

HARMONY GOLD MINING CO LTD

Form 20-F

October 31, 2006

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As filed with the Securities and Exchange Commission on October 30 2006

**SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

**FORM 20-F
ANNUAL REPORT
PURSUANT TO SECTION 13 OF THE
SECURITIES EXCHANGE ACT OF 1934
for the fiscal year ended June 30, 2006
Commission file number: 001-31545
HARMONY GOLD MINING COMPANY LIMITED
(Exact name of registrant as specified in its charter)
REPUBLIC OF SOUTH AFRICA
(Jurisdiction of incorporation or organization)**

**SUITE NO. 1 PRIVATE BAG X1 MELROSE ARCH, 2076 SOUTH AFRICA
(Address of principal executive offices)**

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Ordinary shares, with nominal value Rand 50 cents per share*
(Title of Class)

American Depositary Shares (as evidenced by American Depositary Receipts),
each representing one ordinary share
(Title of Class)

Securities registered or to be registered pursuant to Section 12(g) of the Act:

Ordinary shares, with nominal value Rand 50 cents per share*
(Title of Class)

American Depositary Shares (as evidenced by American Depositary Receipts),
each representing one ordinary share
(Title of Class)

* Not for trading,
but only in
connection with
the registration
of American
Depositary
Shares, pursuant
to the
requirements of
the Securities
and Exchange
Commission.

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

The number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the last full fiscal year covered by this Annual Report was:

396,934,450 ordinary shares, with nominal value of Rand 50 cents per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES NO

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

YES NO

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days:

YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act 1934 subsequent to the distribution of securities under a plan confirmed by a court.

YES NO

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Harmony Gold Mining Company Limited is a corporation organized under the laws of the Republic of South Africa. As used in this Annual Report on Form 20-F, or this annual report, unless the context otherwise requires, the term *Harmony* refers to Harmony Gold Mining Company Limited; the term *South Africa* refers to the Republic of South Africa; the terms *we*, *us* and *our* refer to Harmony and, as applicable, its direct and indirect subsidiaries as a group; the terms *South African Government* and *Government* refer to the government of South Africa and, where the context requires, include the South African state.

In this annual report, references to *R*, *Rand*, *rand* and *c*, *cents* are to the South African Rand, the lawful currency of South Africa, *A\$* refers to Australian dollars, *C\$* refers to Canadian dollars, *GBP* refers to British Pounds Sterling and references to *\$* and *US dollars* are to United States dollars.

This annual report contains information concerning the gold reserves of Harmony. While this annual report has been prepared in accordance with the regulations contained in Securities and Exchange Commission Guide 7, it is based on assumptions which may prove to be incorrect. See *Item 3. Key Information Risk Factors Harmony's gold reserve figures are estimated based on a number of assumptions, including assumptions as to mining and recovery factors, future cash costs or production and the price of gold and may yield less gold under actual production conditions than currently estimated.*

This annual report contains descriptions of gold mining and the gold mining industry, including descriptions of geological formations and mining processes. We have explained some of these terms in the Glossary of Mining Terms included at the end of this annual report. This glossary may assist you in understanding these terms.

PRESENTATION OF FINANCIAL INFORMATION

Harmony is a South African company and the majority of its operations are located there. Accordingly, its books of account are maintained in South African Rand and its annual and interim financial statements are prepared in accordance with International Financial Reporting Standards or IFRS. Harmony also prepares annual financial statements in accordance with generally accepted accounting principles in the United States, or U.S. GAAP, which are translated into US dollars. The financial information, other than total cash costs and total cash costs per ounce, included in this annual report has been prepared in accordance with U.S. GAAP and is presented in US dollars. Total cash costs and total cash costs per ounce are non-GAAP measures. For further information, see *Item 5. Operating and Financial Review and Prospects Costs Reconciliation of Non-GAAP Measures*. Unless otherwise stated, balance sheet item amounts are translated from Rand to US dollars at the exchange rate prevailing on the last business day of the period (Rand 7.17 per \$1.00 as at June 30, 2006), except for specific items included within shareholders' equity that are converted at the exchange rate prevailing on the date the transaction was entered into, and income statement item amounts are translated from Rand to US dollars at the average exchange rate for the period (Rand 6.36 per \$1.00 for fiscal 2006).

For the convenience of the reader, certain information in this annual report presented in Rand, A\$, C\$ and has been translated into US dollars. By including convenience currency translations in this annual report, we are not representing that the Rand, A\$, C\$ and amounts actually represent the U.S., Australian or Canadian dollar amounts, as the case may be, shown or that these amounts could be converted at the rates indicated. Unless otherwise stated, the conversion rate for translations from Rand amounts into US dollar amounts is Rand 7.17 per \$1.00, which was the noon buying rate of the Federal Reserve Bank of New York on June 30, 2006.

FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995 with respect to Harmony's financial condition, results of operations, business strategies, operating efficiencies, competitive positions, growth opportunities for existing services, plans and objectives of management, markets for stock and other matters. In particular, among other statements, certain statements in *Item 4. Information on the Company*, *Item 5. Operating and Financial Review and Prospects* and *Item 11. Quantitative and Qualitative Disclosures About Market Risk* are forward-looking in nature. Statements in this annual report that are not historical facts are forward-looking statements for the purpose of the safe harbor provided by Section 21E of the

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Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended.

These forward-looking statements, including, among others, those relating to the future business prospects, revenues and income of Harmony, wherever they may occur in this annual report and the exhibits to this annual report, are necessarily estimates reflecting the best judgment of the senior management of Harmony and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. As a consequence, these forward-looking statements should be considered in light of various important factors, including those set forth in this annual report. Important factors that could cause actual results to differ materially from estimates or projections contained in the forward-looking statements include, without limitation:

overall economic and business conditions in South Africa and elsewhere;

the ability to achieve anticipated efficiencies and other cost savings in connection with past and future acquisitions;

fluctuations in the market price of gold;

the occurrence of hazards associated with underground and surface gold mining;

the occurrence of labor disruptions;

availability, terms and deployment of capital;

changes in government regulation, particularly mining rights and environmental regulation;

fluctuations in exchange rates;

currency devaluations/appreciations and other macroeconomic monetary policies; and

socio-economic instability in South Africa and other countries in which Harmony operates.

Harmony undertakes no obligation to update publicly or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this annual report or to reflect the occurrence of unanticipated events.

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PART I

Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

Item 3. KEY INFORMATION

SELECTED FINANCIAL DATA

The selected consolidated financial data below should be read in conjunction with, and are qualified in their entirety by reference to, our consolidated financial statements and the notes thereto and with Item 5. Operating and Financial Review and Prospects , both included elsewhere in this annual report. Historical results are not necessarily indicative of results to be expected for any future period.

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The following selected historical consolidated financial data for the last five fiscal years has been extracted from the more detailed information and financial statements, including Harmony's audited consolidated financial statements as of June 30, 2006 and 2005 and for each of the years in the three years ended June 30, 2006 and the related notes, which appear elsewhere in this annual report. The historical consolidated financial data at June 30, 2004, 2003 and 2002, and for each of the years in the two years ended June 30, 2003, has been extracted from Harmony's audited consolidated financial statements not included in this annual report.

During fiscal 2006, Harmony changed its method for accounting for underground development costs, stripping costs incurred during the production phase of a mine and share-based payments. In connection with the changes relating to underground development costs and stripping costs incurred during the production phase of a mine, Harmony early adopted SFAS No. 154, *Accounting Changes and Error Corrections* and has therefore adjusted its previous financial statements as if the revised principles had always been used. In connection with the change relating to share-based payments, Harmony followed the modified retrospective approach permitted by SFAS No. 123(R),

Share-based Payments. Under this method, Harmony has also adjusted its previous financial statements based on the amounts previously recognized under SFAS No. 123 for purposes of pro forma disclosures, without adjustment. See note 3 to the consolidated financial statements *Accounting changes*.

The financial information, other than total cash costs and total cash costs per ounce, included in this annual report has been prepared in accordance with U.S. GAAP unless otherwise noted. Total cash costs and total cash costs per ounce are non-GAAP measures. For further information, See *Item 5. Operating and Financial Review and Prospects Costs Reconciliation of Non-GAAP Measures*.

	2006	2005	2004	2003	2002
		(adjusted)	(adjusted)	(adjusted)	(adjusted)
	(in \$ thousands, except per share amounts)				
Income Statement Data					
Revenues	1,263,333	1,265,200	1,240,339	781,792	675,287
Operating (loss)/income	(36,551)	(422,316)	(59,689)	466	104,386
Equity income of joint venture	445		9,503	52,843	13,176
Equity (loss)/income of associate companies	(16,444)		2,020	(1,233)	(473)
(Loss)/Income before taxes and minority interests	(160,572)	(641,360)	(33,956)	119,560	133,027
Minority interests			1,281	(468)	(1,575)
(Loss)/income before cumulative effect of change in accounting principles	(157,783)	(552,549)	184	89,597	113,983
Cumulative effect of change in accounting principles, net of tax	2,058			14,770	
Net (loss)/income	(155,725)	(552,549)	184	104,367	113,983
Basic (loss)/earnings per share(\$) before cumulative effect of change in accounting principles	(0.39)	(1.52)	0.00	0.50	0.74
Basic (loss)/earnings per share(\$)	(0.39)	(1.52)	0.00	0.59	0.74
Diluted (loss)/earnings per share before cumulative effect	(0.39)	(1.52)	0.00	0.49	0.69

of change in accounting
principles

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	Fiscal Year Ended June 30,					
	2006	2005	2004	2003	2002	
		(adjusted)	(adjusted)	(adjusted)	(adjusted)	
		(in \$ thousands, except per share amounts)				
Diluted (loss)/earnings per share	(0.40)	(1.52)	0.00	0.57	0.69	
Weighted average number of shares used in the computation of basic earnings per share	394,409,512	362,499,012	254,240,500	177,954,245	153,509,862	
Weighted average number of shares used in the computation of diluted earnings per share	394,409,512	362,499,012	255,570,834	182,721,629	165,217,088	
Cash dividends per share \$(1)		0.05	0.26	0.57	0.07	
Cash dividends per share (R)(1)		0.30	1.90	5.50	0.75	
Other Financial Data						
Cash cost per ounce of gold (\$/oz)(2)	436	378	338	239	185	

	2006	2005	At June 30,	2003	2002
		(adjusted)	2004	(adjusted)	(adjusted)
			(adjusted)		
			(in \$ thousands)		
Balance Sheet Data					
Cash and cash equivalents	89,189	266,746	217,022	189,040	90,223
Other current assets	339,156	324,611	294,502	162,487	109,397
Property, plant and equipment net	3,306,555	3,451,963	3,769,971	1,188,910	835,014
Goodwill	28,256	30,367	32,480		
Restricted cash	35,599	7,798	9,922		
Investments in associates	266,331		19,908	63,782	42,791
Investment in joint ventures	2,065			272,754	102,578
Other long-term assets	395,048	655,333	435,058	79,562	137,399
Total assets	4,462,199	4,736,818	4,778,863	1,956,535	1,317,402
Current liabilities	343,802	428,756	393,764	189,668	138,677
Provision for environmental rehabilitation	110,164	120,450	125,917	62,977	63,125
Provision of social plan	2,259	2,109	1,958		
Deferred income and mining taxes	521,000	541,188	580,086	218,995	102,833
Provision for post-retirement benefits	14,964	13,276	1,584	1,017	737
Deferred financial liability	150,038	76,720	91,513	37,228	87,226

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Long-term loans	394,608	409,486	509,195	301,572	152,461
Minority interest				18,408	
Shareholders' equity	2,925,364	3,144,833	3,074,846	1,126,670	772,343
Total liabilities and shareholders' equity	4,462,199	4,736,818	4,778,863	1,956,535	1,317,402

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- (1) Reflects dividends related to fiscal 2004, 2003 and 2002 that were declared on July 30, 2004, August 1, 2003 and August 2, 2002 respectively.

- (2) Total cash costs and total cash costs per ounce are non-GAAP measures. Harmony has calculated cash costs per ounce by dividing total cash costs, as determined using the guidance provided by the Gold Institute, by gold ounces sold for all periods presented. The Gold Institute was a non-profit industry association comprised of leading gold producers, refiners, bullion suppliers and manufacturers. This institute has now been incorporated into the National Mining Association. The guidance was first issued in 1996 and was

revised in November 1999. Total cash costs, as defined in the guidance provided by the Gold Institute, include mine production costs, transport and refinery costs, applicable general and administrative costs, costs associated with movements in production inventories and ore stockpiles, ongoing environmental rehabilitation costs as well as transfers to and from deferred stripping and costs associated with royalties. Ongoing employee termination costs are included, however, employee termination costs associated with major restructuring and shaft closures are excluded. Total cash costs have been calculated on a consistent basis for all periods presented and have been adjusted for the accounting changes associated with

underground development costs and stripping costs incurred during the production phase of the mine. Changes in cash costs per ounce are affected by operational performance, as well as changes in the currency exchange rate between the Rand and the US dollar. Because total cash costs and total cash costs per ounce are non GAAP measures, they should therefore not be considered by investors in isolation or as an alternative to operating income/(loss) or net income/(loss) or any other U.S. GAAP measure or an indicator of our performance. In particular depreciation and amortization would be included in a measure of total costs of producing gold under U.S. GAAP, but it is not included in total cash costs under the guidance provided by the

Gold Institute.
While the Gold Institute has provided a definition for the calculation of total cash costs and total cash costs per ounce, the calculation of cash costs per ounce may vary from company to company and may not be comparable to other similarly titled measures of other companies. However, Harmony believes that cash costs per ounce is a useful indicator to investors and management of a mining company's performance as it provides (1) an indication of the cash generating capacities of the mining operations, (2) the trends in cash costs as the company's operations mature, (3) a measure of a company's performance, by comparison of cash costs per ounce to the spot price of gold and (4) an internal benchmark of

performance to allow for comparison against other companies. For further information, see *Item 5.*

Operating and Financial Review and Prospects Costs Reconciliation of non-GAAP measures.

EXCHANGE RATES

Unless otherwise stated, balance sheet item amounts are translated from Rand to US dollars at the exchange rate prevailing on the last business day of the period (Rand 7.17 per \$1.00 as at June 30, 2006), except for specific items included within shareholders' equity that are converted at the exchange rate prevailing on the date the transaction was entered into, and income statement item amounts are translated from Rand to US dollars at the average exchange rate for the period (Rand 6.36 per \$1.00 for fiscal 2006).

As of October 24, 2006, the noon buying rate of the Federal Reserve Bank of New York per \$1.00 was Rand 7.72.

The following table sets forth, for the past five fiscal years, the average and period end noon buying rates in New York City for cable transfers in Rand and, for the past six months, the high and low noon buying rates in New York City for cable transfers in Rand, in each case, as certified for customs purposes by the Federal Reserve Bank of New York for Rand expressed in Rand per \$1.00.

	Fiscal Year Ended June 30,	Average(1)	Period End
2002		10.20	10.39
2003		9.13	7.51
2004		6.89	6.23
2005		6.18	6.67
2006		6.36	7.17

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	Month of	High	Low
April 2006		6.17	5.99
May 2006		6.71	6.00
June 2006		7.43	6.63
July 2006		7.29	6.81
August 2006		7.20	6.72
September 2006		7.79	7.05
October 2006 (through October 24th)		7.74	7.59

- (1) The average of the noon buying rates provided by the Federal Reserve Bank of New York on the last day of each full month during the relevant period.

Fluctuations in the exchange rate between Rand and the US dollar will affect the Dollar equivalent of the price of ordinary shares on the Johannesburg Stock Exchange, which may affect the market price of the ADSs on the New York Stock Exchange. These fluctuations will also affect the dollar amounts received by owners of ADSs on the conversion of any dividends paid in Rand on ordinary shares.

CAPITALIZATION AND INDEBTEDNESS

Not applicable.

REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

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RISK FACTORS

In addition to the other information included in this annual report and the exhibits, you should carefully consider the following factors related to an investment in Harmony's ordinary shares and ADSs. There may be additional risks that Harmony does not currently know of or that Harmony currently deems immaterial based on information currently available to it. Any of these risks could have a materially adverse effect on Harmony's business, financial condition or results of operations, resulting in a decline in the trading price of Harmony's ordinary shares or its ADSs.

The profitability of Harmony's operations, and the cash flows generated by those operations, are affected by changes in the market price of gold, such that a fall in the price of gold below Harmony's cash operating cost of production for any sustained period may lead Harmony to experience losses and curtail or suspend certain operations.

Substantially all of Harmony's revenues come from the sale of gold. Historically, the market price for gold has fluctuated widely and has been affected by numerous factors over which Harmony has no control, including:

the demand for gold for industrial uses and for use in jewelry;

international or regional political and economic trends;

the strength of the US dollar (the currency in which gold prices generally are quoted) and of other currencies;

financial market expectations regarding the rate of inflation;

interest rates;

speculative activities;

actual or expected purchases and sales of gold bullion held by central banks or other large gold bullion holders or dealers;

forward sales by other gold producers (because Harmony does not normally enter into forward sales, derivatives or other hedging arrangements to establish a price in advance for the sale of its future gold production, Harmony is not protected against decreases in the gold price and if the gold price decreases significantly, Harmony runs the risk of reduced revenues in respect of any gold production that is not hedged); and

the production and cost levels for gold in major gold-producing nations, such as South Africa, the rest of Africa and Australia.

In addition, the current demand for and supply of gold affects the price of gold, but not necessarily in the same manner as current demand and supply affect the prices of other commodities. Historically, gold has retained its value in relative terms against basic goods in times of inflation and monetary crisis. As a result, central banks, financial institutions and individuals hold large amounts of gold as a store of value and production in any given year constitutes a very small portion of the total potential supply of gold. Since the potential supply of gold is large, relative to mine production in any given year, normal variations in current production will not necessarily have a significant effect on the supply of gold or its price.

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The volatility of gold prices is illustrated in the following table, which shows the annual high, low and average of the afternoon London Bullion Market fixing price of gold in US dollars for the past ten calendar years:

Year	Price per Ounce		
	High (\$)	Low (\$)	Average (\$)
1996	415	367	388
1997	367	283	331
1998	313	273	294
1999	326	253	279
2000	313	264	282
2001	293	256	271
2002	332	278	309
2003	412	322	361
2004	427	343	389
2005	476	411	434
2006 (through October 24).	606	593	599

On June 30, 2006, the afternoon fixing price of gold on the London Bullion Market was \$614 per ounce. On October 24, 2006, the afternoon fixing price of gold on the London Bullion Market was \$583.60 per ounce.

