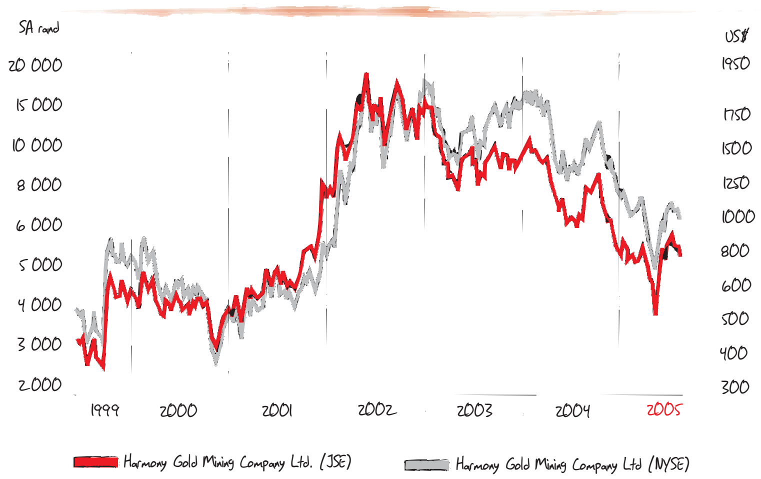
In Harmony...

Harmony Gold Mining Company Limited was formed in 1950 as a Rand Mines managed company to exploit the single Harmony mine lease. In 1995, the company was rejuvenated as a separate entity following the demise of Rand Mines. At that time, the company produced 650 310 ounces of gold and employed 16 000 people.

Today, Harmony is the sixth largest producer in the world, with increasing growth potential in South Africa and Australasia. In FY05, Harmony produced 3 million ounces of gold, predominantly from South African sources.

Harmony owns the world's largest gold ore resource. Harmony has a mineral resource of 528.6 million ounces at a cut-off of 250cm g/t, of which 54.1 million ounces are in the ore reserve category, using a long-term gold price of R92 000/kg.

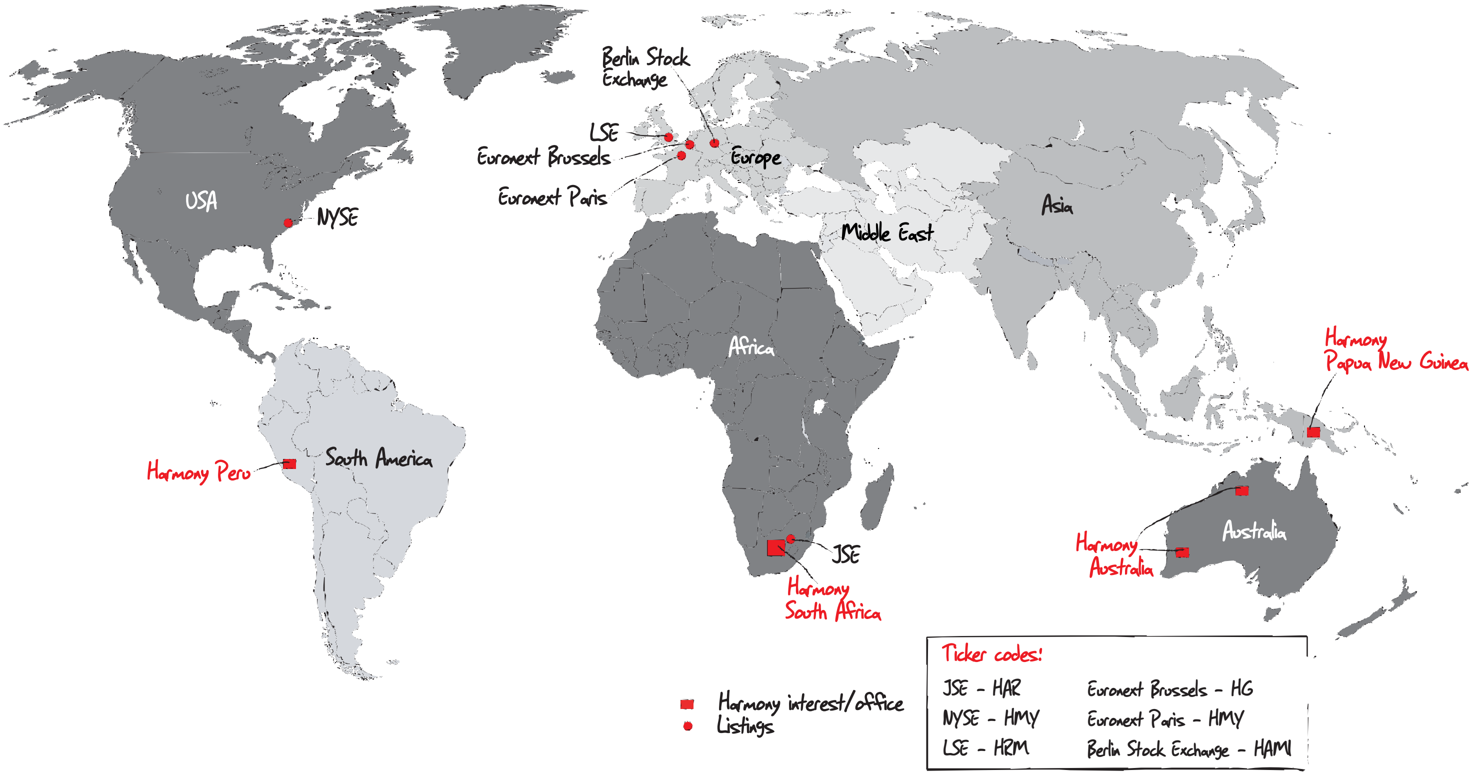
Share price, SA rand and US$ (Weekly)



Share price (FY05)

JSE-12 month high	R92.50
JSE-12 month low	R36.50
NYSE 12 month high	US$14.13
NYSE 12 month low	US$5.96
Free float	100%
ADR ratio	1:1

Our project pipeline



Harmony has a track record of delivery.

We have:

- consistently grown our production and reserve base, both in South Africa and internationally.
- restructured our operations – and taken tough decisions to close those operations that are no longer viable – to maintain margins and drive Harmony down the cost curve.
- anticipated and positioned the company for change in the South African socio-political environment, which has resulted in "new order" mining licences being granted for our Evander, Randfontein and Elandsrand operations.
- undertaken a low-cost capital expansion programme. Our R3.4 billion (US$518 million) expansion programme to access mineable reserves of 17.9 million ounces will yield an additional 1.5 million ounces of gold per annum. That's equivalent to expenditure (including capex, exploration and acquisition charges) of US$29/oz.

Growth projects – low capital cost per production ounce

Project	Life-of-mine ounces (millions)	Total capital cost (US$/oz)*	g/t	oz/annum
Expansion projects:				
Tshepong	1.46	28	7.5	135 000
New mines through existing infrastructure:				
Elandsrand	4.83	33	8.8	450 000
Doornkop South Reef	2.62	46	7.5	315 000
New mines:				
Masimong	2.78	12	5.0	261 000
Phakisa	4.00	18	7.4	254 000
Hidden Valley	2.04	96	3.0	300 000
Total	**17.73**	**35**	**-**	**1 715 000**

Based on a gold price of R92 000/kg

* Includes acquisition, exploration and capex charges

Key features FY05

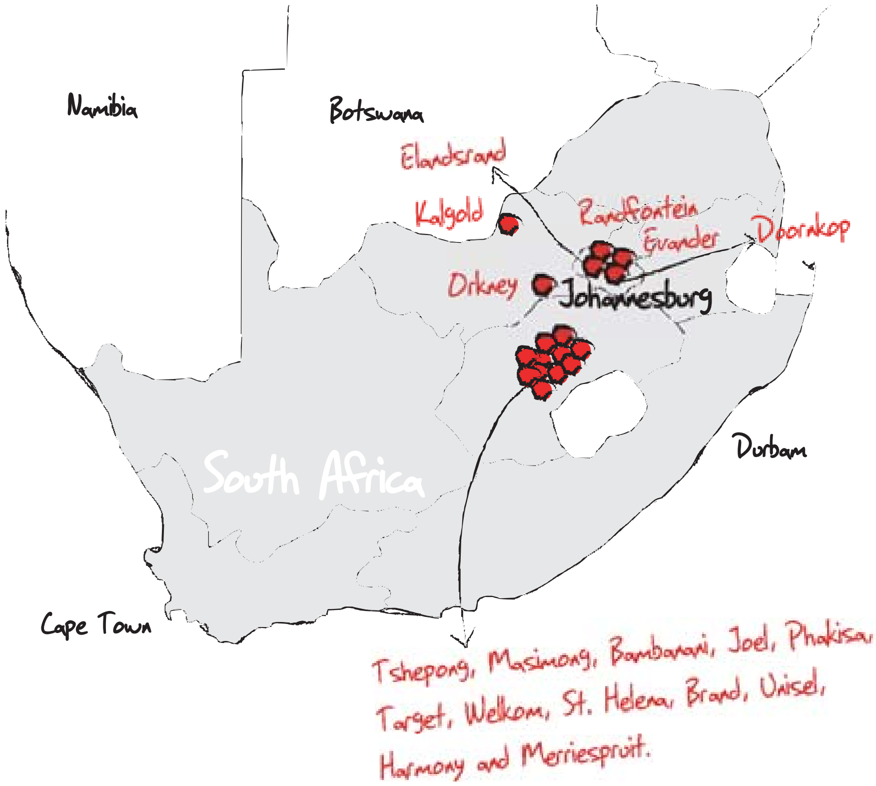
- Significant improvements in safety performance – the lost time injury frequency rate was down by 16% and the fatal injury frequency rate improved by 24%.
- Agreement reached in July 2005 with the NUM on Free State restructuring.
- Restructuring almost complete and delivering improvements, ie. lower volumes at higher grades, lower cash operating costs and increased cash operating profits.
- Seven-day a week operations implemented on South African mines.
- Bid for Gold Fields initiated on 18 October 2004 and 11.5% stake acquired. Court ruling ended process on 20 May 2005; 6.5% of our stake in Gold Fields was sold for US$315 million (R2 041 million) by year-end.
- Balance sheet restructured to focus on strategic assets: as planned, our 19.5% stake in ARM and 11.5% stake in Bendigo were sold.
- Good progress with growth projects. Capex of R1.55 billion planned for FY06.
- Harmony's solid platform for growth internationally increased as final land-owner agreements for Hidden Valley project in Papua New Guinea were signed on 5 August 2005.
- The number of women in mining at Harmony increased by 1% to 5%.

