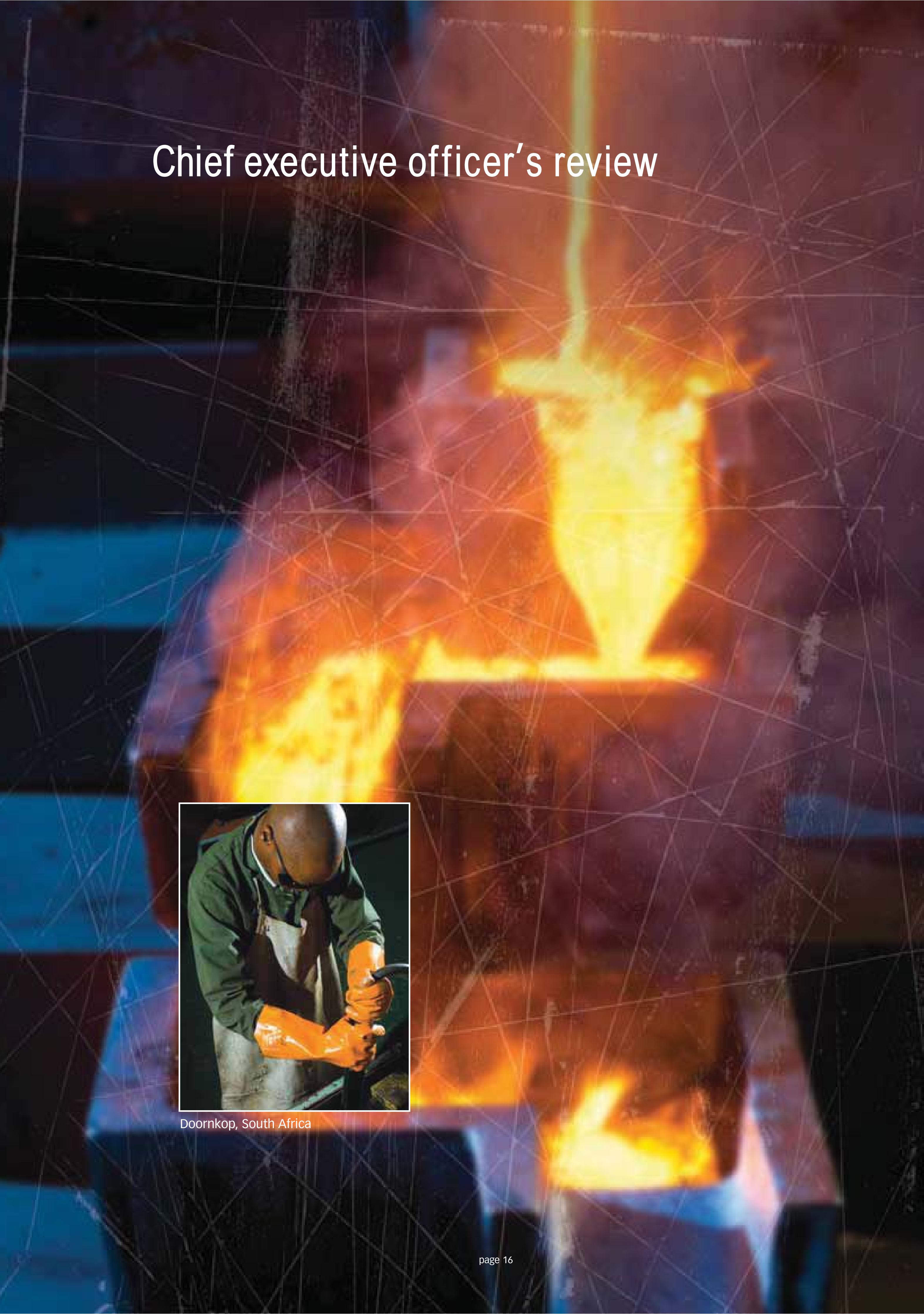


Chief executive officer's review

Doornkop, South Africa

Graham Briggs,
Chief executive officer

I am very pleased to present to shareholders this report for the year, on the occasion of Harmony's 60th year in business. While this report reviews the 2010 financial year (FY10), and our prospects going forward, it also reflects on pages 10 and 11 on the 60 years that have past.