While the aggregate effect of these factors is impossible for Harmony to predict, if gold prices should fall below Harmony's cash operating cost of production and remain at such levels for any sustained period, Harmony may experience losses and may be forced to curtail or suspend some or all of its operations. In addition, Harmony would also have to assess the economic impact of low gold prices on its ability to recover any losses it may incur during that period and on its ability to maintain adequate reserves. Harmony's average cash operating cost of production per ounce of gold sold was approximately \$436 in fiscal 2006, \$378 in fiscal 2005 and \$338 in fiscal 2004.

Due to the fact that the majority of Harmony's production costs are incurred in Rand and that gold is sold in US dollars, Harmony's financial condition could be materially harmed by an appreciation in the value of the Rand against the US dollar.

Gold is sold throughout the world in US dollars, but the majority of Harmony's operating costs are incurred in Rand. As a result, any significant and sustained appreciation of Rand against the US dollar will serve materially to reduce Harmony's Rand revenues and overall net income.

The Rand has depreciated by 7.5% in fiscal 2006 after having appreciated significantly against the US dollar generally since the end of calendar year 2001, following significant depreciation against the US dollar between 1997 and 2001. Harmony's operating environment has been severely influenced by the stronger Rand, which has appreciated 30% against the US dollar since 2002, and has negatively impacted the company's short-term profitability.

Part of Harmony's strategy depends on its ability to make additional acquisitions.

In order to increase Harmony's gold production and to acquire additional reserves, Harmony continuously explores

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opportunities to expand its production base by acquiring selected gold producers and mining operations. However, Harmony cannot guarantee that:

it will be able to identify appropriate acquisition candidates or negotiate acquisitions on favorable terms;

it will be able to obtain the financing necessary to complete future acquisitions; or

the issuance of Harmony's ordinary shares or other securities in connection with any future acquisition will not result in a substantial dilution in ownership interests of holders of Harmony's securities.

As at June 30, 2006, Harmony's mining operations reported total proven and probable reserves of approximately 56 million ounces. If Harmony is unable to acquire additional gold producers or generate additional proven and probable reserves at Harmony's existing operations or through its exploration activities, Harmony cannot be certain that it will be able to expand or replace its current production with new reserves in an amount sufficient to its mining operations beyond the current life of its reserves.

Harmony's gold reserve figures are estimated based on a number of assumptions, including assumptions as to mining and recovery factors, future cash costs of production and the price of gold and may yield less gold under actual production conditions than currently estimated.

The ore reserve estimates contained in this annual report are estimates of the mill delivered quantity and grade of gold in Harmony's deposits and stockpiles. They represent the amount of gold which Harmony believes can be mined, processed and sold at prices sufficient to recover its estimated future cash costs of production, remaining investment and anticipated additional capital expenditures. Harmony's ore reserves are estimated based upon a number of factors, which have been stated in accordance with SEC Industry Guide 7. As Harmony's ore reserve estimates are calculated based on estimates of future cash operating costs, future gold prices and, because of the fact that Harmony's gold sales are primarily in US dollars and Harmony incurs most of its cash operating costs in Rand, the exchange rate which is not under our control, between the Rand and the US dollar and, in the case of Harmony's Australian operations, between the Rand and the Australian dollar significantly impacts this ore reserve estimate. As a result, the reserve estimates contained in this annual report should not be interpreted as assurances of the economic life of Harmony's gold deposits or the profitability of its future operations.

Since ore reserves are only estimates that Harmony makes based on the above factors, Harmony may in future need to revise these estimates. In particular, if Harmony's cash costs of production increase (whether in Rand terms, in Australian dollar terms, or in relative terms due to appreciation of the Rand or the Australian dollar against the US dollar) or the gold price decreases, the recovery of a portion of Harmony's ore reserves may become uneconomical. This will force Harmony to lower its estimated reserves.

To maintain gold production beyond the expected lives of Harmony's existing mines or to increase production materially above projected levels, Harmony will need to access additional reserves through exploration or discovery.

Harmony's operations have limited proven and probable reserves and exploration and discovery is necessary to maintain current gold production levels at these operations. Exploration for gold and other precious metals is speculative in nature, is frequently unsuccessful and involves many risks, including risks related to:

locating orebodies;

identifying the metallurgical properties of orebodies;

estimating the economic feasibility of mining orebodies;

developing appropriate metallurgical processes;

obtaining necessary governmental permits; and

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constructing mining and processing facilities at any site chosen for mining.

Harmony's exploration efforts might not result in the discovery of mineralization and any mineralization discovered might not result in an increase in Harmony's proven and probable reserves. To access additional reserves, Harmony will need to successfully complete development projects, including extending existing mines and, possibly, developing new mines. Development projects would also be necessary to access any mineralization discovered through exploration in Australasia. Harmony typically uses feasibility studies to determine whether or not to undertake significant development projects. Feasibility studies include estimates of expected or anticipated economic returns, which are based on assumptions about:

future gold and other metal prices;

anticipated tonnage, grades and metallurgical characteristics of ore to be mined and processed;

anticipated recovery rates of gold and other metals from the ore, and

anticipated total costs of the project, including capital expenditure and cash operating costs.

Actual cash costs of production, production and economic returns may differ significantly from those anticipated by Harmony's feasibility studies for new development projects.

It can take a number of years from initial feasibility studies until development is completed and during that time, the economic feasibility of production may change. In addition, there are a number of uncertainties inherent in the development and construction of an extension to an existing mine or any new mine, including:

the availability and timing of necessary environmental and governmental permits;

the timing and cost necessary to construct mining and processing facilities, which can be considerable;

the availability and cost of skilled labor, power, water and other materials;

the accessibility of transportation and other infrastructure, particularly in remote locations;

the availability and cost of smelting and refining arrangements; and

the availability of funds to finance construction and development activities.

Harmony has addressed growth through the recent expansion of its exploration activities. The company currently maintains a range of focused exploration programs, concentrating on areas not too distant from its operation mines, as well as a number of prospective known gold mineralized regions around the world. During fiscal 2006, the bulk of exploration expenditure was allocated to activities in Australia, Papua New Guinea, Peru and South Africa. However, there is no assurance that any future development projects will extend the life of Harmony's existing mining operations or result in any new commercial mining operations.

Harmony may experience problems in managing new acquisitions and integrating them with its existing operations.

Acquiring new gold mining operations involves a number of risks including:

difficulties in assimilating the operations of the acquired business;

difficulties in maintaining the financial and strategic focus of Harmony while integrating the acquired business;

problems in implementing uniform standards, controls, procedures and policies;

increasing pressures on existing management to oversee a rapidly expanding company; and

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to the extent Harmony acquires mining operations outside South Africa or Australia encountering difficulties relating to operating in countries in which Harmony has not previously operated.

Any difficulties or time delays in achieving successful integration of new acquisitions could have a material adverse effect on Harmony's business, operating results, financial condition and share price.

Due to the nature of mining and the type of gold mines it operates, Harmony faces a material risk of liability, delays and increased cash costs of production from environmental and industrial accidents and pollution.

The business of gold mining by its nature involves significant risks and hazards, including environmental hazards and industrial accidents. In particular, hazards associated with underground mining include:

rockbursts;

seismic events;

underground fires;

cave-ins or falls of ground;

discharges of gases and toxic chemicals;

release of radioactive hazards;

flooding;

accidents; and

other conditions resulting from drilling, blasting and the removal and processing of material from a deep-level mine.

Hazards associated with open cast mining (also known as open pit mining) include:

flooding of the open pit;

collapse of the open pit walls;

accidents associated with the operation of large open pit mining and rock transportation equipment; and

accidents associated with the preparation and ignition of large scale open pit blasting operations.

Hazards associated with waste rock mining include:

accidents associated with operating a waste dump and rock transportation; and

production disruptions due to weather.

Harmony is at risk of experiencing any and all of these environmental or other industrial hazards. The occurrence of any of these hazards could delay production, increase cash operating costs and result in financial liability to the Company.

Harmony's insurance coverage may prove inadequate to satisfy future claims against it.

Harmony has third party liability coverage for most potential liabilities, including environmental liabilities. While Harmony believes that its current insurance coverage for the hazards described above is adequate and consistent with industry practice, Harmony may become subject to liability for pollution (excluding sudden and accidental pollution) or

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other hazards against which it has not insured or cannot insure, including those in respect of past mining activities. Further, Harmony maintains and intends to continue to maintain, property and liability insurance consistent with industry practice, but such insurance contains exclusions and limitations on coverage. In addition, there can be no assurance that insurance will continue to be available at economically acceptable premiums. As a result, in the future Harmony's insurance coverage may not cover the extent of claims against it for environmental or industrial accidents or pollution.

The results of Harmony's South African and Australian operations may be negatively impacted by inflation.

Harmony's operations have been materially affected by inflation in recent years. Even though the inflation rate has decreased over the last three years, working costs and especially wages have increased considerably over the past three years resulting in significant cost pressures on the mining industry. Harmony's profits and financial condition could also be affected adversely in the absence of a concurrent devaluation of the Rand and an increase in the price of gold.

The socio-economic framework in the regions in which we operate may have an adverse effect on Harmony's operations and profits.

It is difficult to predict the future political, social and economic direction of South Africa, Australia, Papua New Guinea, or any other country in which we operate, and the impact government decisions may have on our business.

Harmony's financial flexibility could be materially constrained by exchange control regulations as imposed by the South African Reserve Bank.

South Africa's exchange control regulations provide for restrictions on exporting capital from South Africa. As a result, Harmony's ability to raise and deploy capital outside South Africa is restricted. In particular, Harmony:

is generally not permitted to export capital from South Africa or to hold foreign currency without the approval of the South African exchange control authorities;

is generally required to repatriate to South Africa profits of foreign operations; and

is limited in its ability to utilize profits of one foreign business to finance operations of a different foreign business.

These restrictions could hinder Harmony's normal corporate functioning. While exchange controls have been relaxed in recent years, it is difficult to predict whether or how the South African government will further relax the exchange control regulations in the future.

Since Harmony's South African labor force has substantial trade union participation, Harmony faces the risk of disruption from labor disputes and new South African labor laws.

Despite a history of positive and constructive engagement with labor unions, there are periods during which the various stakeholders are unable to agree on dispute resolution processes. Disruptive activities on the part of labor, which normally differ in intensity, then become unavoidable. Due to the high level of union membership among Harmony's employees, approximately 93%, Harmony is at risk of having, and did experience in both fiscal 2006 and 2005 for example, production stoppages for indefinite periods due to strikes and other disputes. Significant labor disruptions have affected our operations and financial condition and we are not able to predict whether or not we will experience significant labor disputes in the future.

Our production may also be materially affected by labor laws. South African labor laws regulate work time, provide for mandatory compensation in the event of termination of employment for operational reasons, and impose large monetary penalties for non-compliance with administrative and reporting requirements in respect of affirmative action policies, and could result in significant costs. In addition, future South African labor legislation and regulations may further increase our cash costs of production or alter our relationship with our employees. Harmony may continue to experience significant changes in labor law in South Africa over the next several years.

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HIV/AIDS poses risks to Harmony in terms of productivity and costs.

The incidence of HIV/AIDS in South Africa and Papua New Guinea, which is forecast to increase over the next decade, poses risks to Harmony in terms of potentially reduced productivity and increased medical and other costs. Harmony expects that significant increases in the incidence of HIV/AIDS infection and HIV/AIDS-related diseases among the workforce over the next several years may have an adverse impact on Harmony's operations, projects and financial status. This expectation, however, is based on assumptions about, among other things, infection rates and treatment costs which are subject to material risks and uncertainties beyond Harmony's control. As a result, actual results may differ from the current estimates.

The cost of occupational healthcare services may increase in the future.

Occupational healthcare services are available to Harmony's employees from its existing healthcare facilities in South Africa. There is a risk that the cost of providing such services could increase in future depending on changes in the nature of underlying legislation and the profile of Harmony's employees. This increased cost, should it transpire, is currently indeterminate. Harmony has embarked on a number of interventions focused on improving the quality of life of Harmony's work force, although there can be no guarantee that such initiatives will not be adversely affected by increased costs.

Laws governing mineral rights ownership have changed in South Africa.

Harmony is governed by the South African Mineral and Petroleum Resources Development Act 2002, or Minerals Act. The principal objectives set out in the Act are:

- to recognize the internationally accepted right of the state of South Africa to exercise full and permanent sovereignty over all the mineral and petroleum resources within South Africa;
- to give effect to the principle of the State's custodianship of the nation's mineral and petroleum resources;
- to promote equitable access to South Africa's mineral and petroleum resources to all the people of South Africa and redress the impact of past discrimination;
- to substantially and meaningfully expand opportunities for historically disadvantaged persons, including women, to enter the mineral and petroleum industry and to benefit from the exploitation of South Africa's mineral and petroleum resources;
- to promote economic growth and mineral and petroleum resources development in South Africa;
- to promote employment and advance the social and economic welfare of all South Africans;
- to provide security of tenure in respect of prospecting, exploration, mining and production operations;
- to give effect to Section 24 of the South African Constitution by ensuring that South Africa's mineral and petroleum resources are developed in an orderly and ecologically sustainable manner while promoting justifiable social and economic development;
- to follow the principle that mining companies keep and use their mineral rights, with no expropriation and with guaranteed compensation for mineral rights; and
- to ensure that holders of mining and production rights contribute towards the socio-economic development of areas in which they are operating.

Under the Act, tenure licenses over established operations will be secure for 30 years (and renewable for 30 years thereafter), provided that mining companies obtain new licenses over existing operations within five years of the date of enactment of the Act and fulfill requirements specified in the Broad-Based Socio-Economic Empowerment Charter for the South African mining industry, or the Mining Charter.

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The principles contained in the Mining Charter relate to the transfer of 26% of South Africa's mining assets to historically disadvantaged South Africans, or HDSAs, over a 10-year period, as defined in the Mining Charter. Under the Mining Charter, the South African mining industry has committed to securing financing to fund participation by HDSAs in an amount of R100 billion within the first five years of the Mining Charter's tenure. The Mining Charter provides for the review of the participation process after five years to determine what further steps, if any, are needed to achieve the 26% target participation. The Mining Charter requires programs for black economic empowerment and the promotion of value-added production, such as jewelry-making and other gold fabrication, in South Africa. The Mining Charter also sets out targets for broad-based black economic empowerment in the areas of human resources, skill development, employment equality, procurement and beneficiation. In addition, the Mining Charter addresses other socio-economic issues, such as migrant labor, housing and living conditions.

Harmony actively carries out mining and exploration activities in all of its material mineral rights areas. Three of Harmony's operations have been granted their mining licenses and applications have been submitted for the balance. We will be eligible to apply for new licenses over existing operations, provided that we comply with the Mining Charter. We have taken steps to comply with the expected provisions of the Mining Charter, such as promoting value-added production, exploring black empowerment initiatives and increasing worker participation. We expect more costs involved in compliance with the Mining Charter to lead to increased cash operating costs, which may have an adverse impact on the profits generated by Harmony's operations in South Africa.

The Act also makes reference to royalties payable to the state in terms of an Act of Parliament, known as the Money Bill, which was made available for public comment. The introduction of the Money Bill will have an adverse impact on the profits generated by Harmony's operations in South Africa. In terms of the draft regulations, royalties will only be payable from 2009.

In Australia, most mineral rights belong to the government, and mining companies pay royalties to government based on production. There are, however, limited areas where government granted freehold estates without reserving mineral rights. Harmony's subsidiary, New Hampton, has freehold ownership of its Jubilee mining areas, but the other mineral rights in Harmony's Australasian operations belong to the Australian and Papua New Guinea governments and are subject to royalty payments. In addition, current Australian law generally requires native title approval to be obtained before a mining license can be granted and mining operations can commence. New Hampton and Hill 50 have approved mining leases for most of their reserves, including all reserves that are currently being mined. Should New Hampton or Hill 50, or any of our initiatives in Papua New Guinea or other exploration areas, desire to expand operations into additional areas under exploration, these operations would need to convert the relevant exploration licenses prior to the start of mining, and that process could require native title approval. There can be no assurance that any approval would be received.

Harmony is subject to extensive environmental regulations.

As a gold mining company, Harmony is subject to extensive environmental regulation. Harmony has experienced and expects to continue to experience increased cash operating costs of production arising from compliance with South African and Australian environmental laws and regulations. The Minerals Act, certain other environmental legislation and the administrative policies of the South African government regulate the impact of Harmony's prospecting and mining operations on the environment.

Pursuant to these regulations, upon the suspension, cancellation, termination or lapsing of a prospecting permit or mining authorization in South Africa, Harmony will remain liable for compliance with the provisions of the Minerals Act, including any rehabilitation obligations. This liability will continue until such time as the South African Department of Minerals and Energy certifies that Harmony has complied with such provisions.

In the future, Harmony may incur significant costs associated with complying with more stringent requirements imposed under new legislation and regulations. This may include the need to increase and accelerate expenditure on environmental rehabilitation and alter provisions for this expenditure, which could have a material adverse effect on Harmony's results and financial condition. Harmony may also face increased environmental costs resulting from other mines in the vicinity of Harmony's mines failing to meet their obligations with regard to the pumping or treatment of water.

The South African government has reviewed requirements imposed upon mining companies to ensure environmental

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restitution. For example, following the introduction of an environmental rights clause in South Africa's constitution, a number of environmental legislative reform processes have been initiated. Legislation passed as a result of these initiatives has tended to be materially more onerous than laws previously applied in South Africa. Examples of such legislation include the Minerals Act, the South African National Nuclear Regulator Act 1999, the South African National Water Act of 1998 and the South African National Environmental Management Act 1998, which include stringent polluter-pays provisions. The adoption of these or additional or more comprehensive and stringent requirements, in particular with regard to the management of hazardous wastes, the pollution of ground and ground water systems and the duty to rehabilitate closed mines, may result in additional costs and liabilities.

Harmony's Australian operations are also subject to various laws and regulations relating to the protection of the environment, which are similar in scope to those of South Africa.

