

Delaware Enhanced Global Dividend & Income Fund  
Form N-2/A  
May 24, 2007

As filed with the Securities and Exchange Commission on May 24, 2007

Securities Act File No. 333-142103

Investment Company Act File No. 811-22050

**United States  
Securities and Exchange Commission**

Washington, D.C. 20549

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**FORM N-2**

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Registration Statement under the Securities Act of 1933

Pre-Effective Amendment No. 1

Post-Effective Amendment No.

and/or

Registration Statement under the Investment Company Act of 1940

Amendment No. 1

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**DELAWARE ENHANCED GLOBAL DIVIDEND AND INCOME  
FUND**

(Exact Name of Registrant as Specified in Charter)

2005 Market Street

Philadelphia, Pennsylvania 19103

(Address of Principal Executive Offices)

(800) 523-1918

(Registrant's telephone number, including area code)

David P. O'Connor, Esquire

Delaware Enhanced Global Dividend and Income Fund

2005 Market Street

**Philadelphia, Pennsylvania 19103**  
(Name and Address of Agent for Service)

Copies to:

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**Clifford Chance US LLP**  
**31 West 52nd Street**  
**New York, New York 10019**

Approximate Date of Proposed Public Offering:

**As soon as practicable after the effective date of this Registration Statement.**

**CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933**

Title of Securities Being Registered	Amount Being Registered	Proposed Maximum Offering Price per Unit	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Shares, without par value	100,000 shares	\$ 20.00	\$ 2,000,000	(1) \$ 61.40 (2)

(1) Estimated solely for the purpose of calculating the registration fee.

(2) The filing fee has previously been paid.

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that the Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

**The information in this Prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This Prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

Subject to Completion  
Preliminary Prospectus dated May 24, 2007

PROSPECTUS

Shares

Delaware Enhanced Global Dividend and Income Fund

Common Shares  
\$20.00 per Share

*Investment Objectives.* Delaware Enhanced Global Dividend and Income Fund (the "Fund") is a newly organized, diversified, closed-end management investment company. The Fund's primary investment objective is to seek current income, with a secondary objective of capital appreciation. The Fund seeks to achieve these objectives by investing globally in dividend-paying or income-generating securities across multiple asset classes, including, but not limited to, equity securities of large, well-established companies, securities issued by real estate companies (including real estate investment trusts ("REITs") and real estate industry operating companies ("REOCs")), debt securities (such as government bonds, investment grade and high risk, high yield corporate bonds, and convertible bonds), and emerging market securities. The Fund will also utilize enhanced income strategies by engaging in dividend capture trading (as defined in "The Fund's Investments Investment Strategy Enhanced Income Strategies"), option overwriting (as defined in "The Fund's Investments Investment Strategy Enhanced Income Strategies"), realization of gains on the sale of securities, dividend growth and currency forwards.

**No Prior History.** Because the Fund is newly organized, its shares have no history of public trading. Shares of closed-end investment companies frequently trade at a discount from their net asset value. The risk of loss due to this discount may be greater for initial investors expecting to sell their shares in a relatively short period after completion of the public offering.

The Fund anticipates that its common shares will be listed on the New York Stock Exchange (the "NYSE") under the symbol "DEX." This Prospectus contains information you should know before investing, including information about risks. Please read it before you invest and keep it for future reference.

*Investment Advisor.* The Fund's investment advisor is Delaware Management Company ("DMC" or the "Advisor"), a series of Delaware Management Business Trust.

*(continued on following page)*

**Investing in the common shares involves certain risks. See "Risks" beginning on page 38 of this Prospectus.**

	Per Share	Total (1)
Public offering price	\$ 20.00	\$
Sales load(2)	\$ .90	\$
Estimated offering expenses(3)	\$ .04	\$
Proceeds, after expenses, to the Fund	\$ 19.06	\$

*(notes on following page)*

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

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The underwriters expect to deliver the common shares to purchasers on or about , 2007.

Merrill Lynch & Co.

A.G. Edwards

Robert W. Baird & Co.

Ferris, Baker Watts

Incorporated

Janney Montgomery Scott LLC

Ladenburg Thalmann & Co. Inc.

Oppenheimer & Co.

Wedbush Morgan Securities Inc.

The date of this Prospectus is , 2007.

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*(continued from previous page)*

**Investment Policies.** Under normal market conditions, the Fund will invest at least 80% of its net assets in a combination of dividend-paying or income-generating securities across multiple asset classes, including but not limited to, equity securities of large, well-established companies; securities issued by real estate companies (including REITs and REOCs), debt securities (such as government bonds, investment grade and high risk, high yield corporate bonds, and convertible bonds), and emerging market securities. The Fund will also utilize enhanced income strategies by engaging in dividend capture trading, option overwriting, realization of gains on the sale of securities, dividend growth and currency forwards. Under normal market conditions, the Fund will invest at most 60% of its net assets in securities of U.S. issuers and at least 40% of its net assets in securities of non-U.S. issuers, unless market conditions are not deemed favorable by the Advisor, in which case the Fund would invest at least 30% of its net assets in the securities of non-U.S. issuers. The Fund may not invest 25% or more of its net assets in the securities of issuers in any single industry.

You should read this Prospectus, which contains important information about the Fund, before deciding whether to invest in the common shares, and retain it for future reference. A Statement of Additional Information, dated , 2007, containing additional information about the Fund, has been filed with the Securities and Exchange Commission and, as amended from time to time, is incorporated by reference in its entirety into this Prospectus. You can review the table of contents of the Statement of Additional Information on page 66 of this Prospectus. You may request a free copy of the Statement of Additional Information by calling 800-523-1918 (toll free) or by writing to the Fund, obtain a copy (and other information regarding the Fund) from the Securities and Exchange Commission's Public Reference Room in Washington, D.C. Call (202) 551-8090 for information, or by writing to Delaware Service Company, Inc., 2005 Market Street, Philadelphia, Pennsylvania 19103. The Securities and Exchange Commission charges a fee for copies. You can get the same information free from the Securities and Exchange Commission's web site (<http://www.sec.gov>). You may also e-mail requests for these documents to [publicinfo@sec.gov](mailto:publicinfo@sec.gov) or make a request in writing to the Securities and Exchange Commission's Public Reference Section, 100 F Street, N.E., Washington, D.C. 20549-0102. The Fund does not post a copy of the Statement of Additional Information on its web site because the Fund's common shares are not continuously offered, which means the Statement of Additional Information will not be updated after completion of this offering and the information contained in the Statement of Additional Information will become outdated. The Fund's annual and semi-annual reports, when available, will be available at the Fund's web site (<http://www.delawareinvestments.com>).

The Fund's common shares do not represent a deposit or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.

*(notes from previous page)*

- (1) The Fund has granted the underwriters an option to purchase up to additional common shares at the public offering price, less the sales load, within 45 days of the date of this Prospectus solely to cover overallotments, if any. If such option is exercised in full, the public offering price, sales load, estimated offering expenses, and proceeds, after expenses, to the Fund will be \$ , \$ , \$ , and \$ , respectively. See "Underwriting."
  - (2) The Fund has agreed to pay the underwriters \$.00667 per common share as a partial reimbursement of expenses in connection with the offering. The Advisor (and not the Fund) has agreed to pay from its own assets additional compensation to Merrill Lynch, Pierce, Fenner & Smith Incorporated and a structuring fee to A.G. Edwards & Sons, Inc. The Advisor also may pay certain other qualifying underwriters a structuring fee, additional compensation, or a sales incentive fee in connection with the offering. The Advisor (and not the Fund) also intends to pay fees or commissions to certain employees of its affiliate that participate in the marketing of the Fund's common shares. See "Underwriting."
  - (3) The offering expenses paid by the Fund (other than the sales load) will not exceed an aggregate of \$.04 per share of the Fund's common shares sold in this offering. This \$.04 per common share amount may include a reimbursement of Delaware Management Company's expenses incurred in connection with this offering. The Advisor has agreed to pay such offering expenses of the Fund to the extent offering expenses (other than sales load) exceed \$.04 per share of the Fund's common shares. The aggregate offering expenses (other than sales load) to be incurred by the Fund are estimated to be up to \$800,000, all of which will be borne by the Fund.
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**You should rely only on the information contained or incorporated by reference in this Prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information in this Prospectus is accurate only as of the date of this Prospectus. Our business, financial condition, and prospects may have changed since that date.**

**FORWARD-LOOKING STATEMENTS**

This Prospectus contains or incorporates by reference forward-looking statements, within the meaning of the federal securities laws, that involve risks and uncertainties. These statements describe the Advisor's plans, strategies and goals and the Advisor's beliefs and assumptions concerning future economic or other conditions and the outlook for the Fund, based on currently available information. In this Prospectus, words such as "anticipates," "believes," "expects," "objectives," "goals," "future," "intends," "seeks," "will," "may," "could," "should," and similar expressions are used in an effort to identify forward-looking statements, although some forward-looking statements may be expressed differently.

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The Fund's actual results could differ materially from those anticipated in the forward-looking statements because of various risks and uncertainties, including the factors set forth in the section headed "Risks" below and elsewhere in this Prospectus. You should consider carefully the discussions of risks and uncertainties in the "Risks" section and elsewhere in this Prospectus and in the Statement of Additional Information. The forward-looking statements contained in this Prospectus are based on information available to the Fund on the date of this Prospectus, and the Fund assumes no obligation to update any such forward-looking statements, except as required by law.





## PROSPECTUS SUMMARY

*This is only a summary of certain information contained in this Prospectus relating to Delaware Enhanced Global Dividend and Income Fund. This summary may not contain all of the information that you should consider before investing in the Fund's common shares. You should review the more detailed information contained in this Prospectus and in the Statement of Additional Information.*

**The Fund** Delaware Enhanced Global Dividend and Income Fund is a diversified, closed-end management investment company with no operating history. Throughout the Prospectus, the Delaware Enhanced Global Dividend and Income Fund is referred to simply as the "Fund." See "The Fund."

**The Offering** The Fund is offering common shares of beneficial interest at \$20.00 per share through a group of underwriters led by Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch"). The common shares of beneficial interest are called "common shares" in the rest of this Prospectus. You must purchase at least 100 common shares (\$2,000) in order to participate in this offering. The Fund has given the underwriters an option to purchase up to additional common shares to cover orders in excess of common shares. The offering expenses paid by the Fund (other than the sales load) will not exceed an aggregate of \$.04 per share of the Fund's common shares sold in this offering. This \$.04 per common share amount may include a reimbursement of the Fund's investment advisor, Delaware Management Company, of expenses incurred in connection with this offering. The Fund has agreed to pay the underwriters \$.00667 per common share as a partial reimbursement of expenses in connection with the offering. Delaware Management Company has agreed to reimburse all of the Fund's organizational expenses. Delaware Management Company has also agreed to pay the Fund's offering costs (other than sales load) to the extent that offering costs (other than sales load) exceed \$.04 per common share. See "Underwriting."

**Investment Objectives** The Fund's primary investment objective is to seek current income, with a secondary objective of capital appreciation. The Fund is not intended as, and you should not construe it to be, a complete investment program. There is no assurance that the Fund will achieve its investment objectives.

**Investment Policies** The Fund will seek to achieve its primary objectives by focusing on broad diversification within its portfolio by investing globally in dividend-paying or income-generating securities across multiple asset classes. The primary asset classes include equity securities of large, well-established companies, securities issued by real estate companies (including REITs and REOCs), emerging market equities, preferred securities, debt securities, including high risk, high yield corporate bonds, investment grade corporate bonds, U.S. government securities, non-U.S. corporate bonds, non-U.S. government securities, convertible bonds, convertible preferred stock, emerging market debt securities, and international currencies.

The Advisor will determine the proportion of the Fund's assets to be allocated among the various assets classes based on its analysis of economic and market conditions and its assessment of the income and potential for appreciation that can be achieved from investments in such asset classes. The percentage of the Fund's assets allocated to the various asset classes described herein will vary depending on DMC's assessment of these conditions. The key goals in allocating across these various asset

classes are to attempt to mitigate risk and potentially improve upon the Fund's income and performance levels.

The Fund may invest in a variety of income generating equity and debt securities. Not all investments, however, are required to pay dividends or interest. Under normal market conditions, the Fund will invest at least 80% of its net assets in a combination of dividend-paying or income-generating securities across multiple asset classes, including but not limited to, equity securities of large, well-established companies; securities issued by real estate companies (including REITs and REOCs), debt securities (such as government bonds, investment grade and high risk, high yield corporate bonds, and convertible bonds), and emerging market securities. In addition, under normal market conditions, the Fund will invest at most 60% of its net assets in securities of U.S. issuers and at least 40% of its net assets in securities of non-U.S. issuers, unless market conditions are not deemed favorable by the Advisor, in which case, the Fund would invest at least 30% of its net assets in the securities of non-U.S. issuers. The Fund may not invest more than 25% of the Fund's net assets in any one industry nor, as to 75% of the Fund's total assets, will more than 5% be invested in the securities of any one issuer.

The Advisor's strategy of income generating investing is based on the primary attribute of seeking a sustainable and recurring income stream, with capital appreciation as a secondary objective. This investment approach may provide diversification, low sector correlation, low interest rate sensitivity, and significant downside protection which over the long-term may result in an attractive risk adjusted return. The Advisor believes that seeking income on a global basis can provide investors with opportunities not available in the U.S. equity and debt markets. For example, recently, many countries, including the United Kingdom, France, Canada, Australia, Japan, Singapore, and Hong Kong and several others, have enacted REIT or similar legislation that has created real estate companies which are required to payout a significant portion of their earnings in dividends.

In addition, the Advisor will use a combination of dividend capture trading, option overwriting, realization of gains on the sale of securities, dividend growth and currency forwards to try to enhance the sustainability of the income stream. The percentage of the Fund's assets invested using these strategies will vary from time to time based on the Advisor's assessment of economic and market conditions and the potential for income.

The Fund's dividend capture strategy seeks to maximize the level of dividend income that the Fund receives by engaging in dividend capture trading and by identifying special dividend situations. In a dividend capture trade, the Fund sells a stock on or shortly after the stock's ex-dividend date and uses the sale proceeds to purchase one or more other stocks that are expected to pay dividends before the next dividend payment on the stock being sold. Special dividend situations may include those where companies decide to return large cash balances to shareholders as one-time dividend payments, for instance due to a restructuring or recent strong operating performance. Other special dividends may arise in a variety of situations. The Fund's option overwriting strategy seeks to increase its income or may hedge a portion of its portfolio investments through writing (i.e., selling) covered call and put options; however, the

Fund will primarily use covered calls in its option overwriting strategy. The Fund will receive a premium when it writes call and put options, which increases the Fund's return on the underlying security in the event the option expires unexercised or is closed out at a profit. The Fund anticipates utilizing both short-term and, to the extent permitted by applicable law, long-term capital gains as part of its periodic distributions to shareholders. The Fund realizes a capital gain when it sells a portfolio security at a price higher than its original cost. The Fund will attempt to realize such gains in certain situations to attempt to help keep distributions as consistent and sustainable as possible without disrupting the underlying investment philosophy of the Advisor. The Fund's dividend growth strategy seeks to identify issuers that have solid earnings growth and strong balance sheets, coupled with a corporate philosophy that supports consistent and above average dividend growth. The Fund believes that companies that provide above average dividend growth will realize superior long-term total returns for shareholders with below average volatility. The Fund may enter into forward foreign currency contracts in order to generate additional income by capturing interest rate differentials between specific currencies or to protect against possible losses on foreign investments resulting from adverse changes in the relationship between the U.S. dollar and foreign currencies. A forward foreign currency exchange contract involves an obligation to purchase or sell a specific currency at a future date, which may be any fixed number of days (usually less than one year) from the date of the contract agreed upon by the parties, at a price set at the time of the contract. See "The Fund's Investments Investment Strategy Enhanced Income Strategies."

**Investment Advisor** The Fund's investment advisor is Delaware Management Company ("DMC" or the "Advisor"), a series of Delaware Management Business Trust. DMC will receive an annual fee, payable monthly, in an amount equal to 1.00% of the average daily value of the Fund's net assets. See "Management of the Fund." As of March 31, 2007, DMC managed approximately \$41.2 billion in total assets. DMC has an experienced team of portfolio managers and research analysts.

**Distributions** Commencing with the Fund's initial dividend, the Fund intends to make a level cash distribution each month to common shareholders pursuant to a managed distribution policy. Under the policy, the Fund is managed with a goal of generating as much of the distribution as possible from net investment income and short-term capital gains. The balance of the distribution will then come from long-term capital gains to the extent permitted and, if necessary, a return of capital. The Advisor expects to declare the initial monthly dividend on the Fund's common shares within approximately 45 days after completion of this offering and to pay that initial monthly dividend approximately 60 to 90 days after completion of this offering. The level dividend amount may be modified by the Board of Trustees from time to time. The Board of Trustees may also determine to amend their managed distribution policy to modify the Fund's distribution frequency from monthly to some other period.

DMC currently intends to apply to the Securities and Exchange Commission, on behalf of the Fund, for an exemption from Section 19(b) of the Investment Company Act of 1940, as amended (the "1940 Act"), and Rule 19b-1 thereunder permitting the Fund to make periodic distributions

of long-term capital gains more frequently than annually. No assurance can be given that the Securities and Exchange Commission will grant the exemption to the Fund. Absent such exemption, Section 19(b) of the 1940 Act generally limits the Fund to making no more than one distribution of long-term capital gains every 12 months. This offering, however, is not contingent upon the receipt of such exemption. See "Distributions."

The level dividend distribution described above would result in the payment of approximately the same amount to the Fund's shareholders each month. If the source of the dividend or other distribution were the original capital contribution of the shareholder, and the payment amounted to a return of capital, Section 19(a) of the 1940 Act and Rule 19a-1 thereunder require the Fund to provide shareholders with written disclosure to that effect that accompanies such payment.

It is likely that, from time to time, the Fund will distribute more than its income and net realized capital gains; therefore, a portion of a shareholder's distribution would be a return of capital. A return of capital may occur, for example, when some or all of the money that you invested in the Fund is paid back to you. A return of capital does not necessarily reflect the Fund's investment performance and should not be confused with "yield" or "income."

Persons who periodically receive the payment of a dividend or other distribution may be under the impression that they are receiving net profits when they are not. Shareholders should read any written disclosure provided pursuant to Section 19(a) and Rule 19a-1 carefully, and should not assume that the source of any distribution from the Fund is net profit. In addition, you should not draw any conclusions about the Fund's investment performance from the amount of any Fund distribution or from the terms of the Fund's managed distribution policy. See "Distributions."

Shareholders will automatically have all dividends and distributions reinvested in common shares issued by the Fund or common shares of the Fund purchased in the open market in accordance with the Fund's dividend reinvestment plan, unless an election is made to receive cash. See "Dividend Reinvestment Plan."

**Leverage** The Fund may enhance its total returns through the use of leverage, which may include the issuance of preferred shares, commercial paper, and/or other borrowings (referred to collectively as "Leverage"). The Fund reserves the right, if the Advisor believes that market conditions are appropriate, to use Leverage to the extent permitted by the 1940 Act. Currently, under the 1940 Act, the Fund may borrow money up to 33 1/3% of its total assets (including the amount obtained from Leverage) or may issue shares of preferred stock in amounts up to 50% of the value of its total assets (including the amount obtained from Leverage), to finance additional investments. Through leveraging, the Fund would seek to obtain a higher return for holders of common shares than if the Fund did not use Leverage. Leverage is a speculative technique and there are special risks and costs associated with Leverage. There is no assurance that the Fund would be successful in enhancing the level of its total return during any period in which Leverage is utilized. If the Fund utilizes Leverage, the Fund's expenses would be higher than if Leverage were not utilized. Also, the fees paid to the Advisor and the Administrator will be higher than if the Fund did not use Leverage because the fees paid will be calculated on

the basis of the Fund's net assets, including proceeds from the issuance of Leverage. The increase in Fund expenses as a result of Leverage may be significant. In addition, the net asset value of the Fund's common shares would be reduced by the issuance costs of any Leverage. See "Investment Techniques Leverage" and "Risks Leverage Risk."

**Listing** The Fund anticipates that its common shares will be listed on the New York Stock Exchange ("NYSE") under the symbol "DEX." See "Description of Capital Structure."

**Custodian and Transfer Agent** Mellon Bank, N.A. will serve as the Fund's custodian. Mellon Investor Services LLC will serve as the Fund's transfer agent. See "Custodian and Transfer Agent."

**Administrator** Delaware Service Company, Inc. ("DSC" or the "Administrator"), 2005 Market Street, Philadelphia, Pennsylvania 19103, an affiliate of DMC, will serve as the Fund's administrator and will provide accounting and administrative services to the Fund. Among other things, DSC is responsible for calculating the net asset value of the common shares and generally managing the administrative affairs of the Fund. DSC is entitled to receive a monthly fee at an annual rate of .04% of the Fund's average daily net assets, plus out of pocket expenses.

**Market Price of Shares** Common shares of closed-end investment companies frequently trade at prices lower than their net asset value. Common shares of closed-end investment companies such as the Fund that invest primarily in dividend-paying or income-generating securities have during some periods traded at prices higher than their net asset value and during other periods traded at prices lower than their net asset value. The Fund cannot assure you that its common shares will trade at a price higher than or equal to its net asset value. The Fund's net asset value will be reduced immediately following this offering by the sales load and the amount of the offering expenses paid by the Fund. See "Use of Proceeds." In addition to net asset value, the market price of the Fund's common shares may be affected by such factors as dividend levels, which are in turn affected by other factors. See "Risks," "Description of Capital Structure," and "Repurchase of Common Shares." The common shares are designed primarily for long-term investors; you should not purchase common shares of the Fund if you intend to sell them shortly after purchase.

**Special Risk Considerations** *No Operating History.* The Fund is a diversified, closed-end management investment company with no operating history.

*Market Discount Risk.* As with any stock, the price of the Fund's shares will fluctuate with market conditions and other factors. If shares are sold, the price received may be more or less than the original investment. Net asset value will be reduced immediately following the initial offering by the amount of the sales load and offering expenses paid by the Fund. Common shares are designed for long-term investors and should not be treated as trading vehicles. Shares of closed-end management investment companies frequently trade at a discount from their net asset value. The Fund's shares may trade at a price that is less than the initial offering price. This risk may be greater for investors who sell their shares in a relatively short period of time after completion of the initial offering. The Fund may utilize Leverage, which magnifies the stock market risk.

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*Investment and Market Risk.* An investment in the Fund's common shares is subject to investment risk, including the possible loss of the entire principal amount invested. An investment in common shares represents an indirect investment in the securities owned by the Fund, which are generally traded on a securities exchange or in the over-the-counter markets. The value of these securities, like other market investments, may move up or down, sometimes rapidly and unpredictably. The common shares at any point in time may be worth less than the original investment, even after taking into account any reinvestment of dividends and distributions.

*Issuer Risk.* The value of an issuer's securities that are held in the Fund's portfolio may decline for a number of reasons which directly relate to the issuer, such as management performance, financial leverage, and reduced demand for the issuer's goods and services.

*Dividend Strategy Risks.* The Fund's pursuit of its investment objectives depends somewhat upon the Advisor's ability to anticipate the dividend policies of the companies in which it chooses to invest. It is difficult to anticipate the level of dividends that companies will pay in any given timeframe. The Fund's dividend capture strategies include having the Advisor attempt to identify and exploit opportunities such as the announcement of major corporate actions, including restructuring initiatives or a special dividend, that may lead to high current dividend income. These situations are typically not recurring in nature or frequency, may be difficult to predict, and may not result in an opportunity that allows the Advisor to fulfill the Fund's investment objectives. In addition, the dividend policies of the Fund's target companies are heavily influenced by the current economic climate and the favorable federal tax treatment afforded to dividends. Challenging economic conditions, affecting either the market as a whole or a specific investment in the Fund's portfolio, may limit the opportunity to benefit from the current dividend policies of the companies in which the Fund invests or may cause such companies to reduce or eliminate their dividends. Special dividends may result in extraordinary dividends subject to special tax rules. The use of dividend capture strategies will expose the Fund to increased trading costs and potential for capital loss or gain, particularly in the event of significant short-term price movements of stocks subject to dividend capture trading, and resultant dividends may not be qualified dividends eligible to individuals for reduced federal income tax rates under the Internal Revenue Code of 1986, as amended (the "Code"). Also, the reduced federal income tax rates that apply to qualified dividend income sunset and will not apply to taxable years beginning after December 31, 2010, unless extended or made permanent. This and other changes in the favorable provisions of the federal income tax laws may limit your ability to benefit from dividend increases or special dividends, may effect a widespread reduction in announced dividends and may adversely impact the valuation of the shares of dividend-paying companies.

*Risk of Option Overwriting.* The Fund will receive a premium when it writes covered put and call options, which increases the Fund's return on the underlying security in the event the option expires unexercised or is closed out at a profit. (See "The Fund's Investments Investment Techniques Options on Securities" for information on how options are "covered.") By writing a call, the Fund will limit its opportunity to profit

from an increase in the market value of the underlying security above the exercise price of the option for as long as the Fund's obligation as the writer of the option continues, but the Fund will continue to be exposed to any decline in market value of the underlying security. Upon the exercise of a put option written by the Fund, the Fund may suffer an economic loss equal to the difference between the price at which the Fund is required to purchase the underlying security and its market value at the time of the option exercise, less the premium received for writing the option. Upon the exercise of a call option written by the Fund, the Fund may suffer an economic loss equal to an amount not less than the excess of the security's market value at the time of the option exercise over the Fund's acquisition cost of the security, less the sum of the premium received for writing the option and the difference, if any, between the call price paid to the Fund and the Fund's acquisition cost of the security. Thus, in some periods the Fund might receive less total return and in other periods greater total return from its option overwriting strategy.

*Common Stock Risk.* Common stocks are an example of equity securities in which the Fund will invest. Although common stocks have historically generated higher average returns than fixed income securities over the long term, common stocks also have experienced significantly more volatility in returns. Common stocks may be more susceptible to adverse changes in market value due to issuer specific events or general movements in the equities markets. A drop in the stock market may depress the price of common stocks held by the Fund. Common stock prices fluctuate for many reasons, including changes in investors' perceptions of the financial condition of an issuer or the general condition of the relevant stock market, or the occurrence of political or economic events affecting issuers. For example, an adverse event, such as an unfavorable earnings report, may depress the value of common stock in which the Fund has invested; the price of common stock of an issuer may be particularly sensitive to general movements in the stock market; or a drop in the stock market may depress the price of most or all of the common stocks held by the Fund. Also, common stock of an issuer in the Fund's portfolio may decline in price if the issuer fails to make anticipated dividend payments because, among other reasons, the issuer of the security experiences a decline in its financial condition. The common stocks in which the Fund will invest are structurally subordinated to preferred securities, bonds and other debt instruments in a company's capital structure, in terms of priority to corporate income and assets, and therefore will be subject to greater risk than the preferred securities or debt instruments of such issuers. In addition, common stock prices may be sensitive to rising interest rates, as the costs of capital rise and borrowing costs increase.

*Foreign Securities Risk.* The Fund will have substantial exposure to foreign securities, including emerging market securities. The Fund's investments in securities of foreign issuers are subject to risks not usually associated with owning securities of U.S. issuers. These risks can include fluctuations in foreign currencies; foreign currency exchange controls; social, political and economic instability; differences in securities regulation and trading, differences in accounting, auditing and financial standards; expropriation or nationalization of assets; possible difficulties in transaction settlements; and foreign taxation issues. In addition, changes in government

administrations or economic or monetary policies in the United States or abroad could result in appreciation or depreciation of the Fund's securities. It may also be more difficult to obtain and enforce a judgment against a foreign issuer. Any foreign investments made by the Fund must be made in compliance with U.S. and foreign currency restrictions and tax laws restricting the amounts and types of foreign investments. The Fund has no other investment restrictions with respect to investing in foreign issuers. Dividends paid on foreign securities may not qualify for the reduced federal income tax rates applicable to qualified dividends under the Code. As a result, there can be no assurance as to what portion of the Fund's distributions attributable to foreign securities will be designated as qualified dividend income. See "Tax Matters."

The Fund may invest in securities of issuers located in "emerging market countries." Because of less developed markets and economies and, in some countries, less mature governments and governmental institutions, the risks of investing in foreign securities can be intensified in the case of investments in issuers domiciled or doing substantial business in emerging market countries. These risks include high concentration of market capitalization and trading volume in a small number of issuers representing a limited number of industries, as well as a high concentration of investors and financial intermediaries; lack of liquidity and greater price volatility due to the smaller size of the market for such securities and lower trading volume; political and social uncertainties; national policies that may restrict the Fund's investment opportunities, including restrictions on investing in issuers or industries deemed sensitive to relevant national interests; greater risks of expropriation, confiscatory taxation and nationalization; over-dependence on exports, especially with respect to primary commodities, making these economies vulnerable to changes in commodity prices; overburdened infrastructure and obsolete or unseasoned financial systems; environmental problems; less developed legal systems; less reliable custodial services and settlement practices. Dividends paid by issuers in emerging market countries will generally not qualify for the reduced federal income tax rates applicable to individuals for qualified dividends under the Code. See "Tax Matters."

*Small and Medium Cap Company Risk.* The Fund's share price may be more volatile because it also invests in small and medium capitalization companies. Compared to large companies, small and medium capitalization companies are more likely to have (i) more limited product lines or markets and less mature businesses, (ii) fewer capital resources, (iii) more limited management depth, and (iv) shorter operating histories. Further, compared to large cap stocks, the securities of small and medium capitalization companies are more likely to experience sharper swings in market values, be harder to sell at times and at prices that the Advisor believes appropriate, and offer greater potential for gains and losses.

*Portfolio Turnover Risk.* The techniques and strategies contemplated by the Fund might result in a high degree of portfolio turnover. The Fund cannot accurately predict its securities portfolio turnover rate, but anticipates that its annual portfolio turnover rate will likely exceed 100% under normal market conditions, although it could be materially higher under certain conditions. Higher portfolio turnover rates could result in corresponding increases in brokerage commissions, may generate short-term capital gains



taxable as ordinary income and cause dividends received on portfolio securities to not be qualified dividends eligible to individuals for reduced federal income tax rates under the Code. See "Tax Matters."

*Defensive Positions.* During periods of adverse market or economic conditions, the Fund may temporarily invest all or a substantial portion of its assets in cash or cash equivalents. The Fund would not be pursuing its investment objectives in these circumstances and could miss favorable market developments.

*Management Risk.* The Fund is subject to management risk because it is an actively managed portfolio. The Fund's successful pursuit of its investment objectives depends upon the Advisor's ability to find and exploit market inefficiencies with respect to undervalued securities and identify companies experiencing a change in dividend policy, including the announcement of restructuring initiatives or special dividends. Such situations occur infrequently and sporadically and may be difficult to predict, and may not result in a favorable pricing opportunity that allows the Advisor to fulfill the Fund's investment objectives. The Advisor's security selections and other investment decisions might produce losses or cause the Fund to underperform when compared to other funds with similar investment goals. If one or more key individuals leaves the employ of the Advisor, the Advisor may not be able to hire qualified replacements, or may require an extended time to do so. This could prevent the Fund from achieving its investment objectives.

*Leverage Risk.* The use of Leverage by the Fund would create three major types of risks for shareholders. First, the likelihood of greater volatility of net asset value and market price of common shares because changes in value of the Fund's portfolio (including changes in the value of any interest rate swap, if applicable) are borne entirely by the common shareholders. Second, the possibility either that share income will fall if the interest rate on any borrowings or the dividend rate on any preferred shares issued rises, or that share income and distributions will fluctuate because the interest rate on any borrowings or the dividend rate on any preferred shares issued varies. Third, if the Fund utilizes Leverage, the Fund may not be permitted to declare dividends or other distributions with respect to its common shares or purchase its capital stock, unless at the time thereof the Fund meets certain asset coverage requirements.

The Advisor in its best judgment nevertheless may determine to use Leverage if it deems such action to be appropriate in the circumstances. In the event the Fund uses Leverage, the fees paid to the Advisor for investment advisory services and the Administrator for administrative services will be higher than if the Fund did not use Leverage because the fees paid will be calculated on the basis of the Fund's net assets, including proceeds from issuance of preferred shares, commercial paper or borrowings, which may create an incentive to Leverage the Fund. See "The Fund's Investments Investment Techniques Leverage" and "Risks Leverage Risk."

*Real Estate Risk.* Investments in securities issued by real estate companies (including REITs and REOCs and their equivalent in foreign countries) may subject the Fund to certain risks associated with direct ownership of real estate and with the real estate industry in general (although the Fund does not intend to own real estate directly). If the Fund holds real estate directly,

as a result of defaults, or receives rental income from its real estate holdings, its tax status as a regulated investment company could be jeopardized. Investments in securities issued by real estate companies may also be affected by interest rate changes, particularly if the companies in which the Fund invests use floating rate debt to finance their ongoing operations. In addition, changes in interest rates may hurt real estate values or make REIT or REOC shares less attractive than other income producing investments.

Risks of investments in securities issued by real estate companies include:

possible declines in the value of real estate and real property values;

risks related to economic conditions;

possible shortage of mortgage funds;

overbuilding and extended vacancies;

increased competition;

changes in property taxes, operating expenses or zoning laws;

costs of environmental clean-up, or damages from natural disasters;

limitations or fluctuations in rent payments;

cash flow fluctuations; and

defaults by borrowers.

If the Fund invests in REITs or REOCs, such investments will also subject the Fund to various risks. Returns from REITs or REOCs, which typically are small or medium capitalization stocks, may trail returns from the overall stock market. Dividends paid by REITs will not generally qualify for the reduced federal income tax rates applicable to individuals for qualified dividends under the Code, and may result in "excess inclusion income" subject to special tax rules. REITs are also subject to the risk of failing to qualify for tax-free pass-through of income under the Code and/or failing to qualify for an exemption from registration as an investment company under the 1940 Act.

*Investments in Undervalued Securities.* A portion of the Fund's assets will be invested in securities, which, in the opinion of the Advisor, are undervalued. The identification of investment opportunities in undervalued securities is a difficult task and there is no assurance that such opportunities will be successfully recognized or acquired. While investments in undervalued securities offer opportunities for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses.

*High Risk, High Yield Securities.* Investing in so-called "high risk" or "high yield" securities ("junk bonds") entails certain risks, including the risk of loss of principal, which may be greater than the risks involved in investment-grade securities, and which should be considered by investors contemplating an investment in the Fund. Such securities are sometimes issued by companies whose earnings at the time of issuance are less than the projected debt service on the high yield securities.

Although the market for high yield securities has been in existence for many years, including periods of economic downturns, the high yield market grew rapidly during the long economic expansion which took place in the United States during the 1980s. During that economic expansion, the use of high yield debt securities to fund highly leveraged corporate acquisitions and restructurings increased dramatically. As a result, the high yield market grew substantially during that economic expansion. Although experts disagree on the impact recessionary periods have had and will have on the high yield market, some analysts believe a protracted economic downturn would severely disrupt the market for high yield securities, would adversely affect the value of outstanding bonds, and would adversely affect the ability of high yield issuers to repay principal and interest. Those analysts cite volatility experienced in the high yield market in the past as evidence for their position. It is likely that protracted periods of economic uncertainty would result in increased volatility in the market prices of high yield securities and an increase in the number of high yield bond defaults.

*Special Risks Associated with Foreign Currency Options.* Buyers and sellers of foreign currency options are subject to the same risks that apply to options generally, as described below. In addition, there are certain additional risks associated with foreign currency options, including taxation risks. The markets in foreign currency options are relatively new, and the Fund's ability to establish and close out positions on such options is subject to the maintenance of a liquid secondary market. Although the Fund will not purchase or write such options unless and until, in the opinion of the Advisor, the market for them has developed sufficiently to ensure that the risks in connection with such options are not greater than the risks in connection with the underlying currency, there can be no assurance that a liquid secondary market will exist for a particular option at any specific time. In addition, options on foreign currencies are affected by most of the same factors that influence foreign exchange rates and investments generally.

The value of a foreign currency option depends upon the value of the underlying currency relative to the U.S. dollar. As a result, the price of the option position may vary with changes in the value of either or both currencies and may have no relationship to the investment merits of a foreign security. Because foreign currency transactions occurring in the interbank market involve substantially larger amounts than those that may be involved in the use of foreign currency options, investors may be disadvantaged by having to deal in an odd lot market (generally consisting of transactions of less than \$1 million) for the underlying foreign currencies at prices that are less favorable than for round lots.

There is no systematic reporting of last sale information for foreign currencies or any regulatory requirement that quotations available through dealers or other market sources be firm or revised on a timely basis. Available quotation information is generally representative of very large transactions in the interbank market and thus may not reflect relatively smaller transactions (i.e., less than \$1 million) where rates may be less favorable. The interbank market in foreign currencies is a global, around-the-clock market. To the extent that the U.S. option markets are closed while the markets for the underlying currencies remain open, significant

price and rate movements may take place in the underlying markets that cannot be reflected in the options markets until they reopen.

*Risk Characteristics of Options and Futures.* Options and futures transactions can be highly volatile investments. Successful hedging strategies require the anticipation of future movements in securities prices, interest rates and other economic factors. When a fund uses futures contracts and options as hedging devices, the prices of the securities subject to the futures contracts and options may not correlate with the prices of the securities in a portfolio. This may cause the futures and options to react to market changes differently than the portfolio securities. Even if expectations about the market and economic factors are correct, a hedge could be unsuccessful if changes in the value of the portfolio securities do not correspond to changes in the value of the futures contracts. The ability to establish and close out futures contracts and options on futures contracts positions depends on the availability of a secondary market. If these positions cannot be closed out due to disruptions in the market or lack of liquidity, losses may be sustained on the futures contract or option. Special tax rules apply to options and futures.

*Special Risks Associated with Foreign Currency Futures Contracts and Related Options.* Buyers and sellers of foreign currency futures contracts are subject to the same risks that apply to the use of futures generally. In addition, there are risks associated with foreign currency futures contracts and their use as a hedging device similar to those associated with options on foreign currencies, as described above.

Options on foreign currency futures contracts may involve certain additional risks, including taxation risks. Trading options on foreign currency futures contracts is relatively new. The ability to establish and close out positions on such options is subject to the maintenance of a liquid secondary market. To reduce this risk, the Fund will not purchase or write options on foreign currency futures contracts unless and until, in the opinion of the Advisor, the market for such options has developed sufficiently that the risks in connection with such options are not greater than the risks in connection with transactions in the underlying foreign currency futures contracts. Compared to the purchase or sale of foreign currency futures contracts, the purchase of call or put options on futures contracts involves less potential risk to the Fund because the maximum amount at risk is the premium paid for the option (plus transaction costs). However, there may be circumstances when the purchase of a call or put option on a futures contract would result in a loss of up to the amount of the premium paid for the option, such as when there is no movement in the price of the underlying currency or futures contract.

*Preferred Securities Risk.* In addition to credit risk, investment in preferred securities carries risks, including deferral risk, redemption risk, limited voting rights, risk of subordination, and lack of liquidity. Fully taxable or hybrid preferred securities typically contain provisions that allow an issuer, at its discretion, to defer distributions for up to 20 consecutive quarters. Traditional preferreds also contain provisions that allow an issuer, under certain conditions to skip (in the case of "noncumulative preferreds") or defer (in the case of "cumulative preferreds"), dividend payments. If the Fund owns a preferred security that is deferring its

distributions, the Fund may be required to report income for tax purposes while it is not receiving any distributions. Preferred securities typically contain provisions that allow for redemption in the event of tax or security law changes in addition to call features at the option of the issuer. In the event of a redemption, the Fund may not be able to reinvest the proceeds at comparable rates of return. Preferred securities typically do not provide any voting rights, except in cases when dividends are in arrears beyond a certain time period, which varies by issue. Preferred securities are subordinated to bonds and other debt instruments in a company's capital structure in terms of priority to corporate income and liquidation payments, and therefore will be subject to greater credit risk than those debt instruments. Preferred securities may be substantially less liquid than many other securities, such as U.S. government securities, corporate debt or common stocks. Dividends paid on preferred securities may not qualify for the reduced federal income tax rates applicable to individuals for qualified dividends under the Code.

*Interest Rate Risk.* Interest rate risk is the risk that preferred stocks paying fixed dividend rates and fixed-rate debt securities will decline in value because of changes in market interest rates. When interest rates rise, the market value of such securities generally will fall. The Fund's investment in preferred stocks and fixed-rate debt securities means that the net asset value and price of the common shares may decline if market interest rates rise. Interest rates are currently low relative to historic levels. During periods of declining interest rates, an issuer of preferred stock or fixed-rate debt securities may exercise its option to redeem securities prior to maturity, forcing the Fund to reinvest in lower yielding securities. This is known as call risk. During periods of rising interest rates, the average life of certain types of securities may be extended because of slower than expected payments. This may lock in a below market yield, increase the security's duration, and reduce the value of the security. This is known as extension risk. The value of the Fund's common stock investments may also be influenced by changes in interest rates.

*Duration Risk.* Duration is a measure of the expected life of a fixed income security that was developed as a more precise alternative to the concept of term-to-maturity. Duration incorporates a bond's yield, coupon interest payments, final maturity and call features into one measure. The duration of a fixed income security is a measure of the portfolio's sensitivity to changes in interest rates. Prices of fixed income securities with longer effective maturities are more sensitive to interest rate changes than those with shorter effective maturities. As nominal interest rates rise, the value of fixed income securities held by the Fund is likely to decrease.

*Convertible Securities Risk.* The value of a convertible security is a function of its "investment value" (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its "conversion value" (the security's worth, at market value, if converted into the underlying common stock). The investment value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors may also have an effect on the convertible security's investment value. The conversion value of a convertible security is

determined by the market price of the underlying common stock. If the conversion value is low relative to the investment value, the price of the convertible security is governed principally by its investment value. Generally, the conversion value decreases as the convertible security approaches maturity. To the extent the market price of the underlying common stock approaches or exceeds the conversion price, the price of the convertible security will be increasingly influenced by its conversion value. A convertible security generally will sell at a premium over its conversion value by the extent to which investors place value on the right to acquire the underlying common stock while holding a fixed income security.

A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security's governing instrument. If a convertible security held by the Fund is called for redemption, the Fund will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third party. Any of these actions could have an adverse effect on the Fund's ability to achieve its investment objectives.

*Illiquid Securities Risk.* Restricted securities and other illiquid investments of the Fund involve the risk that the securities will not be able to be sold at the time desired by the Advisor or at prices approximating the value at which the Fund is carrying the securities. Where registration is required to sell a security, the Fund may be obligated to pay all or part of the registration expenses, and a considerable period may elapse between the decision to sell and the time the Fund may be permitted to sell a security under an effective registration statement. If, during such a period, adverse market conditions were to develop, the Fund might obtain a less favorable price than prevailed when it decided to sell. Restricted securities for which no market exists and other illiquid investments are valued at fair value as determined in accordance with procedures approved and periodically reviewed by the Trustees of the Fund.

*Inflation Risk.* Inflation risk is the risk that the purchasing power of assets or income from investments will be worth less in the future as inflation decreases the value of money. As inflation increases, the real value of the common shares and distributions thereon can decline. In addition, during any periods of rising inflation, dividend rates of any preferred shares of the Fund would likely increase, which would tend to further reduce returns to common shareholders.

*Securities Lending Risk.* The Fund may lend its portfolio securities to banks or dealers which meet the creditworthiness standards established by the Board of Trustees of the Fund. Securities lending is subject to the risk that loaned securities may not be available to the Fund on a timely basis and the Fund may, therefore, lose the opportunity to sell the securities at a desirable price. Any loss in the market price of securities loaned by the Fund that occurs during the term of the loan would be borne by the Fund and would adversely affect the Fund's performance. Also, there may be delays in recovery, or no recovery, of securities loaned or even a loss of rights in the collateral should the borrower of the securities fail financially while the loan is outstanding. The Fund's entry into securities lending transactions may cause the replacement income earned on the loaned securities to fall outside of the definition of qualified dividend income.

This replacement income generally will not be eligible to individuals for reduced federal income tax rates under the Code.

*Market Disruption and Geopolitical Risk.* The aftermath of the war in Iraq and the continuing occupation of Iraq, instability in the Middle East, and terrorist attacks in the United States and around the world may result in market volatility and may have long-term effects on the United States and worldwide financial markets and may cause further economic uncertainties in the United States and worldwide. The Fund does not know how long the securities markets will continue to be affected by these events and cannot predict the effects of the occupation or similar events in the future on the U.S. economy and securities markets.

*Anti-Takeover Provisions.* The Fund's Amended and Restated Agreement and Declaration of Trust ("Agreement and Declaration of Trust") includes provisions that could limit the ability of other entities or persons to acquire control of the Fund or convert the Fund to open-end status. These provisions could deprive the holders of common shares of opportunities to sell their common shares at a premium over the then current market price of the common shares or at net asset value.

*Tax Risks.* The Fund's investment policies and trading strategies, including, but not limited to, dividend strategies, high portfolio turnover, short sales, securities lending, use of derivatives and investment in foreign securities, may result in a larger portion of its income being taxable at ordinary income tax rates than might otherwise be the case. In addition, the Fund may invest in complex securities that could be subject to numerous special and complex tax rules. These rules could accelerate the recognition of income by the Fund (possibly causing the Fund to sell securities to raise the cash for necessary distributions) and/or defer the Fund's ability to recognize a loss, and, in limited cases, subject the Fund to U.S. federal income tax on income. These rules could also affect whether gain or loss recognized by the Fund is treated as ordinary or capital, or as interest or dividend income. These rules could, therefore, affect the amount, timing or character of the income distributed to you by the Fund. See "Tax Matters."

Given the risks described above, an investment in the common shares may not be appropriate for all investors. You should carefully consider your ability to assume these risks before making an investment in the Fund.





**SUMMARY OF FUND EXPENSES**

The following table shows Fund expenses as a percentage of net assets attributable to common shares.

**Shareholder Transaction Expenses**

Sales load paid by you (as a percentage of offering price)	4.50%
Offering expenses borne by the Fund (as a percentage of offering price)(1)	.20%
Dividend Reinvestment Plan fees(2)	None
	<b>Percentage of Net Assets</b>
	<b>Attributable to</b>
	<b>Common Shares</b>

**Annual Expenses**

Management fees(3)	1.00%
Other expenses(4)	.22%
Total annual expenses	1.22%

The purpose of the table above and the example below is to help you understand all fees and expenses that you, as a holder of common shares, would bear directly or indirectly. The expenses shown in the table under "Other Expenses" and "Total Annual Expenses" are based on estimated amounts for the Fund's first full year of operations and assume that the Fund issues 20,000,000 common shares. If the Fund issues fewer common shares, all other things being equal, these expenses, as a percentage of the Fund's net assets attributable to common shares, would increase. See "Management of the Fund" and "Dividend Reinvestment Plan."

**The Example should not be considered a representation of future expenses. Actual expenses may be greater or less than those assumed.**

<b>Example (5)</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
You would pay the following expenses on a \$1,000 investment in common shares, assuming (a) offering expenses of \$2; (b) a sales load of \$45; (c) total annual expenses of 1.22% of net assets; and (d) a 5% annual return on net assets:	\$ 59	\$ 84	\$ 111	\$ 188

(1) DMC has agreed to reimburse all the Fund's organizational expenses. DMC has also agreed to pay offering costs of the Fund (other than the sales load) that exceed \$.04 per common share (.20% of the offering price). Assuming an offering of 20,000,000 common shares for \$400,000,000, the total offering costs are estimated to be up to \$800,000, all of which will be borne by the Fund. The costs borne by the Fund may include a reimbursement of DMC's expenses incurred in connection with this offering.

(2) You will be charged a \$15 service charge and pay brokerage charges of \$.12 per share if you direct the Plan Agent (as defined below) to sell your common shares held in a dividend reinvestment account.

(3) The investment management agreement between the Fund and the Advisor obligates the Fund to pay the Advisor an annual investment management fee equal to 1.00% of the average daily net assets of the Fund.

(4) "Other Expenses" are based on estimated amounts for the Fund's first full year of operations.

(5) The example assumes that the estimated "Other Expenses" set forth in the Annual Expenses table are accurate, and that all dividends and distributions are reinvested at net asset value. The Fund's actual rate of return may be greater or less than the hypothetical 5% return shown in the example.



## THE FUND

The Fund is a newly-organized, diversified, closed-end management investment company registered under the 1940 Act. The Fund was organized as a Delaware statutory trust on April 12, 2007, pursuant to an Agreement and Declaration of Trust governed by the laws of the State of Delaware. The Fund has no operating history. The Fund's principal office is located at 2005 Market Street, Philadelphia, Pennsylvania 19103, and its telephone number is (800) 523-1918.

## USE OF PROCEEDS

The net proceeds of this offering of common shares will be approximately \$ (\$ if the underwriters exercise the over-allotment option in full) after payment of the estimated offering costs and the deduction of the sales load. The Fund will invest the net proceeds of this offering in accordance with the Fund's investment objectives and policies as stated below. The Advisor currently anticipates that the Fund will be fully invested in securities that meet the Fund's investment objectives and policies within approximately one month after the completion of this offering. It is anticipated that certain Fund proceeds will be invested in short-term debt securities prior to being invested otherwise pursuant to the Fund's investment objectives and policies.

## THE FUND'S INVESTMENTS

### Investment Objectives and Policies

The Fund's primary investment objective is to seek current income, with a secondary objective of capital appreciation. The Fund will seek to achieve its objectives by focusing on broad diversification within its portfolio by investing globally in dividend-paying or income-generating securities across multiple asset classes. The primary asset classes include equity securities of large, well-established companies, securities issued by real estate companies (including REITs and REOCs), emerging market equities, preferred securities, debt securities, including high risk, high yield corporate bonds, investment grade corporate bonds, U.S. government securities, non-U.S. corporate bonds, and non-U.S. government securities, convertible bonds, convertible preferred stock, and emerging market debt securities, and international currencies. There is no assurance that the Fund will achieve its investment objectives.

The Advisor will determine the proportion of the Fund's assets to be allocated among the various assets classes based on its analysis of economic and market conditions and its assessment of the income and potential for appreciation that can be achieved from investments in such asset classes. The percentage of the Fund's assets allocated to the various asset classes described herein will vary depending on DMC's assessment of these conditions. The key goals in allocating across these various asset classes are to attempt to mitigate risk and potentially improve upon the Fund's income and performance levels.

The Fund may, from time to time, take temporary defensive positions that are inconsistent with the Fund's principal investment strategies in attempting to respond to adverse market, economic, political or other conditions. During such times, the Fund may temporarily invest up to 100% of its assets in cash or cash equivalents, including money market instruments, prime commercial paper, repurchase agreements, Treasury bills and other short-term obligations of the U.S. Government, its agencies or instrumentalities. In these and in other cases, the Fund may not achieve its investment objectives.

Generally, securities will be purchased or sold by the Fund on national securities exchanges and in the over-the-counter market. From time to time, securities may be purchased or sold in private transactions, including securities that are not publicly traded or that are otherwise illiquid.

The Advisor may invest the Fund's cash balances in any investments it deems appropriate, including, without limitation and as permitted under the 1940 Act, money market funds, including the Delaware Cash Reserve Fund, repurchase agreements, U.S. Treasury and U.S. agency securities, municipal bonds, and bank accounts. Any income earned from such investments is ordinarily reinvested by the Fund in accordance with its investment program. Many of the considerations entering into the Advisor's recommendations and the portfolio managers' decisions are subjective.

### **Investment Strategy**

#### *Overall Philosophy*

The Fund may invest in a variety of dividend-paying or income-generating securities. Not all investments, however, are required to pay dividends or interest. Under normal market conditions, the Fund will invest at least 80% of its net assets in a combination of dividend-paying or income-generating securities across multiple asset classes, including but not limited to, equity securities of large, well-established companies; securities issued by real estate companies (including REITs and REOCs), debt securities (such as government bonds, investment grade and high risk, high yield corporate bonds, and convertible bonds), and emerging market securities. In addition, under normal market conditions, the Fund will invest at most 60% of its net assets in securities of U.S. issuers and at least 40% of its net assets in securities of non-U.S. issuers, unless market conditions are not deemed favorable by the Advisor, in which case the Fund would invest at least 30% of its net assets in the securities of non-U.S. issuers. The Fund may not invest more than 25% of the Fund's net assets in any one industry nor, as to 75% of the Fund's total assets, will more than 5% be invested in the securities of any one issuer. In addition, the Advisor will use a combination of dividend capture trading, option overwriting, realization of gains on the sale of securities, dividend growth and currency forwards to enhance the sustainability of the income stream.

The Advisor's strategy to income generating investing is based on the primary attribute of seeking a sustainable and recurring income stream, with capital appreciation as a secondary objective. This investment approach may provide diversification, low sector correlation, low interest rate sensitivity and significant downside protection, which over the long-term may result in an attractive risk adjusted return. The Advisor believes that seeking income on a global basis can provide investors with opportunities not available in the U.S. equity and debt markets. For example, recently many countries, including the United Kingdom, France, Canada, Australia, Japan, Singapore, and Hong Kong and several others, have enacted REIT or similar legislation that has created real estate companies which are required to pay out a significant portion of their earnings in dividends.

Total return from an equity investment is derived from two components, income and capital appreciation. From the end of 1929 through 2006, the income component has represented approximately one-half of the total investment return in the U.S. equity market. Within that period, returns from the income component of total return have tended to be, over the long-term, more stable than returns from capital appreciation. As an example, as shown in the chart below, while returns from the securities comprising the Standard & Poor's 500<sup>®</sup> Composite Index ("S&P 500<sup>®</sup>") since 1929 due to the income component have varied from 1% to 10%, annual returns from capital appreciation have varied from -47.1% to 45.00%. In addition, the past two decades of the 1980s and 1990s provided investors with average annual returns from capital appreciation of 12.6% and 15.3%, respectively, well above the long-term average annual return from capital appreciation of 5.6% from the end of 1929 to 2006. The Advisor believes that the following decade of the 2000s (average annual return from capital appreciation of -0.5% from 2000 to 2006) has begun a prolonged environment of lower returns in which the income component of total return will provide a more equal portion of total return in the future. Historically, income provided 43% of the total return component from 1929 to 2006. During the 1980s and 1990s, the income component provided only 29% and 16% of the total return component, respectively. Thus, the Advisor believes that the income component of total return will revert to the historical mean of 43% of the total return component. A strategy borne of current income may provide better risk adjusted returns due to the income component being a larger determinant of total return.<sup>1</sup>

<sup>1</sup> Source of data for this paragraph is Ibbotson Associates and Bloomberg.

The Advisor believes that many foreign equity markets have exhibited properties similar to those described for the U.S. equity market above with respect to the income component of total return. Although the supporting data for international markets as represented by the Morgan Stanley Capital International Europe, Australasia, and Far East Index (the "MSCI EAFE Index<sup>®</sup>"), a benchmark that measures international equity performance, does not provide as much history as the S&P 500<sup>®</sup>, the trend of income return becoming a more dominant component of total return is similar in direction. During the time period measured from the end of 1969 to 2006, returns from the income component of total return have tended to be, over the long-term, more stable than returns from capital appreciation. As an example, while returns from the income component of the securities comprising the MSCI EAFE Index<sup>®</sup> since the end of 1969 have varied from 1% to 4.2%, annual returns from capital appreciation have varied from -25.6% to 66.8%. In addition, the past two decades of the 1980s and 1990s, the income component represented only 11% and 24% of the total return component, respectively. The Advisor believes the following decade of the 2000s has begun a trend similar to the United States whereby the average annual return from income has been 46% of the total return component of the MSCI EAFE Index<sup>®</sup> from 2000 through 2006. Similar to returns in the United States, the Advisor believes a strategy of seeking current and sustainable income will provide better risk adjusted returns due to the income component being a larger determinant of total return.<sup>2</sup>

Source: Ibbotson Associates, Bloomberg and Delaware Investments

<sup>2</sup> Source of data for this paragraph is MSCI/Barra, FactSet, Delaware Investments, December 31, 2006.

Source: Ibbotson Associates, Bloomberg, MSCI/Barra, FactSet and Delaware Investments, December 31, 2006

*Multi-Asset Classes*

The Fund will primarily invest in the following asset classes to attempt to achieve broad diversification of income and capital appreciation within its portfolio. It may not, however, be invested in all these asset classes at any given time.

*U.S. Equities.* The Advisor researches individual companies and analyzes economic and market conditions, seeking to identify the securities that the Advisor believes are the best investments for the Fund. The Advisor takes a disciplined approach to investing, combining investment strategies and risk management techniques that the Advisor believes can help shareholders meet their goals. The Fund invests primarily in securities of large-capitalization companies that the Advisor believes have long-term capital appreciation potential. The Advisor follows a value-oriented investment philosophy in selecting stocks for the Fund using a research-intensive approach that considers factors such as:

- a security price that reflects a market valuation that is judged to be below the estimated present or future value of the company;
- favorable earnings growth prospects;
- expected above-average return on equity and dividend yield;
- the financial condition of the issuer; and
- various qualitative factors.

The Advisor may sell a security if the Advisor no longer believes the security will contribute to meeting the investment objectives of the Fund. In considering whether to sell a security, the Advisor may evaluate, among other things, the conditions of the U.S. economy, the condition of foreign economies, meaningful changes in the issuer's financial condition, and changes in the condition and outlook in the issuer's industry sector.

*Securities Issued by Real Estate Companies.* The Fund may invest in securities that represent a variety of different sectors in the real estate industry, including REITs and REOCs. The Advisor researches individual companies and analyzes economic and market conditions, seeking to identify the securities or market sectors that the Advisor believes are the best global real estate investments for the Fund. The Advisor takes a disciplined

approach to investing, combining investment strategies and risk management techniques that can help shareholders meet their goals. The Advisor strives to achieve maximum long-term total return through a combination of current income and capital appreciation. The Fund will invest among companies in various regions and countries throughout the world, including the United States and developed, developing, and emerging market non-U.S. countries. The Fund's global real estate investments may at times have a significant investment in real estate companies, including REITs, REIT-equivalents, and REOCs, organized or located within or outside the United States. See "Portfolio of Investments - Global Real Estate Investment Trusts" and "Portfolio of Investments - Global Real Estate Industry Operating Companies." Under certain market conditions, the Fund may shift more of its investments to U.S. real estate companies. The Fund may invest in securities issued in any currency and may hold foreign currency.

The Advisor's global real estate investment strategy is based on both a top-down and a bottom-up assessment of countries and specific markets. From a top-down perspective, the Advisor considers each region's economy, including current economic conditions, interest rates, job growth, and capital flows. The Advisor's bottom-up analysis is based on a relative valuation methodology that is focused on both real estate valuations and security-level research with disciplined portfolio management. Real estate factors that are important to the Advisor's analysis would be supply/demand, vacancy rates, and rental growth in a particular market. This market-by-market research is coupled with an overview of a company's financial statements, cash flow, dividend growth rates, and management strategy. In addition, the Advisor considers selling a security based generally on the following disciplines: a security reaching the Advisor's targeted price ranges; relative pricing of a security versus other investment opportunities; or a negative change in how the Advisor views a security's fundamentals.

*International Equities.* The Advisor's investment strategy in international equities seeks long-term growth without undue risk to principal. The Fund invests primarily in equity securities, including common or ordinary stocks, which provide the potential for capital appreciation. The Advisor's strategy would commonly be described as a value strategy. That is, the Advisor strives to purchase stocks that the Advisor believes have a greater value than the price at which the stock is purchased.