There have been significant changes in this company in the past six decades. Harmony started out as a single operating entity running a modest, yet flagship operation, in the then new goldfields in South Africa's Free State Province. The company has transformed itself, particularly over the past 15 or so years, into a significant global producer with a substantial asset base in South Africa and PNG, a first-class management team, shareholders around the globe, and enviable growth prospects. Looking back, it is indeed a remarkable feat for a gold mining company to have provided jobs, delivered returns to shareholders, paid taxes, and made substantial investments into local communities as Harmony has done over a period of 60 years. And what is perhaps even more phenomenal is that – based on our current resource base and development projects – we will continue to do so for many years into the future.

Integrated reporting

This report provides an account of the operating and financial performance of the company. It also provides – we believe – insight into the way in which we work on a number of levels. As the information needs of our stakeholders have changed from the purely financial to requiring a broader view of the company, so our reporting has adapted. For the past five years, we have produced a separate Sustainable Development Report aligned with the principles and recommendations of the King Report on Corporate Governance 2002 (King II) and as well as the G3 guidelines of the GRI. This year, in line with changes in global best practice, we have taken constructive steps towards the further integration of the economic, social and environmental aspects of the business, both in our management structures and their accountability, and in the way in which we report. This, our first integrated annual report, is the product of these steps.

A year of continued delivery

I am pleased to report that we have maintained the impetus provided by the strategy we began developing three years ago. We have stuck to our guns and delivered results. Looking back at the year under review, we have enjoyed a number of highlights. Key among them were:

- the stability of our teams;
- the achievement of many of our objectives, on which I elaborate below; and
- the good support we have received from employees and unions on the direction in which we are steering the company.

Even for a good story there is always a flip side, the so-called lowlights:

- Safety is the first of these and I deal below with the way in which we are attempting to address this most significant of issues. Despite the tragic fatalities experienced, there is a glimmer of hope in that many of our leading safety indicators are moving in the right direction.

Chief executive officer's review cont.

- Another disappointment has been that production was not in line with our plans. Although some of this reduction was attributable to the deliberate closure of unprofitable operations, I am confident that we have made the right choices, sacrificing unprofitable ounces to protect our sustainability and profitability.
- Another lowlight – and one that we share with our peers – must be the negative view of the South African mining industry in general, and the gold mining industry in particular. I deal with a number of the issues that have given rise to this below.

While we continue to follow the path that our strategy dictates, this has continued to evolve as we have delivered on a number of milestones, adjusted our plans in accordance with market realities, and uncovered new opportunities.

Committed to working safely

Ensuring the safety, health and well-being of our employees is a primary area of focus for Harmony and we continue to strive for zero fatalities. We have taken active steps to ensure that the only acceptable production is safe production, and have linked remuneration to safety performance at all levels of our organisation. The OHSAS 18001 standard is being introduced across the group and 180 health and safety personnel were trained as lead auditors on this system in FY10.

It is with great regret, however, that I report that in South Africa 21 employees lost their lives in mine-related incidents in FY10 (FY09: 22), and there was one fatality in PNG (FY09: 0). The board and management extend their condolences to the families and colleagues of those who lost their lives. While it is disappointing that this fatal injury frequency rate (FIFR) remained unchanged year-on-year, at 0.21 per million hours worked, the lost-time injury frequency rate (LTIFR) improved by 17% to 7.72 (FY09: 9.35).

