Chief executive officer's review of the year

I am pleased to present this annual review of the 2008 financial year, the first in which I report for the full year as chief executive officer. The Harmony 2007 Annual Report published in September 2007, when I had spent less than a month as acting chief executive officer, had as its theme 'back to basics'. We knew then that this was the strategy we should adopt and pursue to rediscover some of the magic that was Harmony and to return the company to sustained profitability.

Graham Briggs, Chief executive officer

For the 2008 financial year, we have been true to this strategy and, while we still have a way to go, we are most certainly seeing good results emanating from its implementation.

Delivering on our promises

At the outset, we endeavoured to focus on three key aspects, all of which we have delivered on during the year under review.

- We undertook to review our operational performance and maintain a clear operational focus. This entailed developing an understanding of what our operations were capable of delivering, devising and putting in place the plans to ensure delivery, and holding management responsible for that delivery.

- We took a long and hard look at our assets, to focus our attention on those operations that were core to the business and had the ability to be profitable. At the same time, we identified and initiated joint ventures, where these assets could better cater for the medium- and longer-term health of the company and bring about greater value.

- We undertook to improve the financial viability of the business and to substantially overhaul the balance sheet. In so doing, we focused on improving operational performance, combined with the sale of non-core assets and partnering in joint ventures. We undertook to identify opportunities to sustain and grow production. Harmony was in the midst of a large capital expenditure programme, with several growth projects at crucial stages of development. While we knew that these would present cashflow challenges, we recognised that this pipeline of projects is in fact the future of our company and therefore projects continued unabated. While our exploration work in Papua New Guinea (PNG) continues, we are also about to begin with some organic exploration work at Evander in South Africa. This element of our strategy is at an early stage and will be an area of increased attention during the year ahead.

The gold market

This has truly been an excellent year as far as the gold market is concerned. As an unhedged company, we are highly geared and directly

Bambanani, South Africa

Hidden Valley, Papua New Guinea

exposed to the rise in the rand/dollar gold price, something that our investors seek in Harmony.

The gold price hit a high of $1 030 per ounce on 17 March 2008 and, while it was a more subdued $880 per ounce at the end of September, this is 18% higher than it was for the same time the previous year.

I am inclined to agree with the sentiment of some gold principals that the gold price still has some way to run given the fundamentals underpinning the market and the fact that gold remains a source of monetary value in times of global market and political uncertainty. Furthermore, concern about the future supply of gold is drawing more attention and this should positively affect the gold price as reserves diminish with no significant new resources being found worldwide.

The average gold price received for the year by Harmony was $818 per ounce, 28% higher than the $639 per ounce achieved in FY07. The rand/dollar exchange rate was stable, trading in a reasonably narrow range, with an average exchange rate for the year of R7.26/$ (FY07: R7.20/$).

Safety

One of the most significant issues faced during the year was the accident at Elandsrand on 3 October 2007, when over 3 000 people were stranded underground following the fall of a compressed air column into the shaft. Not a single person was hurt in this incident for which we are very grateful, but, ironically, this significant incident brought unexpected benefits to the fore.

First, there was an unprecedented level of co-operation amongst management, employees, unions and government in getting people out of the mine as quickly and safely as possible and subsequently, much attention was paid to analysing the cause of the incident. In addition, a technical programme was put in place to prevent the recurrence of such an incident.

The second positive outcome of the incident was the spotlight focused on safety which has now been accorded much significance by the mining industry, government, unions and others.

It is with deep regret that we report that 21 employees died in mine-related accidents during the FY08. Our condolences and sympathies are extended to their families and colleagues.

Despite these unfortunate incidents, Harmony recorded its best-ever overall safety performance. The fatal injury frequency rate (FIFR) was 0.18 per million man-hours worked for the year, an improvement of 18% when compared with 0.22 in FY07, while the lost-time injury frequency rate (LTIFR) was 12.83 per million man-hours worked (FY07: 15.27), an improvement of 16%.