Harmony may not pay cash dividends to its shareholders in the near future.

While it is the intention of Harmony to declare and pay cash dividends, it is its policy to only do so if profits and funds are available for that purpose. Whether or not funds are available depends on a variety of factors, including the amount of cash available and on capital expenditures and other cash requirements existing at that time. Under South African law, cash dividends may only be paid out of the retained or current profits of Harmony. We did not declare a cash dividend in fiscal 2006 or 2005 and we cannot guarantee that cash dividends will be paid in the future.

Non-South African shareholders of Harmony face additional investment risk from currency exchange rate fluctuations since any dividends will be paid in Rand.

Dividends or distributions with respect to Harmony's ordinary shares have historically been paid in Rand. The US dollar equivalent of any dividends or distributions with respect to Harmony's ordinary shares would be adversely affected by potential future decreases in the value of the Rand against the US dollar. In fiscal 2006, the value of the Rand relative to the US dollar decreased by an average of 7.50% based on the closing rate for fiscal 2005.

Because Harmony has a significant number of outstanding share options and convertible debt instruments, Harmony's ordinary shares are subject to dilution.

On June 30, 2006, Harmony had an aggregate of 1,200,000,000 ordinary shares authorized to be issued and, at that date, an aggregate of 396,934,450 ordinary shares were issued and outstanding. Harmony also has employee share option schemes. The employee share option schemes came into effect in 1994, 2001 and 2003 respectively. At June 30, 2006, options to purchase a total of 12,741,307 ordinary shares were outstanding. The exercise prices of these options vary between R22.90 and R91.60. Additionally, the company has convertible uncollateralized fixed rate bonds in the amount of \$237 million which are due on May 21, 2009. These bonds may be converted into equity at the option of the bondholder at any time between July 1, 2004 and May 15, 2009 at a specific conversion price based on the outstanding principal amount divided by the conversion price in effect on that date. As a result, shareholders equity interests in Harmony are subject to dilution to the extent of the future exercises of the options and convertible debt instruments.

Investors in the United States may have difficulty bringing actions, and enforcing judgments, against Harmony, its directors and its executive officers based on the civil liabilities provisions of the federal securities laws or other laws of the United States or any state thereof.

Harmony is incorporated in South Africa. All of Harmony's directors and executive officers (and certain experts named herein) reside outside of the United States. Substantially all of the assets of these persons and substantially all of the assets of Harmony are located outside the United States. As a result, it may not be possible for investors to enforce against these persons or Harmony a judgment obtained in a United States court predicated upon the civil liability provisions of the federal securities or other laws of the United States or any state thereof. A foreign judgment is not directly enforceable in South Africa, but constitutes a cause of action which will be enforced by South African courts provided that:

the court that pronounced the judgment had jurisdiction to entertain the case according to the principles recognized by South African law with reference to the jurisdiction of foreign courts;

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the judgment is final and conclusive;

the judgment has not lapsed;

the recognition and enforcement of the judgment by South African courts would not be contrary to public policy, including observance of the rules of natural justice which require that the documents initiating the United States proceeding were properly served on the defendant and that the defendant was given the right to be heard and represented by counsel in a free and fair trial before an impartial tribunal;

the judgment does not involve the enforcement of a penal or revenue law; and

the enforcement of the judgment is not otherwise precluded by the provisions of the Protection of Business Act 99 of 1978, as amended, of the Republic of South Africa.

Compliance with new and changing corporate governance and public disclosure requirements adds uncertainty to our compliance policies and increases our costs of compliance.

Laws, regulations and standards relating to accounting, corporate governance and public disclosure, new SEC regulations, NYSE rules, JSE rules and listing regulations are subject to change and can create uncertainty for companies like Harmony. New or changed laws, regulations and standards could lack specificity or be subject to varying interpretations. Their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs of compliance as a result of ongoing revisions to such governance standards.

In particular, our efforts to comply with Section 404 of the Sarbanes-Oxley Act of 2002 and the related regulations regarding our required assessment of our internal controls over financial reporting and our external auditors' audit of that assessment requires the commitment of significant financial and managerial resources. Our independent auditors may be unable to issue unqualified attestation reports on management's assessment on the operating effectiveness of our internal controls over financial reporting.

We are committed to maintaining high standards of corporate governance and public disclosure, and our efforts to comply with evolving laws, regulations and standards in this regard have resulted in, and are likely to continue to result in, increased general and administrative expenses.

**Item 4. INFORMATION ON THE COMPANY
BUSINESS**

History and Development

Harmony Gold Mining Company Limited was incorporated and registered as a public company in South Africa on August 25, 1950. Our principal executive offices are located at 4 The High Street, First Floor, Melrose Arch, Melrose North 2196, South Africa and the telephone number at this location is +27-11-684-0140.

We conduct underground and surface gold mining and related activities, including exploration, processing, smelting, refining and beneficiation. We are currently the third largest producer of gold in South Africa, producing 30% of the country's annual gold output, and the fifth largest gold producer in the world with operations and projects in South Africa, Australia and Papua New Guinea. Harmony's gold sales have increased from 650,312 ounces of gold in fiscal 1995 to approximately 2.4 million ounces of gold in fiscal 2006. As at June 30, 2006, our mining operations reported total proven and probable reserves of approximately 56 million ounces primarily from South African sources. In fiscal 2006, we processed approximately 20.8 million tons of ore.

We also have exploration and evaluation programs focused on parts of Australia, Papua New Guinea, Africa and Europe. Exploration and evaluation of Africa and Europe is handled through the South African office, while the Australian office deals with Australian and Papua New Guinea exploration and evaluation opportunities.

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At the time of our incorporation, Harmony was formed as a Randgold & Exploration Company Limited, or Randgold, managed company to exploit a single Harmony mine lease. In 1995, Harmony was rejuvenated as a separate entity following the demise of Randgold. At that time, Harmony produced 650,312 ounces of gold and employed 16,000 people. Harmony's operations have grown significantly since 1995, expanding from a lease-bound single mining operation into an independent, world-class gold producer. We acquired additional mineral rights in the Free State, Mpumalanga, Gauteng and North West provinces in South Africa when we acquired Lydex in 1997, Evander in 1998, Kalgold in 1999, Randfontein in 2000, ARMgold in 2003 and Avgold in 2004.

We conduct our mining operations through various subsidiaries. As of June 30, 2006, our principal subsidiaries were Randfontein Estates Limited, Evander Gold Mines Limited, ARMgold/Harmony Freegold Joint Venture Company (Pty) Ltd, ARMgold Limited, Avgold Limited, Kalahari Goldridge Mining Company Limited and Harmony Gold (Australia) (Pty) Limited. All are wholly-owned direct subsidiaries incorporated in South Africa, save for Harmony Gold (Australia) (Pty) Limited, which is a wholly-owned subsidiary incorporated in Australia.

We have been marketing our own gold since 1997, a function that was previously the sole preserve of the South African Reserve Bank, or SARB. A refinery was commissioned by Harmony during fiscal 1997 in the Free State Province at South Africa, which is currently treating most of the gold produced by the South African operations. In fiscal 2006, the capacity of the refinery was 70 tons. *See Item 8. Financial Information Recent Developments for further information.*

In fiscal 2006, approximately 90.3% of Harmony's gold production took place in South Africa and 9.7% in Australia. In fiscal 2006, approximately 85.6% of Harmony's gold came from underground mines and 4.7% came from its surface mines. For more detailed geographical information about Harmony's activities, see *Item 4. Information on the Company Business Harmony's Mining Operations and Geographical and Segment Information* in the notes to the consolidated financial statements included in this annual report.

Our exploration program has two components: on-mine exploration which looks for resources within the economic radius of existing mines, and new mine exploration, which is the global search for promising early to advanced stage projects.

Mining is a highly regulated industry, and we operate under a variety of statutes and regulations. To learn more about these statutes and regulations, see *Item 4. Information on the Company Regulation and Item 10. Additional Information Memorandum and Articles of Association.*

South African Operations

In South Africa, Harmony operates a total of 24 shafts, 1 project shaft, 1 open cast mine, and 9 processing plants which are located in all of the currently known goldfields in the Witwatersrand basin of South Africa as well as the Green Stone belt. The deep level gold mines located in this basin include those in the Free State province, the Evander gold mine in Mpumalanga province, the Randfontein and Elandsdraal mines in the West Rand goldfields in Gauteng province, the Orkney and Kalgold operations in the North West province.

Ore from the shafts and surface material are treated at nine metallurgical plants in South Africa (four in the Free State, one in Carltonville, two in Evander, one in Randfontein and one near Mafikeng). There are three plants on care and maintenance which can be restarted if the need arises (Cooke plant, Joel plant and St Helena plant).

We manage and evaluate our operations on a shaft-by-shaft basis. The South African underground operations are treated as three separate reporting entities for management and reporting purposes. We have found this system to be very effective as, among other things, it allows for different management styles and capital allocations.

These three entities are:

the *Quality Assets*, which typically have a larger reserve base and hence a longer life. These form the core of our operations;

the *Leveraged Assets* are those that provide significant upside in the event of a rising gold price (as has been evident in the latter part of fiscal 2006); and

the *Growth Assets*, which comprise the expansion projects/new mines currently being constructed in South Africa.

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In addition, there are a number of surface operations.

Our South African operations are categorized as follows:

Quality Assets	Leveraged Assets	Growth Assets	Surface Operations
Target	Bambanani	Elandsrand mine and project	Kalgold
Tshepong	Joel	Doornkop mine and project	Freegold
Masimong shaft complex	West Shaft	Phakisa project	Free State
Evander 2, 3 & 5	St. Helena		Randfontein
Evander 7	Harmony 2		Target
Evander 8	Merriespruit 1		
Cooke 1	Merriespruit 3		
Cooke 2	Unisel		
Cooke 3	Brand 3		
	Orkney 2		
	Orkney 4		
	Orkney 7		

Australasian Operations

Harmony's interests in Australasia consist of two operating centers, consisting of both underground and open pit mines located at Mt. Magnet (acquired in the Hill 50 transaction) and South Kalgoorlie (including Jubilee, acquired in the New Hampton transaction, and New Celebration, acquired in the Hill 50 acquisition), in Western Australia, as well as development and exploration prospects at Hidden Valley and Wafi in Papua New Guinea. Underground and surface mining is conducted at each of our Australian operations, with underground access through two declines at Mt. Magnet and one decline at South Kalgoorlie and surface access principally through open pits.

Ore from the shafts and surface material are treated at two metallurgical plants in Australia (one at Mt. Magnet and one at South Kalgoorlie). The underground operations of Big Bell (acquired in the New Hampton transaction) were closed in fiscal 2004 and are in the process of being rehabilitated.

Principal Investments

We have concluded several other strategic transactions within and outside South Africa since fiscal 2003. Those transactions are summarized below.

On July 15, 2003, Harmony acquired 77,540,830 ordinary shares in Avgold Limited, or 11.5% of Avgold's outstanding share capital from Anglo South Africa (Pty) Limited, or Anglo SA, for a consideration of \$84.5 million by the issuance of 6,960,964 new Harmony ordinary shares issued to Anglo SA. The agreement with Anglo SA provided that should Harmony make an offer to acquire the other Avgold shareholders' interest, the consideration payable to Anglo SA would be adjusted to reflect the amounts paid to the other Avgold shareholders. Harmony acquired the remaining stake in Avgold in April/May 2004.

On September 22, 2003, Harmony and ARMgold consummated a merger. Pursuant to the merger agreement, following the respective company shareholder approvals, Harmony issued 2 ordinary shares for every 3 ARMgold ordinary shares acquired. ARMgold also paid its shareholders a special dividend of R6.00 per ordinary share (\$0.84) prior to the consummation of the merger. Harmony issued 63,670,000 ordinary shares to ARMgold's shareholders which resulted in ARMgold becoming a wholly-owned subsidiary of Harmony. For U.S. GAAP purposes, the merger was accounted for as a purchase by Harmony of ARMgold for a purchase consideration of approximately \$697 million. The results of ARMgold have been included in those of Harmony from October 1, 2003.

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Following the Harmony merger with ARMgold, on November 13, 2003, Harmony announced that it reached an agreement in principle with ARM and African Rainbow Minerals & Exploration Investments (Pty) Ltd, or ARMI, whereby it would enter into a number of transactions which would restructure ARM. The first transaction involved Harmony acquiring ARM's 286,305,263 ordinary shares in Avgold, or 42.2% of Avgold's outstanding share capital, in exchange for 28,630,526 new Harmony ordinary shares to be issued to ARM. The acquisition of ARM's interest in Avgold became unconditional in April 2004, when Harmony was required to make a mandatory offer to the Avgold minority shareholders on the same terms as which it acquired ARM's interest in Avgold. At that time, Harmony and ARM had cross shareholdings in each other whereby Harmony owned a 19% interest in ARM, and ARM owned a 19.84% interest in Harmony. In fiscal 2005, we sold our investment in ARM to a trust. See *Item 7. Major Shareholders and Related Party Transactions* and the consolidated financial statements for a discussion on the treatment of the transaction.

During fiscal 2004, Harmony's interest in Free Gold increased from 50% to 100% as a result of the merger with ARMgold on September 22, 2003. Therefore Harmony equity accounted for its interest in Free Gold for the first three months of fiscal 2004, whereafter Harmony consolidated its interest. Because Harmony equity accounted for its 50% interest in Free Gold, revenues from Free Gold were not included in Harmony's revenue figures for fiscal 2003.

In fiscal 2004, Harmony and ARMgold completed a joint acquisition of a 34.5% stake in Anglovaal Mining Limited, previously known as Avmin and renamed African Rainbow Minerals Limited, or ARM Limited, after the Avgold transaction with Harmony was concluded. Based on a value of R43.50 per share, the transaction was valued at Rand 1.687 billion (\$270.9 million) and was paid for in cash, which was funded by a long term loan from Nedcor Bank which has since been repaid. ARM Limited is a South African incorporated mining holding company with interests in platinum group metals, manganese, chrome, nickel and gold mining operations and various exploration projects.

In fiscal 2004, Harmony acquired all the ordinary shares, listed and unlisted options of Abelle that it did not already own and at June 30, 2004 Abelle became a wholly-owned subsidiary of Harmony.

On April 15, 2004, ARM shareholders approved the disposal of their entire shareholding of 286,305,263 ordinary shares in Avgold Limited to Harmony. By way of share exchange, ARM received 1 Harmony share for every 10 Avgold shares held. On May 11, 2004, Harmony announced that its mandatory offer to Avgold minority shareholders was successful and that a total of 62,204,893 Harmony shares were issued to acquire the entire shareholding in Avgold. Avgold owns the Target mine in the Free State. Harmony also disposed of its Kalplats platinum project and associated mineral rights to ARM in exchange for 2 million new ARM ordinary shares issued to Harmony. All of the above described transactions were consummated during May 2004, which resulted in Avgold becoming a wholly-owned subsidiary of Harmony.

On April 28, 2004, we entered into an agreement with Network Healthcare Holdings (Netcare) for the purpose of managing the provision of healthcare services of the Harmony Group. The agreement between Harmony and Netcare forms the first part of a deal that is expected to eventually see the complete outsourcing of the management of Harmony's healthcare activities.

On May 21, 2004, we raised R1.7 billion (US\$252.0 million) by way of an issue of convertible bonds to international investors, which reduced our South African interest payments by approximately R85 million (US\$12.4 million) per year. In addition to these cost benefits, it also allowed us to consolidate our short term debt. The convertible bonds are Rand denominated and interest is payable semi-annually in arrears at a rate of 4.875% per annum. The convertible bonds may be converted into ordinary shares at a price, including premium of R121.00 per share, from July 1, 2004, until the seventh day prior to the maturity date, which is expected to be on May 15, 2009.

On October 18, 2004, Harmony announced the terms of a proposed merger between Harmony and Gold Fields Limited offering 1.275 newly issued Harmony shares for each Gold Fields Limited share. The proposed merger was structured on the basis of an Initial Offer and a Subsequent Offer. As at December 1, 2004, Harmony had received valid acceptances of the Initial Offer in respect of a total of 57,993,991 shares representing approximately 11.5% of the entire issued share capital of Gold Fields Limited. Between November 30, 2004 and December 14, 2004 Harmony issued 72,173,265 offer shares as consideration for the Initial Offer. On May 20, 2005, the Witwatersrand Local Division of the High Court of South Africa ruled that Harmony's Subsequent Offer for Gold Fields had lapsed at

midnight on December 18, 2004. Accordingly, the Subsequent Offer was no longer in force and no Gold Fields shares tendered into the Subsequent Offer were accepted. Harmony has since disposed of its Gold Fields investment. See Disposals below.

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On March 9, 2006, Harmony announced that it had acquired a total of 44.9 million shares in Western Areas Limited (Western Areas) for R2 billion (US\$321 million), representing a 29.2% stake. This was done by acquiring 37.37 million shares from Allan Gray and buying a total of 7.62 million shares on the open market. To finance this acquisition, Harmony entered into a term loan facility of R1.0 billion (US\$280.8 million) with Rand Merchant Bank, for the purpose of partially funding the acquisition of the 29.2% stake in Western Areas. Interest is compounded at a rate equal to three-month JIBAR plus 1.5%. The loan amount is payable on March 13, 2007 and interest, which is compounded monthly and payable quarterly from June 13, 2006. See Item 7. *Related Party Transactions*.

On June 21, 2006 Harmony announced that it had acquired 37.8% of the issued share capital of Village Main Reef Gold Mining Company Limited (Village) for an amount of R458,775 (US\$0.1 million). The equity stake was purchased from ARM at a price of 20 cents per share. Due to the fact that the acquisition surpasses the 35% mark, Harmony was obliged under the securities Regulation Code on Takeovers and Mergers to extend an offer to the remaining shareholders of Village to acquire all of their shares at the same price at which it acquired the 37.8% stake. On August 14, 2006 Harmony announced that minority shareholders holding 3,163 shares in Village (being 0.08% of the shares in respect of which the offer was made) had accepted its offer. Harmony now holds 2,295,663 shares representing 37.83% of the issued share capital of Village. See Item 7. *Related Party Transactions*.

