational performance in FY09 as compared with FY08 were:

- Gold production of 45 437 kilograms (1.461 million ounces), down 8.6%.
- Revenue from continuing operations of R11 496 million (US$1 277 million), up 19.5%.
- Substantial cash generation with a healthy balance sheet – cash at year-end of R2 billion (US$253 million), with the company being net debt-free.
- Cost increases contained despite significant increases in input costs during the year.
- Profit of R2 927 million (US$311 million) (FY08: R245 million (US$30 million) loss), the highest level of profitability ever reported by Harmony.

Reflecting on strategy

Our three-phase, three-component strategy, launched in August 2007 to guide us to June 2012 and beyond, has served us in good stead. This is particularly encouraging, considering the changes beyond our influence that have continued to take place in the South African mining sector and the national and global economies. The year under review saw us start to reap the rewards of the first, 'back-to-basics' component of our strategy, designed to stabilise the company over a period of five months, kick-start an 18-month recovery phase, and lead us – more as a continuing, guiding philosophy – into the second, 'organic growth' and third, organic/acquisition phases. (See the discussion on our strategy on page 10).

The drivers of back-to-basics – key among them non-negotiable safety; operation-specific, target-directed plans, 'owned' by focused management teams; accurate ore reserve management; accelerated development; operational consistency; cost control; increased productivity; proactive maintenance; and internal and external benchmarking – have been bedded down and are starting to deliver on expectations.

In terms of 'organic growth', we moved into higher gear during the year, our focus being continued development and the start or build-up of production at our five major projects – Phakisa, Tshepong, Elandsrand and Doornkop in South Africa, and Hidden Valley in Papua New Guinea. We also stepped up our exploration programme, with a focus on Evander South and the St Helena surface tailings in South Africa, and the Wafi-Golpu copper-gold tenements in PNG.

The gold market

During the 2009 financial year, gold was on a roller-coaster both in rand and US dollar terms, and the prices have not moved in unison. Rand strength saw the rand gold price slide in the last five months of the reporting period, from R320 000/kg to R231 000/kg, both undermining the operational gains we had made and testing our cost control measures.

Observers have commented at length on why the gold price has not continued to rise. I would suggest that the metal – while faring substantially better than other metals during the global economic downturn – has indeed been held back by consumer and investor uncertainty and caution. Jewellery demand has softened and scrap gold is becoming an important component of supply. Exchange traded funds (ETFs) have increasingly been supported as part of investment portfolios, and investors have also taken to different currencies.

Chief executive officer's review cont.

The fundamentals for a continuing imbalance between demand and newly mined supply suggest good prospects for a price of more than US$1 100/oz by December 2009 with some upside thereafter. World gold production is decreasing and exploration has failed to produce significant results.

We remain bullish in the medium and longer term, but will continue to take a conservative view in planning in the year ahead, using a gold price of US$750/oz and R225 000/kg in South Africa.

Safety

Sadly and very disappointingly, we recorded 22 fatalities in work-related incidents in the year under review, compared to 21 the previous year. This despite a top-to-bottom commitment to zero fatalities underpinned by a multi-faceted drive for improved safety and our focus on behaviour-based safety initiatives. Our fatal injury frequency rate (FIFR) for the year was 0.21 per million hours worked, compared with 0.18 in the previous year.

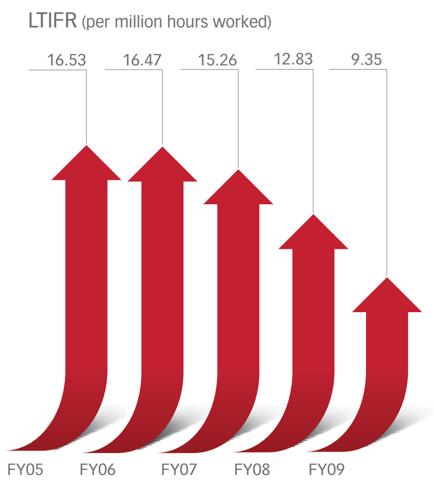
The men who died were:
- Bambanani employee Moeti Mololo;
- Brand 2's Fuzile Ntlebe;
- Central Plant's Frans Majake;
- Elandsrand employees Diago Bila, Mpeo Moeti, Magatsele Mangaliso, Amandio Massingue and Mzi Bondlanim;
- Evander's Ntshumayelo Blayi and Dumisani Magagula;
- Masimong employees Patrick Mabitsoa and Vukile Bhomane;
- Target employees Mokutu Qondile and Legotla Nkhatho;
- Tshepong employees Nokanyo Gcasama, Zinkele Yam, Ntlatlapa Lazaro, Tsibolane Khotso, Teloo Tsoke, Zolani Maboza and Meshack Raletooana; and
- Unisel employee Kali Makase.