In selecting foreign stocks, the Advisor's philosophy is based on the concept that adversity creates opportunity and that transitory problems can be overcome by well-managed companies. The Advisor uses an approach that combines quantitative, valuation-based screening at the early stages followed by comprehensive company and industry specific research. The philosophy and process are based on the concept that valuation screens serve solely as a starting point in the creation of a portfolio of undervalued stocks because accounting measures only approximate the intrinsic value of any company. The investment universe segmentation prioritizes research and the Advisor's bottom-up contrarian investment style seeks to identify mispriced securities.

The Fund may purchase securities in any foreign country, developed or emerging markets; however, the Advisor currently anticipates investing in Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Korea, Mexico, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, Taiwan, and the United Kingdom. While this is a representative list, the Fund may also invest in countries not listed here.

The Fund's portfolio management team generally maintains a long-term focus in the Fund, seeking companies that it believes will perform well over the next three to five years.

*Emerging Market Equities.* The Advisor's emerging markets strategy seeks long-term capital appreciation and the Fund may invest in a broad range of emerging market equity securities, including common or ordinary stocks. The Advisor's primary emphasis will be on the stocks of companies considered to be from an emerging market country.

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The Advisor considers an "emerging market country" to be any country that is:

generally recognized to be an emerging or developing country by the international financial community, including the World Bank and the International Finance Corporation;

classified by the United Nations as developing; or

included in the International Finance Corporation Free Index or the Morgan Stanley Capital International Emerging Markets Index.

Developing or emerging countries include almost every nation in the world except the United States, Canada, Japan, Australia, New Zealand, and most nations located in Western and Northern Europe. A representative list of the countries where the Fund's portfolio manager may invest includes: Argentina, Brazil, Chile, China, Croatia, Czech Republic, Egypt, Estonia, Hungary, India, Indonesia, Israel, Malaysia, Mexico, Panama, Poland, Republic of Korea, Russia, South Africa, Taiwan, and Thailand. The Fund may invest in other countries, particularly as markets in other emerging countries develop.

In deciding whether a company is from an emerging market country, the Advisor will evaluate publicly available information and question individual companies to determine if the company meets one of the following criteria:

the principal trading market for the company's securities is in a country that is emerging;

the company is organized under the laws of an emerging market country and has a principal office in an emerging market country; or

the company derives a majority of its income from operations in emerging market countries, even though the company's securities are traded in an established market or in a combination of emerging and established markets.

*Convertible Securities.* The Fund may invest without limit in convertible securities, which are another category of income generating equity securities. These securities may be of any credit quality, including those rated below investment grade by a nationally recognized statistical rating organization ("NRSRO") or those that are unrated but deemed equivalent to non-investment grade. The Fund principally invests in convertible securities that offer favorable upside participation and downside protection relative to the underlying equity security that it is linked to. The Advisor primarily utilizes convertible securities to invest in sectors or industries of the market which the Advisor believes represent attractive investment opportunities but do not offer attractive yields or diversification through traditional equity or debt securities. The convertible structure enables the Advisor to gain this exposure while still realizing income returns and minimizing volatility.

*U.S. Investment Grade Fixed Income.* In managing the Fund's assets allocated to the investment-grade sector, the Fund will invest principally in debt obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities, and by U.S. corporations. The corporate debt obligations in which the Fund may invest include bonds, notes, debentures, and commercial paper of U.S. companies. The U.S. Government securities in which the Fund may invest include a variety of securities that are issued or guaranteed as to the payment of principal and interest by the U.S. Government, and by various agencies or instrumentalities which have been established or sponsored by the U.S. Government. The investment-grade sector of the Fund's assets may also be invested in mortgage-backed securities issued or guaranteed by the U.S. Government, its agencies, or instrumentalities or by government sponsored corporations. Other mortgage-backed securities in which the Fund may invest are issued by certain private, non-government entities. Subject to quality limitations, the Fund may also invest in securities which are backed by assets such as receivables on home equity and credit card loans, automobile, mobile home, recreational vehicle and other loans, wholesale dealer floor plans, and leases.

Securities purchased by the Fund within this sector will be rated in one of the four highest rating categories by an NRSRO, such as those rated AAA, AA, A, and BBB by the Standard & Poor's Ratings Group ("S&P") or



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Fitch, Inc. ("Fitch") or Aaa, Aa, A, and Baa by Moody's Investors Service, Inc. ("Moody's"), or will be unrated securities that the Advisor determines are of comparable quality.

*U.S. High Yield Fixed Income.* The Fund will invest its assets that are allocated to the domestic high yield sector primarily in those securities having a liberal and consistent yield and those tending to reduce the risk of market fluctuations. The Fund may invest in domestic corporate debt obligations, including notes, which may be convertible or non-convertible, commercial paper, units consisting of bonds with stock or warrants to buy stock attached, debentures, convertible debentures, zero coupon bonds, and pay-in-kind securities ("PIKs").

The Fund will invest in both rated and unrated bonds. The rated bonds that the Fund may purchase in this sector will generally be rated BB or lower by S&P or Fitch, Ba or lower by Moody's, or similarly rated by another NRSRO. Unrated bonds may be more speculative in nature than rated bonds.

*International Developed Markets Fixed Income.* The international developed markets fixed income sector invests primarily in fixed income securities of issuers organized or having a majority of their assets or deriving a majority of their operating income in international developed markets. These fixed income securities may include foreign government securities, debt obligations of foreign companies, and securities issued by supranational entities. A supranational entity is an entity established or financially supported by the national governments of one or more countries to promote reconstruction or development. Examples of supranational entities include, among others, the International Bank for Reconstruction and Development (more commonly known as the "World Bank"), the European Economic Community, the European Investment Bank, the Inter-Development Bank, and the Asian Development Bank. The international developed markets sector will be subject to certain risks, including, but not limited to, the risk that securities within this sector may be adversely affected by political instability, changes in currency exchange rates, foreign economic conditions, or inadequate regulatory and accounting standards.

*Emerging Markets Fixed Income.* The Fund may purchase securities of issuers in any foreign country, developed and underdeveloped. These investments may include direct obligations of issuers located in emerging markets countries. Fixed income securities in the emerging markets fixed income sector may include foreign government securities, debt obligations of foreign companies, and securities issued by supranational entities. In addition to the risks associated with investing in all foreign securities, emerging-markets debt is subject to specific risks, particularly those that result from emerging markets generally being less stable, politically and economically, than developed markets. There is substantially less publicly available information about issuers in emerging markets than there is about issuers in developed markets, and the information that is available tends to be of a lesser quality. Also, emerging markets are typically less mature, less liquid, and subject to greater price volatility than are developed markets.

### *Enhanced Income Strategies*

The Advisor will use a combination of dividend capture trading, option overwriting, realization of gains on the sale of securities, dividend growth and currency forwards to enhance the sustainability of the income stream. The percentage of the Fund's assets invested in these strategies will vary from time to time based on the Advisor's assessment of economic and market conditions and the potential for income.

*Dividend Capture.* The Fund's dividend capture strategy seeks to maximize the level of dividend income that the Fund receives by engaging in dividend capture trading and by identifying special dividend situations. In a dividend capture trade, the Fund sells a stock on or shortly after the stock's ex-dividend date and uses the sale proceeds to purchase one or more other stocks that are expected to pay dividends before the next dividend payment on the stock being sold. Through this rotation practice, the Fund may receive more dividend payments over a given period of time than if it held a single stock. Receipt of a greater number of dividend payments during a given time period could augment the total amount of dividend income the Fund receives over this period. For example, during the course of a single year it may be possible through dividend capture trading for the Fund to

receive five or more dividend payments with respect to Fund assets attributable to dividend capture trading where it may only have received four quarterly payments in a hold only strategy. Special dividend situations may include those where companies decide to return large cash balances to shareholders as one-time dividend payments, for instance due to a restructuring or recent strong operating performance. Other special dividends may arise in a variety of situations. See "Risks Dividend Strategy Risks."

*Option Overwriting.* The Fund may seek to increase its income or may hedge a portion of its portfolio investments through writing (i.e., selling) covered call and put options; however, the Fund will primarily use covered calls in its option overwriting strategy. The Fund will receive a premium when it writes call and put options, which increases the Fund's return on the underlying security in the event the option expires unexercised or is closed out at a profit. The Fund may purchase and write options on securities that are listed on national securities exchanges or are traded over the counter, although it expects, under normal circumstances, to effect such transactions on national securities exchanges. See "The Fund's Investments Investment Techniques Options on Securities."

*Realization of Gains on the Sale of Securities and Dividend Growth.* The Fund anticipates utilizing both short-term and, to the extent permitted by applicable law, long-term capital gains as part of its periodic distributions to shareholders. The Fund realizes a capital gain when it sells a portfolio security at a price higher than its original cost. Only the excess of net realized capital gains over prior year capital loss carryovers, if any, are available for distribution. Over time the Advisor believes that portions of the Fund's securities should appreciate in value, and consequently, the Fund will be able to realize gains on these securities. The Fund will attempt to realize such gains in certain situations to attempt to help keep distributions as consistent and sustainable as possible without disrupting the underlying investment philosophy of the Advisor. If, however, the Fund realizes capital losses in a year after making a capital gains distribution, the capital gains distribution may later be recharacterized as a return of capital. See "Distributions."

The Fund's dividend growth strategy seeks to identify issuers that have solid earnings growth and strong balance sheets, coupled with a corporate philosophy that supports consistent and above average dividend growth. The Fund believes that companies that provide above average dividend growth will realize superior long-term total returns for shareholders with below average volatility.

*Currency Forwards.* The Fund may enter into forward foreign currency contracts in order to generate additional income by capturing interest rate differentials between specific currencies. The Fund may also enter into forward foreign currency exchange contracts in order to protect against possible losses on foreign investments resulting from adverse changes in the relationship between the U.S. dollar and foreign currencies. A forward foreign currency exchange contract involves an obligation to purchase or sell a specific currency at a future date, which may be any fixed number of days (usually less than one year) from the date of the contract agreed upon by the parties, at a price set at the time of the contract. These contracts are traded in the interbank market conducted directly between currency traders (usually large commercial banks) and their customers. A forward contract generally has a deposit requirement, and no commissions are charged at any stage for trades. Although foreign exchange dealers do not charge a fee for conversion, they do realize a profit based on the difference (the "spread") between the price at which they are buying and selling various currencies. However, forward foreign currency exchange contracts may limit potential gains which could result from a positive change in such currency relationships.

At the consummation of a forward contract, the Fund may either make delivery of the foreign currency or terminate their contractual obligation to deliver the foreign currency by purchasing an offsetting contract obligating them to purchase, at the same maturity date, the same amount of such foreign currency. If the Fund chooses to make delivery of the foreign currency, they may be required to obtain such currency through the sale of portfolio securities denominated in such currency or through conversion of other assets of the Fund into such

currency. If the Fund engages in an offsetting transaction, the Fund will incur a gain or loss to the extent that there has been a change in forward contract prices.

It should be realized that this method of protecting the value of the Fund's portfolio securities against a decline in the value of a currency does not eliminate fluctuations in the underlying prices of the securities. It simply establishes a rate of exchange which can be achieved at some future point in time. Additionally, although such contracts tend to minimize the risk of loss due to a decline in the value of the hedged currency, at the same time they tend to limit any potential gain which might result should the value of such currency increase. Generally, the Fund will not enter into a forward foreign currency exchange contract with a term longer than one year.

### **Portfolio of Investments**

*Common Stocks.* The Fund will invest in common stocks. Common stocks represent an ownership interest in an issuer. While offering greater potential for long-term growth, common stocks are more volatile and more risky than some other forms of investment. Common stock prices fluctuate for many reasons, including adverse events, such as an unfavorable earnings report, changes in investors' perceptions of the financial condition of an issuer or the general condition of the relevant stock market, or when political or economic events affecting the issuers occur. In addition, common stock prices may be sensitive to rising interest rates as the costs of capital rise and borrowing costs increase.

*Preferred Stocks.* Preferred stock, like common stock, represents an equity ownership in an issuer. Generally, preferred stock has a priority of claim over common stock in dividend payments and upon liquidation of the issuer. Unlike common stock, preferred stock does not usually have voting rights. Preferred stock in some instances is convertible into common stock. Although they are equity securities, preferred stocks have characteristics of both debt and common stock. Like debt, their promised income is contractually fixed. Like common stock, they do not have rights to precipitate bankruptcy proceedings or collection activities in the event of missed payments. Other equity characteristics are their subordinated position in an issuer's capital structure and that their quality and value are heavily dependent on the profitability of the issuer rather than on any legal claims to specific assets or cash flows.

Distributions on preferred stock must be declared by the board of trustees and may be subject to deferral, and thus they may not be automatically payable. Income payments on preferred stocks may be cumulative, causing dividends and distributions to accrue even if not declared by the board or otherwise made payable, or they may be non-cumulative, so that skipped dividends and distributions do not continue to accrue. There is no assurance that dividends on preferred stocks in which the Fund invests will be declared or otherwise made payable. The Fund may invest in non-cumulative preferred stock, although the Advisor would consider, among other factors, their non-cumulative nature in making any decision to purchase or sell such securities.

Shares of preferred stock have a liquidation value that generally equals the original purchase price at the date of issuance. The market values of preferred stock may be affected by favorable and unfavorable changes impacting the issuers' industries or sectors, including companies in the utilities and financial services sectors, which are prominent issuers of preferred stock. They may also be affected by actual and anticipated changes or ambiguities in the tax status of the security and by actual and anticipated changes or ambiguities in tax laws, such as changes in corporate and individual income tax rates, and in the dividends received deduction for corporate taxpayers or the characterization of dividends as tax-advantaged as described herein.

Because the claim on an issuer's earnings represented by preferred stock may become onerous when interest rates fall below the rate payable on the stock or for other reasons, the issuer may redeem preferred stock, generally after an initial period of call protection in which the stock is not redeemable. Thus, in declining interest

rate environments in particular, the Fund's holdings of higher dividend paying preferred stocks may be reduced and the Fund may be unable to acquire securities paying comparable rates with the redemption proceeds.

*Foreign Securities.* Under normal circumstances, the Fund intends to, although it is not required to, invest a significant portion of its assets in securities of issuers located in any foreign country (in addition to the United States), including emerging markets. The Fund will invest in foreign securities, including direct investments in securities of foreign issuers and investments in depository receipts (such as American, European and Global Depository Receipts ("ADR," "GDRs," and "EDRs," respectively)) that represent indirect interests in securities of foreign issuers. The Fund is not limited in the amount of assets it may invest in such foreign securities. These investments involve risks not associated with investments in the United States, including the risk of fluctuations in foreign currency exchange rates, unreliable and untimely information about the issuers and political and economic instability. These risks could result in the Advisor's misjudging the value of certain securities or in a significant loss in the value of those securities.

The value of foreign securities is affected by changes in currency rates, foreign tax laws (including withholding tax), government policies (in this country or abroad), relations between nations and trading, settlement, custodial, and other operational risks. In addition, the costs of investing abroad are generally higher than in the United States, and foreign securities markets may be less liquid, more volatile and less subject to governmental supervision than markets in the United States. As an alternative to holding foreign-traded securities, the Fund may invest in dollar-denominated securities of foreign companies that trade on U.S. exchanges or in the U.S. over-the-counter market (including depository receipts and exchange-traded funds ("ETFs")).

Because foreign companies are not subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those applicable to U.S. companies, there may be less publicly available information about a foreign company than about a domestic company. Volume and liquidity in most foreign debt markets is less than in the United States and securities of some foreign companies are less liquid and more volatile than securities of comparable U.S. companies. There is generally less government supervision and regulation of securities exchanges, broker-dealers and listed companies than in the United States. Mail service between the United States and foreign countries may be slower or less reliable than within the United States, thus increasing the risk of delayed settlements of portfolio transactions or loss of certificates for portfolio securities. Payment for securities before delivery may be required. In addition, with respect to certain foreign countries, there is the possibility of expropriation or confiscatory taxation, political or social instability, or diplomatic developments, which could affect investments in those countries. Moreover, individual foreign economies may differ favorably or unfavorably from the U.S. economy in such respects as growth of gross national product, rate of inflation, capital reinvestment, resource self-sufficiency and balance of payments position. Foreign securities markets, while growing in volume and sophistication, are generally not as developed as those in the United States, and securities of some foreign issuers (particularly those located in developing countries) may be less liquid and more volatile than securities of comparable U.S. companies.

The Fund may purchase ADRs, EDRs, and GDRs, which are certificates evidencing ownership of shares of foreign issuers and are alternatives to purchasing directly the underlying foreign securities in their national markets and currencies. However, such depository receipts continue to be subject to many of the risks associated with investing directly in foreign securities. These risks include foreign exchange risk as well as the political and economic risks associated with the underlying issuer's country. ADRs, EDRs, and GDRs may be sponsored or unsponsored. Unsponsored receipts are established without the participation of the issuer. Unsponsored receipts may involve higher expenses, they may not pass-through voting or other shareholder rights, and they may be less liquid. Less information is normally available on unsponsored receipts.

The risks of foreign investments described above apply to an even greater extent on investments in emerging markets. The securities markets of emerging countries are generally smaller, less developed, less liquid, and more

volatile than the securities markets of the United States and developed foreign markets. Disclosure and regulatory standards in many respects are less stringent than in the United States and developed foreign markets. There also may be a lower level of monitoring and regulation of securities markets in emerging market countries and the activities of investors in such markets and enforcement of existing regulations has been extremely limited. Many emerging countries have experienced substantial, and in some periods extremely high, rates of inflation for many years. Inflation and rapid fluctuations in inflation rates have had and may continue to have very negative effects on the economies and securities markets of certain emerging countries. Economies in emerging markets generally are heavily dependent upon international trade and, accordingly, have been and may continue to be affected adversely by trade barriers, exchange controls, managed adjustments in relative currency values, and other protectionist measures imposed or negotiated by the countries with which they trade. The economies of these countries also have been and may continue to be adversely affected by economic conditions in the countries in which they trade. The economies of countries with emerging markets may also be predominantly based on only a few industries or dependent on revenues from particular commodities. In addition, custodial services and other costs relating to investment in foreign markets may be more expensive in emerging markets than in many developed foreign markets, which could reduce the Fund's income from such securities.

In many cases, governments of emerging countries continue to exercise significant control over their economies, and government actions relative to the economy, as well as economic developments generally, may affect the Fund's investments in those countries. In addition, there is a heightened possibility of expropriation or confiscatory taxation, imposition of withholding taxes on interest payments, or other similar developments that could affect investments in those countries. There can be no assurance that adverse political changes will not cause the Fund to suffer a loss of any or all of its foreign investments.

*Global Real Estate Investment Trusts.* The Fund may invest in REITs and REIT-equivalents located in any country (including the United States and emerging market countries). REITs are financial vehicles that pool investors' capital to purchase or finance real estate. The market value of REIT shares and the ability of REITs to distribute income may be adversely affected by numerous factors, including rising interest rates, changes in the national, state and local economic climate and real estate conditions, perceptions of prospective tenants of the safety, convenience and attractiveness of the properties, the ability of the owners to provide adequate management, maintenance and insurance, the cost of complying with the Americans with Disabilities Act, increasing competition and compliance with environmental laws, changes in real estate taxes and other operating expenses, adverse changes in governmental rules and fiscal policies, adverse changes in zoning laws, and other factors beyond the control of the issuers. In addition, distributions received by the Fund from REITs may consist of dividends, capital gains and/or return of capital. As REITs generally pay a higher rate of dividends than most other operating companies, to the extent application of the Fund's investment strategy results in the Fund investing in REIT shares, the percentage of the Fund's dividend income received from REIT shares will likely exceed the percentage of the Fund's portfolio that is comprised of REIT shares.

*Global Real Estate Industry Operating Companies.* The Fund may invest in REOCs located in any country (including the United States and emerging market countries). The Advisor considers a REOC to be a company that derives at least 50% of its gross revenues or net profits from: (1) ownership, development, construction, financing, management, or sale of commercial, industrial, or residential real estate; or (2) products or services related to the real estate industry, such as building supplies or mortgage servicing.

*Exchange-Traded Funds.* The Fund may invest in ETFs, which are investment companies that aim to track or replicate a desired index, such as a sector, market, or global segment. ETFs are passively managed and their shares are traded on a national exchange or The NASDAQ Stock Market ("NASDAQ"). ETFs do not sell individual shares directly to investors and only issue their shares in large blocks known as "creation units." The investor purchasing a creation unit may sell the individual shares on a secondary market. Therefore, the liquidity of ETFs depends on the adequacy of the secondary market. There can be no assurance that an ETF's investment objective will be achieved, as ETFs based on an index may not replicate and maintain exactly the composition and

relative weightings of securities in the index. ETFs are subject to the risks of investing in the underlying securities. The Fund, as a holder of the securities of the ETF, will bear its pro rata portion of the ETF's expenses, including advisory fees. These expenses are in addition to the direct expenses of the Fund's own operations.

*Closed-End Investment Companies.* The Fund may invest in closed-end investment companies that invest in the same types of securities in which the Fund may invest. The Fund will indirectly bear its proportionate share of any management fees and other expenses paid by the investment companies in which it invests in addition to the management fee paid by the Fund. The value of closed-end investment company securities, which are usually traded on an exchange, is affected by the demand for the securities of the closed-end fund, independent of the demand for the underlying portfolio assets, and, accordingly, such securities can trade at a discount from their net asset values.

*Convertible Securities.* The Fund may invest in convertible securities. Convertible securities include fixed income securities that may be exchanged or converted into a predetermined number of shares of the issuer's underlying common stock at the option of the holder during a specified period. Convertible securities may take the form of convertible preferred stock, convertible bonds or debentures, units consisting of "usable" bonds and warrants or a combination of the features of several of these securities. The investment characteristics of each convertible security vary widely, which allows convertible securities to be employed for a variety of investment strategies.

The Fund will exchange or convert convertible securities into shares of underlying common stock when, in the opinion of the Advisor, the investment characteristics of the underlying common shares will assist the Fund in achieving its investment objectives. The Fund may also elect to hold or trade convertible securities. In selecting convertible securities, the Advisor evaluates the investment characteristics of the convertible security as a fixed income instrument, and the investment potential of the underlying equity security for capital appreciation. In evaluating these matters with respect to a particular convertible security, the Advisor considers numerous factors, including the economic and political outlook, the value of the security relative to other investment alternatives, trends in the determinants of the issuer's profits, and the issuer's management capability and practices.

*Securities Lending.* The Fund may loan up to 25% of its assets to qualified broker/dealers or institutional investors for their use relating to short sales or other securities transactions.

It is the understanding of the Advisor that the staff of the Securities and Exchange Commission permits portfolio lending by registered investment companies if certain conditions are met. These conditions are as follows: 1) the Fund will receive collateral consisting generally of cash, short-term U.S. Government securities, or irrevocable letters of credit payable by banks acceptable to a Fund from the borrower, which will be maintained by marking to market daily in an amount equal to at least (a) 102% of the current market value of the loaned securities with respect to U.S. securities and (b) 105% of the current market value of the loaned securities with respect to foreign securities; 2) this collateral must be valued daily and should the market value of the loaned securities increase, the borrower must furnish additional collateral to the Fund; 3) the Fund must be able to terminate the loan after notice, at any time; 4) the Fund must receive reasonable interest on any loan, and any dividends, interest, or other distributions on the lent securities, and any increase in the market value of such securities; 5) the Fund may pay reasonable custodian fees in connection with the loan; and 6) the voting rights on the lent securities may pass to the borrower; however, under certain circumstances the Fund must attempt to enter into an arrangement to exercise voting rights on the loaned securities.

The major risk to which the Fund would be exposed on a loan transaction is the risk that a borrower would go bankrupt at a time when the value of the security goes up. Therefore, the Fund will only enter into loan arrangements after a review of all pertinent facts by the Advisor, under the supervision of the Board of Trustees, including the creditworthiness of the borrowing broker, dealer, or institution and then only if the consideration to be received from such loans would justify the risk. Credit-worthiness will be monitored on an ongoing basis by the Advisor.

*Corporate Bonds, Government Debt Securities, and Other Debt Securities.* The Fund may invest in corporate bonds, debentures, and other debt securities. Debt securities in which the Fund may invest may pay fixed or variable rates of interest. Bonds and other debt securities generally are issued by corporations and other issuers to borrow money from investors. The issuer pays the investor a fixed or variable rate of interest and normally must repay the amount borrowed on or before maturity. Certain debt securities are "perpetual" in that they have no maturity date.

The Fund will invest in government debt securities, including those of emerging market issuers or of other non-U.S. issuers. These securities may be U.S. dollar-denominated or non-U.S. dollar-denominated and include: (a) debt obligations issued or guaranteed by foreign national, provincial, state, municipal or other governments with taxing authority or by their agencies or instrumentalities; and (b) debt obligations of supranational entities. Government debt securities include: debt securities issued or guaranteed by governments, government agencies or instrumentalities and political subdivisions; debt securities issued by government owed, controlled or sponsored entities; interests in entities organized and operated for the purpose of restructuring the investment characteristics issued by the above-noted issuers; or debt securities issued by supranational entities such as the World Bank or the European Union. The Fund may also invest in securities denominated in currencies of emerging market countries. Emerging market debt securities generally are rated in the lower rating categories of recognized credit rating agencies or are unrated and considered to be of comparable quality to lower rated debt securities. A non-U.S. issuer of debt or the non-U.S. governmental authorities that control the repayment of the debt may be unable or unwilling to repay principal or interest when due, and the Fund may have limited resources in the event of a default. Some of these risks do not apply to issuers in large, more developed countries. These risks are more pronounced in investments in issuers in emerging markets or if the Fund invests significantly in one country.

The Fund will invest in debt securities rated below investment grade (i.e., securities rated lower than Baa by Moody's or lower than BBB by S&P), or their equivalent as determined by the Advisor. These securities are commonly referred to as "junk bonds." The foregoing credit quality policy applies only at the time a security is purchased, and the Fund is not required to dispose of securities already owned by the Fund in the event of a change in assessment of credit quality or the removal of a rating.

Other debt securities in which the Fund may invest include bank loans (rated below investment grade). The bank loans are generally the senior obligation in the capital structure of an issuer and come with covenants (for example: financial tests such as Debt/EBITDA (earnings before interest, taxes, depreciation and amortization) and interest coverage ratios) protecting the lender as well as a lien or pledge of assets. They are usually floating rate obligations which pay a coupon at a spread above the London Interbank Offered Rate (LIBOR). The term loan comes with a final maturity of around six to seven years and typically has low price volatility around par (\$100) since the issuer has the option to refinance at anytime at par, in whole or in part. Generally, final maturity is not ever attained since a loan is usually refinanced as market conditions, ownership, or the credit profile of the company changes.

The bank loans are widely utilized by institutions as short term liquid financing such as revolvers and long-term in the form of term loans. Lending arrangements are typically established by lenders which then syndicate their risk to other institutions such as money managers, insurance companies, hedge funds, etc. Bank loans are typically secured by the most valuable and liquid assets of the company. In the event of a default, lenders have a claim to the primary assets of the company, but in all likelihood under worst case scenarios, have the leverage to force a favorable restructuring. Bank loans normally include a series of standard covenants that restrict the borrower's ability to assume additional debt beyond certain limits as well as operate to meet minimum interest coverage and asset disposition. Other examples of commonly included covenants are: minimum EBITDA maintenance, minimum interest coverage maintenance, limited total leverage, waterfall of distribution of proceeds, etc.

*Illiquid Securities.* Illiquid securities include securities that have legal or contractual restrictions on resale, securities that are not readily marketable, and repurchase agreements maturing in more than seven days. Illiquid

securities involve the risk that the securities will not be able to be sold at the time desired or at prices approximating the value at which the Fund is carrying the securities. The Fund may invest up to 10% of the value of its net assets in illiquid securities.

*Rule 144A Securities.* The Fund may invest in restricted securities that are eligible for resale pursuant to Rule 144A under the Securities Act of 1933, as amended (the "1933 Act"). Generally, Rule 144A establishes a safe harbor from the registration requirements of the 1933 Act for resale by large institutional investors of securities that are not publicly traded. The Advisor determines the liquidity of the Rule 144A securities according to guidelines adopted by the Board of Trustees. The Board of Trustees monitors the application of those guidelines and procedures. Securities eligible for resale pursuant to Rule 144A, which are determined to be liquid, are not subject to the Fund's 10% limit on investments in illiquid securities.

*Other Investments.* The Fund may use a variety of other investment instruments in pursuing its investment programs. The investments of the Fund may include fixed income securities, sovereign debt, options on foreign currencies, and forward foreign currency contracts.

### **Investment Techniques**

The Fund may, but is under no obligation to, from time to time employ a variety of investment techniques, including those described below, to hedge against fluctuations in the price of portfolio securities, to enhance total return or to provide a substitute for the purchase or sale of securities. Some of these techniques, such as purchases of put and call options, options on stock indices and stock index futures and entry into certain credit derivative transactions, may be used as hedges against or substitutes for investments in equity securities. Other techniques such as the purchase of interest rate futures and entry into transactions involving interest rate swaps, options on interest rate swaps, and certain credit derivatives are hedges against or substitutes for investments in debt securities. The Fund's ability to utilize any of the techniques described below may be limited by restrictions imposed on its operations in connection with obtaining and maintaining its qualification as a regulated investment company under the Code. Additionally, other factors (such as cost) may make it impractical or undesirable to use any of these investment techniques from time to time.

*Options on Securities.* In order to hedge against adverse market shifts, the Fund may purchase put and call options on securities. The Fund will also, in certain situations, augment its investment positions by purchasing call options, both on specific equity securities, as well as securities representing exposure to equity sectors or indices and fixed income indices. In addition, the Fund may seek to increase its income or may hedge a portion of its portfolio investments through writing (i.e., selling) covered put and call options. A put option embodies the right of its purchaser to compel the writer of the option to purchase from the option holder an underlying security or its equivalent at a specified price at any time during the option period. In contrast, a call option gives the purchaser the right to buy the underlying security or its equivalent covered by the option or its equivalent from the writer of the option at the stated exercise price.

Under interpretations of the Securities and Exchange Commission currently in effect, which may change from time to time, a "covered" call option means that so long as the Fund is obligated as the writer of the option, it will own (1) the underlying instruments subject to the option, (2) instruments convertible or exchangeable into the instruments subject to the option, or (3) a call option on the relevant instruments with an exercise price no higher than the exercise price on the call option written. Similarly, the Securities and Exchange Commission currently requires that, to "cover" or support its obligation to purchase the underlying instruments if a put option is written by the Fund, the Fund must (1) segregate liquid securities on the books of the Fund or its custodian having a value at least equal to the exercise price of the underlying securities, (2) continue to own an equivalent number of puts of the same "series" (that is, puts on the same underlying security having the same exercise prices and expiration dates as those written by the Fund), or an equivalent number of puts of the same "class" (that is, puts on the same underlying security) with exercise prices greater than those it has written (or, if the exercise prices of the puts it holds are less than the exercise prices of those it has written, it will deposit the difference with



its custodian in a segregated account), or (3) sell short the securities underlying the put option at the same or a higher price than the exercise price on the put option written.

The Fund will receive a premium when it writes put and call options, which increases the Fund's return on the underlying security in the event the option expires unexercised or is closed out at a profit. By writing a call, the Fund will limit its opportunity to profit from an increase in the market value of the underlying security above the exercise price of the option for as long as the Fund's obligation as the writer of the option continues. Upon the exercise of a put option written by the Fund, the Fund may suffer an economic loss equal to the difference between the price at which the Fund is required to purchase the underlying security and its market value at the time of the option exercise, less the premium received for writing the option. Upon the exercise of a call option written by the Fund, the Fund may suffer an economic loss equal to an amount not less than the excess of the security's market value at the time of the option exercise over the Fund's acquisition cost of the security, less the sum of the premium received for writing the option and the difference, if any, between the call price paid to the Fund and the Fund's acquisition cost of the security. Thus, in some periods the Fund might receive less total return and in other periods greater total return from its hedged positions than it would have received from leaving its underlying securities unhedged.

The Fund may purchase and write options on securities that are listed on national securities exchanges or are traded over the counter, although it expects, under normal circumstances, to effect such transactions on national securities exchanges.

As a holder of a put option, the Fund will have the right to sell the securities underlying the option and as the holder of a call option, the Fund will have the right to purchase the securities underlying the option, in each case at their exercise price at any time prior to the option's expiration date. The Fund may choose to exercise the options it holds, permit them to expire or terminate them prior to their expiration by entering into closing sale transactions. In entering into a closing sale transaction, the Fund would sell an option of the same series as the one it has purchased. The ability of the Fund to enter into a closing sale transaction with respect to options purchased and to enter into a closing purchase transaction with respect to options sold depends on the existence of a liquid secondary market. There can be no assurance that a closing purchase or sale transaction can be effected when the Fund so desires. The Fund's ability to terminate option positions established in the over-the-counter market may be more limited than in the case of exchange-traded options and may also involve the risk that securities dealers participating in such transactions would fail to meet their obligations to the Fund.

In purchasing a put option, the Fund will seek to benefit from a decline in the market price of the underlying security, while in purchasing a call option, the Fund will seek to benefit from an increase in the market price of the underlying security. If an option purchased is not sold or exercised when it has remaining value, or if the market price of the underlying security remains equal to or greater than the exercise price, in the case of a put, or remains equal to or below the exercise price, in the case of a call, during the life of the option, the option will expire worthless. For the purchase of an option to be profitable, the market price of the underlying security must decline sufficiently below the exercise price, in the case of a put, and must increase sufficiently above the exercise price, in the case of a call, to cover the premium and transaction costs. Because option premiums paid by the Fund are small in relation to the market value of the instruments underlying the options, buying options can result in large amounts of leverage. The leverage offered by trading in options could cause the Fund's net asset value to be subject to more frequent and wider fluctuation than would be the case if the Fund did not invest in options.

*Options on Stock Indices.* The Fund may purchase put and call options on domestic stock indices to hedge against risks of market-wide price movements affecting its assets. The Fund will also, in certain situations, augment its investment positions by purchasing call options, both on specific equity securities, as well as securities representing exposure to equity sectors or indices and fixed income indices. In addition, the Fund may write covered put and call options on stock indices. A stock index measures the movement of a certain group of stocks by assigning relative values to the common stocks included in the index. Options on stock indices are similar to options on securities. Because no underlying security can be delivered, however, the option represents

the holder's right to obtain from the writer, in cash, a fixed multiple of the amount by which the exercise price exceeds (in the case of a put) or is less than (in the case of a call) the closing value of the underlying index on the exercise date. The advisability of using stock index options to hedge against the risk of market-wide movements will depend on the extent of diversification of the Fund's investments and the sensitivity of its investments to factors influencing the underlying index. The effectiveness of purchasing or writing stock index options as a hedging technique will depend upon the extent to which price movements in the Fund's securities investments correlate with price movements in the stock index selected. In addition, successful use by the Fund of options on stock indices will be subject to the ability of the Advisor to predict correctly changes in the relationship of the underlying index to the Fund's portfolio holdings. No assurance can be given that the Advisor's judgment in this respect will be correct.

*Duration.* Most debt obligations provide interest (coupon) payments in addition to a final (par) payment at maturity. Some obligations also have call provisions. Depending on the relative magnitude of these payments and the nature of the call provisions, the market values of debt obligations may respond differently to changes in the level and structure of interest rates. Traditionally, a debt security's term-to-maturity has been used as a proxy for the sensitivity of the security's price to changes in interest rates (which is the interest rate risk or volatility of the security). However, term-to-maturity measures only the time until a debt security provides its final payment, taking no account of the pattern of the security's payments prior to maturity.

Duration is a measure of the expected life of a fixed income security that was developed as a more precise alternative to the concept of term-to-maturity. Duration incorporates a bond's yield, coupon interest payments, final maturity and call features into one measure. Duration is one of the fundamental tools used by the Advisor in the selection of fixed income securities. Duration is a measure of the expected life of a fixed income security on a present value basis. Duration takes the length of the time intervals between the present time and the time that the interest and principal payments are scheduled or, in the case of a callable bond, expected to be received, and weights them by the present values of the cash to be received at each future point in time. For any fixed income security with interest payments occurring prior to the payment of principal, duration is always less than maturity. In general, all other factors being the same, the lower the stated or coupon rate of interest of a fixed income security, the longer the duration of the security; conversely, the higher the stated or coupon rate of interest of a fixed income security, the shorter the duration of the security. With respect to certain fixed income investments, the Fund will employ a bottom-up, effective duration neutral investment style, using in-depth fundamental research in the investment process. The duration of such fixed income investments will generally be consistent with the duration of the benchmark for such fixed income investments.

There are some situations where even the standard duration calculation does not properly reflect the interest rate exposure of a security. For example, floating and variable rate securities often have final maturities of ten or more years; however, their interest rate exposure corresponds to the frequency of the coupon reset. Another example where the interest rate exposure is not properly captured by duration is the case of mortgage pass-through securities. The stated final maturity of such securities is generally 30 years, but current prepayment rates are more critical in determining the securities' interest rate exposure. In these and other similar situations, the Advisor will use sophisticated analytical techniques that incorporate the economic life of a security into the determination of its interest rate exposure.

*Portfolio Turnover.* The Fund may engage in short-term trading strategies, and securities may be sold without regard to the length of time held when, in the opinion of the Advisor, investment considerations warrant such action. The Fund will not attempt to achieve or be limited to a predetermined rate of portfolio turnover. These policies, together with the ability of the Fund to engage in transactions in options and futures, may have the effect of increasing the Fund's annual rate of portfolio turnover. A turnover rate of 100% would occur if, for example, the Fund bought and sold all of the securities in its portfolio once in the course of a year or frequently traded a single security. A high turnover rate (100% or more) necessarily involves greater trading costs to the Fund and may result in the realization of net short term capital gains.

*Foreign Currency Transactions.* The Fund may engage in foreign currency exchange transactions in connection with its investments in foreign securities. The Fund will conduct its foreign currency exchange transactions either on a spot (i.e., cash) basis at the spot rate prevailing in the foreign currency exchange market or through forward contracts to purchase or sell foreign currencies, including the payment of dividends and the settlement of securities transactions which otherwise might require untimely dispositions of Fund securities.

*Foreign Currency Options.* The Fund may purchase and write options on foreign currencies to protect against declines in the U.S. dollar value of foreign securities or in the U.S. dollar value of dividends or interest expected to be received on these securities. These transactions may also be used to protect against increases in the U.S. dollar cost of foreign securities to be acquired by the Fund. Writing an option on foreign currency is only a partial hedge, up to the amount of the premium received, and the Fund could be required to purchase or sell foreign currencies at disadvantageous exchange rates, thereby incurring losses.

A foreign currency option provides the option buyer with the right to buy or sell a stated amount of foreign currency at the exercise price on a specified date or during the option period. The owner of a call option has the right, but not the obligation, to buy the currency. Conversely, the owner of a put option has the right, but not the obligation, to sell the currency. When the option is exercised, the seller (i.e., writer) of the option is obligated to fulfill the terms of the sold option. However, either the seller or the buyer may, in the secondary market, close its position during the option period at any time prior to expiration.

A call option on a foreign currency generally rises in value if the underlying currency appreciates in value, and a put option on a foreign currency generally rises in value if the underlying currency depreciates in value. Although purchasing a foreign currency option can protect the Fund against an adverse movement in the value of a foreign currency, the option will not limit the movement in the value of such currency. For example, if the Fund was holding securities denominated in a foreign currency that was appreciating and had purchased a foreign currency put to hedge against a decline in the value of the currency, the Fund would not have to exercise its put option. Likewise, if the Fund were to enter into a contract to purchase a security denominated in foreign currency and, in conjunction with that purchase, were to purchase a foreign currency call option to hedge against a rise in value of the currency, and if the value of the currency instead depreciated between the date of purchase and the settlement date, the Fund would not have to exercise its call. Instead, the Fund could acquire in the spot market the amount of foreign currency needed for settlement.

*Foreign Currency Futures Transactions.* By using foreign currency futures contracts and options on such contracts, the Fund may be able to achieve many of the same objectives as they would through the use of forward foreign currency exchange contracts. The Fund may be able to achieve these objectives possibly more effectively and at a lower cost by using futures transactions instead of forward foreign currency exchange contracts.

A foreign currency futures contract sale creates an obligation by the Fund, as seller, to deliver the amount of currency called for in the contract at a specified future time for a specified price. A currency futures contract purchase creates an obligation by the Fund, as purchaser, to take delivery of an amount of currency at a specified future time at a specified price. Although the terms of currency futures contracts specify actual delivery or receipt, in most instances the contracts are closed out before the settlement date without the making or taking of delivery of the currency. Closing out of currency futures contracts is affected by entering into an offsetting purchase or sale transaction. An offsetting transaction for a currency futures contract sale is effected by the Fund entering into a currency futures contract purchase for the same aggregate amount of currency and same delivery date. If the price of the sale exceeds the price of the offsetting purchase, the Fund is immediately paid the difference and realizes a loss. Similarly, the closing out of a currency futures contract purchase is affected by the Fund entering into a currency futures contract sale. If the offsetting sale price exceeds the purchase price, the Fund realizes a gain, and if the offsetting sale price is less than the purchase price, the Fund realizes a loss.

*Defensive Positions.* During periods of adverse market or economic conditions, the Fund may temporarily invest all or a substantial portion of its assets in cash or cash equivalents. Cash equivalents are highly liquid, short-term securities such as commercial paper, time deposits, certificates of deposit, short-term notes and short-term U.S. government obligations. The Fund will not be pursuing its investment objectives in these circumstances.

*Leverage.* The Fund may use leverage through the issuance of preferred shares, commercial paper, borrowings, or a combination thereof (referred to as "Leverage"). The Fund reserves the right, if the Advisor believes that market conditions are appropriate, to use Leverage to the extent permitted by the 1940 Act requirements. Currently, under the 1940 Act, the Fund may borrow money up to 33 1/3% of its total assets (including the amount obtained from Leverage) or may issue shares of preferred stock in amounts up to 50% of the value of its total assets (including the amount obtained from Leverage) to finance additional investments. The Advisor may Leverage the Fund only when it believes that the potential return on additional investments acquired with the proceeds of Leverage is likely to exceed the costs incurred in connection with the borrowings. The terms of any preferred shares, including their dividend rate, voting rights, liquidation preference, and redemption provisions, and the terms of borrowings, commercial paper, or any other leverage will be determined by the Board of Trustees (subject to applicable law and the Fund's Declaration of Trust) if and when it authorizes the use of leverage.

If the Fund utilizes Leverage, the Fund's expenses would be higher than if Leverage were not utilized. Also, the fees paid to the Advisor and the Administrator will be higher than if the Fund did not use Leverage because the fees paid will be calculated on the basis of the Fund's net assets, including proceeds from the issuance of Leverage. The increase in Fund expenses as a result of Leverage may be significant. In addition, the net asset value of the Fund's common shares would be reduced by the issuance costs of any Leverage. See "Risks Leverage Risk."

Under the 1940 Act, the Fund is not permitted to issue preferred shares unless immediately after the issuance, the value of the Fund's assets is at least 200% of the liquidation value of the outstanding preferred shares (i.e., such liquidation preference may not exceed 50% of the Fund's assets less liabilities other than borrowings). In addition, the Fund is not permitted to declare any cash dividend or other distribution on its Shares unless, at the time of such declaration, the value of the Fund's total assets less liabilities other than borrowings is at least 200% of such liquidation value. If Fund preferred shares are issued, the Fund intends, to the extent possible, to purchase or redeem Fund preferred shares from time to time to the extent necessary in order to maintain coverage of any Fund preferred shares of at least 200%. Under the 1940 Act, if the Fund has preferred shares outstanding, at least two of the Fund's trustees will be elected by the holders of Fund preferred shares, voting separately as a class. In addition, under the 1940 Act, in the event the Fund failed to pay dividends on Fund preferred shares for two full years, Fund preferred stockholders would be entitled to elect a majority of the trustees of the Fund. The failure to pay dividends or make distributions could result in the Fund ceasing to qualify as a regulated investment company under the Code, which could have a material adverse effect on the value of the shares.

Under the 1940 Act, the Fund generally is not permitted to borrow unless immediately after the borrowing, the value of the Fund's assets less liabilities other than the borrowings is at least 300% of the principal amount of such borrowing (i.e., such principal amount may not exceed 33 1/3% of the Fund's total assets, including the amount obtained from such borrowings). In addition, the Fund is not permitted to declare any cash dividend or other distribution on its shares unless, at the time of such declaration, the value of the Fund's total assets, less liabilities other than the borrowings, is at least 300% of such principal amount. If the Fund borrows, the Fund intends, to the extent possible, to prepay all or a portion of the principal amount of the borrowing to the extent necessary in order to maintain the required asset coverage. Failure to maintain certain asset coverage requirements could result in an event of default and may entitle the debt holders to elect a majority of the board of trustees.

The Fund may be subject to certain restrictions imposed by either guidelines of one or more rating agencies which may issue ratings for borrowings or Fund preferred shares or, if the Fund borrows from a lender, by the lender. These restrictions may impose asset coverage or portfolio composition requirements that are more stringent than those currently imposed on the Fund by the 1940 Act. It is not anticipated that these restrictions will impede the Advisor from managing the Fund's portfolio in accordance with the Fund's investment objectives and policies. In addition to other considerations, to the extent that the Fund believes that the guidelines required by the rating agencies would impede its ability to meet its investment objectives, or if the Fund is unable to obtain the expected rating on the borrowings, the Fund will not use borrowings.

The Fund also may borrow money as a temporary measure for extraordinary or emergency purposes, including the payment of dividends and the settlement of securities transactions, which otherwise might require untimely dispositions of Fund securities. The Fund may use a variety of additional strategies that would be viewed as potentially adding leverage to the portfolio. These include the sale of credit default swap contracts and the use of other derivative instruments and reverse repurchase agreements. By adding additional leverage, these strategies have the potential to increase returns to shareholders, but also involve additional risks. Additional leverage will increase the volatility of the Fund's investment portfolio and could result in larger losses than if the strategies were not used. However, to the extent that the Fund enters into offsetting transactions or owns positions covering its obligations, the leveraging effect is expected to be minimized or eliminated. The Fund may also use leverage from specific international markets for the purpose of investing in the securities that the Fund intends to purchase in those respective markets.

*Interest Rate Swaps.* In order to reduce the interest rate risk related to interest payments in the event the Fund uses a form of borrowing to leverage the Fund, the Fund may enter into interest rate swap transactions. Interest rate swaps are used with the intent to reduce or eliminate the risk that an increase in short-term interest rates could have on Fund's net earnings as a result of leverage. Interest rate swaps involve an agreement with a swap counterparty to pay a fixed rate payment in exchange for a variable rate payment that is intended to approximate all or a portion of the Fund's variable rate interest payments on borrowings. The payment obligation would be based on the notional amount of the swap. Most swap agreements would require the calculation of the obligations of the parties to the agreements on a "net basis." Consequently, current obligations (or rights) under a swap agreement generally will be equal only to the net amount to be paid or received under the agreement based on the relative values of the positions held by each party to the agreement (the "net amount"). The risk of loss with respect to swaps is limited to the net amount of interest payments that a party is contractually obligated to make. If the other party to a swap defaults, the risk of loss consists of the net amount of payments that a non-defaulting party contractually is entitled to receive. Interest rate caps require the payment of a premium to the cap counterparty and would entitle such party, to the extent that a specified variable rate index exceeds a predetermined fixed rate, to receive payment from the counterparty of the difference based on the notional amount. The use of interest rate swaps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio security transactions. Depending on the state of interest rates in general, the use of interest rate instruments could enhance or harm the overall performance of the Fund.

## RISKS

*An investment in the Fund's common shares is subject to risks. The value of the Fund's investments will increase or decrease based on changes in the prices of the investments it holds. This will cause the value of the Fund's shares to increase or decrease. You could lose money by investing in the Fund. By itself, the Fund does not constitute a balanced investment program. You should consider carefully the following risks before investing in the Fund. There may be additional risks that the Fund does not currently foresee or consider material. You may wish to consult with your legal or tax advisors before deciding whether to invest in the Fund.*

### **No Operating History**

The Fund is a diversified closed-end management investment company with no history of operations and the common shares have no history of public trading. During the Fund's start-up period, the Fund may not achieve the desired portfolio composition. If the Fund commences operations under inopportune market or economic conditions, it may not be able to achieve its investment objectives.

### **Market Discount Risk**

As with any stock, the price of the Fund's shares will fluctuate with market conditions and other factors. If shares are sold, the price received may be more or less than the original investment. Net asset value will be reduced immediately following the initial offering by the amount of the sales load and offering expenses paid by the Fund. Common shares are designed for long-term investors and should not be treated as trading vehicles. Shares of closed-end management investment companies frequently trade at a discount from their net asset value. The Fund's shares may trade at a price that is less than the initial offering price. This risk may be greater for investors who sell their shares in a relatively short period of time after completion of the initial offering. The Fund may utilize Leverage, which magnifies the stock market risk.

### **Investment and Market Risk**

An investment in the Fund's common shares is subject to investment risk, including the possible loss of the entire principal amount invested. An investment in common shares represents an indirect investment in the securities owned by the Fund, which are generally traded on a securities exchange or in the over-the-counter markets. The value of these securities, like other market investments, may move up or down, sometimes rapidly and unpredictably. The common shares at any point in time may be worth less than the original investment, even after taking into account any reinvestment of dividends and distributions.

### **Issuer Risk**

The value of an issuer's securities that are held in the Fund's portfolio may decline for a number of reasons which directly relate to the issuer, such as management performance, financial leverage, and reduced demand for the issuer's goods and services.

### **Dividend Strategy Risks**

The Fund's pursuit of its investment objectives depends somewhat upon the Advisor's ability to anticipate the dividend policies of the companies in which it chooses to invest. It is difficult to anticipate the level of dividends that companies will pay in any given timeframe. The Fund's dividend capture strategies include having the Advisor attempt to identify and exploit opportunities such as the announcement of major corporate actions, such as restructuring initiatives or a special dividend, that may lead to high current dividend income. These situations are typically not recurring in nature or frequency, may be difficult to predict, and may not result in an opportunity that allows the Advisor to fulfill the Fund's investment objectives. In addition, the dividend policies of the Fund's target companies are heavily influenced by the current economic climate and the favorable federal tax treatment afforded to dividends. Challenging economic conditions, affecting either the market as a whole or a specific investment in the Fund's portfolio, may limit the opportunity to benefit from the current dividend policies of the companies in which the Fund invests or may cause such companies to reduce or eliminate their dividends. Special dividends may result in extraordinary dividends subject to special tax rules. The use of dividend capture strategies will expose the Fund to increased trading costs and potential for capital loss or gain, particularly in the event of significant short-term price movements of stocks subject to dividend capture trading, and resultant dividends may not be qualified dividends eligible to individuals for reduced federal income tax rates under the Code. Also, the reduced federal income tax rates that apply to qualified dividend income sunset and will not apply to taxable

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years beginning after December 31, 2010, unless extended or made permanent. This and other changes in the favorable provisions of the federal income tax laws may limit your ability to benefit from dividend increases or special dividends, may effect a widespread reduction in announced dividends and may adversely impact the valuation of the shares of dividend-paying companies. See "Tax Matters."

### Risk of Option Overwriting

The Fund will receive a premium when it writes covered put and call options, which increases the Fund's return on the underlying security in the event the option expires unexercised or is closed out at a profit. (See "The Fund's Investments Investment Techniques Options on Securities" for information on how options are "covered.") By writing a call, the Fund will limit its opportunity to profit from an increase in the market value of the underlying security above the exercise price of the option for as long as the Fund's obligation as the writer of the option continues, but the Fund will continue to be exposed to any decline in market value of the underlying security. Upon the exercise of a put option written by the Fund, the Fund may suffer an economic loss equal to the difference between the price at which the Fund is required to purchase the underlying security and its market value at the time of the option exercise, less the premium received for writing the option. Upon the exercise of a call option written by the Fund, the Fund may suffer an economic loss equal to an amount not less than the excess of the security's market value at the time of the option exercise over the Fund's acquisition cost of the security, less the sum of the premium received for writing the option and the difference, if any, between the call price paid to the Fund and the Fund's acquisition cost of the security. Thus, in some periods the Fund might receive less total return and in other periods greater total return from its option overwriting strategy.

### Common Stock Risk

Common stocks are an example of equity securities in which the Fund will invest. Although common stocks have historically generated higher average returns than fixed income securities over the long term, common stocks also have experienced significantly more volatility in returns. Common stocks may be more susceptible to adverse changes in market value due to issuer specific events or general movements in the equities markets. A drop in the stock market may depress the price of common stocks held by the Fund. Common stock prices fluctuate for many reasons, including changes in investors' perceptions of the financial condition of an issuer or the general condition of the relevant stock market, or the occurrence of political or economic events affecting issuers. For example, an adverse event, such as an unfavorable earnings report, may depress the value of common stock in which the Fund has invested; the price of common stock of an issuer may be particularly sensitive to general movements in the stock market; or a drop in the stock market may depress the price of most or all of the common stocks held by the Fund. Also, common stock of an issuer in the Fund's portfolio may decline in price if the issuer fails to make anticipated dividend payments because, among other reasons, the issuer of the security experiences a decline in its financial condition. The common stocks in which the Fund will invest are structurally subordinated to preferred securities, bonds and other debt instruments in a company's capital structure, in terms of priority to corporate income and assets, and therefore will be subject to greater risk than the preferred securities or debt instruments of such issuers. In addition, common stock prices may be sensitive to rising interest rates, as the costs of capital rise and borrowing costs increase.

### Foreign Securities Risk

The Fund will have substantial exposure to foreign securities, including emerging market securities. The Fund's investments in securities of foreign issuers are subject to risks not usually associat;12.5 0.148 1,847 18.0 0.156 2,801

#### Tshepong

14.5 0.155 2,247 10.4 0.156 1,626 24.9 0.156 3,873

#### Virginia

3.0 0.134 407 1.7 0.135 223 4.7 0.134 630

#### Doornkop

1.7 0.092 160 2.7 0.103 277 4.4 0.098 437

#### Kusasaletu

13.8 0.195 2,680 25.8 0.187 4,834 39.6 0.190 7,514

#### Evander

2.5 0.210 520 1.8 0.266 470 4.3 0.234 990

#### Evander(below infrastructure)

46.6 0.212 9,895 46.6 0.212 9,895

#### Rand Uranium <sup>(2)</sup>

2.4 0.122 299 4.8 0.100 484 7.2 0.108 783

#### **Total South Africa Underground**

**56.2 0.176 9,901 131.4 0.193 25,316 187.6 0.188 35,217**

### South Africa Surface

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Kalgold	24.1	0.024	575	8.3	0.031	258	32.4	0.026	833
Free State Surface	1,021.3	0.007	7,212	1,021.3	0.007	7,212			
Evander Surface	223.7	0.008	1,897	223.7	0.008	1,897			
Rand Uranium Surface <sup>(2)</sup>	33.8	0.008	286	9.7	0.013	127	43.5	0.010	413
<b>Total South Africa Surface</b>	<b>57.9</b>	<b>0.015</b>	<b>861</b>	<b>1,263.0</b>	<b>0.008</b>	<b>9,494</b>	<b>1,320.9</b>	<b>0.008</b>	<b>10,355</b>
<b>Total South Africa</b>	<b>114.1</b>	<b>10,762</b>	<b>1,394.4</b>	<b>34,810</b>	<b>1,508.5</b>	<b>45,572</b>			

**Papua New Guinea <sup>(3)</sup>**

Hidden Valley	4.2	0.062	260	26.8	0.052	1,382	31.0	0.053	1,642
Hamata	3.2	0.061	196	3.2	0.061	196			
Golpu	39.0	0.018	694	39.0	0.018	694			
<b>Total Papua New Guinea</b>	<b>4.2</b>	<b>0.062</b>	<b>260</b>	<b>69.0</b>	<b>0.033</b>	<b>2,272</b>	<b>73.2</b>	<b>0.035</b>	<b>2,532</b>

<b>GRAND TOTAL</b>	<b>118.3</b>	<b>11,022</b>	<b>1,463.4</b>	<b>37,082</b>	<b>1,581.7</b>	<b>48,104</b>			
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In addition to the gold reserves, we also report our attributable reserves for silver, copper and molybdenum from our PNG operations. Metal prices are assumed at US\$14/oz for silver, US\$2/lb for copper and US\$13/lb for molybdenum.

SILVER	Tons (million)	Grade (oz/ton)	Silver oz (1)			Silver oz (1)			Silver oz (1) (000)
			(000)	(million)	(oz/ton)	(000)	(million)	(oz/ton)	
Papua New Guinea (3)									
Hidden Valley	4.2	1.038	4,320	26.8	1.036	27,726	31.0	1.036	32,046

  

COPPER	Tons (million)	Grade (%)	Cu lb (1)			Cu lb (1)			Cu lb (1) (million)
			(million)	(million)	(%)	(million)	(million)	(%)	
Papua New Guinea (3)									
Golpu				39.0	1.025	882	39.0	1.025	882

  

MOLYBDENUM	Tons (million)	Grade (lb/ton)	Mo lb (1)			Mo lb (1)			Mo lb (1) (million)
			(million)	(million)	(lb/ton)	(million)	(million)	(lb/ton)	
Papua New Guinea (3)									
Golpu				39.0	0.231	9	39.0	0.231	9

(1) Metal 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.

(2) Represents Harmony's attributable interest of 40%

(3) Represents Harmony's attributable interest of 50%

Note: 1 ton = 907 kg = 2,000 lbs

Our methodology for determining our reserves is subject to change and is based upon estimates and assumptions made by management regarding a number of factors as noted above in this section.

**Worldwide Operations**

*Description of Property*

The following is a map of our worldwide operations:

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Our operational mining areas in South Africa are set forth below:

	<b>Hectares</b>	<b>Acres</b>
Doornkop	2,941	7,267
Kusasaletu	5,113	12,634
Free State (includes Masimong and Virginia operations)	22,583	55,802
Tshepong and Phakisa	10,799	26,683
Bambanani	2,356	5,821
Joel	2,162	5,342
St Helena	5,856	14,471
Kalgold	615	1,520
Evander	36,898	91,174
Target (includes Loraine)	7,952	19,649
<b>Total</b>	<b>97,275</b>	<b>240,363</b>

In Australia and PNG, we hold granted tenements as set forth below:

	<b>Hectares</b>	<b>Acres</b>
Mount Magnet (sold in July 2010)	39,885	98,560
PNG	344,522	851,329
<b>Total International Operations</b>	<b>384,407</b>	<b>949,889</b>
<b>TOTAL</b>	<b>481,682</b>	<b>1,190,252</b>

We acquired new tenements in PNG for exploration in fiscal 2010.

In line with the rest of the South African mining industry, and in an effort to reduce costs, we have been rationalizing our mineral rights holdings in recent years. Accordingly, over the past three years, we have disposed of our shares and participation rights in areas within and 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 properties and mining rights we have disposed of. We may continue to investigate further disposals.

### **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 elongated 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 kilometer thick stratigraphic sequence consisting mainly of quartzites and shales with minor volcanic units. The majority of production is derived from auriferous placer reefs situated at different stratigraphic positions and at varying depths below the surface in three of the seven defined goldfields of the Witwatersrand Basin.

Our Hidden Valley project comprises low sulphidation carbonate-base metal-gold epithermal deposits within the Morobe Goldfield, in the Morobe Province of PNG. 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.