What we have done

Our performance over the past year

Financial year ending		June 2005	June 2004	Variance (%)
Production	kg	92 230	103 127	(11)
	oz	2 965 250	3 315 595	(11)
Revenue	R/kg	84 799	85 219	(0.5)
	US$/oz	427	385	11
Cash operating costs	R/kg	81 839	79 599	(3)
	US$/oz	412	360	(14)
Underground cash operating costs	R/tonne	474	413	(15)
Cash operating profit	R million	273	580	(53)
Cash operating profit margin	%	3	7	(43)
Cash earnings per share	SA cents	75	229	(67)
Headline loss per share	SA cents	(955)	(206)	(362)
Average exchange rate	Rand/US$	6.18	6.89	(10)

SOUTH AFRICA: Restructuring to optimise synergies, to focus on growth and to improve margins



The **South African operations** are being managed in three categories:

- **Quality shafts** include the Evander shafts, Randfontein Cooke shafts, Target, Tshepong and Masimong;
- **Leveraged shafts** include Bambanani, Joel, West, Nyala, St Helena, Harmony 2, Merriespruit 1 and 3, Unisel, Brand 3, Orkney 2 and 4.
- **Growth shafts/projects** include Doornkop shaft and South Reef project, Elandsrand shaft and New Mine project, Phakisa shaft and Tsephong decline project.

Surface operations:

In addition, there are a number of surface operations, including Kalgold.

AUSTRALASIA: Our platform for growth

Current operations in **Australia** are: Mount Magnet and South Kal.
Current projects in **Papua New Guinea** are: Hidden Valley and Wafi.

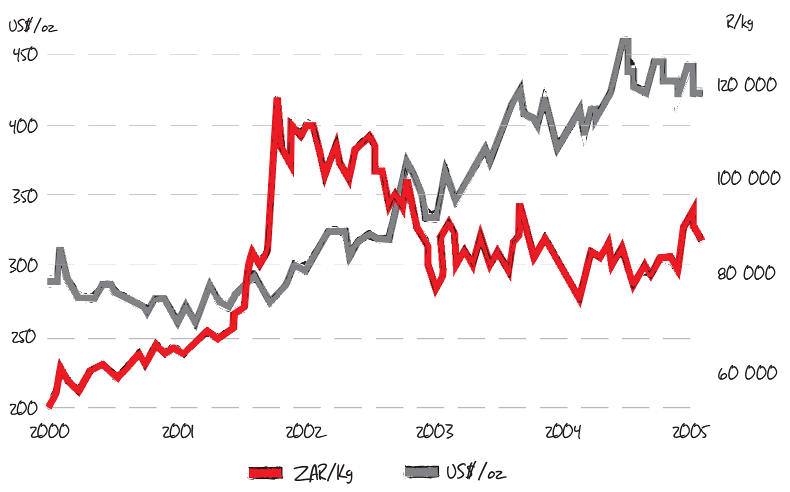
ESTIMATED ANNUALISED PRODUCTION (to be reached by September 2005)

(US$1.00 = R6.50)	Life-of-mine ounces (millions)	Cash operating costs R/kg	Cash operating costs $/oz	Cash operating cost plus capex R/kg	Cash operating cost plus capex $/oz
South Africa underground production					
Quality shafts	1 383 000	66 881	320	70 497	337
Leveraged shafts	865 000	84 394	404	85 387	409
Growth shafts/projects	323 000	80 626	386	111 244	532
South Africa underground total	2 571 000	74 500	356	80 624	386
Australia	273 000	71 875	344	83 854	401
Surface operations	103 000	71 214	341	71 214	341
Total Harmony	**2 947 000**	**74 142**	**355**	**80 596**	**386**

A view from the top

A letter from our chairman, Patrice Motsepe

Gold price calendar 2000 to present



Dear shareholder

As a self-confessed gold bug, I write to you at the end of another challenging year.

Proudly South African

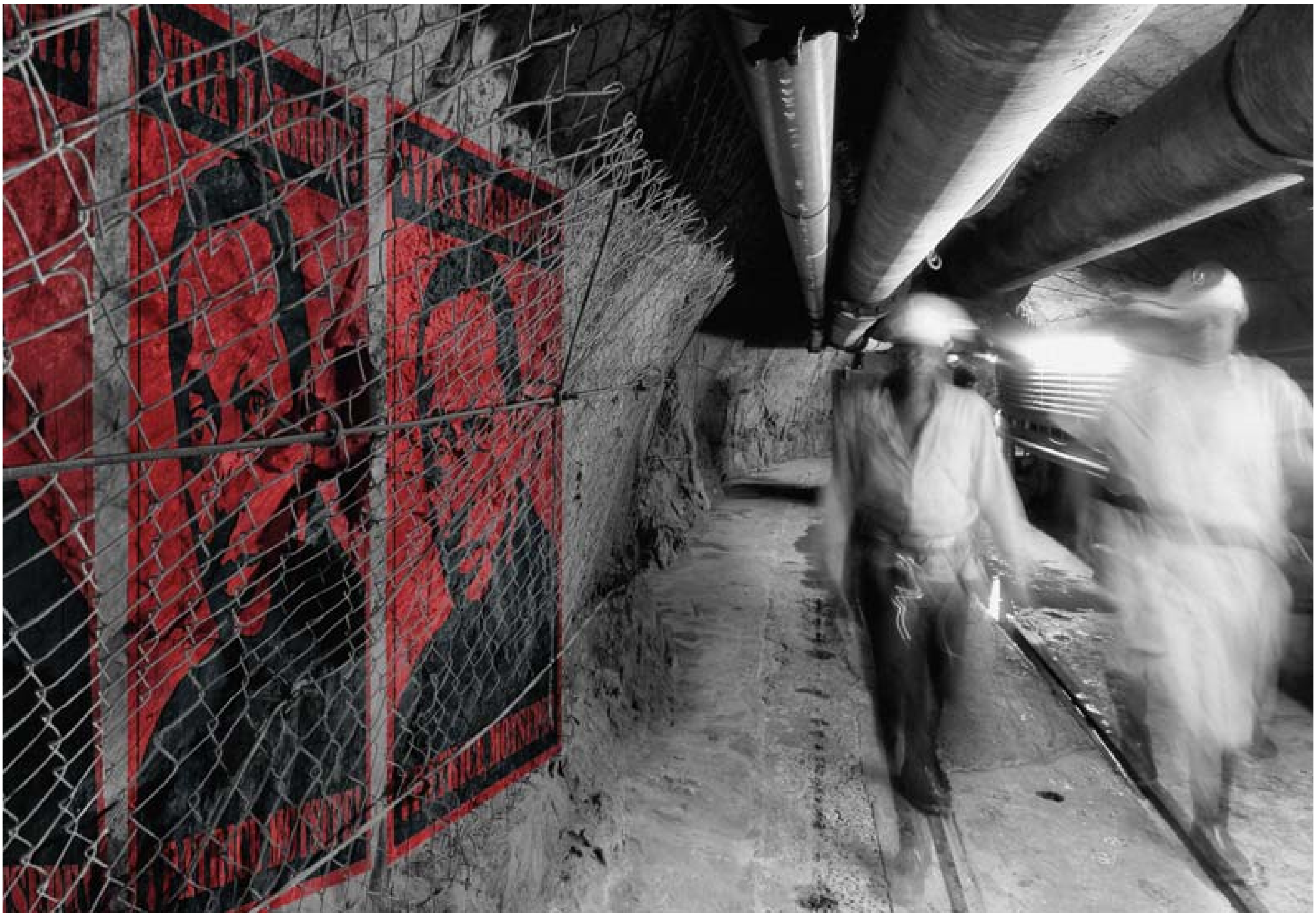
There is no doubt that the South African economy is presently in better shape than it has been for many years. Inflation, as measured by the CPIX, is at 3.5% and is well within the targeted range of 3% to 6%; interest rates are at their lowest levels in decades and the economy is on its way to achieving economic growth of 4% this year. Consumer spending is at record levels. Indications are that the government budget deficit will be lower than expected this year and may even be less than 2% of GDP.

Although many people argue that the rand is too strong, this strength together with the relative stability of the currency is a reflection of the current strength of the South African economy – and indeed of the good management and performance of our government. Despite all this positive news, there is a desperate need to eradicate both unemployment and poverty in our country. One of the biggest challenges facing us is, in fact, the need to generate economic growth at levels that will provide employment and improve the living conditions of all South Africans

Transforming our legacy

This is the first year in which the Mineral and Petroleum Resources Development Act (MPRDA) will have been in place, having been brought into law on 1 May 2004. The initial insecurity and uncertainty that accompanied the publication of the Act has given way to confidence and co-operation amongst stakeholders. There is a realisation that a growing and prosperous mining industry is in the interest of the private sector, the state and the country as a whole. No country can hope to be competitive and create long-term social and economic stability if it does not turn to account the human capital of all its people, or spread the ownership of its assets further than a small group of those who have been historically advantaged.