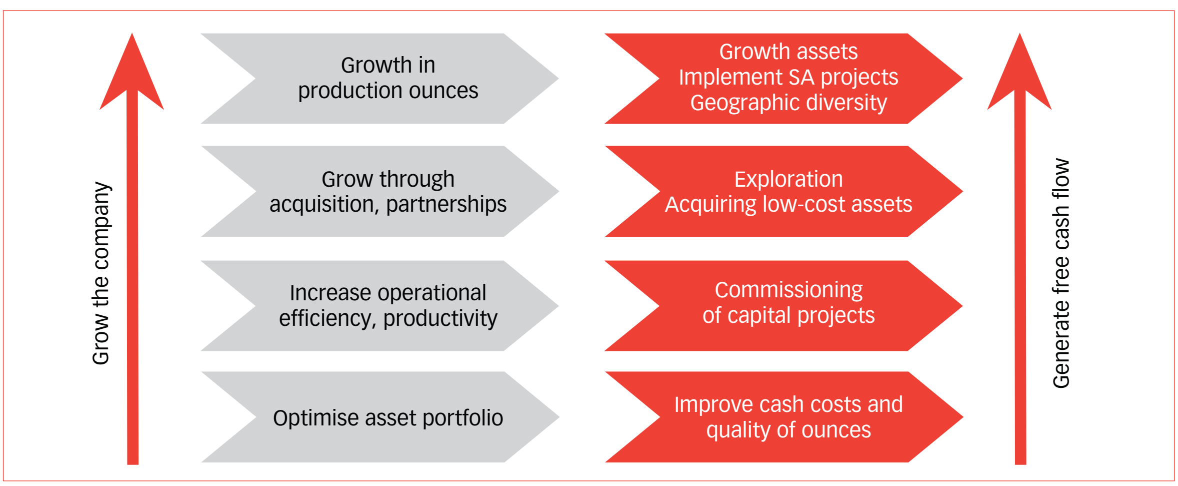
Positioned to deliver

At the heart of our strategy is the determination to create a sustainable company – one that generates earnings to fund dividends and growth. Four key objectives underpin this strategy, namely:

- optimising our asset portfolio, by improving cash costs and the quality of the ounces we produce;
- increasing operational efficiency and productivity, particularly through the commissioning of major capital projects;
- growing production ounces, by delivering into production the South African growth projects and by fully exploiting growth opportunities in PNG. An important element of this growth objective is the pursuit of geographic diversity; and
- growing through acquisitions and partnerships, through exploration and the acquisition of low-cost assets.

In the pages that follow I will show you how we will achieve this strategy, which is illustrated below.

Creating a sustainable company – generating earnings that fund dividends and growth... a company with free cash flow



Harmony's reportable injury frequency rate (RIFR) also improved by 16% to 4.19 compared to the previous year (FY09: 4.97), as did the all injury frequency rate (AIFR) which improved by 9% to 17.05 per million hours worked (FY09: 18.73).

In addition to our annual safety and health workshop, in which all role players make a contribution, our safety and health focus areas in FY10 were:

- fall of ground prevention initiatives. Falls of ground accounted for 66% of fatalities and 21% of lost-time injuries in FY10;
- preventing trucks and tramming accidents. These were the cause of 15% of fatalities and 14% of lost-time injuries;
- increased attention to occupational health and hygiene, particularly dust, noise and tuberculosis; and
- an emphasis on instilling safe behaviour in what should be the low-risk metallurgical plants.

We have conducted extensive back analysis to determine the root causes of accidents, what could have been done to prevent them, and what can be done to prevent them in the future. There is rarely a single, identifiable cause of an accident, even in the case of a fall of ground. It is often a combination of causes and our approach in dealing with safety must be holistic.

During the year, we focused a great deal of effort on behaviour on the one hand, and technology on the other. Regarding technology, for example, we have been developing safer locomotives, anti-collision devices and, in development ends, trailing with support netting to prevent falls of ground. We have the proof that such focused attention can deliver results: Kusasalethu (formerly Elandsrand) was one of our worst safety performers in FY08, and is now one of our best performers. I would also like to congratulate management, employees and unions at Evander 8 shaft for achieving two million fatality-free shifts during the year, once again showing that a fatality-free deep-level mining environment is possible.