Our Wafi project comprises the sedimentary/volcaniclastic rocks of the Owen Stanley Formation that surround the Wafi Diatreme and host the gold mineralization. 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 one kilometer northeast of the Wafi gold orebody. It is a porphyry (diorite) copper-gold deposit. The host lithology is a diorite that exhibits a typical zoned porphyry copper alteration halo together with mineralization in the surrounding metasediment. The mineralized

body can be described as a porphyry copper-gold pipe .

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### Harmony's Mining Operations Overview

In South Africa, we conduct underground mining at 10 operations:

Bambanani (includes Steyn 1 & 2 Shafts from February 2010);

Doornkop;

Evander (consists of Evander 2 & 5, 7 and 8);

Joel;

Kusasaletu (formerly Elandsrand);

Masimong;

Phakisa;

Target (consists of Target 1, and as of February 2010 Loraine 3 (now Target 3) and Freddie's 7 & 9 shafts);  
Tshepong; and

Virginia operations (consists of Harmony 2, Merriespruit 1 & 3, Unisel and Brand 3 & 5).

During fiscal 2008, the Cooke operations (consists of Cooke 1, 2 and 3 Shafts) were considered to be a reportable segment. An effective 60% interest in these operations was sold on November 21, 2008 and the results for the five months up to that date have been included in discontinued operations for fiscal 2009.

We conduct surface mining at five sites (all included in Other Surface):

Evander;

Free State (also known as Phoenix);

Freegold;

Kalgold;

Target.

Surface mining was conducted at Randfontein's Cooke operations up to the date of sale in fiscal 2009 and the Cooke plant has been classified as discontinued operations along with the Cooke operations.

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). We are conducting studies to determine the feasibility of further retreatment projects in the Free State, including uranium extraction from material.

Internationally, we conduct mining activities in PNG at the Hidden Valley mine, which is a joint venture, known as Morobe Mining Joint Venture, between Harmony and Newcrest in which we each have a 50% interest.

We previously conducted mining at the following two sites in Australia:

Mount Magnet The site was put on care and maintenance at the end of December 2007. A decision was taken by management during May 2010 to sell the operation and in July 2010 the disposal was finalized See *Item 8 Recent Developments* .

South Kalgoorlie we finalized the sale of this operation with Dioro on November 30, 2007 See *Disposals* above.

Underground and surface mining was conducted at each of these operations, with underground access through two declines at Mount Magnet and one decline at South Kalgoorlie and surface access principally through open-pits. Surface mining at South Kalgoorlie ceased in fiscal 2006 with treatment consisting of Mount Marion ore and low grade stockpiles. Open-pit mining recommenced at South Kalgoorlie mines during fiscal 2007. The Mount Marion underground operation at South Kalgoorlie ceased in June 2007, with only open-pit operations continuing on that site until the date of sale to Dioro.

The following discussion is a two-part presentation of our operations:

an overview of our South African mining operations with a discussion and production analysis of each of our operating segments; and

an overview of our International (Australian and PNG) operations.

Previously, we disclosed cash costs and cash cost per ounce which including the movement in inventory and calculated using gold ounces sold as a denominator. These amounts have been re-presented for all comparative periods in the discussions and production analyses below following the changes to the calculation of these measures. See *Item 3. Selected Financial Data Selected Historical Consolidated Financial Data.*

Where we have translated the Rand amount budgeted for capital expenditures in 2011 into U.S. dollars, we have used the closing rate at the balance sheet date.

### **South African Mining Operations**

*Unless indicated otherwise, the discussions below are for continuing operations.*



### ***Underground Bambanani***

**Introduction:** We acquired Bambanani when we, in January 2002, acquired the Freegold operations from AngloGold Ashanti Limited ( **Anglogold** ) through a 50% joint venture with African Rainbow Minerals Gold Limited ( **ARMgold** ). In September 2003, we acquired 100% of these operations when ARMgold became a wholly owned subsidiary. During February 2010, we acquired President Steyn 1 & 2 Shafts in the transaction with Pamodzi FS. These shafts have been incorporated into Bambanani. These operations are located in the Free State province. Production from the operations is processed through Harmony 1 Plant.

**History:** Exploration, development and production history in the area of the Freegold assets dates from the early 1900 s, leading to commercial production by 1932. Subsequent consolidation and restructuring led to the formation of Free State Consolidated Gold Mine (Operations) Limited, which became a wholly-owned subsidiary of Anglogold in June 1998.

In 1998, President Steyn Gold Mine (Free State) (Proprietary) Limited ( **PSGM** ) was formed after purchasing shafts from various individuals. During 2002, the mine was sold to Thistle Mining Inc, an international company with interests in the Philippines and South Africa. The mine struggled to make operational profits, and Thistle undertook a restructuring program in 2006, which together with an increase in the Rand gold price resulted in positive operational cash flows. In February 2008, PSGM was purchased by Pamodzi FS. The mine was operated from that time until March 2009, when Pamodzi FS was placed into liquidation.

**Geology:** The operations are located in the Free State Goldfield, which is on the southwestern edge of the Witwatersrand basin. The Free State Goldfield is divided into two sections, cut by the north-south striking De Bron Fault. This major structure has a vertical displacement of about 1 500 metres in the region of Bambanani, as well as a lateral shift of 4 kilometres. Bambanani is to the west of the De Bron Fault. The reefs generally dip towards the east. Mining is conducted in the Basal reef.

**Mining Operations:** These operations are subject to the underground mining risks detailed in the Risk Factors section. The management teams regularly revisit their mining strategy and management procedures in order to minimize risks.

The Bambanani mine consists of a surface shaft and a sub-shaft. Mining is conducted at depths ranging from 1,911 and 3,680 meters. Activities at the mine include mining the Basal Reef and remnant pillar extraction. The primary mining challenges at these operations are seismic risks, ventilation and fire avoidance. Bambanani is classified as a seismically active operation with seismic activity monitoring systems installed to do active seismic risk evaluation. The seismic activity monitoring systems were upgraded during fiscal 2010.

The conversion of Bambanani into a high-grade, low-volume operation continued during fiscal 2010. There was greater emphasis on disciplined mining through the year and in particular on the achievement of daily tramming and hoisting targets, as well as efficient vamping and clean mining. Following a fatal fall of ground in the second quarter of fiscal 2010, extensive changes were made to the mining method in the steeply dipping, high-stope-width panels in the lower levels of the sub-shaft. Although these changes, from breast to down-dip mining, temporarily led to reduced volumes mined while alterations to mining plans and methods were implemented, these revisions proved successful regarding both safety and production performance.

Greater attention is also being given to the improvement of the blast cycle by increasing the number of blasts per panel in the sub-shaft (historically difficult, high channel steep stopes) and the delivery of higher volumes to maintain plant throughput at targeted levels.

Two raise lines were completed in the sub-shaft area and on-reef development has come to an end here. Development is under way in preparation for the extraction of the shaft pillar. Mining in the sub-shaft area will come to an end in the next three years, following which the remaining mining will take place around the high-grade shaft pillar. Mining of the shaft pillar will take eight years. Backfill will be used to minimize ground control-related risks when mining begins in the shaft pillar in June 2012.

Steyn 1 consists of a main shaft and two sub-decline shafts. No mining activities have taken place at the shaft since acquisition due to an underground fire. The shaft has been placed on care and maintenance.



Steyn 2 consists of a main shaft and two sub-decline shafts. Equipping of the Steyn 2 shaft is underway. Face length flexibility, infrastructural shortcomings and heat are the main obstacles to production here. Progress was made with the decline shaft infrastructure and the haulage from 73 level to Bambanani is being rehabilitated to assist Steyn 2 in maintaining its shaft bottom and keeping it clean of spillage. Areas affected by heat problems at Steyn 2 are now being supplied with chilled water from Bambanani and temperatures have substantially improved. A feasibility study is being conducted on the extraction of the shaft pillar, which is expected to cost US\$2.4 million.

During fiscal 2010, Bambanani accounted for 9% (8% in 2009 and 8% in 2008) of our total gold production.

**Safety:** Regrettably a fatality occurred at Bambanani during fiscal 2010 (2009: one) and the lost time injury frequency rate ( **LTIFR** ) was reported as 9.29 per million hours worked (2009: 7.48). After year-end, during September 2010, a fall of ground resulted in eight employees being trapped. Tragically, two employees died, with the other six being rescued, several having sustained injuries.

Safety at these operations receives constant and high-level attention.

**Plants:** The ore from Bambanani, along with ore from Tshepong and Phakisa, is sent to Harmony 1 Plant for processing. This plant, which processes underground ore, waste rock and various surface accumulations, was commissioned in 1986 and is a conventional CIP plant processing ore that has been milled by fully-autogenous grinding. Gold is recovered from the eluate solution using zinc precipitation and a precoat vacuum filter. The precipitate recovered from the filter is calcined and smelted to bullion.

The following table sets forth processing capacity and average tons milled during the fiscal 2010 for the Harmony 1 Plant:

<b>Plant</b>	<b>Processing Capacity (tons/month)</b>	<b>Average Milled for the Fiscal Year Ended June 30, 2010 (tons/month)</b>
FS 1	463,000	429,000

In fiscal 2010, Harmony 1 Plant recovered approximately 95.9% of the gold contained in the ore delivered for processing. The plant achieved one year lost time injury free during fiscal 2010.

**Production analysis:**

	<b>Fiscal Year Ended June 30,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Bambanani Production</b>			
Tons ( 000)	582	570	912
Recovered grade (ounces/ton) <sup>(1)</sup>	0.227	0.213	0.170
Gold produced (ounces) <sup>(1)</sup>	133,007	121,530	154,879
Gold sold (ounces) <sup>(1)</sup>	134,165	119,665	158,985
<b>Results of operations (\$)</b>			
Product sales ( 000)	146,971	102,645	128,346
Cash cost ( 000)	98,289	72,343	101,962
Cash profit ( 000)	48,682	30,302	26,384
<b>Cash costs</b>			
Per ounce of gold (\$) <sup>(1)</sup>	723	611	639
<b>Capex ( 000) (\$)</b>	27,300	5,779	14,737

<sup>(1)</sup> 1,061 ounces were produced by Steyn 2 and sold. The

revenue has been credited against capital expenditure as the shaft is not in production yet. The cost of these ounces has not been included in the cash cost per ounce amount. The calculation of grade also excludes these ounces.

Tons milled from Bambanani decreased to 570,000 in fiscal 2009 compared with 912,000 in fiscal 2008. Ounces produced were 121,530 in fiscal 2009, compared with 154,879 in fiscal 2008. This decrease was due to the restructuring of the shaft due to power constraints but was offset by a better recovered grade, which increased from 0.170 in fiscal 2008 to 0.213 in fiscal 2009.

Cash costs per ounce for Bambanani were US\$611 in fiscal 2009, compared with US\$639 in fiscal 2008. The costs per ounce decreased by 4% in fiscal 2009, due to an increase in grade mined offset by an increase in the cost of labor and supplies and the effect of inflation on supply contracts.

Tons milled from Bambanani increased to 582,000 in fiscal 2010 compared with 570,000 in fiscal 2009. Ounces produced were 133,007 in fiscal 2010 compared with 121,530 in fiscal 2009. This increase was due to better recovered grade, which increased by 0.014 ounces per ton compared to fiscal 2009.

Cash costs per ounce for Bambanani were US\$723 in fiscal 2010, compared with US\$611 in fiscal 2009. The costs per ounce increased by 18% in fiscal 2010 compared with fiscal 2009, due to increases in the costs of labor and supplies, combined with the increase in power and water costs year on year of 37% (utility costs comprise approximately 22% of cash costs).

The rock hoisting capacity at Bambanani is 116,000 tons per month. The average tons milled in fiscal 2010 were 48,500 tons per month where we planned 54,500 tons per month for fiscal 2010.

Assuming no additional reserves are identified, at expected production levels, it is foreseen that the reported proven and probable mineral reserves of 4.9 million tons (1.4 million ounces) will be sufficient for Bambanani to maintain underground production until approximately 2021. Any future changes to the assumptions upon which the mineral reserves are based, as well as any unforeseen events affecting production levels, could have a material effect on the expected period of future operations.

**Capital Expenditure:** Bambanani incurred approximately R207 million (US\$27.3 million) in capital expenditure in fiscal 2010, primarily to extract the shaft pillar (R72 million (US\$9.4 million)) and to equip the two Steyn shafts (R94 million (US\$12.4 million)). We budgeted R250 million (US\$32.8 million) for capital expenditure in fiscal 2011, primarily for the access development for the shaft pillar extraction (R163 million (US\$21.4 million)) and the Steyn shafts (R66 million (US\$8.7 million)).

#### ***Doornkop***

**Introduction:** Doornkop is located in the Gauteng Province of South Africa, approximately thirty kilometers west of Johannesburg. The operation is owned by Randfontein Estates Limited ( **Randfontein** ). Doornkop currently operates under its own mining authorization of 2,941 hectares. Production is treated at the Doornkop plant.

**History:** Harmony acquired this operation when it took over Randfontein.

**Geology:** These operations are 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 Rand Syncline.

The Doornkop operation lease area is bounded by and lies to the south-east of the major north-easterly striking Roodepoort Fault, which dips to the south and constitutes the southern edge of the Witpoortjie Horst Block or Gap. This Horst Block is comprised of the stratigraphically older sediments of the West Rand Group, the overlying Central Rand Group sediments having been removed by erosion. A number of other faults, forming part of and lying southeast of the Roodepoort Fault, including the Saxon Fault, also constitute conspicuous structural breaks. A second major fault, the Doornkop Fault, which trends in an east west direction occurs towards the southern portion of the lease area. This fault dips to the south and has an up-throw to the north. Nearly the entire upper Witwatersrand section is present in the lease area and therefore all the major zones are present, though due to the distance of the area from the fan head, the number of economic bands and their payability is limited. Eight of the well-known reefs are present in the area, but only the Kimberley Reef and South Reef are considered viable at this stage. The resource is concentrated in the Kimberley and South Reefs. The Kimberley Reef is contained in the Vlakfontein Member of the Westonia Formation. This reef, also known as the K9 Reef horizon, rests on an unconformity and is a complex multi-pulse conglomerate, which can be separated into four facies or cycles. All four cycles consist on average of an upper conglomerate and a lower quartzite. The characteristics of every cycle are area-dependent and the grades are variable within each cycle. The South Reef is approximately 900 meters below the current Kimberley Reef mining, and between 7.5 and 60 meters above the Main Reef horizon. The hanging wall to the South Reef consists of siliceous quartzites with non-persistent bands of blue-shot grit and thin argillite partings. The footwall to the South Reef is a light colored and fairly siliceous quartzite. Secondary conglomerate bands and stringers in the hanging wall and footwall of the South Reef may contain sporadic gold values. The general strike of the reef is east-west, with a dip from 10 to 20 degrees. The orebody at Doornkop has a strike length of 4km and a width of 4km from west to east.

During fiscal 2010, the gathering of additional geological information from on-reef development and exploration drilling on the South Reef resulted in an increase in confidence to successfully build up maximum production. The

geological, depositional, facies & evaluation models receive regular attention and are being expanded as the new data becomes available. A 3-D geological model was developed for the mine. This model incorporates the Kimberley, South & Main Reefs.

**Mining Operations:** These operations are subject to the underground mining risks detailed in the Risk Factors section. Due to the shallow to moderate depths of the operations, seismicity and high rock stress related problems are infrequent. There is a risk of subterranean water

and/or gas intersections in some areas of the mines. 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 are indicated in the drilling, appropriate preventative action is taken.

The Doornkop South Reef Project was announced on January 22, 2003. The project involved the deepening of the Doornkop main shaft to 1,973 meters to access the South Reef between 1,650 and 2,000 meters below surface, and includes development towards these mining areas. The estimated final capital cost is R1,772 million (US\$233.7 million) with R1,470 million (US\$193.9 million) spent as of June 30, 2010.

Production from the Kimberley reef section of the mine continued in the trackless sections and will continue for a further four years while the build-up of production from the South Reef sections continues. The development of the geological model of the Kimberley reef to identify target areas for exploration may result in an extension of the four year plan currently in place. The Kimberley section constantly underperformed during the 2010 year, mainly due to the low availability of trackless equipment. The purchase of a new trackless fleet will improve production in fiscal 2011.

The South Reef exceeded planned gold production for the year as a result of the logistical constraints being alleviated and the grade being higher than expected. The main pump station on 207 level was completed in August 2009 and is now able to provide sufficient pumping capacity to support the build-up to maximum production in 2015. During fiscal 2010, the winder compartments were subsequently equipped and the conveyor belt on 212 level (shaft bottom) was completed. There were however delays encountered with the equipping of the shafts as a result of shaft time constraints. These constraints resulted in a change in the scope of the project following the delays.

The most significant achievement for fiscal 2010 was the build-up achieved in gold production that increased by 49% from fiscal 2009. This increase was driven by an increase in production from the South Reef.

During fiscal 2010, Doornkop accounted for 5% (3% in 2009 and 2% in 2008) of our total gold production. **Safety:** The safety record at Doornkop during fiscal 2010 was as follows: in terms of LTFR of 5.50 (2009: 6.25) per million hours worked achieved at Doornkop compared favorably with the group average of 7.72 (2009: 9.35). Regrettably there were two fatalities at Doornkop during fiscal 2010.

A greater focus on safety-related matters led to streamlined procedures and improved training, maintenance and behavior.

**Plants:** The processing facilities presently comprises of one operating plant, the Doornkop metallurgical plant. The Doornkop metallurgical plant, commissioned in 1985, is a conventional CIP plant, which was used to treat waste rock and other surface accumulations. It is now treating all ore from underground mining at the Doornkop and some of the ore from Rand Uranium's Cooke operations. The plant is serviced by a surface rail network from the Cooke shafts and by a conveyor belt configuration system from Doornkop shaft.

The following table sets forth processing capacity and average tons milled during fiscal 2010 for the Doornkop plant:

<b>Plant</b>	<b>Processing Capacity (tons/month)</b>	<b>Average Milled for the Fiscal Year Ended June 30, 2010 (tons/month)</b>
Doornkop	242,500	146,429

In fiscal 2010, the Doornkop plant recovered approximately 94.6% of the gold contained in the ore delivered for processing. During fiscal 2010 a split-stream configuration that isolates the Doornkop ore from the Rand Uranium ore was adopted to improve the accuracy of gold accounting to the respective companies.

**Production analysis:**

<b>Doornkop Production Tons ( '000)</b>	<b>Fiscal Year Ended June 30,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
	595	605	494

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Recovered grade (ounces/ton)	0.105	0.070	0.089
Gold produced (ounces)	62,694	42,150	44,038
Gold sold (ounces)	62,275	43,211	44,143



<b>Doornkop</b>	<b>Fiscal Year Ended June 30,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Results of operations (\$)</b>			
Product sales ( 000)	68,169	38,128	35,489
Cash cost ( 000)	54,042	31,253	31,014
Cash profit ( 000)	14,127	6,875	4,475
<b>Cash costs</b>			
Per ounce of gold (\$)	822	804	749
<b>Capex ( 000) (\$)</b>	45,097	43,918	48,039

Tons milled from Doornkop were 605,000 in fiscal 2009, compared with 494,000 in fiscal 2008. Volumes increased, largely as a function of the increase in tons mined at the South Reef workings (296,000), as well as an increase in the stoping width at the Kimberley reef mining. Ounces produced were 42,150 in fiscal 2009, compared 44,038 in fiscal 2008. The decrease in ounces sold was primarily due to the lower recovery grade. The recovered grade deteriorated to 0.070 in fiscal 2009, compared with 0.089 in fiscal 2008, mainly due to the decline in the grade mined from the Kimberley reef trackless mining sections. Production from trackless areas will continue during the build-up phase of mining from the South Reef project areas. Grade from the South Reef project was negatively affected by the large unavoidable volumes of development waste rock that were included in the reef stream which resulted in diluted head-grade. South Reef ore is now hoisted separately from waste which resulted in much improved recovered grades during the final two months of fiscal 2009.

Cash costs per ounce of gold were US\$804 in fiscal 2009, compared with US\$749 in fiscal 2008. The increase was mainly from labor, consumables and services cost. Labor cost increased due to an increase in labor to cater for the new South reef production levels and from annual wage increases. Consumable costs increased as a result of the South reef production build-up where additional square meters were mined. In addition significant increases in power cost (38%) and company overhead cost (78%) were incurred, measured against fiscal 2008.

Tons milled from Doornkop were 595,000 in fiscal 2010, compared with 605,000 in fiscal 2009. Although throughput remained flat, the higher grade South Reef made up a much larger portion of total ore milled than in fiscal 2009. This change in the mix of milled tons resulted in an increase in recovered grade to 0.105 in fiscal 2010, compared with 0.070 in fiscal 2009. Ounces produced were 62,694 in fiscal 2010, compared with 42,150 in fiscal 2009.

Production from trackless areas in the Kimberley Reef section will continue through the build-up phase of mining from the South Reef project areas.

Cash costs per ounce of gold were US\$822 in fiscal 2010, compared with US\$804 in fiscal 2009. This increase was mainly from labor, services and consumables costs. Labor costs increased due to an increase in labor to cater for the new South Reef production levels and from annual wage increases. Consumable costs increased as a result of the South Reef production build-up where additional square meters were mined. In addition, significant increases in power cost (35%) were incurred, measured against fiscal 2009.

The hoisting capacity of the Doornkop shaft is 185,000 tons per month. The average tons milled in fiscal 2010 were 49,583 tons per month.

On a simplistic basis, assuming no additional resources are identified, at expected production levels, it is foreseen that: the reported proven and probable mineral reserve of 4.4 million tons (0.4 million ounces) will be sufficient for the Doornkop shaft to maintain production until approximately fiscal 2024.

**Capital Expenditure:** Harmony incurred R342 million (US\$45.1 million) in capital expenditure in fiscal 2010 at Doornkop, primarily for shaft equipping, supporting infrastructure, development and rolling stock for material and rock transport. The planned capital expenditure for fiscal 2011 is R320 million (US\$41.9 million) at the Doornkop South Reef project. Total project expenditure incurred amounts to R1,470 million (US\$193.9 million) as of June 30, 2010.

### ***Evander Operations***

**Introduction:** The Evander operations are located in the province of Mpumalanga in South Africa and comprise of an amalgamation of the former Kinross, Bracken, Leslie and Winkelhaak mines into a mining right of 36,898 hectares and additional adjacent Prospecting Rights comprising 19,933 hectares. Ore is treated at the Kinross plant, after the closure of the Winkelhaak plant following the closure of Evander 7 and 2 and 5 shafts.

**History:** Gold mining in the Evander Basin began in 1955. Eventually, four mining operations were established at Evander. In 1996, as a result of the depletion of mineral reserves, all four mining areas were merged to form Evander Gold Mines Limited. In August 1998, Harmony acquired Evander as a wholly-owned subsidiary.

**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 reef type, 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 but a limited amount of surface material, containing gold, from the surface cleanup operations are also processed. These operations are subject to the underground mining risks detailed in the Risk Factors section. Due to the shallow to moderate depths of the Evander underground operations, seismicity and high rock stress 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. In fiscal 2004, an agreement was reached with the unions for the implementation of Conops at Evander. Downsizing and restructuring of the 7 Shaft area resulted in labor surpluses and it was also decided to stop Conops in fiscal 2008 at Evander 5 Shaft. Subsequently, Conops has also been stopped at Evander 8 Shaft in June 2010.

A due diligence of the operations during fiscal 2010 led to the conclusion that the only economically viable shaft was Evander 8. Mining operations at Evander 2 and 5 and 7 shafts ceased during the year and Evander 8 was restructured. The shaft infrastructure at Evander 7 will be utilised by Evander 8 for the pumping of water and the hoisting of rock as well as being available for use as a second escape. High temperatures underground, caused by ventilation return capacity restrictions at Evander 8 remained problematic and hampered production.

Once the restructuring of Evander had been completed, a feasibility study was undertaken which proved the viability of Evander 8. Greater attention was given to this shaft and a re-engineering project was implemented which involves not just the deepening of the decline but its repositioning within the high grade payshoot. This will give immediate access to the high-grade areas between 24 and 25 level, and will contribute to improved productivity with consequent financial benefits. The project's parameters include the optimisation of logistics, cooling and ventilation as well as an upgrade of the refrigeration plant.

Following the closure of the Evander 2 and 5 shafts as well as the Winkelhaak plant, a one-year clean up program commenced at and in the vicinity of the plant. The aim of this program, which will continue into fiscal 2011, is to clean up any metal contained in the plant footprints, to process rock from the rock dumps in the vicinity, to rehabilitate the Winkelhaak plant, and to clean the surface rail network.

Evander 9 Shaft was re-opened to establish the feasibility of mining high grade areas in limited quantities in an effort to improve the mine call factor. It was subsequently decided to put the exercise on hold in fiscal 2010 due to discouraging results.

Because of the closure of Evander 2 and 5 and 7 Shafts, the services departments at Evander were downsized and incorporated under the management of Evander 8 Shaft during fiscal 2010.

Potential exists at several areas in Evander:

Evander South

The exploration drilling program was completed and the pre-feasibility study re-done.

The pre-feasibility study gave a negative net present value and it was decided not to proceed to the feasibility study at this stage.

Shaft 7 portion of the 2010 Payshoot

Project at exploration stage following the geological study.

Underground development, to be used as an underground drilling platform, advanced 233 meters (or 19%). This is intended for investigation of the 7 Shaft flank of the postulated 2010 payshoot.

Feasibility study to follow, pending confirmation of the mineral resource in this area.

This project is on hold following the closure of the shaft.

Twistdraai and Shaft 6

Joint Venture with the African Precious Minerals ( **APM** ) was formed to explore these two target areas.

APM may earn in a 52% equity stake upon completion of the full bankable feasibility study for each area.

A conceptual study was completed and approval given during fiscal 2010 for the project to proceed to pre-feasibility.

Surface drilling will commence in fiscal 2011.

Subsequent to year-end, we entered into an agreement with Taung Gold Mining Limited for the sale of these assets. Refer to Item 8. *Recent Developments*.

**Rolspruit**

This is a future mining area on the down-dip extension of the 8 shaft payshoot.

Synergies with the current 8 Shaft deepening are being considered.

**Poplar**

Surface exploration drilling is required to bring this project into the full bankable feasibility study.

Surface drilling was started in fiscal 2010 and is continuing throughout 2011.

Results from the drilling will be used to update the pre-feasibility study.

In fiscal 2010, the Evander operations accounted for approximately 8% (12% in fiscal 2009 and 12% in fiscal 2008) of Harmony's total gold production.

**Safety:** The safety record at the Evander operations in terms of LTIFR of 7.41 (2009: 10.39) per million hours worked during fiscal 2010 is favorable when compared to the group average of 7.72 (2009: 9.35). There were regrettably two fatalities at Evander during fiscal 2010 (2009: two fatalities).

**Plants:** Evander has one active processing plant, the Kinross plant. Ore from Evander 8 is hoisted directly to and treated at the Kinross plant, which is a hybrid CIP/CIL plant.

The following table sets forth processing capacity and average tons milled during fiscal 2010 for the operating plant:

<b>Plant</b>	<b>Processing Capacity (tons/month)</b>	<b>Average Milled for the Fiscal Year Ended June 30, 2010 (tons/month)</b>
Kinross	220,460	97,788

In fiscal 2010, the plant at Evander operations recovered approximately 94.2% of the gold contained in the ore delivered for processing.

**Production analysis:**

	<b>Fiscal Year Ended June 30,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Evander operations</b>			
<b>Production</b>			
Tons ( '000)	869	1,241	1,447
Recovered grade (ounces/ton)	0.129	0.153	0.160
Gold produced (ounces)	111,724	190,075	231,799
Gold sold (ounces)	111,499	195,668	240,037
<b>Results of operations (\$)</b>			
Product sales ( '000)	120,092	168,180	192,978
Cash cost ( '000)	113,327	110,869	125,995
Cash profit ( '000)	6,765	57,311	66,983
<b>Cash costs</b>			
Per ounce of gold (\$)	1,018	572	526
<b>Capex ( '000) (\$)</b>	23,100	23,352	33,388

Tons milled at the Evander operations were 1,241,000 in fiscal 2009, compared with 1,447,000 in fiscal 2008, and ounces produced were 190,075 in fiscal 2009, compared with 231,799 in fiscal 2008. The decrease in tons milled is partially attributable to the reduction of the development at Evander 7 in November 2007 and the closure of the pillar section in February 2008. At Evander 8, tons milled decreased by 56,000 tons due to unfavorable environmental conditions in the decline area that affected mining from this area. The shaft completed a raise-borehole from 17 Level to 24 Level during fiscal 2009 that enables chilled ventilation to reach 24 level on the decline directly which alleviated

the medium term ventilation constraints. Recovered grade was 0.153 ounces per ton in fiscal 2009, compared with 0.160 ounces per ton in fiscal 2008.

The increase in cash costs from US\$526 per ounce in fiscal 2008 to US\$572 per ounce in fiscal 2009 was attributable primarily to the decrease in gold ounces produced in fiscal 2009 compared to fiscal 2008 due to the successful restructuring and downscaling at Evander 7 that was implemented in January 2008. Cash costs decreased from US\$125.9 million to US\$110.9 million, primarily as a result of the closure of Evander 7.

Tons milled at the Evander operations were 869,000 in fiscal 2010, compared with 1,241,000 in fiscal 2009, and ounces produced 111,724 in fiscal 2010 compared with 190,075 in fiscal 2009. The decrease in tons milled is predominantly attributable to the closure of Evander 2 and 5 and 7 Shafts. Recovered grade was 0.129 ounces per ton in fiscal 2010, compared with 0.153 in fiscal 2009.

The increase in cash costs from US\$572 per ounce in fiscal 2009 to US\$1,018 per ounce in fiscal 2010 was attributable primarily to the decrease in gold ounces produced in fiscal 2010 compared to fiscal 2009 due to the closure of Evander 2 & 5 and 7.

Assuming no additional reserves are identified, at expected production levels, it is foreseen that the reported proven and probable mineral reserves of 4.3 million tons (0.99 million ounces) (excluding the below infrastructure reserves) will be sufficient for the Evander operations to maintain production until approximately fiscal 2021 at Evander 8. Any future changes to the assumptions upon which the reserves are based, as well as any unforeseen events affecting production levels, could have a material effect on the expected period of future operations.

**Capital Expenditure:** Harmony incurred approximately R175 million (US\$23.1 million) in capital expenditures at the Evander operations in fiscal 2010. The expenditure was primarily for ongoing development, abnormal expenditure for the upgrading of the infrastructures as well as phase 6 of the No 2 Decline at Evander 8 and 2 ventilation bore holes. Harmony budgeted R196 million (US\$25.7 million) for capital expenditures in fiscal 2011 primarily for ongoing development and the upgrading of major equipment.

### **Joel**

**Introduction:** Joel is located in the Free State province, on the south-western edge of the Witwatersrand basin. The mine comprises of two shafts, North and South shafts. Previously ore mined at Joel was transported to Central Plant, 38 kilometers away, for processing, but since the recommissioning of the Joel plant in November 2009, the ore is now processed on site.

**History:** Joel was purchased from a subsidiary of AngloGold at the same time as the rest of the Freegold assets in January 2002.

**Geology:** Joel is mining the shallow flat-dipping Beatrix/VS5 Reef. This varies from a single-pebble lag to a multiple conglomerate, often showing mixing of the reef with some of the overlying lower grade VS5 (mixed pebble conglomerate) material. None of the other reefs are present this far south, having sub-cropped against the Beatrix Reef.

**Mining operations:** These operations are subject to the underground mining risks detailed in the Risk Factors section.

Scattered mining takes place on the Beatrix Reef, down to a depth of some 1,400 meters. Upgrading of the infrastructure at North Shaft is currently in progress.

Volumes mined during fiscal 2010 were negatively affected by a mud slide at the bottom of North shaft, a guided rope shaft. A temporary mud press was subsequently installed and mud is removed daily from the bottom of the shaft. Despite this, raise boring of the North shaft expansion to 129 level was completed although hoisting constraints resulted in the equipping of the shaft deepening project to 129 level being delayed. An extensive program to rectify the problems experienced with North shaft had begun by the end of June 2010. While production at Joel has progressively moved to the deeper portions of the mine, the North Shaft, which accesses these areas, was never fully equipped for this and adjustments to the shaft spillage arrangements are now being made retrospectively. The modifications being made include:

- changing the winder from sinking to production mode;

- installing larger skips; ensuring that emergency egress is available; raise boring the lift shaft from 121 to 129 level; and

- improving cleaning arrangements at the shaft bottom.

Operations were halted while these changes were under way. The shaft resumed operations in August 2010, once repairs to the shaft bottom had been completed. In the interim, the Joel plant has been processing waste to maximise gold production. The opportunity will be taken to install the permanent spillage arrangement during December 2010.

Once mining from 129 level has begun, production is expected to peak at around 78,000 ounces annually. To ensure that the production targets are met, plans have been put in place to ensure the operability of the North shaft and conduct a planned maintenance program to minimise breakdowns, to maintain blast advances and to assess the feasibility of mining below 129 level to 137 level. A successful drilling program has been completed and a pre-feasibility study is in progress.

During fiscal 2010, Joel accounted for 5% of our total gold production (4% in fiscal 2009 and 3% in fiscal 2008).



**Safety:** Safety at Joel deteriorated during fiscal 2010. After having no fatalities for two years, there was tragically one fatality, the result of a rockfall, during fiscal 2010. However, the LTIFR at Joel of 4.26 (2009: 2.59) per million hours worked compared favorably with the group average of 7.72 (2009: 9.35).

**Plants:** The Joel plant is a hybrid CIP/CIL plant and was commissioned in 1987. During fiscal 2005, it was decided to close the Joel Plant and place the plant under care and maintenance. Joel Plant was re-commissioned in November 2009 and the plant is currently running with two mills at 80,000 tons per month. The current monthly capacity is 88,185 tons of rock, which is made up of 55% reef and 45% waste rock dumps.

The following table sets forth processing capacity and average tons milled during fiscal 2010 for the operating plant:

<b>Plant</b>	<b>Processing Capacity (tons/month)</b>	<b>Average Milled for the Fiscal Year Ended June 30, 2010 (tons/month)</b>
Joel Plant	88,185	71,378

In fiscal 2010, the Joel Plant operations recovered approximately 93% of the gold ore delivered for processing.

**Production analysis:**

<b>Joel Production</b>	<b>Fiscal Year Ended June 30,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
Tons ( 000)	484	566	449
Recovered grade (ounces/ton)	0.133	0.116	0.133
Gold produced (ounces)	64,495	65,684	59,557
Gold sold (ounces)	63,788	64,784	61,215
<b>Results of operations (\$)</b>			
Product sales ( 000)	69,150	55,862	51,557
Cash cost ( 000)	50,017	40,649	39,131
Cash profit ( 000)	19,133	15,213	12,426
<b>Cash costs</b>			
Per ounce of gold (\$)	792	636	638
<b>Capex ( 000) (\$)</b>	11,587	6,183	5,375

Tons milled from Joel increased to 556,000 in fiscal 2009, compared with 449,000 in fiscal 2008. This was due to the rehabilitation work done on North Shaft. Further work was done to improve the smooth operation, which included the reconditioning of the liquid controller, installing an additional cooling tower, increasing lubrication intervals of the guide ropes on the south side. There was also a significant increase in square meters from 60,752 in fiscal 2008 to 83,413 in fiscal 2009.

Grade was affected by the loss of two high-grade raise lines which necessitated a move to lower grade raise lines. Higher than expected stoping widths were encountered which affected the face grade. Joel has a centralized high grade area with the outskirts being of lower grade. Due to flexibility and availability constraints Joel was forced to move to the outskirts therefore causing a lower recovery grade.

Ounces produced were 65,684 in fiscal 2009, compared with 59,557 in fiscal 2008. The increase in tons positively influenced ounces produced. Recovery grade decreased to 0.116 in fiscal 2009, compared with 0.133 in fiscal 2008.

The cash costs for Joel increased to US\$40.6 million in fiscal 2009, compared with US\$39.1 million in fiscal 2008. This increase was due to wage and salary increases granted to labor, as well as an increase in labor complement to increase stoping panels from 16 to 18. Development labor also increased as development meters increased from 2,141 meters in 2008 to 3,554 meters in 2009. An afternoon shift was also introduced to reduce the underground lockup tons. This was done with contract labor, which increased the contractor costs. There was a substantial increase in

electricity charges, which came about due to the electricity shortage experienced.

Cash costs per ounce were US\$636 in fiscal 2009, compared with US\$638 in fiscal 2008. This decrease was primarily attributable to the increased tonnage due to the increase in square meters in 2009 compared to 2008 as well as a decrease in lockup tons year on year.

The decrease in tons milled from 566,000 in fiscal 2009 to 484,000 in fiscal 2010 is mainly due to the lift shaft between 110 level and 121 level being stopped as a project was initiated to deepen this shaft from 121 level down to 129 level to enable the mining of 129 level. This entailed raising a borehole from 129 level to 121 level. This extension was then equipped, resulting in all men and material having to travel down raise lines, which slowed the delivery of material to the working places and also impacted on stoping and development crews' face time. This also resulted in a decrease in square meters from 83,413 in fiscal 2009 to 78,229 in fiscal 2010. The increase in cash costs for Joel from US\$40.6 million in fiscal 2009 to US\$50.0 million in fiscal 2010 is due to wage and salary increases granted. Development labor also increased as development meters increased from 3,554 meters in 2009 to 4,537 meters in 2010. Development costs were also severely impacted by costs to contain excessive fissure water encountered during development of level 129. Also impacting on costs was a substantial increase of 32% in electricity rates.

Cash costs per ounce were US\$792 in fiscal 2010, compared with US\$636 in fiscal 2009. This decrease was primarily attributable to the increase in costs as discussed above, and the reduction in ounces recovered due to the drop in tonnage due to closure of the lift shaft.

The rock hoisting capacity at Joel is 50,000 tons per month. The average tons milled in fiscal 2010 was 40,333 tons per month.

Assuming no additional reserves are identified, at expected production levels, it is foreseen that the reported proven and probable mineral reserves of 2.9 million tons (0.5 million ounces) will be sufficient for Joel to maintain underground production until approximately 2017. Any future changes to the assumptions upon which the mineral reserves are based, as well as any unforeseen events affecting production levels, could have a material effect on the expected period of future operations.

**Capital Expenditure:** We incurred R88 million (US\$11.4 million) in capital expenditures at Joel in fiscal 2010 on the shaft bottom cleaning at North Shaft, the lift deepening project, and general replacement and maintenance. Capital budgeted for fiscal 2011 is R66 million (US\$8.7 million), primarily for deepening the lift shaft from 121 level to 129, to enable mining on 129 level and to equip it, spillage skip at North Shaft and LED projects.

#### ***Kusasaletu (formerly Elandsrand)***

**Introduction:** Kusasaletu is located near Carletonville in the North West province of South Africa. The assets and associated liabilities were purchased during fiscal 2001 for approximately R1 billion (US\$128.4 million) from AngloGold. Ore from the operation is treated at the Kusasaletu plant. The name of Elandsrand was changed to Kusasaletu on January 23, 2010. The rebranding and name change was based on entrenching a culture, endorsed by both management and the unions, to ensure safe, productive mining.

**History:** Gold mining began at Kusasaletu in 1978 following approval of the project in 1974 by Elandsrand Gold Mining Company. Two surface shafts and two adjoining sub-vertical shafts were sunk at Elandsrand. The sub-vertical shafts at Elandsrand, which accessed the deeper part of the VCR reef in the lease area, were completed in 1984. The deepening of the sub-vertical shafts to approximately 3,600 meters below surface has been completed after the deepening project was commissioned in 1991. Activities are currently focused on accessing and opening up areas of the new mine and on the development and construction of support infrastructure.

**Geology:** At Kusasaletu we primarily exploit the Ventersdorp Contact Reef, or VCR, the Carbon Leader Reef, or CLR and the Elsburg Reef. Only the VCR is economic to mine and has been mined at depths below surface between 1,600 and 3,400 meters with future production to take place up to 3,600 meters below surface at the Kusasaletu operations. The VCR consists of a narrow (20 centimeters to 2 meters) tabular orebody of quartz pebble conglomerates hosting gold, with extreme lateral continuity. 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.

**Mining Operations:** The Kusasaletu mine is subject to the underground mining risks detailed in the Risk Factors section.

The Kusasaletu mine has the challenge of developing a new mine underneath the original mine after the shaft was deepened to access the deeper part of the VCR orebody. The operation is still hampered by the lack of flexibility, an issue that will be addressed by the full commissioning of the new mine. Due to the operating depths of the

Kusasaletu underground operations, seismicity and high rock stress are significant risks at the mine. Steps were taken during fiscal 2010 to improve the quality of the pre-conditioning at the stope face and seismic management systems so as to reduce the possibility of face ejection during small, volatile seismic events.

Under-performance on square metres broken was the mine's biggest challenge in fiscal 2010. Scaling in the main reef and waste ore pass systems resulted in blockages in both systems, which contributed to waste dilution and resulted in the lower recovered grade during the year. By year-end it was decided to separate reef and waste and to continue with the removal of the blockage in the waste pass system between the old mine (above 100 level) and the new mine (below 100 level). Once the blockage has been removed, waste rock and reef ore will again be tipped into one ore pass system to accommodate the rehabilitation of both ore pass systems. While this will dilute the recovered grade, it will not affect gold production.

The mine deepening project infrastructure is 95% complete. The shaft infrastructure is in place and work over the next two years will focus mainly on the provision of sufficient cooling and ventilation into the new mine areas. The project is expected to be completed by fiscal 2012 and is expected to have a life of mine of 26 years. From the inception of the project through to the end of fiscal 2010, R1,035 million (US\$136.5 million) has been expended. A further R77 million (US\$10.2 million) has been budgeted to complete the project.

In fiscal 2010, our Kusasaletu operations accounted for approximately 12% (11% in 2009 and 9% in fiscal 2008) of our total gold production.

**Safety:** Over the past year, an improvement was noted in the safety record at Kusasaletu. During fiscal 2010, LTIFR was 6.68 (2009: 12.67) per million hours worked. Regrettably there were two fatalities during fiscal 2010 (2009: five fatalities).

**Plants:** Commissioned in 1978, the Kusasaletu Plant consist of milling in closed circuit with primary and secondary hydrocyclones, thickening and cyanide leaching in a CIP pump cell carousel circuit. The CIP was commissioned after an upgrade of the facility in 1999. Ore from Kusasaletu underground operations is delivered to the plant for treatment via conveyor belt after being hoisted from underground. Loaded carbon from the Kusasaletu Plant is transported by road to the Evander Plant 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.

The following table sets forth processing capacity and average tons milled during fiscal 2010 for the plant:

<b>Plant</b>	<b>Processing Capacity (tons/month)</b>	<b>Average Milled for the Fiscal Year June 30, 2010 (tons/month)</b>
Kusasaletu Plant	203,925 <sup>(1)</sup>	102,753

(1) Processing capacity will reach its optimal capacity upon completion of the Kusasaletu New Mine Project.

In fiscal 2010, the Kusasaletu Plant recovered approximately 95.0% of the gold contained in the ore delivered for processing.

**Production analysis:**

<b>Kusasaletu Production</b>	<b>Fiscal Year Ended June 30,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
Tons ( '000)	1,141	1,061	981
Recovered grade (ounces/ton)	0.153	0.164	0.167

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Gold produced (ounces)	175,029	174,321	164,215
Gold sold (ounces)	168,244	183,676	158,631
<b>Results of operations (\$)</b>			
Product sales ( 000)	183,603	157,956	132,699
Cash cost ( 000)	143,985	117,321	103,351
Cash profit ( 000)	39,618	40,635	29,348
<b>Cash costs</b>			
Per ounce of gold (\$)	857	660	652
<b>Capex ( 000) (\$)</b>	56,687	46,915	43,830

Tons milled from Kusasalethu were 1,061,000 in fiscal 2009, compared with 981,000 in fiscal 2008. Ounces produced increased to 174,321 in fiscal 2009, compared with 164,215 in fiscal 2008 as a result of the increased volumes in production. Mining continues in the old, upper areas of the mine, while the new mine project is completed. Recovered grades decreased marginally during fiscal 2009, resulting in an average of 0.164 ounces per ton in fiscal 2009, compared to the average of 0.167 ounces per ton in fiscal 2008.

The increase in electricity costs, labor rates and inflation were the main contributors to the increase in cash cost from US\$652 per ounce in fiscal 2008 to US\$660 per ounce in fiscal 2009. Cash cost per ounce only increased by 1% due to increased ounces produced which neutralized the higher than normal increases in labor rates and electricity increases approved by the NERSA. Electricity rates are expected to continue rising above the norm until Eskom has developed additional power generating plants.

Tons milled from Kusasalethu were 1,141,000 in fiscal 2010, compared with 1,061,000 in fiscal 2009. Ounces produced increased to 175,029 in fiscal 2010, compared with 174,321 in fiscal 2009 as a result of the increased volumes in production. Mining continues in the old, upper areas of the mine, while the new mine project is completed. Recovered grades decreased during fiscal 2010, resulting in an average of 0.153 ounces per ton in fiscal 2010, compared to the average of 0.164 ounces per ton in fiscal 2009.

The increase in labor rates and the higher than normal electricity increases approved by NERSA were the main contributors to the increased cash cost. Electricity rates are expected to continue rising by an estimated 25% annually for the next two years. Potable water previously received from Rand Water Board was increased by 32% for fiscal 2010 by the Merafong Local Council due to a change in legislation allowing local councils to take over this service from Rand Water Board. The increase in electricity costs, labor rates and inflation were the main contributors to the increase in cash cost from US\$660 per ounce in fiscal 2009 to US\$857 per ounce in fiscal 2010.

Kusasalethu has a hoisting capacity of 209,440 tons per month. The average tons milled in fiscal 2010 was 95,083 tons per month.

Assuming no additional reserves are identified, at expected production levels, it is foreseen that the reported proven and probable mineral reserves of 39.5 million tons, or 7.5 million ounces will be sufficient for the Kusasalethu shaft to maintain underground production until approximately calendar year 2035. Any future changes to the assumptions upon which the mineral reserves are based, as well as any unforeseen events affecting production levels, could have a material effect on the expected period of future operations.

**Capital Expenditure:** Harmony incurred R429.7 million (US\$56.7 million) in capital expenditure at the Kusasalethu operations in fiscal 2010 mainly for the sub shaft deepening project and ongoing development. An additional project, the Emergency Escape project was started during fiscal 2009, to improve the effectiveness of evacuation of people from underground during a shaft emergency, and is expected to be completed in fiscal 2011.

Harmony budgeted R414 million (US\$54.2 million), for capital expenditure at the Kusasalethu operations in fiscal 2011, primarily for the sub-shaft deepening project and ongoing development expenditure.

### ***Masimong***

**Introduction:** Masimong is located in the Free State province, near Riebeeckstad. The Masimong complex comprises an operating shaft, 5 shaft and 4 shaft which, although closed, is used for ventilation, pumping, and as a second outlet. Mining is conducted at depths ranging from 1,518 meters to 2,300 meters. Ore is treated at the Harmony 1 Plant, approximately 23 kilometers away.

**History:** Masimong is located in the Free State Goldfield on the south-western edge of the Witwatersrand Basin. The company purchased the Masimong complex (formerly know as Saaiplaas Shafts 4 and 5) during September 1998.

**Geology:** The operation exploits the Basal Reef, which varies from a single pebble lag to channels on more than 2m thick. It is commonly overlain by shale, which thickens northwards. Masimong is also mining secondary reefs, most notably the Leader Reef (15-20m above Basal) and the B Reef (140m above Basal). The Leader Reef consists of multiple conglomerate units, separated by thin quartzitic zones, often totaling up to 4 meters thick. A selected mining cut on the most economic horizon is often undertaken. The B Reef is a highly channelized orebody. Within the channels, grades are excellent, but this falls away to nothing outside of the channels. Consequently, the operation has undertaken extensive exploration to locate these pay channels.

**Mining Operations:** The operations are subject to the underground mining risks detailed in the Risk Factors section. Due to the shallow to moderate depths of the underground operations, seismicity related problems are relatively infrequent. We regularly revisit our mining strategy and management procedures in connection with our 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 are indicated in the drilling, appropriate preventative

action is taken.



Maintaining grades on the B Reef proved challenging as mining moved out of the high-grade channels while those mined on the Basal Reef generally remained constant. Nevertheless grades were maintained overall for the year at 0.157 oz/t. The infrastructural upgrade, begun in fiscal 2009 and which included improved resource management and the installation of new tracks, locomotives, and compressors, was completed in fiscal 2010. Masimong will reap the benefits of this upgrade by way of improved productivity, efficiencies and output in coming years.

Ventilation is a challenge at Masimong as the booster fans currently installed themselves generate heat and consume electricity. Steps are being taken to counter this. Pressure doors have been installed as an interim measure and a new ventilation system is being installed. A new refrigeration plant is to be installed by September 2011 at a cost of R61 million (US\$8.0 million). Following the upgrade program, full production is scheduled for 2012. To achieve this, every effort has been made to ensure that panels are well equipped and crews motivated, and steps have been taken to overcome the erratic grade of the B reef.

In fiscal 2010, Masimong accounted for approximately 11% (10% in fiscal 2009 and 6% in fiscal 2008) of our total gold production.

**Safety:** The safety record at Masimong during fiscal 2010 in terms of LTIFR of 7.37 (2009: 8.67) per million hours worked compared favorably with the group average of 7.72 (2009: 9.35). Tragically, there was one fatality during fiscal 2010 (2009: two fatalities). Various initiatives are in place to correct and reduce the human element in accidents.

**Plants:** The ore from these operations are sent to Harmony 1 Plant for processing. See *Item 4. Information of the Company Business Bambanani* for a discussion on the plant.

**Production analysis:**

<b>Masimong Shaft Complex</b>	<b>Fiscal Year Ended June 30,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Production</b>			
Tons ( 000)	991	981	892
Recovered grade (ounces/ton)	0.157	0.157	0.131
Gold produced (ounces)	155,609	154,034	116,424
Gold sold (ounces)	153,937	154,581	117,575
<b>Results of operations (\$)</b>			
Product sales ( 000)	168,439	135,025	96,147
Cash cost ( 000)	92,571	73,494	87,630
Cash profit ( 000)	75,868	61,531	8,517
<b>Cash costs</b>			
Per ounce of gold (\$)	602	476	756
<b>Capex ( 000) (\$)</b>	23,407	14,479	15,686

Tons milled from Masimong were 981,000 in fiscal 2009, compared with 892,000 in fiscal 2008, and ounces produced were 154,034 in fiscal 2009, compared with 116,424 in fiscal 2008. Year on year gold production increased due to an increase in tons as well as the recovered grade.

Cash costs were US\$73.5 million in fiscal 2009 compared with US\$87.6 million in fiscal 2008 with cash costs per ounce at US\$476 in fiscal 2009 compared with US\$756 in fiscal 2008. This decrease in cash cost is mainly attributable to a 9.7% decrease in labor. Labor efficiencies contributed significantly to the improved performance. This was the first year that Masimong was fully off the Conops cycle.

The increase in recovered grade by 0.026 ounces per ton from fiscal 2008 to fiscal 2009 can be attributed to an increase in quality mining discipline. Most notable was the 6.9% increase in MCF and a 20% increase in face grade mined. This was achieved on the back of the Masimong transformation process initiated in April 2008.

Furthermore the amount of B reef mining was decreased from 25% of total mining to 16% of total mining. This step reduced the high risk with regards to grade associated with the traditionally variable B Reef ore body.

Tons milled from Masimong were 991,000 in fiscal 2010, compared with 981,000 in fiscal 2009, and ounces produced were 155,609 in fiscal 2010, compared with 154,034 in fiscal 2009. Year-on-year gold production increased

due to an increase in tons.

Cash costs were US\$92.6 million in fiscal 2010 compared with US\$73.5 million in fiscal 2009 with cash costs per ounce at US\$602 in fiscal 2010 compared with US\$476 in fiscal 2009. This increase in cash cost is mainly attributable to a 16% lower R/US\$ exchange rate and annual

cost increases. The biggest cost increase contributors were annual labor cost and electricity cost increases.

Recovered grade remained unchanged in fiscal 2010 compared to fiscal 2009.

Assuming no additional reserves are identified, at expected production levels, it is foreseen that the reported proven and probable mineral reserves of 8.1 million tons (1.2 million ounces) will be sufficient for the Masimong shaft complex to maintain underground production until approximately fiscal 2023. Any future changes to the assumptions upon which the reserves are based, as well as any unforeseen events affecting production levels, could have a material effect on the expected period of future operations.

**Capital Expenditure:** Masimong incurred approximately R177 million (US\$23.4 million) in capital expenditures in fiscal 2010. We have budgeted a total of R208 million (US\$27.2 million) for capital expenditures at Masimong in fiscal 2011. Of this, R19 million (US\$2.5 million) is for upgrading of the rail bound equipment and R28 million (US\$3.7 million) for the fridge plant on Masimong 5.

### **Phakisa**

**Introduction:** We acquired Phakisa when we, in January 2002, acquired the Freegold operations from AngloGold through a 50% joint venture with ARMgold. In September 2003, we acquired 100% of these operations when ARMgold became a wholly owned subsidiary. The operation is located in the Free State province. Production from the operations is processed through Harmony 1 Plant.

**History:** Exploration, development and production history in the area of the Freegold assets dates from the early 1900 s, leading to commercial production by 1932. Subsequent consolidation and restructuring led to the formation of Free State Consolidated Gold Mine (Operations) Limited, which became a wholly-owned subsidiary of AngloGold in June 1998.

**Geology:** The operation is located in the Free State Goldfield, which is on the southwestern edge of the Witwatersrand basin. The Goldfield is divided into two sections, cut by the north-south striking De Bron Fault. The Phakisa mine is located to the west of the De Bron Fault. Mining is conducted in the Basal reef. The reefs generally dip towards the east.

**Mining Operations:** These operations are subject to the underground mining risks detailed in the Risk Factors section. The management teams regularly revisit their mining strategy and management procedures in order to minimize risks.

The development at Phakisa, a surface shaft, sunk to 75 level elevations and a planned decline shaft to 85 level will access the mineral reserves to a depth of 2,662 meters below surface. It is estimated that the area will yield 22.1 million tons, recovering 4.96 million ounces of gold over a project life of 19 years. Project completion requires sinking, equipping and commissioning of a decline shaft up to 85 level. The major project includes access development and stoping to maximum production build-up at a capital cost of R2,074 million (US\$273.6 million). To date, R1,508 million (US\$199 million) has already been spent.

Good progress was achieved during fiscal 2010, with completion of all infrastructures except the underground cooling plants. Installation of the permanent water handling systems (i.e., Settlers, Main Pump Station on 77 Level, Mud press and underground dams) have been completed and are operative. The third train on the Rail-veyor was successfully commissioned in December 2009. Eight of the ten ice plant modules have been commissioned, although five were found to be underperforming and the original equipment manufacturers have been engaged to assist with remedial action and to advise on ways of improving performance. The first phase of surface offices and change houses have been successfully completed with the second phase scheduled to start in September 2010. Two critical issues to be completed are the installation of underground cooling plants and upgrading the return air system with the installation of 4m raise bore hole from 75 level to 66 level and a booster fan on 59 level. All this work is planned for fiscal 2011.

Phakisa started the first production during September 2007 and will be opening up mineral reserves going forward. The project is expected to be in full production in July 2013 at 93,476 tons per month. The average production rate per annum over the peak period of life of mine is 245,234 ounces. During fiscal 2010, the build-up in production has been hampered by geological issues, illegal mining activities and down-time on the new infrastructure. Since it is a new mine, development at Phakisa is currently centred close to the shaft in the lower grade southern areas. The major drive is on development of the area to the north to access higher grade areas and to move closer to the average reserve

grade. Grades will improve as development progresses towards the north and more reef is exposed within the major north-west to south-east trending Basal Reef payshoot. Mining was also undertaken at Nyala shaft during fiscal 2010 were payable pillars are available for mining.

During fiscal 2010, Phakisa accounted for 3% (1.4% in 2009 and 0.2% in 2008) of our total gold production.

**Safety:** During fiscal 2010, the safety statistics for Phakisa was 8.4 (2009: 9.19) per million hours worked. Three fatal accidents occurred during fiscal 2010, two resulting from a fall of ground in the development section and one caused by a training accident. Post year-end, an explosion underground tragically resulted in five fatalities.

**Plants:** The ore from these operations are sent to Harmony 1 Plant for processing. See *Item 4. Information of the Company Business Bambanani* for a discussion on the plant.

<b>Phakisa</b>	<b>Fiscal Year Ended June 30,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Production</b>			
Tons ( 000)	374	204	34
Recovered grade (ounces/ton)	0.118	0.109	0.118
Gold produced (ounces)	44,079	22,216	4,024
Gold sold (ounces)	44,496	21,477	4,212
<b>Results of operations (\$)</b>			
Product sales ( 000)	49,458	19,009	3,891
Cash cost ( 000)	43,040	11,903	2,348
Cash profit ( 000)	6,418	7,106	1,543
<b>Cash costs</b>			
Per ounce of gold (\$)	953	555	497
Capex ( 000) (\$)	64,106	51,210	40,335

Tons milled increased from 34,000 tons in fiscal 2008 to 204,000 tons in fiscal 2009, with gold production increasing from 4,024 ounces to 22,216 ounces. This was as a result of the planned ramp up in production during the year. Grade was lower in fiscal 2009 at 0.109 ounces per ton, compared to 0.118 in fiscal 2008. This was due to the fact that mining was confined to a single raise line in a lower grade area.

Cash costs per ounce for Phakisa was US\$555 per ounce in fiscal 2009, compared with US\$497 per ounce in fiscal 2008. This increase is primarily attributable to the increase in tons mined.

Tons milled increased from 204,000 tons in fiscal 2009 to 374,000 tons in fiscal 2010, with gold production increasing from 22,216 ounces to 44,079 ounces. This was as a result of the planned ramp up in production during the year. Grade was higher in fiscal 2010 at 0.118 ounces per ton, compared to 0.109 in fiscal 2009.

Cash costs per ounce for Phakisa was US\$953 per ounce in fiscal 2010, compared with \$555 per ounce in fiscal 2009. This increase is primarily attributable to the increase in tons mined, as well as the cost of employees transferred to Phakisa from shafts that were closed during fiscal 2010.

The expected capacity of Phakisa will be 131,175 tons per month. Phakisa has no rock hoisting facilities and all rock will be transported via a rail system on 55 level to the Nyala shaft for hoisting to surface. First production took place during September 2007, with a build up to full production expected by fiscal 2013.

On a simplistic basis reported proven and probable underground mineral reserves of 22.1 million tons (5.16 million ounces) will be sufficient for the Phakisa shaft to, once production commence, maintain production until approximately fiscal 2029. Any future changes to the assumptions upon which the reserves are based, as well as any unforeseen events affecting production levels, could have a material effect on the expected period of future operations.

**Capital Expenditure:** We incurred approximately R486 million (US\$64.1 million) in capital expenditures at the Phakisa operations in the fiscal year ended June 30, 2010. We have budgeted R391 million (US\$51.2 million) for capital expenditures in fiscal 2011, primarily for the establishing and development of the shaft.