Harmony has been at the forefront of this change in our country. The company's current black economic empowerment credentials as far as empowerment shareholding is concerned are impeccable. We have one of the most representative boards in our industry. Black participation at junior and senior management levels exceed the targets set by various empowerment charters and we continue to attract some of the most talented young South Africans to our company. We also continue to be seen as a role model amongst South African companies. That we were the first South African company of significant size to achieve our mineral rights conversions bears testimony to this.



I would like to take this opportunity to recognise the role played by the Department of Minerals and Energy and, in particular, the former Minister of Minerals and Energy, and now the Deputy President, Ms Phumzile Mlambo-Ngcuka, for the role she has played in this transitional process. As an industry, we enjoyed her support and her guidance and we remain committed to the transformation process that is underway as well as the need to build a mining industry that continues to be globally competitive and attractive.

The gold market

Turning to the gold market in general: gold had a robust 12 months to June 2005, with the price in US dollars averaging \$423/oz, 11.6% higher than for the 12 months to June 2004. It ended calendar 2004 particularly strongly, reaching a 16-year high of \$454.20 per ounce on 2 December 2004. Gold's fortunes, for the most part, have been a reflection of the US dollar's weakness against other major currencies. Unfortunately, this has also resulted in a significant strengthening of the rand/US dollar exchange rate over the year; the average rand/US dollar rate strengthened by 9.7% in FY05 to R6.18/US\$, but reached a low of R5.64/US\$ on 31 December 2004. This resulted in a decrease in the average South African rand gold price to R84 799 per kilogram, from R85 219 per kilogram in FY04.

The performance of the rand price of gold is a significant factor as 90% of Harmony's production is sourced in South Africa and more than 90% of our cash operating costs are rand-denominated. During the course of the year, rand-based input cash operating costs rose by over 10%.

The year in review

Our financial results attest to the progress that has been made in the restructuring of our South African operations and the introduction of continuous operations (CONOPS); this, despite the fact that the negotiations between the company and our major labour union involved in the Free State restructuring, the National Union of Mineworkers (NUM), took some time to conclude. Development of our growth projects continued apace, with capital expenditure of R827 million in FY05.

Our continued investment in South Africa is a clear indication of our intention to sustain and grow our operations here. That said, our growth profile in Australasia and, in particular, in Papua New Guinea, has continued to improve as the Hidden Valley project moves towards final approval and the start of construction in December 2005. This follows a reserve and resource upgrade and final approval of all the necessary external agreements in August 2005. Internally, project approval is scheduled for December 2005.

Poised for growth

The operational review that follows provides a detailed account of the year. It

will, I believe, indicate not only the need for the "strong medicine" that Harmony has prescribed for itself in its restructuring programme, but also the growth aspirations and strategy of the group. I personally, along with our board, have no doubt that the management team that is in place is able to achieve the targets that have been set and I wish to reiterate the board's support for the company's management.

During our bid for Gold Fields we, as a board, acted in the best interests of our shareholders. The management team, led by CE, Bernard Swanepoel, executed an acquisitions strategy that was initiated and supported by the board.

Corporate governance

I draw to your attention the significant disclosure that we continue to make in our annual report, much of which is over and above current regulatory requirements. While we continue to be committed to global best practices in this regard, we have also continued to raise the bar in terms of both corporate governance and financial reporting.

In addition to reporting substantially in compliance with King II, Harmony reports its accounts in accordance with International Financial Reporting Standards (IFRS). We are also putting in place the extensive reporting and compliance requirements stipulated by the Sarbanes-Oxley Act, section 404, and have reported our mineral resources and ore reserves in line with SAMREC. I am pleased to report that in a recent survey conducted by Ernst and Young, our annual report was ranked "excellent".

Prospects for the year ahead

Harmony has begun the new financial year with a restructured and stronger balance sheet, an operational base in South Africa that is better positioned for a strong rand, and with a renewed focus on organic and strategic growth, much of which may now be internally funded. Although the current operating conditions and our ongoing commitment to expenditure on long-term growth projects mean that it was not possible to declare a dividend in FY05, we remain committed to delivering superior returns in the short, medium and long term.

Welcome and thanks

I wish to welcome independent non-executive director Mr Chissano to our board. Mr Chissano is a former president of the Republic of Mozambique, which is home to many of our employees. Mr Chissano has enormous leadership abilities and a long track record of contribution to reshaping Africa to be a globally competitive and attractive destination for foreign investment.

Another non-executive director, Lord Robin Renwick, resigned from the Board in October 2004. Lord Renwick is the Vice Chairman, Investment Banking at JPMorgan plc and resigned as JPMorgan was the defence advisor for Gold Fields against the bid made by Harmony. We thank him for the enormous contribution he made to the Board during the five years that he was a part of our company.

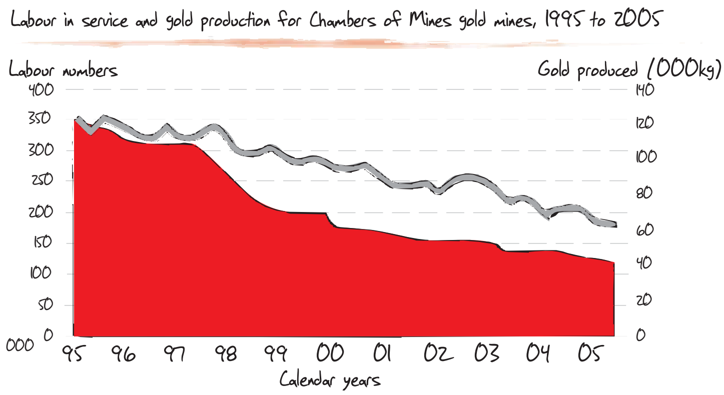
Our thanks are also given to Mr Mike Pleming who has retired from our board after seven years of steadfast service and to Dr Morley Nkosi who has also retired. Mr Mike Pleming deserves much credit for our safety improvements, while Dr Nkosi has given us invaluable insights, particularly as chairman of our sustainable development committee.

In conclusion, the past year has been both challenging and exciting. The motivation and enthusiasm of our management and employees gives me confidence that Harmony will continue to grow and create good value for our shareholders.

Patrice Motsepe
Chairman
2 September 2005

South African gold production – 2004/2005

A report by the Chamber of Mines of South Africa



January to December 2005: Total South African gold production in 2005 declined by 9% to 342 tonnes (10.6 million ounces), the lowest level of output since 1931. South African gold production comprised 13.9% of total global new mine supply in 2004.

January to June 2005: South African gold production has continued to decline during the first two quarters of 2005 as the industry has restructured to adjust to the weaker rand gold price (due to the stronger rand) and due to pressure on costs, especially costs outside the control of the mining companies. Production of 145.8 tonnes (4.5 million ounces) in the first half of 2005 was a large 15% lower than the corresponding period in 2004. The fall in production was despite average grades mined rising by 12.1% to 5g/t in the same period. The lower rand revenues combined with the cost pressures affected the viability of a number of shafts and resulted in the closure of two North-West gold mines. In addition, the seasonal Christmas and Easter holiday periods plus the large number of public holidays in the period (eight public holidays) and the impact of the COSATU one-day stay away to protest against the strong rand all further exacerbated the problem.

The sector has been under pressure and containing costs remains key. The 11.1% quarter-on-quarter increase in the rand gold price received to R90 706 per kilogram in the second quarter of 2005 (the highest rand price since the first quarter of 2003) when combined with continued productivity and cost containment measures helped the industry into a marginally better position in the second quarter of 2005. The industry has made good progress in containing costs at the cash production cost level with a 1.9% average year-on-year increase in the first half of 2005 versus a 6.2% increase in 2004 and a 14.6% increase in 2003. Unfortunately, the good progress made at the cash production cost level was negated by the large 14.3% increase in the other cost category which includes restructuring costs. When other costs are included with cash operating costs the industry made an aggregate loss of R3 956 per kilogram in the first half of 2005. Given that a large portion of restructuring has already taken place in the industry it is likely that an abatement in the other costs category should give the industry some room for manoeuvre going forward.

The South African gold mining industry has continued to focus on productivity improvement. In the period between 1995 and 2005 tonnes broken per employee has increased by 57% and kilograms produced per employee has increased by 47.3% (despite lower grades mined). However, the good productivity improvement has been undone in part by the escalation of costs which rose 40% in real terms in the same period. Unfortunately, a number of cost pressures have been outside of the control of the mining sector. In the past three years water prices have risen by 18% per annum. Steel prices, which comprise some 10% of the cash production costs of large-scale gold mines, have risen by double-digit rates in each year up to 2004 before easing off in 2005. Spoornet's general freight business rail tariffs rose 35% in 2003 and 16.5% in 2004, before a more sensible 3% increase in 2005. Labour costs, which comprise some 50% of cash production costs, have increased by far more than the inflation rate over the past three years. Total production costs before capex rose by 13.9% in 2004 and a further (but improved) 3% year-on-year in the first half of 2005.

However, while the industry grapples with these cost and viability issues, it is vitally important that all stakeholders, especially those that impact on the costs of the gold mining sector, continue to try and contribute to lowering the cost pressure on the industry. Given the precarious position of many marginal shafts, failure to reduce the cost pressures will be detrimental to their own interests and may result in a smaller market in the future. In order to retain its position as the world's pre-eminent gold producer all stakeholders must continue to play a role in moderating the cost pressures the South African industry is facing.

Roger Baxter
Chief Economist
Chamber of Mines of South Africa
2 September 2005

Straight talking

David McKay, editor of mining industry news website, MiningmX, speaks to Bernard Swanepoel, Harmony's CE, on the way forward for Harmony

David McKay: In the aftermath of the bid for Gold Fields, there were questions about whether Harmony's long-term strategy had been undermined. Your view?