Disposals

In fiscal 2004 Harmony disposed of its interests in Highland Gold, a company that held gold mining assets and mineral rights in Russia, and in High River, a company that held gold mining assets in Russia, Canada and West Africa that it had acquired in the previous year, which resulted in a combined pre-tax gain of approximately R528.2 million (\$76.8 million).

On February 3, 2005, Harmony undertook a secondary placing of 3,703,704 shares of its holding in ARM Limited at a price of R27.00 per share. On March 15, 2005, Harmony placed another 3,418,803 of its ARM Limited shares at a price of R29.25 per share. On April 21, 2005, Harmony disposed of its 14% investment in ARM to The ARM Broad-Based Empowerment Trust (the ARM Empowerment Trust) for a cash consideration of R829,827,460 representing a price of R29.00 per ARM share. The ARM Empowerment Trust has been established for the purpose of holding the ARM shares to further facilitate broad-based empowerment in ARM's shareholder base. ARM is Harmony's second largest shareholder and Broad-based Black Economic Empowerment (BEE) partner holding 16.2% of Harmony. For U.S. GAAP purposes, Harmony did not recognize the disposal of its investment in ARM to the ARM Empowerment Trust as a sale. See Item 7. *Major Shareholders and Related Party Transactions* and the consolidated financial statements for a discussion on the treatment of this transaction.

On June 3, 2005, the company disposed of 30 million shares in Gold Fields Limited for R2 billion (US\$297.6 million). The investment was acquired at a cost of R2.4 billion (US\$357.8 million), resulting in a loss of R372 million (US\$60.4 million).

On November 16, 2005, the company disposed of its remaining investment in Gold Fields Limited for R2.4 billion (US\$361.8 million). The process was concluded through market disposals which began on November 10, 2005 and an open market offering on November 15 and 16, 2005. The investment was acquired at a cost of R2.1 billion (US\$316.4 million), resulting in a profit of R307 million (US\$45.4 million).

On December 29, 2005, Harmony disposed of its investment in San Gold Corporation for R19 million (US\$3.1 million). The investment was carried at a total cost of R20 million (US\$3.2 million), resulting in a loss of R1 million (US\$0.1 million).

On January 18, 2006, Harmony disposed of its investment in Atlas Gold Limited for R1 million (A\$0.2 million). The investment of 500,000 shares was carried at a total cost of A\$0.1 million, resulting in a profit of A\$0.1 million.

On March 31, 2006, the company disposed of the entire share capital of Buffalo Creek Mines (Pty) Ltd for R106 million (A\$24 million). According to the agreement the A\$24 million was to be settled as follows: (i) A\$4.3 million to be paid in cash; (ii) 1,907,892 shares in GBS Gold International, valued at A\$5 million; (iii) A\$5 million to be paid in cash in September 2006; (iv) Shares in GBS Gold International, equal in value to A\$4.4 million, to be issued in September 2006; and (v) A\$5.4 million to be paid in cash in September 2007. The net asset value of Buffalo Creek Mines (Pty) Ltd was R92 million (A\$20.1 million) (US\$14.2 million), resulting in a profit of R14 million (A\$3.1 million) (US\$3 million).

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Harmony is an independent growth oriented company in the gold production business and is distinguished by focused operational and management philosophies that it employs throughout the organization. Harmony's growth strategy is focused on building a leading international gold mining company through acquisitions, development of organic growth projects and focused exploration. Harmony is currently expanding its production base in South Africa and Australasia, building on Harmony's position as a leading cost-effective South African gold company in order to enhance its position as one of the world's senior gold producers. Harmony made a strategic decision during the year to expand its exploration activities. As part of this, regional offices have been set up in Johannesburg, South Africa, Perth and Brisbane, Australia and Wau, Papua New Guinea. Harmony's exploration programme has two components: on-mine exploration which looks for resources within the economic radius of existing mines; and new mine exploration, which is the global search for promising early to advanced stage projects.

The international and South African gold mining industries have been in the recent past and continue to be affected by structural and investment trends moving toward the consolidation of relatively smaller operations into larger, more efficient gold producers with lower, more competitive cost structures. This consolidation enables gold producers to be more competitive in pursuing new business opportunities and creates the critical mass (measured by market capitalization) necessary to attract the attention of international gold investment institutions. Harmony's current strategy is predominantly influenced by these investment trends, which have already resulted in significant restructuring and rationalization in the South African, Australian and North American gold mining industries. Harmony believes these trends will continue to lead to significant realignments in the international gold production business. Harmony intends to continue to participate in the South African and international consolidation process in order to enhance its growth objectives.

Since undergoing a change in management in 1995, Harmony has employed a successful strategy of growth through a series of acquisitions and through the evolution and implementation of a simple set of management systems and philosophies, which Harmony refers to as the Harmony Way, and which Harmony believes are unique in the South African gold mining industry. A significant component of the success of Harmony's strategy to date has been its ability to acquire under-performing mining assets, mainly in South Africa, and in a relatively short time frame to transform these mines into cost-effective production units. The execution of Harmony's strategy between fiscal 1995 and fiscal 2006 has resulted in the growth of Harmony's annual gold sales from approximately 650,000 ounces in fiscal 1995 to approximately 2.4 million ounces in fiscal 2006. Despite increased cash operating costs, Harmony has expanded its proven and probable ore reserve base and, as at June 30, 2006, Harmony's mining operations reported total proven and probable reserves of approximately 56 million ounces.

Harmony is managed according to the philosophy that its shareholders have invested in Harmony in order to own a highly geared growth stock, which can give shareholders significant gearing when the gold price rises. In addition, Harmony has consistently maintained a policy of not hedging. Harmony's policy is to eliminate any hedging positions existing within the companies that it acquires as soon as opportunities can be created to do so in sound, commercially advantageous transactions. There may, however, be instances where certain hedge positions in acquired companies need to be kept in place for contractual or other reasons.

The major components of Harmony's strategy include:

Continuing to implement Harmony's unique management structure and philosophy.

Harmony implements a simple set of management systems and philosophies, which Harmony refers to as the Harmony Way, and which it believes are unique to the South African gold mining industry. This Harmony Way is underpinned by the following concepts:

Empowered management teams. At each mining site Harmony has established small, multi-disciplinary, focused management teams responsible for planning and implementing the mining operations at the site. Each of these teams is accountable for the results at its particular site and reports directly to Harmony's Board.

Active strategic management by the Board. Annual operational goals and targets, including cost, volume and grade targets are established in consultation with Harmony's executive committee for each mining site. Each

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management team develops an operational plan to implement the goals and targets for its mine site. Members of Harmony's executive committee reviews and measures the results at each mining site on a regular basis throughout the year.

Increased productivity. Gold mining in South Africa is very labor intensive with labor accounting for approximately 50% of Harmony's costs. To control these costs, Harmony structures its operations to achieve maximum productivity with the goal of having 60% of Harmony's workforce directly engaged in stoping, or underground excavation, and development rock breaking activities. In addition, Harmony has implemented productivity-based bonuses designed to maximize productivity.

A no-frills, low cost ethic. Harmony has an obsession about lowering its cost base and, to this end, Harmony extensively benchmarks its costing parameters both internally between operations within Harmony and externally against other gold producers.

Ongoing maintenance. The company applies a principle of appropriate maintenance which allows it to spend capital commensurate with the life of a specified operation. This principle ensures safe operation on the one hand and minimizes capital that may be used ineffectively on mines that have a limited life.

Systems. Harmony has implemented cost accounting systems and strict ore accounting and ore reserve management systems to measure and track costs and ore reserve depletion accurately, so as to enable it to be proactive in its decision making.

Harmony has implemented the Harmony Way at its original mining operations and at each mining property Harmony has acquired since 1995, and has also implemented the Harmony Way at the Australian operations. By implementing this process, Harmony generally has been able to reduce unit costs substantially allowing them to move resources into the reserve category. This in turn allowed the company to increase production and extend mine life.

Growing through acquisitions in South Africa and internationally

Harmony's acquisition strategy in South Africa has been, and will continue to be, pursuing mature, underperforming gold mining operations in which it believes it can successfully introduce the Harmony Way to increase productivity, reduce costs and extend mine life. The advantage to acquiring mature, underperforming operations is that they tend to be cheaper to acquire and, particularly for underground operations, much of the required capital expenditure has already been made. Harmony's corporate strategy with respect to acquisition targets is as follows:

to make acquisitions in addition to pursuing greenfield and brownfield developments when it is economical to do so;

to acquire mature assets with turnaround potential;

to utilize the synergy that exists within the various regions that the company mines in order to reduce overhead costs;

to acquire assets that fit Harmony's management model; and

to acquire assets that enhance Harmony's overall resource base.

In South Africa, Harmony continues to explore a number of potential acquisitions. The South African gold mining industry has undergone a significant restructuring since 1990 with the result that a number of gold mining companies owned principally by mining houses have been sold to other gold operators. Harmony believes that this restructuring process has not yet been completed and that there will continue to be opportunities for further acquisitions in South Africa.

Outside of South Africa, Harmony intends to leverage the broad gold mining experience it has gained through acquisitions and existing operations. Through Harmony's existing operations, Harmony has gained extensive underground mining experience. Harmony has also gained extensive experience in surface mining by open cast methods and mechanized mining of underground deposits through its acquisition of Kalgold and Randfontein, South Africa and New Hampton and Hill 50 in Australia and Bissett, in Canada (which has since been sold). These types of mining in general are

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more typical outside of South Africa. Harmony believes that these skills should position it to be able to pursue a broad range of acquisition opportunities. Harmony continues to explore new business opportunities both inside and outside of South Africa, for example, including exploration projects gained through its acquisition of Abelle. Harmony may in the future pursue additional suitable potential acquisitions in South Africa or internationally.

Hedge Policy

As a general rule, we sell our gold production at market prices. Currently, we generally do not enter into forward sales, derivatives or hedging arrangements to establish a price in advance for the sale of our future gold production, although we may do so in the future. As a result of this policy, Board approval is required when hedging arrangements are to be entered into to secure loan facilities. Any change to this policy requires ratification by the Board.

Harmony inherited currency contracts with the acquisition of Avgold in May 2004. These currency contracts matured on December 31, 2005 and were closed out accordingly. The contracts were classified as speculative and the mark-to-market movement was reflected in the income statement. The forward exchange contracts matured on a monthly basis, resulting in cash inflow or outflow, equal to the difference between the strike price of the contracts and the spot price on the particular day. This hedge book was managed by a risk and treasury management services company, which is a joint venture between a major South African bank and a black economic empowerment company.

A substantial proportion of the production of both New Hampton and Hill 50 was already hedged when acquired by Harmony. In fiscal 2003, Harmony restructured the overall hedge portfolio of the Australian operations from normal purchase and sale agreements to speculative contracts and closed out a significant portion of the inherited hedge book resulting in the remaining hedge agreements not qualifying for hedge accounting treatment. The mark-to-market movements in these contracts are reflected in the income statement.

During fiscal 2006, a further 138,000 ounces of the inherited hedge books of New Hampton and Hill 50 were closed out at a cost of Rand 213 million (US\$34 million). As of June 30, 2006, the resulting hedge portfolio covered 357,000 ounces over a four-year period at an average strike price of A\$518 per ounce (\$395 per ounce at an exchange rate of A\$0.762 per \$1.00). Harmony has reduced the remaining hedge positions of the Australian operations gradually by delivering gold pursuant to the relevant agreements as well as by closing out of these hedge agreements.

Harmony's revenues are sensitive to the ZAR/US\$ exchange rates as all the revenues are generated by gold sales, denominated in US\$. Harmony, generally, does not enter into forward sales, derivatives or other hedging arrangements to establish a ZAR/US\$ exchange rate in advance for the sale of its future gold production.

Harmony inherited currency contracts with the acquisition of Avgold. The contracts were classified as speculative and the mark-to-market movement was reflected in the income statement.

These currency contracts matured on 31 December 2005 and were closed out accordingly at a total cost of R131 million (US\$21 million). The mark-to-market of these contracts was Rnil at 30 June 2006. At 30 June 2005, the mark-to-market was a negative R108 million (negative US\$16 million), based upon an exchange rate of US\$1/R6.6670 and prevailing market interest rates at the time. Independent risk and treasury management experts provided these valuations.

Description of Mining Business**Exploration**

Our exploration program has two components:

on-mine exploration, which looks for resources within the economic radius of existing mines, and

new mine exploration, which is the global search for early to advanced stage projects.

Exploration activities are focused on the extension of existing orebodies and identification of new orebodies, both at existing sites and at undeveloped sites. Once a potential orebody has been discovered, exploration is extended and

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intensified in order to enable clearer definition of the orebody and the potential portions to be mined. Geological techniques are constantly refined to improve the economic viability of prospecting and mining activities.

We conduct exploration activities on our own or with joint venture partners. Our prospecting interests in South Africa measure approximately 100,000 hectares. The area has been reduced from 382,000 hectares, as regional exploration identified focused areas of mineralization, requiring more detailed investigation. Our Australian operations also control prospecting interests, as described below. In addition to ongoing mine site exploration, Harmony has a program of investment in regional exploration. The exploration strategy on these greenstone belts uses geological, geophysical and geochemical techniques to identify broad systems of anomalous gold and associated rock alteration within which gold deposits typically occur as clusters.

Harmony spent approximately \$16.8 million, excluding contributions from joint venture partners, on exploration in fiscal 2006 and the bulk of exploration expenditure was allocated to activities in Australia, Papua New Guinea, South Africa and Latin America with smaller expenditures in other parts of Africa. In fiscal 2007, Harmony intends to carry out exploration in Australia, Papua New Guinea, South Africa and other parts of Africa and Latin America. Exploration in Latin America has been discontinued as a result of a more focused approach to African exploration.

Australia

South Kal: The South Kal tenements lie between Kalgoorlie and Kambalda in the West Australian Eastern Goldfields. On-mine exploration success was achieved at South Kal with the discovery and definition of the 121,000 ounce Shirl resource, a sub-vertical lode hosted within a gabbro unit bonded by ultramafics and intersected by late porphyry intrusions. Approximately 50,000 ounces of ore is expected to be mined in fiscal year 2007 and hauled 35 kilometers along existing haulroads to the Jubilee Plant. We believe this find is significant, not only in terms of providing feed to the mill, but because it opens up exploration targets previously considered non-prospective. Shirl was found by drilling an aeromagnetic anomaly beneath barren surface geochemistry. Previous deposits had at least some surface signature to indicate an orebody underneath. Shirl has shown that orebodies exist in this area without a surface geochemical signature and exploration is targeting similar anomalies. Follow up work along strike and down dip is also under way. The few drill holes that have been drilled at depth have returned underground quality intersections including, 06BSDD005 16 meters at 4.9 g/t from 267 meters, 06BSDD006 21 meters at 8.5g/t Au from 241 meters, and SHDD03 2 meters at 16.8g/t Au from 334 meters. A drill program is under way to follow up on these intersections.

Exploration activities will also focus on larger base load targets along the main Boulder Lefroy Fault. The Boulder Lefroy fault hosts the Hampton Boulder Jubilee pit as well as Kalgoorlie's Super Pit to the north and Gold Field's St. Ives orebodies to the south. These exploration targets have, in part, been generated by the AMIRO Stress Transfer Modeling project undertaken in fiscal year 2006. The project involves the application of stress transfer modeling techniques developed for modern seismogenic earthquake prediction to certain types of ore deposits associated with major fault systems with the aim of predicting ore location.

A budget of A\$3 million has been approved for exploration of South Kal mines for fiscal 2007.

Mt. Magnet: Exploration activities at Mt. Magnet, Western Australia, were hampered by ground access for much of the year owing to delays in the processing of clearing permits and unseasonably wet periods. Nonetheless, success has been achieved at Blackman's Joint Venture (75% Harmony, 25% Troy Resources). Drilling of a geochemical anomaly has produced significant results that may lead to a medium-grade oxide resource. The mineralization is hosted in a mafic/ultramafic volcanic sequence. The best intersections to date include: 5 meters at 8.08g/t from 27 meters, 11 meters at 3.22g/t from 62 meters, 3 meters at 6.04g/t from 4 meters and 2 meters at 10.05g/t from 90 meters. Drilling is continuing.

Advanced geophysical techniques are being utilized at Mt. Magnet with success. A trial of 3D induced polarization has shown anomalism at depth underneath the Yellow Taxi pit. The survey is being increased to cover a broader area before drill targeting. The use of advance geophysics will be crucial to exploration in these mature belts and is being embraced by the exploration team at Mt. Magnet.

A budget of A\$4 million (US\$2.98 million) has been approved for exploration at Mt. Magnet for fiscal 2007.

Table of Contents**Papua New Guinea**

The mineral prospectivity of Papua New Guinea is considered among the highest in the world and we believe Harmony's land holding is one of the best in Papua New Guinea. A substantial portion of our exploration effort is focused here. Our tenements include the Wafi Golpu leases (960 square kilometers), the Morobe-Hidden Valley leases (1,226 square kilometers) and the Morobe Cost EL (2,069 square kilometers), giving a total of 4,255 square kilometers.

Exploration was intensified during the year and we now have a complement of 50 staff, including 14 geologists, dedicated to finding additional resources over and above those of Wafi Golpu and Hidden Valley.

A budget of R47 million (US\$6.46 million) has been approved for fiscal 2007 that includes an allowance for exploration in areas outside current leases.

Geologically, the project areas cover a tract of metamorphosed Lower Jurassic and Cretaceous sediments and obducted oceanic crust, which have been intruded by tertiary granodiorite, tonalite and porphyry units. Regionally, epithermal and porphyry related gold mineralization is well known within the Morobe district, with historical high-grade gold mines including Wall (upper ridges) and Edie Creek. In addition, more than 2 million ounces of alluvial gold have been won from placer deposits in the Bulolo River valley, and small-scale alluvial prospecting in the tributaries of the Bulolo River continues today.

Wafi Golpu: The Wafi Golpu gold-copper system represents an area of enormous potential for increasing the resource and reserve base. Already there are 9.3 million ounces of gold and 3.6 billion pounds of copper in the small area around Wafi hill. Near-project activities at Wafi Golpu have focused on providing additional oxide gold resources. The drilling program has begun and returned some spectacular intersections including WR209:21 meters at 10.06g/t gold from 295 meters.

Similar geology, geophysical trends and geochemical responses are seen throughout the remainder of the lease area and these are the targets of our regional work.