I extend my deepest condolences to their families, friends and colleagues and commit our group to ongoing efforts to eliminate all fatalities at work.

More encouragingly, we reported good progress in respect of other key safety parameters in South Africa. Our total injury frequency rate (TIFR) declined from 24.71 per million hours worked to 18.73, our lost-time injury frequency rate (LTIFR) from 12.83 to 9.35, and our reportable injury frequency rate (RIFR) reduced from 6.03 to 4.97.

Internal investigations show that 85% of all safety-related incidents are caused by inappropriate employee behaviour. While we have made progress in reducing such incidents in high-risk stoping and development environments, the same cannot be said for the lower-risk, non-mining working environments. Our focus now is on increasing awareness, effecting the necessary behaviour changes and reducing the number of incidents in these areas.

In PNG, safety is no less important to us and gains in significance as the Hidden Valley project becomes operational. It is vital that as production ramps up here, proven safety systems and a positive safety culture are embedded within operational systems and procedures. To date, safety performance has improved over the past three years with an LTIFR of 0.2 and an all accident injury frequency rate (AIFR) of 33 per million hours worked reported for FY09.



It is pleasing that employees and their representatives support our 'reward and discipline' approach to safety. While we believe that we need to encourage a commitment to safety at all levels, we will not shy away from being prescriptive. The lessons of bonuses earned or lost due to safety targets being achieved or missed, and of the rigorous application of discipline at all levels for safety infringements – including dismissal – have not been lost.

I believe everyone at Harmony and in the mining sector as a whole has taken heed of the greater application of sanctions by the Department of Mineral Resources (DMR) for safety violations and, in particular, the imposition of mine closures and partial closures. I am hopeful that the resultant introspection at our own operations, together with the continued application of our own campaigns, particularly in the area of behavioural change, will deliver further improvements in safety in the year ahead.

Detailed information on safety is presented in our Sustainable Development Report, which is available on the website, www.harmony.co.za.

Operating and financial performance

Our operations have largely delivered a solid performance which is based on three pillars:

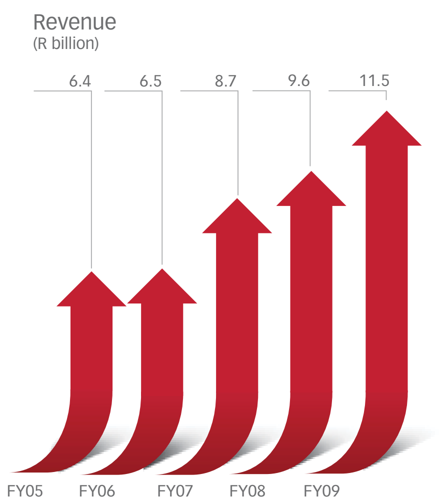
- We have a better understanding of our orebodies, a result of exploration drilling and development, and have reinterpreted our geology and developed credible geological models.
- We have formulated clear development plans that are orebody-driven and based on our knowledge of our operations. Development is being directed in the right areas at the right rates.
- We have achieved excellent rates of development, combined with improved planning and a company-wide drive to improve productivity. Behavioural training and development initiatives have been implemented, as have the notions of disciplined mining, team building, proactive human resource practices, improved logistics and the development of a motivating climate.

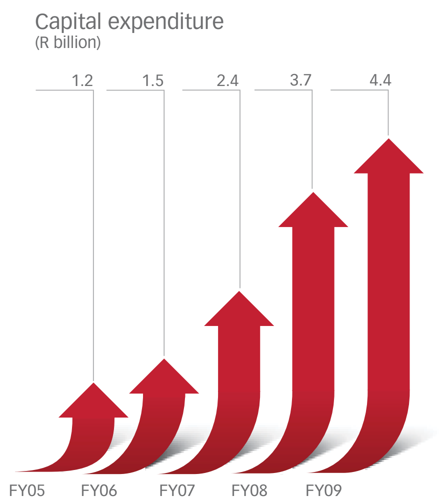
Nonetheless, overall operational underperformance in terms of throughput and grade resulted in Harmony being down marginally from the 1.6 million ounce production target for FY09.

Overall in FY09, costs increased by 9.8%, of which labour (representing 55% of costs) increased by 4.5%; stores, which account for 25% of costs, increased by 16.3%; and electricity (11% of costs), rose by 28%. The recent electricity tariff increase of 34.6%, which came into effect on 1 July 2009, will adversely affect our costs going forward.

