CE's review

UNLOCKING VALUE

"Harmony is all about unlocking value"

Bernard Swanepoel, CE

Dear shareholder

While the 2005 financial year may have been more exciting, the 2006 financial year has proved to be more challenging. In the short term, a number of the goals and objectives we set last year have remained out of reach although we have continued to work towards delivery on our long-term objectives, namely:

- increasing gold production to 3.5 Moz by 2010;
- building an international gold company with operating mines in South Africa, Australia, and building a new mine in PNG;
- continue to build one of the best gold pipelines in the world;
- establishing projects that allow our shareholders to take advantage of high commodity prices; and
- complying with the regulatory environs in which we operate.

We are very focussed on delivery in the full knowledge that every day that we don't unlock value from our assets is a day wasted.

The gold market's spectacular performance

Gold producers are in the business because of fundamental investor confidence in their product. My long-standing belief in gold, as the most precious of metals, has been reinforced during the year under review. A popular theory is that the tragic conflict in the Middle East and rising oil prices have been major contributors to the rise in the gold price but my view is that these factors have resulted rather in an increasingly volatile price. The current strength in the gold price has more to do with fundamental, solid demand for the metal, its intrinsic attraction as a store of value and a perceived scarcity of new resources.

The rand dollar gold price has at last benefited South African producers, particularly towards the end of the financial year. The high of R150 000/kg in May this year, is about as good a revenue-generating environment as there has been in my 20 years of gold mining although, of course, in years gone by input costs were much lower.

Record prices will not immediately have a full impact on our earnings. For us, the reality is that we must catch up on development of our South African orebodies – which has been delayed during the challenging Rand/kilogram environment experienced in recent years. This, and the major capital expenditure required for the sinking of the next generation of shafts needed to sustain and grow our production well into the future, will eat into the bonanza revenues flowing from the current surging gold price, and it will therefore push similar robust profits out into the future.

"Our entire approach to development changed during the year – we look at each development decision and base our decision on NPV"

The perceived scarcity of global gold resources is, in fact, real. Canadian research company, Mineral Economics Group (MEG), said in July this year that gold supply shortages were possible in the long term; the discovery rate of major gold deposits has declined in each of the past eight years and only about half of the new resources being discovered are being upgraded to reserves.

For Harmony, South Africa remains a significant area of focus. This is a country with a solid history of gold mining, good infrastructure, an experienced workforce, workable legislation and an area of significant scope. There are still an estimated 600 million ounces to be mined from the Witwatersrand Basin, an amount equal to the total ounces mined from it since mining operations began more than a century ago. We are equally committed to the exciting expansion opportunities we have at Hidden Valley and Wafi in PNG. The five major projects and prospects we have collectively represent substantial growth for the company going forward. Importantly for us, we have regained our growth momentum as we have continued to spend substantial amounts of capital on our growth projects despite the margin squeeze in recent years and we have managed to do so at a low capital cost per production ounce.

GROWTH PROJECTS – LOW CAPITAL COST PER PRODUCTION OUNCE

Project	Life-of-mine ounces (millions)	Total capital cost US$*	g/t
Expansion projects:			
Tshepong	1.47	43	7.2
New mines through existing infrastructure:			
Elandsrand	6.99	123	7.7
Doornkop South Reef	2.96	169	6.6
New mines:			
Phakisa	5.27	115	8.1
Hidden Valley	2.62	278	2.2
Total		728	_

Based on a gold price of R105 000/kg
*R6.53/US$

The group's share price increased by 96% (from R58.25 on 1 July 2005 to R114.10 on 30 June 2006) over the past financial year. This is a reflection of the healthy state of the South African economy, the sustained improvement in the dollar gold price and the fact that our restructuring process is behind us.

Safety

Unfortunately, I must report that our safety performance was not satisfactory this year, undermining the steady improvements that we have achieved in recent years.

Most regrettably, there were 31 fatal accidents during the year, all of these at the South African operations. On behalf of the board, I would like to express our deepest sympathy to those affected. In terms of key indicators, the fatal injury frequency rate was 0.28 per million man hours worked, up from 0.22 the previous year, while the lost-time injury frequency rate was 9.29 per million man hours, only marginally up on the previous year. An immediate and high-level response has been put in place to address safety and health issues and, in particular the behavioural aspects related to safety. No accident, let alone fatality is acceptable to us and we will continue to aim to reduce them. I have given my personal support to our safety and health programme and will hold our managers accountable for safety performance.

"Where Conops has been implemented, operations are showing better face advance, increased production and improved cashflows."