Bullish about gold

Gold continues to be a store of value and a currency. Harmony's confidence in gold remains undimmed. Since January 2009, when it first became apparent that the financial setbacks of 2008 did not signify a deep world-wide economic recession, gold's dollar price performance has been little short of spectacular.

In part the price advance has been based on the searches by investors for safe havens, particularly through the increasingly popular global exchange traded funds (ETFs). But the fundamentals of supply and demand for physical gold are, arguably, more important. On the supply side, a number of new mines initiated some years back are coming on stream now and some existing producers are ramping up production. Against this, however, must be set falling production from countries such as South Africa where mines are mature. Recycling, too, has risen as holders have taken profits, but deliveries from this sector depend to a considerable extent on expectations of the future price direction.

In June 2009, on the eve of our past financial year, the London morning gold fix stood at $941/oz. The dollar gold price than improved more or less steadily to around $1 200/oz by late December 2009, which level it failed to hold for some months before sprinting to just short of $1 260/oz on 21 June 2010. After a brief period of consolidation, the gold price had exceeded $1 300/oz by end September 2010.

Our caution, however, stems from the strength of the South African rand. While gold rose by 26% in dollar terms in FY10, in rand terms the rise was only 6% to R266 009/kg. Our South African mine costs are measured in rands and we face some considerable pressure from rising costs over which the country's gold miners have limited control.

Our view on the rand is that it is more prone to downside than to upside. The currency has been supported by equity investment inflows, parallelling investors' views on emerging markets, particularly those with well-traded currencies. Investment flows however can quickly reverse.

There is always much debate about the exchange rate and what in fact it should be. Which is better – a weak rand, a strong rand or something in between? Obviously a weaker rand would suit us very well as our expenditure is in rands, with our earnings pegged in dollars. As a company we are very sensitive to the rand/dollar exchange rate, more so probably than the gold price. A significant issue in South Africa these days is employment and, indeed, the lack thereof. To create jobs the manufacturing and mining sectors need to improve their efficiency and productivity levels, and a weaker currency would be helpful.

Chief executive officer’s review cont.

We are prudently basing this current financial year’s operational planning on gold averaging R250 000/kg, based on a dollar gold price of $950/oz and an exchange rate of R8.19:$1. Our longer-term financial modelling – the basis on which we plan mine developments – is based on a price of R275 000/kg.

Harmony is not in the business of producing gold for the sake of size – our strict policy is to produce safe, profitable ounces only, even though that might lead to more closures of unprofitable shafts and deter us from making marginal acquisitions. In South Africa, our objective is to remain the lowest cost producer measured in terms of tonnes milled. Our target is to cut the group’s overall on-mine cash costs to R160 000/kg in real terms (2010 money) by 2014 from the past financial year’s average of R195 162/kg. However, if mining inflation persists, then we would at least aim to hold cash costs static in actual terms.

Operating and financial performance

A key feature of the year under review was the restructuring of Harmony's asset base in line with our strategy to deliver safe, profitable and sustainable ounces. Significant steps taken during the financial year to improve the quality of our portfolio include:

- closure of the Brand 3, Merriespruit 3, Harmony 2, and Evander 2, 5 and 7 shafts as their orebodies reached the end of their economic lives;
- continued investment in exploration and development at the Phakisa, Kusasalethu (formerly Elandsrand), Doornkop, Tshepong decline shaft and Hidden Valley growth projects, reaffirming their robust life-of-mine plans and reserve positions;
- acquisition of Pamodzi Gold Free State (Proprietary) Limited's (in liquidation) Free State assets which include the President Steyn 1 and 2 shafts, Loraine 3, Freddies 7 and 9, the Steyn plant and surface stockpiles;
- an international exploration programme resulting in the discovery of a new zone of mineralisation adjacent to the main Golpu resource in PNG;
- re-assessment of the Evander operation and projects; and
- post year-end, Mount Magnet in Western Australia was sold, allowing us to focus on growing, developing and operating our portfolio of quality assets in PNG.