#### **Target operation**

**Introduction:** The Target operation consists of Target 1, Target 3 and Freddie's 7 & 9 shafts. We acquired Target 1 when Avgold became a wholly owned subsidiary in fiscal 2004. Target 3, previously Loraine 3, and Freddie's 7 & 9 shafts were acquired from Pamodzi FS in February 2010. They have been incorporated into our Target operation. Target is situated near the town of Allanridge in the Free State Province,

some 270 kilometers southwest of Johannesburg. Located on the northern limit of the Welkom Goldfields, the site is accessed via the R30 motorway situated between the towns of Bothaville and Welkom.

**History:** Target 1 was initially explored through surface drilling in the late 1980s with further exploration being undertaken from a 5.6 kilometers long decline, commenced in 1995, driven from 203L at Loraine No. 1 Shaft. A positive feasibility study into the development of a 105 ktpm operation was produced in May 1998 resulting in the decision to develop Target 1. A detailed mine design was produced in 2000 and the mine officially opened in May 2002. Upon closure of the Loraine mine in August 1998, the Loraine No. 1 and No. 2 Shafts were transferred to the Target mine, becoming Target No. 1 and No. 2 Shafts, respectively. No 5 Shaft being the up-cast Ventilation Shaft.

Numerous corporate actions since the 1940 s until the 1990 s saw the Loraine 3 and Freddie's 7 & 9 shafts change ownership a number of times. Previous owners include the Free State Development and Investment Corporation, Johannesburg Consolidated Investment, Avgold and AngloGold. In 1998, PSGM was formed after purchasing Loraine 3 and Freddie's 7 & 9 shafts from various individuals. During 2002, the mine was sold to Thistle Mining Inc, an international company with interests in the Philippines and South Africa. The mine struggled to make operational profits, and Thistle undertook a restructuring program in 2006, which together with an increase in the Rand gold price resulted in positive operational cash flows. In February 2008, PSGM was purchased by Pamodzi FS. The mine was operated from that time until March 2009, when Pamodzi FS was placed into liquidation.

**Geology:** The gold mineralization currently exploited by Target is contained within a succession of Elsburg and Dreyerskuil quartz pebble conglomerate reefs hosted by the Van Heeverrust and Dreyerskuil Members of the Eldorado Formation, respectively. Additional mineral resources have been delineated in the Big Pebble Reefs of the Kimberley Formation but these are not planned to be exploited in the current life of mine plan.

The majority of the mineral reserves at Target are contained within the Eldorado fan, a structure with dimensions of some 135 meters vertically, 450 meters down-dip and 500 meters along strike. The Eldorado fan is connected to the subsidiary Zuurbron fan by a thinner and lower grade sequence of Elsburg reefs termed the Interfan area. To the north of the Eldorado fan, a number of fans have been intersected by surface drilling of which the Siberia and Mariasdal fans are the most significant. These fans are subject to ongoing technical studies and do not form part of the current Target life of mine mineral reserve.

A number of faults that displace the reefs of Target have been identified of which the most prominent are the north-south trending Eldorado fault and the east-west trending Dam and Blast faults. The Eldorado uplifts the more distal portions of the Elsburg and Dreyerskuil Reefs while the Blast fault forms the northern border of Target.

Target North is sub-divided into the Paradise, Siberia and Mariasdal areas by the east-west trending Siberia and Mariasdal faults. To the north of the Siberia fault, the Eldorado fault continues trending more to the northwest and an additional north-south trending fault, the Twin fault has uplifted the distal portions of the reefs. North of the Mariasdal fault, the reef horizons are at a depth greater than 2,500 meters below surface. Resources have been delineated on strike up to 15 kilometers north of Target mine.

Approximately 40 kilometers north of Target 1, surface boreholes have intersected gold bearing reefs in the Oribi area close to the town of Bothaville. Resources have been delineated at Oribi on the VCR and Elsburg at depths of approximately 2,750 meters below surface.

**Mining operations:** Target is subject to the risks associated with underground mining detailed in the Risk Factors section.

Mining operations at Target 1 comprise one primary underground mine commissioned in May 2002, making use of information systems and mechanization, combined with process-driven organizational design that relies on a multi-skilled workforce. The majority of the production is derived from mechanized mining; however, conventional stoping is still employed primarily to de-stress areas ahead of the mechanized mining.

The mine had successful and consistent production throughout fiscal 2010. Improved volumes resulted from an increase in massive availability, improved environmental conditions in the narrow reef stoping section, maintained development levels and improved discrepancy figures due to clean mining. Grade also improved due to a program of geological remodeling and re-estimation of the orebody, which led to better estimates of ore mined. Concerted effort, including back-analysis of the orebody, resulted in improved planning and the implementation of more effective

control systems. Block 3 remains an important future mining area and the orebody re-assessment process was completed in December 2009.

The infrastructural upgrade program enabled the mine to maintain its current levels of production by June 30, 2010 and the benefits of this upgrade is fully felt in fiscal 2010. A 15-point turnaround plan continues at Target. In particular, a great deal of attention is being paid to development and improving flexibility. Some of the improvements effected during fiscal 2009 bore fruit by the end of fiscal 2010.

Target 3 is unique in that, for a mature mine, there still remains an excellent mix of remnant ore blocks including shaft pillar blocks where scattered mining can be exploited and ample areas of virgin ground where conventional mining can take place and even potential to exploit the Golden Triangle in the Freddie's 9 Shaft area. The Target 3 orebody also has characteristics that suit massive mining techniques in the Eldorados which enables design to be centred on a mechanized operation making use of Target 1 skilled employees and the latest proven technology to produce gold at low cash costs.

The origin of massive mining methods on Target 3 is derived from the massive mining techniques used currently at Target 1 Shaft workings, in particular the open stoping method used in the No. 1 Shaft area where a stope of 30m x 25m x 400m was excavated.

The depth of the workings at Target would normally eliminate the potential massive mining methods; however narrow reef mining can be done to create a de-stressed environment for the areas to be mined by massive mining techniques. The complex multiple reefs may require backfill as a support medium in association with the various mining methods.

In order to exploit the above mentioned reef horizons an extensive program of opening up of collapsed or caved airways has been embarked upon and the repair/reconditioning of both the York and Carrier Fridge Plants in order to improve the mine cooling conditions to the required standard.

The shaft bottom, which was damaged during flooding in May and June 2009 as a result of the pumps that were not repaired or maintained by Pamodzi FS, is in the process of rehabilitation.

In fiscal 2010, Target's operations accounted for 8% of our total gold production, compared to 6% in fiscal 2009 and 4% in fiscal 2008.

**Safety:** The safety statistics at Target during fiscal 2010 in terms of LTIFR of 3.39 (2009: 9.66) per million hours worked is lower than the group average of 7.72. Regrettably there were two fatalities at Target during fiscal 2010 (2009: two fatalities).

Safety at the operation remains the number one priority and received constant and high-level attention. Our mission is to create and maintain a positive Health and Safety awareness and mindset amongst all our employees. More focus is also placed on being proactive by reporting and addressing incidents. Good safety improvements were evident during fiscal 2010.

**Plants:** Target Plant was commissioned in November 2001 and currently treats both underground ore and surface sources, which include both waste rock dump and plant clean up material. The process route comprise of a closed circuit SAG mill as well as a closed circuit ROM mill. Both these mills are in closed circuit with hydro-cyclones. The milling circuit is followed by thickening, cyanide leaching, CIP adsorption, elution, electro-winning, smelting and tailings disposal. Both the milling circuits are incorporated in the gravity concentration circuit and the concentrates from this circuit are processed via intensive cyanidation and electro-winning.

The ROM mill was commissioned in November 2008 and it was installed in order to reduce the steel ball consumption on the plant. The initial objective was to save R 1.2 million (US\$0.13 million) on grinding media monthly, but when a review of the project was done in June 2009 it was found that the actual saving amounted to R1.4 million (US\$0.16 million) per month.

In February 2010 the plant obtained substantial ICMI accreditation, which will change to full accreditation in January 2011. During the year the plant also embarked on a reagent saving campaign, especially on cyanide, and through some minor process modifications cyanide consumption was reduced by 76.09 tons year on year. Several power saving initiatives have also been implemented on the plant to reduce the power consumption of the plant, and during the fourth quarter of fiscal 2010 there were already indications that this initiative was paying dividends.

The following table sets forth processing capacity and average tons milled during fiscal 2010:

Plant	Processing Capacity (tons/month)	Average Milled For the Fiscal Year Ended June 30, 2010 (tons/month)



Target Plant

105,000

101,935

In fiscal 2010, the Target Plant recovered approximately 95.3% of the gold contained in the ore delivered for processing.

**Production analysis:**

	<b>Fiscal Year Ended June 30,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Target (includes Target 1 and 3)</b>			
<b>Production</b>			
Tons ( 000)	857	710	686
Recovered grade (ounces/ton) <sup>(1)</sup>	0.128	0.123	0.116
Gold produced (ounces) <sup>(1)</sup>	113,782	87,225	79,602
Gold sold (ounces) <sup>(1)</sup>	110,598	87,611	85,006
<b>Results of operations (\$)</b>			
Product sales ( 000)	115,772	76,435	69,469
Cash cost ( 000)	87,563	59,599	51,463
Cash profit ( 000)	28,209	16,836	18,006
<b>Cash costs</b>			
Per ounce of gold (\$) <sup>(1)</sup>	783	645	716
<b>Capex ( 000) (\$)</b>	50,446	37,994	35,307

(1) 3,762 ounces were produced by Target 3 and sold. The revenue has been credited against capital expenditure as the shaft is not in production yet. The costs and ounces were not used in the cash cost per ounce calculation. The ounces were also excluded from the grade calculation.

Tons milled from Target increased from 686,000 in fiscal 2008 to 710,000 in fiscal 2009. Target experienced a number of issues impacting on production. These include:

infrastructural problems with the belts, fridge plants and other environmental infrastructure, resulting in higher face temperatures and lower efficiencies;

water handling; and

low availability of massive stopes.

The conveyor belt system was extensively rehabilitated during the course of fiscal 2009. An executive audit was done by Good Year which formed the basis of the rehabilitation plan that was implemented. The belt availability and reliability has increased. The crusher plant, which feeds the belts, is in the process of rehabilitation.

During 2009 a campaign was started to update the reticulation, clean out the dams and getting the dewatering equipment to a standard. In addition to updating the reticulation in the mining areas, flow meters and dual pressure reducing valve systems are being installed to better understand, measure and manage the water usage in the actual workplaces. This campaign was completed in fiscal 2010. Electrical substations are being reviewed for compliance purposes.

Availability of massive stopes has been improved with increased focus on planning and development.

Ounces produced were 87,225 in fiscal 2009, compared with 79,602 in fiscal 2008. The increase in ounces produced was due to higher milled tonnages and improved recovered grade. The recovery grade increased marginally from 0.116 in fiscal 2008 to 0.123 in fiscal 2009.

Cash costs for Target were US\$59.6 million in fiscal 2009, compared with US\$51.5 million in fiscal 2008. This increase was primarily attributed to increased tonnages produced, increase in total employees costed and inflationary cost increases. Cash costs per ounce were US\$645 in fiscal 2009, compared with US\$716 in fiscal 2008. This reduction in \$/oz terms was due to more ounces produced.

Ounces produced were 113,782 in fiscal 2010, compared with 87,225 in fiscal 2009. The increase in ounces produced was due to higher milled tonnages and improved recovered grade.

Continued upgrading of infrastructure, resulting improved environmental conditions and higher availability of the mechanized fleet have led to increasing and consistent production levels. Tonnages milled from the Target 1 Shaft increased significantly from 710,000 in fiscal 2009 to 857,000 in fiscal 2010.

Maintenance of the average mining grades, and continuing focus on clean-up and clean mining resulted in an improved recovery grade which increased marginally from 0.123 ounces per ton in fiscal 2009 to 0.128 ounces per ton in fiscal 2010.

Cash costs for Target were US\$87.6 million in fiscal 2010, compared with US\$59.6 million in fiscal 2009. This increase was primarily attributed to increased tonnages produced, increase in total employees costed and inflationary cost increases, as well as the effect of the appreciation of the Rand against the US\$ dollar. Cash costs per ounce were US\$783 in fiscal 2010, compared with US\$645 in fiscal 2009. This increase was due to higher production levels and the appreciation of the Rand against the US\$ exchange rate.

A major review of the geological modeling and evaluation of Target's mineral resources was completed as planned. This resource was then utilized in a Life of Mine planning exercise which was completed in December 2009. The outcomes should lead to improved confidence in short-term and strategic planning. Plans to increase tonnages to 75,000 tons per month together with a capital project to access Mining Block 3 through an additional decline are well advanced.

Assuming no additional reserves are identified, at expected production levels and, at the current planned gold price, it is foreseen that the reported proven and probable mineral reserves of 18.0 million tons (2.8 million ounces) will be sufficient for Tshepong to maintain underground production until approximately 2023. Any future changes to the assumptions upon which the mineral reserves are based, as well as any unforeseen events affecting production levels, could have an effect on the expected period of future operations.

**Capital Expenditure:** Target incurred approximately R382 million (US\$50.4 million) in capital expenditures in fiscal 2010, principally for on-going underground development, Phase 1 of Block 3 to improve environmental conditions, continuing replacement of the underground vehicle fleet and infrastructural rehabilitation. We have budgeted R457 million (US\$59.9 million) in fiscal 2011, of which R101 million (US\$13.2 million) will be spent on Block 3.

### ***Tshepong***

**Introduction:** We acquired Tshepong when we, in January 2002, acquired the Freegold operations from Anglogold through a 50% joint venture with ARMgold. In September 2003, we acquired 100% of these operations when ARMgold became a wholly owned subsidiary. These operations are located in the Free State province. Production from the operations is processed through Harmony 1 Plant.

**History:** Exploration, development and production history in the area of the Freegold assets dates from the early 1900's, leading to commercial production by 1932. Subsequent consolidation and restructuring led to the formation of Free State Consolidated Gold Mine (Operations) Limited, which became a wholly-owned subsidiary of Anglogold in June 1998.

**Geology:** The operations are located in the Free State Goldfield, which is on the southwestern edge of the Witwatersrand basin. The Tshepong mine is located to the north and west of Welkom. Mining is primarily conducted in the Basal reef, with limited exploitation of the B Reef. The reefs generally dip towards the east or northeast while most of the major faults strike north-south.

**Mining Operations:** These operations are subject to the underground mining risks detailed in the Risk Factors section. The management teams regularly revisit their mining strategy and management procedures in order to minimize risks.

Mining is conducted at depths ranging from 1,671 and 2,245 meters at Tshepong. Operations at Tshepong were hampered during fiscal 2010 by safety stoppages, following two fatal accidents.

Given the proximity of Tshepong to Phakisa, there are access, ventilation and service synergies that can be exploited to allow access at depth.

The Tshepong Decline project, which started in April 2003, has accessed an additional two levels (69 and 71) of the Tshepong Shaft. The Sub 66 project was completed at the end of June 2010 with a total capital expenditure of R295 million (US\$36 million). Production commenced at Sub 66 Decline during fiscal 2010, with the build-up to continue over the next three years. Emphasis is being placed on increasing mineable reserves from this area. The final development component was completed in June 2008. Poor ground condition necessitated intense secondary support and ore pass lining delayed completion. Secondary support has been completed and the lining of orepasses was completed safely during fiscal 2010.

Sub 71 Project made good progress until November 2008 when extreme poor ground conditions were experienced in the developed section. A decision was taken to stop all development and install secondary support in the area. The stoppage continued for seven months until end fiscal 2009. The work was completed safely, without disrupting the

production operations from the Sub 66 decline. The development of the Material Decline and Chairlift ends commenced during July 2009 as planned following the stoppage of the ends due to bad ground conditions in November 2008. Progressive a total of 2,146 meters have been completed. The material decline is 50% complete and the chairlift is 62% complete. The installation of the Sub 71 main conveyor has commenced with the civil work and mechanical erecting of steelwork. To date the baseline variation on the original plan is one year. During fiscal 2010 the project was negatively impacted by mine stoppages resulting

from two fatalities, as well as flooding incidents and long hauling distances from the working faces to the temporary tipping arrangements. The escalation of input costs, combined with delays and additional material required had a negative impact on the project. First production is expected in towards the end of fiscal 2012, with full production anticipated in July 2019. The total estimated cost of this project is R247 million (US\$30.2 million).

During fiscal 2010, Tshepong accounted for 15% (15% in 2009 and 14% in 2008) of our total gold production.

**Safety:** During fiscal 2010, the LTIFR for Tshepong was 12.2 (2009: 15.8) per million hours. There were regrettably two fatalities during the year (2009: 7). Tshepong achieved 1 million fatality-free shifts on February 18, 2010 and came seventh in the category for the most improved LTIFR at the second Hard Rock Safety Summit. Safety at these operations receives constant and high-level attention.

**Plants:** The ore from these operations are sent to Harmony 1 Plant for processing. See *Item 4. Information of the Company Business Bambanani* for a discussion on the plant.

**Production analysis:**

<b>Tshepong</b>	<b>Fiscal Year Ended June 30,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Production</b>			
Tons ( 000)	1,674	1,516	1,649
Recovered grade (ounces/ton)	0.130	0.152	0.161
Gold produced (ounces)	216,986	230,778	265,914
Gold sold (ounces)	219,332	227,113	273,119
<b>Results of operations (\$)</b>			
Product sales ( 000)	240,473	197,726	223,185
Cash cost ( 000)	151,382	108,605	124,720
Cash profit ( 000)	89,091	89,121	98,465
<b>Cash costs</b>			
Per ounce of gold (\$)	677	483	455
<b>Capex ( 000)(\$)</b>	34,402	27,711	26,834

Tons milled declined by 8% from 1,649,000 tons in fiscal 2008 to 1,516,000 in fiscal 2009, with gold production decreasing by 13% from 265,914 ounces in fiscal 2008 to 230,778 ounces in fiscal 2009. The decrease was attributable to the decrease in the recovery grade to 0.152 in fiscal 2009, compared with 0.161 in fiscal 2008. The decrease in recovery grade was primarily due to a decrease in the average mining grade which was 1153 cmg/t in fiscal 2009, compared to 1275 cmg/t in fiscal 2008. The drop in the average mining grade is in line with the Life of Mine profile. During fiscal 2008 the mining in the east south block was on the edge of the main high grade pay shoot and as mining continued south during fiscal 2009 mining have moved out of this high grade channel. The continuation of this channel will be mined once Sub 66 and Sub 71 decline is completed.

Cash costs for Tshepong were US\$108.6 million in fiscal 2009, compared with US\$124.7 million in fiscal 2008. Cash costs per ounce were US\$483 in fiscal 2009, compared with US\$455 in fiscal 2008. This increase in unit cost is attributable primarily to decrease in the number of ounces of gold produced. Cash cost for fiscal 2009 was impacted by increases in the costs of labor and electric power.

Tons milled increased year on year by 10% (1,516,000 tons in fiscal 2009 compared with 1,674,000 tons in fiscal 2010), with gold production decreasing by 6% from 230,778 ounces in fiscal 2009 to 216,986 ounces in fiscal 2010. The decrease was attributable to the decrease in the recovery grade to 0.130 in fiscal 2010 compared with 0.152 in fiscal 2009. The decrease in recovery grade was primarily due to a decrease in the average mining grade, which was 1039 cmg/t in fiscal 2010 compared with 1153 cmg/t in fiscal 2009. The drop in the average mining grade is in line with the Life of Mine profile. During fiscal 2009 the mining in the east south block was on the edge of the main high grade pay shoot and as mining continued south during fiscal 2010 mining has moved out of this high grade channel. The continuation of this channel will be mined in the decline area once Sub 71 decline reaches full production.

Cash costs for Tshepong were US\$151.4 million in fiscal 2010, compared with US\$108.6 million in fiscal 2009. Cash costs per ounce were US\$677 in fiscal 2010, compared with US\$483 in fiscal 2009. The increase in unit cost is

attributable primarily to the decrease in the number of ounces of gold produced. The increase in cash costs were primarily due to increases in the costs of labor and abnormal tariff increases in electrical power rates as well as the effect of inflation on costs of materials and supply contracts. In addition, the cost of medical separation was included in operational cost. This was historically not included in operational cost. Also, the effect of the appreciation of the Rand against the US dollar had a negative impact in US\$ dollar terms.

Assuming no additional reserves are identified, at expected production levels and, at the current planned gold price, it is foreseen that the reported proven and probable mineral reserves of 24.9 million tons (3.9 million ounces) will be sufficient for Tshepong to maintain underground production until approximately 2026. Any future changes to the assumptions upon which the mineral reserves are based, as well as any unforeseen events affecting production levels, could have an effect on the expected period of future operations.

**Capital Expenditure:** Tshepong incurred approximately R261 million (US\$34.4 million) in capital expenditure during fiscal 2010. The expenditure was primarily for the decline project and ongoing development. For fiscal 2011 capital expenditure of R273 million (US\$35.8 million) is planned, primarily for ongoing capital development.

#### **Virginia operations**

**Introduction:** The Virginia operations are located in the Free State province, near Virginia and Welkom. The Virginia operations consist of the original Harmony mines, the Unisel mine, Brand shafts 1 and 3 (mined from Brand 1 shaft). Mining is conducted at these operations at depths ranging from 1,000 meters to 2,000 meters. Ore is treated at the Central Plant and Harmony 1 Plant. During fiscal 2010, Harmony 2, Merriespruit 3 and Brand 3 shafts were placed on care and maintenance.

**History:** Our operations in the Free State began with the Harmony mine, which is an amalgamation of the Harmony, Virginia and Merriespruit mines. Beginning in 1996, we 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 1, 2, 3 and 5 were purchased in May 1998.

**Geology:** These operations are located in the Free State Goldfield on the south-western edge of the Witwatersrand Basin. The basin, situated on the Kaapvaal Craton, has been filled by a 6-kilometre thick succession of sedimentary rocks, which extends laterally for hundreds of kilometers. The Free State goldfield is divided into two sections, cut by the north-south striking De Bron Fault. This major structure has a vertical displacement of about 1,500m in the region of Bambanani, as well as a lateral shift of 4km. This lateral shift can allow a reconstruction of the orebodies of Unisel to the west of the De Bron and Merriespruit to the east.

A number of other major faults (Stuirmanspan, Dagbreek, Arrarat and Eureka) lie parallel to the De Bron Fault.

Unisel and Brand are situated to the west of the De Bron. Dips are mostly towards the east, averaging 30 degrees but become steeper approaching the De Bron Fault. To the east of the fault lie Merriespruit 1 and 3 and Harmony 2 mines. These mostly dip towards the west at 20 degrees, although Masimong is structurally complex and dips of up to 40 degrees have been measured. Between these two blocks lies the uplifted horst block of West Rand Group sediments with no reef preserved. The western margin area is bound by synclines and reverse thrusts faults and is structurally complex. Towards the south and east, reefs sub-crop against overlying strata, eventually cutting out against the Karoo to the east of the lease area.

Most of the Mineral Resource tends to be concentrated in reef bands located on one or two distinct unconformities. A minority of the Mineral Resource is located on other unconformities. Mining that has taken place is mostly deep-level underground mining, exploiting the narrow, generally shallow dipping tabular reefs.

The Basal Reef is the most common reef horizon and is mined at all shafts. It varies from a single pebble lag to channels on more than 2m thick. It is commonly overlain by shale, which thickens northwards.

The second major reef is the Leader Reef, located 15-20m above the Basal Reef. This is mostly mined at the shafts to the south Unisel, Harmony 2, Merriespruit 1 and Merriespruit 3. Further north, it becomes poorly developed with erratic grades. The reef consists of multiple conglomerate units, separated by thin quartzitic zones, often totaling up to 4 meters thick. A selected mining cut on the most economic horizon is often undertaken.

**Mining Operations:** The operations are subject to the underground mining risks detailed in the Risk Factors section. Due to the shallow to moderate depths of the underground operations, seismicity related problems are relatively infrequent with the exception of Unisel and Harmony shafts and Merriespruit 1 shaft pillar, where these problems receive constant attention. We regularly revisit our mining strategy and management procedures in connection with our efforts to mitigate risks of these problems. There is a risk of subterranean water locally at Merriespruit 1, referred to as water pillar area, 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 are indicated in the drilling, appropriate preventative action is taken. The principal challenges at the



operations of achieving optimal volumes and grades of ore production are addressed by stringent mineral reserve management.

The inner Basal Reef shaft pillar at Merriespruit 1 is being successfully mined. Approximately 90% of the pillar is mined out. A decision was taken on April 14, 2010 to issue a section 189 to close this operation. After negotiation with organized labor, it was decided to continue operating the shaft, as long as it is profitable. Subsequent to year-end, the decision was made to close the shaft as it failed to meet the agreed targets. See *Item 8. Recent Developments*. A decision was taken on April 14, 2010 to issue a section 189 to close Merriespruit 3 Shaft, and the shaft was placed on care and maintenance.

A decision was taken during November 2009 to close Brand 3 and the shaft has been placed on care and maintenance. Brand 5 serves as a major pumping shaft for the Steyn, Brand, Unisel and Bambanani mining areas. Harmony 2 was also placed on care and maintenance during fiscal 2010.

Unisel mining is scattered to the south of the shaft and in the decline area towards the east of the shaft. Mining also takes place to the west in the Tarka block. Development is targeted towards Basal and Leader Reef channels which cut the lease area in a west to east direction. Prospecting for A and B Reefs is in progress. Prospecting did not prove any significant values and was discontinued during 2010.

In fiscal 2010, Virginia operations accounted for approximately 12% (17% in fiscal 2009 and 13% in fiscal 2008) of Harmony's total gold production. This reduction is attributable to the closures of Brand 1, Harmony 2 and Merriespruit 3 during fiscal 2010.

**Safety:** The safety record during fiscal 2010 in terms of LTIFR of 12.86 (2009: 12.38) per million hours worked compared unfavorably to the group average of 7.72. Regrettably there were five fatalities during fiscal 2010 (2009: 1).

**Plants:** Ore from Virginia operations is treated at Central plant. The Central plant was commissioned in 1986 and employs CIP/CIL hybrid technology. It is currently dedicated to the treatment of both underground ore and waste rock.

The following table sets forth processing capacity and average tons milled during fiscal 2010 for the Central plant:

<b>Plant</b>	<b>Processing Capacity (tons/month)</b>	<b>Average Milled for the Fiscal Year Ended June 30, 2010 (tons/month)</b>
Central	185,190	152,120

In fiscal 2010, Central plant recovered approximately 92.3% of the gold contained in the ore delivered for processing.

**Production analysis:**

	<b>Fiscal Year Ended June 30,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Virginia operations</b>			
<b>Production</b>			
Tons ( '000)	1,826	2,493	2,349
Recovered grade (ounces/ton)	0.093	0.104	0.106
Gold produced (ounces)	170,013	258,170	247,820
Gold sold (ounces)	173,035	259,070	250,324
<b>Results of operations (\$)</b>			
Product sales ( '000)	186,649	225,897	204,807
Cash cost ( '000)	176,774	165,274	180,133
Cash profit ( '000)	9,875	60,623	24,674
<b>Cash costs</b>			
Per ounce of gold (\$)	1,036	638	726
<b>Capex ( '000) (\$)</b>	23,744	22,133	20,868

Tons milled from the Virginia operations increased to 2,493,000 in fiscal 2009, compared with 2,349,000 in fiscal 2008. This is partially attributable to the fire in the Basal pillar as well as power shortages in 2008.

Ounces produced were 258,170 in fiscal 2009, compared with 247,820 in fiscal 2008. The increase in ounces produced was as a result of improved volumes.

Cash costs were US\$165.3 million in fiscal 2009, compared with US\$180.1 million in fiscal 2008. Cash costs per ounce were US\$638 in fiscal 2009, compared with US\$726 in fiscal 2008. This decrease was attributable primarily to higher tons produced resulting in higher ounces as well as the effect of the weakening Rand/US\$ exchange rate.

Tons milled from the Virginia operations decreased to 1,826,000 in fiscal 2010, compared with 2,493,000 in fiscal 2009. This is mainly attributable to the closure of Brand 3 during November 2009, and Harmony 2 and Merriespruit 3 during April 2010. Merriespruit 1 has downscaled production from February 2010.

Ounces produced were 170,013 in fiscal 2010, compared with 258,170 in fiscal 2009. The decrease in ounces produced was as a result of volumes that decreased due to the closure of the three shafts as mentioned above during fiscal 2010, while Merriespruit 1 has downscaled production from February 2010.

Cash costs were US\$176.8 million in fiscal 2010, compared with US\$165.3 million in fiscal 2009. Cash costs per ounce were US\$1,036 in fiscal 2010, compared with US\$638 in fiscal 2009. This increase was attributable primarily to lower tons produced resulting in lower ounces as well as an increase in our cash costs and the effect of the appreciation of the Rand against the US dollar.

Assuming no additional reserves are identified, at expected production levels, it is foreseen that the reported proven and probable mineral reserves of 4.7 million tons (0.6 million ounces) will be sufficient for the Virginia operations to maintain production until approximately 2018, but at a reduced rate from 2012 as some shafts have closed. However, any future changes to the assumptions upon which the reserves are based, as well as any unforeseen events affecting production levels, could have a material effect on the expected period of the future operations.

**Capital Expenditure:** Virginia incurred approximately R180 million (US\$23.7 million) in capital expenditures at the Virginia operations in fiscal 2010, principally for ongoing capital development. We have only budgeted R57 million (US\$7.4 million) for ongoing capital development in fiscal 2011, as well as R21 million (US\$2.8 million) for maintaining/upgrading the shaft infrastructure of Unisel due to the closure of the other three shafts during fiscal 2010.

#### **Other Surface**

**Introduction:** Other Surface consists of Kalgold, Phoenix and the surface operations owned by the Freegold, Avgold and Evander companies. As the results of operations for Other Surface consists primarily of the results from Kalgold and Phoenix, these two operations are discussed separately.

#### **Kalgold**

**Introduction:** Harmony's only open pit mining operation in South Africa is the Kalgold gold mine that is situated 60 kilometers south of Mafikeng in the North West Province of South Africa. Through Kalgold, Harmony also control extensive mineral rights on the Kraaipan Greenstone Belt in the North West Province of South Africa.

**History:** Harmony acquired Kalgold on July 1, 1999 and fully incorporated Kalgold into its existing operations in October 1999. Prior to Harmony's acquisition of the Kalgold mine, the mine had already been in operation for three years.

**Geology:** The Kalgold operation is located within the Kraaipan Greenstone Belt, 60km south of Mafikeng. This is part of the larger Amalia-Kraaipan Greenstone terrain, consisting of north trending linear belts of Archaean meta-volcanic and metasedimentary rocks, separated by granitoid units. Mineralization occurs in shallow dipping quartz veins, which occur in clusters or swarms, within the steeply dipping magnetitechert banded iron formation. Disseminated sulphide mineralization, dominated mostly by pyrite, occurs around and between the shallow dipping quartz vein swarms. The D Zone is the largest orebody encountered and has been extensively mined within a single open-pit operation, along a strike length of 1,300m. Mineralization has also been found in the Mielie Field Zone (adjacent to the D Zone), the A Zone and A Zone West (along strike to the north of the D Zone), and the Watertank and Windmill areas to the north of the A Zone.

**Mining Operations:** The Kalgold operation is engaged in open-pit mining. This operation is subject to 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 mineral reserve management. The processing design capacity of the Kalgold operation is 150,000 tons per month. The average tons milled in fiscal 2010 were 156,083 tons per month.

Gold production declined by 24% to 49 063 ounces in fiscal 2010, a result of the planned decline in grade as operations at the high-grade D Zone pit came to an end in March 2009. The sulphide material, which does not present the same problems as the oxidised material, is now

being mined at the lower-grade Watertank pit. Mining at the A zone pit, where grades will be similar to those at the Watertank pit, is scheduled to start in 18 months time. Harmony continued with the brownfields exploration in areas surrounding the Kalgold operation.

In fiscal 2010, the Kalgold operations accounted for approximately 3% (4% in fiscal 2009 and 5% in fiscal 2008) of our total gold production.

**Safety:** The Kalgold operations had a LTIFR of 1.49 (2009: 2.94) per million hours worked in fiscal 2010, and recorded no fatal accidents in fiscal 2010. Kalgold achieved 2,250,000 fatality free shifts on June 14, 2010.

**Plants:** Ore is trucked from the pit and is directly tipped into the feed bin of 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.

The following table sets forth processing capacity and average tons milled during fiscal 2010 for the plant:

<b>Plant</b>	<b>Processing Capacity (tons/month)</b>	<b>Average Milled for the Fiscal Year Ended June 30, 2010 (tons/month)</b>
CIL	165,345	141,681
Heap Leach <sup>(1)</sup>		

(1) Active use of heap leaching was discontinued in July 2001.

In fiscal 2010, the plant at our Kalgold operations recovered approximately 85.6% of the gold contained in the ore delivered for processing.

**Production analysis:**

	<b>Fiscal Year Ended June 30,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Kalgold Production</b>			
Tons ( 000)	1,873	1,700	1,687
Recovered grade (ounces/ton)	0.026	0.038	0.055
Gold produced (ounces)	49,063	64,784	92,229
Gold sold (ounces)	48,097	66,841	93,172
<b>Results of operations (\$)</b>			
Product sales (\$) ( 000)	51,437	56,915	76,685
Cash cost (\$) ( 000)	36,162	32,390	38,272
Cash profit (\$) ( 000)	15,275	24,525	38,413
<b>Cash costs</b>			
Per ounce of gold (\$)	748	506	404
<b>Capex (\$)</b> ( 000)	1,389	1,090	1,347

Tons milled increased from 1,687,000 in fiscal 2008 to 1,700,000 in fiscal 2009. Ounces produced decreased to 64,784 in fiscal 2009, compared with 92,229 in fiscal 2008, due to a lower recovered grade.

Cash costs decreased from US\$38.3 million in fiscal 2008 to US\$32.4 million in 2009 mainly due to the deferred stripping write off from the previous financial year.

Tons milled increased from 1,700,000 in fiscal 2009 to 1,873,000 in fiscal 2010. Ounces produced decreased to 49,063 in fiscal 2010, compared with 64,784 in fiscal 2009, due to the a lower recovered grade.

Cash costs increased from US\$32.4 million in fiscal 2009 to US\$36.2 million in 201, mainly due to an increase in plant costs in lieu of engineering breakdowns.

The processing design capacity of the Kalgold operation is 165,345 tons per month. The average tons milled in fiscal 2010 were 141,681 tons per month.

Assuming no additional reserves are identified and at expected production levels, it is foreseen that the reported proven and probable mineral reserves of 32.4 million tons (0.8 million ounces) will be sufficient for the Kalgold operations to maintain production until approximately fiscal 2024. However, any future changes to the assumptions upon which the reserves are based, as well as any unforeseen events affecting production levels, could have a material effect on the expected period of future operations.

**Capital Expenditure:** Harmony incurred approximately R11 million (US\$1.4 million) in capital expenditures at the Kalgold operations in the fiscal 2010. Harmony budgeted R67 million (US\$8.8 million) for capital expenditures in fiscal 2011, primarily for CIL tank farm replacement and replacing some of the plant structures.

#### **Phoenix**

**Introduction:** Phoenix is a tailings retreatment operation, located at Virginia and adjacent to our current and historical mining operations in the Free State province. The Saaiplaas plant is used for the treatment of the material from this project.

**History:** The project commenced during fiscal 2007 and is aimed at treating the surface sources from our operations in the Free State province.

**Safety:** Safety at the Phoenix operations improved year-on-year in fiscal 2010. The LTIFR improved by 32.4% to 1.46 per million hours worked from 2.16 in fiscal 2009. There were no fatalities during fiscal 2010.

**Plant:** The Saaiplaas plant, commissioned in the late 1950 s, has been converted from the zinc precipitation filter process to the CIL. During 2007, the ROM mills were de-commissioned and the plant started treating slime from Dam 22 and Brand A tailings storage facilities. The plant currently processes reclaimed slime at 6 million tons per annum.

The following table sets forth processing capacity and average tons milled during fiscal 2010 for the Saaiplaas plant:

<b>Plant</b>	<b>Processing Capacity (tons/month)</b>	<b>Average Milled for the Fiscal Year Ended June 30, 2010 (tons/month)</b>
Saaiplaas	551,155	507,063

In fiscal 2010, Saaiplaas plant recovered approximately 40.6% of the gold contained in the ore delivered for processing.

**Mining operations:** Slimes tonnage reclamation decreased during fiscal 2010, to an average of 459,812 tons per month by year end, adversely affected by heavy rain, low slurry densities, and critical equipment breakdown. The focus during the year was on improving efficiencies, recoveries and ultimately profitability.

Slime deposition capacity constraints played a major factor in the treatment capacity of Phoenix. Two new deposition sites were earmarked for use by Phoenix late in fiscal 2009. These Tailing Storage Facilities ( **TSF** s ) were commissioned in fiscal 2010. Although the FSS 1 and FSS 4 dams were commissioned to provide additional deposition capacity, residue slime deposition remained problematic due to low pulp densities below 1,300, heavy rain, pipe bursts and penstock failure on the newly commissioned FSS 4. A floating penstock and new ring main have been installed at FSS 4 and the dam was re-commissioned during August 2010.

Fiscal 2010 was characterized by tonnage production problems mainly due to heavy rain, low reclamation slurry densities and thickener breakdown and settling problems. The mining mix from the Brand A source was changed to move from reclaiming top low grade only to 50:50 top:bottom with the bottom higher grade lifting the average grade from the source to above 0.30g/t, though the recovery from this source remains below 40%. The dam 22 source is depleting fast and will be replaced by dam 21 towards the end of fiscal 2011. Dam 21 is planned to deliver 60% of plant feed to improve the average recovery grade once commissioned.

Upgrading of the flocculent plant storage capacity at the end of fiscal 2010 yielded improved thickener settling and throughput capacity to achieve target tonnage, which greatly improves the outlook for fiscal 2011. The installation and commissioning of cluster dewatering cyclones ahead of the thickeners is expected to improve the ability to operate at



ideal 50% solids through the plant even further.

During fiscal 2010, Phoenix accounted for 1.5% of our total gold production (1.4% in fiscal 2009 and 1.7% in fiscal 2008).

**Production analysis:**

	<b>Fiscal Year Ended June 30,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Free State (Phoenix)</b>			
<b>Production</b>			
Tons ( 000)	6,083	6,578	7,033
Recovered grade (ounces/ton)	0.003	0.003	0.005
Gold produced (ounces)	20,801	22,345	32,215
Gold sold (ounces)	20,801	22,345	32,215
<b>Results of operations (\$)</b>			
Product sales ( 000)	22,723	19,448	26,247
Cash cost ( 000)	15,856	11,924	12,286
Cash profit ( 000)	6,867	7,524	13,961
<b>Cash costs</b>			
Per ounce of gold (\$)	762	534	381
<b>Capex ( 000) (\$)</b>	0.660	0.279	0.492

Tons treated from Phoenix decreased to 6,578,000 tons in fiscal 2009, compared with 7,033,000 in fiscal 2008. Ounces produced decreased to 22,345 ounces in fiscal 2009, compared with 32,215 in fiscal 2008, primarily due to the decrease in tons treated as well as the lower recovery grade.

Cash costs decreased to US\$11.9 million in fiscal 2009 from US\$12.3 million in fiscal 2008, despite the increase in some reagent costs, rising by as much as 40%. Cash costs per ounce increased to US\$534 per ounce, primarily due to the decrease in ounces produced for fiscal 2009.

Tons treated from Phoenix were 6,083,000 in fiscal 2010, compared with 6,578,000 in fiscal 2009. Ounces produced dropped to 20,801 in fiscal 2010, compared with 22,345 in fiscal 2009, primarily due to the decrease in tons treated. The recovered grade remained at 0.003 ounces/ton in fiscal 2010. The grade of the tons treated is dependent on the waste grade at the time at which the original deposition was done.

Cash costs were US\$15.9 million in fiscal 2010, compared with US\$11.9 million in fiscal 2009, primarily due to the decrease in volumes as well as the higher costs of reagents. Cash costs per ounce increased during fiscal 2010 to US\$762 per ounce, compared with US\$534 in fiscal 2009 due to the decrease in volume and increase in transport rates and the price of consumables and electricity.

**Capital Expenditure:** We incurred approximately R5 million (US\$0.7 million) in capital expenditures at the Free State operations in fiscal 2010. For 2011, R30 million (US\$3.9 million) is planned for commissioning of Dam 21, plant feed dewatering cluster cyclones, pipeline replacement, completion of additional adsorption stage, flotation pilot plant trials and other minor plant upgrades.

**Cooke operations**

**Introduction:** The Cooke operations are located in the Gauteng Province of South Africa, approximately thirty kilometers west of Johannesburg.

During fiscal 2008, an agreement was entered into for the sale of the Cooke operations, together with the associated surface assets. As a result, the assets and related liabilities were classified as held for sale and the results from operations have been included under *Discontinued Operations* in the income statement. On November 21, 2008, the conditions precedent were fulfilled and the sale of an effective 60% interest in the operations was recognized. The discussion below relates to the period up to the effective date of the sale.

**Geology:** These operations are 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 Rand Syncline. At the Cooke operations, two major fault trends are present. The first is parallel to the Panvlakte Fault and strikes north to north-east, having small throws and no lateral shift. The second trend, which runs north-west to west, has small throws, but significant lateral shift, resulting in the payshoots becoming displaced.

There are six identified main reef groupings in the area of these operations: 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.

**Mining Operations:** The Cooke assets and related liabilities were classified as a disposal group and held-for-sale during fiscal 2008.

Production at the Cooke operations was negatively affected in fiscal 2008 by a change in the mining mix, with less ore from the high grade VCR reef at Cooke 3 Shaft and lower than expected grades from 128 South project at Cooke 3 Shaft and from the 90 North 6 area at Cooke 2 Shaft. The power shortages during the third quarter in 2008 also impacted negatively on volumes.

The Cooke operations accounted for 5% and 12% in fiscal 2009 and 2008, respectively of our total gold production.

**Plants:** The processing facilities at the operations presently comprises of the Cooke metallurgical plant, which is serviced by a surface rail network. The Cooke metallurgical plant, commissioned in 1977, is a hybrid CIP/CIL plant, which processes the tailings from the surface sands dumps around Randfontein.

Feasibility studies are being done for a proposed Uranium Plant of an approximate capacity of 500,000 tons per month. It is envisaged that the plant will be completed in approximately three years once approved, when it will treat uranium ore from the Cooke dumps as well as from the Cooke 3 underground operations.

**Production analysis:**

<b>Cooke operations</b>	<b>Fiscal Year Ended June 30,</b>		
	<b>2010</b>	<b>2009<sup>(1)</sup></b>	<b>2008</b>
<b>Production</b>			
Tons ( 000)		1,419	3,905
Underground		514	1,322
Surface		905	2,583
Recovered grade (ounces/ton)		0.057	0.060
Underground		0.137	0.152
Surface		0.011	0.013
Gold produced (ounces)		80,377	236,170
Underground		70,378	201,884
Surface		9,999	34,286
Gold sold (ounces)		85,746	236,242
Underground		75,747	201,939
Surface		9,999	34,305
<b>Results of operations (\$)</b>			
Product sales ( 000)		68,204	193,613
Cash cost ( 000)		49,625	121,978
Cash profit ( 000)		18,579	71,635
<b>Cash costs</b>			
Per ounce of gold (\$)		644	511
Underground		613	545
Surface		868	525
<b>Capex ( 000) (\$)</b>		9,655	22,357

(1) As the operations were sold on November 21, 2008, the results are for the five

months then  
ended and are  
not comparable  
with the prior  
years.

During fiscal 2008, the assets and related liabilities for Cooke 1, 2 and 3 as well as the Cooke plant were classified as a disposal group and are held for sale. The results from the operations were also classified as discontinued operations in the income statement. The table above and the discussion below include the results of the surface operations.

**Other Discontinued operations**

**Introduction:** The results of operation from Other Discontinued Operations in fiscal 2008 consists of results from the Orkney operations and South Kalgoorlie. South Kalgoorlie formed part of our International operations. Refer to *Western Australia* below for a discussion on its operations and results.

The discussion on Orkney follows below.

**Introduction:** We acquired the Orkney operations when on September 22, 2003, we merged with ARMgold via a share exchange which resulted in ARMgold becoming our wholly-owned subsidiary. In September 2007, we announced that we had entered into formal agreements with Pamodzi for the sale of the Orkney Shafts. The sale was finalized on February 27, 2008 and the related assets and liabilities derecognized.

**History:** Exploration and development at Orkney started from 1886 and following dormant periods, large-scale production commenced during the 1940s with the formation of Vaal Reefs Gold Mining and Exploration Company Limited in 1944.

**Geology:** At the Orkney operations, the Vaal Reef is the most significant reef mined. The reef strikes northeast, dipping southeast and is heavily faulted to form a series of graben structures. The dip is generally less than 30 degrees but can vary locally in direction and magnitude to exceed 45 degrees. The VCR is also exploited, as well as the Elsburg Reef. There are several major faults in the lease area, being Nooitgedacht, Buffelsdoorn, Witkop, WK2, No 3 BU, No 5 BU and No 2 BU Fault. These faults typically have throws of tens of meters and further divide the reef into blocks of up to 100 meters in width.

**Mining operations:** During February 2008, the Orkney shafts were sold to Pamodzi. These shafts had been managed by Pamodzi since October 2007.

For fiscal 2008, the Orkney operations accounted for approximately 2% of our total gold production.

**Plants:** Ore from the Orkney operations was treated at Vaal River Operations ( **VRO** ) No. 1 Gold Plant (of AngloGold). Various agreements between us and VRO governed the supply and quality of the ore and gold apportionment.

**Production analysis:**

	<b>Fiscal Year Ended June 30,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008<sup>(1)</sup></b>
<b>Orkney operations</b>			
<b>Production</b>			
Tons ( 000)			571
Recovered grade (ounces/ton)			0.100
Gold produced (ounces)			46,655
Gold sold (ounces)			57,132
<b>Results of operations (\$)</b>			
Product sales ( 000)			42,810
Cash cost ( 000)			51,482
Cash (loss)/profit ( 000)			(8,672)
<b>Cash costs</b>			
Per ounce of gold (\$)			1,093
<b>Capex (\$)</b>			3,579

(1) The results are for the eight months ended February 2008.

The Orkney operations were sold to Pamodzi during fiscal 2008 and therefore the results for fiscal 2008 are only for eight months.

### *International Mining Operations*

#### **Western Australia Operations**

##### **Corporate Action Mount Magnet and Big Bell Operations**

As indicated previously in various applications Harmony has been pursuing an exit strategy from its Western Australian assets. This led to an agreement by Harmony to sell Mount Magnet and Big Bell Gold Operations ( **BBGO** ) to Monarch Gold Mining Company Limited ( **Monarch** ).

However, the transaction fell through as Monarch was subsequently liquidated in July 2008. Still in pursuant of the Western Australia exit strategy, Harmony opened a competitive bidding process with three Australian companies for the disposal and sale of Mount Magnet and BBGO.

The highest and most attractive offer for the purchase of Mount Magnet was received from Ramelius in July 2010. Harmony entered into a Share Sales Agreement with Ramelius for a total consideration of A\$35.3 million in cash plus replacement environmental bonds of A\$4.7 million totaling A\$40.0 million consideration. Final settlement of the transaction took place in July 2010.

In accordance with IFRS requirements the Mount Magnet disposal group is classified as a held-for-sale and discontinued operation at 30 June 2010.

The highest and most attractive offer for the purchase of BBGO was received from Fulcrum in November 2009. Harmony entered into a Share Sales Agreement with Fulcrum for a total consideration of A\$3.5 million in cash plus replacement environmental bonds of A\$3.2 million totaling A\$6.7 million consideration. The sale effective on January 18, 2010 and final settlement of the transaction took place in May 2010.

As of June 30, 2010, our Western Australian operations had 14 employees (these include care and maintenance and exploration personnel on the Mount Magnet site).

In fiscal 2010, our Australian operations accounted for 0% of our total gold production, as compared to 0% in fiscal 2009 and 4% in fiscal 2008.

##### ***Mount Magnet Operations***

**Introduction:** In 2002, we acquired Mount Magnet as part of the Hill 50 transaction. In fiscal 2009, Mount Magnet's operations accounted for approximately 0% of our total gold production, as compared to 4% and 6% respectively in fiscal years 2008 and 2007. This change was the result of the site being placed on care and maintenance as from December 31, 2007.

**History:** Mining at Mount Magnet began after the discovery of gold in 1896. From that time to June 30, 2009, the Mount Magnet area has produced approximately 6 million ounces. The most recent Mount Magnet operations commenced production in the late 1980s on the Hill 50 and Star underground mines and nearby open-pits, and the processing of low grade ore from previously accumulated stockpiles. Production ceased at the Star underground mine in June 2005. The Star underground mine was subsequently replaced by St. George, a new underground mine. The Mount Magnet site was put on care and maintenance as from December 31, 2007.

**Geology:** The Mount Magnet operations are located near the town of Mount Magnet in the Murchison region, some 600 kilometers northeast of Perth. The geology consists of folded basaltic and komatiitic greenstones with intercalated banded iron formations and volcanoclastic units. In addition to having been intensely folded, the area has undergone substantial faulting and later intrusion by felsic intrusives. Mineralization within the Murchison belt consists of sulphide replacement style (characteristic of the Hill 50 mine) and quartz lode and shear-hosted hydrothermally emplaced bodies proximal to fault conduits. Smaller stockwork bodies within felsic intrusives are also common. As is typical of the Archaean Shield, the deep weathering profile at Mount Magnet has resulted in supergene enrichment and hypogene dispersion of gold in the oxidizing environments. These effects lend themselves well to the process of small scale open-pit mining. Historically underground mining of primary lodes was the largest contributor to Mount Magnet's gold production.

**Mining Operations:** The Mount Magnet operations were engaged in underground, open-pit and waste rock mining prior to site closure. These operations are subject to the underground, open-pit, and waste rock mining risks detailed in the Risk Factors section.

Underground operations at Mount Magnet consisted of the Hill 50 and St. George mines, each of which operated a decline. The Hill 50 mine, which approached 1,525 meters in depth, was one of Australia's deepest underground mines. The St. George Mine was approximately 300 meters in depth. Underground mining was conducted by decline tunnel access. The principal challenges confronted by the Hill 50 underground mine related to its continuing depth and the geotechnical, ventilation and cost impediments that increased depth imposes, including increased ground stress and potential increased seismic activity. A decision was made in May 2007 which placed the Hill 50 mine's decline development on hold due to significant seismic activity, and effectively put the mine in harvest mode at that time.

With the closure of Star, the development of the new underground mine at the St. George open-pit provided additional underground tonnage for the Mount Magnet operations. Underground development at St. George started in December 2005. The first stope was mined in the second quarter of fiscal 2006. Underground mining continued at this mine during fiscal 2007. This mine reached its economic depth limit during fiscal 2007, and was put in harvest mode, with mining operations ceasing in October 2007. Open-pit production was hindered by the delay in the start up of the Cue open-pits until the last quarter of fiscal 2005 as a result of delayed mining approvals and extended contractor negotiations, although these were subsequently resolved and mining commenced in fiscal 2006. Open-pit mining mainly took place around Mount Magnet during fiscal years 2007 and 2008.

Surface operations at Mount Magnet exploited several medium-sized open-pits, as well as numerous smaller open-pits. Surface materials from areas previously involved in production, including waste rock dumps and tailings dams, are also processed at Mount Magnet. The principal challenge faced by the Mount Magnet operations involved the short mine lives which result from the open-pits being situated on small orebodies. The Mount Magnet site was put on care and maintenance as from December 31, 2007.

**Plant:** The Mount Magnet operations include one metallurgical plant which was built in 1989 as a CIL plant and upgraded in 1999 to a CIP plant. Actual throughputs of the Mount Magnet plant varies based upon the blend of oxide and sulphide ores in their feed. Processing capacity is an estimate of nominal throughput based on a 70% hard (sulphide) and 30% oxide (soft) blend.

Throughput rates at Mount Magnet were at zero during in fiscal 2009 and 2010 due to the site being closed and the plant being placed on care and maintenance.

**Production analysis:**

<b>Mount Magnet</b>	<b>Fiscal Year Ended June 30,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Production</b>			
Tons ( '000)			966
Recovered grade (ounces/ton)			0.080
Gold produced (ounces)			75,297
Gold sold (ounces)			77,097
<b>Results of operations (\$)</b>			
Product sales ( '000)			56,215
Cash cost ( '000)			41,405
Cash profit ( '000)			14,810
<b>Cash costs</b>			
Per ounce of gold (\$)			545
<b>Capex ( '000) (\$)</b>			3,909

The majority of declared mineral reserves were mined during fiscal 2008. The mines were closed and the processing plant has been put on care and maintenance in December 2007.

**Capital Expenditure:** We spent A\$0 million on capital expenditure at the Mount Magnet operations in fiscal 2009 and 2010, primarily due to the fact that the site was put on care and maintenance during 2009 and a feasibility study was commenced during April 2009. No capital expenditure was therefore incurred.

**Exploration:** Activities at Mount Magnet, Western Australia, were performed to the minimum level required to keep the tenements in good standing as the site and the plant is currently on care and maintenance.





**South Kalgoorlie Operations**

**Introduction:** The South Kalgoorlie Operations are made up of New Hampton’s Jubilee Operations and Hill 50’s New Celebration operations. Since the commencement of operations to November 30, 2007, total gold production from the mines in the South Kalgoorlie area has exceeded 2.5 million ounces. In fiscal 2008, South Kalgoorlie operations accounted for 1% of Harmony’s total gold production, and accounted for 4% of our total gold production in 2007.

In July 2007, we announced the sale of the South Kalgoorlie Mine to Dioro. The total purchase price was A\$45 million (US\$39.8 million), which consisted of a cash and a shares component. On November 30, 2007, all conditions precedent to the transaction were satisfied. The results for fiscal 2008 below reflect only the 5 months ended November 30, 2007.

**History:** The South Kalgoorlie operations included several open-pits at Jubilee and New Celebration, as well as the Mount Marion underground mine. The Jubilee operations were originally comprised of the large Jubilee open-pit and a number of smaller open-pits. The New Celebration operations were initially developed in 1987 by Newmont exploiting the same ore body that hosted the Jubilee Pit. Hill 50 acquired these operations from Newcrest in June 2001. The Mount Marion decline was established in 1998. Open-pit mining ceased at the South Kalgoorlie Operations at the end of fiscal 2005, with only low grade stockpiles treated during fiscal 2006 together with Mount Marion ore. During fiscal years 2008 and 2007, open-pit mining recommenced at South Kalgoorlie Mines, with a cutback on the HBJ pit, as well as the Shirl open-pit.

**Geology:** The South Kalgoorlie mines were located approximately 30 kilometers south of Kalgoorlie in the Eastern Goldfields region of Western Australia. The South Kalgoorlie orebodies were located in a number of geological domains including the Kalgoorlie-Kambalda belt, the Boulder-Lefroy Structure, the Zuleika Shear, the Coolgardie Belt and Yilgarn-Roe Structures. At South Kalgoorlie, the mining tenure and geology straddled the three major fault systems or crystal sutures considered to be the main ore body plumbing systems of the Kalgoorlie Goldfield. The geology consisted of Archaean greenstone stratigraphy of basalts and komatiites with intercalated sediments, tuffs, volcanics and later felsic intrusives. Late stage and large scale granitic (Proterozoic) intrusion stopped out large sections of the greenstone. Quartz filled lode and shear-hosted bodies are the most dominant among many mineralization styles. Large scale stockwork bodies hosted in felsic volcanics were an important contributor to bulk tonnage of relatively low grade deposits.

**Mining Operations:** The South Kalgoorlie operations are engaged in open-pit, underground and waste rock mining. These operations are subject to the underground, open pit and waste rock mining risks detailed in the Risk Factors section.

At the South Kalgoorlie operations during fiscal 2008, open cast mining took place at Shirl open-pit, together with a cutback project on the HBJ open-pit. The HBJ open-pit had a mine life of three years and consisted of 3.3 million tons of 0.048 ounces per ton at the time the cutback was completed. The discovery of the Shirl prospect during fiscal 2006, which resulted in an open-pit reserve of 50,000 ounces and a 15 month mine life, together with an improved gold price environment, lead to the recommencement of open-pit mining at South Kalgoorlie mines during fiscal years 2008 and 2007. The primary challenge that faced the South Kalgoorlie operations involved identifying adequate sources of new open-pit and underground reserves and managing the geotechnical risk on the HBJ pit cutback. See *Item 3. Key Information Risk Factors Risks Relating to Our Business and Our Industry 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 development or discovery.*

**Plant:** The South Kalgoorlie operation had a metallurgical plant located at Jubilee. This CIL treatment plant was capable of treating the planned production from the mining operations. Ore was hauled from the open-pits and from low grade Shirl stockpiles to the treatment plant by conventional road trains. Actual throughputs of the Jubilee plant varied based upon the blend of oxide and sulphide ores in their feed. Processing capacity was an estimate of nominal throughput based on a 70% hard (sulphide) and 30% soft (oxide) blend.

**Production analysis:**

	<b>Fiscal Year Ended June 30,</b>		
<b>South Kalgoorlie</b>	<b>2010(1)</b>	<b>2009(1)</b>	<b>2008(1)</b>

**Production**

Tons ( 000)	477
Recovered grade (ounces/ton)	0.058
Gold produced (ounces)	27,778
Gold sold (ounces)	27,778

	<b>Fiscal Year Ended June 30,</b>		
	<b>2010(1)</b>	<b>2009(1)</b>	<b>2008(1)</b>
<b>South Kalgoorlie</b>			
<b>Results of operations (\$)</b>			
Product sales ( 000)			18,858
Cash cost ( 000)			14,453
Cash profit ( 000)			4,405
<b>Cash costs</b>			
Per ounce of gold(\$)			517
Capex ( 000) (\$)			12,526

(1) The South Kal Operations sales process was concluded on November 30, 2007. The results for fiscal 2008 are for the five months ended November 2007.

## **Papua New Guinean Operations and Exploration**

### ***Overview***

**Introduction:** Fiscal 2010 was the second year of the Morobe Mining Joint Venture between Harmony and Newcrest. The Morobe Mining Joint Venture is a 50:50 Joint Venture encompassing:

1. the Hidden Valley Operation;
2. the Wafi-Golpu Project; and
3. an Exploration Joint Venture on the surrounding tenement package.

Outside of the Morobe province Harmony have expanded the PNG exploration portfolio with four new projects that are 100% owned:

1. Mount Hagen in the Western Highlands
2. Amanab in the Sandaun Province
3. Two tenement applications in the Central Province
4. Two tenement applications in the Southern Highlands Province

In addition several tenement applications have been lodged with the MRA including ELA1785-1786 in the Southern Highlands and ELA1784-1785 in the Central Province. However, grant notifications for these applications had not been received by the end of fiscal 2010.

In terms of regional geological setting, Harmony's tenement interests are all located within the New Guinea mobile belt. The mobile belt comprises tracts of metamorphosed Lower Jurassic and Cretaceous sediments and oceanic crust. These rocks have undergone deformation in the collision zone between the Australian and Pacific Plates and multiple intrusive events including Tertiary granodiorite and younger mineralized porphyries.

Exploration expenditure in PNG for fiscal 2010 was A\$22.4 million (US\$19.8 million). This breaks down into A\$18.5 million (US\$16.3 million) as Harmony's 50% contribution to the Morobe Mining Joint Venture exploration program and A\$3.9 million (US\$3.4 million) for Harmony 100% projects. Results from exploration work have been highly encouraging, with a major Resource expansion achieved at the Wafi-Golpu Project, and a number of targets with the potential for major stand-alone gold and copper/gold deposits identified and advanced to the drill testing phase.