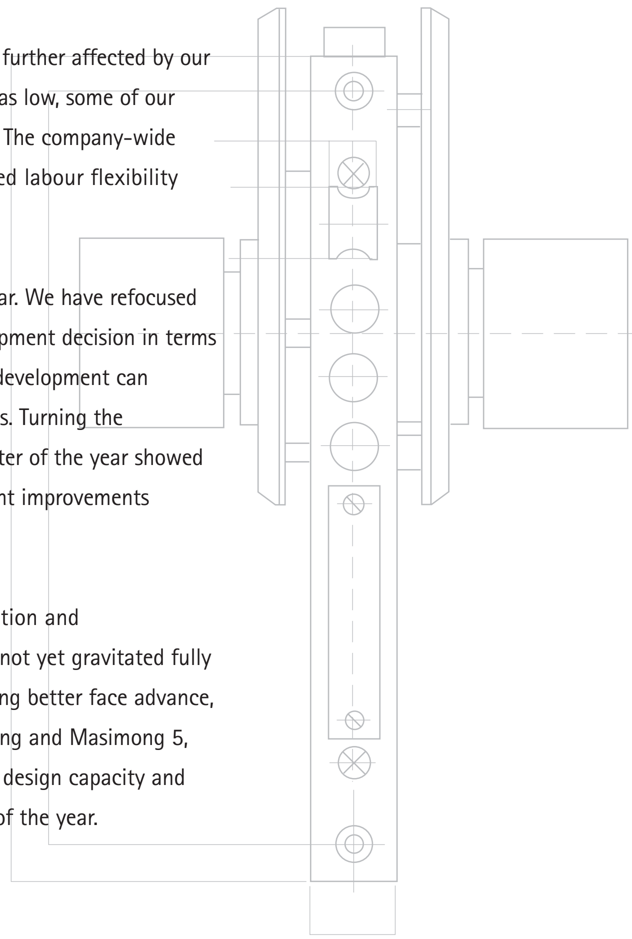
Operational performance

Our total gold production for the year to 30 June 2006 was 74 242kg, 20% lower than in the previous year. Consequently, cash operating costs were 14% higher at $433/oz.

These results should be seen against the background of the far-reaching restructuring we have undertaken at our operations over the 18-month period prior to October 2004. An audit of what we had at that time (when the rand gold price was under severe pressure) showed untenably high levels of unprofitable assets and surplus manpower, much of which slipped between the cracks during an intensive period of mergers and acquisitions. The ensuing surgery was invasive and, at the time, painful. Fortunately, we were able to retain and redeploy more than 4 000 employees to minimise the impact on the number of people that were retrenched. The restructuring only began to have measurable benefits towards the end of the year under review.

Frankly, recovery has been slower than expected and, on reflection, there are several reasons for this. Most significantly there was the recent period of inadequate development and opening up the orebody during the restructuring at our South African operations. This meant we had little flexibility – a critical requirement – coming out of a substantial restructuring process.

With the benefit of hindsight, it is clear that development at our operations was further affected by our efforts to reduce costs. During the periods when the gold price (in rand terms) was low, some of our teams had little choice but to cut back on development to maintain profitability. The company-wide restructuring agreement reached with organised labour also resulted in reduced labour flexibility during the restructuring period.



To address this issue, our entire approach to development changed during the year. We have refocused on comprehensive ore reserve management, applying and looking at each development decision in terms of its own merits and basing our decisions on whether the blocks opened up by development can generate a positive net present value at the gold price used for planning purposes. Turning the development 'ship' around has not been without its challenges, but the last quarter of the year showed a pleasing 9% growth in development (quarter on quarter) with further significant improvements planned for the next year.

Out of the restructuring process has come significant progress on implementation and re-implementation of continuous operations (Conops). While the benefits have not yet gravitated fully to the bottom line, operations where Conops have been implemented are showing better face advance, increased production and improved cashflows. Two of our quality assets, Tshepong and Masimong 5, bear particularly good testimony to the efficacy of Conops, the former reaching design capacity and the latter achieving a 17% increase in square metres mined in the last quarter of the year.

"Savings of some R80 million were made in the Services Transformation Project"

OUR PERFORMANCE OVER THE PAST YEAR

		FY06	FY05	Variance (%)
Production	kg	74 242	92 230	(20)
	oz	2 386 925	2 965 250	(20)
Revenue	R/kg	108 268	84 799	28
	US$/oz	529	427	24
Cash operating costs	R/kg	88 629	75 388	(18)
	US$/oz	433	380	(14)
Underground cash operating costs	R/tonne	349	299	(17)
Cash operating profit	R million	1 459	869	68
Cash operating profit margin	%	18	11	64
Cash earnings per share	SA cents	371	240	55
Headline loss per share	SA cents	(269)	(342)	21
Average exchange rate	Rand/US$	6.36	6.18	3

Unlocking value

Restructuring has certainly stimulated internal debate about how best to turn to account the assets we have, in terms of our orebodies, infrastructure and our people. Understandably, there has also been considerable market opinion about the way forward. While we have explored a number of options, and will continue to do so, the most obvious course of action for us is to unlock the value that we have and to grow the business.