Bernard Swanepoel: Credibility loss was inevitable after the bid failed. But strategically it wasn't a backward step. I can honestly say our long-term strategy of building a world-class gold mining company, upgrading the quality of our asset base, exploring and building mines, and acquiring mines is still on track. Now, I think we need to sell that strategy to our shareholders.

David McKay: So what do you take away from the entire process other than a large lawyer's bill?

Bernard Swanepoel: A huge lawyer's bill certainly! On a practical level, we've been able to deploy teams that were originally established to transform the Gold Fields assets. We had clear thinking of what we would do to the Gold Fields' mines, so we put teams together ahead of the bid's outcome. One such team is now impacting on our Evander shafts.

Philosophically, we learned that the South African legal environment makes it virtually impossible to succeed in a takeover when you've got a very hostile defender. It's not sour grapes, it's just that it was virtually impossible to legally succeed with a hostile bid when the key defence was delay.

David McKay: Your long-term position as CE of Harmony has been put into the mixer. Could you address whether you're staying or going?

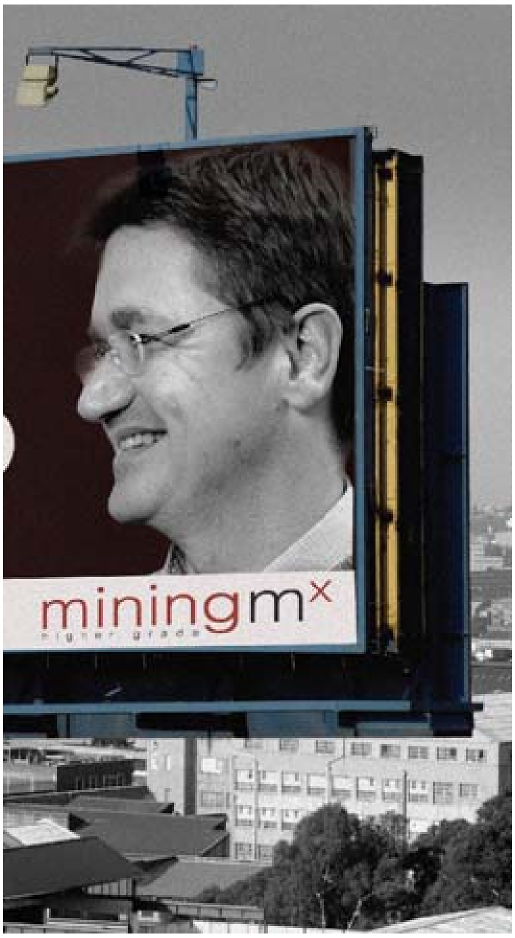
Bernard Swanepoel: I can, of course, only give one perspective on that question: it's my intention to stay. After 10 years of value creation as CE of Harmony Gold, I still have big and exciting dreams for the company.

I'm also very confident of the support of shareholders. By law, I was required to get 75% of shareholders' support before I could embark on the Gold Fields bid. That's a high level of support. In fact, I got 87% of shareholder's support to whom I can now say: "Guys, I gave it my best shot".

I accept responsibility for the idea of bidding for Gold Fields. I am also accountable for the process which, in the end, was legally blocked. But shareholders mandated me, therefore I didn't feel at any stage I should resign.

David McKay: It's been a difficult year all round for Harmony especially because the restructuring of the group's assets was concurrent with the Gold Fields bid. In a nutshell, what did you set out to achieve in the restructuring, and is it successfully completed?

Bernard Swanepoel: As of 26 August 2005, the formal restructuring of Harmony ended, a process we launched on 2 April 2004. What we set out to do was to catch up with the strong rand and adjust to a macro-economic environment which was completely different from three years ago.



Initially it took us about a year to respond. I think that shows that we've battled to accept that the rand was going to be strong, and stronger for longer, just like every other South African business person. I think it also shows that you don't just willy nilly stand up and say I need to adjust to the strong rand, so let me retrench 10 000 people. I mean, it doesn't work like that.

We had to come to a point where we could no longer afford not to adjust. It's also worth remembering that restructuring assets in South Africa is a very legal, prescribed process with significant scope for delay.

We've had stunning support from organised labour in most of our regions except the Free State province. In fact, the trauma of restructuring was over in all of Harmony – except the Free State province – by the end of calendar 2004. Unions in the Free State chose to take a more obstructive route posing certain legal challenges some of which did delay the process. But that's behind us.

The strong rand resulted in us reducing our South African production base by 20%, thereby necessitating a workforce reduction of 20%.

I'd like to say that the main purpose of the restructuring was not to reduce people, but to save as many jobs as possible. The restructuring was also true to what we, as a business, should be: that's to re-establish profitability.

David McKay: Can you now promise the long-term profitability of Harmony, and on what gold price assumption are future profits predicated?

Bernard Swanepoel: Our long-term rand gold price assumption is R92 000/kg. That's the one on which we've worked for the last three years for reserve declaration purposes. It's very difficult to change your 20-year view on the basis of six months, but I think you have to be flexible. As one famous quote has it, if the facts change, you should change your opinion.

Therefore, our shorter term operational plans are built on R85 000/kg which we believe is prudent. Bear in mind that during the year under review, the rand tested levels well below R6 to the US dollar. The dollar gold price has been strong, but there are significant concerning factors with regard to its sustainability. So we have a short-term scenario where we have to be profitable at $410 per ounce and the rand/dollar exchange rate of R6/US$.

David McKay: Can you comment on certain balance sheet restructuring in the last financial year such as the sale of your 15% interest in African Rainbow Minerals (ARM)? An outsider perspective is that it really looked like you were on a desperate search for liquidity.

Bernard Swanepoel: Much of that view was linked to the timing – right in the midst of the hostilities with Gold Fields. By the time we sold our ARM shares, Harmony owned 11.5% of Gold Fields worth about R4 billion. So the balance sheet was always going to be fine even though we intended to build on the Gold Fields shares at the time and not sell any of them.

It's also important to remember that the ARM transaction had a few components to it of which liquidity was but a small factor. More important than liquidity, Harmony gave an undertaking to undo the cross-holding with ARM.*

Secondly, there were concerns raised about whether ARM's empowerment was broad-based enough, so the logical thing for us was to dispose of the ARM shares in such a way that it simultaneously broadened ARM's empowerment credentials and ours.

I would just remind you for context that we've bought and sold shares in other companies that have generated profits. Harmony transacts these investments for strategic reasons. Trying to time the market is of secondary importance.

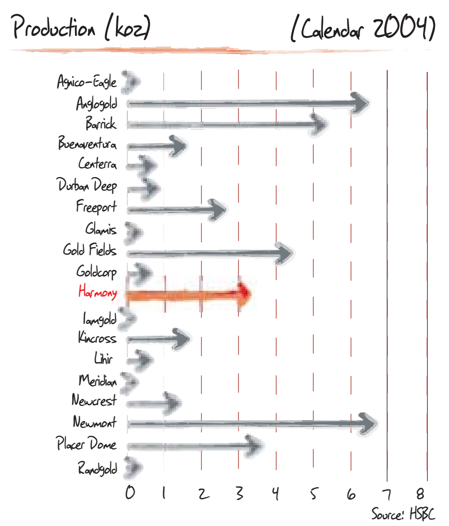
David McKay: Harmony still owns R2 billion of Gold Fields shares. Can you address the issue of whether you are long-term holders of that stock?

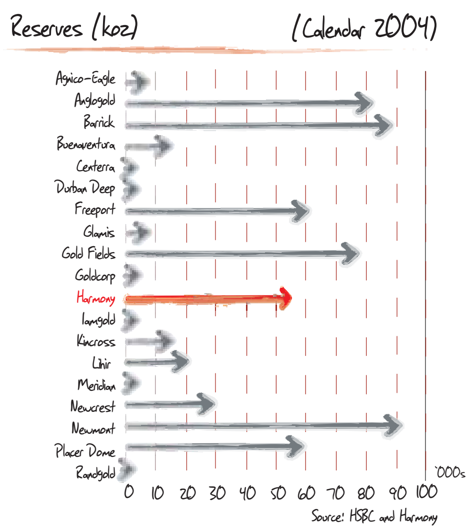
Bernard Swanepoel: Owning 5.5% of somebody else's company is not a strategic holding. We clearly aren't long-term holders, although we may still own the Gold Fields shares in one, two or three years. That's because the Gold Fields shares are effectively cash in the form of a gold instrument. I dare say a fair percentage of our shareholders would rather us have the R2 billion in the form of an unhedged gold share than have it purely as cash.

Also, on top of that sits about R1.7 billion worth of cash as of the year-end to June 2005, and in the new financial year, working profit inflows. Against that we have capital expense requirements in the current financial year, and an outstanding R900 million worth of our HAR1 bond that needs to be redeemed in June 2006.

So if the operational restructuring has been successful, Harmony will be cash generative. We can certainly fund our capital expenditure from internal sources and we have a good cash balance. Furthermore, we won't need to convert Gold Fields shares into cash unless there's a stunning acquisition and we deem cash to be a good means for it.

David McKay: I understand that you've had to restructure management as well?





Bernard Swanepoel: Well, the focus that we have tried to put into Harmony is that the different types of assets clearly have got different management needs. You know it's very difficult to be schizophrenic such that you go from the future to the present to the past all in one day. It's very difficult to be with the design team of the mine that you want to build and then you go back to a shaft in harvest mode where the focus is on cost reduction.

As a result, we've split or grouped our assets under the watch of senior managers such that the so-called 'growth shafts' are grouped under Bob Atkinson; the Australian operations are grouped under Graham Briggs; and the 'quality assets' or higher margin, longer life assets fall under Philip Kotze. Peter Steenkamp looks after Harmony's marginal assets.

What we expect of our executives now is a consistent focus on a type of orebody as opposed to the schizophrenic behaviour where I'm cost obsessed in the morning and excited about the future at night. However, we do employ a few schizophrenic guys!