### ***Hidden Valley Operation***

**Introduction:** The Hidden Valley project is an open pit gold-silver mine and processing plant. Two separate open pits are in operation, being Hidden Valley-Kaveroi ( **HVK** ) pit, and Hamata pit. The mill has been constructed to process a nominal 4.2 million tonnes (dry metric) of ore per year from the two pits, with de-bottlenecking of the plant planned up to 4.7 million tonnes per year.

Newcrest purchased an initial 30.01% interest in the project on June 30, 2008, and provided sole funding of the project to June 30, 2009 to earn a further 19.99%. On June 30, 2009 Newcrest formally achieved 50% ownership in the project, such that the project is now a 50:50 joint venture between Newcrest and Harmony.

The mine is located in a highly prospective exploration lease area and it is envisaged that, as active exploration continues, the life of the process facility may be extended as it is fed from a number of sources.

The project comprises four exploration licenses of 966 square kilometers in the Wau District of Morobe Province, PNG and is located 210 kilometers north-northwest of Port Moresby and 90 kilometers south-southwest of Lae, the two largest cities in PNG. Access to the project is presently by sealed road from the deepwater port of Lae to Bulolo. Harmony constructed an all-weather gravel road from Bulolo to the Hidden Valley mine site to access the site.

**History:** Alluvial gold was first discovered at Hidden Valley in 1928 but it was not until the early 1980 s that the area was investigated by CRA Exploration using modern exploration techniques that resulted in the discovery of the Hidden Valley and Kaveroi gold deposits on EL 677. A number of feasibility studies have been prepared for the Hidden Valley Project by the various owners, including one by Abelle in 2003. Harmony extensively reviewed and updated the Abelle feasibility study during fiscal 2006 in order to: (a) reflect changes in the project s ore body interpretation; (b) incorporate increases in capital and operating costs as a result of energy prices and scarce resources in the mining industry as well; and (c) resolve technical aspects that were outstanding from the previous study. The updated feasibility study was presented to the board during June 2006 with subsequent approval given for construction of the project. In late 2007, Harmony began a search for a partner to partake in all of our PNG mining and exploration activities, culminating in the selection of Newcrest as a partner.

**Project Overview:** Currently ramping up to full production, the Hidden Valley Mine is expected to initially process 4.6 million tons (short) of ore per annum from ore mined at two open-pits, The HVK pit and the Hamata pit. Currently planned de-bottlenecking is expected to increase the processing rate to 5.2 million tons (short) of ore per annum by year three of operations.

The HVK pit, at an elevation of between 2,500 m and 2,700 m above sea level, is the larger pit supplying the majority of the ore. The HVK pit is located some 5 to 6 kilometers from the processing plant.

The smaller Hamata pit is directly adjacent to the processing plant on the northern side of the processing plant and is at an elevation of between 1,850 m and 2,040 m above sea level.

Current estimates are that at annual full production over 14 years, Hidden Valley will process an average of 4.7Mt from both pits to produce around 250 000oz of gold and 3.4Moz of silver annually.

The resources will be mined in a sequence that sees the low silver, high gold Hamata ore mined first, with plant and infrastructure development for the project developed in close proximity to the Hamata deposit. The next ore mined will be the Hidden Valley/Kaveroi oxide/transition ores (high silver) followed by the Hidden Valley/Kaveroi primary ores.

**Geology:** The major gold-silver deposits of the Morobe Goldfield, and the Hidden Valley project are hosted in the Wau Graben. The Wau Graben developed as a back-arc rift basin in the southern extension of the New Guinea Mobile Belt (Owen Stanley Foreland Thrust Belt) covering an area of approximately 850 square kilometers in which the Morobe Goldfield, including the Hidden Valley and Hamata deposits are developed.

The Hidden Valley Deposit is interpreted as a low-sulphidation or adularia-sericite-type epithermal gold-silver system. The Hidden Valley deposit further forms part of the carbonate-base-metal-gold subgroup, with abundant carbonate vein-gangue. Other gold-silver deposits around the Pacific Rim in this sub-group are Kelian (Indonesia), Woodlark (PNG) and Gold Ridge (Solomon Islands).

Discrete zones of intense stockwork fracture and mineralized veining comprise individual lodes. At the Hidden Valley deposit, gold and silver are related to steeply dipping (Hidden Valley Zone, **HVZ** ) and flat-lying (Kaveroi Creek Zone, **KCZ** ) sheeted vein swarms associated with an underlying shallow thrust.

**Reserves:** The proven and probable gold reserves for the Hidden Valley/Kaveroi/Hamata deposits (50% attributable interest) are 1.8 million ounces at 0.054 ounces per ton. Silver proven and probable reserves at Hidden Valley/Kaveroi and Hamata amount to 32.0 million ounces at 1.036 ounces per ton. See *Item 4. Reserves.*

**Site Access:** The Hidden Valley site is located approximately 90 kilometers south-southwest of Lae, which is the nearest deepwater port for the project, and the Capital of Morobe Province. Access to the site from Lae uses an existing 110 kilometers sealed two-lane main road to the town of Bulolo, continuing to Hidden Valley via an all-weather two-lane gravel access road constructed by Harmony.

**Power Supply:** The ability to obtain an alternate power supply from PNG's national power supplier, PNG Power Limited ( **PPL** ), is of importance to the project. On May 14, 2007, Harmony announced that it had signed an agreement with PPL to supply the Hidden Valley mine with electricity. PPL has committed to construct new transmission lines and infrastructure in order to supply hydro-electricity from the Yonki Dam. Contracts for this work have already been awarded. Construction on site of the connecting supply power lines and pylons is currently underway. We expect to receive our full quota of electricity from PPL by the end of December 2010.

Harmony acquired and installed sufficient diesel generators for the purpose of providing 100% backup power supply to the project, and has to date been powering the site with these diesel generators.

**Customs and Excise:** In November 2006 the PNG National Executive Committee approved exemptions to customs and excise on a range of commodities that will be required for the construction of the project. This was gazetted, and customs officials at Lae port are already applying the exemptions, based on the draft gazettal notice.

**Environment:** The environmental investigation and completion of the Environmental Impact Statement (EIS), was undertaken by Enesar Consulting Pty Ltd. The investigation applied the data and knowledge gathered since 1987 and baseline studies undertaken as part of the 2004 Feasibility Study, to establish the environmental impacts of the revised development plan.

The EIS has been approved by the Minister for Environment and Conservation of the PNG Government and Environment (Waste Discharge) and Environment (Water Extraction) permits were granted in March 2005. The Hidden Valley Project is the first mining project in PNG to be completely permitted under the new Environment Act 2000.

A condition of the Environmental Permit is the development and submission for approval of an Environmental Management Plan ( **EMP** ). The EMP was approved in April 2006. Other conditions of the Environmental Permit included the development of an Acid Mine Drainage ( **AMD** ) management strategy and a waste management strategy, which were submitted in 2007. Management of AMD and waste disposal remain a critical issue being tackled by the site.

Hidden Valley is the first major open pit mine in PNG to build a Tailings Storage Facility ( **TSF** ) to contain all tailings, followed by discharge of treated decant (involving cyanide detoxification).

**Community affairs/landowner discussions:** Through its subsidiary Morobe Consolidated Gold ( **MCG** ), Harmony worked extensively with the landowners, local and national government to agree an appropriate sharing of the benefits of the Hidden Valley proposed mine. This culminated in the signing of a Memorandum of Agreement ( **MOA** ) between MCG and relevant affected parties on the August 5, 2005. These parties were PNG National Government, the Morobe Provincial Government, the immediate area Local Level Government units and the local Landowner Association. This MOA clearly defines the roles and responsibilities of each signatory and in particular removes any of the grey area with regards to the distribution of proceeds from mineral royalties.

Community support and development of the mine in compliance with the MOA with landowner groups is critical to the success of the project. Meetings are held regularly with these groups and officials from the provincial and national government to monitor progress and ensure these objectives are met. A range of opportunities for the commercial participation of landowner groups in the development of the project have occurred, and community relations initiatives focused on positive outcomes for health, education and infrastructure are ongoing.

**Mining and Mining Fleet:** The mine is being developed by conventional open pit mining techniques. The primary mining fleet consists of three Komatsu PC-2000 hydraulic backhoe excavators, two Komatsu PC-800 hydraulic backhoe excavators, two Komatsu WA-900 front-end loaders and 25 Komatsu 785-7 rigid dump trucks (100 t class). Drilling equipment comprises seven Atlas Copco ECM720 drill rigs, drilling 6.5 meter holes at 127 mm diameter. A range of ancillary equipment includes track dozers, graders, a fuel truck, and numerous light vehicles.

Ore is delivered by truck to the Hamata and Hidden Valley crusher stations. Crushed Hamata ore is delivered by conventional conveyor to the primary stockpile and Hidden Valley ore is delivered via an overland pipe conveyor to



the same stockpile.

**Plant:** Once fully operational the processing plant is expected to process ore at a rate of approximately 4.6 million tons of ore per annum and has been designed with three distinct process routes that complement the metallurgical characteristics of the three ore types to be mined. The processing plant will commence as:

- (a) a primary crushing, grinding (with the incorporation of a gravity gold recovery circuit), CIL, Merrill-Crowe zinc precipitation, goldroom and tailings detox plant for the low silver Hamata ores, and
- (b) will revert to a primary and secondary crushing, grinding, flotation, concentrate regrind, counter-current decantation circuit with Merrill-Crowe zinc precipitation, flotation concentrate and tailing CIL, goldroom and tailings detox for the high silver oxide/transition ores, and
- (c) then a similar circuit without flotation tail CIL for high silver sulphide ores from Hidden valley/Kaveroi ores.

The gravity gold recovered will be processed through an intensive cyanide leach followed by electro-winning circuit to produce a high quality ore product.

All tailings will be stored in a tailings storage facility, and all water recovered will be subject to detoxification prior to being re-cycled or released to the environment. The processing plant and tailings storage facility will be built to meet or exceed the requirement of the International Cyanide Management Code. Gold production commenced in August 2009, and the plant is currently ramping up to nameplate production.

**Government royalty and other rights:** The gold and silver production from the Hidden Valley Project will be subject to a 2% royalty, payable on the net return from refined production if refined in PNG or 2% royalty on the realized price if refined out of PNG.

The government of PNG also has a statutory right to acquire up to a 30% participatory interest in mining development projects, at sunk cost. Once an interest is acquired by the government of PNG, it contributes to the further exploration and development costs on a pro rata basis. This right was not exercised by the government over Hidden Valley, however the memorandum of agreement signed between the government and ourselves negotiated a participation right of 5%, for the landowners. Subsequent negotiations have seen this right transferred into a Benefit Sharing Agreement. The benefit is equivalent to a 0.2% royalty on gold and silver production and payable into an agreed community trust structure, the Hidden Valley Mine Trust. This Trust is administered by a reputable corporate trustee, who is guided by the recommendations of a Board of Governors, comprising representatives of the three landowner villages, the Morobe Provincial government, the MRA and the Hidden Valley Mine Joint Venture.

**Third Party Royalties:** On March 28, 2007, we announced that we had concluded negotiations with Rio Tinto pursuant to which we would purchase the Rio Tinto rights under a royalty agreement relating to Hidden Valley, which was entered into prior to our acquisition of the Hidden Valley and Kerimenge deposits in PNG. Under the royalty agreement, Rio Tinto had the right to receive a portion of between 2% and 3.5% of future ounces produced by the Hidden Valley mine in PNG. The consideration we paid to Rio Tinto totaled US\$22.5 million, which was settled with our issue of ordinary shares valuing US\$20 million, with the balance of US\$2.5 million paid in cash.

The transaction will reduce the cash costs per ounce of gold produced at Hidden Valley, and all further extensions to the project, mine life and reserves will be free of this royalty.

**Production analysis:** Full production began in May 2010 and by the end of fiscal 2010 monthly production had risen to 300K Mt, equivalent to 87% of nameplate capacity and reflecting the more stable operating performance and consistent plant use. In all for fiscal 2010, 2.7 million tons were processed to yield 122,346 ounces of gold and 445,435 ounces of silver.

**Capital Expenditure:** Capital expenditure on the project for fiscal 2010 was US\$121 million (A\$143 million) compared to the US\$319 million (A\$399 million) spent in fiscal 2009. Capital was mainly spent on completing the overland pipe conveyor, flotation and regrind circuit in the processing plant and capitalization of commissioning costs prior to reaching commercial levels of production on 1st May 2010. The total project capital cost was US\$661 million (A\$781 million), which represents a 1.6% increase in A\$ terms on the last reported budget. There were no significant changes in the scope of work of the project. This value excludes US\$37 million for mine fleet repayments post the construction phase which is not considered part of the construction capital.



### **Wafi-Golpu Project**

**Introduction:** The Wafi prospect is a 50:50 joint venture with Newcrest of Australia. Harmony's ownership is through its wholly owned subsidiary, Wafi Mining Limited. The first exploration at Wafi dates back to the nationwide porphyry copper search by CRA Exploration Ltd in the late 1960s. Elders Resources farmed-in to the project from 1989-1991, and AGF subsequently farmed-in to the project for a short period in 1997 prior to going into administration in 1998. Aurora subsequently acquired the project from Rio Tinto (CRA) in 1999, with ownership passing to Abelle when it merged with Aurora in 2002. We assumed control of the Wafi Project by way of the acquisition of Abelle in 2003. The project is held under 2 contiguous exploration licenses (EL 440, and EL 1105), totaling 130.5 square kilometers. The Wafi Golpu Project comprises a porphyry and epithermal copper and gold systems within a 2.5km x 2.5km area and contains numerous lodes including the Golpu copper gold porphyry, the Nambonga gold copper porphyry and the Wafi epithermal gold lodes. The Wafi gold mineralization is hosted by sedimentary/volcanoclastic rocks of the Owen Stanley Formation which surrounds the intrusive Wafi Diatreme. Gold mineralization occurs in the form of extensive high-sulphidation epithermal alteration overprinting porphyry mineralization and epithermal style vein-hosted and replacement gold mineralization with associated wall-rock alteration. Exploration expenditure (including Pre-feasibility studies) on the project for fiscal 2010 was US\$17.1 million (A\$20.2 million).

**Geography:** The Wafi prospect is located near Mount Watut in the Morobe Province of PNG, approximately 60 kilometers southwest of Lae and about 60 kilometers northwest of Wau. The Wafi camp is located at an elevation of approximately 400 meters above sea level in terrain that is mountainous and forested in most areas. The site is accessed by sealed road (Lae to Bulolo) which comes within 5 kilometers of the eastern edge of the tenements and 15 kilometers from the Wafi camp. From the sealed road, a 38 kilometer dirt-base access track to the prospect is accessible during most weather conditions. The site is serviced by helicopter when the road access is cut due to extreme wet weather. Watut Valley is located immediately west of the project, and the foothills of Watut Valley provide an option for placement of ore processing and mine infrastructure. Alternatively, the processing plant may be located in the Markham River valley closer to Lae.

**Mining Reserves.** Following completion of the Golpu Copper/Gold pre-feasibility study, a probable mineral reserve has been declared. See *Item 4. Reserves*.

The Golpu Mineral Reserve is derived from the 2007 Golpu Stand Alone Project Pre Feasibility Study. This study assumes a block cave underground mine with ore processed on site to produce a copper and gold concentrate for shipping to smelter. Metallurgical Studies indicate that recoveries of 88% for copper, 54% for gold and 36% for molybdenum can be expected. Metal prices are assumed at US\$2.30/lb for copper, US\$520/oz gold and US\$20/lb for molybdenum in this declaration.

In declaring the probable reserve, the following considerations are required:

1. The PFS is completed to industry accepted standards for a PFS ( $\pm 20\text{-}25\%$  accuracy). The outcome of further more detailed studies may affect the reserve.
2. The location for the tailings storage facility has not been finalized, however potential sites proximal to the project have been defined.
3. There are outstanding issues associated with traditional land owners required to be resolved before the project is able to be constructed.
4. The board has not yet committed to completing subsequent phases of study, or to project construction.

Subsequent drilling has expanded the Resource considerably. This new Resource is allowing a re working of the Pre Feasibility study and a new Reserve will be declared upon completion of the study, which is expected in 2011.

A reserve for the Wafi gold ore bodies has not been declared.

**Government Royalty and Other Rights:** The metal production from the Wafi Project is subject to a 2% royalty payable on the net return from refined production if refined in PNG or a 2% royalty payable on the realized price if refined outside of PNG. The government royalty has been accounted for in project financial models. PNG also has a

statutory right to acquire up to a 30% participatory interest in mining development projects at sunk cost. Once an interest is acquired by the government of PNG, it contributes to the further exploration and development costs on a pro rata basis.

**Third Party Royalties:** There are no third party royalties. A royalty that was over the project was bought out from Rio Tinto in 2008.

**Capital Expenditures:** No capital expenditures were incurred during fiscal 2010 as exploration drilling work was still underway, and costs were expensed as a result.

**Concept Study:** Due to the increased resource at Golpu a Concept study was completed for Wafi-Golpu that builds on previous studies and is updated based on new information and enhanced development approaches.

The objective of the concept study is to:

Outline the key drivers and major development options;

Define at least one technically and commercially viable business case; and

Establish further value building opportunities and a work plan for Prefeasibility;

The concept study evaluated a number of development alternatives for Wafi and Golpu respectively. A range of potential viable alternatives were identified. The base case involves the integrated development of Wafi and Golpu in a number of sequenced development stages.

The initial development focuses on the early establishment of open pit mining and oxide process plant to treat the gold rich Wafi and Golpu oxide ores to minimize upfront capital and reduce the timeframe from execution to production.

The second phase of development focuses on increasing gold production through the expansion of the Wafi orebody at depth and expansion of the process plant to increase throughput and treat the refractory ore.

The last phase of development is the construction of the Golpu underground block cave and construction of a 14mtpa copper concentrator with a pyrite circuit integrated into the refractory treatment plant. Significant additional resources have been identified below the current Golpu mining footprint and are likely to result in a second mining lift directly below the current design.

The development strategy generates future opportunities for value creation that are not currently included in the project, including:

Expansion of the Golpu resources to the north;

Improved Wafi resource recovery through enhanced resource modeling;

Development of Wafi at depth and the Western zone adjacent to Wafi A zone;

Further refractory process development and enhancement; and

Produce a Molybdenum concentrate from Golpu copper concentrate.

It is estimated that capital investment of between US\$2,000 and US\$2,600 million (real) is required to develop all necessary mining openings and physical infrastructure to allow establishment of all three stages. The range reflects the range of potential mining methods and refractory processing routes.

Wafi-Golpu open pits and Golpu underground produce standalone positive NPV projects.

### ***Wafi Gold Projects***

**Introduction:** The Wafi Gold resource is comprised of three main zones: Zone A, Zone B and the Link Zone (high grade lenses within Zone B). In addition to the Wafi resource, the Western Zone is an advanced exploration project.

**Geology:** The Wafi-Golpu deposit is hosted by the regionally extensive Owen Stanley Metamorphics in a location characterized by a north-west trending structural corridor and an associated intrusive cluster. About 60 km to the south the same structural corridor forms Wau Graben which is host to the Hidden Valley-Kaveroi deposits.

Mineralization covers an approximate aerial extent of 1.5 km square and a known depth of 1,500 meters. Trends indicate mineralization may extend to 2000 meters or more. Exploration drilling is in progress to systematically evaluate the depth extents. This exploration is driven by indications that significant tonnage may yet remain to be discovered that is higher in gold grade and copper grade.

The mineralization is associated with an intermediate intrusive complex comprising diorite-dacite-andesite intrusives. At one point an explosive release from the intrusive complex produced a large diatreme breccia which occupies the central part of the deposit. Evolution of the mineralizing system continued through a porphyry mineralization phase (which produced the Golpu and Nambonga deposits) and into an epithermal veining phase which produced advanced argillic mineralization and both high sulphidation (pyrite) and low sulphidation carbonate base

metal mineralization for example the Zone A-B-Link deposits.

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The combination of low grades and the partially refractory nature of the ore, means in order to achieve the desired business outcomes the processing scale and geo-metallurgical knowledge required will be at or greater than that achieved elsewhere for a refractory gold deposit.

Geological activities will provide key geo-metallurgical inputs to ongoing exploration, geotechnical, mining, metallurgical and environmental studies inclusive of a structural model, oxidation surface, geochemistry, mineralogy and ore types.

**Project Status:** The Wafi lodes will be taken in Pre Feasibility study testing the various mining and milling options identified in the Concept Study. This will include but not be limited to geotechnical, mining, infrastructure, and environmental investigations.

#### ***Golpu Copper-Gold Project***

**Introduction:** The Golpu Copper-Gold Project, or Golpu Project, is located approximately one kilometer northeast of the Wafi gold orebodies and is part of the same geological system.

**Geology:** The Golpu copper gold deposit is a typical zoned porphyry copper system. Alteration grades from potassic to phyllic to advanced argillic upwards from the core. Outwards from the core, the alteration grades from intense potassic to propylitic alteration around the margin. Sulphide species are also zoned from chalcopyrite dominant core to pyrite dominant around the margins. The mineralized body is a porphyritic diorite intrusive, approximately 300 meters by 200 meters plan dimension. However this mineralized body still remains open to the north.

Copper and gold mineralization extends some way into the metasediment host rock immediately adjacent to the porphyry body by virtue of a stock vein network containing chalcopyrite and molybdenum. As vein density decreases away from the porphyry contact, the copper-gold grades also decreases. The overall footprint of the system is currently 500m by 700m with drilling continuing to extend mineralisation to the north.

The surface expression is oxidized and leached to about 150 meters vertical depth, resulting in a residual gold only mineralization from which the copper has been leached. At the oxidation interface, a strong 20- to 30 meters thick zone of supergene copper enrichment is developed which transitions at depth into a lower grade covellite-enargite ore. Beneath this is a zone of more covellite rich mineralization that contains lesser enargite and consequently less arsenic. From approximately 300 meters below surface, the ore exists in a covellite-rich (arsenic-poor) form grading into a chalcopyrite rich zone from approximately 500 meters to its current known depth of approximately 1.4 kilometers.

**Project Status:** Both Wafi gold and the Golpu copper-gold deposits were considered as part of a concept study with Golpu and Wafi integrated into one operation. This concept study has been based on:

previous work carried out by Harmony (at PFS level) in 2007;

further study work carried out by the MMJV during mid 2009 and early 2010;

mine re-design using a new integrated geological model extrapolated based on new drill results from Golpu deposit extensions in February 2010;

process re-design and thinking to process Wafi refractory ores; and

re-evaluation of hydropower generation.

The studies have been based on the February 2010 geological model, and has since been revised to include additional drilling results and provide an updated Mineral Resource. The new resource model has validated the Golpu deeps extrapolation and as a result the model used for the study is considered satisfactory at the concept stage.

The standard of mine design engineering is satisfactory for a concept level study. The mining study has utilized a block model, and recognized open pit and block cave modeling packages. Costing completed for mining the ore deposit is considered to be of a satisfactory standard for this level of study and within the +/-35% accuracy level. The major exposure to the mining plan is the limited geotechnical knowledge of the deposit and surrounding country rock. The Wafi area is geologically very complex, and as such the limited geotechnical drilling which has been completed gives an indication only of the likely structural, hydrological, and lithological conditions to be encountered. Planning has commenced for the exploration decline which will be important for collecting data necessary to complete the



geotechnical and mine designs.

The standard for process engineering is of an acceptable level for the concept study. The primary processing plant requirements for the oxide and Golpu copper porphyry have been established, allowing a reasonable estimate of recovery and costs to be calculated. The basis for the refractory ore processing alternatives are less defined and a number of enhancements have little basis, but are considered acceptable at the concept stage. Reagent consumption and other parameters such as power and water requirements, as well as manning levels have been established to a level to allow the calculation of a concept level operating estimate for the project. Costs have been calculated using factors.

It is considered that the on site infrastructure investigations have been completed to a concept level. Conceptual level studies have been completed for all major infrastructure areas and these studies will be used to assess which options should be progressed to pre-feasibility stage.

A Competent Independent Review ( **CIR** ) has been completed for study. The CIR forms a key part of the submission of the project proposal to the MMJV and the respective partner s boards to ensure that due diligence and corporate governance are maintained.

**Additional Prospects and Exploration Potential:** The Golpu and Wafi pre-feasibility studies focused on developing the Golpu copper-gold, the high-grade gold link zone mineralization and the non-refractory (oxide) portion of the A and B zone gold mineralization. However, excellent prospects remain in the immediate vicinity of the existing resource areas for porphyry Cu-Au and related epithermal Au mineralization. During fiscal 2008, the focus of the exploration program was within a 2 km radius of the Wafi Golpu deposits, and the Nambonga North Prospect has been identified where drilling has obtained a number of significant porphyry Cu-Au intercepts. At Western Zone, drilling has intersected high-grade Au mineralization similar to that of the Link Zone.

#### ***Wafi Transfer Structure & Regional Targets***

**Introduction:** The Wafi Transfer structure comprises approximately 17km of strike and includes the Wafi-Golpu Project area. The area has seen little exploration and remains highly prospective for gold and porphyry copper gold resources similar to those at Wafi Golpu. A major regional exploration program commenced during fiscal 2010 which included both grid based and ridge and spur soil sampling (1252 samples), stream sediment sampling (208 samples), rock chip sampling (688 samples), magnetic interpretation and geological mapping (48 line kilometers). Drilling included 4 holes at the Kesiago prospect for 2508m.

**Geology:** The Wafi Transfer structure separates the Tertiary Babwaf conglomerate in the west from Jurassic and Cretaceous metasedimentary rocks of the Owen Stanley Metamorphic group in the east. Regional magnetics show the contact is intruded by a number of magnetic intrusive bodies similar to those at the Wafi-Golpu project and suggest excellent potential for additional mineralized porphyry copper-gold and related gold deposits.

**Project Status:** Work completed to date has defined three high priority prospect areas , Mount Tonn, Pekumbe, and Bavaga, all located within a 7 km radius of the Wafi-Golpu project

Bavaga is located approximately 5 km north of Wafi-Golpu. Results for stream sediment reconnaissance over the area has been particularly encouraging with a large high tenor Au anomaly defined from first pass sampling. A program of follow-up ridge and spur soils and reconnaissance mapping and sampling is underway.

At Pekumbe prospect, grid based soil sampling defined a high tenor, coherent, coincident copper, gold, molybdenum anomaly. Four drill holes have been approved for the first quarter of fiscal 2010 to test the core of the anomaly over approximately 600m of strike

At Mount Tonn, grid based surface soil sampling has defined a significant Au anomaly associated with a magnetic intrusive complex on the Wafi Transfer structure. Infill sampling is underway to provide detail for optimizing first pass drilling in fiscal 2011.

#### ***Mount Hagen Project (Harmony 100%)***

**Introduction:** Exploration work on the Mount Hagen project comprised ridge and spur soil sampling (906 samples), trench sampling (9 trenches / 186 samples) and mapping (426 samples). First pass drilling was completed at Kurunga prospect for a total of 4 holes for 1501.2 meters.

**Project Status:** During the year, the focus of exploration activities was drill testing the Kurunga prospect where local artisanal miners were actively recovering gold from outcropping copper-gold skarn mineralization.

Initial field-work involved the trenching of the area surrounding the outcropping Au mineralization, in order to determine the orientation and controls to mineralization. A systematic program of ridge and spur soil sampling was also undertaken in order to obtain geochemical coverage over the surrounding area and the associated strong aeromagnetic anomalies. Ridge and spur soil sampling was accompanied by creek traverses and mapping by geologists, in order to provide not only a background geological context to the area, but also to delineate potential controlling structures and pathfinder features.

The soil sampling and mapping were successful in delineating the extent of the potential mineralized system at Kurunga, along with a series of further targets hosting structurally controlled Au and Cu mineralization. An eight hole diamond drilling program was designed to test these targets, with four holes completed during the reporting period. Drilling was successful in intersecting the observed surface Au and Cu mineralization at depth below the artisanal workings. Additionally, other potential mineralization styles including epithermal style Au mineralization was also intersected. The drill program and compilation of results was ongoing at the end of the reporting period.

With the commencement of drilling operations at Kurunga, further reconnaissance mapping and sampling was undertaken at the Bakil prospect, approximately 8km southwest of Kurunga. This prospect was identified by visual observation of a significant area of landslip activity in an area of no previous exploration activity, possibly corresponding to a large alteration system. Subsequent initial investigations revealed an extensive system of altered volcanoclastic sediments and intrusive units, with visible structurally hosted Cu mineralization. Several float samples demonstrating visual Cu mineralization were also observed and sampled from local creeks and rivers. Further reconnaissance work is ongoing at Bakil at the reporting period end including ridge and spur soil sampling, with the goal of defining suitable drill targets for testing in the first half of the fiscal 2011.

#### ***Amanab Project (Harmony 100%)***

**Introduction:** Exploration work on the Amanab project commenced during the fourth quarter of fiscal 2010 with initial field visits to plan activities, and develop community contacts and support. This is an extremely remote area of western PNG and only accessible by air, with the nearest regional centre at Vanimo some 180kms to the north. Fly camps were in place and surface sampling commenced at year end.

**Project Status:** The Amanab project consists of one granted lease, EL1708, with in the Sandaun Province of PNG. During the reporting period, the final grant was received for EL1708. A thorough review of previous exploration activities was undertaken by Brisbane based technical staff, resulting in the definition of several highly prospective target areas (Yup River East, Yup River West, Biaka, Dio River, Akraminag, Mouri and Akrani Nth). However, initial field work was postponed until exploration activities could successfully be established at Mount Hagen.

An initial field team was established at Amanab station, with construction of a fly camp at Oweniak village. Initial sampling commenced with ridge and spur soil sampling at the Yup East prospect, which was defined from an examination of historic exploration results and reported local alluvial gold mining. This program will continue with additional ridge and spur soil sampling campaigns planned for Yup River West, and the Biaka prospects during fiscal 2011.

#### ***Hidden Valley ML Exploration***

**Introduction:** Exploration work on the Hidden Valley ML (outside of the deposit areas) comprised ridge and spur soil sampling (803 samples), trench sampling and mapping (1080 samples). First pass drilling was completed at Apu Creek, Big Wau, and Yafo prospects for a total of 3 holes/1253 meters.

**Project Status:** With major drill programs undertaken for Hidden Valley resource definition and the Wafi Golpu resource expansion, drilling activities on grassroots prospects on the ML was curtailed during 2010. Work focused on integrating the geological and geochemical datasets with detailed helimagnetics to generate new targets for fiscal 2011.

Project generation work together with continuous channel sampling and mapping south of the Hidden Valley Kaveroi deposits generated several high priority targets for drill testing. These include the Tais Creek and Waterfall prospect areas.

Follow-up drilling at Apu creek returned several zones of base metal mineralization with associated alteration. Interpretation of alteration patterns and the metal zonation through the main deposit, as well as, prospects along strike such as Hidden Valley South and Apu Creek, is being completed to develop a mineralization model.

Drilling at Big Wau has downgraded the prospect and no further work is planned at this stage.

#### ***Kerimenge and the broader prospect potential***

**Introduction:** The Broader Kerimenge project area lies approximately 7 kilometers east of the Hidden Valley Kaveroi deposit. The area is being targeted for high grade satellite mineralization to supplement the ore feed through Hamata Processing Plant . Work completed during fiscal 2010 focused on trenching and reconnaissance sampling over the broader project area. A total of 433 surface samples were collected and assayed, and over 22.3 line kilometers

of creek mapping completed.

**Project Status:** Results from the work have highlighted the Kauri Wara Muli areas located approximately 2km north of the Kerimenge Prospect. First pass ridge and spur soils was completed over a 7 square kilometer. Results have highlighted a mineralized contact with anomalous gold and base metal assays with potential for up to 4 km of strike. Mapping has confirmed prospectivity with mineralized vein stockworks along the porphyry-granodiorite contact. Follow-up work and first pass drilling is planned for fiscal 2011.

Figure 1: Morobe Mining Joint Venture (Harmony 50%) *Tenement Location Map*  
***Morobe Coast Exploration License***

**Introduction:** The Morobe Coast exploration license, EL1403, encompasses 520.2 square kilometers of tenure. A compulsory 50% reduction was completed in April 2010, although an application (ELA 1849) encompassing the relinquished portion was successful in securing priority to the ground. The area lies to the southeast of the Morobe Goldfield, and we believe it presents grassroots exploration potential. Historical exploration work has been limited, but returned anomalous gold assays in rock chip and stream sediment samples from the Lokaniu volcanics.

*Wiwo and Giu Prospect.* The Giu and Wiwo prospect areas fall approximately 10 kilometers southwest of the Morobe township on the east coast of PNG, and has been the main focus of exploration activities on EL1403. A detailed airborne magnetic survey was completed during fiscal 2010 for over 8000 line kilometers. 563 surface soil samples were completed as part of a first pass ridge and spur soil sampling program over the Wiwo prospect area

Mapping to date has outlined several areas of structurally controlled epithermal vein mineralization, hosted in vesicular basalts. Rock chip results continue to be encouraging with anomalous values of copper, gold, molybdenum and zinc returned.

**Project Status:** Integration of new geochemical and geophysical datasets is currently underway to define targets for follow-up work.

## REGULATION

### Mineral Rights

#### *South Africa*

South African law no longer provides for the separate ownership of surface and mineral rights. Prior to the promulgation of the MPRDA on May 1, 2004, it was therefore possible for one person to own the surface of a property, another to own rights to precious metals, and yet another to own rights to base minerals. In terms of the MPRDA, all mineral rights in South Africa are now vested in the South African State. The principal objectives of 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 South Africa's custodianship of its mineral and petroleum resources;
- to promote equitable access to South Africa's mineral and petroleum resources to all the people of South Africa;
- to substantially and meaningfully expand opportunities for HDSAs 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; and
- to ensure that holders of mining and production rights contribute towards socio-economic development of the areas in which they are operating.

Under the MPRDA, tenure over established mining operations is secured for up to 30 years (and renewable for periods not exceeding 30 years each thereafter), provided that mining companies apply for new order mining rights over existing operations within five years of May 1, 2004, or before the existing right expires, whichever is the earlier date and fulfill requirements specified in the MPRDA, its Regulations and the Mining Charter.

The Mining Charter was signed by government and stakeholders in October 2002 and contains principles relating to the transfer, over a ten-year period, of 26% of South Africa's mining assets (as equity or attributable units of production) to HDSAs, as defined in the Mining Charter. An interim target of 15% HDSA participation over five years was set and to this end, the South African mining industry committed to securing financing to fund participation of HDSAs in an amount of R100.0 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. In order to measure progress in meeting the requirements of the Mining Charter, companies are required to complete a scorecard, in which the levels of compliance with the Mining Charter can be ticked-off after five and ten years respectively. The Mining Charter and Scorecard require programs for black economic empowerment and the promotion of value-added production (mineral beneficiation), such as jewelry-making and other gold fabrication, in South Africa. In particular, targets are set out for broad-based black economic empowerment in the areas of human resource and skills development; employment equity; procurement beneficiation and direct ownership. In addition, the Mining Charter addresses socio-economic issues such as migrant labor, mine community and rural development, and housing and living conditions.

Following a review of the progress made by the mining industry after five years of implementing the provisions of the Mining Charter , the DMR recently amended the Mining Charter and the Revised Mining Charter was released on September 13, 2010. The requirement under the Mining Charter for mining entities to achieve a 26% HDSA ownership of mining assets by the year 2014 has been retained. Amendments to the Mining Charter in the Revised Mining Charter include, inter alia, the requirement by mining companies to:

- (i) facilitate local beneficiation of mineral commodities;

- (ii) procure a minimum of 40% of capital goods, 70% of services and 50% of consumer goods from HDSA suppliers (i.e. suppliers of which a minimum of 25% + 1 vote of their share capital must be owned by HDSAs) by 2014. These targets will however be exclusive of non-discretionary procurement expenditure;
- (iii) achieve a minimum of 40% HDSA demographic representation by 2014 at executive management (board) level, senior management (EXCO) level, core and critical skills, middle management level and junior management level;
- (iv) invest up to 5% per cent of annual payroll in essential skills development activities; and
- (v) implement measures to improve the standards of housing and living conditions for mineworkers by converting or upgrading mineworkers hostels into family units, attaining an occupancy rate of one person per room and facilitating home ownership options for all mineworkers in consultation with organised labour, all of which must be achieved by 2014.

In addition, mining companies are required to monitor and evaluate their compliance to the Revised Mining Charter, and must submit annual compliance reports to the DMR. The Scorecard makes provision for a phased-in approach for compliance with the above targets over the five year period ending in 2014. For measurement purposes, the Scorecard allocates various weightings to the different elements of the Revised Mining Charter. Failure to comply with the provisions of the Revised Mining Charter will amount to a breach of the MPRDA and may result in the cancellation or suspension of a mining company's existing mining rights.

We actively carry out mining and exploration activities in all of our material mineral rights areas. Accordingly, the MPRDA has not had a significant impact on these mining and exploration activities because we applied for and were granted the conversion of all of our old order mining rights into mining rights in terms of the MPRDA. We now have to comply with the required annual and bi-annual reporting to the DMR on the Social and Labor Plans, Environmental Management Programmes, and Progress Reports on our prospecting rights.

We have already complied with the requirements of the Mining Charter, with an equivalent of 36% of production ounces qualifying as empowerment credit ounces. We have been working on our program of licensing since 2004, which involved the compilation of a mineral assets register and the identification of all of our economic, mineral and mining rights. We have secured all old mining rights and validated existing mining authorizations. Our strategy has been to secure all strategic mining rights on a region-by-region basis. The first application for conversion from old order to new order mining rights was for the Evander Operations and was lodged on May 21, 2004. The Evander mining license was the first conversion application in the region and in October 2004 we became the first senior company to convert old order to new order mining rights for our Evander and Randfontein operations. We have worked closely with the DMR to help ensure, to the extent we are able, that the licenses are granted as swiftly as possible. The conversion of licenses for all our remaining operations were granted during November 2007 and Doornkop was executed in October 2008. All of our mining areas are therefore secured/supported by new order mining rights.

The Mineral and Petroleum Royalty Act 28 of 2008 and the Mineral and Petroleum Royalty Administration Act 29 of 2008 were assented to on November 21, 2008 with the commencement date set as May 1, 2009. However, the date on which royalties became payable was deferred to March 1, 2010. Royalties are payable to the government according to formula based on earnings before interest and tax. This rate is then applied to revenue to calculate the royalty amount due, with a minimum of 0.5% and a maximum of 5% for gold. Since the effective date of March 1, 2010, the average royalty rate for our South African operations is 1.5% of gross sales.

The MPRDA intends to, among other things:

give effect to the Minister's stated intention to promote investment in the South African mining industry;

establish objective criteria for compliance with the MPRDA's socio-economic objectives;

remove the technical deficiencies of the MPRDA;



align the MPRDA with the Promotion of Administrative Justice Act, 2000; and

coordinate the environmental requirements between the MPRDA and the National Environmental Management Act.

***Papua New Guinea***

According to the Mining Act of 1992 (PNG) mineral rights in PNG belong to the government of PNG and they have a statutory right to obtain up to a 30% participating interest in mining development projects. The government then issues and administers mining tenements under the relevant mining legislation, and mining companies must pay royalties to the government based on production.

The key difference in PNG is that citizens have the right to carry out non-mechanized mining of alluvial minerals on land owned by them. These customary rights do not extend over a mining lease, unless an alluvial mining lease is obtained.

Almost all land in PNG is owned by a person or group of persons, and is not generally overlaid by landowner title issues. There is, however, considerable difficulty in identifying landowners of a particular area of land because land ownership may arise from both contract and inheritance, and because of the absence of a formal written registration system.

Prior to commencing exploration, compensation for loss or damage must be agreed with the landowners. Prior to commencing mining, a written agreement must be entered into with landowners dealing with compensation and other matters.

In PNG, Morobe Consolidated Goldfields Limited and Newcrest PNG 1 Limited hold a mining lease and various exploration licenses granted by the Department of Mineralogy and Geohazards Management for the Hidden Valley Project. Both parties have obligations under a memorandum of agreement with the state, local government and the landowners.

Wafi Mining Limited and Newcrest PNG 2 Limited hold various exploration licenses granted by the Department of Mineralogy and Geohazards Management for the Wafi-Golpu Project, and has entered into a compensation agreement with landowners on one of its exploration licenses.

Harmony Gold (PNG) Exploration Limited manages three exploration licences granted in the Western Highlands and the Sandaun Provinces. The company has also applied for four tenements in the Central and Southern Highlands Provinces and is still awaiting ministerial approval.

In PNG there are no applicable exchange control restrictions but the PNG central bank does have to be informed of all transactions and has to approve lending facilities and interests rates charged.

## **Environmental Matters**

### ***South Africa***

We are committed to conducting our business in an ethically, morally, socially and environmentally responsible manner that will protect human health, natural resources and the environment in which we live. We aim to balance our economic, social and environmental goals and responsibilities to achieve sustainable, profitable growth in our business and, more importantly, to work with communities and regulatory agencies to implement sound management practices which will ensure that our mining is conducted in an environmentally-safe manner. In addition, with regard to legacy mining impacts, we remain committed to identifying and implementing coordinated remediation plans that are acceptable to all relevant parties.

Harmony has recently approved its environmental strategy which is geared towards:

managing the business with environment as an integral part of the business processes;

focusing relentlessly on effectiveness of risk controls;

radically reducing the environmental liability in the organisation;

create a sharing, learning, challenging and innovative environmental culture.

In support of the above commitment, our environmental policy stipulates that:

### ***Compliance***

We will strive to comply with all applicable municipal, provincial and national laws and regulations, as well as the other requirements to which the company subscribes that are relevant to the environmental aspects of our activities.

### ***Continual Improvement***

We will evaluate and continually improve the effectiveness of our Environmental Management System ( **EMS** ) through periodic audits and management reviews, and we will review our environmental policy on an annual basis.

***Pollution Prevention***

We will actively design our operations and undertake our mining activities so as to prevent pollution. We will strive towards the continual reduction of adverse environmental effects and support the principle of sustainable development.

***Awareness***

We will communicate our environmental policies to our employees, contractors and suppliers, and will provide appropriate training to all employees to ensure their continuing awareness of our environmental responsibilities.

To address and minimize the impact of the company's operations on the environment, taking into account regulatory requirements, the board has approved a number of five year targets relating to emissions to air, water consumption and usage, energy consumption, recycling and land use based on fiscal 2008, namely:

***Compliance***

The Company will reduce the number of significant incidents to zero.

***Air Pollution***

All sites with emissions >100,000 tonnes per year CO<sub>2</sub> equivalent is required to have and maintain energy conservation plans by 2012.

Harmony's aggregate group target for reduction in energy consumption per ton milled is 10% by 2013 based on a 2005 base year.

Harmony's aggregate group target for reduction in GHG per ton milled is 5% by 2013 based on a 2005 base year.

***Biodiversity***

All sites will have a biodiversity action plan by 2012.

***Water Management***

The aggregate group target for increased affected water consumption per ton milled is a 5% improvement by 2013 based on a 2008 base year.

The aggregate group target for reducing fresh water consumption per ton milled is a 2% improvement by 2013 based on a 2008 base year.

***Recycling***

All steel, plastic and timber waste to be handled through designated areas, to improve levels of recycling, and 50% of all oil and grease to be recycled.

***Land Use***

The aggregate group target is a 5% reduction in the land available for rehabilitation.

**Environmental performance**

*ISO14001 implementation*

An ISO14001 EMS is being introduced progressively across our operations, and it is planned that the implementation program at the longer-life operations will be completed in 2012. Formal certification will be sought progressively. By the end of June 2010, the implementation status at the various operations was estimated as follows:

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Doornkop shaft achieved certification in fiscal 2010; Doornkop plant is scheduled for certificate in November 2010;

Kusasaletu Certification audit planned for March 2011;

Evander 8 Shaft Certification audit planned for October 2010;

Kalgold Certification audit planned for October 2010; and

Free State Harmony 1 plant December 2011.

The EMS forms the basis for the implementation of the environmental policy and monitoring compliance, while the Environmental Management Programme Report ( **EMPR** ) developed in line with legislative requirements, contain specific as well as general principles governing environmental management during the life of the mine. The EMPRs identify individual impacts, mitigation measures and rehabilitation requirements.

Generic closure objectives are set and high-level closure plans formulated within the EMPR, including investigation of the potential for re-use of existing infrastructure, preparation of a rehabilitation plan, rehabilitation and vegetation of the affected area and post-closure monitoring. These EMPRs are legally binding and forms part of our submission for, and receipt, of mining rights conversions. Revised EMPRs (aligned with new minerals legislation) were developed for Doornkop, Kalgold, Joel, St Helena, Target, Evander, the Virginia operations and Kusasalethu in fiscal 2009, and submitted to the regulatory authorities for approval. As part of this process, public participation meetings have been held with interested and affected parties.

A number of annual compliance audits were undertaken during the year, most notably by the DMR. Areas of non-compliance identified by the audits have been and are being addressed.

*Significant environmental incidents*

Significant incidents are defined as those that have an impact outside the Group's boundaries, which may cause irreparable harm or which require significant expenditure to remedy. In fiscal 2010, five significant environmental incidents were reported. These related primarily to:

localised sewage spill onto adjacent land (one incident);

localised slimes spillage into the Winkelhaakspruit (two incidents);

overflow of affected water from a water containment facility into a tributary stream as a result of flash floods (one incident); and

overflow of affected water from a water containment facility into the adjoining storm water facility (one incident).

*Financial provision*

In accordance with legislation, Harmony has constituted independent environmental rehabilitation trust funds to make adequate financial provision for the expected cost of environmental rehabilitation at mine closure and for the discharge of its obligations and contingent liabilities. Each operation reviews and updates the financial provision for its expected environmental closure liability annually in consultation with a consultant. This estimate is then used to calculate the contributions to be made to the rehabilitation trust funds, and, if necessary, adjustments are made to the trust fund provisions.

The accumulated amount in the various South African rehabilitation trust funds was R1,702 million (US\$223.2 million) at the end of June 2010 (compared with fiscal 2009, which was R1,597 (US\$206.8 million)), while the total rehabilitation liability was estimated at R2,229 million (US\$292.2 million) (compared with fiscal 2009, which was R1,918 (US\$248.3 million)). During the year, we contributed R5 million (US\$0.7 million) to the trust funds. We also arranged guarantees for the environmental liabilities with Nedbank Limited amounting to R286 million (US\$37.5 million).

The assets of each mine within each fund are ring-fenced and may not be used directly to cross-subsidise one another.

*Papua New Guinea*

Our PNG operations are in various phases of activity including exploration, pre-feasibility study and commissioning. We are subject to applicable environmental legislation including specific site conditions attached to the mining tenements imposed by the PNG Government DEC, the terms and conditions of operating licenses issued by the PNG MRA and DEC, and the Environment Permits for water extraction and waste discharge issued by DEC.

Some non-compliances with these requirements have been identified at the Hidden Valley Mine and remedial actions are being implemented in consultation with DEC and MRA. All other operations in PNG are compliant with their respective statutory requirements.

All PNG operations have departments and personnel dedicated to environmental matters who are responsible for implementing the company environmental management programs, monitoring the impact of mining on the environment and responding to impacts that require specific attention outside of the normal program of environmental activities.

A framework for a Sustainable Business Management System ( **SBMS** ) has been completed which complies with relevant Australian and international standards and principles for safety, environment, quality and sustainable development (including AS/NZS ISO14001:Environmental Management Systems, Equator Principles, and the Cyanide Code). This system will be implemented at all PNG operations over the next two years.

*Significant environmental incidents*

There were a number of environmental incidents reports in PNG that may have had a moderate impact on the receiving environment but were not considered major or at a level that would have affected ecosystem function.



## Health and Safety Matters

### *South Africa*

#### *The Mine Health and Safety Act*

For many years, the safety of persons working in South African mines and quarries was controlled by the Mines and Works Act of 1956 and then by the Minerals Act of 1991 which was replaced by the Mine Health and Safety Act. The Minerals Act of 1991 has subsequently been repealed and the MPRDA promulgated. The Mine Health and Safety Act has since been amended by Act 74 of 2008. The objectives of the Mine Health and Safety Act are:

to protect the health and safety of employees and other persons at mines;

to promote a culture of health and safety;

to require employers and employees to identify hazards and eliminate, control and minimize the risks relating to health and safety at mines;

to give effect to the public international law obligations of South Africa that concern health and safety at mines;

to provide for employee participation in matters of health and safety through health and safety representatives and health and safety committees at mines;

to provide for the effective monitoring of health and safety conditions at mines;

to provide for the enforcement of health and safety measures at mines; and

to foster and promote co-operation and consultation on health and safety between the DMR, employers, employees and their representatives.

The Mine Health and Safety Act prescribes general and specific duties for employers and others, determines penalties and a system of administrative fines, and provides for employee participation by requiring the appointment of health and safety representatives and the establishment of health and safety committees. It also entrenches the right of employees to refuse to work in dangerous conditions. Key amendments to this Act are the following:

Training records to be kept

Employer investigations

Permanent committees of the MHSC

Health and Safety Management system

Administrative fines increased from R200,000 to R1million

Offences applicable to the Employer

Government, through the DMR, ordered the institution of audit teams to conduct legal compliance and systems and explosives control audits on mines across all commodities.

It is anticipated that Harmony will incur additional expenditure in order to comply with the prescribed legislative requirements. Management anticipates that such additional expenditure will not have a material adverse effect upon our operational results or financial condition.

### *Criminal mining*

Security issues with regard to criminal mining came to the fore during fiscal 2009. In June 2009, criminal mining resulted in the deaths of criminal miners. Harmony continues to address the issue of criminal mining on a daily basis with enhanced security, together with the South African Police Services, the Department of Justice, the National Prosecuting Authority and other affected mining companies. We are doing everything reasonably practicable to ensure that the unauthorized miners do not get access to shafts in order to prevent them from going underground illegally and to prevent them from destroying existing infrastructure. We have invested a significant amount of money in infrastructure and systems to achieve this.

### *Healthcare services*

In South Africa, approximately 80% of primary health care and occupational health services are provided to employees and their dependants through company-managed healthcare facilities which include two private hospitals, one mine hospital and three private pharmacies. Casualty departments at these hospitals provide 24-hour emergency services to local communities as well as to the company's employees. The health and well-being of the remainder of Harmony employees, their dependants and contractors is ensured through medical aid membership or third-party service-providers, as part of their employment benefits.

In fiscal 2010, we embarked on a pro-active healthcare strategy with a shift in focus from curative care towards preventative healthcare. Integrated individual healthcare was provided to employees with the assistance of management information systems which enable Harmony Healthcare to monitor and track the risk profile of each individual in terms of health and well-being. An individual disease management plan is then developed and continually reviewed to assess progress.

### *Occupational health*

In compliance with the Mine Health and Safety Act, medical surveillance continued at the group's four medical surveillance centres. Medical surveillance examinations were conducted including entry examinations (for new employees), annual examinations, exit (end of service) examinations, and out-of-cycle examinations (for transfers, for example).

We align our occupational health statistics reporting to international standards such as the International Labour Organization's Code of Practice on the Recording and Notification of Occupational Accidents and Diseases, as well as the Mine Health and Safety Act. In the case of an employee being identified as having a compensable occupational illness, the company submits his or her details on the employee's behalf to the Medical Bureau for Occupational Diseases ( **MBOD** ) or to the Rand Mutual Assurance Company ( **RMA** ), depending on the illness and legislation that covers it. The MBOD is a statutory body, responsible for certification and compensation in terms of the Occupational Diseases in Mines and Works Act, 1973, to which Harmony contributes. RMA is an industry body that provides compensation under the Compensation for Occupational Injuries and Diseases Act of 1993.

The primary occupational health risk areas in fiscal 10 were silicosis, noise induced hearing loss ( **NIHL** ), tuberculosis ( **TB** ) and occupational injuries.

### *HIV & AIDS Policy*

We have managed to look at HIV & AIDS awareness campaigns holistically with our South African workforce. Our HIV and AIDS campaigns are in line with the national HIV counseling and testing ( **HCT** ) campaigns. Our treatment policy is also in line with the National Guidelines on Anti Retroviral Treatment, which assists employees who decide to leave their place of work and return home for care and are cared for at their homes through the TEBA home based care system, to which we contribute. See *Item 3. Key Information Risk Factors Risks Relating to Our Business and Our Industry HIV & AIDS poses risks to Harmony in terms of productivity and costs* and *Item 3. Key Information Risk Factors Risks Relating to Our Business and Our Industry The cost of occupational healthcare services may increase in the future* .

In South Africa, we have an agreement with the relevant stakeholders concerning the management of HIV & AIDS in the workplace. This agreement, originally signed in 2002 with the National Union of Mine Workers ( **NUM** ) and the United Association of South Africa ( **UASA** ) has been subsequently amended, the latest in August 2006. While many aspects of the policy have remained unaltered, the most fundamental change is the inclusion in the policy of a broad spectrum of chronic manageable diseases other than HIV & AIDS such as diabetes, asthma and hypertension. This

was done in order to minimize the stigma surrounding stand alone HIV & AIDS treatment centers and also to emphasize our view that HIV & AIDS should no longer be viewed as a death sentence, but rather a chronic, manageable disease. We have decentralized some of the functions of the HIV and AIDS centers to the clinics at the shafts where these functions can be easily accessed by employees. The agreement also serves to reassure our employees of our commitment to the respect of all human rights and commitment to non-discriminatory practices and zero tolerance to discrimination of any of our employees. During the early stages of the implementation of the

HIV & AIDS program, the agreement was also used as a marketing tool to encourage employee participation in the Harmony HIV & AIDS Program.

*Management of HIV & AIDS & Tuberculosis (TB)*

The HIV & AIDS pandemic continues to have a significant impact on the company (through absenteeism, reduced performance, loss of skills) and employees and their families. At Harmony HIV & AIDS is managed at three levels.

At a clinical level, the symptoms of the illness are managed by the Group's health care services.

Company-wide and mine-specific initiatives are conducted. Shaft-based HIV & AIDS committees form an integral part of the Health and Safety Committees, which meet on a monthly basis.

Group policy and practice is overseen by a specialist health care professional.

A revised integrated clinical strategy, developed as part of the new strategy to address TB and HIV & AIDS was implemented during the year. This strategy was developed through a workshopping process that was led by academics and experts drawn from the Universities of Cape Town, Pretoria and Witwatersand, and with the participation of the 19 Harmony health care staff, ranging from medical doctors, to occupational health practitioners, nursing sisters and others.

A number of key issues have been highlighted in this new strategy that integrate and consolidate the traditional HIV & AIDS and TB approaches. These include:

Concerted efforts will be made to enhance and sustain the group's Voluntary Counselling and Testing ( VCT ) programs.

Enhanced education and counselling will be provided to employees who are HIV-negative.

Anti-retroviral therapy ( ART ) will be introduced at an earlier stage, which is expected to have a significant impact on reducing HIV & AIDS incidence rates.

In addition, efforts will be made to intensify case findings, introduce isoniazid preventative treatment and improve infection control with further infection control measures such as the use of masks, ultra-violet lights, etc.

*HIV & AIDS performance*

It is currently estimated (based on estimates within the gold mining industry) that around 27% of Harmony's employees are HIV positive. It is possible, however, that actual prevalence rates are higher than this as a result of the current treatment campaigns (including ART). We continue to focus on early detection and treatment to increase the likelihood of extended, healthy lives for infected employees. New electronic data collation systems were implemented in fiscal 2009 and we envisage that there will be an improvement in monitoring and evaluation of the program outcomes in fiscal 2011. During fiscal 2010, a total of 18,971 individuals were tested (2009: 22,806 tests), a decrease of 17%. The decrease is because the initial VCT campaigns targeted a broader spectrum of candidates and included the community as well as dependants.

*Australia*

Australia, via each State and Territory has a well regulated system of occupational health and safety (OH&S), comprised of legislation (Acts and Regulations) and Codes of Practice. Australia is moving to National OH&S Legislation and Draft Legislation has been circulated to the various levels of government and industry for consultation. Several of these specifically apply to the mining industry, including specific legislation and extensive codes of practice and guidelines. There is also a well developed certification and licensing system for employees for the usage of certain items of plant and equipment. The legislation governing this area also refers to the many Australian Standards and specifically AS/NZS 4801 Occupational health and safety management systems Specification with guidance for use which is the specific AS for the management of Safety Systems.

In the event of injury while at work, employees are protected by a compulsory workers compensation scheme, which are different for each state.



***Papua New Guinea***

PNG has a significant mining industry, and a developing system of occupational health and safety. The PNG Mining (Safety) Act of 1977 is the principal legislation that addresses a range of issues such as working hours, minimum safety and reporting requirements. Other legislation and regulations also apply.

Although reliable statistics with regard to infection rates are not readily available, preliminary results indicate that PNG is in the early stages of an AIDS pandemic. As part of the development of the Hidden Valley project, and other exploration activities carried out by us in PNG, we have rolled out a health care strategy for our employees to increase AIDS awareness. See *Item 3. Key Information Risk Factors Risks Relating to Our Business and Our Industry HIV/AIDS poses risks to Harmony in terms of productivity and costs* and *Item 3. Key Information Risk Factors Risks Relating to Our Business and Our Industry The cost of occupational healthcare services may increase in the future* .

**Item 4A. UNRESOLVED STAFF COMMENTS**

Not applicable.

**Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

*You should read the following discussion and analysis together with the consolidated financial statements, including the related notes, appearing elsewhere in this annual report.*

**Overview**

We conduct underground and surface gold mining and related activities, including exploration, processing, smelting and beneficiation. We are currently the third largest producer of gold in South Africa, producing some 22% of the country's gold output, and are among the world's top ten gold producers. Our gold sales for fiscal 2010 were approximately 1.4 million ounces of gold. As at June 30, 2010, our mining operations reported total proven and probable reserves of approximately 48.1 million ounces and in fiscal 2010, we processed approximately 19.8 million tons of ore.

For segment purposes, management distinguishes between Underground and Surface, with each shaft or group of shafts managed by a team (headed by a single general manager) being considered to be an operating segment.

Our reportable segments are as follows:

Bambanani, Doornkop, Evander, Joel, Kusasalethu (previously Elandsrand), Masimong, Phakisa, Target, Tshepong, Virginia and PNG;

Cooke operations (sold in November 2008) and Mount Magnet are classified as discontinued operations; and

All other shafts and surface operations, including those that treat historic sand dumps, rock dumps and tailings dams, are grouped together under Other Underground and Other Surface.

**Critical Accounting Policies and Estimates**

The preparation of our financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported results of our operations. Actual results may differ from those estimates. We have identified the most critical accounting policies upon which our financial results depend. Some of our accounting policies require the application of significant judgment and estimates by management in selecting the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty and are based on our historical experience, terms of existing contracts, management's view on trends in the gold mining industry and information from outside sources.

Our significant accounting policies are described in more detail in note 2 to the consolidated financial statements. This discussion and analysis should be read in conjunction with the consolidated financial statements and related notes included in *Item 18. Financial Statements*. Management has identified the following as critical accounting policies because estimates used in applying these policies are subject to material risks and uncertainties. Management believes the following critical accounting policies, together with the other significant accounting policies discussed in the notes to the consolidated financial statements, affect its more significant judgments and estimates used in the preparation of the consolidated financial statements and could potentially impact our financial results and future financial performance.