An important product of our introspection is a sustainable business model for Harmony. We have an unusual combination of some of the most marginal and leveraged mines in the world, significant quality assets, and long-life growth projects. A preoccupying question for us has been: with this mix, what is the key to unlocking value?

It is clear to us that we need to work today and plan for tomorrow. For today, we have to ensure that every activity we undertake is focused on chasing the lowest possible cost per tonne. This ability to be the lowest cost per tonne producer has been the basic foundation on which we have built our success. Hand in hand with this we must manage our efficiencies, using our ore reserve management system as a constant point of reference. We are not only intent on making it unacceptable to mine below cut-off, but also to create enough flexibility in our orebodies to enable our teams to mine in a sustainable way at the average grade of the orebody.

Also out of our introspection has emerged a process we refer to as the Harmony Improvement Platform (HIP). This is aimed at tapping into the experience our workforce has accumulated over many years to innovate, to reduce costs and to improve performance. A Harmony Innovation Zone has been put in place to ensure that these ideas are captured and 'brought to the surface'.

HIP is aimed at addressing the current value drivers in the business – like mine call factor or production constraints – in order to improve efficiencies. HIP starts with a clear identification of what a certain operation can do, or in other words its optimal performance or 'nameplate' capacity. Roll-out teams are in place to identify issues and bottlenecks, to generate ideas to overcome these, and to harness and implement these ideas. Roll out of the HIP process began in November 2005.

An example of an area of progress made during the year is the Services Transformation Project. This involved the investigation and rationalisation of services such as finance and security, marketing, human resources and payroll. Savings of some R80 million were made during the financial year. While savings are important, quality and the delivery of better services have not been overlooked. Significant further reductions in costs, especially in the supply chain, are expected in the next year.

We are looking ahead at ways and means of meeting the cost per tonne target with Harmony of Tomorrow (HOT). HOT examines our assets and liabilities, seeking ways to either turn liabilities into assets, or at least to neutralise them. It looks at those aspects around the core, including:

- Harmony's property business, which includes more than 52 000ha of land and massive infrastructure ranging from shafts and offices to accommodation, which can be sold or leased or, with appropriate rehabilitation, be taken up the value curve. It must be noted that trust funds have been established to cater for these rehabilitation liabilities and that there could be significant savings if these rehabilitation liabilities were reduced.
- Exploitation of the by-products of our business, such as uranium, sulphuric acid and platinum group metals, such as osmium.
- Water, which is both a cost and a liability at our mining operations. By 'harvesting' water and treating it, we can either use it to reduce our own water purchases or it can be sold to other users, or both.
- Training, since as a significant employer, we are already an accredited training service provider.

"We expect to grow our production by nearly 1Moz over the next four years and will continue to improve the quality of our asset base over time"

Western Areas acquisition

We acquired a 29.2% stake in Western Areas Limited. This was a strategic investment at the time and enabled us to be a participant in the play for the South Deep orebody. As Gold Fields has been successful in acquiring Barrick's stake in South Deep, this investment will now be reconsidered.

Growth

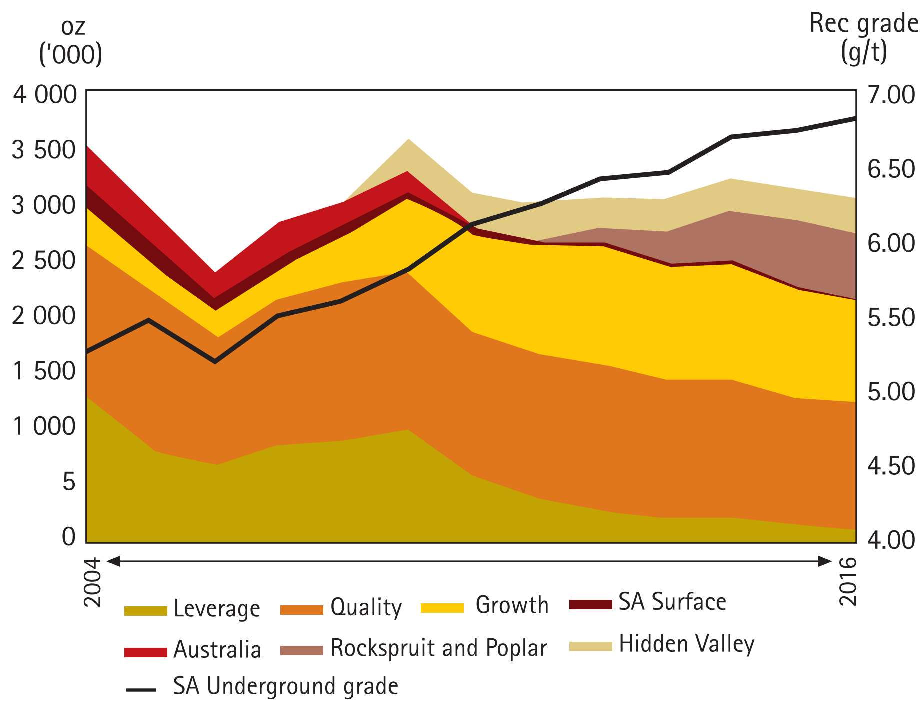
Although we have had to contend with a very testing operating and financial environment in the past year, we have continued to focus on rebuilding our growth strategy. Expenditure on all the South African and international growth projects continued as planned (see table) and our growth profile is robust. We expect to grow our production by nearly 1Moz over the next four years and will continue to improve the quality of our asset base over time (see graph on the next page).