Detailed commentary follows in the operating and financial reviews of this Annual Report. In summary:

- Masimong, in virtually every respect, demonstrates the efficacy of back-to-basics. From being on the brink of closure at the end of the 2007 financial year, this operation is now the lowest cost per kilogram producer in the Harmony stable. Restructuring has delivered an increase in tonnes milled, and an improvement in average grade mined and consequent higher gold production, while cash costs per kilogram have declined.
- The Virginia operations, the oldest and most difficult to mine of our operations, nevertheless recorded an increase in tonnes mined and a steady average grade.
- At the Evander operations, good progress was made with infrastructural improvements at Evander 8, while successful restructuring at Evander 7 resulted in higher volume and improved grade. Flooding together with high waste dilution and logistical constraints at Evander 2 hampered production at Evander 2 and 5, which operate as a single unit.
- Our opencast operation, Kalgold, maintained tonnage mined although the average grade declined with the end of mining from the high-grade D Zone pit.





Chief executive officer's review cont.

- Underground fires set back the restructuring of Bambanani into a low-volume, high-grade operation. While tonnage mined was steady, the average grade mined was lower than expected, resulting in reduced gold production and higher costs.
- At Joel, hoisting and underground water challenges experienced for much of the year were largely resolved by year-end and the outlook for the 2010 financial year is better.
- Management restructuring, extensive infrastructural upgrades and a re-evaluation of the entire orebody at Target delivered a good understanding of the geology, perhaps for the first time ever, and are expected to deliver benefits from the next financial year.
- At the Phoenix surface re-treatment operation, lower-than-expected grades were reported; a consequent revision of the mine plan is expected to produce better results in 2010.

At our project operations, fortunes were mixed in the year under review.

- Good progress was made on ventilation, refrigeration and underground transport infrastructure at Phakisa, and the Phase 1 shaft system was commissioned by year-end. Capital constraints delayed the production build-up. Increasing the rate of development will be a primary challenge in the year ahead.
- At Tshepong, poor safety leading to the imposition of Section 54 stoppages by the DMR's inspectorate, together with underground fires and mining of variable grade at the edge of the orebody, resulted in reduced production. A dedicated safety programme to effect behaviour change has been implemented, and looking further ahead to the 2011 financial year, completion of the decline project will see mining moving into higher grade areas, with less grade variance.
- Delays in shaft-related construction held back volume build-up from the Doornkop South Reef project and the late commissioning of the sub-shaft waste rock handling system resulted in recovered grade dilution. With the former now completed and the latter now commissioned, the outlook for the year ahead is much improved.
- Elandsrand benefited enormously from the attentions of Alwyn Pretorius, Harmony's Chief Operating Officer for the North region, who was seconded to the mine for six months during the year to address particularly its safety challenges. Production, which took a back seat while the entire workforce was re-aligned with the notion of safety as a 'non-negotiable', was back on track by year-end. Good progress continued to be made with infrastructure, development and production build-up at the Elandsrand New Mine project.
- At the Hidden Valley project in PNG, excellent progress on construction and development was made throughout the year, with construction being close to 90% complete at year-end. The first gold from Hidden Valley – which was indeed a milestone event – was poured in late June 2009. Exploration is continuing so as to convert prospective targets into additional reserves and resources, and this project is expected to grow in importance in our portfolio in the years ahead.

A year of achievements

Establishing substantial balance sheet strength ranks as the single most notable achievement in the year under review. We were particularly pleased to have closed several significant transactions during the year, amidst the turmoil in the global financial markets.

Conclusion of the Morobe Mining Joint Ventures agreement with Newcrest of Australia (in terms of which Newcrest acquired 50% of Harmony's projects and exploration in PNG's Morobe Province) delivered US$235 million in cash and a US$295 million capital 'farm-in' obligation. Harmony and Newcrest have developed an excellent working relationship.

Two successful capital raisings (in November/December 2008 and February/March 2009), notwithstanding sharply deteriorating market conditions globally, pointed to strong investor support for our strategy, its implementation and progress to date. In total, R1.9 billion (US$192 million), before costs, was raised from the issue of 18 045 441 shares.

In addition, R2.2 billion (US$209 million) was received from the Pamodzi Resources Fund for its 60% interest in Rand Uranium, established to turn to account the uranium potential of our Randfontein Cooke assets. The net result of all the above was that Harmony repaid its R1.7 billion (US$202.9 million) convertible bond in May 2009 and became net debt-free, two months ahead of schedule. Our healthy cash balance at year-end gives us a comfortable level of flexibility to manage capital expenditure in South Africa, exploration costs and possible acquisitions going forward.