David McKay: How do you respond to criticisms that the company, focused on South Africa's mature gold mining industry, is ex-growth?

Bernard Swanepoel: There are two components to this answer. The first is that of fast decreasing South African gold output. The other is that in such a business environment, the pressures to conduct consolidation will eventually outstrip the ego issues between the management of gold companies. In other words, the environment that has made it tough for us in South Africa is the environment that will force further consolidation.

At the moment, the co-operation between companies is in areas such as health services, but it may be in the area of procurement in the future. Ultimately, there comes a time when 'your toys and my toys' are no longer viable separately; but together, they can be viable.

If you have no South African baggage; if you have no anti-South African sentiments, and you don't have geographic diversification as your main corporate strategy, then you're likely to be a catalyst in South Africa's gold mining consolidation. Harmony has played that role unashamedly for 10 years.

Having said that, we aren't so patriotic that we refuse to do business outside South Africa. We've established a very profitable production base in Australia making R140 million in the year under review. Our Australian base has also helped us launch real exponential growth potential in Papua New Guinea in the form of the Hidden Valley mine and Wafi mine gold projects.

David McKay: By most reports, the topography and political climate of PNG make it very difficult to mine there. Comments?

Bernard Swanepoel: On the issue of topography in the PNG, we use the word 'rugged'. Certainly, the PNG's rugged topography contributes to infrastructure costs. But some of the world's best mines are so high in the mountains that you and I would have difficulty operating with so little oxygen.

Harmony's projects in the PNG are not at high altitude but they are in under-developed mountainous territory. But since we've got long-term plans for the region we have deemed it necessary to build a good road upfront. Once you've built the road, then topography loses a lot of its relevance.

I respect the outside world's view of PNG's politics. But our experience with PNG has been very positive. It is a country doing its damndest to re-invent itself and to play by democratic rules. The country has upgraded its legislation in terms of mining rights, environmental issues, and community participation. In fact, it's interesting how its legal and political environment is similar to South Africa's.

David McKay: Returning to long-term strategy, can you share some views on whether your company will seek another big bang merger?

Bernard Swanepoel: The bid for Gold Fields was completely opportunistic. As much as Gold Fields' mines sat comfortably on our radar screens, the entity as a whole was put in play through an ill-considered bid for Iamgold. But our preferred means of growth is through acquisitions where you take control of the asset and establish good knowledge of the asset and its costs through a proper due diligence.

David McKay: Here's one from left field: have you given thought to diversifying along commodity lines?

Bernard Swanepoel: We've had good board discussions on this and certainly as long as there's the gold premium phenomenon, it's a very touchy subject.

If, for instance, we were to take over a platinum mine that makes as much money or generates as much revenue as Harmony as a whole, it's quite possible you would still destroy value even if you were to buy that asset at fair value. That's because it would no longer attract a so-called gold premium. Hence the overall value of one plus one makes less than two.

However, there's enough studies – some of them commissioned by Harmony – to show that a gold company can tolerate a certain level of diversification before this gold premium gets threatened. One view is that gold companies that have 20% to 30% of non-gold revenues can still be seen as a gold company.

Harmony's non-gold revenue is zero. However, the PNG project, Hidden Valley, will derive 20% of total revenue from silver. Harmony will therefore become a silver producer of significance two years from now. And if we were to proceed with the Wafi project in the PNG, then copper would become a significant product of Harmony's.

David McKay: Some fund managers benchmark the importance of gold companies on size of market capitalisation, or gold production, two criteria on which Harmony has slipped recently. Thoughts?

Bernard Swanepoel: Size and market cap does correlate to overall value. There certainly was a time when there was a very strong correlation between size and value, bigger companies' ounces were valued higher than smaller companies. The bigger you are the more you can spread your overheads, and the bigger stake an investor can take within his own mandate as well.

At a market cap of US$3.5 billion, Harmony is 50 times bigger than what it was 10 years ago in dollar terms. Nonetheless, we've always supplemented our lack of size with high liquidity in our shares. Harmony is regularly the most liquid gold stock in the world with a 250% to 400% turnover per year. The point is a US$3.5 billion company with 400% turnover looks as big to the investor as a $14 billion company with 100% liquidity.

David McKay: Just as a point of record what is sustainable gold production for the new financial year?

Bernard Swanepoel: Our plans add up to just over 2.9 million ounces which includes 270 000 ounces from Australia.

David McKay: On the black economic empowerment front in South Africa, have you had your new order licences approved; if not, what's still outstanding?

Bernard Swanepoel: Harmony was the first mining company to get licences approved. In October 2004, Harmony submitted the remaining licence applications with the exception of our Free State licence which is now in the process of being submitted. We are really just now in a queue which I am told is a few hundred applications long. Given that Harmony's first few licences were approved, I can't see that we will run into problems. I believe the licensing process is practically done from our perspective.

David McKay: What's your assessment of our position in the gold market cycle. Do you see the gold price reaching $750 per ounce as suggested by some?

Bernard Swanepoel: By definition, I'm a gold bull, like most of my shareholders. That's great, as I need to convince them that they should make investments on which we will make returns in five, 10, 15 years. That's how you build a new generation of mines.

But I can't allow the same level of optimism in operational planning, however. There are potential negative factors for the dollar gold price. And as a South African company we've got our own dynamics. The factors that would make the dollar gold price go up could be the same factors that would make the rand strengthen. So I want my managers to operate mines that can break even in a more conservative set of assumptions.

David McKay: In three to five years' time what kind of company do you expect Harmony to be?

Bernard Swanepoel: Harmony will be busy building its second very successful mine in PNG. Hidden Valley will be a world class mine. On the back of Hidden Valley, we will have the confidence and the capital to embark on the Wafi gold/copper mine.

Harmony will have played a major role in the further consolidation of South Africa's gold industry. But even in the absence of consolidation, Harmony's South African production will be over 3 million ounces per year. Our cash costs will be continuously dropping from the R75 000/kg that we see in the foreseeable future.

We certainly would have topped up our organic growth with a decent amount of further acquisitions both in South Africa and outside the country.

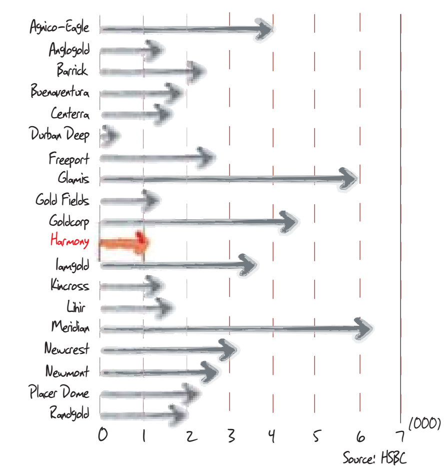
Certainly, Harmony will be closer to 5 million ounces per year than to 3 million ounces – a world class company that will continue to be unhedged. We will unashamedly be proudly South African, but not exclusively so.

**At the time of writing, ARM holds 16% in Harmony.*

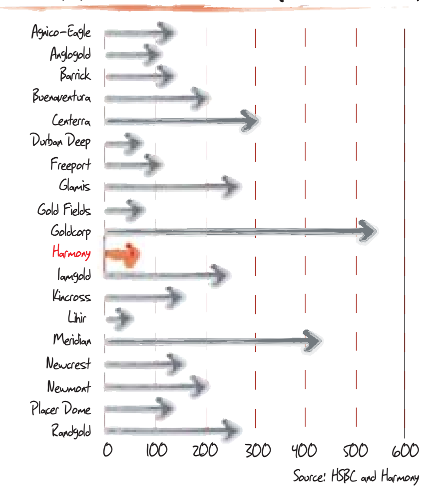
David McKay is editor of www.miningmx.com, an independent mining investment website focused on South African and African mining affairs.

Harmony wishes to state that David McKay was not compensated for this interview. A donation to a local charity has been made on his behalf.

Market cap per ounce production (Calendar 2004)



Market cap per ounce of reserves (Calendar 2004)



Bernard's beat

A review of the year by CE, Bernard Swanepoel

It was both a tough year and an exciting one for Harmony. In the final paragraph of my review in last year's annual report, I said that we, at Harmony, were bigger, stronger and wiser than we had ever been. I said that "this, together with our ability to adapt quickly and appropriately to our ever-changing environment is what sets us apart and ultimately equips us to deliver on what we say we will deliver". This is still true today.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Looking back at FY05, I believe that we achieved most of the targets we had set ourselves (see page 17). Yet, from a financial perspective, our results are disappointing.

In FY05, we produced 2.97 million ounces of gold compared with 3.3 million ounces the previous year. This 11% decrease, which resulted from the necessary downscaling and mothballing of some of our leveraged operations, has already delivered positive results – the return to cash operating profitability in the fourth quarter of the year, and the containment of cost increases.

Market conditions

The rand's strength continued unabated for most of FY05, and although some weakening did occur towards the end of our financial year, the average rand/US$ rate achieved was 10% lower at R6.18 in FY05. This made for a very difficult time, not only for the South African gold mining industry but for the export sector in general. The Chamber of Mines of South Africa reported that total gold production in calendar 2004 declined by 9% to 342 tonnes (10.6 million ounces), from the previous year, and by 15% when comparing the first half of calendar 2005 with calendar 2004. So, while South Africa's gold production in 2004 was at its lowest level since 1931, this record is unfortunately likely to be overtaken by another new low in 2005.

At the same time that production has decreased, so has employment in the gold mining industry. In 1995, the total number of people employed in the South African gold mining industry was close to 400 000; 10 years later, this number has more than halved to some 160 000 people. Harmony is the only gold mining company which has steadily increased its employee numbers over that period, rising from about 16 000 in 1995 to 46 000 at the end of FY05; and, almost all of employees are employed at shafts the previous owners would have shut down had we not acquired them.