At our Hidden Valley project in PNG, the access road reached the mine lease boundary during the last quarter of FY06 and surface infrastructure construction began during the first quarter of the new financial year.

Seeking growth

At the Wafi Golpu project, also in PNG, the Wafi Golpu resource model has been updated as part of the pre-feasibility study process, using additional information from the current drilling programme. The new resource represents increases in copper of 259 000t (19%) and in contained gold of 650 000oz (32%). It also includes molybdenum with an in-ground value of US$1 billion at the current price of US$25/t.

PLANNED PRODUCTION PROFILE: 2004 – 2016



PROGRESS REPORT ON GROWTH PROJECTS

	Life-of-mine (Moz)	Capital cost (US$ Million)	US$ Cost/oz	Cash cost $/oz	g/t	oz per annum
Phakisa (SA)	5.27	115	22	237	8.1	281 760
Elandsrand (SA)	6.99	123	18	281	7.7	445 000
Doornkop South Reef (SA)	2.96	169	57	263	6.6	340 000
Tshepong (Sub 66) (SA)	1.47	43	29	258	7.2	172 000
Hidden Valley (PNG)	2.62	278	95	229	2.2	285 000

Based on R105 000/kg and R6.50/US$(SA) = US$500/oz
Based on A$666/oz and US$0.75/A$(PNG) = US$500/oz

Relationships with unions

An important positive for the year has been the repair of a damaged relationship with our major union, the National Union of Mineworkers. We bore the brunt of three strikes during the year – the first emanating from our restructuring process, the second from wage negotiations and the third from national protest action by the Cosatu federation, which was unrelated to our business. In a year that also saw us reduce our employee complement by around 3 300, the repair is all the more noteworthy.

Other developments

The acquisition of the JSE-listed cash shell Village Main Reef was essentially a house-keeping issue – this was one of the last remaining gold assets in ARM that should be within the Harmony stable. It is also possible that it may be a vehicle to release value at some stage.

Thanks

I would like to extend my thanks to members of our Board for their continued support during the year and, in particular, to acknowledge the contribution of those who have stood down, namely Ferdi Dippenaar, Ted Grobicki, Rick Menell and Nolitha Fakude. I would like to welcome Fikile De Buck to the Board. I am grateful to our management teams and all our employees for their sterling efforts and loyalty, during a tough year when a significantly lower production base necessitated a reduced number of employees, managers and executives. During the year we bid farewell to those colleagues and friends who left the company to pursue other ventures.

Lastly, and by no means least, I would like to commend all those who contributed to our mineral resources and ore reserves declaration for FY05. Harmony was the joint winner of the annual SAMREC/IASSA award for best reporting of the mineral resources and ore reserves. I am particularly pleased with this award as it demonstrates, once again, that our compliance systems are of the highest standard.

Looking forward

Unlocking value is something that we at Harmony have focused on for many years and I believe that Harmony is well positioned to give our investors the full benefit of the continued strength in the gold price (and even a potentially higher gold price) and a rand that is more in line with its long-term trend.

Our continued investment in our major projects during very tough times has ensured that these projects have remained on track and will start to come into production over the next few years. As they come on stream over the next four years, our production will not only grow to 3.5Moz, but at the same time we expect an upgrade in the quality of our assets. This in turn will have a positive impact on our cash operating costs; we envisage our costs coming down to the $350/oz to $400/oz range during this period.

This unlocking of value is not only about the financials, however. A number of the mines that we have acquired over the years would have been closed down by now in the hands of their former owners but are still viable business entities only as a result of Harmony's unique skills and vision. This unique turnaround ability is what makes us special and we will therefore continue to create value wherever the opportunity arises.

Bernard Swanepoel
Chief Executive
13 September 2006