**Gold mineral reserves**

Gold mineral reserves are estimates of the amount of ounces that can be economically and legally extracted from the Group's properties. In order to calculate the gold mineral reserves, estimates and assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, commodity prices and exchange rates.

Estimating the quantities and/or grade of the reserves requires the size, shape and depth of the orebodies to be determined by analyzing geological data such as the logging and assaying of drill samples. This process may require complex and difficult geological judgments and calculations to interpret the data. These reserves are determined in accordance with SAMREC, JORC and SEC Industry Guide 7.

Because the economic assumptions used to estimate the gold mineral reserves change from year to year, and because additional geological data is generated during the course of operations, estimates of the mineral reserves may change from year to year. Changes in the proven and





probable reserves may affect the Group's financial results and financial position in a number of ways, including depreciation and amortization charged in the income statement may change as they are calculated on the units-of-production method.

The estimate of the total expected future lives of our mines could be materially different from the actual amount of gold mined in the future. 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 of production and the price of gold and may yield less gold under actual production conditions than currently estimated.*

#### ***Impairment of Property, Plant and Equipment***

We review and evaluate our mining assets for impairment when events or changes in circumstances indicate the related carrying amounts may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Each operating shaft, along with allocated common assets such as plants and administrative offices, is considered to be a cash generating unit as each shaft is largely independent of the cash flows of other shafts and assets.

Future cash flows are estimated based on estimated quantities of recoverable minerals, expected gold prices (considering current and historical prices, price trends and related factors), production levels and cash costs of production, capital and reclamation costs, all based on detailed life-of-mine plans. The significant assumptions in determining the future cash flows for each individual operating mine at June 30, 2010, apart from production cost and capitalized expenditure assumptions unique to each operation, included a long-term gold price of US\$1,050 per ounce and South African and Australian dollar exchange rates of US\$1 = R8.19 and A\$1 = US\$0.80, respectively. The term "recoverable minerals" refers to the estimated amount of gold that will be obtained from proven and probable reserves and related exploration stage mineral interests, except for other mine-related exploration potential and greenfields exploration potential discussed separately below, after taking into account losses during ore processing and treatment. Estimates of recoverable minerals from such exploration stage mineral interests are risk adjusted based on management's relative confidence in such materials. With the exception of other mine-related exploration potential and Greenfields exploration potential, estimates of future undiscounted cash flows are included on an area of interest basis, which generally represents an individual operating mine, even if the mines are included in a larger mine complex. In the case of mineral interests associated with other mine-related exploration potential and Greenfields exploration potential, cash flows and fair values are individually evaluated based primarily on recent exploration results and recent transactions involving sales of similar properties.

As discussed above under "Gold mineral reserves", various factors could impact our ability to achieve our forecasted production schedules from proven and probable reserves. Additionally, gold prices, capital expenditure requirements and reclamation costs could differ from the assumptions used in the cash flow models used to assess impairment. The ability to achieve the estimated quantities of recoverable minerals from exploration stage mineral interests involves further risks in addition to those factors applicable to mineral interests where proven and probable reserves have been identified, due to the lower level of confidence that the identified mineralized material can ultimately be mined economically. Assets classified as other mine-related exploration potential and Greenfields exploration potential have the highest level of risk that the carrying value of the asset can be ultimately realized, due to the still lower level of geological confidence and economic modeling.

During fiscal 2010, 2009 and 2008, we recorded impairments of US\$43 million, US\$89 million and US\$27 million respectively, on property, plant and equipment, all from continuing operations. Reversal of previously recorded impairments amounted to US\$28 million and US\$5 million in fiscal 2009 and fiscal 2008 respectively. These reversals related to the Mount Magnet operation, which has been classified as discontinued operations. Material changes to any of these factors or assumptions discussed above could result in future impairment charges, particularly around future gold price assumptions. A 10% decrease in gold price at June 30, 2010 would have resulted in the additional impairments amounting to US\$1.8 million at the Steyn 2 shaft in the Bambanani segment.

#### ***Carrying Value of Goodwill***

We evaluate, on at least an annual basis, the carrying amount of goodwill to determine whether current events and circumstances indicate that such carrying amount may no longer be recoverable. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Each operating shaft, along with allocated common assets such as plants and administrative offices, is considered to be a cash generating unit as each shaft is largely independent of the cash flows of other shafts and assets. To accomplish this, we compare the recoverable amounts of our cash generating units to their carrying amounts. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. If the carrying value of a cash generating unit were to exceed its recoverable amount at the time of the evaluation, an impairment loss is recognized by first reducing goodwill, and then the other assets in the

cash generating unit on a pro rata basis. Assumptions underlying fair value estimates are subject to risks and uncertainties. If these assumptions change in future, we may need to record impairment charges on goodwill not previously recorded.

During fiscal 2008, we recorded an impairment of US\$13 million on goodwill. No impairment was recorded during fiscal 2009 and 2010.

***Provision for environmental rehabilitation***

Our mining and exploration activities are subject to various laws and regulations governing the protection of the environment. Estimated long term environmental obligations, comprising pollution control, rehabilitation and mine closure, are based on the Group's environmental management plans. Annual changes in the provision consist of finance costs relating to the change in the present value of the provision and inflationary increases in the provision estimate, as well as changes in estimates. The present value of environmental disturbances created is capitalized to mining assets against an increase in the rehabilitation provision. The rehabilitation asset is depreciated as discussed above. Rehabilitation projects undertaken, included in the estimates are charged to the provision as incurred. The cost of ongoing current programs to prevent and control pollution is charged against income as incurred.

***Deferred taxes***

The taxable income from gold mining at our South African operations is subject to a formula to determine the taxation expense. The tax rate calculated using the formula is capped to a maximum mining statutory rate of 43% or 34%, depending on whether or not the taxpayer has elected to be exempt from Secondary Taxation on Companies. See Item 5. *Results of Operations Continuing Operations Income and Mining Taxes* . Taxable income is determined after the deduction of qualifying mining capital expenditure to the extent that it does not result in an assessed loss. Excess capital expenditure is carried forward as unredeemed capital and is eligible for deduction in future periods, taking the assessed loss criteria into account. Further to this, mines are ring-fenced and are treated separately for tax purposes, with deductions only being utilised against the mining income of the relevant ring-fenced mine.

In terms of IAS 12 Income Taxes, deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, and at our South African operations, such average tax rates are directly impacted by the profitability of the relevant ring-fenced mine. The deferred tax rate is therefore based on the current estimate of future profitability of an operation when temporary differences will reverse, based on tax rates and tax laws that have been enacted at balance sheet date.

The future profitability of each ring-fenced mine, in turn, is determined by reference to the life-of-mine plan for that operation. The life-of-mine plan is based on parameters such as the Group's long term view of the US\$ gold price and the Rand/US\$ exchange rate, as well as the reserves declared for the operation. As some of these parameters are based on market indicators, they differ from one year to the next. In addition, the reserves may also increase or decrease based on updated or new geological information.

We do not recognize a deferred tax asset when it is more likely than not that the asset will not be utilized. Assessing recoverability of deferred tax assets requires management to make significant estimates related to expectation of future taxable income. Estimates of future taxable income are based on forecasted cash flows from operations, reversals of deferred tax liabilities and the application of existing tax laws in each jurisdiction. To the extent that future taxable income differs significantly from estimates, our ability to realize the net deferred tax assets recorded at the balance date could be impacted. Additionally, future changes in tax laws in the jurisdictions in which we operate could limit our ability to obtain the future tax benefits represented by deferred tax assets recorded at the balance date.

**Revenue**

Substantially most of our revenues are derived from the sale of gold. As a result, our operating results are directly related to the price of gold. Historically, the price of gold has fluctuated widely. The gold price is affected by numerous factors over which we do not have control. See Item 3. *Key Information Risk Factors The profitability of Harmony's operations, and the cash flows generated by those operations, are affected by changes in the market price for gold, which in the past has fluctuated widely* .

As a general rule, we sell our gold produced at market prices to obtain the maximum benefit from increases in the prevailing gold price and do not enter into hedging arrangements such as forward sales or derivatives that establish a

price in advance for the sale of our future gold production.

Significant changes in the price of gold over a sustained period of time may lead us to increase or decrease our production in the near-term.

### **Harmony's Realized Gold Price**

The average gold price in U.S. dollars received by us has generally increased since January 1, 2002. In fiscal 2010, the average gold price in U.S. dollars received by us for continuing operations was US\$1,092 per ounce. The market price for gold (and, accordingly, the price received by us) is affected by numerous factors over which we have no control. See *Item 3. Key Information Risk Factors The profitability of Harmony's operations, and the cash flows generated by those operations, are affected by changes in the market price for gold, which in the past has fluctuated widely*.

The following table sets out the average, the high and the low London Bullion Market price of gold and our average U.S. dollar sales price during the past three fiscal years:

	<b>Fiscal Year Ended</b>		
	<b>2010</b>	<b>June 30, 2009 (\$/oz)</b>	<b>2008</b>
Average	1,089	874	821
High	1,261	989	1,011
Low	908	713	649
Harmony's average sales price - continuing operations	1,092	867	818

- (1) Our average sales price differs from the average gold price due to the timing of our sales of gold within each year.

### **Costs**

Our cash costs and expenses typically make up over 80% of our total costs. The remainder of our total costs consists primarily of exploration costs, employment termination costs, corporate and sundry expenditure, and depreciation and amortization. Our cash costs consist primarily of production costs exclusive of depreciation and amortization. Production costs are incurred on labor, equipment, consumables and utilities. Labor costs are the largest component and typically comprise approximately 54% of our production costs.

Our cash costs for continuing operations has increased from US\$600 per ounce in fiscal 2008 to US\$801 per ounce in fiscal 2010, mainly as a result of lower production volumes, the impact of increased labor and energy costs as well as inflationary pressures on supply contracts. In U.S. dollar terms, the appreciation of the Rand-U.S. dollar exchange rate added to these increases.

Our U.S. translated costs are very sensitive to the exchange rate of the Rand and other non-U.S. currencies to the U.S. dollar. See *Item 5. Operating and Financial Review and Prospects Exchange Rates*. Appreciation of the Rand and other non-U.S. currencies against the U.S. dollar increases working costs at our operations when those costs are translated into U.S. dollars. See *Item 3. Key Information Risk Factors Because most of Harmony's production costs are in Rand and other non-U.S. currencies, while gold is generally sold in U.S. dollars, Harmony's financial condition could be materially harmed by an appreciation in the value of the Rand and other non-U.S. currencies*.

The average rate of the South African Rand appreciated approximately 16% against the U.S. dollar in fiscal 2010 compared to fiscal 2009. In the case of our International operations, the Australian dollar appreciated approximately 18%, while the Kina remained steady against the U.S. dollar in fiscal 2010 compared to fiscal 2009.

***Reconciliation of Non-GAAP Measures***

Total cash costs and total cash costs per ounce are non-GAAP measures.

Our cash costs consist primarily of production costs and are expensed as incurred. The cash costs are incurred to access ore to produce current mined reserves. Cash costs do not include capital development costs, which are incurred to allow access to the ore body for future mining operations and are capitalized and amortized when the relevant reserves are mined.

We have previously calculated total cash costs and total cash costs per ounce by dividing total cash costs, as determined using the guidance previously provided by the Gold Institute, by gold ounces sold. 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, ore stockpiles, as well as ongoing environmental rehabilitation costs as well as transfers to and from deferred stripping and costs associated with royalties. Ongoing employee termination cost is included, however, employee termination costs associated with major restructuring and shaft closures are excluded. Management has recalculated these measures to exclude the costs associated with movements in production inventories, and in line with this change, now use gold ounces produced as the denominator. The measures have been re-presented for all comparative periods shown.

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 U.S. dollar and, in the case of the International operations, the Australian dollar and Kina. Total cash costs and total cash costs per ounce are non-GAAP measures. Total cash costs and total cash costs per ounce should not be considered by investors in isolation or as an alternative to production costs, cost of sales, or any other measure of financial performance calculated in accordance with IFRS. In addition, while the Gold Institute has provided guidance for the calculation of total cash costs and total cash costs per ounce, the calculation of total cash costs and total cash costs per ounce may vary from company to company and may not be comparable to other similarly titled measures of other companies. However, we believe 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 our 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.

#### *Continuing operations*

The following is a reconciliation of total cash costs from continuing operations, as a non-GAAP measure, to the nearest comparable GAAP measure, cost of sale from continuing operations:

	<b>Fiscal year ended June 30,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(in \$ millions, except per ounce amounts)</b>		
Total cost of sales from continuing operations under IFRS	1,383	1,083	1,122
Depreciation and amortization expense	(181)	(139)	(117)
Rehabilitation costs	(4)	(1)	(1)
Care and maintenance costs of restructured shafts	(8)	(5)	(10)
Employment termination and restructuring costs	(27)	(4)	(29)
Share-based payments	(20)	(13)	(6)
Impairment of assets	(43)	(71)	(40)
Reversal/(provision) for post retirement benefits	3		(1)
Gold inventory movement		2	(4)
Total cash costs from continuing operations using Gold Institute guidance	1,103	852	914
Per ounce calculation:			
Ounces produced <sup>(1)</sup>	1,377,499	1,460,831	1,524,557
Total cash cost per ounce from continuing operations using Gold Institute guidance	801	583	600

(1) The ounces produced for fiscal 2010 exclude ounces from Hidden Valley, Target 3 and Steyn 2 for

the period in  
which these  
shafts were not  
in production.  
The associated  
costs have been  
capitalized.



*Discontinued operations*

The following is a reconciliation of total cash costs from discontinued operations, as a non-GAAP measure, to the nearest comparable GAAP measure, cost of sales from discontinued operations:

	<b>Fiscal year ended June 30,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(in \$ millions, except per ounce amounts)</b>		
Total cost of sales from discontinued operations under IFRS	1	71	237
Depreciation and amortization expense		(28)	(7)
Rehabilitation costs		(2)	(1)
Care and maintenance costs of restructured shafts	(1)	(1)	
Employment termination and restructuring costs			(4)
Share-based payments			
Reversal of impairment of assets		10	5
Gold inventory movement		2	6
Total cash costs from discontinued operations using Gold Institute guidance		52	236
Per ounce calculation:			
Ounces produced		80,377	385,900
Total cash cost per ounce from discontinued operations using Gold Institute guidance		644	612

*Total Harmony Continuing and discontinued operations*

The following is a reconciliation of total cash costs, as a non-GAAP measure, to the nearest comparable GAAP measure, cost of sales under IFRS:

	<b>Fiscal year ended June 30,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(in \$ millions, except per ounce amounts)</b>		
Total production costs under IFRS	1,384	1,154	1,359
Depreciation and amortization expense	(181)	(167)	(124)
Rehabilitation costs	(4)	(3)	(2)
Care and maintenance costs of restructured shafts	(9)	(6)	(10)
Employment termination and restructuring costs	(27)	(4)	(33)
Share-based payments	(20)	(13)	(6)
(Impairment)/reversal of impairment of assets	(43)	(61)	(35)
Reversal/(provision) for post retirement benefits	3		(1)
Gold inventory movement		4	2
Total cash costs using Gold Institute guidance	1,103	904	1,150
Per ounce calculation:			
Ounces produced	1,377,499	1,541,208	1,910,457
Total cash cost per ounce using Gold Institute guidance	801	586	602

Within this disclosure document, our discussion and analysis is focused on the total cash costs measure as defined by the Gold Institute, as modified to exclude the effects of changes in production inventory.

While recognizing the importance of reducing cash costs, our chief focus is on controlling and, where possible, reducing total costs, including overhead costs. We aim to control total unit costs per ounce produced by maintaining our low total cost structure at our existing operations. We have been able to reduce total costs by implementing a management structure and philosophy that is focused on reducing management and administrative costs, implementing an mineral reserve management system that allows for greater grade control and acquiring higher grade reserves. See *Item 4. Information on the Company Business Strategy*.

**Exchange Rates**

Our revenues are very sensitive to the exchange rate of the Rand and other non-U.S. currencies to the U.S. dollar.

Currently, the majority of our earnings are generated in South Africa and, as a result, most of our costs are incurred in Rand. Since gold is generally sold in U.S. dollars, most of our revenues are received in U.S. dollars. The average gold price received by us during fiscal 2010 increased US\$225 per ounce to US\$1,092 per ounce from US\$867 per ounce during fiscal 2009. Appreciation of the Rand against the U.S. dollar increases our U.S. dollar working costs at our South African operations when those costs are translated into U.S. dollars, which serves to reduce operating margins and net income from our South African operations. Depreciation of the Rand against the U.S. dollar reduces these

costs when they are translated into U.S. dollars, which serves to increase operating margins and net income from our South African operations. Accordingly, strength in the Rand generally results in poorer earnings for us if there is not a similar increase in the gold price.

The exchange rates obtained when converting U.S. dollars to Rand are determined by foreign exchange markets, over which we have no control. The conversion rate for balance sheet items as at June 30, 2010 is R7.63 per US\$1.00, except for specific items within equity that are converted at the exchange rate prevailing on the date the transaction was entered into. This compares with a conversion rate of R7.72 per US\$1.00 as at June 30, 2009, reflecting an appreciation of 1% of the Rand against the U.S. dollar when compared with June 30, 2009. Income statement items were converted at the average exchange rate for the fiscal 2010 (R7.58 per US\$1.00), reflecting an appreciation of 16% of the Rand against the U.S. dollar when compared with fiscal 2009. The majority of our working costs are incurred in Rands and as a result this appreciation of the Rand against the U.S. dollar would increase our working costs when translated into U.S. dollars. Adding to this increase are increases in our labor costs as well as inflationary pressures on our consumable stores and energy cost, which served to decrease operating margins and net income reflected in our consolidated income statement for fiscal 2010. Depreciation of the Rand against the U.S. dollar would cause a decrease in our costs in U.S. dollar terms. Similarly, at our International operations, depreciation of the Australia dollar or Kina against the U.S. dollar would cause a decrease in our costs in U.S. dollar terms. See *Item 3*.

*Key Information Risk Factors Because most of Harmony's production costs are in Rand and other non-U.S. currencies, while gold is generally sold in U.S. dollars, Harmony's financial condition could be materially harmed by an appreciation in the value of the Rand and other non-U.S. currencies .*

#### **Inflation**

Our operations have been materially affected by inflation. At the end of fiscal 2010, inflation in South Africa was 4.2%, although it reached 6.9% in fiscal 2009 and over 12% in fiscal 2008. However, working costs, and wages especially, have increased considerably over the past three years resulting in significant cost pressures for the mining industry. In addition, the effect on inflation of the increase in electricity tariffs of 25% during fiscal 2010, together with two more increases of approximately 26% each in the next two years, will have a negative effect on the profitability of our operations.

The inflation rate in PNG eased from 10.6% to 7.0% in fiscal 2009 and remained relatively stable at 7% in fiscal 2010. Due to higher food and energy prices, as well as increased labor prices, the inflation rate is expected to be 8.0% in fiscal 2011. This increase in inflation together with the strength of the Kina against the US and Australian dollar could have an adverse effect on the profitability of the PNG operations.

Our profits and financial condition could be adversely affected if the cost inflation is not offset by a concurrent devaluation of the Rand and other non-U.S. currencies and/or an increase in the price of gold. See *Item 3*. *Key Information Risk Factors Our operations may be negatively impacted by inflation .*

#### **South African Socio-Economic Environment**

We are a South African company and the majority of our operations are in South Africa. As a result, we are subject to various economic, fiscal, monetary and political policies and factors that affect South African companies generally. See *Item 3*. *Key Information Risk Factors Socio-economic instability in South Africa or regionally may have an adverse effect on Harmony's operations and profits .*

South African companies are subject to exchange control limitations. While exchange controls have been relaxed in recent years, South African companies remain subject to restrictions on their ability to deploy capital outside of the Southern African Common Monetary Area. See *Item 10*. *Additional Information Exchange Controls .*

Social and Labor Plans, or SLPs, have been developed for each of our South African operations. These SLPs are prepared in line with legislation governing the participation of HDSAs in mining assets.

We have been granted all of our mining licenses under the MPRDA. We have therefore already started to incur expenses relating to HDSA participation. We believe the biggest challenge will lie in maintaining these licenses, as we will have a responsibility in respect of human resource development, procurement and local economic development. We are unable, however, to provide a specific amount of what the estimated cost of compliance will be but we will continue to monitor these costs on an ongoing basis.



## **Royalties**

The MPRDA makes reference to royalties payable to the South African state in terms of the Mineral and Petroleum Resources Royalty Act (Act 28 of 2008). The Act provides for the payment of a royalty according to a formula based on earnings before interest, tax and depreciation, after the deduction of capital expenditure. This rate is then applied to revenue to calculate the royalty amount due, with a minimum of 0.5% and a maximum of 5% for gold mining companies. At the end of fiscal 2010, the average royalty rate for the South African operations was 1.5%. The royalty became effective on March 1, 2010 and will have an adverse impact on the profits generated by our operations in South Africa.

As our operation at Hidden Valley is now in production, they are subject to a 2% royalty payable to the PNG government and local community groups.

## **Cost control**

As part of our Back-to-Basics strategy in fiscal 2008, we reinstated the focus on monthly reviews to ensure that stringent cost control measures are in place and enforced. This will assist us in monitoring and reducing consumable costs.

Due to the fact that the new mines are expected to start producing high volumes of ore, with better economies of scale, at higher grades, we expect that real cash operating costs in dollar per ounce terms will be reduced. This will be dependent on our achieving our operational plans. An increase is expected in revenue due to the increase in the gold price, as per our long term view on the various factors influencing the Rand gold price.

We reassessed our labor force and implemented several measures to reduce labor costs. These measures included terminating some contractors and offering voluntary severance packages to employees.

## **Conops**

For some years, mining companies have been trying to implement the concept of Conops on the basis that it is, in theory, a better practice to utilize the company's capital intensive, fixed assets for every day (excluding public holidays) of the year rather than for 80% of the year. It was estimated that Conops should result in increased production of around 25%, with a cost increase in the region of 18%, which would lead to increased profitability. We have been one of the few companies that has actually been able to implement Conops, with some degree of success and with the cooperation of the labor unions.

However as part of our complete review of the operations in fiscal 2008, our Executive Committee took a long and hard look at the real benefits of Conops. In essence, we undertook a due diligence as if we were evaluating it for the first time.

As a result of these assessments, Conops was stopped at all operations by the end of fiscal 2008, with the exception of Evander 8 and Target. During 2009 and 2010, Conops continued at these two operations. It was, however, decided to cease Conops at Evander 8 during June 2010.

## **Productivity**

The decline in productivity has been one of the challenges facing the South African gold industry for a number of years. This decline in our productivity mainly came as a result of an aging workforce, the health of the workforce that has been negatively impacted by HIV and AIDS, increased working distances from shafts and aging infrastructure. We reacted to these challenges through various initiatives including the Healthy workforce drive, the VCT campaign, upgrade of rail bound equipment and track work and other improvement projects.

## **Electricity in South Africa**

### *Supply*

Historically, South Africa has enjoyed both low-cost electrical energy provision, and a stable supply. In early 2008, however, the national power utility Eskom experienced a major capacity shortage resulting in country-wide blackouts and reduced energy supply. The mining industry was severely affected for a period of five days in January 2008, and thereafter Eskom imposed limitations which continued to have an impact. We have devised new strategies so as to optimize our usage of 90% of our previous electricity supply allowed in terms of the Energy Conservation Scheme (ECS) and interim rules imposed by Eskom. All operations were allocated an ECS allocation in line with the Eskom allocation and equipment and management structures were put in place to monitor and manage real-time consumption. Since 2008, we have reduced our electricity consumption by 28%.



Applications submitted to Eskom for additional energy allocation to the four future growth projects were approved, enabling us to proceed with the projects and to ramp-up to full capacity utilizing Eskom power. We also submitted applications for additional power allocation for four metallurgical projects in the Free State, which were also approved by Eskom. Annual re-submissions for the verification of the fiscal 2010/2011 allocations, including additional allocation for all approved projects, and Nominated Maximum Demand ( **NMD** ) to secure adequate network capacity were made to Eskom in June 2010 as required by the interim ECS and new NMD rules.

Government at national level intervened to develop an integrated resource plan in order to arrest the supply constraint situation and map a long-term plan to add much needed generation capacity to the grid according to projected electricity demand increase. It is also expected that the electricity supply constraint situation will intensify towards the end of calendar 2010 and that it will continue to worsen until the first generators at the 4 800 MW Medupi power station are commissioned in calendar 2012. Alleviation of the situation will however remain dependant on Eskom's ability to execute the build program successfully and on time as well as the successful development and implementation of the integrated resource plan. We will remain a voluntary participant in the ECS until such time that the national ECS becomes compulsory and Eskom relationships are maintained on this basis. The challenge for us is to improve production to the required levels without compromising the cost-saving initiatives achieved during fiscal 2008 and 2009.

#### *Cost*

The average 25% per annum tariff increase for the three year multi-year price determination period ( **MYPD** ), as approved by NERSA, contributes significantly to escalate the cost of production well above inflationary figures in the foreseeable future. Electricity price projections based on the approved tariffs and extrapolations indicate that electricity costs could be as high as 25% of the total cost of production within the next five years. Spiralling electricity costs sparked renewed electrical consumption awareness where operations and service departments alike are actively analysing all opportunities to improve energy efficiency and optimising electricity usage.

#### *Renewable energy*

The Eskom supply constraint renewed South African industry's interest in renewable energy and various companies have obtained access to internationally-proven technology that was previously not readily available or affordable in South Africa. Investigations into solar heating and solar electricity generation initiatives are currently underway to identify viable projects that could potentially contribute towards our energy efficiency improvement and carbon footprint reduction.

Although progress has been made with the investigations, capital cost and subsequent cost of generation remain high and are not yet comparable to Eskom-projected tariffs. This has not deterred the willingness of industry to participate in such projects, a number of which are being considered currently. Technical development of renewable technologies are however accelerating, with international implementation contributing towards cost reduction. International investors with access to green funds are also interested in South African renewable projects. This latest development can open the door to enter into direct private power agreements at Eskom with comparable tariffs in the foreseeable future.

### **Results of Operations**

#### ***Years Ended June 30, 2010 and 2009***

##### *Continuing Operations*

##### *Revenues*

Revenue increased by US\$212 million, or 17%, from US\$1,277 million in fiscal 2009 to US\$1,489 million in fiscal 2010. This increase can primarily be attributed to the higher average price of gold received by us, US\$1,092 per ounce in fiscal 2010 compared to US\$867 per ounce in 2009. This was offset by a decrease in ounces sold.

Our gold sales decreased 109,699 ounces, or 7%, from 1,473,562 in fiscal 2009 to 1,363,863 (excluding the capitalized ounces from Target 3, Steyn 2 and Hidden Valley) in fiscal 2010. The grade recovered was constant, at 0.07 ounces per ton in fiscal 2010 and 2009. The decrease in ounces can be attributed to the operations in Evander and Virginia being placed on care and maintenance.

At Bambanani ounces sold increased by 11%, from 119,665 in fiscal 2009 to 133,105 in fiscal 2010. This was due to a better recovery grade which increased from 0.213 in fiscal 2009 to 0.227 in fiscal 2010.





At Doornkop ounces sold increased by 44% from 43,211 in fiscal 2009 to 62,275 in fiscal 2010. This is due to the higher recovery grade, which improved from 0.070 in fiscal 2009 to 0.105 in fiscal 2010 due to the change in the mining mix by the increase in higher grade ore from the South Reef section.

At Evander ounces sold decreased by 43%, from 195,668 in fiscal 2009 to 111,499 in fiscal 2010. This was primarily due to a decrease in production volumes as a result of the closure of Evander 2, 5 and 7 shafts.

At Phakisa ounces sold increased from 21,477 in fiscal 2009 to 44,496 in fiscal 2010. This was due to an increase in production volumes as the various sections moved into production, building up to full production in the next three to five years.

At Target ounces sold increased by 22% from 87,611 in fiscal 2009 to 106,837 in fiscal 2010. This is due to higher production volumes of 857,000 tons in fiscal 2010, compared with 710,000 tons in fiscal 2009.

At Virginia ounces sold decreased to 173,035 ounces from 259,070 in fiscal 2009. This is due to the closure of Harmony 2, Brand 3 and Merriespruit 3 shafts during fiscal 2010.

At Hidden Valley in PNG ounces sold was 8,327 in fiscal 2010. This was the first year that production has been recognized from the operation.

#### *Cost of sales*

Cost of sales includes production costs, depreciation and amortization, impairment of assets and employment termination and restructuring costs.

#### a) *Production costs (cash costs)*

The following table sets out our total ounces produced and weighted average cash costs per ounce for fiscal 2010 and fiscal 2009:

	Year Ended June 30, 2010		Year Ended June 30, 2009		Percentage (Increase)/decrease in Cash Costs per ounce
	(oz)	(\$/oz)	(oz)	(\$/oz)	
<b>SOUTH AFRICA</b>					
Bambanani <sup>(1)</sup>	133,007	723	121,530	611	(18.3)
Doornkop	62,694	822	42,150	804	(2.2)
Evander	111,724	1,018	190,075	572	(78.0)
Joel	64,495	792	65,684	636	(24.3)
Kusasaletu <sup>(2)</sup>	175,029	857	174,321	660	(29.8)
Masimong	155,609	602	154,034	476	(26.5)
Phakisa	44,079	953	22,216	555	(71.7)
Target <sup>(3)</sup>	113,782	783	87,225	645	(21.4)
Tshepong	216,986	677	230,778	483	(40.2)
Virginia	170,013	1,036	258,170	638	(62.4)
Other surface	119,954	680	114,648	521	(30.5)
<b>INTERNATIONAL</b>					
PNG <sup>(4)</sup>	61,173	1,003			(100)
Total continuing operations	1,428,544		1,460,831		
Weighted average		801		583	(37.4)

(1) Includes 1,061 ounces from President Steyn 2 shaft, which

have not been included in the cash cost calculation as the shaft was not in production.

- (2) Previously known as Elandsrand.
- (3) Includes 3,762 ounces from Target 3, which have not been included in the cash cost calculation as the shaft was not in production.
- (4) Includes 46,223 ounces for the period ended April 2010, which have not been included in the cash cost calculation as the operation was not in production during that period.

Our average cash costs from continuing operations increased by US\$218 per ounce, or 37.4%, from US\$583 per ounce in fiscal 2009 to U.S.\$801 per ounce in fiscal 2010. Cash costs per ounce vary with the working costs per ton (which is, in turn, affected by the number of tons

processed) and grade of ore processed. Cash costs expressed in U.S. dollars per ounce also vary with fluctuations in the Rand-U.S. dollar exchange rate, because most of our working costs are incurred in Rand. The increase in cash cost expressed in U.S. dollars per ounce in fiscal 2010 was attributable primarily to the appreciation of the South African Rand against the U.S. dollar, as well as an increase in operating cost and the decrease in ounces produced when compared to fiscal 2009. Annual increases in labor cost as well as inflationary pressures on our consumable stores and energy costs were the main contributors towards a higher operating cost.

At Evander, the cash costs per ounce increased by 78%, from US\$572 in fiscal 2009 to US\$1,018, primarily due to a decrease in ounces produced as a result of the closure of Evander 2, 5 and 7 shafts.

At Joel, the cash costs per ounce increased from US\$636 in fiscal 2009 to US\$792. This increase is due to the increase in labor and energy costs as well as additional costs related to the development of level 129.

At Kusasaletu the cash costs per ounce increased by 30% from US\$660 in fiscal 2009 to US\$857 in fiscal 2010. This increase is primarily due to the increase in labor and utility costs as well as inflationary pressures on supply costs.

At Masimong, the cash costs per ounce increased by 27% from US\$476 in fiscal 2009 to US\$602 in fiscal 2010, primarily due to the higher labor and electricity costs, as well as the appreciation of the Rand against the US dollar.

At Phakisa, the cash costs per ounce increased from US\$555 to US\$953, or 72%, in fiscal 2010. This was due to the increase in tons mined as a result of the planned ramp-up in production.

At Target, the cash costs per ounce increased from US\$645 in fiscal 2009 to US\$783, or by 21%. This increase was due to higher production volumes, an increase in employees at the operation as well as inflationary cost increases.

At Tshepong, the cash costs per ounce increased from US\$483 in fiscal 2009 to US\$677, or 40%, in fiscal 2010. This was due to the decrease in ounces produced in fiscal 2010, increases in labor and electricity costs as well as inflationary increases in material and supply costs.

At Virginia, the cash costs per ounce increased from US\$638 to US\$1,036 in fiscal 2010, primarily due to the decrease in ounces produced in fiscal 2010, increases in labor and electricity costs, as well as other inflationary cost increases.

At Hidden Valley in PNG, the cash costs per ounce was US\$1,003 in fiscal 2010. The operation has started ramping up and this is the first year that its production has been included.

b) *Depreciation and amortization*

Depreciation and amortization increased from US\$139 million in fiscal 2009 to US\$181 million in fiscal 2010, or 30%. In Rand terms, the increase was 9.7%. The increase in US dollar terms was partially due to the appreciation of the Rand against the US dollar in fiscal 2010. Also contributing to the increase was the commencement of depreciation at Hidden Valley in PNG, Doorkop and Phakisa as these operations were brought into production.

c) *Employment termination and restructuring costs*

The charge for employment termination and restructuring costs increased from US\$4 million in fiscal 2009 to US\$27 million in fiscal 2010. The charge in fiscal 2010 relates primarily to the cost of placing the Evander and Virginia shafts on care and maintenance. The charge for fiscal 2009 relates to the voluntary retrenchment process that was commenced in December 2007 when management decided to de-centralize certain of the central services departments and the cessation of continuous operations at several of the shafts.

d) *Impairment of assets*

The impairment charge decreased from US\$71 million in fiscal 2009 to US\$43 million in fiscal 2010. The charge in 2010 primarily relates to the impairments at the Virginia and Evander operations when several shafts at these operations were placed on care and maintenance. These operations were approaching the end of their planned lives, with between two and four years left in marginal areas. The closures were due to it no longer being economically viable to continue operating these shafts as a result of the increase in costs such as labor and electricity. The charge in fiscal 2009 relates to impairments at the Virginia, Evander and Target operations amounting to US\$71 million. These impairments resulted primarily from a decrease in the expected life of mine of these operations, as well as an increase in the costs to operate the shafts. At Target and Evander, additional capital expenditure has been included in the revised life-of-mine plans in order to access reserve ounces in

areas where geological anomalies have been discovered. These changes resulted in the carrying amount exceeding the recoverable amount.

*e) Share based compensation*

The charge for share based compensation increased from US\$13 million in fiscal 2009 to US\$20 million in fiscal 2010. This increase is primarily attributable to the appreciation of the Rand against the US dollar, as well as the granting of additional share awards in November 2009.

*Corporate, administration and other expenditure*

The charge increase from US\$36 million in fiscal 2009 to US\$50 million in fiscal 2010. The increase in US dollar terms was partially due to the appreciation of the Rand and Australian dollar against the US dollar.

*Corporate social investment expenditure*

In fiscal 2010, the charge for corporate social investment expenditure increased from US\$4 million in fiscal 2009 to US\$11 million. This increase is primary due to the increase of costs related to meeting our obligations in terms of our social and labor plans, or SLPs.

*Profit on sale of property, plant and equipment*

The profit decreased from US\$114 million in fiscal 2009 to US\$14 million in fiscal 2010. The profit for fiscal 2009 included the sale of 50% of our interest in the PNG gold and copper assets to Newcrest, which contributed US\$112 million to the total. The profit for fiscal 2010 includes the sale of the Jeanette prospecting rights to Taung Gold Limited for a total consideration and profit of US\$10 million, and the sale of royalty rights in Australia to Regis Resources Limited for a total consideration and profit of US\$4 million.

*Other expenses net*

The charge for other expenses increased to US\$8 million, compared with a charge of US\$3 million in fiscal 2009. The charge for fiscal 2010 includes a loss of US\$12 million relating to the translation of intercompany loans within the Australian operations which do not form part of the net investment in foreign operations. Included in the total for fiscal 2009 is a charge of US\$22 million recognized in the income statement for the foreign exchange movements after the de-designation of loans previously designated as forming part of the net investment in foreign operations. Also included in the total for fiscal 2009 is an amount of US\$53 million relating to the reclassification to the income statement, following the partial repayment of the loans, of a portion of the accumulated gains recorded in equity that arose while these loans were considered to form part of the net investment in the foreign operations. During fiscal 2010, bad debts written off increased from US\$3 million in fiscal 2009 to US\$4 million. A credit of US\$2 million was recorded against the provision for bad debts in fiscal 2010. This compared favorably with the provision for bad debts of US\$11 million in fiscal 2009.

*Profit from associates*

The profit from associates was US\$7 million in fiscal 2010, compared to US\$1 million in fiscal 2009. The increase relates primarily to inclusion of a full year of profits from Rand Uranium in fiscal 2010, compared to the seven months in fiscal 2009 since acquisition on November 21, 2008. Also contributing to the increase was the fact that no losses were included for Pamodzi in fiscal 2010, compared to losses amounting to US\$4 million in fiscal 2009.

*Impairment of investment in associate*

The charge in fiscal 2009 for the impairment of investment in associate relates primarily to the impairment of the investment in Pamodzi. When Pamodzi was placed into liquidation and the trading of its shares on the JSE suspended during fiscal 2009, the investment was fully impaired.

*Loss on sale of investment in subsidiary*

The amount in fiscal 2010 relates to the sale of the Australian subsidiary, Big Bell, after taking the reclassification of foreign exchange losses recorded in other reserves into account.

*Net gain/(loss) on financial instruments*

The gain of US\$5 million in fiscal 2010 relates primarily to the fair value gains on the equity-linked deposits held by the environmental trusts, which are classified as fair value through profit or loss investments. Also contributing to the gain is the realized portion of mark-to-market gains previously recognized in other reserves being reclassified to the income statement on the disposal of certain listed investments during the year. The loss in fiscal 2009 relates primarily to the impairment of the investment in Dioro of US\$11 million reclassified from other reserves to the income statement when the investment was considered to be permanently impaired at December 31, 2008. This was offset by the subsequent gain recognized in the income statement on the disposal of the investment in April 2009.

*Investment income*

Investment income decreased from US\$49 million in fiscal 2009 to US\$25 million in fiscal 2010, primarily due to the reduction in interest received on cash balances and loans receivables, where the balances were lower, throughout the year. Interest received from the investments held by the environmental trusts was also lower as the profile of these investment portfolios were diversified from cash only to include equity-linked deposits.

*Finance costs*

Finance costs increased from US\$24 million in fiscal 2009 to US\$32 million in fiscal 2010. This was due primarily to the decrease in interest capitalized to qualifying assets, from US\$31 million in fiscal 2009 to US\$nil in fiscal 2010, as well as the increase of US\$6 million in the time value of money and inflation component of rehabilitation costs from fiscal 2009.

*Income and Mining Taxes*

*South Africa.* We pay taxes on mining income and non-mining income. The amount of our South African mining income tax is calculated on the basis of a formula that takes into account our total revenue and profits from, and capital expenditures for, mining operations in South Africa. 5% of total mining revenue is exempt from taxation in South Africa as a result of the application of the applicable gold mine formula. The amount of revenue subject to taxation is calculated by deducting qualifying capital expenditures from taxable mining income. The amount by which the taxable mining income exceeds 5% of mining revenue constitutes taxable mining income. We and our subsidiaries each make our own calculation of taxable income.

The tax rate applicable to the mining and non-mining income of a gold mining company depends on whether the company has elected to be exempt from the Secondary Tax on Companies ( **STC** ). STC is a tax on dividends declared and, at present, the STC tax rate is equal to 10% (previously 12.5%). To the extent we receive dividends, such dividends received are offset against the amount of dividends paid for purposes of calculating the amount subject to STC. In 1993, all existing South African gold mining companies had the option to elect to be exempt from STC. If the election was made, a higher tax rate would apply for both mining and non-mining taxable income. In 2009 and 2008, the tax rates for companies that elected the STC exemption were 43% for mining income and 35% for non-mining income, compared with 34% for mining income and 28% for non-mining income if the STC exemption election was not made. In 1993, the Harmony Company elected to pay the STC tax. All of our South African subsidiaries, excluding Avgold, elected the STC exemption.

**Income and Mining Tax**

	<b>2010</b>	<b>2009</b>
Effective tax rate expense	183%	9%

The effective tax rate for fiscal 2010 was higher than the statutory tax rate of 43% for us and our subsidiaries as a whole. The higher effective tax rate results primarily from non-deductible expenses and changes in the rates used to provide deferred tax at our South African operations, offset by the additional capital allowance we receive at our Avgold operation (effectively resulting in no tax payable at this operation).

Deferred tax rates for the South African operations are calculated based on estimates of the future profitability of each ring-fenced mine when temporary differences will reverse. The future profitability of each ring-fenced mine, in turn, is determined by reference to the life-of-mine plan for that operation, which is based on parameters such as the Group's long term view of the US\$ gold price and the Rand/US\$ exchange rate, as well as the reserves declared for the operation. As some of these parameters are based on market indicators, they differ from one year to the next. In addition, the reserves may also increase or decrease based on updated or new geological information. Changes in the

future profitability if each ring-fenced mine impact the deferred tax rates used to recognize temporary differences at these operations. See *Critical Accounting Policies and Estimates* *Deferred taxes*. The increase in deferred tax on temporary differences due to changes in estimated effective tax rates results primarily from increases in the effective deferred tax rate at Evander Gold Mines Limited and Harmony Gold Mining Company Limited. The deferred tax rate for Evander Gold Mines Limited increased from 6.9% in fiscal 2009 to 22.9% in fiscal 2010 due to the increased estimated profitability of the operation over the life-of-mine as a result of the closure of loss-making shafts, as well as an increase in the gold price and a planned decrease in capital expenditure. Similarly, Harmony Gold Mining Company Limited's deferred tax rate increased from 17.1% to 23.1 mainly as a result of the closure of loss-making shafts.

*Australia.* Generally, Australia imposes tax on the worldwide income (including capital gains) of all of our Australian incorporated and tax resident entities. The current income tax rate for companies is 30%. Ongoing business, mining, exploration and rehabilitation costs incurred each year are fully deductible. The cost of plant and capital mining expenditure may be depreciated and deducted over its effective life.

Harmony Gold Australia Proprietary Limited and its wholly owned Australian subsidiary companies are recognized and taxed as a single entity. Under the consolidations rules all of the Australian subsidiary companies are treated as divisions of the Head Company, Harmony Gold Australia. As a result inter company transactions between group members are generally ignored for tax purposes. This allows the group to transfer assets between group members without any tax consequences, and deems all tax losses to have been incurred by the Head Company of the group.

Withholding tax is payable on dividends, interest and royalties paid by Australian residents to non-residents, which would include any dividends on the shares of our Australian subsidiaries that are paid to us. In the case of dividend payments to non-residents, a 30% withholding tax applies. However, where the recipient of the dividend is a resident of a country with which Australia has concluded a double taxation agreement, the rate of withholding tax is generally limited to 15% (or in the case of South Africa 5% where the dividend is paid to a company which controls at least 10% of the Australian dividend paying company). Where dividends are fully franked, no withholding tax applies as an effective credit is allowed against any withholding tax otherwise payable, regardless of whether a double taxation agreement is in place. However, due to the tax profile of Harmony Gold Australia it is not expected to have any franking credits in the foreseeable future.

*PNG.* The Hidden Valley Project in PNG commenced operations in fiscal 2010. We are also reviewing other potential projects and carrying out extensive exploration.

PNG mining projects are taxed on a project basis. Therefore each project is taxed as a separate entity, even though it may be one of a number of projects carried on by the same company. In certain circumstances there is an ability to transfer the tax benefit obtained through exploration expenditure between projects and wholly owned companies. Tax losses are generally quarantined and cannot be transferred between projects.

PNG mining companies are taxed at a rate of tax of 30%. Mining operations in PNG are subject to a 2% royalty which is payable to the PNG Government.

Capital development and exploration expenditure incurred in PNG is capitalized for tax purposes and can be generally deducted at 25% per annum on a diminishing value basis against project income, with the deduction being limited to the lesser of 25% of the diminished value or the income of the project for the year.

PNG imposes dividend withholding tax of 10% on dividends paid by PNG mining operations to non residents. Although PNG also imposes interest withholding tax on interest paid off-shore, the PNG Tax Act exempts interest paid to non resident lenders from withholding tax where the PNG company is engaged in mining operations in PNG.

#### *Discontinued Operations*

##### *Revenues*

Revenues decreased from US\$69 million in fiscal 2009 to US\$nil in fiscal 2010. This was due to the fact that the Cooke operation was sold in November 2008 and that Mount Magnet was placed on care and maintenance in December 2007.

##### *Costs*

Costs decreased from US\$103 million in fiscal 2009 to US\$4 million in fiscal 2010. This was due to fact that the sale of the Cooke operation was recognized in November 2008.

##### *Reversal of impairment*

The gain recognized in fiscal 2009 relates to the reversal of impairment when Mount Magnet was re-measured in terms of IFRS 5 on no longer being classified as held for sale.

##### *Profit on sale of shares*

The profit on shares in fiscal 2009 relates to the sale of the Cooke operations in November 2008.

*Income and Mining Taxes*

*South Africa.* We pay taxes on mining income and non-mining income. For details, refer to the discussion under *Income and Mining Taxes* in the *Continuing Operations* section.

In 2010 and 2009, the tax rates for companies that elected the STC exemption were 43% for mining income and 35% for non-mining income, compared with 34% for mining income and 28% for non-mining income if the STC exemption election was not made.

*Australia.* We pay taxes on mining income and non-mining income. For details, refer to the discussion under *Income and Mining Taxes* in the *Continuing Operations* section. In fiscal 2010 and 2009, the income tax rate for companies was 30%.

*Continuing and discontinued operations*

*Net (loss)/profit*

The net (loss)/profit decreased from a net profit of US\$311 million in fiscal 2009 to a net loss of US\$24 million. This is due to the factors discussed above.

***Years Ended June 30, 2009 and 2008***

*Continuing Operations*

*Revenues*

Revenue increased US\$8 million, or 1%, from US\$1,269 million in fiscal 2008 to US\$1,277 million in fiscal 2009. This was mainly due to the higher average price of gold received by us, US\$867 per ounce in 2009 compared to US\$813 per ounce in 2008. This was offset by the decrease in ounces sold.

Our gold sales decreased 76,965 ounces, or 5%, from 1,550,527 in fiscal 2008 to 1,473,562 in fiscal 2009. The grade recovered was lower, at 0.07 ounces per ton in fiscal 2009 compared to 0.08 ounces per ton in fiscal 2008, negatively impacting on the ounces produced. The lower recovery grade was as a result of the increase in tons treated from surface tailings dams at a lower recovery grade.

At Bambanani ounces sold decreased by 25%, from 158,985 in fiscal 2008 to 119,665 in fiscal 2009. This was due to a lower production as a result of the restructuring due to power constraints. This was offset by a better recovery grade which increased from 0.170 ounces per ton in fiscal 2008 to 0.213 ounces per ton in fiscal 2009.

At Doornkop ounces sold decreased from 44,143 in fiscal 2008 to 43,211 in fiscal 2009. This is due to the lower recovery grade, which deteriorated to 0.070 in fiscal 2009, compared with 0.089 in fiscal 2008.

At Evander ounces sold decreased by 18%, from 240,037 in fiscal 2008 to 195,668 in fiscal 2009. This was due to a decrease in production volumes as a result of the closure of the pillars in the old mine and poor environment conditions in the decline area which affected mining.

The ounces sold at Kalgold decreased by 28% from 93,172 in fiscal 2008 to 66,841 in fiscal 2009. This was due to a 31% decrease in recovery grade from 0.055 ounces per ton in fiscal 2008 to 0.038 ounces per ton in fiscal 2009. This was due to the depletion of the D-zone.

At Kusasaletu (previously known as Elandsrand ounces increased from 158,631 in fiscal 2008 to 183,676 in fiscal 2009. This was due to an increase in the production volumes.

At Masimong ounces sold increased by 31%, or 37,006 ounces, from 117,575 in fiscal 2008 to 154,581 in fiscal 2009. This was due to an increase in production volumes from 892,000 tons to 981,000 tons in fiscal 2009 and a higher recovery grade of 0.157 ounces per ton due to a higher face grade being mined.

At Phakisa ounces sold increased from 4,212 in fiscal 2008 to 21,477 in fiscal 2009. This was due to an increase in production volumes as the various sections moved into production, building up to full production in the next two to three years.



At Tshepong ounces sold decreased by 17%, from 273,119 in fiscal 2008 to 227,113 in fiscal 2009. This was due to a lower recovery grade of 0.152 ounces per ton compared with 0.161 ounces per ton in fiscal 2008.

*Cost of sales*

Cost of sales includes production costs, depreciation and amortization, impairment of assets and employment termination and restructuring costs.

a) *Production costs (cash costs)*

The following table sets out our total ounces produced and weighted average cash costs per ounce for fiscal 2009 and fiscal 2008:

	Year Ended June 30, 2009		Year Ended June 30, 2008		Percentage (Increase)/decrease in Cash Costs per ounce
	(oz)	(\$/oz)	(oz)	(\$/oz)	
<b>SOUTH AFRICA</b>					
Bambanani	121,530	611	154,879	639	4.4
Doornkop	42,150	804	44,038	749	(7.3)
Evander	190,075	572	231,799	526	(8.7)
Joel	65,684	636	59,557	638	
Kusasaletu	174,321	660	164,215	652	(1.2)
Masimong	154,034	476	116,424	756	37.0
Phakisa	22,216	555	4,024	497	(11.7)
Target	87,225	645	79,602	716	9.9
Tshepong	230,778	483	265,914	455	(6.2)
Virginia	258,170	638	247,820	726	12.1
Other underground			8,305	1,565	(100)
Other surface	114,648	521	147,980	378	(37.8)
<b>INTERNATIONAL</b>					
PNG					
Other					
Total continuing operations	1,460,831		1,524,557		
Weighted average		583		600	2.8

Our average cash costs from continuing operations decreased by US\$17 per ounce, or 2.8%, from US\$600 per ounce in fiscal 2008 to US\$583 per ounce in fiscal 2009. Cash costs per ounce vary with the working costs per ton (which is, in turn, affected by the number of tons processed) and grade of ore processed. Cash costs expressed in U.S. dollars per ounce also vary with fluctuations in the Rand-U.S. dollar exchange rate, because most of our working costs are incurred in Rand. The decrease in cash cost expressed in U.S. dollars per ounce in fiscal 2009 was attributable primarily to the depreciation of the South African Rand against the U.S. dollar. This was offset by an increase in operating cost as well as the decrease in ounces produced when compared to fiscal 2008. Annual increases in labor cost as well as inflationary pressures on our consumable stores and energy costs were the main contributors towards a higher operating cost.

At Doornkop, the cash costs per ounce increased by 7%, from US\$749 in fiscal 2008 to US\$804 in fiscal 2009, primarily due to labor, consumables and services cost increases.

At Evander, the cash costs per ounce increased by 9%, from US\$526 in fiscal 2008 to US\$572 in fiscal 2009, primarily due to a decrease in ounces produced.

At Masimong, the cash costs per ounce decreased by 37% from US\$756 in fiscal 2008 to US\$476 in fiscal 2009, primarily due to the restructuring and cessation of Conops, as well as an increase in ounces produced.

At Phakisa, the cash costs per ounce increased from US\$497 in fiscal 2008 to US\$555, or 12%, in fiscal 2009. This was due to an increase in tons mined as a result of the planned ramp-up in production.

At Target, the cash costs per ounce decreased from US\$716 in fiscal 2008 to US\$645, or 10%, in fiscal 2009. This reduction was due to higher gold production.

At Tshepong, the cash costs per ounce increased from US\$455 in fiscal 2008 to US\$483, or 6%, in fiscal 2009. This was due to the decrease in ounces produced in fiscal 2009 as well as increases in labor and electricity costs.

Under Other Surface, the cash costs per ounce at Kalgold increased by 26% from US\$401 in fiscal 2008 to US\$506 in fiscal 2009, primarily due to the decrease in ounces produced. Also contributing was an increase of 40% at Phoenix, from US\$381 to US\$534, as a result of a decrease in grade.

*b) Depreciation and amortization*

Depreciation and amortization increased to US\$139 million in fiscal 2009 from US\$117 million in fiscal 2008. This increase relates to the increase in the commencement of depreciation at Tshepong's Sub 66 Decline as well as the acceleration at Evander and Bambanani as a result of the decrease in the reserves used as a denominator in the calculation.

*c) Employment termination and restructuring costs*

The charge for employment termination and restructuring costs decreased from US\$29 million in fiscal 2008 to US\$4 million in fiscal 2009. The charges relate to the voluntary retrenchment process that was initiated in December 2007 when management decided to decentralize certain of the central services departments and the cessation of Conops at several of the operations.

*d) Impairment of assets*

The impairment charge increased from US\$40 million in fiscal 2008 to US\$71 million in fiscal 2009. The charge in fiscal 2009 relates to impairments at the Virginia, Evander and Target operations amounting to US\$71 million. These impairments resulted primarily from a decrease in the expected life of mine of these operations, as well as an increase in the costs to operate the shafts. At Target and Evander, additional capital expenditure has been included in the revised life of mine plans in order to access reserve ounces in areas where geological anomalies have been discovered. These changes resulted in the carrying amount exceeding the recoverable amount. The charge in fiscal 2008 relates to impairments at the Evander and other underground operations as well as surface operations (Kalgold). Included in the amount is US\$13 million for goodwill related to certain shafts that were included under Other Underground. These impairments resulted primarily from a decrease in the expected life of mine of these operations, as well as an increase in the costs to operate the shafts. These changes resulted in the carrying amount exceeding the recoverable amount.

*e) Share based compensation*

The charge for share based compensation increased from US\$6 million in fiscal 2008 to US\$13 million in fiscal 2009. This increase is primarily attributable to the higher grant date fair value of share options granted to eligible employees in December 2008. Also included in the charge for 2009 is the acceleration of the cost relating to unvested shares attributable to the employees at the Cooke operations who were transferred to Rand Uranium.

*Corporate, administration and other expenditure*

The charge increase from US\$30 million in fiscal 2008 to US\$36 million in fiscal 2009, primarily as a result of the allocation of certain central service departments and employees to the corporate budget, which is not included in production costs.

*Profit on sale of property, plant and equipment*

The profit increased from US\$nil in fiscal 2008 to US\$114 million in fiscal 2009, primarily as a result of the sale of 50% of our interest in the PNG gold and copper assets to Newcrest.

*Other expenses net*

The charge for other expenses decreased to US\$3 million, compared with a charge of US\$15 million in fiscal 2008. Included in the total for fiscal 2009 is a charge of US\$22 million recognized in the income statement for the foreign exchange movements after the de-designation of loans previously designated as forming part of the net investment in foreign operations. The amount in fiscal 2008 was a credit of US\$15 million. Also included in the total for fiscal 2009 is an amount of US\$53 million relating to the reclassification to the income statement, following the partial repayment of the loans, of a portion of the accumulated gains recorded in equity that arose while these loans were considered to form part of the net investment in the foreign operations. During fiscal 2009, bad debts amounting to US\$3 million were written off. A provision for bad debts of US\$11 million was also raised in fiscal 2009, a decrease from fiscal 2008 of US\$2 million.



*Profit/(loss) from associates*

The profit from associates was US\$1 million in fiscal 2009, compared to the loss of US\$11 million in fiscal 2008. The increase relates primarily to inclusion of profits from Rand Uranium since acquisition on November 21, 2008. This was offset by the losses from Pamodzi of US\$4 million in fiscal 2009. The loss in fiscal 2008 relates to losses from Pamodzi recognized from the date of acquisition.

*Impairment of investment in associate*

The charges in fiscal 2009 and 2008 for the impairment of investment in associate relates primarily to the impairment of the investment in Pamodzi. When Pamodzi was placed into liquidation and the trading of its shares on the JSE suspended during fiscal 2009, the investment was fully impaired. At June 30, 2008, management determined that the recoverable amount of the investment was US\$19 million, which represented the market value of the listed shares on that date.

*Net (loss)/gain on financial instruments*

The loss in fiscal 2009 relates primarily to the impairment of the investment in Dioro of US\$11 million reclassified from other reserves to the income statement when the investment was considered to be permanently impaired at December 31, 2008. This was offset by the subsequent gain recognized in the income statement on the disposal of the investment in April 2009. The gain in fiscal 2008 relates to the investment in ARM Limited held by the ARM Empowerment Trust, where the increase in the share value of the ARM Limited shares above R29 (US\$4.62) per share was limited to the interest capitalized on the Nedbank loan.

*Loss on sale of listed investments*

The loss on sale of listed investments of US\$63 million in fiscal 2008 relates to the sale of the remainder of the investment in Gold Fields.

*Investment income*

Investment income increased from US\$39 million in fiscal 2008 to US\$49 million in fiscal 2009, primarily due to the increase in interest received on cash balances, which were higher throughout the year, as well as on held-to-maturity investments held by our environmental trust funds.

*Finance costs*

Finance costs decreased from US\$70 million in fiscal 2008 to US\$24 million in fiscal 2009. This was due primarily to the decrease in interest rates as well as the decrease in the balance of the outstanding debt. Also contributing to the decrease in finance cost expensed was the increase in interest capitalized to qualifying assets, from US\$22 million in fiscal 2008 to US\$31 million in fiscal 2009.

*Income and Mining Taxes*

*South Africa.* We pay taxes on mining income and non-mining income. The amount of our South African mining income tax is calculated on the basis of a formula that takes into account our total revenue and profits from, and capital expenditures for, mining operations in South Africa. 5% of total mining revenue is exempt from taxation in South Africa as a result of the application of the applicable gold mine formula. The amount of revenue subject to taxation is calculated by deducting qualifying capital expenditures from taxable mining income. The amount by which the taxable mining income exceeds 5% of mining revenue constitutes taxable mining income. We and our subsidiaries each make our own calculation of taxable income.

The tax rate applicable to the mining and non-mining income of a gold mining company depends on whether the company has elected to be exempt from the Secondary Tax on Companies, ( **STC** ). STC is a tax on dividends declared and, at present, the STC tax rate is equal to 10% (previously 12.5%). To the extent we receive dividends, such dividends received are offset against the amount of dividends paid for purposes of calculating the amount subject to STC. In 1993, all existing South African gold mining companies had the option to elect to be exempt from STC. If the election was made, a higher tax rate would apply for both mining and non-mining taxable income. In 2009 and 2008, the tax rates for companies that elected the STC exemption were 43% for mining income and 35% for non-mining income, compared with 34% for mining income and 28% for non-mining income if the STC exemption election was not made. In 1993, the Harmony Company elected to pay the STC tax. All of our South African subsidiaries, excluding Avgold, elected the STC exemption.



<b>Income and Mining Tax</b>	<b>2009</b>	<b>2008</b>
Effective tax rate expense	9%	(167%)

The effective tax rate for fiscal 2009 was lower than the statutory tax rate of 43% for us and our subsidiaries as a whole. The lower effective tax rate results primarily from changes in the rates used to provide deferred tax at our South African operations and the additional capital allowance we receive at our Avgold operation (resulting in no tax payable at the operation). Offsetting this is non-deductible expenses and prior year adjustments. Included in the non-deductible expenses is non-deductible interest of US\$17 million, impairments of US\$20 million, as well as US\$24 million relating to transfer pricing.