Bawaga Prospect: This area is prospective for epithermal gold and porphyry copper-gold, similar to that of the Wafi Golpu system. The structural setting with north-northwest trending transfers, magnetic anomalies that suggest porphyry intrusives, and the lack of previous exploration in the area, combine to rank this target as a priority area for follow-up work. First-pass stream sediment sampling is planned for the second quarter of fiscal year 2007 once access negotiations have been completed.

Kesiago and Biamena Prospects: Reprocessing of regional magnetics indicates Wafi has a clear association with a discrete magnetic high on a north-east trending transfer structure setting. The Kesiago prospect is located on the same transfer structure as that which lies 2 kilometers south-west of Wafi. Biamena lies on a similar structure 10 kilometers to the south. Both prospects show similarities in stream sediment and soil sampling as those of Wafi. These projects are at an early stage of exploration, with follow up stream and soil sampling and first phase drilling under way. They represent great potential to add Wafi-sized orebodies to the Harmony resource.

Heking: Heking is a Golpu look-alike electromagnetic (EM), just 700 meters south-west of the Golpu porphyry. The electromagnetic response indicates argillic alteration and/or the disseminated chalcopyrite associated with mineralization. Diamond drill testing, a priority of this target, began in July 2006.

Morobe Hidden Valley: The Morobe area hosts the 5.5 million ounces Hidden Valley and Hamata resources and is highly prospective for similar deposits and higher grade skarn deposits.

Moa Creek: During the year, drilling occurred at Moa Creek with good results. Four diamond drill holes were completed and the best intersections were 6 meters at 7.22g/t gold from 176 meters (MOD001), 4.2 meters at 6.64g/t gold from 38 meters (MOD002) and 3 meters at 19.45g/t gold from 47 meters (MOD004). Further trenching will be done to establish the full extent and orientation of the mineralization before more drilling is undertaken.

Kerimenge: The immediate focus this year will be on the Kerimenge deposit that lies 7 kilometers east of the Hamata processing plant site. This prospect displays a larger geochemical signature than Hidden Valley but has only a small

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amount of historical drilling. Previous work stored on paper has been compiled and captured digitally and has revealed a new target orientation that will be drill tested in the new financial year.

The Waurike prospect comprises part of the greater Kerimenge prospect. Here, high-grade trench results are broadly coincident with limestone contacts. There are only 10 drill holes in this area with mineralized limestone contacts mostly untested. Ore grade intercepts were obtained in the majority of holes and results include: 17 meters at 4.9g/t from 14 meters (QD44), 20 meters at 3.14g/t from surface (QD23), 34 meters at 2.5g/t from 2 meters (QD97), 50 meters at 2.0g/t from 56 meters (QD50), 44 meters at 2.2g/t from 36 meters (QD102) and 14 meters at 5.8 g/t from 52 meters (QD22B). Diamond drilling began at these prospects in August 2006.

As at Wafi Golpu, a drill contract has been established for continual drilling throughout the year. The rig will move from prospect to prospect as our priorities dictate.

Morobe Coast: The 2,068 kilometers squared Morobe Coast exploration license was granted in April 2006. The area lies to the south-east of the Morobe goldfield and presents exciting grassroots exploration potential. Previous work was limited but returned significant rock chip and stream sediment samples from the Lokaniu volcanics. A sample brought to the exploration department by a local villager had a grade of 175g/t. There are also copper, gold and lead mineral occurrences in gabbros towards the western side of the lease. A detailed aeromagnetic survey is proposed which will allow specific targeting for our first-pass site work.

The exploration team also has a watching brief over potential acquisitions or participation in other prospective regions throughout the country. This has been demonstrated most recently by the pegging of the Morobe Coast EL1403. Numerous confidentiality agreements have already been signed with neighboring parties in anticipation of synergies that may develop further operations. See Item 4. Information on the Company Business Papua New Guinea Operations.

South Africa:

Free State: Target North: The Target North resource is situated in the Central Rand Group of the Witwatersrand Sequence, with the bulk of the resource accommodated in the Turfontein Sub-group.

Broadly speaking, the structural regime is an asymmetrical syncline with a steep western limb (40° to 90°) and a shallower eastern limb (15° to 20°). The syncline plunges approximately 9° to 10° to the north. Three major sets of structures modify the overall synclinal nature of the deposit. These comprise northeast-southwest trending normal faults which generally have down throws to the south, north-south trending normal faults with down throws to the west and various sets of low angle fore and back thrusts evident on the west limb.

The major formations, which are of interest, are the Ventersdorp Contract Reef (VCR), the Uitkyk and Van den Heeversrust members, and the Kimberley Formation. The Welkom Formation may be of minor interest.

The VCR is recognized at the base of the Klipriviersberg Group. Recent work on the VCR has significantly improved the understanding of the setting and distribution of mineralization. It is currently believed that VCR is best developed where it directly overlies the Elsburg A (EA) reefs. Much work is still required to develop a robust geological model for this horizon. The EA and Dreyerskuil reefs of the Uitkyk and Van den Heeversrust members are believed to be fanglomerates and arenites, which are hosted in a wedge-shaped sequence of clastic sediments, restricted to the western margin of the syncline which has a limited down dip extension. A reassessment of these horizons has been compiled during the period under review.

Significant mineralization occurs in the Big Pebble Reefs (A Reefs), which straddle the base of the Earls Court Member and within the Aandenk Member. These reefs are thought to occur within a braided steam environment. In addition, the Maraisdal Reef (B Reef) is developed at the base of the Spes Bona Member overlying the Doornkop Quartzite. A reassessment of these horizons has been completed during the period under review.

The Basal Reef (previously referred to as the Sun Reef) occurs as a polymictic coarse pebble conglomerate with a kerogen facies developed in the extreme south of the Sun area. There are few intersections and this horizon is poorly understood. The bulk of this horizon occurs significantly deeper than the Kimberley Formation and is not considered to be

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of economic importance.

Prior to the period under review, the project team completed an extensive exercise to collate and validate data acquired over more than 20 years of surface drilling. During the period under review, a 3-D geological model was completed and the exploration model is being reinterpreted.

Since November 2004, major re-correlation and refinement of the Central Rand Group Stratigraphy (including Dreyerskuil, Eldorado and Kimberley successions) in over 90 surface boreholes and long deflections drilled within the project area have been completed. The entire borehole database has not been validated.

Seismic data, acquired during a 3-D seismic survey undertaken in 1997, has been reviewed and the interpretation completed. The original seismic interpretation only covered the southern third of the project area, and has now been interpreted to the northern limit of the project area. The seismic interpretation has been incorporated in the recently completed 3-D geological model. A comprehensive re-evaluation of the mineral resource was completed in June 2006 in conjunction with independent party SRK acting as consultants to undertake a full technical audit on the resource and geological model. In the third quarter of fiscal year 2006, Harmony approved capital to drill two additional surface drillholes in the Target North area. The drillholes are intended to validate recently developed theories about the geological model. The two drillholes will be targeting VCR, ER and Dreyerskuilreefs, at depths ranging from 2,100 meters and 2,800 meters.

Other Geological Projects: In order to extend the life of current operations and to take advantage of a resurgent gold price, a number of geological projects have been established on both the primary reef targets in the Free State, the Basal Reef and the Leader Reef, as well as the secondary targets, the Middle Reef, the B Reef and the A Reef. By evaluating these reefs on a regional basis, rather than within a specific lease area, and through understanding geological structures, new targets for exploration and future mining can be determined in previously untested areas. An initiative is ongoing to pool the vast amount of knowledge from the ore reserve managers and senior geologists, who have extensive experience of working in the Free State Goldfields.

Basal Reef: A number of projects have been initiated to increase the reserves/resources of the Basal Reef in the Free State. The exploration and development of the Basal Reef to the west and east of Masimong is part of that shaft expansion project. A project on Merriespruit 3 is aimed at locating isolated Basal Reef pockets beyond its subcrop on the Leader Reef while current drilling at Bamabanani is intended to determine the feasibility of mining the Basal Reef below the lowest level (103L).

Leader Reef: The Leader Reef occurs in narrow channels over much of the southern part of the Free State Goldfields. Projects are under way on Harmony 2 and West mines to re-evaluate old Leader Reef mining with a view to establishing new targets.

Middle Reef: This is a highly erratic orebody located between the Basal and Leader horizons. Its complex structure makes it very difficult to mine but, where developed, can produce very high grades. Unisel continued to mine Middle Reef with considerable success, and a channel is known to extend into the neighboring West and Bamabanani mines. Management at these shafts is currently considering exploitation of the reef. An initiative is under way to look at synergies between the three mines in order to extract the orebody optimally. Taking into account lateral shifts on the De Bron fault, payable Middle Reef was discovered at Merriespruit 1 Mine. Exploration continues to find the extension of the high-grade channels that are currently being exploited.

B Reef: Located 50 to 150 meters above the Basal Reef, the B Reef is a highly channelized orebody with grades confined to these narrow channels only. It is currently only mined at the Tshepong and Masimong mines, however, B Reef channels are known to occur elsewhere in selected areas across the Free State Goldfields.

A project was undertaken to determine the sedimentology of the B Reef at Loraine 2 (now part of Target Mine) where it has been mined since the 1960 s. A high-grade B Reef channel runs through the shaft pillar, as well as to the north-west and south-east of the shaft. A business case is currently being completed to assess the viability and options of extracting the shaft pillar and surrounding areas. The same high-grade channel has been located some 2.5 kilometers further north to the west of Loraine 1. Underground drilling is under way to determine the extent of this channel.

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A capital drilling program for B Reef has been completed at Tshepong, and the project will now move into the next phase. The extension of the B Reef channels to the east and west of Masimong 5 forms part of the Masimong expansion project. In addition, B Reef channels are currently being explored at St. Helena and Unisel, and at Merriespruit. A regional B Reef model is being put together to identify potential targets.

A Reef: The A Reef is located approximately 40 meters above the B Reef and is also highly channelized. It is currently being mined at Harmony 2 and at Brand 1 and 3. Exploration is ongoing to determine the extent of these channels outside of current mining areas. Harmony 2 undertook a capital drilling program in order to equip old Basal areas and drill 180 meters to the A Reef horizon. An investigation is under way to evaluate exploitation of the A Reef occurring between Harmony 2 and Virginia 1, where development took place on thick (3 meters plus) A Reef channels in the 1990s.

A Reef has been mined previously in the Loraine 1C area of Target Mine, and a re-investigation of the sedimentology commenced in 2006. The reopening and extraction of A Reef forms one option of the business case study currently being undertaken for Loraine.

Exploration continues for A Reef on Masimong 5 and Unisel; it may be possible to mine it at Tshepong and Phakisa.

Evander: The Evander 2 shaft-deepening project: The aim of the project is to explore the Kimberley Reef between 24 and 26 levels. Development of an incline shaft down to 26 level is planned in order to access the blocks of ground lying below current infrastructure. The crosstrend to the main payshoot has been projected into the target area.

Exploration is ongoing, Two drill platforms were developed (461 meters in total) and drilling has been carried out from these development ends (slushers). As at May 2006, 925 meters of drilling had been completed (of 2,380 meters planned) and seven reef intersections had been obtained. Gold grades ranged as follows: 131cmg/t, 625cmg/t and 2,101cmg/t in the 24E43 slusher, and 575cmg/t, 180cmg/t, 120cmg/t and 1,863cmg/t in the 24E45A slusher. Drilling indicates that the edge of the payshoot has been intersected, which is believed to trend parallel to the main Kinross payshoot. Drilling will continue in order to establish the extent of this payshoot. The additional planned 1,455 meters of drilling will conclude the exploration program.

Evander 7 target: The aim of this project is to locate the down-dip extension of the Evander 5 payshoot, which merged with another payshoot from Evander 6 shaft. The Evander 5 payshoot is intersected by the 250 meter Kinross fault, creating three target areas. Drilling and development are under way and have partially confirmed the existence of the first target area, T1. The first raise in the T1 western flank is due to start during fiscal year 2007. Currently, easterly drive development is taking place, which will allow drilling of the eastern flank of T1 within a few months. This development will also allow drilling of a portion of the second target area T2, once T1 drilling is complete.

Poplar: The Poplar project area is situated 30 kilometers north-west of the current mining operations at Evander No.8 Shaft. It is bounded in the east by the town of Leandra and in the west by the informal settlement of Eendrag. Poplar is inclusive of the Evander mining right of 36,898ha. The project area lies 120 kilometers east-south-east of Johannesburg.

The economic placer of the Poplar lease area is the Kimberley Reef. It occurs at a depth below surface of between 500 meters in the east and 1,200 meters in the west. The reef strikes north-south and dips from 14° to 24° to the east. The Kimberley Reef comprises a sequence of fluvial, channel sediments that were deposited in a braided stream environment. Deposition of the reef was influenced by the footwall lithologies. The area of economic mineralization is not continuous throughout the Poplar lease, but the most extensive zone of mineable reef is found in the southern part of the area. The high grade Kimberley Reef is associated with carbon and narrow, small-pebble, clast-supported and well-packed oligiomictic conglomerate.

The Poplar project will include greenfields development involving installation of a twin-shaft system to 1,200 meters below surface to exploit the above-mentioned Kimberley Reef payshoot. A definitive feasibility study was completed on this project in fiscal year 2003. This study was updated in 2006 using at present day costs and a gold price of R105,000/kg. Capital expenditure for this project is estimated at R2.6 billion (US\$362.9 million at the closing exchange rate).

The possibility that this orebody can be linked up to the south with the Evander South project is also being

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investigated. A linkage would result in an orebody stretching over 20 kilometers in strike length. This project still requires board approval.

Rolspruit: The Rolspruit project aims to exploit the deeper extension (to 2,670 meters below surface) of the Kimberley Reef (Kinross payshoot), adjacent to Evander 8 shaft, through a twin-shaft system from surface. A definitive feasibility study was completed in fiscal year 2003 and has been reviewed in 2006. An improved engineering design incorporating a twin surface shaft system, followed some years later by a sub-vertical shaft system, replaces the abovementioned single lift twin shaft system. Capital expenditure is therefore delayed, production start up is accelerated and a conventional engineering design is incorporated. Capital expenditure for this project is estimated at R3.06 billion (US\$427.1 million at the closing exchange rate). Further refinement to the improvement design will be completed in fiscal 2007.

Other Evander projects: The Central Projects team is currently re-assessing three other Evander projects: Evander South, Twistdraai and Evander 6 shaft re-opening. For each of these projects, the original data has to be validated: seismic lines need to be re-interpreted where present; and a 3-D geological model developed (a similar process to that which was undertaken at Target North). The aim is to produce a detailed understanding of the Evander Basin, taking into account current mining activities. This study will also take into consideration the Poplar and Rolspruit project areas.

Randfontein: At the Cooke section, exploration continues to focus on finding additional VCR targets at Cooke 3 shaft. Priority will be given to exploration for the extension of VCR payshoots eastward, up-dip of current mining activities. In addition, a portion of VCR between Cooke 2 and 3 shafts will become a drilling target. A further drilling project is under way to determine the extent of the Elsburg payshoot towards the west of the shaft, below current mining levels. During 2007, down-the-hole radar may be used to provide further geological information. Development and drilling of the 128 South project is ongoing. Drilling to date has confirmed expected grades and channel widths on the UE1A reef. Where possible, Kimberley reef (K4, K7 and K9) are also intersected and VCR intersections are planned in future. Further drilling will continue to add value to the construction of the structural and facies model for this area. The first stoping for this project is planned for early 2007.

Elandsrand: In addition to the shaft-deepening project, an investigation is being conducted into establishing the economic viability of mining the Elsburg Reefs occurring in the footwall of the VCR. All historical drilling and sampling data has been collated and high-grade intersections identified. Initial investigations have shown that the uranium-bearing reef bands also contain the highest gold grades.

These reef bands also occur further west and are considered as potential targets in the Elandsrand deepening project area. New geological drillhole data obtained over the Elsburg Reef bands are being correlated with known mineralization information for mined-out areas. This data will also be used to interpret expected sub-crop positions and trends, as early indication exists of localized enrichment of the sub-crop. If robust mineable reef bands can be identified deeper in the footwall, a detailed study will then be undertaken to determine the cut-off grades for the mining of these. Drilling continues.

Latin America: A strategic shift in the early part of the financial year saw Harmony Peru's grassroots exploration activity in southern Peru phased out. During the program Harmony geologists visited 305 desktop-generated targets. Although three concessions were pegged and follow-up work completed, none offered the potential that Harmony was looking for. The strategic shift saw the Peru personnel turn their focus to the whole of Latin America, specifically to expose the company to advanced-stage gold projects. Projects were reviewed in Mexico, Argentina, Brazil, Venezuela, Guyana, Peru, Ecuador and Honduras.

A comprehensive database was constructed and populated with the details of close to 1,000 gold exploration projects in Latin America. Advanced projects were extracted and reviewed in detail, and various projects visited. Opportunities were identified and negotiations initiated but under current market conditions, the majority of opportunities were acquisitive in nature or offered as equity stakes in the holding companies, rather than being presented as joint venture opportunities.

As a result of a more focused approach to African exploration, high risks associated with Latin American investments at present and less positive cost/benefit ratios of growth opportunities on a continent where Harmony owns no operations, a corporate decision was taken to close the Lima office. Processes related to closure of the

Harmony Peru regional office are under way.

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Other Parts of Africa: The focus of exploration in Africa outside of South Africa is to establish partnerships with existing project operators and governments in order to generate new gold exploration prospects that may be developed into operating mines in the future. During 2006 various projects were reviewed in East, West and Central Africa.

A joint venture agreement was signed with Axmin Inc. in May 2006, whereby Harmony will fund US\$4 million over three years to explore Axmin's exploration licences in Senegal, known as the Sounkounko permits. This expenditure will secure 50% ownership of the Senegal projects. The first commitment period, ending April 2007, will require Harmony to spend US\$800,000 on exploration activities intended to target highly prospective gold mineralized zones on the permit areas. Harmony will have earned 10% ownership of the project after the first commitment period. Subsequent work is intended to drill test targets in order to define resources.

Mining

The mining process can be divided into two main phases: (i) creating access to the orebody and (ii) mining the orebody. This basic process applies to both underground and surface operations.