Subsequent events

After year-end, we secured a two-year wage settlement with unions representing 88% of our 37 000-strong South African workforce. This provided for a 10.5% wage increase for employees in the lowest semi-skilled category; 10% for those in the other semi-skilled categories; and 9% for the rest in the bargaining unit. Importantly, also agreed was payment of a minimum wage with effect from July 2010 for employees in the lowest semi-skilled category, supplemented by free board, accommodation and medical assistance, as is practice in the South African mining industry. For the second year of the agreement, we agreed a guaranteed wage increase of 7.5% or the Consumer Price Index (CPIX) plus 1%, whichever is the higher.

While the agreed wage increases will raise group costs by 5% in the first year, I believe the settlement struck a reasonable balance between union minimum wage demands and job preservation. It also underpinned the generally stable and constructive relations we enjoyed with employees and their representatives in the year under review.

A number of challenges remain

A challenge we, and the South African gold mining sector as a whole, have sought to address for a long time and which came to a head towards year-end is that of criminal mining. The safety of our employees comes first and we do everything that is reasonably practicable to ensure that there are no threats to their safety, which is primarily why the deaths of 91 criminal miners at our Eland Shaft in the Free State during May 2009 was of enormous concern to us. These men died as a result of a fire allegedly caused by their own unsafe mining practices.

Criminal mining is a national problem that requires the input and assistance of all stakeholders to ensure that incidents such as those we have experienced are not repeated. Harmony has been addressing criminal mining activities proactively at an operational level and continues to do so in co-operation with the South African Police Services (SAPS), the National Prosecuting Authority, the Department of Justice and other mining companies affected. Measures we have taken are aimed mainly at the criminal miners and those of our employees who are found to aid and abet them.

To get to the heart of criminal mining – the large, well-organised syndicates operating multi-nationally – requires resources beyond ours, which is why we are extremely pleased that the Minister of Mineral Resources has intervened and established a multi-stakeholder forum to address the issue. We have committed our whole-hearted support to this initiative.

Chief executive officer's review cont.

South African power utility Eskom has given notice that the relief the country enjoyed during the past year from shortages in supply is drawing to an end as mothballed engines of industry are re-started – the first, early signs of an economic recovery. The return of power shortages, together with the tariff increases discussed above and the prospect of more to come to fund the enormous infrastructural development needed to increase power supply in the long term, will be particularly testing challenges for us in the year ahead.

We anticipate a review of the Mining Charter in the coming year. As a group we have fully embraced transformation and delivery on the targets that were agreed in the Social and Labour Plans (SLPs) developed in support of our mining licences. Good progress has been made in most areas and we report more fully on this in our Sustainable Development Report. We are optimistic that this review will take cognisance of the new and significant processes and systems that have been put in place at an operational level, and which are starting to deliver results.

Growth

We are on track to attain our production target of 2.2 million ounces in 2012. Our five major projects – Phakisa, Tshepong Sub-66 and Sub-71 Declines, the Elandsrand New Mine, the Doornkop South Reef and Hidden Valley – will take us most of the way, together contributing some 560 000 ounces. Expected productivity improvements will add another 100 000 ounces, and projects – such as the St Helena tailings project – will add a further 50 000 ounces.

Post year-end Harmony was appointed the preferred bidder for the Free State assets of Pamodzi Gold Free State (Proprietary) Limited, comprising President Steyn 1 and 2 shafts, Loraine 3 shaft, Freddies 7 and 9 shafts, a metallurgical gold plant and a dormant tailings storage facility. Synergies between these and our own existing Free State assets can contribute a further 110 000 ounces to our 2012 target.

We look towards further operational improvement from our continuing operations, bringing to account new projects such as the Saints gold surface re-treatment and the TPM uranium project (more detail of which is provided in the Exploration and New Projects section of this annual report on page 90). Our project pipeline is substantial and exciting with 17 projects currently on our radar screen in the short to medium term.

We have reported previously that we have looked at a number of potential acquisitions but so far, other than the Pamodzi Free State assets, have found none that meets our criteria. Broadly stated, the assets we seek to acquire should add value, reduce our dollar/ounce costs, improve the quality mix of our assets and have the potential to produce 150 000 ounces a year for a minimum of eight years. Most operations for sale require substantial capital to bring them to an acceptable level of profitability and the few projects available would incur enormous developmental costs. Our search will continue of course but, as an unhedged gold producer, our tolerance for debt is limited, and serves as a constant reminder to us of the need for prudence.