Significant safety achievements during the year included:

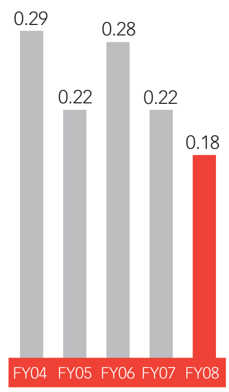
- Three-and-a-half years without a fatal accident at Target.
- 1.5 million fatality-free shifts at Evander over a period of 19 months.
- 1 million fatality-free shifts at the original Virginia operations (Merriespruit 1, 2 and 3) over a period of 13 months.
- 1.75 million at Brand 1 and 3 over 6 years and 2 months.
- 1 million at Unisel over 2 years and 8 months.
- 500 000 fatality-free shifts at Harmony 2 over 16 months.
- 500 000 fatality-free shifts at Tshepong, over a period of more than five months.

Safety is not something we can be complacent about and, for me, safety enjoys priority status. Not only have audits been intensified but the safety standards at our mines are not negotiable. For further discussion on safety, see our Sustainable Development Report at www.harmony.co.za.

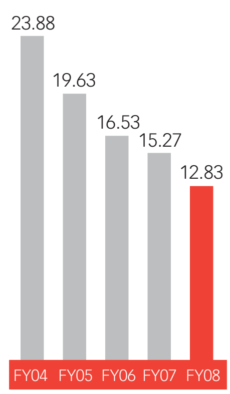
Operating and financial results

As expected with the shaft closures and the impact of the electricity crisis, gold production in the 2008

FIFR –
(per million man hours worked)



LTIFR –
(per million man hours worked)



Chief executive officer's review of the year (continued)

financial year declined by 11.2% to 1.6 million ounces from 1.7 million ounces in FY07. Despite the significantly higher gold price achieved, the reduced level of production, the once-off restructuring costs incurred and the effect of non-cash operating items combined to contribute to a disappointing financial performance overall.

Revenue generated from continuing operations rose by 14.6% to R9.2 billion (FY07: R8.0 billion) on the back of an improved average gold price received. Cash operating costs rose by 11%, a credible performance given the inflationary environment in which we operate.

The group's cash operating profit increased by 25.8% to R2.5 billion (FY07: R2.0 billion).

Nonetheless, a net loss of R245 million was recorded compared to a R382 million profit the previous year, with the primary reasons being the sale of the Gold Fields shares, a R459 million loss; the R79 million loss of associate, Pamodzi Gold; the R95 million impairment of investments in associates, again Pamodzi Gold; and the R316 million impairment of mining assets. R212 million was also spent on restructuring (retrenchment costs) during the year.

Total headline earnings amounted to 126 cents per share compared to 53 cents per share for FY07. The total basic loss reported was 62 cents per share versus 96 cents per share profit for FY07.

Highlights and challenges

A detailed review of operations, a financial review and an exploration review appear on the pages that follow. I would, however, like to comment on some of the highlights and challenges of the year.

Internal due diligence pays dividends

One of the first things the new management team embarked on at Harmony was, in essence, an internal due diligence of each and every operation. This review, and the accompanying review of all capital projects, gave us a clearer picture of what we are, and what we could be.

An important step in that process was the strengthening of the management teams and their decentralisation which will ensure that key activities and decisions about each operation are made where, when and by whom they should be made. In step with this, however, has been the need for accountability in terms of delivery. The subsequent restructuring was necessary, although sometimes painful and far-reaching. At an operational level, for example, we replaced the ineffective position of coaches with the more conventional posts of mine captains and shift bosses to ensure that we remain focused on production.

Seeking value from our uranium assets

Rand Uranium (Pty) Ltd (Rand Uranium) was formed in December 2007 to turn to account Harmony's uranium resources. The dual commodity (gold and uranium) mix should combine to make the Cooke assets a viable low-cost operation.

Hidden Valley gains momentum

The Morobe Mining Joint Venture, which involves the creation of a 50:50 partnership in our PNG assets with Newcrest Mining Limited, Australia, brings with it significant immediate benefits and long-term upside potential. Announced on 22 April 2008, the transaction is already well under way:

- The first phase, in which Newcrest acquired a 30,01% interest for a consideration of $229 million, was consummated with the receipt of cash post the balance sheet date on 7 August 2008.
- The second phase, the earn-in stage, in which Newcrest solely funds the joint venture by spending $296 million on a capital expenditure programme to bring the Hidden Valley mine into production has begun.