Access to the orebody. In Harmony's South African underground mines, access to the orebody is by means of shafts sunk from the surface to the lowest economically and practically mineable level. Horizontal development at various intervals of a shaft (known as levels) extends access to the horizon of the reef to be mined. On-reef development then provides specific mining access. In Harmony's Australian underground mines access to the orebody is by means of declines. Horizontal development at various intervals of the decline extends access to the horizon of the ore to be mined. The declines are advanced on a continuous basis to keep ahead of the mining taking place on the levels above. In Harmony's open pit mines, access to the orebody is provided by overburden stripping, which removes the covering layers of topsoil or rock, through a combination of drilling, blasting, loading and hauling, as required.

Mining the orebody. The process of ore removal starts with drilling and blasting the accessible ore. The blasted faces are then cleaned and the ore is transferred to the transport system. In open pit mines, gold-bearing material may require drilling and blasting and is usually collected by bulldozers or shovels to transfer it onto trucks which transport it to the mill.

In Harmony's South African underground mines, once ore has been broken, train systems collect ore from the faces and transfer it to a series of ore passes that gravity feed the ore to hoisting levels at the bottom of the shaft. The ore is then hoisted to the surface in dedicated conveyances and transported either by conveyor belts directly or via surface railway systems or roads to the treatment plants. In addition to ore, waste rock broken to access reef horizons must similarly be hoisted and then placed on waste rock dumps. In the Australian underground mines and the Target underground mine once ore has been broken it is loaded onto trucks which transports it to the mill. In open pit mines, ore is transported to treatment facilities in large capacity vehicles.

Processing

We currently have nine operational metallurgical plants and three metallurgical plants on care and maintenance in South Africa and two in Australia that treat ore to extract the gold. The principal gold extraction processes we use are carbon in leach, or CIL and carbon in pulp, or CIP.

The gold plant circuit consists of the following:

Comminution. Comminution is the process of breaking up the ore to expose and liberate the gold and make it available for treatment. Conventionally, this process occurs in multi-stage crushing and milling circuits, which include the use of jaw and gyratory crushers and rod and tube and ball mills. Our more modern milling circuits include semi or fully autogenous milling where the ore itself is used as the grinding medium. Typically, ore must be ground to a minimum size before proceeding to the next stage of treatment.

Treatment. In most of our metallurgical plants, gold is extracted into a leach solution from the host ore by leaching in agitated tanks. Gold is then extracted onto activated carbon from the solution using the CIL or CIP processes.

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Gold in solution from the filter plants is recovered using zinc precipitation. Recovery of the gold from the loaded carbon takes place by elution and electro-winning. Cathode sludge or dore bars produced from electro-winning is now currently sent directly to Rand Refinery. Most of the South African plants no longer use smelting to produce rough gold bars (dore). Harmony's Australian plants and its South African zinc precipitation plants continue to smelt precipitate to produce rough gold bars. These bars are then transported to the Rand Refinery or in the case of the Australian plans, to an independent refinery, which is responsible for refining the bars to a minimum of good delivery status.

In fiscal 2006, we operated the only independent gold refinery and fabrication plant in South Africa. In fiscal 2006, approximately 84% (85% in fiscal 2005 and 83% in fiscal 2004) of Harmony's South African gold production was refined at Harmony's refinery and the remainder was refined at the Rand Refinery, which is owned by a consortium of the major gold producers in South Africa. The Australian gold production is refined in Australia at an independent refiner, AGR Matthey.

The Harmony Refinery has developed a number of product lines comprising of: branded gold bullion, comprising both large and small bars and granules. We are able to sell to markets such as India, the Middle East and East Asia among others; jewelry alloys, including plate, strip, grain and wire manufactured in 9ct – 18ct yellow, white and red gold for casting or bench work, fine silver granules and crystals, low-tarnish sterling silver, solders as paste or blocks in gold, silver and platinum, bangles, wedding rings and coin blanks, semi manufactured and custom made orders; industrial gold and silver, including silver anodes for the electroplating industry and 99.999% gold for high purity applications, gold fuse wire and connectors; dental alloys, including an extensive range of casted and bonding alloys, solders and wire meeting restoration requirements. All of our products comply with South African and international standards and where required, custom engineered products are available. In fiscal 2006, Harmony had refinery capacity of 100 tonnes per year. Harmony spent approximately R4 million (\$0.6 million) (compared to R6 million (\$0.9 million) in fiscal 2005) on capital expenditures at its refinery in fiscal 2006. Since July 2006, all of our gold produced in South Africa has been sent to Rand Refinery, as a decision was made to close the Harmony Refinery. See *Item 8. Financial Information – Recent Developments* for more information.

The South African government has emphasized that the production of value-added fabricated gold products, such as jewelry, is an important means for creating employment opportunities in South Africa and has made the promotion of these beneficiation activities a requirement of the Mining Charter described in *Item 4. Information on the Company Regulation-Mineral Rights*. Harmony's beneficiation initiatives have benefited from the expansion and improvement of Harmony's refinery. Harmony supports jewelry ventures in South Africa.

Services and Supplies

Mining activities require extensive services, located both on the surface and underground. These services include mining-related services such as mining engineering (optimizing mining layouts and safe mining practices), planning (developing short-term and long-term mining plans), ore reserve management (to achieve optimal orebody extraction), ventilation (sustaining operable mining conditions underground), provision of supplies and materials, and other logistical support. In addition, engineering services are required to ensure equipment operates effectively. Unlike many other South African gold producers, we generally provide only those services directly related to mining. In some cases, other services are provided by outside contractors. In Australia, contractors are hired to perform the open pit and underground mining. We provide medical services to employees at our Free State, Evander and Randfontein hospitals and have outsourced the function to another hospital in Orkney.

We commenced a Services Transformation Project (STP) in June 2005 which concentrates on re-aligning the services departments as well as our staffing and systems as a way to reduce cash operating costs. The STP has been set up to help us improve the services we provide to our mining operations. We believe there are opportunities in services to transform them into businesses in their own right. Our targets are to reduce costs as well as to improve client satisfaction. The STP plans to address this in a focused and sustainable way. We followed a three phase process of: (i) analyzing or diagnosing the current situation throughout our operations (phase one); (ii) redesigning the services where appropriate (phase two); and (iii) implementing the services, staffing and systems in a sustainable way (phase three). As a result of the STP R150 million (US\$23.5 million) was saved during fiscal 2006.

The Mining Charter described in *Item 4. Information on the Company Regulation – Mineral Rights* establishes a policy of preferred supplier status according to enterprises controlled by members of historically disadvantaged

groups

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when those enterprises are able to offer goods and services at competitive prices and quality levels. We believe that our procurement policy is consistent with this policy.

Harmony's Management Structure

As part of the Harmony Way, we structure our mining operations in a way that we consider to be unique in the South African gold mining industry. Our operational structure is based on small, empowered management teams at each production site.

After Peter Steenkamp was appointed as Chief Operating Officer Harmony's original approach to mining the Harmony Way was challenged and Peter re-introduced General Managers into the structure. Twelve general managers were appointed in January 2006, who take responsibility for the following operations:

Evander

Randfontein Cooke shafts

Elandsrand

Orkney Operations

Kalgold

Target

Tshepong

Masimong

Bambanani

Brand Shafts

Virginia Operations

Joel

The general managers are responsible for business optimization, ore reserve optimization, and for developing a business culture at the operations. They also focus on long-term viability and growth of the operations.

All South African operations report to Peter Steenkamp as Chief Operations Officer, with Bob Atkinson being responsible for the projects in Harmony.

Each of the General Managers are assisted by an Ore Reserve Manager, a Business Analyst and a Human Resources Leader.

- The role of the Ore Reserve Manager is to optimize the extraction of ore reserves, and they are also responsible for geology and ore reserve declarations.
- The role of the Business Analyst, is to ensure business optimization, cost reductions and financial discipline within the operations.
- The Human Resources Leader is responsible for employee mobilization and for creating a business culture within the operation.

The team assists the General Manager in ensuring the growth and long-term sustainability of the operations. Mining Managers, Engineers and Human Resource Managers report to the respective General Managers.

The traditional Mine Overseer is now termed the Legal Compliance Officer and has a varying number of Production Coaches appointed below him. In addition, the Legal Compliance Officer and the Production Coaches spend the entire eight-hour working shift underground with the mining teams, in contrast with the four hours Shift Bosses and Mine Overseers typically spent with the mining teams. This directs the Legal Compliance Officer and the Production Coaches' technical expertise to be available to the production crews on the face. It has been proven in Harmony that this methodology promotes a safe production environment for the production teams and enhances career development for previously disadvantaged individuals.

Capital Expenditures

Capital expenditures, including the non-cash portion, incurred for fiscal 2006 totaled approximately \$265.3 million,

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compared with \$ 236.3 million for fiscal 2005 and \$ 213.8 million for fiscal 2004. The focus of Harmony's capital expenditures in recent years has been underground development and plant improvement, upgrades and acquisitions, and management currently expects this focus to continue in fiscal 2007. The increase in capital expenditures in fiscal 2006 compared with fiscal 2005 resulted from the commencement of infrastructure establishment in Papua New Guinea and further investment in the Doornkop South Reef Project, Phakisa and Elandsrand mine. During 2006, the Company changed its accounting policy for the capitalization of mine development costs. This change was made retrospectively, and comparative numbers have been restated. See *Item 5: Operating and Financial Review and Prospects - Critical Accounting Policies and Estimates* for further information on the effects of this change on Harmony. The increase in capital expenditures in fiscal 2005 compared with fiscal 2004 resulted from the commencement of infrastructure establishment in Papua New Guinea and further investment in the Doornkop South Reef Project. Harmony has budgeted approximately \$385.3 million for capital expenditures in fiscal 2007. Details regarding the capital expenditures for each operation are found in the individual mine sections under *Business Harmony's Mining Operations*. We currently expect that our planned capital expenditures will be financed from operations and existing cash and investments on hand. However, if we decide to expand major projects such as the Poplar Project and the Rolspruit Project at Evander beyond our current plans, we may consider alternative financing sources described below. See *Item 4. Information on the Company - Business - Harmony's Mining Operations - Evander Operations*.

Description of Property

Harmony's operational mining areas in South Africa are set forth below:

	Hectares	Acres
Cooke	8,696	21,488
Lindum	3,143	7,766
Doornkop	2,941	7,267
Elandskraal	5,113	12,634
Freestate	22,583	55,802
Freegold	21,173	52,318
Kalgold	615	1,520
Evander	36,898	91,174
Target	7,952	19,649

Harmony's operational mining areas (granted tenements) in Australia comprise the combined Mt. Magnet - Big Bell area of 174,186 acres, the South Kalgoorlie area of 253,660 acres.

Harmony sold its holdings in the Northern Territories (the Burnside Joint Venture) that totalled 288,083 acres during fiscal 2006. We also own, control or share in additional mineral rights that have not been brought to production.

In Papua New Guinea (PNG), Harmony holds granted tenements covering the Hidden Valley and Wafi gold and gold-copper resources, in addition to extensive areas prospective for the exploration for these commodities. The total granted holdings in Papua New Guinea are 996,495 acres.

In line with the rest of the South African mining industry, we have been rationalizing our mineral rights holdings in recent years. Accordingly, over the past three years, we have disposed of our shares and our participation rights in areas in, as well as outside of, South Africa in which we have not actively pursued mining. However, in some cases we have retained certain participation rights and option clauses in disposed of properties and mining rights. We may continue to investigate further disposals.

The following page contains a map of our South African and worldwide operations and interests.

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WORLDWIDE OPERATIONS

Geology

The major portion of our South African gold production is derived from mines located in the Witwatersrand Basin in South Africa. The Witwatersrand Basin is an elongate structure that extends approximately 300 kilometers in a northeast-southwest direction and approximately 100 kilometers in a northwest-southeast direction. It is an Archean sedimentary basin containing a six-kilometers thick stratigraphic sequence consisting mainly of quartzites and shales with minor volcanic units.

Conglomerate layers occur in distinctive depositional cycles or packages within the upper, arenaceous portion of the sequence, known as the Central Rand Group. It is within these predominately conglomeratic units that the gold-bearing alluvial placer deposits, termed reefs, are located.

The differences in the morphology and gold distribution patterns within a single reef, and from one reef to the next, are a reflection of the different sedimentary processes at work at the time of placer deposition on erosional surfaces in fluvial and littoral environments.

Within the various goldfields of the Witwatersrand Basin there are major and minor fault systems, and some of the normal faults have displaced basin-dipping placers upwards in a progressive step-like manner, enabling mining to take place at accessible depths.

The majority of Harmony's South African gold production is derived from auriferous placer reefs situated at different stratigraphic positions and at varying depths below surface in three of the seven defined goldfields of the Witwatersrand Basin.

Harmony's production from the Australian operations and South African Kalgold operations are sourced from Archaean greenstone gold deposits. These types of deposits are formed by the interaction of gold-bearing hydrothermal fluids with chemically or rheologically suitable rock types. The hydrothermal fluids are typically focused along conduits termed shear zones. The nature of the shear zone and the host rock determines the style of the mineralization, which may be narrow veins with high gold grades or wide disseminated mineralization with low-medium grades. Frequently the two styles occur together.

At Harmony's Papua New Guinea operations, the sedimentary/volcaniclastic rocks of the Owen Stanley Formation that surround the Wafi Diatreme host the gold mineralization at the Wafi project. Gold mineralization occurs as extensive high-sulphidation epithermal alteration overprinting porphyry mineralization and epithermal style vein-hosted and replacement gold mineralization with associated wall-rock alteration. The Golpu Copper-Gold project is located about 1 kilometer northeast of the Wafi gold orebody. It is a porphyry (Diorite) copper-gold deposit. The host lithology is a diorite that exhibits

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a typical zoned porphyry copper alteration halo and the mineralized body can be described as a porphyry copper-gold pipe. Harmony's Hidden Valley project comprise low sulphidation carbonate-base metal-gold epithermal deposits within the Morobe Goldfield, in the Morobe Province of Papua New Guinea. In the Hidden Valley project area a batholith of Morobe Granodiorite (locally a coarse grained monzogranite) is flanked by fine metasediments of the Owen Stanley Metamorphics. Both are cut by dykes of Pliocene porphyry ranging from hornblende-biotite to feldspar-quartz porphyries. A number of commonly argillic altered and gold anomalous breccias are known, including both hydrothermal and overprinting structural breccias. The Hidden Valley deposit area is dominated by a series of post Miocene faults controlling the gold mineralization, including an early north trending set and the main northwest faulting.

Reserves

Depletion for fiscal 2006 accounted for approximately 2.4 million ounces while exploration and the addition of ounces from associate Western Areas have added 4.2 million ounces to the ore reserves. For the reporting of Ore Reserves at our South African and Australian operations Harmony uses a gold price of US\$500 per ounce. An exchange rate of R6.53 per US dollar is used for South Africa and for Australia an exchange rate of US\$0.74 per Australian dollar is used giving a gold price of R105,000/kilogram or A\$680/ounce, respectively. These gold prices have also been used in mine planning. At Papua New Guinea the Hidden Valley feasibility study was completed using a base case of US\$445/ounce (gold) and a silver price of US\$6.50/ounce and these prices have therefore been used in the declaration of Ore Reserves. Mine planning at Hidden Valley is being done at US\$500/ounce for gold and US\$7.50/ounce for silver.

The year-on-year comparison set forth below reconciles the ore reserves declaration of Harmony at June 30, 2005 to that at June 30, 2006.

Year-on-year reconciliation of Harmony's ore reserves

	Gold (million ounces)
Balance at June 30, 2005	54.1
Mined during fiscal 2006	(2.4)*
Added ounces from associate Western Areas	4.2**
Other adjustments	0.1
Balance at June 30, 2006	56.0

* Ounces based on mill delivered grades

** Based on the Western Areas Annual Report dated December 2005 taking account of depletion for the period January 2006 to end June 2006.

Of the company's 56.0 million ounces of ore reserves, 42.0 million ounces are classified as current reserves (above infrastructure), 9.8 million ounces are classified as below infrastructure, i.e. reserves for which the capital expenditure has yet to be approved, and 4.2 million ounces are reserves from associate Western Areas.

Harmony uses the South African code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves (the SAMREC Code), which sets out the internationally recognized procedures and standards for reporting of mineral resources and ore reserves. This code was developed by the South African Institute of Mining and Metallurgy and is the recommended guideline for reserve and resource reporting for companies listed on the JSE Limited. Harmony's Australian and Papua New Guinea ore reserves are compliant with the SAMREC code. Harmony uses the term ore reserves, in the Annual Report which has the same meaning as mineral reserves, as defined in the SAMREC code. In reporting of reserves, we have complied with Industry Guide 7 of the United States Securities and Exchange Commission.

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In order to define that portion of a measured and indicated mineral resource that can be converted to a proven and probable ore reserve, Harmony applies the concept of a cut-off grade. This is done by defining the optimal cut-off as the lowest grade at which an orebody can be mined such that the total profits, under a specified set of mining parameters, are maximized. The cut-off grade is determined using the company's Optimiser computer program which requires the following as input:

the database of measured and indicated resource blocks (per shaft section);

an assumed gold price which, for this ore reserve statement, was taken as R105,000 per kilogram;

planned production rates;

the mine recovery factor (MRF) which is equivalent to the mine call factor multiplied by the plant recovery factor; and

planned cash operating costs (Rand per tonne).

Rand per tonne cash operating costs of the mines are historically based, but take cognizance of distinct changes in the cost environment such as the future production profile, restructuring, right-sizing, and other cost reduction initiatives, and for below infrastructure ounces, an estimate of capital expenditure.

The ore reserves represent that portion of the measured and indicated resources above cut-off in the life-of-mine plan and have been estimated after consideration of the factors affecting extraction, including mining, metallurgical, economic, marketing, legal, environmental, social, and governmental factors. A range of disciplines which includes geology, survey, planning, mining engineering, rock engineering, metallurgy, financial management, human resources management, and environmental management have been involved at each mine in the life-of-mine planning process and the conversion of resources into reserves. The oreflow-related modifying factors used to convert the mineral resources to ore reserves through the life-of-mine planning process are stated for each individual shaft. For these factors, 18 month historical information is used, except if there is a valid reason to do otherwise. Because of depth and rock engineering requirements, some shafts design stope support pillars into their mining layouts which accounts for 7% to 10% discounting. Further discounting relates to the life-of-mine extraction to provide for unpay and geological losses.