Despite the 11% increase in the average dollar gold price received of US$427 per ounce for FY05, the stronger rand/dollar exchange rate resulted in a 0.5% decline in the rand gold price received to R84 799 per kilogram.

Major restructuring almost complete

The restructuring implemented during the year is delivering the desired results in that:

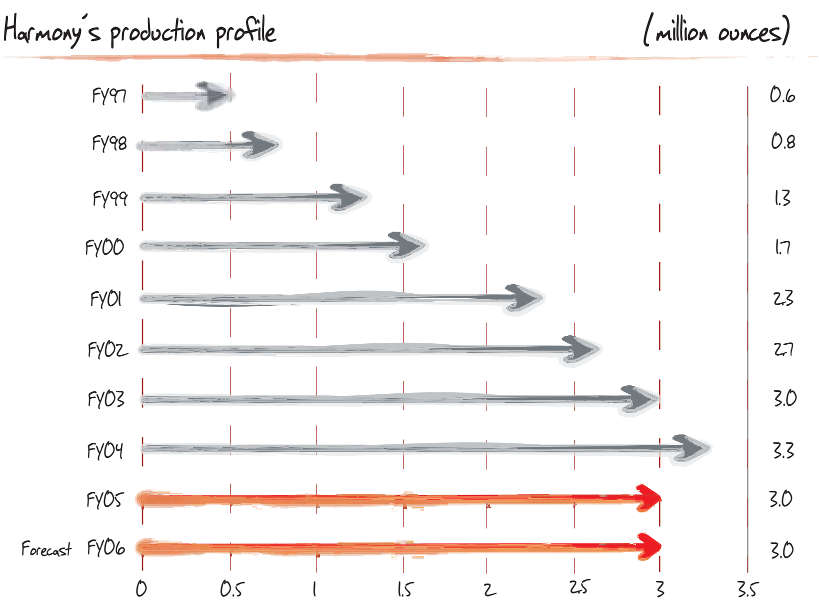
- we have either right-sized or closed our loss-making operations;
- cash operating costs have been well-contained;
- cash operating profits are rising; and
- we are returning the company to a more sustainable level of profitability.

For the first time in 10 years we have not reported production growth. Going forward, we expect our production to stabilise initially around 3.0 million ounces at a cash operating cost of R75 000 per kilogram (US$359 per ounce) by September 2005. When the growth projects kick in, we will once again resume an upward trend with production planned to grow to 3.2 million ounces in FY07 and 3.5 million ounces in FY08.

We recognised that a major restructuring of our local assets was required in FY04/05 to deal with the low rand gold price, a result of the stronger-for-longer rand and continued operating losses at our leveraged operations. Shareholders will recall that as far back as March 2004 we announced our intention to re-structure and we engaged with the National Union of Mineworkers (NUM) and other unions to discuss ways of both reducing cash operating costs and implementing continuous operations (CONOPS). Our aim was to introduce CONOPS at 80% of our South African operations during the course of the year. This was, admittedly, an ambitious target.

We reached broad agreement on the measures that had to be implemented in July 2004. The agreement included the implementation of CONOPS, to improve efficiencies and preserve jobs, as well as the re-skilling and re-deployment of employees.

The re-structuring proceeded smoothly in most regions, but our inability to implement the agreement with the unions at the Free State operations must rate as one of the biggest disappointments of the year. The reality was that the loss-makers and mined-out shafts had to be scaled down, closed or placed on care-and-maintenance, not only to stem the losses but also to stop depleting reserves which might become profitable with time at a higher gold price.



Delivery on our objectives

What we said we would do in FY05		What we did in FY05
Make significant improvements in safety	✓	Our safety performance in FY05 has been the best to date.
Successfully implement CONOPS	✓	The CONOPS roll-out is complete or underway at all those operations at which we have planned its implementation.
Start developing our Hidden Valley project in PNG	✓	The Hidden Valley Project is scheduled to start construction in December 2005. Reserves and Resources upgraded.
Continue with the delivery of growth projects in South Africa	✓	We have continued with all of our growth projects and spent a total of R412 million on these in FY05.
Improve our cost competitiveness	—	Delays in re-structuring hindered our progress. Cash operating costs increased by only 3% in FY05 On track to achieve cash operating costs of R75 000 per kg.
Participate in the ongoing consolidation of the gold industry	X	Our bid for Gold Fields was exactly this – an attempt to realise synergies from the inevitable consolidation of the gold industry.
Complete our licencing conversion process	✓	With the exception of the Free State region, we submitted all our licence conversions. Harmony was the first senior mining company to be re-licensed.

✓ Achieved X not achieved — In progress

At the beginning of January 2005, the NUM withdrew its support for Sunday work permission at all our Free State operations, excluding Target. (Permission for Sunday work is given by the Department of Minerals and Energy (DME) and requires union support). Other delays in the much-needed Free State restructuring programme included the receipt on 6 May 2005 of an 11th-hour Labour Court interdict against the planned restructuring.

This meant that on 19 May we had to restart our restructuring process, beginning with the issuing of a Section 189 notification (in terms of the South African Labour Relations Act) at our affected operations. The Section 189 provided for a 60-day notice and consultation period for all potentially affected employees and shafts. Following a period of consultation, negotiation and planning, we are pleased to report that we signed a new agreement with the NUM on 19 July 2005. This allowed us to right-size the Free State operations and re-implement CONOPS at our two biggest Free State operations, Tshepong and Bambanani, and later in the year we will implement CONOPS at Masimong 5 shaft. As part of the agreement, we undertook to replace non-specialised contractors with our own surplus employees, to transfer employees to vacancies at our other South African operations where possible, and to offer voluntary retrenchments for a period of two weeks.

The re-implementation of the CONOPS agreement in the Free State is subject to a successful application for Sunday-work permission which will be for an initial period of 14 months. The agreement provides for a three-month notice period of either party's intentions to terminate CONOPS. The agreement also provides for the implementation of the job-loss avoidance measures to be monitored and for dispute resolution under the auspices of the Council for Conciliation, Mediation and Arbitration (CCMA).

CONOPS has not been implemented at all shafts, nor will it be. CONOPS will only be efficient at those operations with sufficient ore reserves and infrastructural capacity. The implementation of CONOPS is not only a sensible business decision, it also aligns our work practices with those of mining companies internationally, makes best use of assets and infrastructure, and maximises benefits for employees and other stakeholders. We are, however, going against current and historical practices in South Africa.

We are pleased to have what can only be described as a difficult year behind us. During the year we had many strained negotiations with our employee unions, which was a necessary part of both the restructuring and the annual wage negotiations. We look forward to re-establishing a proactive partnership with our unions with the view to best advancing the shared interest of all stakeholders.

Realigning management

We have consciously maintained a strong internal focus, despite the time taken up with the Gold Fields bid process. As part of this, in February 2005, we re-aligned our management structures so as to reposition key managers to oversee the company's operational and growth strategy.

- Graham Briggs, who was the country manager in PNG, has also assumed responsibility for the Australian portfolio, becoming Chief Executive of Harmony Australasia.
- In South Africa, three senior operational leaders, Philip Kotze, Peter Steenkamp and Bob Atkinson, have been appointed operations directors for the long-life quality assets, leveraged assets and growth assets respectively.

The change in the management structure of our South African operations is part of an initiative to group together assets in line with their strategic roles and the different skill sets required to manage them. While the leveraged operations generally require a more short-term, flexible and lean approach, the quality assets require investment over a longer time horizon. This grouping has also enabled increased focus on the completion of the growth projects and in turning them into world-class mines. Our operational performance is dealt with in detail in the review of operations on pages 24 to 37.

The success story at Target, which we acquired as part of the deal with Avmin, deserves special mention as it is the first underground mechanised mine to apply the Harmony Way in South Africa. Cash operating costs have decreased significantly and we have improved our understanding of the orebody. Our updated and revised resource calculations show an increase of 11% year-on-year, despite the depletion that occurred during the year. The life-of-mine has increased by three years to 15 years, underpinning the value of this asset in the Harmony stable.

Continuous operations (CONOPS)

CONOPS, in a South African context, refers to the practice of operating a mine every day of the year except for the 12 official public holidays. Historically, mining companies in South Africa have not worked on Sundays and have operated on only 273 days of the year. This remains the case for almost all South African gold and platinum producers.

By implementing CONOPS, we are able to access our resources and work our assets for 97% rather than 75% of the year. The change to CONOPS is a win-win outcome for the company and for employees: with CONOPS, workers work a roster or shift arrangement. In terms of this, they work the same number of hours per week, so more workers need to be employed to work the additional days.

We estimate that a change-over to CONOPS means a 25% increase in the labour requirement per stope, and a 5% to 8% reduction in the cash operating cost per tonne.

CONOPS delivers results!

At Cooke 2, where CONOPS was implemented during the period January to March 2005, gold production increased by 26% during the June quarter. This was on the back of a 23% increase in tonnes milled and a 2% increase in grade. At the same time, cash operating costs decreased by 18%. The main driver of performance was the higher rate of crew advance. A 40% increase in development metres will ensure future mining flexibility. CONOPS at Cooke 2 has created 134 more jobs.

At Evander 8 shaft, where CONOPS was introduced during the period September 2004 to January 2005, crew advance increased by 50% in the last quarter, with production rising by 20% and cash operating costs decreasing by 20%. This was despite the low flexibility at this operation. CONOPS has created 249 jobs at Evander 8 shaft.

At Tshepong in the Free State, the re-introduction of CONOPS should see a return to the performance levels achieved previously. We anticipate production rising by some 19%, with cash operating costs declining by about 7%.

Growth projects

An important focus for the year has been our growth projects, both in South Africa and in PNG, as we progress along the value-adding chain to building mines, in addition to Harmony's traditional skills of buying and fixing mines. While it is always tempting to cut back on capital expenditure when times are tough, we have resisted this.

