

Chairman's letter

2009



Harmony share price and volumes traded on the JSE



Source: Bloomberg



Chairman's letter, Patrice Motsepe

The year under review has been challenging and demanding for almost all sectors across the globe. I am therefore pleased to report to shareholders that Harmony has not only weathered the storm, but has been able to deliver on some of the key objectives that management set for itself two years ago.

Weathering the storm

The massive global economic slowdown has, inter alia, had the effect of contracting equity funding and tightening debt markets. So, for us at Harmony the successful conclusion of two significant transactions which enabled us to raise funds and dispose of certain assets was gratifying and resulted in a total capital injection of R1.9 billion (\$219 million) on our balance sheet. At year-end, Harmony was debt-free. We enter the new financial year with R2 billion in cash – an enviable position for any company in these troubled financial markets.

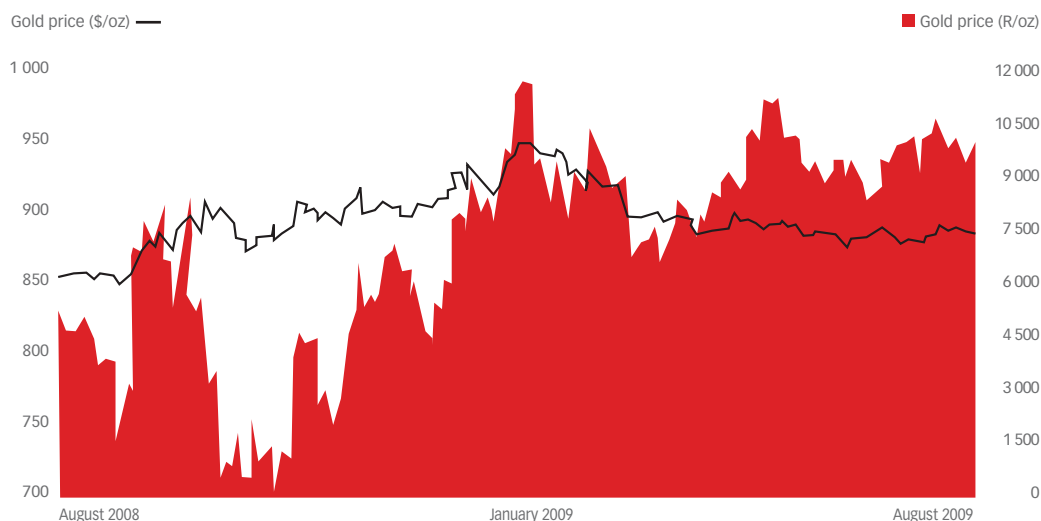
Gold as a store of value

As has become customary in tough economic conditions, the gold price in dollar terms held up well during the year, reflecting gold's enduring role as a store of value. The strengthening rand, however, undermined this performance, as illustrated in the accompanying graphs. We anticipate continued rand volatility in the short to medium term. This will have an impact on our margins and earnings.

During the past financial year, gold continued to prove its role as an investment product. We have seen growth in the gold holdings of many exchange traded funds as investors seek to diversify their holdings. The price levels we have seen recently may not be sustainable in the short term but they are pointers to gold's potential price direction in the medium to long term.

Furthermore even, at the current gold price, there is still insufficient incentive for large-scale gold exploration and development or the investment resolve to embark on massive new mining ventures.

Gold price in rands and dollars



Source: Bloomberg

Chairman's letter cont. 2009

Our view is that global gold production will continue to decline and this supports our bullish view on the fundamentals for gold in the medium and longer term.

Payment of a dividend

Our dividend to shareholders – the first in five years – reflects our satisfaction with Harmony's sound financial position and our commitment to pay dividends in appropriate circumstances. Harmony today is debt free and it continues to invest in growth projects funded by internal cash flows. The volatility we have seen in the share price performance has not been unusual and mirrors the overall trend in the resources industry.

Mitigating risk and uncertainty

For now though, in order to sustain our business during the downturn, we remain conservative in our forward planning, factoring a gold price of \$750/oz or R225 000/kg. The recent price spike post year-end at around \$1 000/oz has been largely driven by short-term factors and is unlikely to be sustained in the long run.