Some of these issues are dealt with in greater detail below, and also in the *Review of Operations* and *Exploration Overview* on pages 48 and 96 respectively.

In last year’s review I indicated that the decision to pay a dividend signalled the health of the company. This signal remains valid and I am very pleased to report that the company declared a final dividend of 50 SA cents per share for the second successive year. This dividend indicates Harmony's return to stability and continuing delivery on its strategy to attain sustainable profitability, funding dividends and growth.

Key features of our financial and operational performance in FY10 were:

- gold production remained steady at 1.429 million ounces or 44 433 kilograms (51 046 ounces (1 588 kg) were capitalised);
- gold price received rose by 6% to R266 009/kg, and by 26% to US$1 092/oz
- revenue of R11 284 million;
- operating margin of 26%; and
- cash operating profit of R2 926 million.

Substantial reserve and resource base

In August 2010, Harmony published its annual statement of mineral resources and mineral reserves (as at 30 June 2010), which was produced in accordance with the South African Code for the Reporting of Exploration Results, Mineral Resources and Mineral Reserves (SAMREC Code) and the Australian Code (JORC Code). The measured and indicated mineral resources are inclusive of those mineral resources modified to produce the mineral reserves.

The review during the year was informed by our careful, considered restructuring of Harmony's asset base, focusing on better quality ounces. At the end of June 2010, Harmony's attributable gold mineral reserve was maintained at 48.1 million ounces, which is similar to the previous year's declared reserve, despite the shaft closures and depletion which took place during the year. Attributable gold mineral resources declined by 9% to 189.2 million ounces. A detailed account may be found in the *Mineral resources and mineral reserves* section on pages 114 to 163 of this report.

(1) Headline earnings adjusted for employee remuneration and restructuring costs

Delivering growth

This is an exciting time for Harmony as many of our growth projects start to deliver and come into their own over the next few years, a reward for the sacrifices made to the bottom line as we funded these projects.

So, while we seek greater diversity, we will continue to invest in our growth projects. These assets will, we believe, become the best gold mines in South Africa over the next three years and provide the cash flow necessary to allow us to fund growth in Wafi-Golpu and other opportunities that may arise. We remain committed to South Africa and see our South African assets as an important part of our portfolio.

Our growth in the short to medium term will come from four projects in South Africa – Doornkop, Kusasalethu, Phakisa and Tshepong – and from Hidden Valley in PNG. Most of the capital has been spent and we have already seen production benefits from these projects. Together these projects will drive the company down the cost curve. While we have revised our annual growth target to 2 million ounces (from 2.2 million ounces) by 2013, this still reflects a tremendous increase – some 570 000 ounces more than we are producing today.

Kusasalethu, South Africa

Chief executive officer's review cont.

Forecast gold production – FY13

Operation	Target ounces	Target kg	Life of mine	Comments
Kusasalethu	310 000	9 642	Approx 25 years	In build-up
Phakisa	250 000	7 776	18-21 years	In build-up
Doornkop	210 000	6 531	Approx 15 years	In build-up
Tshepong	230 000	7 154	Approx 17 years	Sub 66 and 71 decline in build-up
Target	200 000	6 220	12-17 years	Build up of Target 3: development of Block 3 at Target 1
Masimong	160 000	4 976	12 years	Steady state production
Hidden Valley*	140 000	4 354	10 years+	Exploration may increase life
Bambanani	130 000	4 043	Approx 11 years	Steady state production
Evander	90 000	2 799	Approx 11 years	8 shaft decline, targeting high grade areas
Virginia	85 000	2 644	Approx 10 years	Down from 280 000oz after three shaft closures
Joel	80 000	2 488	Approx 7 years	Recent exploration successes
Kalgold	45 000	1 400	14 years	Steady state production
Various				
surface sources	60 000	1 866	10-20 years	Tailings retreatment, rock dumps, clean up programmes
Total annual production	Approx 2Moz	Approx 62 000kg		

** This is the 50% attributable to Harmony.*

Exploration

A cornerstone pillar of Harmony's growth strategy is the acquisition of quality assets that offer higher grades. During the past year we identified and evaluated a number of assets in South Africa, elsewhere in Africa and in South East Asia, which may potentially fit the Harmony portfolio. Although we have not been able to identify any projects of sufficient value at a reasonable price, we continue to assess acquisition opportunities, provided they meet our acquisition criteria. We will therefore not make rushed decisions.