In total, we have spent R412 million on our six organic growth projects in South Africa during the year and these projects are steaming ahead. The ensuing year will be one of the most capital intensive phases in our recent history: we have budgeted R1.55 billion for capital expenditure (capex) in FY06 – R1.08 billion on project capex, R311 million on ongoing operational capex and R160 million for surface infrastructure and systems upgrades.

The international platform for growth that we are creating in Australasia has been an important step forward for the group.

Progress report on growth projects

	Life-of-mine (ounces millions)	Life-of-mine (years)	Capex: Total capex (R million)	Capex: Spent to date (R million)	Expected project completion	Annual peak gold production (oz per annum)
Tshepong decline	1.46	14	281	141	2008	135 000
Phakisa Shaft	3.96	20	613	233	2009	254 000
Masimong expansion	2.77	19	314	111	2010	261 000
Doornkop South Reef	2.62	11	959	225	2011	315 000
Elandsrand new mine	4.83	18	610	452	2008	450 000
Hidden Valley	2.07	7	1 385	87	2008	360 000*

* 300 000 ounces gold and 60 000 ounces gold equivalent silver.

Hidden Valley is the first large-scale mine that we will be constructing from scratch. This mine has the potential to produce 300 000 ounces of gold and 60 000 ounces of gold-equivalent silver annually.

On 4 March 2005, following a comprehensive licensing process and intensive reviews of all of Harmony's environmental plans under PNG's newly-enacted, strict environmental legislation, the PNG Minister of Mines, The Honourable Mr Sam Akotai, granted Harmony a licence to develop and mine the Hidden Valley project. Two further agreements were signed at a ceremony in Wau on 5 August 2005: a Memorandum of Agreement between the company and the government which regulates the "benefits package" for both the company and local communities, and a Compensation Agreement that provides for the compensation of traditional land owners.

Our drilling programme at Hidden Valley over the course of the year has resulted in an upgrade of the reserves and resources. There has been a 204 904 ounce increase in proven and probable reserve. Measured and indicated resources have increased by 310 600 ounces of gold and 1.46 million ounces of silver.

Now that these final approvals have been achieved, construction of the access road – which is critical to the project – will begin in September 2005. At the same time, mine planning is being finalised and contractors will be appointed. The final feasibility report and the final decision on project release will be taken by end-December.

We are progressing with the Wafi Golpu project pre-feasibility study. This consists of two deposits – a gold deposit and a world-class gold-copper deposit. The board has indicated its support for further evaluation of these deposits, with the proviso that the value of potential copper production in the group should not exceed 25% of the value of the total production, thus maintaining the integrity of Harmony as a gold company.

Exploration and business development

For the first time in our annual report, we will discuss exploration alongside business development. This reflects a conscious decision to elevate this area of our business and add a new dimension to our skills set as part of our intention to build a substantial offshore business.

In terms of exploration, the most immediate job at hand is the replacement of depleted ounces and ounces moved to resource category in the restructuring process. Our intention is to further grow our reserve and resource base to cater for planned growth and to continue to maximise the value of our mineral leases. We believe there is still much to be done in South Africa: Target gets better and better as our understanding of the orebody increases. Work on the Target North and Sun South properties has been stepped up with a view to identifying new drill sites as part of the drill programme. While the Witwatersrand Basin has yielded more than 1 500 million ounces of gold over the past 119 years, we believe the equivalent amount remains underground.

We have taken a deliberate decision to place some of our shafts that are currently unpayable on care-and-maintenance rather than to close them and sterilise this collective resource. The estimated cash operating cost of retaining an optionality on the orebodies (with resource ounces of 113.8 million ounces) contained in the care-and-maintenance shafts is about R35 million per annum – or 5 US cents per ounce!

We continue our efforts to extend the lives of our current operations and, to this end, a number of geological projects have been established on secondary reef targets. By looking at these reefs on a regional basis, rather than within a specific lease area, new targets for exploration and future mining can be determined in previously unknown areas. Specifically, we are looking at the Middle Reef and the A and B reefs in the Free State region. Additional targets in the extensions of the

Kimberley Reef payshoots in the Evander area are being drilled and, at Elandsrand, an exploration programme is under way to determine the extent of economically mineable Elsburg Reef. More detail on these projects can be found in the mineral resources and ore reserves section.

We have made a strategic decision to look further afield to meet our replacement ounce needs. Our new business arm continues to scour the world for value-adding opportunities that fit our skills set and competitive advantages. We now have exploration offices in Lima, Peru, and Perth, Australia, and have expanded our exploration base in South Africa. Our exploration targets are in the most prospective regions of the world, and focus particularly on South America, Australasia, Central and Eastern Europe and China.

We are happy to look at both greenfields exploration projects and acquisitions. Each project goes through a filter process, although each is examined on the basis of its particular merits. Key criteria within this "filter" include expected cash costs and yield, reserves and potential annual operating production.

Mineral resources and ore reserves

A full statement of a mineral resources and ore reserves appears on pages 46 to 81 of this report:

During the Gold Fields bid, our detractors attempted to create some confusion around our reserve and resource statements. The facts are these:

- We have no hesitation in assuring shareholders of the integrity of our ore reserve statement. Not only have our reserves been challenged in a US court of law as part of the Gold Fields transaction, but they have been independently verified. More importantly, we draw comfort from the fact that the day-to-day users of the reserve data, Harmony's operations and ore reserve managers, continue to use the data successfully to manage the business and reconcile the data after mining – the true test.
- Independent consultant, SRK, confirmed and ratified our reserve statement and the macro-economic assumptions contained in our reserve statement of January 2005. In the interests of full disclosure, SRK has also provided a range of macro-economic scenarios under which it calculated our reserves.
- Compared to SRK's estimates, our estimate of proven and probable reserves of 55 651 million ounces, as stated in January 2005, has a variance of 6%. In addition, SRK had a variance of 3% with our life-of-mine production estimate of 62 347 million ounces.

We highlighted these variances some time ago for the benefit of the investing public and they are easily explained by subtle differences in certain technical assumptions made in the respective calculations and reiterated in our mineral resource and ore reserve statement. We are satisfied that the SRK report of May 2005 reaffirms our January 2005 ore reserve statement, within acceptable ranges of accuracy.

Year-on-year reconciliation of our ore reserves

	Gold (tonnes)	Gold (million ounces)
Balance at June 2004	1 936	62.2
Mined during FY05	(96)	(3.1)*
Added through exploration	33	1.1
Less impact of shafts re-structuring	(93)	(3.0)
Re-statements	(96)	(3.1)**
Balance at June 2005	1 684	54.1***

* Ounces based on ROM grades
** Exclusive of depletion
*** 9.77 million ounces below infrastructure

The Gold Fields transaction

I will not dwell on our bid for Gold Fields as I think that we communicated more than adequately with shareholders on this issue during the year. What I will say, though, is that the bid, although opportunistically created as a result of the now failed Gold Fields-IAMgold transaction, was a natural extension of our business strategy. We clearly had the support of our board and, with 87% of our shareholders voting in favour of the bid, we proceeded. We put a sound business proposition on the table; one which we believe would have been in the interests of both sets of shareholders and which would have been beneficial to the industry in general. In fact, Gold Fields shareholders rejected the proposed Gold Fields-IAMgold deal but did not have the opportunity to vote on the proposed Gold Fields-Harmony merger. What has become clear to us is that the current South African regulatory framework does not adequately cater for hostile offers and I would be very surprised if any such bid is launched again in the current regulatory environment.

While obviously we would have preferred our bid to have been successful, the process itself has made us stronger as a team and as a company. Ironically, our balance sheet is stronger now than before we launched the bid and while we did incur significant costs, we approached the bid in the Harmony Way, that is, with no frills.

We have subsequently converted to cash 6.5% of our 11.5% shareholding in Gold Fields and we will look to exit the remaining stake as the need arises or as market conditions dictate.

Buying back our mines

One of the things that we have always been at Harmony is introspective – we are not afraid to take a long, hard look at ourselves to see what we could be doing better. In this sense, Harmony's bid for Gold Fields was good for Harmony!

We had assembled a crack internal due diligence team to review the planned new company and when the bid was brought to an abrupt halt, we set about a process of "buying back our mines". We looked at re-doing the Harmony Way, and reducing cash operating costs by 10% at all our mines. I must admit that we have been pleasantly surprised by the enthusiasm and vigour of our management – the three shafts that have completed the process to date are reporting cash operating cost reductions of around 15%.

At the same time, we started a services transformation project, looking afresh at the services we require, as well as at staffing and systems. In truth, Harmony has probably inherited portions of the services departments of every mining house in the country, as we have gone about our acquisitions, and while we initially integrated these functions and tried to achieve synergies, we have now targeted a further 20% reduction in these cash operating costs, equivalent to R50 million for the balance of FY06 and a further R100 million in FY07.

Playing to the new rules

In 1997 Harmony prepared its financial statements in accordance with International Accounts Standards for the first time. This was done to facilitate comparison with global peers. Since then Harmony has adopted all new International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), that were issued, on their effective dates.

During December 2003 the International Accounting Standards Board announced an "Improvements Project" in which a number of standards were revised or withdrawn. The aim of the project was to raise the quality and consistency of the standards prior to the adoption from 2005 of IAS by many countries including the European Union.

The changes in terms of the "Improvements Project" are effective for Harmony in the 2006 financial year. Harmony is busy reviewing the impact of the changes on their financial statements and is of the view that the majority of the changes will either not affect their financial statements or have an immaterial consequence.

The three standards, the effects of which are being reviewed and which may have an impact, are as follows:

IAS – 16 – Property, Plant and Equipment. This standard requires a relook at amortisation rates, residual values and gives better guidance on separate classification of assets. As part of its review Harmony will also be considering its policies for capitalisation and amortisation of mine development costs. This could have an impact on cash operating costs and amortisation in future.