In addition to the obvious benefit to our balance sheet, Newcrest is an attractive partner, and has significant technical and management expertise (in the midst of a dire skills shortage), thus reducing our operational risk and capital expenditure burden, and substantially augmenting our ability to turn to account the highly prospective Wafi-Golpu area and adjacent exploration tenements.

Completing the corporate transactions

The transaction previously entered into with Pamodzi Gold on sale of the Orkney 2, 4 and 7 shafts was renegotiated and finally concluded in February 2008. The sale of South Kal mines in Western Australia to Dioro Exploration NL was completed in November 2007. The sale of Mt Magnet in Western Australia was not concluded and we have renewed our search for interested parties to conclude the sale. Meanwhile the mine remains on care and maintenance and exploration in the area continues.

Major projects into production

Importantly, the 2008 financial year was also the year in which all but one of our major projects commenced production. With the exception of Hidden Valley, which will start producing in the next financial year, the

Continued on page 14

Seizing opportunities: The birth of Rand Uranium

Tailings dam, Randfontein, South Africa

An integral part of Harmony's 'back to basics' strategy is the realisation of value from all of its assets and, as part of this, to identify new opportunities and partnerships. In December 2007, Harmony announced a significant step forward in turning to account the company's uranium resources, when the company established Rand Uranium, which will hold its Randfontein uranium and gold assets.

The assets that form part of Rand Uranium are the Cooke Section (which include Cooke 1, 2 and 3 Shafts, the Cooke Plant, other fixed assets and immovable property and tailings dams) and the Old Randfontein Section assets (which include Lindum Dumps and the Old Randfontein immovable property).

With the significant increase in the uranium spot price over the past four years, from approximately $10 per pound in 2003, to the spot price at financial year-end of around $60 per pound, the formation of Rand Uranium provides a new lease of life and value realisation for these operations.

It is planned that, post the project development stage, Rand Uranium will be publicly listed, presenting an attractive investment opportunity to investors seeking dual exposure to both uranium and gold.

A new partnership: Harmony and Newcrest in PNG

Hidden Valley, Papua New Guinea

Hidden Valley, Papua New Guinea

The Hidden Valley Mine has been under development by Harmony over the past four years. Additionally, the Morobe province, where the mine is located, has proven to be highly prospective, and a substantial exploration programme has been undertaken. In FY07, Harmony indicated that the company would probably seek a partner in developing this operation to its full potential and, in April 2008, announced the introduction of Australasia's largest gold company, Newcrest Mining Limited, as a partner in Harmony's PNG assets.

The agreement between the companies will allow Newcrest to earn a 50% interest in Harmony's PNG assets which include:

- The Hidden Valley mining operation, a gold and silver project, expected to produce over 250 000 ounces of gold and 4 million ounces of silver per annum over a 14-year mine life, peaking at over 275 000 ounces of gold per annum in 2009. Production is scheduled to begin around mid-2009.

- The highly-prospective Wafi-Golpu gold-copper deposit and its surrounding exploration tenements.

- More than 3 400km^2 of Harmony's exploration tenements in Morobe province, 300km north-west of Port Moresby, the capital of PNG.

The PNG assets have a significant resource inventory, with a JORC-compliant resource base of approximately 31 million ounces of contained gold equivalent. Current resources total 15.2 million ounces of gold, 90 million ounces of silver, 1 760 000 tonnes of copper and 22 000 tonnes of molybdenum.

Newcrest will earn its 50% interest in the new partnership, the Morobe Mining Joint Venture, by contributing a maximum of $525 million in two stages:

- Stage 1: an initial payment of $180 million to acquire a 30.01% interest, together with a reimbursement to Harmony of $49 million in project expenditure; and

- Stage 2: a farm-in commitment for the remaining 19.99% of approximately $300 million, to fund projects, and other PNG expenditure up to the commencement of mining at Hidden Valley.