Deferred tax rates for the South African operations are calculated based on estimates of the future profitability of each ring-fenced mine when temporary differences will reverse. The future profitability of each ring-fenced mine, in turn, is determined by reference to the life-of-mine plan for that operation, which is based on parameters such as the Group's long term view of the US\$ gold price and the Rand/US\$ exchange rate, as well as the reserves declared for the operation. As some of these parameters are based on market indicators, they differ from one year to the next. In addition, the reserves may also increase or decrease based on updated or new geological information. Changes in the future profitability of each ring-fenced mine impact the deferred tax rates used to recognize temporary differences at these operations. See *Critical Accounting Policies and Estimates - Deferred taxes*. The decrease in deferred tax on temporary differences due to changes in estimated effective tax rates results primarily from a decrease in the effective deferred tax rate for Evander Gold Mines Limited and Randfontein Estates Limited. The deferred tax rate for Evander Gold Mines Limited decreased from 27.7% in fiscal 2008 to 6.9% in fiscal 2009. This was primarily due to a decrease in profitability over the life-of-mine as a result of the significant increase in working costs as well as capital expenditure. This was offset by an increase in the gold price. Similarly, Randfontein Estates Limited's deferred tax rate increased from 28.4% to 20.0% for the same reasons.

*Australia.* Generally, Australia imposes tax on the worldwide income (including capital gains) of all of our Australian incorporated and tax resident entities. The current income tax rate for companies is 30%. Ongoing business, mining, exploration and rehabilitation costs incurred each year are fully deductible. The cost of plant and capital mining expenditure may be depreciated and deducted over its effective life.

Harmony Gold Australia Proprietary Limited and its wholly owned Australian subsidiary companies are recognized and taxed as a single entity. Under the consolidations rules all of the Australian subsidiary companies are treated as divisions of the Head Company, Harmony Gold Australia. As a result all inter company transactions between group members are ignored for tax purposes. This allows the group to transfer assets between group members without any tax consequences, and deems all tax losses to have been incurred by the Head Company of the group.

Mining operations in Western Australia are also subject to a 2.5% gold royalty because the mineral rights are owned by the State Government. All gold production from the Mount Magnet operations is subject to this royalty.

Withholding tax is payable on dividends, interest and royalties paid by Australian residents to non-residents, which would include any dividends on the shares of our Australian subsidiaries that are paid to us. In the case of dividend payments to non-residents, a 30% withholding tax applies. However, where the recipient of the dividend is a resident of a country with which Australia has concluded a double taxation agreement, the rate of withholding tax is generally limited to 15% (or in the case of South Africa 5% where the dividend is paid to a company which controls at least 10% of the Australian dividend paying company). Where dividends are fully franked, no withholding tax applies as an effective credit is allowed against any withholding tax otherwise payable, regardless of whether a double taxation agreement is in place.

*PNG.* The Hidden Valley Project in PNG is expected to commence operations in fiscal 2010. We are also reviewing other potential projects and carrying out extensive exploration.

PNG mining projects are taxed on a project basis. Therefore each project is taxed as a separate entity, even though it may be one of a number of projects carried on by the same company. In certain circumstances there is an ability to transfer the tax benefit obtained through exploration expenditure between projects and wholly owned companies. Tax losses are generally quarantined and cannot be transferred between projects.

PNG mining companies are taxed at a rate of tax of 30%.

Capital development and exploration expenditure incurred in PNG is capitalized for tax purposes and can be generally deducted at 25% per annum on a diminishing value basis against project income.



PNG imposes dividend withholding tax of 10% on dividends paid by PNG mining operations to non residents. Although PNG also imposes interest withholding tax on interest paid off-shore, the PNG Tax Act exempts interest paid to non resident lenders from withholding tax where the PNG company is engaged in mining operations in PNG.

#### *Discontinued Operations*

##### *Revenues*

Revenues decreased from US\$312 million in fiscal 2008 to US\$69 million in fiscal 2009, due to the fact that the Cooke operation was sold in November 2008 and Mount Magnet was placed on care and maintenance during December 2007.

##### *Costs*

Costs decreased from US\$243 million in fiscal 2008 to US\$75 million in fiscal 2009. This was due to the recognition of the sale of the Cooke operation in November 2008.

##### *Reversal of impairment*

The gain recognized in fiscal 2009 relates to the reversal of impairment when Mount Magnet was re-measured in terms of IFRS 5 on no longer being classified as held for sale.

##### *Profit on sale of shares*

The profit on shares in fiscal 2009 relates to the sale of the Cooke operations in November 2008. The profit on sale of shares for fiscal 2008 relates to the profit of US\$9 million on the sale of Orkney.

##### *Profit on sale of property, plant and equipment*

The profit of US\$4 million in fiscal 2008 relates primarily to the profit on sale of tenements in Australia of US\$14 million. This was offset by the loss of US\$13 million on the sale of South Kalgoorlie.

##### *Income and Mining Taxes*

*South Africa.* We pay taxes on mining income and non-mining income. For details, refer to the discussion under *Income and Mining Taxes* in the *Continuing Operations* section.

In 2009 and 2008, the tax rates for companies that elected the STC exemption were 43% for mining income and 35% for non-mining income, compared with 34% for mining income and 28% for non-mining income if the STC exemption election was not made.

*Australia.* We pay taxes on mining income and non-mining income. For details, refer to the discussion under *Income and Mining Taxes* in the *Continuing Operations* section. In fiscal 2009 and 2008, the income tax rate for companies was 30%.

##### *Continuing and discontinued operations*

##### *Net profit/(loss)*

The net profit/(loss) increased from a net loss of US\$30 million in fiscal 2008 to a net profit of US\$311 million. This is due to the factors discussed above.

#### **Recent Accounting Pronouncements**

*IFRS 1 (Amendment): First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters (effective for periods beginning on or after January 1, 2010).* The amendment addresses the retrospective application of IFRSs to particular situations including: the use of deemed cost for oil and gas assets; determination of whether an arrangement contains a lease; and decommissioning liabilities included in the cost of property, plant and equipment and is aimed at ensuring that the entities applying IFRSs will not face undue cost or effort in the transition process. This amendment will not have an impact on the group.

*IFRS 1 (Amendment): First-time Adoption of International Financial Reporting Standards – Limited Exemptions from Comparative IFRS 7 Disclosures for First-time Adopters (effective for periods beginning on or after July 1, 2010).* The additional amendment relieves first-time

adopters of IFRSs from presenting comparative information for new three level classification disclosures required by the March 2009 amendments to IFRS 7 *Financial Instruments: Disclosures*. It thereby ensure that first-time adopters benefit from the same transition provisions that amendments to IFRS 7 provides to current IFRS preparers. This amendment will not have an impact on the group.

*IFRS 2 (Amendment) Group cash-settled and share-based payment transactions (effective from periods beginning January 1, 2010)*. The amendment provide a clear basis to determine the classification of share based payments in consolidated and separate financial statements. In addition to incorporating IFRIC 8, *Scope of IFRS 2*, and IFRIC 11, *IFRS 2 group and treasury share transactions*, the amendment also expand on the guidance in IFRIC 11 to address group arrangements that were not considered by that interpretation. The group does not have a cash settled share based payments scheme.

*IFRS 5 (Amendment) Measurement of non-current assets (or disposal groups) classified as held for sale (effective from periods beginning January 1, 2010)*. The amendment is part of the International Accounting Standards Board's (IASB) annual improvements project published in April 2009. The amendment provides clarification on disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty). The group is still in process of determining the effect of this amendment on the financial statements.

*IFRS 9 Financial instruments (effective from periods beginning January 1, 2013)*. IFRS 9 simplifies accounting for financial assets as requested by many constituents and stakeholders. In particular, it replaces multiple measurement categories in IAS 39 with a single principle-based approach to classification. IFRS 9 removes complex rule-driven embedded derivative guidance in IAS 39 and requires financial assets to be classified in their entirety. IFRS 9 eliminates the need for multiple impairment models, such that only one impairment model for financial assets carried at amortized cost will be required. The group is still in the process of determining the effect of this standard on the financial statements.

*IAS 1 (Amendment) Presentation of financial statements (effective from periods beginning January 1, 2010)*. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.

*IAS 7 (Amendment) Statement of cash flows (effective from periods beginning January 1, 2010)*. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment clarifies that only expenditure that results in a recognized asset in the statement of financial position can be classified as a cash flow from investing activities. The group currently does not expect the amendment to impact the financial statements.

*IAS 17 (Amendment) Leases (effective from periods beginning January 1, 2010)*. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment deletes relevant guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating, using the general principles of IAS 17.

*IAS 24 (Revised) Related-party disclosures (effective from periods beginning January 1, 2011)*. The revised standard removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. It also clarifies and simplifies the definition of a related party.

*IAS 32 (Amendment) Classification of rights issues (effective from periods beginning February 1, 2010)*. The amendment recognizes that the previous requirement to classify foreign-currency denominated rights issued to all existing shareholders on a pro rata basis as derivative liabilities is not consistent with the substance of the transaction, which represents a transaction with owners acting in their capacity as such. The amendment therefore creates an exception to the fixed for fixed rule in IAS 32 and requires rights issues within the scope of the amendment to be classified as equity.

*IAS 36 (Amendment) Impairment of Assets (effective from periods beginning January 1, 2010).* The amendment is part of the IASB's annual improvements project published in April 2009. The amendment clarifies that the largest cash generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment as defined by paragraph 5 of IFRS 8 *Operating segments*, that is; before the aggregation of segments with similar economic characteristics permitted by paragraph 12 of IFRS 8.

*IAS 38 (Amendment) Intangible assets (effective from periods beginning January 1, 2010).* The amendment is part of the IASB's annual improvements project published in April 2009. The amendment clarifies the description of valuation techniques commonly used by entities when measuring the fair value of intangible assets acquired in a business combination, where there is no active market. The effect of the amendment will be recorded in future periods when such transactions are entered into.

*IAS 39 (Amendment) Financial instruments: Recognition and measurement (effective from periods beginning January 1, 2010).* There were 3 amendments made to IAS 39 as part of the IASB's annual improvements project published in April 2009.

(i) The scope exemption within IAS 39.2(g) was amended to clarify that it only applies to forward contracts that will result in a business combination at a future date, as long as the term of the forward contract does not exceed a reasonable period normally necessary to obtain any required approvals and to complete the transaction.

(ii) Clarification that amounts deferred in equity are only reclassified to profit or loss when the underlying hedged cash flows affect profit or loss.

(iii) An additional example of a closely related embedded prepayment option in a debt instrument was added to the adoption guidance in IAS 39 AG 30. Wording with respect to the assessment of put and call features in convertible instruments was clarified.

*IFRIC 14 (Amendment): The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction - Prepayment of Minimum Funding Requirements (effective for financial periods beginning on or after January 1, 2011).* This amendment applies in the limited circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits such an entity to treat the benefit of such an early payment as an asset. The group does not believe the amendment will have an impact on the group.

*IFRIC 19 - Extinguishing financial liabilities with equity instruments (effective from periods beginning July 1, 2010).* This interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. It does not address the accounting by the creditor, nor does it apply to situations where the liability may be extinguished with equity instruments in accordance with the agreed terms of the instrument (for example, convertible bonds). The group currently does not expect this interpretation to have a material effect on the financial statements.

*Improvements projects.* Certain improvements to IFRS 2009 (periods beginning on or after January 1, 2010) and IFRS 2010 (each has its own effective date, the earliest being periods beginning on or after July 1, 2010).

### **Liquidity and Capital Resources**

We centrally manage our funding and treasury policies. There are no legal or economic restrictions on the ability of our subsidiaries to transfer funds to us. We have generally funded our operations and our short-term and long-term liquidity requirements from (i) cash generated from operations, (ii) credit facilities and other borrowings and (iii) sales of equity securities.

#### **Cash Resources**

	<b>Fiscal year ended June 30,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
	(\$ in millions)		
<i>Continuing operations</i>			
Operating cash flows	216	246	165
Investing cash flows	(453)	(108)	(313)
Financing cash flows	85	(233)	78
Foreign exchange differences	6	8	5
<b>Total cash flows from continuing operations</b>	<b>(146)</b>	<b>(87)</b>	<b>(65)</b>
<i>Discontinued operation</i>			
Operating cash flows	(6)	8	71
Investing cash flows		202	(16)
Financing cash flows			
Foreign exchange differences		77	(7)
<b>Total cash flows from discontinued operations</b>	<b>(6)</b>	<b>287</b>	<b>48</b>
<i>Operations</i>			

Net cash provided by operations is primarily affected by the quantities of gold sold, the gold price, the Rand-U.S. dollar exchange rate, cash costs per ounce and, in the case of the International operations, the Australian dollar and Kina versus U.S. dollar exchange rate. A significant adverse change in one or more of these parameters could materially reduce cash provided by operations as a source of liquidity.

Net cash generated by operations was US\$210 million in fiscal 2010, as compared with US\$254 million in fiscal 2009. The decrease is attributed primarily to the increase in production costs. Also contributing to the decline is the decrease in interest received from US\$51

million in fiscal 2009 to US\$25 million. Offsetting this was a decrease in interest and taxation paid of US\$19 million and US\$68 million, respectively.

Net cash generated by operations was US\$254 million in fiscal 2009, as compared with US\$236 million in fiscal 2008. This improvement is attributable primarily to the higher gold price received during the year as well as the increase in interest received of US\$13 million to US\$51 million. Also contributing to the improvement is the decrease of interest paid of US\$26 million to US\$31 million as a result of a decrease in the outstanding debt balances. Negating the effect of the improvement was the increase in taxation paid of US\$67 million to US\$85 million.

#### *Investing*

Net cash utilized by investing activities was US\$453 million in fiscal 2010, as compared with net cash generated of US\$94 million in fiscal 2009. This movement is mainly due to an increase in capital expenditure of US\$442 million during fiscal 2010, as well as the acquisition of the Pamodzi Free State assets for US\$36 million. The inclusion of proceeds on disposal of mining assets in fiscal 2009 of US\$444 million as contributed to the decrease year-on-year.

Net cash generated by investing activities was US\$94 million in fiscal 2009, as compared with net cash utilized of US\$329 million in fiscal 2008. This movement was mainly due to the decrease in capital expenditure during fiscal 2009 from US\$552 million to US\$339 million. Also contributing was an increase in proceeds on disposal of mining assets, relating to the disposal of the PNG assets to Newcrest and the Rand Uranium transaction (US\$444 million). Offsetting this was an increase in the restricted cash balance (US\$9 million).

#### *Financing*

Net cash generated by financing activities was US\$85 million in fiscal 2010, as compared with net cash utilized of US\$233 million in fiscal 2009. This movement is primarily attributed to the reduction in repayment of borrowings of US\$427 million in fiscal 2009 to US\$57 million in fiscal 2010. Also contributing is the raising of the Nedbank term facility in fiscal 2010. During fiscal 2010, dividends of US\$29 million was paid.

Net cash utilized by financing activities was US\$233 million in fiscal 2009, as compared with net cash generated of US\$78 million in fiscal 2008. This movement was mainly due to the repayment of the convertible bond and the Nedbank loan during the year. This decrease was partially offset by the cash raised by the two share issues during the year, raising US\$188 million, net of transaction costs.

#### *Outstanding Credit Facilities and Other Borrowings*

On December 11, 2009, we entered into a loan facility with Nedbank Limited ( **Nedbank** ), comprising a term facility of R900 million (US\$119 million) and a revolving credit facility of R600 million (US\$80 million). Interest accrues on a day to day basis over the term of the loan at a variable interest rate, equal to 3 month Johannesburg Interbank Agreed Rate ( **JIBAR** ) plus 3.5%. Interest is repayable quarterly. The term facility is repayable bi-annually in equal instalments of R90 million (US\$12 million) over five years. The revolving credit facility is repayable after three years. The term facility was fully drawn during fiscal 2010 and R300 million (US\$41 million) was drawn on the revolving credit facility on April 15, 2010. We need to comply with certain debt covenants, including that the interest cover ratios shall not be less than two times and the current ratio not less than one time. We complied with the relevant covenants during fiscal 2010.

During July 2007, Morobe Consolidated Goldfields entered into a finance lease agreement with Westpac Bank for the purchase of mining fleet to be used on the Hidden Valley project amounting to US\$37 million. Interest is charged at U.S. LIBOR plus 1.25% per annum. Interest is accrued monthly and lease instalments are repayable quarterly terminating June 30, 2013. The mining fleet financed is used as collateral for these loans. During fiscal 2009, 50% of the liability was transferred to Newcrest as part of the sale of the PNG gold and copper assets. The balance at June 30, 2010 was US\$11.9 million.

#### *Recently Retired Credit Facilities and Other Borrowings*

On July 30, 2003, AVR D entered into a term loan facility of R140 million (US\$19 million) with Nedbank for the purpose of partially funding AVR 's purchase of an undivided 26% share of the Mining titles, to be contributed to the Doornkop South Reef Project with Randfontein. Interest at a fixed rate equal to JIBAR plus 2%, compounded monthly, and any stamp duties and holding costs. The terms of the loan were extended from the original maturity of July 30, 2008, to September 30, 2009. It was then extended again until March 31, 2010,, at which date all loan amounts and any interest accrued were paid in terms of the agreement between AVR D and Harmony for the disposal

of AVR D s 26% interest in Doornkop. Interest capitalized during fiscal 2010 was US\$2.2 million compared to US\$3.3 million in fiscal 2009 (US\$4.1 million in fiscal 2008). During fiscal 2005, AVR D borrowed an additional R18 million (US\$2.8 million) from its holding company

Africa Vanguard Resources to service working capital commitments. When the disposal of AVRDC's 26% interest in Doornkop to Harmony was finalized, the loan was derecognized as AVRDC was no longer considered to be an SPE. The loan was uncollateralized and interest free.

On November 12, 2009 the Australian operations raised a new loan with BMW Finance of US\$3.6 million for insurance premium funding. A deposit of US\$0.7 million was paid. The loan bore interest at 6.1% and was repayable monthly in equal installments of US\$0.4 million with the last installment paid in June 2010.

On May 21, 2004, we issued R1.7 billion (US\$252.0 million) in international unsecured fixed-rate convertible bonds in order to refinance our domestic Rand debt. Interest was calculated on the convertible bonds at a rate of 4.875% per annum, payable semi-annually in arrears on May 21 and November 21 of each year. The bonds were convertible at the option of the bondholders into fully paid up ordinary shares at any time on or after July 1, 2004 and up to, and including, May 15, 2009, unless they had been previously redeemed, converted or purchased and cancelled by us. The trust deed for the convertible bonds contained clauses that restricted certain of our activities, including a negative pledge, according to which we were not permitted to create or permit any mortgage, charge, lien, pledge or other form of encumbrance of security interest with respect to any part of our undertaking or assets, present or future, to secure any relevant debt, guarantee or indemnity. In addition, the trust deed contained covenants that required us to, among other things, maintain the listing of the bonds with the UK Listing Authority and to do all things necessary, in the opinion of the trustee, to give effect to the trust deed. Included in the amortization charge as per the income statement is US\$0.9 million compared to US\$1.2 million in fiscal 2008 and US\$1.2 million in 2007 for amortization of the bond issue costs. On May 20, 2009, we repaid the convertible bond.

On September 28, 2007, we entered into a term loan facility of R2 billion (US\$283.9 million) with Nedbank Limited, for the purpose of partially funding capital expenditure in respect of projects, as well as to repay the short term bridging loan amounting to R500 million (US\$68.6 million). Interest accrued on a day to day basis over the term of the loan at a variable interest rate, which is fixed for three month periods, equal to the JIBAR plus 2.75% plus banking costs. The interest is repayable every quarter commencing on September 28, 2007. During fiscal 2009, the loan was repaid in tranches, with the last tranche of R750 million (US\$83.6 million) being repaid on April 21, 2009.

#### ***Contractual Obligations and Commercial Commitments***

Our contractual obligations and commercial commitments consist primarily of credit facilities, post-retirement healthcare and environmental obligations.

#### ***Contractual Obligations on the Balance Sheet***

The following table summarizes our contractual obligations as of June 30, 2010:

	Total (\$ million)	Payments Due by Period			
		Less Than 12 Months July 1, 2010 to June 30, 2011 (\$ million)	12-36 Months July 1, 2011 to June 30, 2013 (\$ million)	36-60 Months July 1, 2013 To June 30, 2015 (\$ million)	After 60 Months Subsequent June 30, 2015 (\$ million)
Nedbank facility <sup>(1)</sup>	181	37	106	38	
Westpac Bank <sup>(1)</sup>	12	4	8		
Post retirement health care <sup>(2)</sup>	20				20
Environmental obligations <sup>(3)</sup>	222				222
<b>Total contractual obligations</b>	<b>435</b>	<b>41</b>	<b>114</b>	<b>38</b>	<b>242</b>

(1)



See *Item 5.*

*Operating and  
Financial*

*Review and  
Prospects*

*Liquidity and  
Capital*

*Resources*

*Credit Facilities  
and Other*

*Borrowings*

*Outstanding*

*Credit Facilities  
and Other*

*Borrowings .*

- (2) This liability relates to post-retirement medical benefits of former employees who retired prior to December 31, 1996 and is based on actuarial valuations conducted during fiscal 2010.

- (3) We make provision for environmental rehabilitation costs and related liabilities based on management's interpretations of current environmental and regulatory requirements. See *Item 5.*

*Operating and  
Financial  
Review and  
Prospects  
Critical*

Accounting  
Policies .

*Contractual Obligations off the Balance Sheet*

Our obligation with regards to operating leases is US\$5 million for the next year and relates to the International office in Brisbane as well as expenditure on mineral tenements. Of this amount, US\$4 million is due within 12 months.

**Capital Expenditure**

The following table sets forth our authorized capital expenditure as of June 30, 2010:

	<b>\$ million</b>
Authorized and contracted for (1)	44
Authorized but not yet contracted for	132
<b>Total</b>	<b>176</b>

(1) Including our share of the PNG joint venture's capital expenditure of US\$27 million.

*Commercial Commitments*

The following table provides details regarding our commercial commitments as of June 30, 2010:

	<b>Amount of Commitments Expiring by Period</b>				
	<b>Total</b>	<b>Less Than 12 Months</b>	<b>12-36 Months</b>	<b>36-60 Months</b>	<b>After 60 Months</b>
	<b>(\$ million)</b>	<b>(\$ million)</b>	<b>(\$ million)</b>	<b>(\$ million)</b>	<b>(\$ million)</b>
Guarantees <sup>(1)</sup>	70				70
Capital commitments <sup>(2)</sup>	44	44			
<b>Total commitments expiring by period</b>	<b>114</b>	<b>44</b>			<b>70</b>

(1) Amount of Commitments Expiring by Period.

(2) Capital commitments consist only of amounts committed to external suppliers, although a total of US\$132 million

has been approved by the board for capital expenditures.

***Trend Information***

Information on recent trends in our operations is discussed in *Item 4. Information on the Company Business Strategy and Results of Operations* above.

***Working Capital and Anticipated Financing Needs***

The board believes that our working capital resources, by way of cash generated from operations and existing cash on hand, are sufficient to meet our present working capital needs. Several of the Growth projects will require additional capital expenditure over the next two to three years to complete construction, most of which will be funded from cash generated by operations and the balance by debt. For more information on our planned capital expenditures, see *Capital Expenditures* above and *Item 4. Information on the Company Business Harmony's Mining Operations*. We may, in the future, explore debt and/or equity financing in connection with our acquisition strategy. See *Item 3.*

*Key Information Risk Factors Harmony's strategy depends on its ability to make additional acquisitions*. Our board believes that we will have access to adequate financing on reasonable terms given our cash-based operations and modest leverage. Our ability to generate cash from operations could, however, be materially adversely affected by increases in cash costs, decreases in production, decreases in the price of gold and appreciation of the Rand and other non-US\$ currencies against the U.S. dollar. Future financing arrangements would also be subject to the limits on the board's borrowing powers described in *Item 10. Additional Information Memorandum and Articles of Association Directors Borrowing Powers*. In addition, South African companies are subject to significant exchange control limitations, which may impair our ability to fund overseas operations or guarantee credit facilities entered into by overseas subsidiaries. See *Item 10. Additional Information Exchange Controls*.

**Other Financial Information**

***Export Sales***

In fiscal years 2008, 2009 and 2010, 100% of our gold produced in South Africa was refined by Rand Refinery, which is owned by a consortium of the major gold producers in South Africa. All of our gold produced in Australia and PNG in those periods was sold to The Perth Mint Australia (previously known as AGR Matthey), a Perth-based refinery.

**Item 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

**Directors and Senior Management**

The members of the board, their principal past affiliations, information on their business experiences and principal outside activities and selected other information are set forth below:

**Board of directors**

<b>Name</b>	<b>Date of appointment</b>
Patrice Motsepe <sup>(1)</sup>	September 23, 2003
Frank Abbott <sup>(1)(2)</sup>	October 1, 1994
Graham Briggs	August 6, 2007
Joaquim Chissano <sup>(1)</sup>	April 20, 2005
Fikile De Buck <sup>(1)(3)(4)</sup>	March 30, 2006
Ken Dicks <sup>(1)(3)</sup>	February 13, 2008
Cheick Diarra <sup>(1)(3)</sup>	March 5, 2008
Dr Simo Lushaba <sup>(1)(3)</sup>	October 18, 2002
Cathie Markus <sup>(1)(3)</sup>	May 31, 2007
Harry Ephraim Mashego	February 24, 2010
Hannes Meyer	November 1, 2009
Modise Motloba <sup>(1)(3)</sup>	July 30, 2004
Cedric Savage <sup>(1)(3)</sup>	September 23, 2003
André Wilkens <sup>(1)</sup>	August 7, 2007

(1) *Non-executive directors*

(2) *Frank Abbott served as a non-executive director until August 20, 2007 and was appointed interim financial director on August 21, 2007. Frank retired at the end of July 2010, and was appointed as non-executive director on August 1, 2010.*

(3) *Independent*

(4) *Appointed lead independent*

*director after  
June 30, 2010.*

***Non-Executive Chairman***

**Patrice Motsepe (48) BA (Legal), LLB.** Patrice was appointed to the board in 2003. Patrice was a partner in one of the largest law firms in South Africa, Bowman Gilfillan Inc. He was a visiting attorney in the USA with the law firm, McGuire Woods Battle and Boothe. In 1994 he founded Future Mining, which grew rapidly to become a successful contract mining company. He then formed ARMgold in 1997, which listed on the JSE in 2002. ARMgold merged with Harmony in 2003 and this ultimately led to the takeover of Anglovaal Mining ( **Avmin** ) by African Rainbow Minerals Limited ( **ARM** ). In 2002 he was voted South Africa's Business Leader of the Year by the CEOs of the top 100 companies in South Africa. In the same year, he was winner of the Ernst & Young Best Entrepreneur of the Year Award. He is also the Executive Chairman of ARM and the Deputy Chairman of Sanlam. His various business responsibilities included being President of Business Unity South Africa (BUSA) from January 2004 to May 2008, which is the voice of organized business in South Africa. He is also President of Mamelodi Sundowns Football Club.

***Executive Directors***

**Frank Abbott (55), BCom, CA (SA), MBL.** Frank was appointed executive interim financial director in August 2007. Frank initially joined the Harmony board as a non-executive director in 1994, after which he was appointed Financial Director in 1997. In 2004 Frank was appointed financial director of ARM, while remaining on the Harmony board as non-executive director. In August 2007, Frank was seconded to Harmony as interim financial director, a position he held until handing over to Hannes Meyer in November 2009. Frank remained executive director until his early retirement on July 31, 2010. Post-retirement, Frank serves as non-executive director of Harmony and ARM.

**Graham Briggs (57), BSc (Hons) (Geology), PrSciNat, Chief Executive Officer.** Graham was appointed as chief executive officer in January 2008, after his appointment to the board in 2007. Having joined Harmony as new business manager in 1995, Graham's previous positions include that of chief executive of Harmony Australia. A geologist by training, Graham has more than 35 years' experience in the field and in an operational capacity at a number of South African gold mines. Graham serves as a director on Harmony's subsidiary companies and is a member of the board of Virtual Metals Group in the United Kingdom.

**Harry Ephraim Mashego Mashego (46), BA Ed, BA (Hons), GEDP, JM DP, Executive: Organizational Development and Transformation.** Mashego joined Harmony in July 2005 as Group Human Resources Development Manager. Mashego, who has more than 20 years' experience in human resources, began his career as Human Resources Manager at Eskom. He then progressed in the field at JCI,

Atlantis Diesel Engines and Foskor Ltd. He was promoted to General Manager at Harmony's Evander Operations in November 2005 and was appointed Executive: Human Resources in August 2007. Mashego was appointed to the board as executive director in February 2010.

**Hannes Meyer (40), CA (SA), BCom (Hons), Financial Director.** Hannes joined Harmony in August 2009. During his 14 year career in the mining industry, he gained extensive mining and financial experience at Randgold and Exploration Limited, Randgold Resources Limited, AngloGold and TEAL Exploration and Mining Limited (TEAL). His exposure extended to gaining knowledge of mines in Africa, corporate finance and business development. Before joining Harmony, Hannes served as chief financial officer of TEAL, and served as acting chief executive officer of TEAL from May 2008. He also serves as director on various Harmony subsidiaries and the board of Rand Uranium (Proprietary) Limited.

***Non-Executive Directors***

**Joaquim Chissano (70), Non-Executive Director.** Joaquim was appointed to the board in April 2005. Formerly President of Mozambique (1986–2004), Joaquim also served as chairman of the African Union for 2003/2004. On leaving the presidency, he established the Joaquim Chissano Foundation for Peace Development and Culture, and has led various international peace initiatives on behalf of the United Nations, African Union and the Southern African Development Community to Guinea Bissau, the Democratic Republic of the Congo, Uganda and Madagascar. In 2006 he was awarded the annual Chatham House Prize for significant contributions to improving international relations and was the recipient of the inaugural Mo Ibrahim Prize for Achievement in African Leadership in 2007. He is also a non-executive director of ARM Limited and TEAL. Joaquim was appointed to the Bill and Melinda Gates Foundation in December 2009.

**Fikile De Buck (49), BA (Economics), FCCA (UK), Lead independent Non-Executive Director.** Fikile joined the board on March 30, 2006. A chartered certified accountant, she is a fellow of the Association of Chartered Certified Accountants (ACCA) (UK) and a member. From fiscal 2000 to fiscal 2008, Fikile worked in various capacities at the Council for Medical Schemes in South Africa, including that of chief financial officer and chief operations officer. Prior to that she was treasurer at the Botswana Development Corporation. Fikile is also a non-executive director and chairman of the Audit Committee of Rand Uranium (Proprietary) Ltd and of Anooraq Resources Corporation. In August 2010 Fikile was appointed lead independent non-executive director and chairman of the Nomination Committee.

**Dr Cheick Diarra (58), PhD (Mechanical and Aerospace Engineering), Independent Non-Executive Director.** Dr Cheick Diarra joined the board in March 2008. He is also the chairman for Africa at Microsoft. Dr Diarra graduated from the Pierre and Marie Curie University in Paris, France, and obtained his PhD in mechanical and aerospace engineering from Howard University, Washington DC, USA. After six years as an Assistant Professor at Howard, he joined the National Aeronautic and Space Association (NASA) Jet Propulsion Laboratory. Dr Diarra has served as a UNESCO goodwill ambassador and, in 2002 and 2003, he was chief executive officer of the African Virtual University based in Kenya. He is a member of several international and African scientific organisations, and was awarded an African Lifetime Achievement Award for Outstanding Contributions to Science.

**Ken Dicks (71), Mine Managers Certificates (Metalliferous and Fiery Coal Mines), Management Development Diploma and Management Diploma, Independent Non-Executive Director.** Ken joined the board in February 2008. He has 39 years' experience in the mining industry, mainly in the Anglo American group. He has served on the boards of mining companies such as Freegold, Western Deep Levels and Elandsrand. He is also a non-executive director of Gold One International, following a reverse takeover by Aflase Gold Limited and Bauba Platinum Limited.

**Dr Simo Lushaba (44), BSc (Hon), MBA and DBA, Independent Non-Executive Director.** Simo joined the Harmony board in October 2002. An entrepreneur and an executive business coach, he previously held senior management positions at Spoornet and Lonmin plc and was chief executive of Rand Water. Simo is a member of the board of the Nepad Business Foundation (SA), chairman of Spescom Limited and a board member of Gidani.

**Cathie Markus (53), BA LLB, Independent Non-Executive Director.** Cathie joined the board in May 2007. Cathie spent 16 years at Impala Platinum Holdings Limited (Implats), initially as legal advisor and latterly, from 1998 to 2007, as executive director with responsibility for legal compliance and public affairs. Having graduated from the



University of the Witwatersrand, Cathie served articles at Bell Dewar & Hall. On qualifying as an attorney, notary and conveyancer, she joined the legal department of Dorbyl Limited. She is currently a trustee of the Impala Bafokeng Trust.

**Modise Motloba (44), BSc, Diploma in Strategic Management, Independent Non-executive Director.** Modise joined the board in July 2004. Currently the chief executive of Quartile Capital (Proprietary) Limited, Modise is also a director of Rand Merchant Bank Structured Insurance, Deutsche Bank Securities SA (Proprietary) Limited, the Land Bank and the Small Enterprise Foundation. Modise's 17 years' experience in investment banking, treasury and fund management includes appointments at Rand Merchant Bank, African Harvest Fund

Managers and Goldman Sachs. Modise is a former President of the Association of Black Securities and Investment Professionals (ABSIP) where he was instrumental in formulating and negotiating the historic Financial Services Charter in October 2003.

**Cedric Savage (71), BSc (Eng), MBA, ISMP (Harvard), Independent Non-executive Director.** Cedric joined the board in September 2003. He retired as the chairman of the Tongaat Hulett Group in May 2009 but remains a trustee of the Tongaat Hulett Group Pension Fund. He started his career in the United Kingdom in 1960 as a graduate engineer with Fairey Aviation. He returned to South Africa in 1963 and worked in the oil (Mobil), textile (Felt & Textiles) and chicken (Rainbow Chickens Limited) industries. He was President of the South African Chamber of Business from 1993 to 1994. He has also served as Chairman of the Board of Governors of the University of KwaZulu-Natal's Development Foundation and as a Member of Council of that university. He joined the Tongaat-Hulett Group Limited in 1977 as Managing Director of Tongaat Foods and progressed to Executive Chairman of the Building Materials Division; he became Chief Executive Officer of the group in 1991. In May 2000, he assumed the dual roles of Chief Executive Officer and Executive Chairman. He currently serves on the board of Denel (Proprietary) Limited. He also served on the Nedbank board from 2002 until May 2008 when he retired as Non-Executive Director, and on the board of Datatec Limited from 2001 and Datatec International from 2004, after which he retired from both boards in August 2009.

**André Wilkens (61), Mine Manager's Certificate of Competency, MDPA, RMIA, Non-Executive Director.** André joined the board in August 2007. He is currently the chief executive officer of ARM Limited and previously held the same position at ARM Platinum. Prior to this, he was the chief operating officer at Harmony, following the merger of Harmony with ARMgold in 2003. André has a wealth of experience in the mining industry, having joined Anglo American in 1969 and moved up the ranks to mine manager of Vaal Reefs's south mine.

#### **Management**

The members of our management, their principal past affiliations, information on their business experiences and principal outside activities and selected other information are set forth below:

**Bob Atkinson (58), NHD (Metalliferous Mining), Executive: New Business and Projects.** Bob joined Harmony as a Section Manager in 1986 and served as Operations Director on the Executive Committee from June 2001 to May 2003. He was appointed Chief Operating Officer at Harmony Gold Australia and was appointed as Executive: Sustainable Development (Safety and Occupational Health) at Harmony in South Africa in July 2004. He has more than 32 years' experience in the mining industry.

**Jaco Boshoff (41), BSc (Hons), MSc (Geology), MBA, PrSciNat, Executive: Reserves and Resources.** Jaco joined Harmony in April 1996. He has served as the Executive: Reserves and Resources and Competent Person since March 2004. Prior to this, he was a Ore Reserve Manager from 1998 to 2004 and before that was a geologist at Harmony and at Gengold. Jaco is registered as a professional geological scientist with the South African Council for Natural Scientific Professions and has worked in the mining industry for more than 12 years. In July 2010 Projects and New Business were added to his portfolio.

**Matthews Pheello Dikane (44), LLB, LLM (Labor Law), Postgraduate Diploma In Management Practice, Postgraduate Diploma in Corporate Law, Executive: Legal and Compliance.** Matthews joined Harmony in 2009. He has more than 20 years' experience in the mining industry, working his way up through the ranks from learner official to production mine overseer at AngloGold Ashanti Limited. During this time, he studied for his law degree and served his articles at Perrott Van Niekerk Woodhouse Incorporated. He also completed his Master's degree in Labor Law and Postgraduate Diplomas in Management Practice and Corporate Law. He returned to AngloGold Ashanti's corporate office as a Legal Counsel, later joining Brink Cohen Le Roux as a senior associate where he was made a director.

**Leon le Roux (54), NHD (Mechanical and Electrical Engineering), Executive: Risk Management and Engineering.** Leon joined Harmony on its merger with ARMgold in 2003. Having begun his mining career as a learner official in 1979 and obtaining his GCC (Mines and Works), he worked as an engineer on several AngloGold operations. He joined ARMgold on its formation in 1999 where he held a number of positions in the management team and was later seconded to ARMplatinum. He was appointed to the Harmony executive team in June 2009. Post year-end, in September 2010, Leon was deployed to Harmony's South East Asian operations.

**Jackie Mathebula (40), B Admin Honours, MBA, Master of Management (MM, HR), Executive: Corporate Affairs.** Jackie joined Harmony in September 2002 as Employee and Industrial Relations Executive. In 2005, his portfolio became Training, Human Resource Development and Occupational Health, and in 2005 he was appointed Executive: Corporate Affairs. Prior to joining Harmony, he worked at Gensec Bank, Gold Fields Limited and then Iscor group (now ArcelorMittal South Africa). He also worked for the South African government in the Gazankulu Public Service Commission.

**Melanie Naidoo-Vermaak (36), MSc (Sustainable Development), Executive: Environment.** Melanie joined Harmony in August 2009. She is an experienced environmental specialist who has worked for both the private sector in the mining industry, as well as the public

sector in the Departments of Water Affairs and Forestry and Minerals and Energy. She has spent more than 10 years in this discipline and has international environmental management exposure gained in Australia, Papua New Guinea, Fiji as well as Africa. She has held various positions at some of the leading mining companies, including BHP Billiton, Anglo American PLC and De Beers Consolidated Mines Limited.

**Alwyn Pretorius (39), BSc Mining Engineering, BSc Industrial Engineering, Chief Operating Officer: North Region.** Alwyn joined Harmony on its merger with ARMgold in 2003. He began his career at Vaal Reefs mine as a mining graduate in training in 1993 and was appointed shift boss in 1995, gaining experience in remnant mining. Alwyn obtained his BSc in Industrial Engineering in 1998 and joined ARMgold in 1999 at its Orkney operations progressing to become mine manager in 2003. Alwyn was appointed Executive, South African Operations at Harmony in March 2007, and is the Chief Operating Officer: North Region.

**Tom Smith (54), NHD (Mine Surveying and Metalliferous Mining), Chief Operating Officer: South Region.** Tom joined Harmony in 2002. Tom began his career in the mining industry in 1975 as a sampler at Vaal Reefs mine, becoming chief surveyor in 1988. He made a career change in 1991 to mining and worked as a section manager on Great Nologwa, Elandsrand and Mponeng mines. He was also involved in projects at Tau Lekoa and Moab Khotsoeng, acquiring experience in conventional, trackless, pillar and deep-level mining. Tom was promoted to Production Manager at Mponeng in 1998. He was appointed General Manager of Tshepong in 2000. Following the merger with ARMgold he was involved in the restructuring of the Free State operations. He joined the executive team in September 2007 and is the Chief Operating Officer: South Region.

**Marian van der Walt (37), BCom (Law), LLB, Higher Diploma in Tax, Diploma in Corporate Governance, Diploma in Insolvency Law, Certificate in Business Leadership; Executive: Corporate and Investor Relations.** Marian, who has more than 12 years legal experience, was appointed Company Secretary in 2003. She completed her articles at Routledges Modise Attorneys and was admitted as an attorney and conveyancer in 1998. She then joined Deloitte and Touche as an insolvency practitioner/administrator. She held legal and management positions at the Standard Bank of South Africa Limited in the Commercial Properties Division prior to joining Harmony. Marian was appointed to the Executive Committee in October 2005 with responsibility for legal, compliance and risk management. Internal audit and Sarbanes-Oxley compliance were added to her portfolio in September 2007. In October 2008, she resigned as company secretary enabling her to accept the position of Executive: Corporate and Investor Relations.

**Johannes van Heerden (38), BCompt (Hons), CA(SA), Chief Executive Officer: South East Asia.** Johannes joined Harmony in 1998 as Financial Manager of the Free State operations. Here he obtained broad financial management experience at an operational level. He was subsequently appointed Group Financial Manager in 2001, before being relocated to Harmony Australasia as Chief Financial Officer in 2003. Johannes presently holds the position of Chief Financial Officer: South East Asia.

**Abre van Vuuren (50), BComm, MDP, DPLR, Executive: Services.** Abre joined Harmony in 1997 when the Group acquired Grootvlei Gold Mine ( **Grootvlei** ). Abre's career in the mining industry started in 1982 where he joined the Finance department at the Blyvooruitzicht Gold Mine. He gained experience in Human Resources and progressed through the ranks at various gold mines and collieries in the Rand Mines Group, including Grootvlei. On Harmony's acquisition of Grootvlei, Abre was included in the management team and has since held various positions in services and human resource management. He was promoted to the Executive Committee in 2000 when he became the Industrial Relations Executive. In 2007, Abre was appointed to his current portfolio of Executive: Services. In September 2010, Risk and Insurance were added to his portfolio following the deployment of Leon le Roux to the Harmony's South East Asian operations.

#### **Board Practices**

Our Articles of Association provide that the board must consist of no less than four and no more than twenty directors at any time. The board currently consists of fourteen directors.

Our Articles of Association provide that the longest serving one-third of directors retire from office at each annual general meeting. Retiring directors normally make themselves available for re-election and are re-elected at the annual general meeting at which they retire. Members of our senior management who are also directors retire as directors in terms of the Articles of Association, but their service as officers is regulated by standard industry employment

agreements. According to the Articles of Association, the board meets not less than quarterly.

Details of directors' service contracts are described under Compensation of Directors and Senior Management and Directors' Terms of Employment, below. We also describe significant ways in which our corporate governance practices differ from practices followed by U.S. companies listed on the NYSE on our website under Corporate Governance.

In order to ensure good corporate governance, the board has formed an Audit Committee, a Remuneration Committee, a Nomination Committee, an Investment Committee, an Empowerment Committee, a Sustainable Development Committee and a Technical Committee. All of the board committees are comprised of a majority of independent, non-executive directors.

***Executive Management Committee***

Our Executive Committee comprises our executive directors and selected senior officers, each with his or her own area of responsibility. The Executive Committee consists of 11 executives who meet on a weekly basis and more often if required.

The composition of the Executive Management Committee (with areas of responsibility indicated) is as follows:

Graham Briggs	Chief Executive Officer
Hannes Meyer	Financial Director
Harry Ephraim Mashego	Executive Director: Organisational Development and Transformation
Frank Abbott	Executive Director (1)
Bob Atkinson	New Business and Projects
Jaco Boshoff	Reserves and Resources
Jackie Mathebula	Corporate Affairs
Alwyn Petorius	Chief Operating Officer North Operations South Africa
Tom Smith	Chief Operating Officer South Operations South Africa
Marian van der Walt	Corporate and Investor Relations
Johannes van Heerden	Chief Executive Officer: South East Asia
Abre van Vuuren	Services (2)
Leon le Roux	Risk Management and Engineering (2)
Melanie Naidoo-Vermaak	Environment
Matthews Dikane	Legal and Compliance

(1) Frank Abbott retired as executive director on July 31, 2010 and was appointed non-executive director on August 1, 2010.

(2) In September 2010 Leon le Roux was deployed to the South East Asian operations and Risk and Insurance were added to Abre van Vuuren's portfolio.

***Audit Committee***

*Members*

In terms of its charter this committee must comprise at least three members. As at June 30, 2010, the members of this committee were:

Cedric Savage	Chairman; appointed to the committee on January 26, 2004 and chairman as from August 5, 2005
Fikile De Buck	Appointed to the committee on March 30, 2006
Dr. Simo Lushaba	Appointed to the committee on January 24, 2003
Modise Motloba	Appointed to the committee on July 30, 2004

The internal and external auditors, the chief executive officer, the financial director and executive managers are all invited to the Audit Committee meeting.

*Frequency of meetings*

The Audit committee is, in terms of its charter, required to meet at least four times a year, or more frequently as circumstances dictate. During fiscal 2010, the committee met on five occasions.

*Purpose and function*

The Audit Committee was established to assist the board in discharging its duties relating to the safeguarding of assets; the operation of adequate system and internal controls and control processes; the preparation of accurate financial reporting and statements in compliance with all applicable legal requirements, corporate governance and accounting standards. It also provides support to the board on the risk profile and risk management of the group. The Audit Committee ensures that there is an internal audit function in place and that the roles of the internal and external audit functions are co-ordinated.

The Audit Committee recommends the appointment of the external auditors to the board and shareholders, and also approved non-audit services provided by the external auditors. The Audit Committee has reviewed the independence of the external auditors and is satisfied that the external auditors are independent.

The Audit Committee reports and makes recommendations to the board, and the board retains responsibility for implementing such recommendations.

The Committee considered the appropriateness of the expertise and experience of the Financial Director and concluded that the Financial Director has the necessary expertise and experience. The Committee is also satisfied that the expertise, resources and experience of the finance function are adequate.

*Independence/compliance*

All members of the Audit Committee are independent, non-executive directors.

Currently, we do not have an individual audit committee financial expert as defined by the rules of the SEC. It is our contention that the audit committee members, through their collective experience, do meet the majority of the definitions of the SEC for an audit committee financial expert in both the public and private sectors. The members have served as directors and officers of numerous public companies and have over the years developed a good knowledge and understanding of IFRS, overseeing the preparation, audit and evaluation of financial statements. We believe that the combined knowledge, skills and experience of the Audit Committee, and their authority to engage outside experts to provide them with advice on matters relating to their responsibilities as they deem appropriate, enables them as a group to act effectively in the fulfillment of tasks and responsibilities required under U.S. Sarbanes-Oxley Act of 2002.

***Empowerment Committee***

*Members*

The Empowerment Committee must comprise of at least three members. As at June 30, 2010, the members of this committee were as follows:

Joaquim Chissano	Chairman; appointed as chairman with effect from May 3, 2006
Modise Motloba	Appointed to the committee on May 3, 2006
Cathie Markus	Appointed to the committee on October 29, 2007

The chief executive officer and executive managers are all invited to attend the Empowerment Committee meetings.

*Frequency of meetings*

The Empowerment Committee met on four occasions during fiscal 2010. The Empowerment Committee charter requires that at least two members are present to constitute a quorum. Cathie Markus acted as chairman of the meetings when Joaquim Chissano was unable to attend.

*Purpose and function*

The Empowerment Committee was established by the board to ensure that the company meets not only regulations stipulated in the Employment Equity Act, the Labor Relations Act and the Mineral and Petroleum Resources Development Act's Mining Charter Scorecard, but also in fulfilment of our own empowerment imperatives.

The responsibilities of the Empowerment Committee include ensuring that a sustainable organizational culture, structures and processes are in place to support the development of empowerment in the company in line with the company's needs and requirements; to monitor the



development and progress of empowerment within the company; to address inequalities that may exist in staff profiles and organizational practices; and to review and monitor whether appropriate support is given to previously disadvantaged staff in order to equip them for successful careers in the company.

*Independence/compliance*

Even though the chairman is not considered an independent non-executive director, the rest of the committee comprises of independent non-executive directors.

***Investment Committee***

*Members*

The Investment Committee must comprise of at least three members. As at June 30, 2010, the members were:

Dr. Simo Lushaba	Chairman; appointed to the committee on January 26, 2004 and as Chairman with effect from August 5, 2005)
Fikile De Buck	Appointed to the committee on May 3, 2006
Ken Dicks	Appointed to the committee on February 13, 2008
Cathie Markus	Appointed to the committee on October 29, 2007
Cedric Savage	Appointed to the committee on January 26, 2004
André Wilkens	Appointed to the committee on August 7, 2007

The chief executive officer, the financial director and executive managers are invited to attend the meetings.

*Frequency of meetings*

The committee should meet at least four times a year, but may, at its discretion, meet more often depending on the circumstances. The committee met on five occasions in fiscal 2010.

*Purpose and function*

The primary purpose of the Investment Committee is to consider projects, acquisitions and the disposal of assets in line with the Group's overall strategy. This includes performing such other investment related functions as may be designated by the board from time to time, considering the viability of the capital project and/or acquisition and/or disposal and the effect it may have on the Group's cash flow, as well as whether these will fit the Group's overall strategy. This committee's remit includes ensuring that due diligence procedures are followed when acquiring or disposing of assets.

*Independence/compliance*

The Investment Committee consists of six non-executive members. Of the six non-executive members, five are independent. The chairman is an independent, non-executive director.

***Nomination Committee***

*Members*

The Nomination Committee must comprise of at least three members. As at June 30, 2010, the members of this committee were:

Patrice Motsepe	Chairman; appointed to the committee on October 24, 2003
Frank Abbott	Appointed to the committee August 5, 2005
Joaquim Chissano	Appointed to the committee on May 3, 2006

In August 2010 Fikile De Buck was appointed Chairman of the Nomination Committee.

*Frequency of meetings*

Members of this committee are required to meet annually or more often at the committee's discretion, depending on prevailing circumstances. The committee met three times in fiscal 2010 to consider new appointments to the board in fiscal 2010.

*Purpose and function*

The primary purpose of the Nomination Committee is to ensure that the procedures for appointments to the board are formal and transparent, by making recommendations to the board on all new board appointments and reviewing succession planning for directors. The duties and responsibilities of this committee are set out in the Nomination Committee charter.

*Independence/compliance*

The chairman of the Nomination Committee was until August 2010 non-executive, but not independent. Fikile De Buck was appointed as Chairman in August 2010. Frank Abbott retired as an executive director in July 2010, and remained on the Board and the Committee as a non-executive director.

**Remuneration Committee**

*Members*

The Remuneration Committee must comprise of at least three members. As at June 30, 2010, the members of this committee were:

Cedric Savage	Chairman; appointed to the committee on January 24, 2004, and as chairman from May 3, 2006
Simo Lushaba	Appointed to the committee on August 5, 2005
André Wilkens	Appointed to the committee on August 7, 2007

The chief executive officer, the financial director and the executive: organizational development and transformation are invited to attend all meetings.

*Frequency of meetings*

The Remuneration committee is expected to meet at least on a quarterly basis or to pass a resolution by round robin if and when a formal meeting cannot be held. In fiscal 2010, the committee met on six occasions, including two special meetings held on July 1, 2009 and March 18, 2010 (for approval of the share allocation and incentive schemes and appointment of the financial director).

*Purpose and function*

The primary purposes of the Remuneration Committee are to ensure that the group's directors and senior executives are fairly rewarded for their individual contributions to our overall performance and to demonstrate to all stakeholders that the remuneration of our senior executive members is set by a committee of board members who have no personal interest in the outcome of their decisions, and who will give due regard to the interests of our shareholders and to our financial and commercial health.

The committee's primary objectives are to monitor and strengthen the objectivity and credibility of our directors and senior executives' remuneration system, and to make recommendations to the board on remuneration packages and policies applicable to directors. A formal reward philosophy was adopted by the Remuneration Committee in March 2006. This philosophy is reviewed annually by the committee.

*Independence/compliance*

The committee comprises three non-executive directors, of which two are independent. It is therefore not compliant with King III which requires that the committee comprise independent directors only. The chairman of the Remuneration Committee is, however, an independent non-executive director and ensures that decisions are fair and not biased. The chairman, as independent non-executive director, was elected on the basis of his vast business knowledge and experience, and his familiarity with the challenges facing directors and executive managers.

### ***Sustainable Development Committee***

#### ***Members***

The Sustainable Development Committee must comprise of at least three members. As at June 30, 2010, the following were members of this committee:

Modise Motloba	Chairman; appointed as chairman on August 5, 2005
Joaquim Chissano	Appointed to the committee on May 3, 2006
Fikile De Buck	Appointed to the committee on May 3, 2006

The chief executive officer and executive managers are invited to attend the meetings.

#### ***Frequency of meetings***

The Sustainable Development Committee should meet at least four times a year, or more frequently as circumstances dictate. In fiscal 2010, four meetings of this committee were held. The charter requires that at least two members are present to constitute a quorum.

#### ***Purpose and function***

The objective of the Sustainable Development Committee is to assist the board in ensuring that we are and remain a committed socially responsible corporate citizen. The committee's primary role is to supplement, support, advise and provide guidance on the effectiveness or otherwise of management's efforts in respect of sustainable development.

The committee considers the following sustainable development issues: occupational health, safety, HIV/Aids, social investment and environmental management.

#### ***Independence/compliance***

The committee comprises three non-executive directors, two of whom are independent.

### ***Technical Committee***

#### ***Members***

The Technical Committee must comprise of at least four members. As at June 30, 2010, the following were members of this committee:

Andre Wilkens	Chairman; appointed as chairman on January 22, 2008
Fikile De Buck	Appointed to the committee on July, 14, 2008
Ken Dicks	Appointed to the committee on February 13, 2008
Modise Motloba	Appointed to the committee on January 22, 2008
Cedric Savage	Appointed to the committee on January 22, 2008

The chief executive and executive managers are all invited to attend the meetings.

#### ***Frequency of meetings***

The Committee should meet at least six times a year. The Committee, at its discretion, may decide to change this requirement, depending on the circumstances. In fiscal 2010, six meetings of this committee were held.

#### ***Purpose and function***

The Technical Committee was formed in January 2008 to provide a platform for the chief executive officer to discuss the company's strategy, its performance against targets and its operational results and projects. The Technical Committee keeps the board informed of the developments, progress and challenges facing the company's operations. The strategic plans are considered by the Technical Committee and recommended for approval to the Investment Committee and the board. In addition, the Technical Committee provides guidance and support to Management to ensure that the Company remains sustainable and successful.

*Independence/compliance*

The committee comprises four independent, non-executive directors. The chairman is not independent, but it was agreed that he was best suited to be appointed as chairman, due to his vast knowledge of the company's assets and his years of mining experience.

**Compensation of Directors and Senior Management**

The following table shows the compensation of directors and senior management for fiscal 2010:

Name	Directors fee (\$ 000) 2010	Salaries and Benefits (\$ 000) 2010	Retirement	Bonuses Paid (\$ 000) 2010	Total (\$ 000) 2010
			Contributions during the year (\$ 000) 2010		
<b>Non-executive</b>					
Patrice Motsepe	105				105
Joaquim Chissano	49				49
Fikile De Buck	60				60
Cheick Diarra	20				20
Ken Dicks	41				41
Dr Simo Lushaba	49				49
Cathie Markus	33				33
Modise Motloba	63				63
Cedric Savage	85				85
Andre Wilkens	52				52
<b>Executive</b>					
Graham Briggs		665		206	871
Hannes Meyer <sup>(1)</sup>		219		19	238
Harry Ephraim Mashego <sup>(2)</sup>		79	7	18	104
Frank Abbott		365	18	68	451
<b>TOTAL</b>	<b>557</b>	<b>1,328</b>	<b>25</b>	<b>311</b>	<b>2,221</b>

1) November 2009  
- June 2010  
(appointed  
November 1,  
2009)

2) March 2010 to  
June 2010  
(appointed  
February 24,  
2010)

**Directors Terms of Employment**

None of our directors have a service contract with us or any of our subsidiaries with a notice or contract period of one year or more or with provisions for pre-determining compensation on termination of an amount which equals or exceeds one year's salary and benefits in kind.

The terms of employment of our executive directors continue until terminated by reaching the mandatory retirement age of 60 or on service of three months' notice by either us or the employee. Each of our executive directors

participates in our share option scheme and a discretionary executive profit share scheme, the latter provided that certain profit targets, set by the Remuneration Committee, are achieved. They have all waived their rights to directors fees.

The executive directors also benefit from pension contributions, provident funds, life insurance and medical aid, the value of which is included in the salary details listed above. The total amount currently set aside or accrued by us and our subsidiaries for the payment of these pension, life insurance, medical aid and retirement benefits is US\$nil million. The non-executive directors are entitled to fees as agreed at our annual general meeting from time to time, reimbursement of out-of-pocket expenses incurred on our behalf and remuneration for other services, such as serving on committees. For fiscal 2010, total directors remuneration amounted to US\$2.2 million and senior management s remuneration to US\$3.2 million.

Non-executive directors are paid as per the chart below. Executives participate in an executive bonus scheme and bonuses (if any) are determined for a financial year by the Remuneration Committee, in line with our reward philosophy. A bonus of US\$206,000 was awarded to the chief executive officer during the past financial year.

The board has agreed to an increase in non-executive directors fees, effective from July 1, 2009. Shareholders approved the increase in fees at the annual general meeting held on November 23, 2009.

For fiscal 2010 non-executive directors received the following fees:

	<b>Annual Fee</b>
Board	R 150,000 annually (US\$19,800)
Audit Committee	R 75,000 annually (US\$9,895)
Empowerment Committee	R 50,000 annually (US\$6,596)
Investment Committee	R 50,000 annually (US\$6,596)
Nomination Committee	R 50,000 annually (US\$6,596)
Remuneration Committee	R 50,000 annually (US\$6,596)
Sustainable Development Committee	R 65,000 annually (US\$8,575)
Technical Committee	R 65,000 annually (US\$8,575)
Chairman of board	R 700,000 annually (US\$92,348)
Chairman of board committees	Double the amount that the individual board committee member received annually

The terms of employment of the non-executive directors are not set out in any written agreements.

#### **Share Options**

At October 18, 2010, our executive directors and senior management held the following share options, totalling less than 1% of our share capital:

<b>Directors and Senior Management</b>	<b>Number of Share Options</b>	<b>Average Strike Price (R)</b>	<b>Expiration Dates</b>
Graham Briggs	91,938	48.55	2014 - 2015
Hannes Meyer			
Harry Ephraim Mashego			
Frank Abbott			
<b>Senior Management (as a group)</b>	314,150	52.67	2013 - 2015
<b>Total</b>	406,088	51.73	2013 - 2015

Options to purchase a total of 2,028,341 ordinary shares were outstanding on October 18, 2010. The exercise prices of the outstanding options range between R36.50 and R91.60 per share and they expire between 2011 and 2015. Of the outstanding options, options to purchase 406,088 ordinary shares were held by our directors and senior management, as described above. No consideration was payable on the grant of these options. See Note 34 to the Consolidated Financial Statements included herein.