Longer term, we look to exploration – in which we have an excellent track record of success – to deliver further growth, both in South Africa and in PNG. Progress in the year under review and prospects are discussed in full in the Exploration and New Projects section of this annual report.

Sustainable development

As a resources company operating in developing economies, we are acutely aware of our responsibilities to a broad base of stakeholders, whose lives we affect in the course of our business.

Our sustainability priorities, overseen by our Sustainable Development Committee, are detailed in our Sustainable Development Report which is available on our website, www.harmony.co.za.

The report has been developed in accordance with the G3 guidelines of the Global Reporting Initiative (GRI) and, as required by GRI, we have declared a B+ level of reporting, verified by external auditors PricewaterhouseCoopers (PWC). Key performance indicators (KPIs) in the report have been assured by PWC.

It is pleasing to note that during the year under review, we were again admitted to the Socially Responsible Investment (SRI) index of the JSE Limited and responded to the Carbon Disclosure Project (CDP) on our assessment of the risks and opportunities posed by our carbon emissions in respect of climate change.

Key appointments

Several key appointments were made during the year. At our Corporate Office, Khanya Maluleke succeeded Marian van der Walt as Company Secretary when Marian took over as Executive: Corporate and Investor Relations. Post year-end, Leon le Roux was appointed Executive: Risk Management and Engineering; Matthews Dikane as Executive: Legal and Compliance; and Melanie Naidoo-Vermaak, as Executive: Environmental Management.

Five new general managers were appointed: Steven Green at the Virginia Operations; Theo Keyter at Elandsrand; Zweli Ndese at Bambanani; Beyers Nel at Kalgold; and Adrian Sobreira at Target.

Doubtless, management change during the protracted change process in which we have been engaged unsettles and takes its toll on performance but the negative impact has been short-lived. We now have in place a formidable executive and management team – experienced, empowered, motivated, focused and cohesive.

In early September 2009, we announced the appointment of Hannes Meyer to Harmony's executive management team as Financial Director Designate. Hannes brings with him extensive experience of the mining industry and was, until recently, Acting Chief Executive Officer and before that Chief Financial Officer of TEAL Exploration & Mining Inc.

Frank Abbott, Harmony's Interim Financial Director since August 2007, is to retire and will hand over his financial director responsibilities to Hannes on 1 November 2009, when Hannes will be appointed to Harmony's board as Financial Director. We are very pleased that Frank will remain as an executive director responsible for strategic planning to the end of December 2009.

Thanks

I would like to thank the board of directors and members of the executive, employees and their representatives, shareholders and stakeholders as a whole for their support during the year under review. The foregoing commentary has sought to reflect the progress the company has made, no aspect of which would have been possible without this support.

I would like to extend too my personal thanks to Frank Abbott, who returned to Harmony at a time when we needed a steady hand on our financial reins and transformed our balance sheet and revised the capital structure of the company. In no small way, this has contributed to our strength during the current global financial crisis. I am pleased that Frank has agreed to stay on to ensure an effective handover and continuity of financial responsibilities, and wish him well in his next venture. I am especially pleased that he has agreed to remain as a non-executive director of Harmony from January 2010

Delivering tomorrow's gold

We remain on track to deliver 2.2 million ounces by 2012 and expect to produce around 1.7 million ounces in FY10.

Today, we have a better understanding of all aspects of our business, from the orebodies themselves to the best ways in which to exploit them. We have a strategy with clear targets and deadline. Our plans are comprehensive and detailed, and we are confident of being able to deliver on them. We have substantial assets in our portfolio, a promising project pipeline and a highly competent team. We are well-placed to fund both internal and acquisitive growth and envisage capital expenditure of some R3.1 billion (US$0.4 billion) in FY10, R2.8 billion (US$0.4 billion) of that in South Africa.

At a macro level, there seems to be a glimmer of hope for a global economic recovery, although there is still a long, hard road to be travelled. While our product, gold, is set to fare the best amongst metals along the way, the likelihood of continuing rand strength and what this means for us as a largely South African gold producer cautions us against complacency.

A benefit of our being so close to the detail of our operations is that we can be very nimble in responding to market circumstances and can implement incremental cutbacks at marginal operations and readjust capital expenditure accordingly. So, while our production targets represent key objectives, we will only strive for these if they make economic sense. It remains important that we mine safe, profitable ounces.

Finally, we are pleased to have been able to reward our shareholders with a dividend payment in FY09, which reflects the current healthy state of the business.

Graham Briggs
Chief executive officer
26 October 2009