At Harmony we are prepared for further contraction:

- ◆ With our focused and aggressive cost management we have contained production cost increases to 9.8% during the year;
- ◆ Our balance sheet is strong – we have no long-term debt;
- ◆ We remain close to our operations – urgent decisions can be taken almost immediately; and
- ◆ We have and will continue to keep close contact and to interact with our shareholders.

In South Africa we have not escaped the severity of the global downturn, although our robust fiscal and monetary regime has cushioned us against the excesses of the global economic crisis. Yet access to capital has been constrained and uncertainty has commonly afflicted equity markets, particularly in the perceived higher-risk, developing economies.

In spite of these macro conditions, the South African economy remains relatively buoyant, with development and construction well under way for the 2010 FIFA World Cup. This buoyancy is likely to be sustained well into next year, although the impact of the local recession continues to place a strain on socio-economic delivery.

Legislative and regulatory changes

It is appropriate to briefly discuss the legislative changes which may occur in South Africa and in particular, the Codes of Good Practice for the Minerals Industry and the Mineral and Petroleum Resources Development Act (MPRDA), which are currently under review. In South Africa, we have managed to develop a unique, pragmatic approach to such matters and in this spirit, a constructive and energetic review process is under way that involves government, unions and business.

Harmony takes an active role in these deliberations. We are committed to engaging with all stakeholders to ensure that the South African mining industry remains a globally competitive and attractive destination for foreign and domestic investment.

Delivering on promises

I would like to congratulate Graham Briggs and his team on consistently delivering on the company's medium- to longer-term strategic objectives.

At the end of FY08, this team committed to the following vision:

To create an outstanding company, generating sustainable earnings to fund dividends and growth. This we will pursue through our mission of:

- ◆ Managing a sound asset portfolio;
- ◆ Creating the necessary platform to generate organic growth; and
- ◆ Exploiting appropriate opportunities to conclude strategic partnerships and acquisitions as market conditions allow.

To this end, results have been swift and on target as outlined below:

- ◆ Behaviour-based safety programmes have resulted in improved safety performance, although the number of fatalities in FY09 is of great concern to us. The continued focus by management in this regard is crucial. We are, however, pleased to note the improvement in leading safety indicators.
- ◆ Stakeholder buy-in has improved. In particular, industrial relations interactions at a group level have been good and the conclusion of wage negotiations in late July 2009 were satisfactory.
- ◆ A focused and cohesive management team has been bolstered with certain critical skills and a number of new, experienced and empowered executives and general managers have been appointed.
- ◆ Performance has been closely monitored on a shaft-by-shaft basis, with an in-depth knowledge being gained of the orebodies and their operating possibilities,
- ◆ The Rand Uranium and Newcrest transactions were successfully concluded.
- ◆ We have carefully evaluated a number of potential opportunities. To date only the Pamodzi Free State acquisition has been worth pursuing.

While in some areas the operational turnaround is still ongoing, and in others has been slower than anticipated, the transformation of Harmony's assets into longer-life, higher-grade operations is well under way and beginning to bear fruit. More detail on the progress we have made is provided in Graham Briggs's review on page 17 of this report.

Harmony as a good investment case

It is our view that Harmony continues to present a strong case for investment – as a gold investment and a leading emerging markets investment vehicle, as well as a potential future generator of cash and dividend flows. This view is based on Harmony's:

- ◆ Rising throughput and grade from existing assets, allied with productivity improvements;
- ◆ Consistent growth from the five new projects that are being developed;
- ◆ Potential growth from a number of near-term new projects;
- ◆ Strong cash flows and a robust balance sheet that could potentially fund acquisitive growth;
- ◆ Position as an unhedged producer, with a large resource base that still has exposure to leveraged assets;
- ◆ Strong, cohesive management team; and
- ◆ Commitment to delivering shareholder returns, through share price appreciation and dividends.

Thanks

I would like to thank all our directors for their sacrifices and the commitment with which they serve the company. I would also like to thank Frank Abbott who will be replaced as Finance Director on 1 November 2009 by Hannes Meyer. Frank has served Harmony with distinction as Finance Director over many years. I am pleased that he will continue to serve on our board as a non-executive director. We wish him well with his future endeavours. My thanks also go to Graham Briggs, our management team and to our employees for always going the extra mile to reposition Harmony as a competitive world-class company. I am confident and optimistic about our future.

Patrice Motsepe

Chairman

26 October 2009