Harmony's standard for narrow reef sampling with respect to both proven and probable reserve calculations for underground mining operations at Elandskraal, Free State, Evander, Randfontein, Free Gold, Orkney and Target is applied on a 6 meter by 6 meter grid. Average sample spacing on development ends is at 2 meter intervals in development areas. For the massive mining at the Target operations, the Harmony standard for sampling with respect to both proven and probable reserves are fan drilling with B sized diamond drill holes (43mm core) sited at 50 meter spaced sections along twin access drives. Harmony's standard for sampling with respect to both proven and probable reserves at its Australian underground operations include sampling development drives and crosscuts at intervals of up to 4 meters, drilling fans of diamond drill boreholes with a maximum spacing of 20 meters in any orientation within the ore bodies, and assaying core at 1 meter intervals. The Kalgold open cast operations are sampled on diamond drill and reverse circulation drill spacing of no more than 25 meters on average. Surface mining at South African operations other than Kalgold involves recovering gold from areas previously involved in mining and processing, such as metallurgical plants, waste rock dumps and tailings dams (slimes and sand) for which random sampling is used. Australian surface operations are sampled on diamond drill and reverse circulation drill spacing of no more than 20 meters on average.

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Our mining operations reported total proven and probable reserves as at June 30, 2006 are set out in the following table:

For the reporting of Ore Reserves at our South African and Australian operations Harmony uses a gold price of US\$500 per ounce. An exchange rate of R6.53 per US dollar is used for South Africa and for Australia an exchange rate of US\$0.74 per Australian dollar is used giving a gold price of R105,000/kilogram or A\$680/ounce, respectively.

Ore reserve statement (Imperial) as at June 30, 2006**Ore reserve statement Imperial**

Operations	Proven Reserves			Probable Reserves			Total Reserves		
	Tons (million)	Grade (oz/ton)	1 Gold oz (million)	Tons (million)	Grade (oz/ton)	1 Gold oz (million)	Tons (million)	Grade (oz/ton)	1 Gold oz (million)
S.A.									
Underground									
Elandskraal	5.16	0.242	1.25	27.28	0.217	5.91	32.44	0.221	7.16
Free State	12.61	0.153	1.93	14.37	0.140	2.01	26.98	0.146	3.94
Randfontein	4.73	0.210	0.99	7.21	0.175	1.26	11.94	0.189	2.25
Evander	5.57	0.210	1.17	17.54	0.199	3.48	23.11	0.201	4.65
Evander (below infrastructure)				41.80	0.236	9.87	41.80	0.236	9.87
Target	8.14	0.232	1.89	13.11	0.185	2.43	21.25	0.203	4.31
Free Gold	17.51	0.211	3.69	45.01	0.220	9.91	62.51	0.218	13.60
Orkney	4.29	0.196	0.84	3.13	0.146	0.46	7.42	0.175	1.30
Total S.A. Underground	58.01	0.203	11.76	169.45	0.209	35.33	227.46	0.207	47.09
S.A. Surface									
Randfontein	0.00		0.00	2.10	0.022	0.05	2.10	0.022	0.05
Kalgold	4.07	0.022	0.09	5.35	0.047	0.25	9.42	0.036	0.34
Free Gold	74.56	0.011	0.82	10.88	0.017	0.19	85.44	0.012	1.01
Total S.A. Surface	78.63	0.011	0.90	18.33	0.027	0.49	96.96	0.014	1.39
Australian Operations 2									
Mt. Magnet	1.77	0.068	0.12	1.76	0.107	0.19	3.54	0.087	0.31
South Kalgoorlie	0.85	0.053	0.05	3.56	0.062	0.22	4.41	0.060	0.27
Total Australian Operations	2.62	0.063	0.17	5.32	0.077	0.41	7.95	0.072	0.57
Papua New Guinea 3									
Hidden Valley	5.62	0.064	0.36	36.38	0.055	2.01	42.00	0.056	2.37
Kaveroi and Hamata				5.40	0.064	0.35	5.40	0.064	0.35
Total Papua New Guinea	5.62	0.064	0.36	41.78	0.056	2.35	47.40	0.057	2.71
Western Areas 4									

South Deep									
(29.2% Equity)	1.96	0.213	0.42	21.58	0.177	3.83	23.54	0.180	4.25
GRAND									
TOTAL	146.84	0.093	13.61	256.46	0.165	42.41	403.30	0.139	56.02

Gold oz figures are fully inclusive of all mining dilutions and gold losses, and are reported as mill delivered tons and head grades. Metallurgical recovery factors have not been applied to the reserve figures.

Includes reserves from underground and surface mining at each of the Australian operations.

Includes reserves from underground and surface mining at the operations.

Includes the Harmony 29.2% Equity ounces from Western Areas

Metallurgical recovery factors have not been applied to the reserve figures stated above. The approximate metallurgical recovery factors for the table above are as follows: (a) Elandskraal 95.6%; (b) Free State 95%; (c) Randfontein 96.5%; (d) Evander 96.7%; (e) Kalgold 82%; (f) the Free Gold assets 97%; (g) Orkney 93%; (h) Target 97.5%; (i) Big Bell 86%; (j) Northern Territory 94.7%; (k) Mt. Magnet 93%; (l) South Kalgoorlie 92%; (m) Papua New Guinea 92.9%.

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The amount of gold mineralization which Harmony can economically extract, and therefore can classify as reserves, is very sensitive to fluctuations in the price of gold. At gold prices different from the gold price of R105,000 per kilogram (\$500.00 per ounce) used to estimate Harmony's attributable reserves of 56.0 million ounces of gold as of June 30, 2006 listed above, Harmony's operations would have had significantly different reserves. Based on the same methodology and assumptions as were used to estimate Harmony's reserves as of June 30, 2006 listed above, but applying different gold prices that are 10% above and below the R105,000 per kilogram (\$500.00 per ounce) gold price used to estimate Harmony's attributable reserves, the attributable gold reserves for Harmony's operations would have been as follows:

R94,500/kilogram (1) 51.1 million	R105,000/kilogram 56.0 million	R115,500/kilogram 57.7 million
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- (1) Harmony calculated the 3 year average Rand gold price to be approximately R93,500/kilogram (\$448/ounce).

The London afternoon fixing price for gold on October 24, 2006 was R142,809 (\$583.60 per ounce).

Harmony's methodology for determining its reserves is subject to change and is based upon estimates and assumptions made by management regarding a number of factors as noted above under Reserves. Accordingly, the sensitivity analysis of Harmony's reserves provided above should not be relied upon as indicative of what the estimate of Harmony's reserves would actually be or have been at the gold prices indicated, or at any other gold price, nor should it be relied upon as a basis for estimating Harmony's ore reserves based on the current gold price or what Harmony's reserves will be at any time in the future. See Key Information Risk Factors Harmony's gold reserve figures are estimated based on a number of assumptions, including assumptions as to mining and recovery factors, future cash costs of production and the price of gold and may yield less gold under actual production conditions than currently estimated.

Harmony's Mining Operations Overview

In South Africa, we conduct underground mining at seven sites:

Elandskraal

the Free State

Randfontein

Evander

Free Gold

ARMgold and

Avgold

We conduct surface mining at five sites:

the Free State

Randfontein

Free Gold

Kalgold and

Target

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Surface mining conducted at the South African operations other than Kalgold involves recovering gold from areas previously involved in mining and processing, such as metallurgical plants, waste rock dumps and tailings dams (slimes and sand).

In Australia, we presently conduct mining principally at two sites, the Mt. Magnet operations (which were acquired in the Hill 50 transaction) and the South Kalgoorlie operations (which include the Jubilee operations acquired in the New Hampton transaction and the New Celebration operations acquired in the Hill 50 transaction). Underground and surface mining is conducted at each of the remaining operations, with underground access through two declines at Mt. Magnet and one decline at South Kalgoorlie and surface access principally through open pits. Underground operations at Big Bell ceased in July 2003 as mining there had become uneconomical due to low grade and the Big Bell plant was sold in December 2003. Surface mining will, however, continue in certain areas of the Big Bell tenements, with ore to be processed at the Mt. Magnet plant. Surface mining at South Kalgoorlie ceased in fiscal 2006 with treatment consisting of on Mt. Marion ore and lowgrade stockpiles. Open pit mining has recommenced at South Kal Mines during fiscal 2007.

The following discussion is a three-part presentation of our operations: (i) an overview of our South African and Australasian mining operations; (ii) a regional analysis presented for both underground and surface operations; and (iii) a production analysis at the individual shaft or mine level based on our mining operation categories (quality/leveraged/growth/surface) used by management.

South African Mining Operations – General***Elandskraal Operations***

Introduction. On January 31, 2001, Harmony entered into an agreement to purchase the assets and liabilities of the Elandskraal mines in the North West and Gauteng provinces of South Africa for approximately R1 billion (\$128.4 million). Harmony and AngloGold jointly managed the Elandskraal mines between February 1, 2001 and April 9, 2001 and Harmony completed the purchase on April 9, 2001. The assets and liabilities of the Elandskraal mines include the mineral rights and mining title (excluding a portion of the Carbon Leader Reef horizon, which AngloGold continues to mine), mining equipment, metallurgical facilities, underground and surface infrastructure necessary for the continuation of mining, ore treatment and gold extraction at Elandskraal as a going concern, and contributions to a rehabilitation trust fund equivalent to the current rehabilitation liability of this operation. The addition of Elandskraal to Harmony's operations increased Harmony's reserves by approximately 9.9 million ounces at that time. In fiscal 2006, Harmony's Elandskraal operations accounted for approximately 7% (7% in fiscal 2005) of Harmony's total gold sales.

History. Gold mining began at Elandskraal in 1978 following approval of the project in 1974 by Elandsrand Gold Mining Company for the Elandsrand operations and by Gold Fields of South Africa Ltd. for the Deelkraal operations. Two surface shafts and two adjoining sub-vertical shafts were sunk at Elandsrand and Deelkraal. The sub-vertical shafts at Elandsrand were completed in 1984, which accessed a deeper reef in the lease area. The sub shaft deepening project, or SSDP, the deepening of the sub-vertical shafts to approximately 3,600 meters below surface, has been completed. Activities are currently focused on accessing and opening up areas of the new mine and on the development and construction of support infrastructure. Harmony believes that the SSDP will enable Elandskraal to produce approximately 250,000 ounces per year over the life of the mines.

Geology. Elandskraal contains three identified main reef groupings, the Ventersdorp Contact Reef, or VCR, the Carbon Leader Reef, or CLR and the Mondeor Reef. Only the VCR is economic to mine and has been mined at depths below surface between 1,600 and 2,800 meters with future production to 3,300 meters below surface at the Elandsrand operations and at depths below surface of 2,750 meters at the Deelkraal operations. The VCR and CLR consist of narrow (20 centimeters to 2 meters) tabular orebodies of quartz pebble conglomerates hosting gold, with extreme lateral continuity.

At the Elandsrand operations, the vertical separation between the VCR and CLR increases east to west from 900 meters to 1,300 meters as a result of the relative angle of the VCR unconformity surface to the regional stratigraphic strike and dip. The CLR strikes west-southwest and dips to the south at 25 degrees. The VCR strikes east-northeast and has a regional dip of 21 degrees to the south-southeast. Local variations in dip are largely due to the terrace-and-slope palaeotopography surface developed during VCR deposition.

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The dip of the VCR at the Deelkraal operations is relatively consistent at 24 degrees, although there is some postulation of a slight flattening of dip at depth. The VCR has a limit of deposition running roughly north-south through the center of the lease area. The VCR is not developed to the west of this line. Some stoping has occurred to the west of this limit, but this was to exploit reefs from the Mondeor Conglomerates, stratigraphically underlying the VCR.

Mining Operations. The Elandskraal operations are divided into the Elandsrand and the Deelkraal mines. The Elandsrand mine engaged in both underground and waste rock mining. The Deelkraal mine engaged in underground mining but as a result of the lower gold price in rand terms (taking into account the stronger rand as against the US dollar) the production was stopped in June 2004 and remained closed during fiscal 2005 and 2006. Vamping and reclamation operations are ongoing at this time. The treatment of waste rock became uneconomical and was discontinued during January 2004. These operations are subject to all of the underground and waste rock mining risks detailed in the Risk Factors section.

Due to the operating depths of the Elandskraal underground operations, seismicity and pressure related problems are a risk. Harmony regularly revisits its mining strategy and management procedures at all of its deeper mining operations in connection with its efforts to mitigate this risk. The primary challenges facing the Elandskraal operations are the lowering of working costs, increasing mining flexibility, controlling capital expenditure and the timely completion of the SSDP.

Following our acquisition of Elandskraal, we implemented the *Harmony Way* at Elandskraal in an effort to cut costs and increase productivity, which resulted in the retrenchment of approximately 1,450 employees. This has improved the overall cost structure, which has enabled us to pursue capital development.

The Elandsrand mine, a mature mine with a declining production profile, has the challenge of a new mine being developed underneath the old mine. The nature of the different activities underway negatively impacted on the performance of the shaft during fiscal 2004. Due to scaling of the waste and reef orepasses, a program to rehabilitate the orepass system was put in place. This resulted in the temporary tipping of waste into the reef orepass system, which typically results in dilution in recovery grade and a distorted cash cost/ton profile. The problem was finally resolved in February 2004, and resulted in an improvement in recovery grade. A fire during the quarter ended September 30, 2003 resulted in the loss of three working shifts. Production was also affected by a blockage in the orepass during the quarter ended June 30, 2004. Seismic events during the quarters ending September 30, 2003 and June 30, 2004 resulted in three fatalities. Development was delayed as a result. Although this had an impact on the development for the period, it did not impact on the longer term production plan.

During August and September 2004, a major restructuring plan was implemented at Elandsrand. Along with the implementation of CONOPS between August 2004 and February 2005, production improved. Even so, it is still hampered by the lack of flexibility, an issue that will be addressed by the commissioning of the new mine. Capital development on two levels has been completed. Cash operating cost development is taking place in both easterly and westerly directions on these levels. Access development delays on two other levels resulted from slow progress of the access haulages through the Cobra Dyke. All the levels up to 113 Level are now through and developments rates have picked up substantially. Development and construction of support infrastructure has progressed well. Work on the chambers for the refrigeration plants on 100 Level and the pump chamber on 115 Level is proceeding. The project is expected to be completed by fiscal 2011 and is expected to have a life of mine of 18 years. From the inception of the project through the end of fiscal 2006, R570 million (US\$80.0 million calculated at the closing rate at balance sheet date) has been expended. A further R236 million (US\$33.0 million calculated at the closing rate at balance sheet date) has been budgeted to complete the project.

An agreement for the implementation of CONOPS at Deelkraal was reached with the respective unions on December 19, 2003. Due to delays, it was only fully operational by April 2004. Despite this, production at the Deelkraal mine was stopped in June 2004 as a result of the reduction in the Rand-denominated price of gold at that time which made mining at the shaft uneconomical. During fiscal 2005 and 2006 the Deelkraal mine was only operating as a service shaft.

During fiscal 2006, the safety record at the Elandskraal mine in terms of lost time frequency rate 26.5 per million hours worked compared unfavorably with the group average of 19.41. Significant work was done to address the

seismic event described above and the fatality frequency rate (0.55) returned to a more consistent ratio with the group average of 0.31 for underground operations. Safety standards from other Harmony operations are being applied at Elandskraal and receive constant and high-level attention. Where problems are identified, steps are being taken to address the situation.

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The Chief Operating Officer is responsible for leading initiatives to improve workplace health and safety at Harmony's South African operations. *See Item 6. Directors and Senior Management Board Practices.*

Plants. Commissioned in 1978, the Elandsrand Plant has milling in closed circuit with primary and secondary hydrocyclones, secondary ball milling in closed circuit with hydrocyclones, thickening and cyanide leaching in a CIP pump cell carousel circuit. The CIP was commissioned after an upgrade of the facility in 1999. Following post-acquisition capital improvements, loaded carbon milled at the Elandsrand Plant is transported by road to the Cooke Plant at Randfontein for elution, electro-winning and smelting to produce gold. Residues from the CIP are pumped either to a backfill plant or directly to the tailings facility. Ore from Elandsrand underground operations are delivered to the plant for treatment.

The following table sets forth processing capacity and average tons milled during fiscal 2006 for the plant:

Plant	Processing Capacity (tons/month)	Average Milled for the Fiscal Year June 30, 2006 (tons/month)
Elandsrand Plant	140,000*	73,739

* Processing capacity assumes optimal capacity upon completion of the Elandsrand New Mine Project.

In fiscal 2006, the Elandsrand Plant recovered approximately 91.12% of the gold contained in the ore delivered for processing.

Randfontein Operations

Introduction. The Randfontein gold mine is located in the Gauteng Province of South Africa, approximately thirty kilometers west of Johannesburg. The Randfontein mine currently operates under a mining authorization with a total area of 17,753 hectares. The Randfontein mine has both underground and surface mining operations, and has two metallurgical plants. Underground mining is conducted at Randfontein at depths ranging from 500 meters to 2,500 meters. In fiscal 2006, Harmony's Randfontein operations accounted for approximately 13% (11% in fiscal 2005) of Harmony's total gold sales.

History. Gold mining began at the Randfontein mine in 1889. Harmony obtained management control of Randfontein in January, 2000 and by June 30, 2000 had acquired 100% of Randfontein's outstanding ordinary share capital and 96.5% of the warrants to purchase ordinary shares of Randfontein. Since acquiring Randfontein, we have implemented the Harmony Way at Randfontein. We have reduced the number of senior managers, sold off non-core assets and implemented management teams.

See Item 8. Financial Information Recent Developments for further information on the disposal of the Randfontein number 4 shaft.

Geology. The Randfontein mine is situated in the West Rand Goldfield of the Witwatersrand Basin, the structure of which is dominated by the Witpoortjie and Panvlakte Horst blocks, which are superimposed over broad folding associated with the southeast plunging West 50 Rand Syncline. The structural geology in the north section of the Randfontein mine is dominated by a series of northeast trending dextral wrench faults.

The Randfontein mine contains six identified main reef groupings: the Black Reef; the Ventersdorp Contact Reef; the Elsburg Formations; the Kimberleys; the Livingstone Reefs; and the South Reef. Within these, several economic reef horizons have been mined at depths below surface between 600 and 1,260 meters.