The joint venture officially commenced operation on 8 August 2008, and has been named the Morobe Mining Joint Venture.

Says Harmony chief executive officer, Graham Briggs, "For Harmony, the creation of a joint venture facilitates significant capital investment into the PNG assets and substantially removes Harmony's obligation to continue funding the development of these assets during the farm-in period. Importantly, the introduction of a quality partner such as Newcrest, with significant technical skills, particularly in copper mining and bulk underground mining techniques (including block caving), will provide additional expertise to Harmony's PNG team and will add to the development potential of the PNG assets.

Both companies are committed to the continued application of industry best practice in PNG, which includes bringing new jobs, social benefits and sound environmental management to PNG, enhancing the economy in the Morobe region and supporting local communities.

PNG ministerial approval for the joint venture was obtained in July 2008.

Chief executive officer's review of the year (continued)

Phakisa project, the Doornkop South Reef project, the Elandsrand New Mine and the Tshepong Sub 66 decline are now all operational. The Phakisa, Doornkop and Elandsrand mines will be in a production build-up phase for the next two and half years. While we have a number of other projects on the drawing board, described in the review of operations, their capital profile and management requirements are far less onerous than those with which we have had to contend in the past.

Attributable capital expenditure in FY08 amounted to R3.6 billion, with around 40% having been spent at Hidden Valley. Capital expenditure of approximately R2.8 billion is planned for FY09, a significant decrease on that of FY08. The reduction in capital expenditure is as a result of Newcrest's funding $300 million of Hidden Valley's capital expenditure.

Mineral rights conversions

We achieved a significant milestone during FY08 when the DME granted the conversion of 13 old order mining rights in terms of the Mineral and Petroleum Resources Development Act (MPRDA) of 2002. The company is now in possession of all of its new order mining rights, not an insignificant feat, given the amount of planning and administrative processes involved in each.

An extensive consultation process between Harmony, the DME and local communities has resulted in the development of Social and Labour Plans for each entity, and local economic development commitments from each operation.

Exploration programme to step up a notch

Our R205 million (FY07: R194 million) exploration programme in FY08 focused largely on PNG with the aim of establishing a viable pipeline to our resource base. The focus of activity was four potential copper-gold porphyry deposits within the Wafi-Golpu tenements.

A limited South African drilling programme in FY08 is being expanded in FY09 and will include further drilling and evaluation of the Evander South project and several underground areas associated with existing operations (mainly the A and B reefs in the Free State).

Determining a way forward for power

The inability of South Africa's power utility, Eskom, to meet its contractual obligations to Harmony and others in the industry at the beginning of the 2008 calendar year sent shockwaves, not only through the country, the mining industry and the local financial market, but also through commodities markets around the globe. The subsequent imposition of an operating regime at 90% of the prior contractual arrangement had a significant impact on our production profile, and this will continue for the foreseeable future. Planning for reduced consumption took place immediately, with energy conservation becoming a key operational driver. While around 100 000 ounces of production were lost as a result of the reduced power supply, we have put in place plans to conserve energy and expect to normalise operations by 2012.

Cessation of Conops at some operations

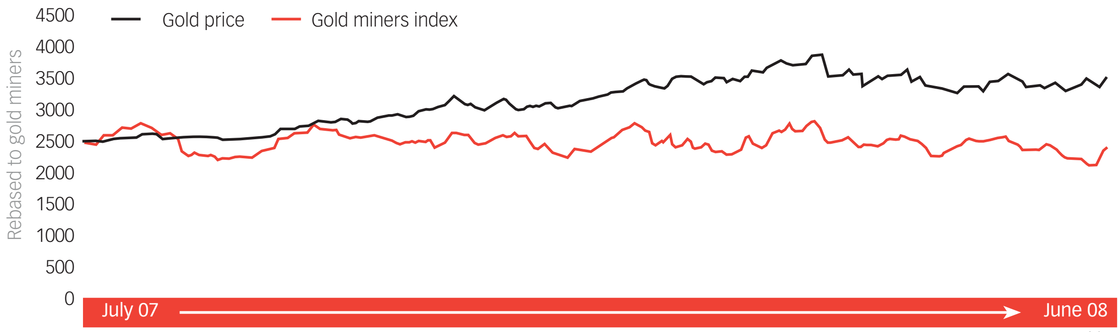
An essential part of the restructuring has been the need to make very hard and very necessary decisions about where and how we focus our activities. Labour is a significant part of our cost structure, accounting for around 50% of total input costs, and management time and accountability cannot be spread too thinly.