We have, however, been very successful in acquiring valuable exploration tenements. Our aim is to enhance our competitive edge at an earlier stage in the pipeline, to expand our geographic diversity and to leverage off our existing base in one of the world's premier new gold regions, PNG. As a result we have increased our exploration budget significantly to R377 million for FY11 ($49 million).

While returns may only come about in the long-term, we are confident that those returns will indeed be generated – our track record of success in PNG speaks for itself. In fact, our cost of exploration – less than $10/oz discovered – is without equal among the major players.

Building on this success, we announced a significant increase in the mineral resource at the Wafi-Golpu porphyry copper-gold project, in partnership with Newcrest Mining Limited. This mineral resource for Wafi-Golpu now contains 16 million ounces of gold and 4.8 million pounds of copper. Expressed as gold equivalents, this resource amounts to 39 million ounces of gold. These results have a profoundly positive impact on our resource base and drilling results continue to prove that investing in exploration has been a very good long-term decision.

Doing business in South Africa

Increasingly, though sporadically, the question of sovereign risk arises and is frequently difficult to explain to people who take their cue from newspaper headlines.

At present there is a degree of uncertainty among some foreign investors of the possible nationalisation of the country's mines. South Africa's economy is currently growing slowly, at little more than 3% a year, a far slower rate than that of Asia's emerging growth economies or indeed some of Africa's growing economies. South Africa needs to grow much faster if benefits are to be spread rapidly.

The nationalisation debate continues both in and outside of government. I hope that this issue is clarified in the near future as I believe that investors in long-term capital projects may wait until the issue of nationalisation has been resolved before investing in the country. Unfortunately I cannot provide any clarity on what may transpire only to say that we will continue to conduct ourselves and continue to make informed decisions in the long-term interest of stakeholders and shareholders in particular

Government has, correctly in my opinion, sought to redress earlier inequities by means of various polices and initiatives which are aimed at making South Africa competitive and through the Mining Charter which specifies that ownership of at least 26% of the country's mines be in the hands of historically disadvantaged South Africans (HDSAs) by 2014. Deciding how and to whom transfers should be made was left largely to the discretion of the mining companies, and these were not free hand-outs. Harmony secured all of its new order mining rights two years ago and achieved compliance with the charter. We will continue to engage with government and other stakeholders to ensure that legislation applicable to the mining industry continues to position South Africa as a globally competitive and attractive country for investment. Since the end of the financial year, government has announced changes to the Mining Charter – changes which largely clarify uncertainties and ambiguities in the original charter.

Another complex issue we have faced is that of illegal or, in fact, criminal mining. Over the past two years we have been affected by scores of miners who have entered some of our mines illegally, stolen mine property or equipment and mined parts of our orebodies. It is not only theft, but worse it is a development that can threaten the underground safety of our own employees. Our mine security officials have taken the matter in hand, fully supported by the South African Police Service, the DMR and the Department of Justice. Nevertheless much remains to be done. Illegal mining is a very complex problem – in fact akin to organised crime with a global reach. We have to fight what we can. We try and secure shaft areas to prevent people from going underground illegally and stop them from destroying existing infrastructure. We have invested a significant amount of money in infrastructure and systems to do just that.

There are other immediate exogenous problems that we in the mining industry have to address. Input costs, over which we have little control, are rising sharply. After several years of under-investment in power generation, Eskom, the electricity parastatal, is hurrying to build more power stations and has been granted the right to increase power costs by 25% annually in the next two years. Electricity for pumping, milling, cooling and ventilation accounts for approximately 13% of our operating costs, costs that cannot be side-stepped. The effect of price increases of this magnitude cannot be over-stated.