The reefs comprise fine to coarse grained pyritic mineralization within well developed thick quartz pebble conglomerates or narrow single pebble lags, which in certain instances are replaced by narrow carbon seams.

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Mining Operations. The Randfontein operations are engaged in both underground and waste rock mining. These operations are subject to all of the underground and waste rock mining risks detailed in the Risk Factors section, and have historically also been subject to the open pit mining risks. Due to the shallow to moderate depths of the operations, seismicity and pressure related problems are infrequent. There is a risk of subterranean water and/or gas intersections in some areas of the mine. However, this risk is mitigated by active and continuous management and monitoring, which includes the drilling of boreholes in advance of faces. Where water and/or gas is indicated in the drilling, appropriate preventative action is taken.

The Doornkop South Reef Project was announced on January 22, 2003. The project involves the deepening of the Doornkop main shaft to 1,973 meters to the South Reef, which lies between 1,650 and 2,000 meters below surface, and then development towards these mining areas. It is estimated that the South Reef project has an in situ resource of 11.6 million ounces. For project purposes, it is estimated that 102,000 tons or 2.96 million ounces of gold will be recovered from the resource at a recovery grade of 0.186 ounces per ton. The estimated final capital cost is R1,103 million (US\$154.0 million), with R372 million (US\$51.9 million) spent as of June 30, 2006.

Currently, the Kimberley Reef is mined on the upper levels of the Doornkop Shaft between 900 and 1,100 meters below surface. Most of this mining is taking place on channel edges, which results in sporadic high, but mostly low recovered grades. The South Reef on the lower levels is the target of the proposed shaft-deepening project. A significant development during the year was the re-interpretation of the geological model. The resource is considered to lie flatter than previously thought and this gave rise to re-engineering opportunities. The shaft will be shortened as a result and there will also be a decrease in related in-circle development. The main shaft will therefore be deepened to 1,933 meters, as opposed to a depth of 2,034 meters in the original plan, while the spillage incline shaft will extend to 1,973 meters instead of 2,082 meters. The main shaft is to be commissioned by the end of the third quarter of fiscal 2007 calendar year and production of 135,000 ounces per annum is expected by October 2008.

Randfontein entered into an agreement with Africa Vanguard Resources (Doornkop) (Pty) Limited (Africa Vanguard) on January 21, 2003, pursuant to which Randfontein sold 26% of its mineral rights in respect of the Doornkop Mining Area to Africa Vanguard for a consideration of Rand 250 million (US\$34.9 million). The consideration comprised cash of Rand 140 million (US\$20.0 million) and Rand 110 million (US\$15.0 million) in call options on 290,000 ounces of gold, being equal to 16% of the gold produced at Doornkop during the first 10 years of operation. Randfontein and Africa Vanguard also entered into a joint venture agreement on the same day, pursuant to which they agreed to jointly conduct a mining operation in respect of the Doornkop Mining Area. The profits will be shared 84% to Randfontein and 16% to Africa Vanguard. The agreements were subject to the fulfillment of certain conditions precedent, the last of which was fulfilled on August 12, 2003. The agreements were implemented and the purchase price paid on August 15, 2003. For US GAAP purposes, Harmony does not account for this transaction as a sale, but consolidates the results of Africa Vanguard and the Doornkop Joint Venture, as both these entities have been determined to be variable interest entities with Harmony as the primary beneficiary of both variable interest entities.

Mining at the South Reef at Doornkop was temporarily suspended during the fourth calendar quarter of 2003 to allow for the upgrade of the ventilation with respect to increasing both hoisting capacity and ventilation intake. This caused the overall recovery on Doornkop to drop. This situation continued until mining commenced in January 2004.

The safety record at the Randfontein operations during fiscal 2006 in terms of lost time frequency rate of 14.59 per million hours worked compared favorably with the group average of 19.41. The fatality frequency rate (0.31) was the same as the group average of 0.31 for underground operations. Lost time frequency rate at the plants in operation was 0, which was lower than the group average of 3.5.

Safety at the operations receives constant and high-level attention and where problems are identified steps are taken to address the situation. The Chief Operating Officer is responsible for leading initiatives to improve workplace health and safety at Harmony's South African operations. *See Item 6. Directors, Senior Management and Employees Directors and Senior Management Board Practices.*

Plants. The processing facilities at the Randfontein mine presently comprise two operating plants: the Cooke metallurgical plant and the Doornkop metallurgical plant, both of which are serviced by a surface rail network. The Cooke metallurgical plant, commissioned in 1977, is a hybrid CIP/CIL plant, which processes the underground ore from the Randfontein operations. The Doornkop metallurgical plant, commissioned in 1985, is a conventional CIP

plant, which is

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used to treat waste rock and other surface accumulations.

The following table sets forth processing capacity and average tons milled during fiscal 2006 for the Cooke and Doornkop plants:

Plant	Processing Capacity (tons/month)	Average Milled for the Fiscal Year Ended June 30, 2006 (tons/month)
Cooke	280,000	208,000
Doornkop	220,000	181,000

In fiscal 2006, the Cooke plant recovery has been approximately 95.4%, while Doornkop plant recovered approximately 95.8% of the gold contained in the ore delivered for processing. During fiscal 2006, the Doornkop plant was upgraded and all underground tons were moved from Cooke plant to Doornkop plant, Cooke plant was mothballed in January 2006.

Free State Operations

Introduction. Harmony's Free State operations are comprised of the original Harmony mines, the Unisel mine, Saaiplaas shaft 3, the Masimong shaft complex (comprised of Masimong shafts 4 and 5), Brand shafts 2, 3 and 5, and the Vermeulenskraal North mineral rights area. Mining is conducted at Harmony's Free State operations at depths ranging from 500 meters to 2,500 meters. In fiscal 2006, Harmony's Free State operations accounted for approximately 18% (15% in fiscal 2005) of Harmony's total gold sales.

History. Harmony's Free State operations began with the Harmony mine, which is an amalgamation of the Harmony, Virginia and Merriespruit mines. Beginning in 1996, Harmony began purchasing neighboring mine shafts. The Unisel mine was purchased in September 1996, the Saaiplaas mine shafts 2 and 3 were purchased in April 1997, the Brand mine shafts 2, 3 and 5 were purchased in May 1998 and the Masimong complex (formerly known as Saaiplaas shafts 4 and 5) was purchased in September 1998.

Geology. Harmony's Free State operations are located in the Free State goldfield on the southwestern edge of the Witwatersrand Basin. Within this area, the operations are located on the southwestern and southeastern limb of a synclinal closure, with the Brand, Saaiplaas and Masimong shafts occupying northerly extensions of the same structure. The reefs dip inwardly from their sub-outcrop positions in the east and south of the mine to a position close to the western boundary of the original Harmony mine, where the reefs abut against the De Bron fault. To the west of the De Bron faulted zone, faulting is generally more intense, resulting in structurally more complex mining conditions.

Mining Operations. The Free State operations are engaged in both underground and waste rock mining. These operations are subject to all of the underground and waste rock mining risks detailed in the Risk Factors section. Due to the shallow to moderate depths of the underground operations, seismicity and pressure related problems are relatively infrequent with the exception of the Brand shafts where these problems receive constant attention. Harmony regularly revisits its mining strategy and management procedures in connection with its efforts to mitigate risks of these problems. There is a risk of subterranean water and/or gas intersections in some areas of the mine. However, this risk is mitigated by active and continuous management and monitoring, which includes the drilling of boreholes in advance of faces. Where water and/or gas is indicated in the drilling, appropriate preventative action is taken. The principal challenges at the Free State operations of achieving optimal volumes and grades of ore production are addressed by stringent ore reserve management.

In fiscal 2002, Harmony began implementing the Masimong Expansion Project, which includes developing the Basal and B-Reef orebodies in the Masimong shaft area and equipping the shaft. The estimated final cost is R191 million (US\$27.0 million calculated at the closing rate at balance sheet date), with R140 million (US\$20.0 million calculated at the closing rate at balance sheet date) spent as of June 30, 2006. The Project is expected to, at full production in 2010,

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achieve rates of 261,000 ounces per annum. During the year, the Project was incorporated into the shaft operations.

During fiscal 2005, Masimong was affected by three underground fires (one of which stopped production for seven days in the last quarter), machinery break-downs, a go-slow strike in January 2005 and a regional strike in March 2005. CONOPS was implemented in the third quarter of fiscal 2006.

During fiscal 2005, Masimong 4 was placed on care and maintenance.

The Virginia 2 shaft was closed at the end of 2001, and is currently used only as a service shaft. Harmony also closed the Harmony 4 shaft in the quarter ended September 30, 2002, following the partial extraction of the shaft pillar. Mining personnel from the Harmony 4 shaft were transferred to other shafts. The Harmony 3 shaft is currently used only as a service shaft for pumping, although some of its reserves are mined through the adjacent Harmony 2 shaft.

Under market conditions prevailing in the quarter ended June 30, 2002, Harmony also decided to commence extraction of the shaft pillar at Saaiplaas 3, which previously operated as a service shaft. The shaft was closed during fiscal 2005.

Harmony also decided to suspend production in the quarter ending March 31, 2002 and placed the Brand 2 shaft on care and maintenance. During the quarter ended September 30, 2003, Harmony decided to put the Brand 5 shaft on care and maintenance. Care and maintenance will remain in place until market conditions are more favorable or more economical parts of the orebody are discovered. All labor has been transferred to other Harmony operations, where they have augmented natural attrition positions or displaced contractor labor.

The safety record at the Free State operations during fiscal 2006 in terms of lost time frequency rate of 16.83 per million hours worked was lower than the group average of 19.41. The fatality frequency rate (0.17) compares favorably with the group average of 0.31 for underground operations. Lost time frequency rate at the plants in operation was 8.89, which compared unfavorably with the group average of 3.5. Merriespruit 3 achieved its 2,000,000 fatality free shifts on March 3, 2006.

Safety at the operations receives constant and high-level attention and where problems are identified steps are taken to address the situation. The Chief Operating Officer leads initiatives to improve workplace health and safety at Harmony's South African operations. *See Item 6. Directors, Senior Management and Employees Directors and Senior Management Board Practices.*

Plants. There are two metallurgical plants at the Free State operations, namely Central and Saaiplaas plants. A third plant, Virginia plant, was closed in fiscal 2005 and clean up operations implemented. The Central plant was commissioned in 1986 and employs CIP/CIL hybrid technology. It is currently dedicated to the treatment of underground ore. The Saaiplaas plant, commissioned in the late 1950's, has been converted from the zinc precipitation filter process to the CIL. It currently processes surface sources and reclaimed slime.

The following table sets forth processing capacity and average tons milled during fiscal 2006 for each of the plants:

Plant	Processing Capacity (tons/month)	Average Milled for the Fiscal Year Ended June 30, 2006 (tons/month)
Central	220,000	152,833
Saaiplaas	220,000	96,167

In fiscal 2006, Harmony's plants at its Free State operations recovered approximately 95.4% of the gold contained in the ore delivered for processing to Central plant and approximately 88.01% at the Saaiplaas plant. Harmony's refinery is also located at its Free State operations.

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Introduction. Harmony's Evander operations are located in the province of Mpumalanga in South Africa and are comprised of an amalgamation of the former Kinross, Bracken, Leslie and Winkelhaak mines and 36,898 hectares of mineral rights adjacent to these mines. Mining at Harmony's Evander operations is conducted at depths ranging from 300 meters to 2,100 meters. In fiscal 2006, Harmony's Evander operations accounted for approximately 12% (13% in fiscal 2005) of Harmony's total gold sales.

History. Gold mining in the Evander Basin began in 1955. Eventually, four mining operations were established at Evander. In 1996, as a result of depletion of ore reserves, all four mining areas were merged to form Evander. In August 1998, Harmony acquired Evander as a wholly-owned subsidiary. Since then, we have implemented the Harmony Way management process at Evander.

Geology. The area covered by Evander's mining authorization and mineral rights is situated within the Evander basin, a geologically discrete easterly extension of the main Witwatersrand Basin. Only one economic placer unit, the Kimberley Reef, is mined at Evander. In addition to the faulting of the reef horizon, there are numerous dykes and sills that complicate the mining layouts, the most significant of which is an extensively developed dolerite footwall sill that occasionally intersects the Kimberley Reef, causing displacements within it.

Mining Operations. The Evander operations are primarily engaged in underground mining. The Evander operations also process a limited amount of waste rock as and when necessary to allow the plants to operate efficiently. These operations are subject to all of the underground mining risks detailed in the Risk Factors section. Due to the shallow to moderate depths of the Evander underground operations, seismicity and pressure related problems are relatively infrequent. There is a risk of subterranean water and/or gas intersections in some areas of the mine. However, this risk is mitigated by active and continuous management and monitoring, which includes the drilling of boreholes in advance of faces. Where water and/or gas is indicated in the drilling, appropriate preventative action is taken. During the quarter ended March 31, 2004, an agreement was reached with the unions for the implementation of CONOPS at Evander. It has been fully implemented at all shafts at Evander. The implementation resulted in an increase in tons milled and consequently gold production rose. For a description of CONOPS, see *Item 6. Directors, Senior Management and Employees - Unionized Labor*.

During fiscal 2005, the Evander 2 and 5 shafts were combined and downscaled, while the Evander 9 shaft was closed successfully and placed on care and maintenance. The Evander 9 shaft employees were transferred to other Evander operations. The Evander 7 shaft (Decline No. 3, phase 3) project is progressing well.

The safety record at the Evander operations in terms of lost time frequency rate of 16.83 per million hours worked during fiscal 2006 is lower than the group average of 19.41. The fatality frequency rate (0.17) during fiscal 2006 is lower than the group average of 0.31 for underground operations. The lost time frequency rate at the plants and surface operations of 3.8 is slightly higher than the group average.

Safety at the operations receives constant and high-level attention and where problems are identified steps are taken to address the situation. Underground falls of ground have historically been the biggest cause of fatal injuries at Evander. Roofbolting has been implemented at Evander in an effort to address this risk. The Chief Operating Officer, is responsible for leading initiatives to improve workplace health and safety at Harmony's South African operations. See *Item 6. Directors, Senior Management and Employees - Directors and Senior Management - Board Practices*.

Plants. Evander has one active processing plant, the Kinross-Winkelhaak plant, which is operated as two geographically distinct sections. The bulk of the mine's ore production is treated at the Kinross plant, which is a CIP/CIL hybrid plant. The Winkelhaak plant mills all of the ore from shafts 2 and 5, and pumps the slurry to the Kinross plant for further processing.

The following table sets forth processing capacity and average tons milled during fiscal 2006 for each of the operating plants:

Plant	Processing Capacity	Average Milled for the Fiscal Year Ended June 30, 2006
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	(tons/month)	(tons/month)	
Kinross-Winkelhaak	148,000	134,000	48

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In fiscal 2006, the plant at Evander operations recovered approximately 97.3% of the gold contained in the ore delivered for processing.

Kalgold Operations

Introduction. Harmony conducts a surface mining operation at the Kalgold gold mine near Mafikeng in the North West Province of South Africa. Through Kalgold, we also control extensive mineral rights on the Kraaipan Greenstone Belt in the North West Province of South Africa. We purchased Kalgold on July 1, 1999. In fiscal 2006, the Kalgold operations accounted for approximately 3% (4% in fiscal 2005) of Harmony's total gold sales.

History. Harmony acquired Kalgold on July 1, 1999 and fully incorporated Kalgold into its operations in October 1999. Prior to our acquisition, the Kalgold mine had operated for more than three years.

On November 7, 2003 Harmony announced its intent to sell Kalgold to The Afrikaner Lease Limited (Alease) for a consideration of R250 million. Although all the other conditions precedent were met, Alease could not provide appropriate funding and the contract was cancelled on March 15, 2004.

Geology. The Kalgold operations are situated on the Kraaipan granite-greenstone belt, which is a typical gold-bearing greenstone formation. It has undergone intense structural deformation that has led to its dislocation into separate units.

Within the mining lease area, six steeply dipping zones of mineralization have been identified. Several additional zones of mineralization have been located within this area and are being evaluated. The first zone to be exploited by open cast mining has been an area known as the D-Zone. The D-Zone orebody has a strike length of 1,400 meters, varying in width between 40 meters in the south and 15 meters in the north.

Gold mineralization is associated with pyrite and pyrrhotite, which was developed as a replacement mineral within a banded ironstone formation and also within extensional, cross-cutting quartz veins within the ironstone.

Mining Operations. The Kalgold operations are engaged in open pit mining. This operation is subject to all of the open cast mining risks detailed in the Risk Factors section. Small subterranean water intersections in the pit are common and are actively managed and appropriate action is taken when necessary. The primary mining challenges at the Kalgold operations of achieving optimal volumes and grades of ore production are addressed by stringent ore reserve management.

The Kalgold operations had a lost time injury frequency rate of 11.19 per million hours worked in fiscal 2006, and recorded no fatal accidents in fiscal 2006. There is no reliable industry benchmark for safety at South African surface mining operations. During fiscal 2004, refurbishment activities at Kalgold's CIL plant resulted in some safety related incidents, which contributed to the increased lost time injury frequency rate. Harmony has, however, addressed these issues and does not expect them to have a material impact on long-term production. Safety at the operations receives constant and high-level attention and where problems are identified steps are taken to address the situation. Kalgold achieved 1,000,000 fatal free shifts on August 10, 2005 and no employee has lost his life on the mine since the commissioning of this mine.

The Chief Operating Officer is responsible for leading initiatives to improve workplace health and safety at Harmony's South African operations. *See Item 6. Directors, Senior Management and Employees Directors and Senior Management Board Practices.*

Plants. Ore is trucked from the pit and is directly tipped into the feed bin to the Pre-Primary crusher or stockpiled. The ore then undergoes a four phase crushing process before it reaches the Dome stockpile. Three ball mills are used to grind the ore down to between 70-80% less than 75 micron for the leaching process.

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The following table sets forth processing capacity and average tons milled during fiscal 2006 for each of the plants:

Plant	Processing Capacity (tons/month)	Average Milled for the Fiscal Year Ended June 30, 2006 (tons/month)
CIL	130,000	151,745
Heap Leach		6,825*