While we have had to close some operations that were the highest energy consumers, we have also taken a closer look at the value that was being added in terms of productivity and efficiencies by continuous operations (Conops). Theoretically, Conops is a good idea: the notion that the assets of the company must be used to their full extent and therefore must operate on a continuous basis makes sound sense in many environments, including mining. Nevertheless the concept has to be measured against practical application and results. Conops was not delivering the desired results and a consequence of this was the termination of Conops at Elandsrand, Evander 2 and 5 shafts, Cooke 1, 2 and 3 shafts, Masimong and Tshepong during the course of the year. By the end of the final quarter of the year, the consequent restructuring was essentially complete with employees relocated either to new areas within the same operation or transferred to other operations. With production levels having returned to those existing prior to the disruption caused by the restructuring, our focus now is on improving productivity.

Management: union relations

Given the nature of the South African gold mining industry, good management-union relations are fundamental to the success of our operations. On this, we have had excellent co-operation from the unions in addressing a number of issues, from the restructuring imperatives brought about as a result of the power crisis, to Conops and other restructuring initiatives; and from safety to an understanding of our desire to get back to the basics that can and will make Harmony a successful company. Around 13 000 employees were transferred during the year, with the net departure of around 7 390 people, largely as a result of voluntary severances.

Performance: Gold miners vs gold price



Source: I-Net Bridge

Walking the talk

A great deal of what we are busy with right now requires leadership at all levels in the company. A major challenge encountered at the beginning of the financial year, was that we were missing some of the fundamentals, and that there were important things that we were simply not doing any more. This included actually 'walking the talk' and not just talking about it. Injecting this ethos back into our culture has been painful, and my perception is certainly that we have not yet arrived at a satisfactory level of achievement. Much remains to be done. There is no doubt that greater understanding will come about through face-to-face communication with all levels within the organisation.

The challenge is always communication. This is a significant leadership tool which was lost along the way. At the most basic level, we need to talk and communicate meaningfully with our employees, ensuring that they understand how they should perform in their jobs and then assessing that performance. Then, and only then, will we start getting committed buy-in from the people who actually control the destiny of this company.

In addition, we are placing a great deal of emphasis on planning and re-planning, and on training. The benefits are starting to flow through and there is now more effective management and control of our operations, not only at the stope face but also at a functional level, where better control of our inventories and cash exist.

Spiralling costs

Probably the single biggest challenge has been our ability to control our costs, and this challenge is likely to persist. Typically, for the most part we are cost takers: not only has general inflation continued to rise – CPIX in South Africa was around 11.6% for the year to June 2008 which has fuelled labour costs – but specific input costs have also continued to increase dramatically. Steel prices, in particular, have increased by some 90%, with energy costs climbing by about 30% per unit. To add to all this, there have been significant energy shortages.

The way to offset ever increasing costs will lie in our ability to increase production by getting more tonnes out of our mines and improving grades. We must also instill a work ethos of quality and set higher standards in terms of everything we do. These are our challenges and unfortunately there are no quick fixes; it is going to take time to put things right.

Investment climate

Globally, the investment climate has been a tough one with a very large disconnect between the gold price, the performance of companies and the appetite of investors for gold-producing companies.

Following the extraordinary accounting events of the previous year, we put a campaign in place to regain investor confidence. Rather than trying to persuade investors of the merits of our investment case, we have been striving to provide investors with as much solid information as we can about what we are doing, what is happening in South Africa (on issues such as electricity supply), and what we think is happening in the market. By providing regular and consistent information, we enable them to make their own choices based on fact rather than sentiment. I firmly believe that we have seen the benefits of this as our company has outperformed our competitors. We will continue to maintain a very close relationship with our investors in the year ahead.