Harmony has reduced its electricity consumption by 28% since 2008 but, despite the promises made by Eskom, there are still concerns over Eskom’s build programme and ability to deliver. We have played our part, both to conserve energy and to cut costs, and have beaten our reduction targets considerably. Much of our intensive work is done at off-peak times between midnight and 4am, and cut-backs during the day are conducted in terms of our demand-side management programme. We have also installed generators for emergencies to ensure that any power cuts do not endanger lives.

The unions represented on our mines have generally been highly co-operative in helping restrain costs. Most unionised workers are well aware that jobs could be jeopardised by rising costs that threaten continuing operations.

Corporate citizenship

Central to our vision at Harmony is that we are good neighbours. To this end we have dedicated executives responsible for environmental management and community relations, including corporate social responsibility and local economic development. We report extensively on our engagement with communities and the challenges we face as well as our positive contributions in our Sustainable Development Report. In South Africa, we have made extensive progress in achieving compliance with all the initiatives of the Mining Charter, and indeed we aim – in most cases – to exceed compliance targets.

In PNG, we have worked very closely with government and community leaders in ensuring local employment, skills development and the development of economic activity. An area of significant concern to us has been the effects of mining activity on the Watut River, and in particular the build-up of sedimentation that has had a considerable impact on downstream communities. We have commissioned a series of studies to assess the current situation and make recommendations and are working closely with government, a local NGO and community members to ensure a fair and favourable outcome.

Listings

On 21 June 2010 and 30 August 2010, Harmony voluntarily terminated the listing of its American Depository Receipts on the NASDAQ Stock Exchange and its shares on the NYSE Euronext Paris Stock Exchange respectively. Harmony will continue to be listed on the JSE, New York Stock Exchange (NYSE Euronext) and the London Stock Exchange. This is yet another example of our cost-cutting and rationalisation exercise.

Recognition

Hannes Meyer was appointed to Harmony’s executive management team as Financial Director Designate with effect from 1 August 2009 and then assumed the role of Financial Director on 1 November 2009. Frank Abbott, Harmony’s Interim Financial Director since August 2007, handed over his financial director’s responsibilities to Hannes on 1 November 2009, but continued to serve Harmony as an executive director until 31 July 2010.

We thank Frank for his extensive and unstinting contribution to the group and are delighted that he has agreed to remain on Harmony’s Board of Directors as a non-executive director with effect from 1 August 2010.

In February 2010, we appointed Harry Ephraim Mashego, whom we know as “Mashego” Mashego, as an executive director, effective 24 February 2010. Mashego has more than 20 years’ experience in human resources.

This is the new Harmony

In late August 2010, post year-end, we gave investors a full day of presentations, which culminated in the unveiling of the new Harmony. The presentations and accompanying discussions can be accessed by all shareholders and stakeholders via a webcast which is available at www.harmony.co.za. I invite all shareholders to take the time to view these and to get to know the fundamental detail of your company.

In essence, we put before our audience, our view that the new Harmony has a good mix of assets which are among the best gold mines in South Africa. Each shaft has its own business plan in place, designed in accordance with its own specific requirements. Together they provide us with a firm handle on the business, with the ability to address and pro-actively overcome challenges that may arise. Our plans are clear, and I am confident that we will achieve our targets regarding:

- improving productivity;
- commissioning projects;
- increasing production; and
- undertaking successful exploration.

Our growth target is to reach annual production of 2 million ounces by 2013 and, better still, most of the capital required to bring these projects to fruition has already been spent. We are positioned to generate sufficient cash to fund this growth and to pay dividends. We are and will continue to be the lowest cost South African underground gold producer on a R/tonne mined basis.

As a result, we believe that the new Harmony will be the South African gold miner of choice going forward.

Graham Briggs
Chief executive officer
25 October 2010