IAS – 2 – Inventories. Harmony acquired a number of mining operations over the past few years many of which have slightly different approaches to determining gold in process and bullion on hand. Consideration will be given to streamlining these and their appropriateness.

IAS 36 – Impairment of assets. This standard now gives additional guidance on calculating fair values. Harmony will review its future fair value calculations in line with this guidance. The board considers that, although conservative, the current fair values used for impairment are appropriate.

Although not part of the "Improvements Project", IFRS 2 – Share Based Payments is effective for Harmony in its 2006 financial year. The cost of share option plans will be reflected in the income statement in future.

Wages a significant cash operating cost

The industry-wide strike that the NUM embarked upon over four days in August 2005, has not been helpful, but it is the nature of the South African environment that workers will collectively withhold their labour in a bid to achieve a common settlement. It is an indication of the mature relationship between the parties that the industrial action took place in a disciplined manner. While the strike was damaging to our industry and to our company, the 15% increase the unions were initially after was unaffordable to our industry and our company. The settlement reached, although higher than we would have liked, is a reasonable compromise. With hindsight, it was probably unrealistic to expect a reduction in people's expectations from double digit increases to lower, single digit increases without significant resistance and strike action.

Restructuring the balance sheet

One of our objectives for the year was to restructure our balance sheet so as to better deal with the prevailing low rand per kilogram gold price. So far, the balance sheet restructuring has included the sale of non-strategic listed assets, the settlement of some short-term liabilities and the repurchase in part of the June 2006 corporate bond.

In April, we sold our remaining 11.6% stake in Bendigo, in Australia, for A$32 million as this asset did not fit our long-term business strategy. This disposal resulted in Harmony realising a small book profit of A$6.2 million in FY05.

In line with our stated commitment to unwind the Harmony/African Rainbow Minerals (ARM) cross-shareholding, we sold our investment in ARM, raising R1.2 billion in the process. As part of this transaction, we facilitated the sale of 14% of ARM to the ARM Broad-Based Empowerment Trust for R853 million. This Trust warehouses these shares so as to enable and facilitate broad-based empowerment of ARM's shareholder base. ARM is Harmony's second largest shareholder and largest BEE partner, holding 16.2% of Harmony.

As part of the various agreements put in place to arrange the sale of the shares to the Trust, Harmony has accepted terms which resulted in the majority of the risk not being transferred to the Trust. This relates mainly to a put option whereby the loan of R480 million can be put to Harmony by Nedbank in the event of default of the loans obtained by the Trust in acquiring the shares from Harmony. Based on accounting rules governing the accounting for Special Purpose Entities, Harmony is required to consolidate the Trust and, therefore, the total Trust liability of R853 million. The Trust's total investment in ARM Limited of R853 million is accounted for on the consolidated Harmony balance sheet, as the Trust is deemed to form part of the Harmony group. This will be unwound as the shares in the trust are taken up by the incumbent owners. In the interim, the value of the shares in the Trust have been written down to R29 per share which is the maximum realisable price under the terms of the agreement. The net write down is R337 million.

The consolidation of the trust inflates both our long-term liabilities and investments above what we consider reflective. Excluding the consolidated ARM trust debt of R854 million, our gross debt has been reduced to R2.90 billion from R3.55 billion at 31 March 2005 and net debt (excluding the value of the remaining 5% of Gold Fields) has been reduced to R1 072 million from R3.78 billion. On this basis, gross debt to shareholders' equity has reduced to 13.1%, from 15.8% in the previous quarter. Including the debt associated with the sale of the ARM stake for R854 million, gross debt to shareholders equity was 16.9% or R3.76 billion as at the June 2005 period-end.

In July we announced the partial re-purchase of the HAR1 corporate bond. A total of R281.7 million of the bond's notional value was re-purchased at a cost of some R294.6 million. This represents 23.5% of the total issue due for redemption in June 2006, compared to an allocated maximum amount for the repurchase of 25% of the total issue. The repurchase was done at a spread of 195 basis points above the benchmark government issue (R152). (The bond has a semi-annual coupon of 13% and was launched in 2001.) The offer was under-subscribed, giving a clear indication of investor confidence in Harmony.

Funds generated from the balance sheet restructuring have been broadly allocated to reducing the company's debt levels, funding the restructuring and, more importantly, funding our growth.

We are confident that these funds have been effectively deployed in investing activities that will maximise their returns.

The final dividend for FY04 was paid in September 2004. No dividend was paid in FY05.

Mineral rights legislation and licence conversion in South Africa

On 1 May 2004, the Mineral and Petroleum Resources Development Act (MPRDA) came into effect in South Africa. In terms of this Act, the State has become the custodian of all mineral rights within the country and will issue prospecting, mining and mineral rights to parties on application.

Rights currently held are known as "old order" rights and must be converted into "new order" rights within a transition period of five years from 1 May 2004.

Aligned with this legislation, the Department of Minerals and Energy has published the Broad-Based Socio-Economic Empowerment Charter. The Charter's broad aim is to promote equitable access to the country's mineral resources and to substantially and meaningfully expand opportunities for historically disadvantaged South Africans (HDSAs) to enter into mining industry and to benefit from the country's mineral wealth. The Charter specifies nine areas, namely human resources development, employment equity, migrant labour, mine community and rural development, housing and living conditions, procurement, ownership and joint ventures, beneficiation and reporting, in which companies must meet targets in order to achieve conversion to "new order" rights. More recently, the Department of Trade and Industry issued a Code of Practice with which some of the requirements of the DME will be aligned.

Mining licences and the socio-political environment

In October 2004, Harmony became the first senior company to convert from 'old order' to 'new order' mining rights for our Evander, Randfontein and Elandsrand operations.

The Evander application was lodged with the Mpumalanga Department of Minerals and Energy on 21 May 2004 and covered all the Evander operating shafts as well as the Poplar and Rolspruit projects. The Evander mining licence was the first conversion application in the region and the first licence to be granted in the South African gold mining industry. The second application was for Randfontein (excluding the Doornkop Joint Venture and Elandskraal); this was the first application to be approved by the Gauteng Department of Minerals and Energy.

We are very pleased that we are at the forefront of the conversion process. We owe this, at least in part, to our partnership with ARM, which has ensured that, from the outset, we have been able to meet the BEE equity components of the current minerals legislation. Our success also vindicates our support for the legislation and the way in which we have gone about our business, from the empowerment of our employees to the social development and beneficiation projects that we support.

We believe we are making good progress towards compliance with the Mining Charter and Scorecard. We are confident that the remaining licence conversions will be granted in due course. (See pages 120 to 121 of this report for more details on our assessment of our compliance with the Mining Charter.)

Our Sarbanes-Oxley compliance project is substantially underway. A full assessment of the compliance requirements has been undertaken and the implementation of remedial measures is in progress. The deadline for the sign-off for compliance with section 404 of Sarbanes-Oxley is 30 June 2007 and we believe that this is achievable.

Safety and sustainable development

One of the targets we had set ourselves last year was to effect a significant improvement in our safety performance and I am pleased to report that we have achieved considerable progress. Two important indicators, the Lost Time Injury Frequency Rate (LTIFR) and the Fatal Injury Frequency Rate (FIFR) have both improved, by 24% and 16% respectively on the previous year. The Harmony Way, which involves the empowerment of our people, has had much to do with this improvement as employees are encouraged to take ownership of their own safety. Improved training has assisted in reducing fall of ground accidents, which remain the greatest peril in deep-level underground operations, and the application of a unique and practical enterprise-wide risk management system.

Sadly, I must report that 29 employees died in work-related incidents during the past year, which is unacceptable. On behalf of our board and management, we extend our sympathy to the families and friends of those who died.

People make up Harmony and we have reported extensively on our people issues as well as on safety, health, HIV/AIDS, social investment and the environment in our sustainable development section on pages 82 to 121.

We have adopted an incremental approach to reporting on matters relating to sustainable development and, in particular, to reporting in accordance with the Global Reporting Initiative (GRI). This section also looks at our compliance with the Mining Charter, an area in which I believe we have made significant progress.

During the year, the issue of water pumping in some of the older mining areas came to the fore. This resulted in Harmony being issued with two interim directives by the Department of Water Affairs and Forestry (DWAF) to contribute to pumping costs in the Klerksdorp, Orkney, Stilfontein and Hartebeestfontein (KOSH) area and the Western Mining Void decant in the Randfontein area. We are fully supportive of a responsible and sustainable resolution to this industry-wide issue and are urging authorities to co-ordinate the process in consultation with all affected parties.

Moving forward

So, it has been an incredibly busy and challenging year but it has also been exciting and fruitful. While the focus has been to return Harmony's operations to profitability, we have also upgraded the average quality of our portfolio by striving for high-quality organic growth. I believe that we have set ourselves a sound platform for "moving forward", the theme of this year's annual report.

Looking forward, our long-term aim is to increase our market capitalisation significantly from its current level of about US$3.5 billion. We aim to achieve this by:

- delivering on the current restructuring initiatives so as to directly have an impact on the bottom line. We are on track to achieve cash operating costs of R75 000 per kilogram (US$359 per ounce) by September 2005;
- bringing into production our six growth projects which will see Harmony producing 3.5 million ounces by FY08; and
- increasing our project pipeline, through exploration and/or acquisition, to further grow our production base and expand our geographic reach.

I look forward to reporting to you on our progress.

With thanks

In conclusion, I thank the Harmony board for their counsel and steadfast support during the past year.

I am grateful, also, to my executive team and to all of our employees. They make Harmony what it is and what it can and will become.

Finally, to our shareholders: thank you for your support during the year. I am confident that we will live up to the expectations that you have of us and that we will continue to 'deliver the goods'.

Bernard Swanepoel
2 September 2005