Sustainable development

Harmony was again admitted to the JSE's SRI Index. We have also produced, a Sustainable Development Report in line with the Global Reporting Initiative's (GRI) G3 guidelines. This report is available on our website at

Chief executive officer's review of the year (continued)

www.harmony.co.za and reports more broadly on our economic, social and environmental performance. For the first time we have appointed external auditors to review and verify our performance on key parameters.

Key appointments

In line with our need to tighten controls and our revised operational and decentralised focus, we made a number of appointments.

Frank Abbott, who was appointed Interim Finance Director in August 2007, has done a sterling job in implementing the controls that were needed from a financial point of view and in respect of the oversight of our systems. Frank brought with him significant prior experience of the group and has the specific skills and knowledge that were required. We are grateful for his services and he remains on secondment from our major shareholder, African Rainbow Minerals. This will continue for at least the forthcoming financial year.

In my review last year, I stressed the importance of the team that we had put in place to steer the company through its tough times. That team remains in place today. Each member has been enthusiastic and committed, working together and individually to steady this ship. They have endured and indeed driven the many changes that we have implemented, some of which have been quite traumatic. I have been grateful for their support and know I can count on them in the future.

Another key appointment was that of Johannes van Heerden as chief executive officer: South East Asia, International Operations, in January 2008. Alwyn Pretorius, chief operating officer: North Region, was joined by Tom Smith as Chief Operating Officer: South Region early in FY08.

We are also in the process of implementing leadership and training programmes at other levels in the organisation, with the aim of sharing our vision for Harmony, obtaining support for this, and improving employee morale. The latter is inevitably under threat in an organisation undergoing change.

Thanks

My thanks are extended to the board, to our management, to our partners and to our employees. We are also indebted to the unions with whom we have forged constructive relations and for the support received from the all our stakeholders.

The year ahead

In looking ahead, we understand clearly that we have a difficult task on our hands. We must deliver on the company's medium- and longer-term objectives as well as delivering, more immediately, an improved operational performance.

The gold market

We are gold bulls. While demand was sustained, global year-on-year production declined and will continue to do so. In the year in which China became the world's leading gold producer, South African producers saw, and will continue to see, decreased production as a result of electricity constraints and ongoing mine closures. The reality is that once a shaft or operation has been closed, it is very difficult to resume production without incurring significant expenditure. The 2008 to 2009 year-on-year decline in gold production in South Africa is expected to be around 12%. Gold production in other countries is also declining, with global production expected to be at its lowest level in 11 years. Current market circumstances have also resulted in reduced activity among the juniors who have found it difficult to raise money to fund exploration, thus fewer discoveries are likely to be made and fewer new operations will come on stream, particularly given the increasingly stringent permitting regulations being implemented globally.

The current market supports our positive outlook for gold and, given our operational imperatives, we will seek to contain costs, increase output and optimise our margins. In the final quarter of the year, our margin had risen to 28%.

Doornkop, South Africa

Edie Creek, Papua New Guinea

Operational performance

At an operational level we have put in place an intensive process of business planning, with realistic benchmarks and targets. Stringent cost cutting and cost control programmes are in place. Even with the cap on operations imposed by electricity constraints, production in FY09 is expected to rise to around 1.7 million ounces in line with our objective of sustainable organic growth.

Financial performance

We aim to retire a significant amount of debt from the proceeds of the transactions entered into during the year and will endeavour to conclude the 2009 financial year on a sound footing.

Growth

We will seek during the year ahead to bed down the partnerships created with Rand Uranium and with Newcrest in PNG. Several other opportunities for value creation are being investigated, including bringing to account the 1 billion tonnes of surface tailings held in the Free State. The most prospective of these is the potential for a 12 million tonne per annum project at St Helena. Other value-creating acquisitions will continue to be evaluated.

In all, it promises to be an exciting year.

Graham Briggs
Chief executive officer
10 October 2008