#### **Shares issued in terms of the Harmony 2006 Share Plan**

At October 18, 2010, our executive directors and senior management held the following share appreciation rights and performance shares, totaling less than 1% of our share capital:

<b>Directors and Senior Management</b>	<b>Share Appreciation Rights (SAR)</b>	<b>Weighted SAR Price (R)</b>	<b>Performance Shares (PS)</b>	<b>PS Price (R)</b>	<b>Expiration Dates</b>
Graham Briggs	251,774	78.09	227,424		2010 - 2015
Hannes Meyer	8,557	77.28	27,902		2015
Frank Abbott					
Harry Ephraim Mashego	62,310	74.81	67,912		2010 - 2015
<b>Senior management (as a group)</b>	658,891	73.64	656,063		2010 - 2015

Awards to purchase a potential maximum of 9,984,077 ordinary shares were outstanding on October 18, 2010. The exercise prices of the outstanding options range between R77.65 and R112.64 per share and they expire between 2010 and 2015. Of the outstanding awards, awards to purchase a potential maximum of 1,960,833 ordinary shares were held by our directors and senior management, as described above. No consideration was payable on the grant of these options. See Note 34 to the Consolidated Financial Statements included herein.

***Share Ownership***

The following sets forth, as at June 30, 2010 and at October 18, 2010, the total amount of ordinary shares directly or indirectly owned by our directors and senior management, including shares issued under the 2006 Share Plan. Our directors and senior management do not own any preference shares.

<b>Holder</b>	<b>Ordinary Shares Number as at June 30, 2010</b>	<b>Percentage</b>	<b>Ordinary Shares Number as at October 18, 2010</b>	<b>Percentage</b>
<b>Non-executive chairman</b>				
Patrice Motsepe <sup>(1)</sup>				
<b>Directors Non-executive</b>				
Fikile De Buck				
Joaquim Chissano				
Dr Cheick Diarra				
Ken Dicks				
Dr. Simo Lushaba				
Cathie Markus				
Modise Motloba				
Cedric Savage				
André Wilkens	101,303	(2)	101,303	(2)
<b>Executive Directors</b>				
Graham Briggs				
Hannes Meyer				
Frank Abbott				
Harry Ephraim Mashego				
<b>Total Directors (14 persons)</b>	101,303		101,303	

(1) Patrice Motsepe, our Chairman, has an indirect holding through ARM

(2) Less than 1%.

## **Employees**

### **General**

Set out below is the number of people working at each of our operations and the number at our operations who are employed by outside contractors as at the end of each of fiscal years 2010, 2009 and 2008.

	<b>Harmony Employees at</b>			<b>Outside Contractors at</b>		
	<b>June 30,</b>			<b>June 30,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
South Africa	35,788	37,316	40,751	4,331	4,962	6,309
International	1,105	979	862	1,373	2,482	846
Grand total	36,893	38,295	41,543	5,704	7,390	7,155

These numbers show a substantial reduction in the number of both employees and of outside contractors which was achieved over the 12 month period ended June 30, 2010. It represents the consequences of the restructuring program on the employee numbers (see below).

### **South Africa**



South Africa is a signatory to all the International Labor Organization conventions in respect of employment and fair labor practices. Consequently, South African labor relations are characterized by a high degree of regulation, with legislation covering all aspects of the employment relationship, including but not restricted to the following:

minimum conditions of employment (note there is no prescribed basic minimum wage, but laws cover most aspects of employment, from hours of work to prohibitions on child labor);

trade union access and membership;

training and development;

mandatory compensation in the event of termination for operational reasons;

affirmative action policies and programs;

compensation for occupational illness and injury;

mechanisms for collective bargaining;

procedures for the resolution of disputes; and

regulation of strikes and dismissals.

Harmony invests in the training and development of its current and potential employees. During fiscal 2010 a significant number of South African employees received some form of training in areas such as mining, engineering, metallurgy, mineral reserve, human resources and soft skills. In South Africa, we have various programs in place to attract and develop university and young school leavers through apprenticeships, bridging programs and bursaries, as well as extensive in-house and external training programs.

In the mining industry, our relationship with the unions and the government is well established and provides a structure for negotiation between independent representative Trade Unions and employer associations of all conditions of employment and the provision of benefits, including retirement benefits and health care for employees and their dependants. This structure also allows for consultation on many operational issues including for example, recruitment and selection, training and development and health and safety. We are no different from the other major gold producers in this regard; we fully participate, and in some instances have played a major role, in the industry's industrial relations structures, including the Chamber of Mines of South Africa (which represents the interest of the major employers in the mining sector), the various statutory training bodies and benefit structures.

The major unions present and recognized by us are the (i) National Union of Mineworkers ( **NUM** ), (ii) United Association of South Africa ( **UASA** ) and (iii) Mineworkers' Solidarity. The unions are represented as follows:

NUM	75%
UASA	9%
Solidarity	2%
Collective Bargaining Fund	2%
Non-union	12%

Certain employees are subject to Agency Shop arrangements (termed the Collective Bargaining Fund above) whereby the terms and conditions of service negotiated and agreed to with the recognized Trade Unions are extended to apply to non-union members who, in turn, then pay a small fee to the union) and the rest of the employees either do not belong to a union or belong to one of the more insignificant unions active in Harmony from time to time.

As a result of our highly unionized labor force and the fact that labor costs constitute approximately 54% of production costs, we have attempted over the years to balance union demands for improvements in wages and conditions of employment with the need to contain and reduce cash costs in order to ensure the long-term viability of our operations.

While no statutory minimum notice period in respect of operational changes is stipulated in Harmony's collective agreements, there are prescribed processes both in the statutes and collective agreements that have to be completed before any significant operational change can be implemented. The Labor Relations Act in South Africa governs the minimum notice period required in respect of organizational change affecting 50 or more employees. A 60-day notice and consultation period regarding any proposed restructuring or organizational change is allowed in terms of Section 189A of the Act.

The most significant event in our employee relations during fiscal 2010 was the closure of a number of operations in Virginia and Evander potentially affect some 3,000 employees. A workforce reduction of this size by a South African company is a very sensitive issue; however we were able to place a large number of employees in other operations in consultation with recognised Trade Unions. Consequently the exercise went off without any operational disruptions and negative publicity. Once again the success of an exercise of this nature is attributable to the excellent relationship that our management has cultivated with the unions over the last five years. Employees who were not

fortunate enough to find placement elsewhere were given severance packages and many were placed in alternative training programs funded by the Company's social plan.

The industry wage negotiations were successfully completed in July 2009, and the unions reached an agreement with the Chamber of Mines which provided for a better-than-inflation wage agreement (ranging from 10.5% for lower level semi-skilled employees down to 9% for the more skilled employees). Also agreed was that the minimum wage be increased to R4,000 (US\$528) a month with effect from July 2010 for category 3 employees. The wage increases are supplemented by non-contributory medical aid, as well as a living-out allowance or free accommodation and food, as has been practice in the South African mining industry. A guaranteed wage increase of 7.5%, or Consumer Price

Index plus 1%, whichever is the higher of the two, was agreed for the second year of the two-year settlement agreement. Special arrangements were also agreed to attempt to address the skills shortage in the industry and certain key job categories now receive scarcity allowances of various kinds in an attempt to make the industry attractive to them.

An additional element in the wage agreement was the company's agreement to engage with recognised trade unions in discussion regard the creation of an Employee Share Ownership ( **ESOP** ) scheme. By October 2010 these discussions had reached an advanced stage and the forthcoming months will see the share holders consider a proposal in this regard at the Annual General Meeting in December 2010.

#### *Work Stoppages*

There were no group-wide work stoppages in fiscal 2010.

A series of disruptions did occur at our Bambanani operation as a result of rivalry between leadership factions in the NUM. This resulted from a breakaway from the NUM of some 800 employees who then embarked on the disruptions, including two work stoppages, in pursuit of various demands relating to organisational rights. These actions were not supported by the majority of employees or the recognized unions' leadership. After a number of warnings that such disruption cannot continue, we dismissing some 287 employees. The dismissals were referred to a tribuneral consisting of three prominent advocates who found that we had acted fairly in dismissing the employees. The findings of the tribuneral have now been referred to the Labour Court for review.

A further work stoppage occurred in May 2010 at the Target operation which lasted over two shifts. The matter was dealt with through a number of meetings with the NUM and operational management and with the intervention of the Commission for Conciliation Mediation and Arbitration ( **CCMA** ) it was decided, in a spirit of compromise and reconciliation, to take no action against offending employees.

#### *Women in mining*

The Mining Charter stipulates that 10% of the total workforce should be made up of women by 2009. We have exceeded this target at some of the operations. At the end of June 2010, there were 4,423 women in the group (1%), compared with 3,952 in fiscal 2009, or 11% of women in the total workforce. Various steps have been taken to accommodate women in the underground mining environment. The percentage of women in management was 16% and 9% (2009: 8%) in the core disciplines of engineering, mining, ore reserve management and metallurgy.

There is no differentiation in salary scales for men and women at Harmony.

#### *Australia*

Employee relations in Australia are regulated by a combination of federal and state statutes that stipulate minimum standards and provide for collective bargaining and action. All employment contracts are based on Fair Work Act of 2009 and the National Employment Standards. Our Australian workforce is not unionized.

#### *Papua New Guinea*

Employee relations in PNG are regulated by the Employment Act of 1978 (PNG) and the Employment of Non-Citizens Act 1978 (PNG). Individual contracts are entered into, and the workforce is not unionized.

The workforce comprises both expatriates and national citizens, with most expatriates (8% of the workforce) working a fly-in fly-out roster.

In PNG, wages are guided by independent market research that compares mining, oil and gas companies in the region. Industrial relations at Hidden Valley have been established through regular dialogue between management and employees via the Employee Relations Committee ( **ERC** ). Employees at PNG are not unionized, however, employment is guided by a Memorandum of Agreement ( **MOA** ) between the Landowner Association, the company and the government. The MOA governance process requires that, when qualifications and experience are equivalent, employment preference is given to local and landowner candidates before individuals from other provinces or countries. Compliance with this agreement is a critical issue in maintaining Harmony's license to operate.

PNG obtained government approval to recruit females specifically in the surface mining environment. As a result, there are plans in place across Morobe Mining to address the gender balance of employees. Aptitude tests of women landowners are ongoing to establish a pool of available candidates. In fiscal 2010, 18% of the workforce in PNG was women, compared to 16% in fiscal 2009, exceeding the 15% target set in fiscal 2008.

### **Long Term Incentive Schemes**

In addition to employees' annual salaries, Harmony has implemented various share option schemes, including the Harmony 2006 Share Plan. In all, 60,011,669 shares of Harmony's share capital is reserved for long-term incentive schemes.

#### *The 2001 and 2003 share option schemes*

Harmony has two share option schemes, namely the 2001 Share Option Scheme and the 2003 Share Option Scheme (collectively the existing schemes), which all have similar rules. Since the implementation of the 2006 Share Plan, no options have been nor will be issued in terms of the existing schemes. Options granted before the implementation of the 2006 Share Plan remain open for acceptance for 10 years after the date of grant, subject to the terms of the relevant option scheme.

#### *Broad-Based Employee Share Scheme ( ESOP )*

The Group intends to implement a broad-based ESOP and intends to structure the scheme so as to maximise the recognition of black participation therein, both from the perspective of the MPRDA and the Broad-Based Black Economic Empowerment Act. Discussions relating to option benefits for non- managerial employees are ongoing with unions representing these employees.

#### *The Harmony 2006 Share Plan*

The Harmony 2006 Share Plan ( **the Plan** ) was adopted by shareholders at the annual general meeting held on November 10, 2006. The Plan incorporates the following elements: equity- settled share appreciation rights, performance shares and performance allocated restricted shares. The Plan is in line with global best practice and emerging South African practice, which in combination serves to reward the required attributes of shareholder alignment and long- term, sustained performance.

In terms of the Plan, executive directors and senior employees of Harmony and its subsidiaries and associates are awarded rights to receive shares in Harmony. This is based on the value of these awards when time and performance conditions have been met, the awards have vested and, in the case of the Share Appreciation Rights (SARs), the rights have been exercised.

The primary intent of the Plan is to reward executives and senior management for long term, sustained performance achievements which are aligned to shareholder value.

The nature of the Plan, which is linked to performance conditions, is not as dilutive as a normal share option scheme.

Annual allocations of SARs awards of performance shares and grants of restricted shares are governed by Harmony's reward philosophy, in which (*inter alia*) the expected value of long-term incentive rewards is set for defined categories of executives and senior management. The expected value is defined as the present value of the future reward outcome of an allocation/award/grant, given the targeted future performance of Harmony and its share price.

The 2006 allocations and awards became eligible for vesting during fiscal 2010. The SARs vested as the performance conditions were met, but the performance conditions for the performance shares were not met. All performance shares for the 2006 allocations therefore did not vest and these awards lapsed.

#### *Annual incentive scheme*

Our Remuneration Committee ensures that our directors and senior executives are fairly rewarded for their individual contributions to our overall performance.

In September 2006, the Remuneration Committee approved an annual incentive scheme as part of Harmony's Reward Philosophy to benefit executive directors and members of management. Since July 2008 the shaft management teams get paid a quarterly bonus and are excluded from the annual incentive schemes.

**Item 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS****Major Shareholders**

We are an independent gold producer, with no single shareholder exercising control. As of October 18, 2010, our issued share capital consisted of 428,873,695 ordinary shares. To our knowledge, (A) we are not directly or indirectly owned or controlled (i) by another corporation or (ii) by any foreign government and (B) there are no arrangements (including any announced or expected takeover bid), the operation of which may at a subsequent date result in a change in our control.

The voting rights of our major shareholders do not differ from the voting rights of other holders of the same class of shares.

Significant changes in the percentage ownership held by major shareholders in the past three years are described below on *Related Party Transactions* .

A list of the 5% holders of our securities as of October 18, 2010 is set forth below:

<b>Holder</b>	<b>Number of Shares</b>	<b>Percentage</b>
1. Bank of New York (1)	114,814,698	26.8
2. ARM Ltd. (2)	63,632,922	14.6
3. Allan Gray	56,670,554	13.3
4. Blackrock Investment Management (UK) Ltd.	41,074,797	9.6

(1) Depository with respect to the ADRs held on the U.S. register.

(2) Patrice Motsepe, our Chairman, has an indirect holding in ARM Limited.

As of October 18, 2010, there were 2,136 record holders of our ordinary shares in the United States.

**Capital Raising**

During fiscal 2009, Harmony engaged in capital raising by issuing two tranches of shares following the resolution passed by shareholders at the Annual General Meeting held on November 24, 2008, that allowed directors to issue shares for cash. In the first tranche, completed between November 25, 2008 and December 19, 2008, 10,504,795 Harmony shares were issued at an average subscription price of R93.20, resulting in R979 million (US\$98 million) before costs being raised.

The second tranche of shares was issued between February 10, 2009 and March 6, 2009 and consisted of 7,540,646 Harmony shares being issued at an average subscription price of R124.45, resulting in R938 million (US\$94 million) before costs being raised. The combined share issue amounts to R1.9 billion (US\$192 million) at a cost of R30 million (US\$3.5 million).

**Related Party Disclosure and Transactions**

None of our directors or major shareholders or, to our knowledge, their families, had any interest, direct or indirect, in any transaction since July 1, 2007 or in any proposed transaction that has affected or will materially affect us or our subsidiaries, other than as stated below.

ARM Limited currently holds approximately 14.6% of our shares. Patrice Motsepe, André Wilkens, Joaquim Chissano and Frank Abbott are directors of ARM Limited.

Included in the Group's consolidated balance sheet at June 30, 2009 is a loan to the Morobe Mining Joint Venture amounting to US\$9.7 million, being Newcrest's portion of the loan to the PNG joint venture companies.

We have three directors on the board of Rand Uranium, being Graham Briggs, Hannes Meyer and Fikile De Buck. Dr Simo Lushaba is a member of the Rand Uranium Investment Committee. Rand Uranium owes the Group US\$5 million (2009: US\$4.8 million) for services and goods provided in terms of the service level agreements entered into between the Group and Rand Uranium. The Group has subordinated a loan of US\$8.3 million (2009: US\$8.5 million) owed by Rand Uranium. The loan bears interest at a rate equal to the 91 Day JIBAR plus 250 basis points and is repayable on November 21, 2015.

During fiscal 2010 we concluded separate purchase agreements with the liquidators of Pamodzi FS for the purchase of its Free State assets and inventories. The consideration paid for the mining assets was US\$36.6 million and US\$16.0 million was paid for the inventories. Pamodzi FS was a subsidiary of Pamodzi, which is an associate of Harmony. A balance of US\$2.2 million is owed by Pamodzi FS at June 30, 2010 in terms of the asset purchase agreements, for the rehabilitation trust funds to be released to the group.

On March 19, 2010, Harmony Gold Mining Company Limited concluded an agreement with AVRDC, for the purchase of its 26% share of the mining titles of the Doornkop South Reef. The 26% interest was transferred from AVRDC to Harmony in exchange for Harmony repaying the AVRDC Nedbank loan of US\$33.4 million and the issue of 2,162,359 Harmony shares, valued at US\$20.5 million. In terms of the agreement, 975,419 of these shares will be held in escrow until May 1, 2014.

On November 21, 2008, the Group disposed of its Randfontein Cooke assets to Rand Uranium in exchange for 100% interest in the company. On the same date the Group disposed of 60% of the interest held in Rand Uranium to PRF which resulted in a 40% interest held and Rand Uranium became an associate. The conditions precedent for the second part of the Rand Uranium transaction relating to the sale of the Old Randfontein assets were fulfilled on April 22, 2009. Additional shares were issued in settlement and 60% of these shares were sold to PRF in terms of the agreement. PRF paid its portion of the purchase price in cash on April 20, 2009. The total value of these transactions was US\$348 million.

In fiscal 2008 Morobe Consolidated Goldfields Limited and Wafi Mining Limited, subsidiaries of Harmony Gold (Australia) (Proprietary) Limited entered into a Master Purchase and Farm-in Agreement with Newcrest. This agreement provided for Newcrest to purchase a 30.01% participating interest (stage 1) and a further buy-out of an additional 19.99% participating interest in Harmony's PNG Gold and copper assets, giving them a 50% interest.

On July 11, 2008, we sold our 37.8% share in Village Main Reef Gold Mining Company (1934) Limited for R1.1 million (US\$0.1 million) to To the Point Investments. ZB Swanepoel, our former Chief Executive Officer, is a director and founder of To the Point Investments.

On February 27, 2008, the Group sold its Orkney assets to Pamodzi in exchange for shares, whereby it obtained an interest of 32.4% and Pamodzi became an associate. Subsequent to this, we provided goods and services to Pamodzi at cost plus an applicable margin as set out in the service level agreement. The balance of the unsecured loan at June 30, 2008 was R103 million (US\$13.2 million). Interest was charged at prime rate. When Pamodzi was placed into liquidation in March 2009, interest was no longer charged on the loan and the loan was provided for in full. The balance of the loan at that time was R116 million (US\$15.0 million).

In fiscal 2005, as part of the disposal of our investment in ARM Limited to the ARM Broad-based Economic Empowerment Trust ( **BEE Trust** ), various agreements were put in place to which we accepted and resulted in the majority of the risk not being transferred away from us. Included in these agreements were two guarantees by us to Nedbank relating to the loans obtained by the BEE Trust to acquire the shares from us. On September 28, 2007, the guarantees were cancelled by Nedbank and, consequently, we have no further obligation to Nedbank in this regard. The ARM investment (and associated Nedbank loan) have been derecognized from this date.

#### **INTERESTS OF EXPERTS AND COUNSEL**

Not applicable.



## **Item 8. FINANCIAL INFORMATION CONSOLIDATED STATEMENTS**

Please refer to *Item 18. Financial Statements* of this annual report.

### **Legal Proceedings**

None of our properties is the subject of pending material legal proceedings. We have experienced a number of claims and legal and arbitration proceedings incidental to the normal conduct of our business, such as the ones described below. The directors, however, do not believe that liabilities related to such claims and proceedings are likely to be, individually or in the aggregate, material to the company's consolidated financial condition.

#### ***Class Action***

There is a pending class action in the United States whereby certain ADR holders are seeking damages against us pertaining to our business practices for the period April 7, 2007 to August 6, 2007. We have filed with the court a Motion to Dismiss all claims asserted in the class action case, the plaintiffs have filed an opposing response, and we have subsequently replied to that response. On March 19, 2010 the Court denied the Company's application for dismissal and subsequently the Company filed a Motion for Reconsideration in which it requested the Court to reconsider its judgement. This matter was heard on April 27, 2010 and the Company's request for reconsideration of judgement was denied. The Company is defending the matter and the legal process is taking its course. It is currently not possible to estimate if there will be a financial effect, or what that effect might be.

#### ***ArcelorMittal South Africa Limited ( ArcelorMittal )***

On September 14, 2009 Harmony and DRDGold withdrew a complaint to the Competition Commission against ArcelorMittal originally made in 2002. The complaint alleged that ArcelorMittal had abused its dominant position in the local market for flat steel products by charging excessive prices. Following several years of litigation, Harmony, DRDGold and ArcelorMittal entered into a settlement agreement, the terms of which are confidential.

### **Dividends and Dividend Policy**

We paid interim and final dividends on our ordinary shares in 2003 and 2004. Due to operating conditions and our commitment to expenditure on long-term growth projects, we were not able to declare any dividends in fiscal 2005, fiscal 2006, fiscal 2007 or fiscal 2008. On August 13, 2009, the board approved a final dividend for fiscal 2009 of R0.50 per share, that was paid on September 21, 2009. The total amount of the dividend paid was R213 million (US\$28.6 million). As the dividend was declared after the reporting date of June 30, 2009, the dividend was not recorded in fiscal 2009. On August 13, 2010, the board approved a final dividend for fiscal 2010 of R0.50 per share, that was paid on September 20, 2010. The total amount of the dividend paid was R214 million (US\$29.3 million). As the dividend was declared after the reporting date of June 30, 2010, the dividend was not recorded in fiscal 2010. For information on our accounting policy relating to dividends, see note 2.20 to the consolidated financial statements.

South African law was relaxed to permit the distribution of a company's equity as a dividend, provided that the necessary shareholder or board approval is obtained and, after the distribution of the dividend, the company remains solvent and liquid. Cash dividends, however, may only be paid out of accumulated profits or other distributable reserves. Previously under South African law, a company's equity could not be distributed as a dividend. The amount of dividends, if any, paid in the future will depend on our results of operations, financial condition, cash requirements and other factors deemed relevant by the board.

### **Recent Developments**

#### ***Closure of Merrespuit 1***

On October 18, 2010, Harmony announced that it will be closing the Merrespuit 1 shaft in Virginia at the end of October 2010.

#### ***Sale of Mount Magnet Gold in Australia***

On July 20, 2010 Harmony executed a share sale agreement with the Australian-based gold miner Ramelius Resources Limited for the sale of the Mount Magnet Gold Project for A\$40 million cash.

#### ***Dividends***

On August 13, 2010, the board approved a final dividend for fiscal 2010 of 50 SA cents per share, paid on September 20, 2010. The total



dividend amounts to R214 million (US\$29.3 million).

***Merriespruit South region and Freegold option***

On September 3, 2010, Harmony concluded two transactions with Witwatersrand Consolidated Gold Resources Limited ( **Wits Gold** ), in which Wits Gold will obtain a prospecting right over Harmony's Merriespruit South area and the option held by ARMGold/Harmony Freegold Joint Venture Company (Proprietary) Limited ( **Freegold** ), a wholly owned subsidiary of Harmony. The option was to acquire a beneficial interest of up to 40% in any future mines established by Wits Gold on certain properties in the Southern Free State (Freegold option), which will be cancelled. Harmony will abandon a portion of its mining right in respect of the Merriespruit South area to enable Wits Gold to include this area in its prospecting right, which is located immediately south of the Merriespruit South area.

The total consideration was R336 million (US\$47 million), (R61 million (US\$9 million) for the prospecting area and R275 million (US\$38 million) for the cancellation of the option agreement), which will be settled in cash or in a combination of cash and shares in Wits Gold, when all remaining conditions precedent to the transaction have been fulfilled.

***Evander 6 and Twistdraai***

On September 10, 2010, Harmony concluded a sale of assets agreement with Taung Gold Limited ( **Taung** ), in which Taung acquired the Evander 6 shaft, the related infrastructure and surface right permits as well as a mining right over the Evander 6 and Twistdraai areas. The total purchase consideration is R225 million (US\$29 million at 30 June 2010 exchange rate) which will be settled in cash, when all remaining conditions precedent to the transaction have been fulfilled.

***Closure of Merriespruit 1***

On October 4, 2010, the decision was made to finally close Merriespruit 1 shaft, under the Section 189 (of the Labour Relations Act) already in place. The closure was postponed in terms of an agreement reached with organized labour to keep the shaft open while it remained profitable.

**Item 9. THE OFFER AND LISTING****Markets****Stock Exchange Listings and Ticker Codes**

The primary listing of our ordinary shares is on the JSE Limited. Our ordinary shares are also listed on stock exchanges in London and Berlin, as well as being quoted in Brussels in the form of International Depositary Receipts (IDRs) and on the New York Stock Exchange in the form of ADSs. We notified NASDAQ on June 9, 2010 of our intention to voluntarily terminate our listing on NASDAQ. The last day of trading of Harmony's ADSs on NASDAQ was June 21, 2010. We voluntarily delisted from Euronext Paris on August 30, 2010.

JSE Limited	HAR
New York Stock Exchange	HMY
London Stock Exchange	HRM
Euronext Brussels	HMY
Berlin Stock Exchange	HAM1

**Offering and Listing Details**

The high and low sales prices in Rand for our ordinary shares on the JSE for the periods indicated were as follows:

	<b>Harmony Ordinary Shares (Rand per Ordinary Share)</b>	
	<b>High</b>	<b>Low</b>
<b>Fiscal year ended June 30, 2008</b>		
First Quarter	104.05	60.00
Second Quarter	83.05	63.00
Third Quarter	118.50	69.00
Fourth Quarter	104.41	82.98
Full Year	118.52	60.00
<b>Fiscal year ended June 30, 2009</b>		
First Quarter	97.00	54.99
Second Quarter	103.75	62.50
Third Quarter	129.50	92.50
Fourth Quarter	104.40	75.50
Full Year	129.50	54.99
<b>Fiscal year ended June 30, 2010</b>		
First Quarter	87.51	69.05
Second Quarter	87.00	74.00
Third Quarter	80.77	68.80
Fourth Quarter	81.40	68.65
Full Year	87.51	68.65
<b>Month of</b>		
July 2010	81.10	71.90
August 2010	80.50	73.00
September 2010	83.80	74.69
As of October 18, 2010	81.40	76.80

On October 18, 2010, the share price of our ordinary shares on the JSE was R77.50.

Our ADRs are listed on the New York Stock Exchange. We were listed on NASDAQ from November 29, 2005 until we voluntarily de-listed on June 21, 2010. The high and low sales prices in U.S. dollars for our ADRs for the periods indicated, as reported on the NYSE and NASDAQ, were as follows:

	NYSE Harmony ADRs (\$ per ADR)		NASDAQ Harmony ADRs (\$ per ADR)	
	High	Low	High	Low
<b>Fiscal year ended June 30, 2008</b>				
First Quarter	15.27	8.42	15.27	8.41
Second Quarter	11.90	9.35	11.90	9.35
Third Quarter	14.56	9.34	14.56	9.34
Fourth Quarter	13.20	10.45	13.20	10.45
Full Year	15.27	8.42	15.27	8.74
<b>Fiscal year ended June 30, 2009</b>				
First Quarter	12.51	6.39	12.47	6.40
Second Quarter	10.97	5.58	10.97	5.54
Third Quarter	13.06	9.12	13.07	9.13
Fourth Quarter	12.10	8.17	12.03	8.20
Full Year	13.06	5.58	13.07	5.54
<b>Fiscal year ended June 30, 2010</b>				
First Quarter	11.75	8.50	11.78	8.50
Second Quarter	11.98	9.73	11.94	9.74
Third Quarter	11.11	8.79	11.10	8.81
Fourth Quarter	10.57	9.04	10.54	9.03
Full Year	11.98	8.50	11.94	8.50
<b>Month of</b>				
July 2010	10.71	9.72	n/a	n/a
August 2010	11.02	9.95	n/a	n/a
September 2010	11.74	10.10	n/a	n/a
As of October 18, 2010	11.87	11.20	n/a	n/a

On October 18, 2010, the closing share price of our ordinary shares on the NYSE was US\$11.20.

### ***The Securities Exchange in South Africa***

The JSE is the sixth largest emerging market exchange and by far the leading exchange in Africa, playing a leadership role in the continent, supporting South Africa's role as the African financial hub. It is also recognized as a leading exchange in the global resources sector.

As South Africa's only full service securities exchange, the JSE connects buyers and sellers in five different markets; equities, which includes a primary and secondary board, equity derivatives, agricultural derivatives and interest rate instruments. The JSE is one of the top 20 exchanges in the world in terms of market capitalization. The market capitalization of the JSE equities market was R5,635 billion (US\$736 billion) at June 30, 2010. The mining market capitalization was, at June 30, 2010, 28% of the overall JSE market capitalization and constituted 33% in terms of value traded.

The JSE is the market of choice for local and international investors looking to gain exposure to the leading capital markets in South Africa and the broader African continent.

### ***History***

The Securities Exchange in South Africa, now known as JSE Limited, was formed in November 1887. In 1993 the JSE became an active member of the African Stock Exchanges Association. On May 15, 1996, the formal bond market passed from the JSE to the Bond Exchange of South Africa and is separately licensed as a financial market in terms of the Financial Markets Control Act.

Following the closure of the open outcry trading floor on June 7, 1996, an order driven, centralized automated trading system known as the JSE Equities Trading, or JET, system was introduced together with dual trading and negotiated brokerage. On August 18, 1997, the Listings division of the JSE introduced a real time news service for the dissemination of company announcements and price sensitive information. Stock Exchange News Service ( **SENS** ) ensures early, equal and wide dissemination of all information that is expected to have an effect on the prices of securities that trade on the JSE. In 1998, the JSE introduced an Internet-based Service, the Emerging Enterprise Zone, or the EEZ, to match seekers and providers of capital for small and medium business. In November 1999, the electronic clearing and settlement system, Share Transactions Totally Electronic ( **STRATE** ) was introduced and the JET system was modified to prepare for the implementation of an open interface to the system via the Application Program Interface. The Alternative Exchange, known as the AltX , aimed at attracting smaller companies to the JSE, was launched in October 2003 and at June 30, 2010 boasts 70 listings. Yield-X, which trades spot and derivative interest rate products across the yield curve on an automated central order book was introduced in February 2005. The JSE s Single Stock Futures market is the world leader in terms of contracts traded, according to the World Federation of Exchanges IOMA Derivative Markets Survey.

Concurrent with its loss of tax-exempt status on July 1, 2005, the JSE Securities Exchange South Africa de-mutualized, ending its 118 year history as a tax-exempt, member owned, voluntary association to become JSE Limited, a public but unlisted company.

***STRATE Settlement***

Under STRATE there are essentially two types of clients: controlled and non-controlled. A controlled client is one who elects to keep his shares and cash with his broker and these shares are held in custody at the broker's chosen Custodian Bank, the CSDP. A non-controlled client is one who appoints his own CSDP to act as custodian on his behalf. Equity settlements take place on a contractual T+5 (where T= trade date) settlement cycle. Securities and funds become due for settlement a set number of business days after the trade. Contractual settlement is a market convention embodied in the rules of the JSE which states that a client has a contractual obligation to cause a JSE trade to settle on settlement day. The JSE, in its capacity as Settlement Authority, ensures that all on-market trades entered into by two JSE member firms settle five days after the trade date.

**PLAN OF DISTRIBUTION**

Not applicable.

**SELLING SHAREHOLDERS**

Not applicable.

**DILUTION**

Not applicable.

**EXPENSES OF THE ISSUE**

Not applicable.

**Item 10. ADDITIONAL INFORMATION**  
**Memorandum and Articles of Association**

*This section summarizes certain material provisions of Harmony's Memorandum and Articles of Association, the Companies Act and the JSE listings requirements, each as currently in effect. These descriptions do not purport to be complete and are qualified in their entirety by reference to all of the provisions of those sources. Directions on how to obtain a complete copy of Harmony's Articles of Association are provided under Documents on Display below.*

*General*  
We are a public company with limited liability, and is registered under the Companies Act with the Registrar of Companies, Department of Trade and Industry under Registration number 1950/038232/06. We are governed by our Memorandum of Association and Articles of Association, the provisions of the Companies Act and the various Listings Requirements. Our operations are also subject to various laws and regulations, including those described in *Item 4. Information on the Company Regulation*.

*Objects and Purposes*

Our objects are set forth in Paragraph 3 of our Memorandum of Association and include:

to acquire by purchase, cession, grant, lease, exchange or otherwise any movable or immovable property, mines, mineral property, claims, mineral rights, mining rights, mining leases, mining titles, mynpachts, lands, farms, buildings, water rights, concessions, grants, rights, powers, privileges, surface rights of every description, servitudes or other limited rights or interests in land and mineral contracts of every description; and any interest therein and rights over the same; and to enter into any contract, option or prospecting contract in respect thereof, and generally to enter into any arrangement that may seem conducive to our objects or any of them;

to carry out all forms of exploration work and in particular to search for, prospect, examine, explore and obtain information in regard to mines, mineral properties, claims, mineral rights, mining rights, mining leases, mining titles, mynpachts, mining districts or locations and ground and soil supposed to contain or containing precious stones, minerals or metals of every description;

to open, work, develop and maintain gold, silver, diamond, copper, coal, iron and other mines, mineral and other rights, properties and works, and to carry on and conduct the business of raising, crushing, washing, smelting, reducing and amalgamating ores, metals, minerals and precious stones, and to render the same merchantable and fit for use and to carry on all or any of the businesses of miners, mineralogists, metallurgists, amalgamators, geophysicists, smelters, quarry owners, quarrymen and brickmakers;

to buy, sell, refine and deal in bullion, specie, coin and precious and base metals, and also precious stones and other products of mining; and

to employ and pay mining experts, agents and other persons, partnerships, companies or corporations, and to organize, equip and dispatch expeditions for prospecting, exploring, reporting on, surveying, working and developing lands, farms, districts, territories and properties in any part of the world, whether the same are our property or otherwise.

**Directors**

*Disclosure of Interests*

A Harmony director may not vote in respect of any contract or arrangement in which he or she is interested, and may not be counted in the quorum for the purpose of any resolution regarding such a contract or arrangement. This restriction does not apply, however, to:

any arrangement for giving the director a security or indemnity in respect of money lent, or an obligation undertaken, by such director for our benefit;

any arrangement by which we give any security to a third party in respect of our debt or obligation for which the director himself or herself has assumed responsibility, in whole or in part, whether under a guarantee or indemnity



or by the deposit of a security;

any contract by the director to subscribe for or underwrite our shares or debentures;

any contract or arrangement with a company other than us, in which the director holds or controls, directly or indirectly, no more than 1% of shares representing either (i) any class of the equity share capital of that company or (ii) the overall voting rights of that company; or

any retirement scheme or fund which relates to both directors and to employees (or a class of employees) and does not accord to any director, as such, any privilege or advantage not generally accorded to the employees to which such scheme or fund relates.

The restrictions preventing directors from voting in respect of contracts or arrangement in which they are interested may be suspended or relaxed at any time, either generally or in respect of particular circumstances, by the holders of 75% of our ordinary shares who are present and voting in a general meeting.

A director, notwithstanding his or her interest, may be counted in the quorum present at any meeting where: (i) he or she or any other director is appointed to hold any office or position of profit in Harmony; (ii) the directors resolve to exercise any of our rights to appoint, or concur in the appointment of, a director to hold any office or position of profit in any other company; or (iii) the terms of any such appointment are considered or varied. At this meeting, each director may vote on the matters listed above, but no director may vote in respect of his or her own appointment, or the arrangement or variation of the terms of his or her own appointment.

The restrictions described above do not prevent or debar any director, as a holder of any class of our shares, from taking part in or voting upon any question submitted to a vote by that class at a general meeting, regardless of that director's personal interest or concern.

#### *Compensation*

The remuneration of our directors in their capacity as directors, including fees per directors meeting, and additional compensation for the performance of other services, such as serving on committees, may be established either by a majority of the holders of our ordinary shares, present and voting in a general meeting, or by a majority of disinterested directors at a meeting of directors, provided they constitute a quorum.

#### *Borrowing Powers*

Our directors may raise, borrow or secure the payment of any sums of money for our purposes as they see fit. However, without the consent of a majority of the holders of our ordinary shares present and voting in a general meeting, the aggregate principal amount outstanding in respect of monies raised, borrowed or secured by us and any of our subsidiaries may not exceed the greater of (i) R40 million or (ii) the aggregate amount, from time to time, of our issued and paid up capital, plus the aggregate of the amounts standing to the credit of all distributable and non-distributable reserves, plus our share premium account and the share premium accounts of our subsidiaries.

The Companies Act provides that a company may only make a loan to its owner, director or manager with the prior consent of all the members of the company or pursuant to a special resolution relating to a specific transaction.

#### *Rotation*

At each of our annual general meetings, one-third of the directors, or, if the number is not a multiple of three, then the number nearest to but not exceeding one-third, shall retire from office by rotation. Those directors who have been longest in office since their last election or re-election shall retire. As between directors of equal seniority, the directors to retire by rotation shall, in the absence of agreement, be selected by lot. If at the date of any annual general meeting, any director shall have held office for a period of at least three years since his or her last election or re-election, he or she shall retire at such meeting, either as one of the directors resigning pursuant to the aforementioned rotation principles, or in addition thereto. Retiring directors are eligible for re-election and said directors have made themselves available for re-election.

If a director is appointed to any Harmony executive office, his or her employment contract may provide that he or she shall be exempt from rotation for the lesser of (i) a period of 5 years or (ii) the period during which he or she continues to hold the relevant executive office. During the relevant period, the director in question shall not be taken into account in determining the retirement of directors by rotation. The number of directors who may be exempt from retirement by rotation in this manner shall not equal or exceed one-half of the total number of the directors at the time of the relevant director's appointment. Currently none of our directors are exempted from retirement under these

provisions.

*Qualifications*

There is no age limit requirement with regard to retirement or non-retirement of directors. Directors are not required to hold any of our shares to qualify them for appointment as directors.

**Share Capital**

As of June 30, 2010, our issued share capital consisted of 428,654,779 ordinary shares with a par value of R0.50 each. As of October 18, 2010, our issued share capital consisted of 428,873,695 ordinary shares with a par value of R0.50 each. Our authorized share capital is 1,200,000,000 ordinary shares with a par value of R0.50 each. The terms of the ordinary shares are described in *Description of Ordinary Shares* below.

**Description of Ordinary Shares**

*This section summarizes the material provisions of Harmony's ordinary shares as set out in Harmony's Memorandum and Articles of Association, the Companies Act and the JSE listings requirements, each as currently in effect. It does not purport to be complete and is qualified in its entirety by reference to all of the provisions of those sources.*

*Dividends*

Either the board or a majority of the holders of our ordinary shares, voting in a general meeting, may, from time to time, declare a dividend to be paid to the registered holders of ordinary shares according to their respective rights and interests in the profits, measured in proportion to the number of ordinary shares held by them. Under South African law, a company's equity may be distributed as a dividend, provided that any necessary shareholder approval is obtained and, after the distribution of the dividend, the company remains solvent and liquid. Cash dividends, however, may only be paid out of the profits of the company. Cash dividends paid by us will not bear any interest payable by us. Dividends may be declared either free of, or subject to, the deduction of income tax and any other tax or duty which may be chargeable. There is currently no tax payable in South Africa by the recipients of dividends who are outside South Africa.

Dividends are declared payable to holders of ordinary shares who are registered as such on a record date determined by the board, which must be after the later of the date of the dividend declaration or the date of confirmation of the dividend. The period between the record date and the date of the closing of the transfer registers in respect of the dividend shall be not less than 14 days.

Holders of our ordinary shares, voting in a general meeting, may not declare a dividend greater than the amount recommended by the directors, but may declare a smaller dividend. Dividends will be paid to the holders of our ordinary shares in proportion to the number of their shares. All unclaimed dividends may be invested or otherwise utilized by the board for our benefit until claimed; provided that dividends unclaimed after a period of twelve years from the date of declaration may be declared forfeited by the board. Forfeited dividends revert to us.

Any dividend or other sum payable in cash to a holder may be transmitted by a payment method determined by the directors, such as electronic bank transfer or ordinary post to the address of the holder recorded in the register or any other address the holder may previously have given to us in writing. We will not be responsible for any loss in transmission.

Any dividend may be paid and satisfied, either wholly or in part, by the distribution of specific assets, including shares and debentures of any other company, in cash, or by one or more of such methods, as the board may determine and direct at the time of the dividend declaration.

When any holders of our ordinary shares reside outside of South Africa, the board has the power, subject to any applicable laws or regulations, to declare a dividend in a relevant currency other than the Rand and to determine the date on which and the rate of exchange at which the dividend shall be converted into the other currency.

All cash dividends paid by us are expected to be in Rand. Holders of ADRs on the relevant record date will be entitled to receive any dividends payable in respect of the ordinary shares underlying the ADRs, subject to the terms of the Deposit Agreement. Cash dividends paid in Rand will be converted by the depository to U.S. dollars and paid by the depository to holders of ADRs, to the extent it can do so on a reasonable basis and can transfer the U.S. dollars to the United States, net of conversion expenses of the depository, and in accordance with the Deposit Agreement.

#### *Voting Rights*

Subject to any rights or restrictions attached to any class of ordinary shares, every holder of our ordinary shares who is present in person at a shareholder meeting, or a person present as a representative of holders of one or more ordinary shares, shall on a show of hands have one vote, irrespective of the number of ordinary shares he holds or represents. Every holder of ordinary shares shall, on a poll, have one vote for every ordinary share held by him. A shareholder is entitled to appoint a proxy to attend and speak and vote at any meeting on his or her behalf. The proxy need not be a shareholder. On a poll, a shareholder entitled to more than one vote (or his representative, proxy or agent) need not, if he votes, use all of his votes or cast all of his votes in the same way.

#### *Distribution of Assets on Liquidation*

In the event of voluntary or compulsory liquidation, dissolution or winding up, the assets remaining after payment of all our debts and liabilities, including the costs of liquidation, will be applied to repay the amount paid up on our issued capital to holders of our ordinary shares and, thereafter, the balance will be divided pro rata among the holders of our ordinary shares, subject to any special rights or conditions attaching to any shares. Any portion of our assets may, upon such liquidation, dissolution or winding up, and with the approval of a special resolution, be paid to the ordinary shareholders by the distribution of specific assets or may be vested in trustees for the benefit of such ordinary shareholders.

#### *Redemption/Purchase of Shares*

No shares shall be issued which are redeemable by their terms or at the option of any party.

The Companies Act permits companies to establish share incentive trusts and provide funds with which such trusts may purchase securities (including debt and equity securities) of a company or its holding company. These securities are to be held by or for the benefit of employees, including salaried directors. The Companies Act also permits such a trust to loan funds to company employees for the purpose of purchasing or subscribing for our securities, provided that such trusts may not loan funds to directors who do not hold salaried employment or office.

The Companies Amendment Act provides that a company may approve the acquisition of its own shares by special resolution, if authorized to do so by its articles. A company is not, however, permitted to make any form of payment to acquire any of its own shares if there are reasonable grounds for believing that the company is or, after the payment, would be unable to pay its debts or if, after the payment, the consolidated assets of the company fairly valued would be less than the consolidated liabilities of the company. The procedure for acquisition of shares by a company is regulated, in the case of listed companies, both by the Companies Amendment Act and the Listings Requirements of the JSE. The Companies Amendment Act further provides that a company may make payments to its shareholders if authorized by its articles subject to the liquidity and solvency requirements described above.

We are authorized pursuant to our Articles of Association to approve the acquisition of our shares by special resolution from time to time. We are also authorized pursuant to our Articles of Association to make payments in cash or in specie to any class of our shareholders.

*Issue of Additional Shares and Pre-emptive Rights*

The Companies Act does not provide holders of any class of our shares with pre-emptive rights. However, the JSE requires that any new issues of equity shares by companies listed on the exchange must first be offered to existing holders of such shares, in proportion to their current holding.

The JSE will, however, allow a company to issue shares to third parties without first offering them to existing shareholders, in circumstances such as the following:

pursuant to an employee share incentive scheme the terms of which have been approved by the holders of the relevant class of shares in a general meeting;

for the acquisition of an asset, provided that if the issue is more than 30% of the company's issued share capital, a simple majority of holders of ordinary shares present and voting, must vote in favor of the acquisition;

to raise cash by way of a general issue in the discretion of the directors (but not to related parties) of up to 15% of the issued share capital in any one fiscal year at an issue price with a discount not exceeding 10% of the 30-day weighted average trading price prior to the determination date, provided that the holders of ordinary shares, present and voting at a general meeting, must approve the granting of such authority to the directors by a 75% vote; or

to raise cash by way of a specific issue of a specified number or a maximum number of shares for cash provided that the holders of ordinary shares, other than controlling shareholders, present and voting, vote in favor of the resolution to issue the shares at a general meeting by a 75% vote. In terms of JSE listings requirements, the circular to be sent to all shareholders informing them of the general meeting must include, inter alia:

details of the persons to whom the shares are to be issued if such persons fall into the following categories or other categories identified by the JSE: directors of the company or its subsidiaries or their associates; trustees of employee or directors' share scheme or pension funds; any person having the right to nominate directors of the company; and certain shareholders holding more than 10% of the issued share capital;

if the persons to whom the shares are to be issued are related parties, an independent expert's opinion that the issue price is fair and reasonable; and

should the maximum size of the issue equal or exceed 30% of the company's issued share capital, full listing particulars, which include, inter alia, a reporting accountant's report and, in the case of a mining company, a competent person's report setting out technical details of the company's operations and assets.

*Transfer of Shares*

Owners of our ordinary shares may transfer any or all of their shares in writing in any common form or in any form approved by our directors. Every instrument of transfer must be executed by the transferor or, if the directors so determine, by the transferor and the transferee. The transferor will remain the holder of the ordinary shares transferred until the name of the transferee is entered in our register of members in respect of such ordinary shares.

The board may refuse to recognize any instrument of transfer that is not duly stamped (if required) or is not accompanied by appropriate evidence of the transferor's title. Such right of refusal will not prevent dealings occurring on an open and proper basis. We retain all instruments of transfer that are registered. Any instrument of transfer that the board refuses to register is, except in the case of fraud, returned on demand to the person depositing such instrument.

*Rights of Minority Shareholders and Fiduciary Duties*

Majority shareholders of South African companies have no fiduciary obligations under South African common law to minority shareholders. However, under the Companies Act, a shareholder may, under certain circumstances, seek relief from the court if he has been unfairly prejudiced by the company. The provisions in the Companies Act are designed to provide relief for oppressed shareholders without necessarily overruling the majority's decision. There may also be common law personal actions available to a shareholder of a company.

Although the concepts are similar, the specific interpretations of fiduciary obligations of directors in South Africa may differ from those in the U.S. and certain other countries. In South Africa, the common law imposes on directors a duty to act with care, skill and diligence and fiduciary duties, which include the duty to conduct the company's affairs honestly and in the best interests of the company.

***Variation of Rights***

We may vary the rights attached to any issued or not yet issued shares by special resolution. However, if at any time the issued share capital is divided into different classes of shares, the rights attached to any class may not be varied except with the consent in writing of the holders of at least 75% of the issued shares of that class or through a resolution passed at a separate general meeting of the holders of the shares of that class. The quorum for such a meeting shall be the lesser of (i) 3 shareholders or (ii) 75% of the shareholders of that class, present in person or by their representatives, agents or proxies, provided that such shareholders must control or hold at least one half of the issued shares of that class. A share shall be a share of a different class from another share if the two shares do not rank *pari passu* in every respect.

***Changes in Capital or Objects and Powers of Harmony***

The provisions of our Memorandum and Articles of Association pertaining to changes in our share capital and powers are substantially equivalent to the provisions of the Companies Act. We may by special resolution:

increase our authorized or paid-up share capital;

consolidate and divide all or any part of our shares into shares of a larger amount;

increase the number of our no par value shares without an increase of our stated capital;

sub-divide all or any part of our shares having a par value;

convert all of our ordinary or preference share capital consisting of shares having a par value into stated capital constituted by shares of no par value and vice versa;

convert our stated capital constituted by ordinary or preference shares of no par value into share capital consisting of shares having a par value;

vary the rights attached to any shares whether issued or not yet issued;

convert any of our issued or unissued shares into shares of another class;

convert any of our paid-up shares into stock, and reconvert any stock into any number of paid-up shares of any denomination;

convert any of our issued shares into preference shares which can be redeemed;

cancel shares which, at the date of passing of the resolution, have not been taken or agreed to be taken by any person, and diminish the amount of the authorized share capital by the amount of the shares so cancelled; or

reduce the authorized share capital.

We may by ordinary resolution:

reduce our issued share capital;

reduce our stated capital; or

reduce our capital redemption reserve fund and share premium account.



***Meetings of Shareholders***

Our directors may at any time convene general meetings of our shareholders. The directors shall convene a general meeting upon request of shareholders in accordance with the provisions of the Companies Act. No more than fifteen months may elapse between the date of one annual general meeting and the next, and the annual general meeting shall be held within six months after the expiration of each of our financial years.

We are required to provide our members with written notice of meetings, which shall specify the place, the day and time of the meeting. In every notice calling a meeting of Harmony or of any class of members of Harmony, there shall appear with reasonable prominence a statement that a member entitled to attend and vote is entitled to appoint a proxy to attend and vote in lieu of such person and that a proxy need not also be a member. Notice of a general meeting shall be given to the JSE and to the following persons and no other person shall be entitled to receive notice of general meetings:

to every member of Harmony except any member who has not supplied to Harmony a registered address for the giving of notices;

to every person entitled to a share in consequence of the death or insolvency of a member;

to the directors and auditor for the time being of Harmony; and

by advertisement to the holders of share warrants to bearer.

Annual general meetings and meetings calling for the passage of a special resolution require twenty-one days notice in writing. Any other general meeting requires no less than fourteen days notice in writing. A meeting called upon shorter notice shall be deemed to have been duly called if a majority in number of the members having a right to attend and vote at the meeting agree to such a shortened notice period, and if such members hold no less than 95% of the total voting rights of all members.

Our business may be transacted at a general meeting only when a quorum of members is present. Three members present personally or by representative and entitled to vote are a quorum.

The annual general meeting deals with and disposes of all matters prescribed by our Articles of Association and by the Companies Act, including:

the consideration of the annual financial statements and report of the auditors;

the election of directors;

the appointment of auditors; and

any business arising from the annual financial statements considered at the meeting.

The holder of a general or special power of attorney given by a member, whether the holder is a member or not, shall be entitled to attend meetings of Harmony or of any class of members of Harmony and to vote at such meetings if so authorized by the power of attorney. Any member may appoint a proxy, who need not be a member, to attend, speak and, subject to the provisions of the Companies Act, to vote in his place on a show of hands and on a poll at any general meeting or at any meeting of any class of members. The instrument appointing a proxy to vote at a meeting of Harmony and the power of attorney or other authority shall be deposited at our transfer office not later than 48 hours (excluding Saturdays, Sundays and Public Holidays) before the meeting at which the person empowered proposes to vote. No instrument appointing a proxy shall be valid after the end of a period of 6 months commencing on the date on which it is signed unless otherwise expressly stated in the proxy.

***Title to Shares***

The registered holder or holders of any shares shall, during his or their respective lifetimes and while not subject to any legal incapacity, be the only person or persons recognized by us as having any right to, or in respect of, such shares and, in particular, we shall not be bound to recognize:

that the registered holder or holders hold such shares upon trust for, or as the nominee of, any other person; or

that any person, other than the registered holder or holders, holds any contingent, future or partial interest in such shares or any interest in any fractional part of any of such shares.

Where any share is registered in the names of two or more persons they shall be deemed to be joint holders. Accordingly where any member dies, the survivor or survivors, where the deceased was a joint holder, and the executor of the deceased, where the deceased was the sole holder, shall be the only persons recognized by us as having any right to the interest of the deceased in any of our shares.

We may enter in the register as member, no mine official, of Harmony, the name of any person who submits proof of his appointment as the executor, administrator, trustee, curator or guardian in respect of the estate of a deceased member of Harmony or of a member whose estate has been sequestrated or of a member who is otherwise under disability or as liquidator of any body corporate in the course of being wound up which is a member of Harmony, and any person whose name has been so entered in the register shall be deemed to be a member of Harmony.

***Non-South African Shareholders***

There are no limitations imposed by South African law or by our Articles of Association on the rights of non-South African shareholders to hold or vote our ordinary shares or securities convertible into ordinary shares.

***Disclosure of Interest in Shares***

Pursuant to the Companies Amendment Act Number 37 of 1999, where securities of an issuer are registered in the name of a person and that person is not the holder of the beneficial interest in all of the securities so held, it is obliged, at the end of every three-month period after June 30, 1999 (i.e., commencing on September 30, 1999), to disclose to the issuer the identity of each person on whose behalf the registered holder holds securities and the number and class of securities issued by that issuer held on behalf of each such person. Moreover, an issuer of securities may, by notice in writing, require a person who is a registered shareholder, or whom the issuer knows or has reasonable cause to believe to have a beneficial interest in, a security issued by the issuer, to confirm or deny whether or not such person holds that beneficial interest and, if the security is held for another person, to disclose to the issuer the identity of the person on whose behalf a security is held. The addressee of the notice may also be required to give particulars of the extent of the beneficial interest held during the three years preceding the date of the notice. All issuers of securities are obliged to establish and maintain a register of the disclosures described above and to publish in their annual financial statements a list of the persons who hold beneficial interests equal to or in excess of 5% of the total number of securities of that class issued by the issuer together with the extent of those beneficial interests.

***Changes in Control***

There are various procedures under the Companies Act whereby mergers and takeovers can be effected. These procedures are not exclusive and there are a variety of techniques that can be used to acquire control. All of these procedures are, however, subject to control by the Securities Regulation Panel and the requirements embodied in the Securities Regulation Code on Takeovers and Mergers shall be adhered to. The JSE Listing Requirements also contain certain requirements with regard to the process involved in a merger or takeover. While the requirements of the Securities Regulation Panel and the JSE Listings Requirements might have the general effect of delaying, deferring or preventing a change in control of a company, our Memorandum and Articles of Association do not impose additional restrictions on mergers or takeovers.

***Register of Members***

We keep a register of shareholders at our office and at the office of our transfer secretaries in South Africa, and our transfer secretaries in the United Kingdom keep a branch shareholders register at their offices.

The register of members includes:

the names and address of the members;



the shares held by each member, distinguishing each share by its denoting number, if any, by its class or kind, and by the amount paid or deemed to be paid thereon;

the date on which the name of any person was entered in the register as a member; and

the date on which any person ceased to be a member.

#### **Annual Report and Accounts**

The board is required to keep such accounting records and books of account as are prescribed by the Companies Act.

The directors will cause to be prepared annual financial statements and a South African annual report as required by the Companies Act and the JSE rules. We will deliver a copy of the South African annual report and annual financial statements to every member not less than twenty-one days prior to the date of each annual general meeting.

Our annual report on Form 20-F is available on our website at [www.harmony.co.za](http://www.harmony.co.za). We will deliver a paper copy of the annual report containing our IFRS audited financial statements, free of charge, to any shareholder upon request.

#### **Material Contracts**

We enter into material contracts in connection with our business, as described in *Item 4. Information on the Company Business* and in connection with financing arrangements, as described in *Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources*.

#### **Exchange Controls**

##### **Introduction**

The following is a general outline of South African exchange controls. Investors should consult a professional adviser as to the exchange control implications of their particular investments.

The Republic of South Africa's exchange control regulations provide for restrictions on exporting capital from a Common Monetary Area consisting of South Africa, the Republic of Namibia and the Kingdoms of Lesotho and Swaziland. Transactions between South African residents (including corporations) and between residents of the Common Monetary Area are subject to these exchange controls, which are regulated by the South African Reserve Bank ( **SARB** ).

Since 1995 a number of exchange control regulations have been relaxed with regard to both residents and non-residents. The government remains committed to the total abolition of exchange controls, but has stated its intention of following a gradual approach. This gradual approach to the abolition of exchange controls adopted by the South African government is designed to allow the economy to adjust more smoothly to the removal of controls that have been in place for a considerable period of time. The stated objective of the authorities is to reach a point where there is equality of treatment between residents and non-residents in relation to inflows and outflows of capital. South Africa, being classified as an emerging market, is therefore still regarded as a capital importer, hence the controls over capital flows. Unlimited outward transfers of capital are not permitted at this stage, but the emphasis of regulation is expected to be increasingly on the positive aspects of prudential financial supervision.

A considerable degree of flexibility is built into the system of exchange controls, and the SARB possesses substantial discretionary powers in approving or rejecting the applications that fall outside the authority granted to authorized dealers.

The main purpose of exchange controls is to ensure the timely repatriation of funds into the South African banking system of certain foreign currency acquired by residents of South Africa, whether through transactions of a current or of a capital nature. Timely repatriation of funds will help avoid undue pressure on the country's gold and foreign reserves and an undue depreciation of the exchange rate of the Rand. Payment of foreign currency and the use of gold and foreign reserves for importation of goods and services into the country are relatively freely allowed.

These comments relate to exchange controls in force at June 30, 2010. These controls are subject to change at any time without notice. It is not possible to predict whether existing exchange controls will be abolished, continued or modified by the South African government in the future.

### ***Government Regulatory Considerations***

#### ***Shares***

A foreign investor may invest freely in shares in a South African company, whether listed on the JSE or not. The foreign investor may also sell his or her share investment in a South African company and transfer the proceeds out of South Africa without restriction. However, when the company is not listed on the JSE, the SARB must be satisfied that the sales price of any shares reflects fair market value.

Under present South African exchange control regulations, our ordinary shares and ADSs are freely transferable outside the Common Monetary Area between non-residents of the Common Monetary Area. No prior SARB approval is required for the transfer of proceeds to South Africa, in respect of shares listed on the JSE, provided these funds enter the country through the normal banking channels. In addition, the proceeds from the sale of ordinary shares on the JSE on behalf of those holders of ordinary shares who are not residents of the Common Monetary Area are freely remittable to those holders. Share certificates and warrant certificates held by non-residents will be endorsed with the words non-resident.

#### ***Loans***

Generally, the making of loans to us or our subsidiaries, our or our subsidiaries' ability to borrow from non-South African sources and the repatriation of dividends, interest and royalties by Harmony will be regulated by the Exchange Control Department of the SARB. If a foreign investor wishes to lend capital to a South African company, the prior approval of the SARB must be sought mainly in respect of the interest rate and terms of repayment applicable to such loan.

Interest on foreign loans is freely remittable abroad, provided the loans received prior approval from the SARB.

#### ***Investments***

We are also required to seek approval from the SARB to use funds held in South Africa to make investments outside of South Africa.

#### ***Dividends***

Dividends declared by a quoted company are freely transferable out of South Africa from both trading and non-trading profits earned in South Africa through a major bank as agent for the SARB.

Where 75% or more of a South African company's capital, voting power, power of control or earnings is directly or indirectly controlled by non-residents, such a company is designated an affected person by the SARB, and certain restrictions are placed on its ability to obtain local financial assistance. We are not, and have never been, designated an affected person by the SARB.

If an affected person made use of local borrowing facilities, the affected persons must apply for SARB approval prior to remitting dividends offshore. As a general matter, an affected person that has accumulated historical losses may not declare dividends out of current profits unless and until such time that the affected person's local borrowings do not exceed the local borrowing limit.

#### ***Certain South African Tax Considerations***

The discussion in this section is based on current law and our interpretation thereof. Changes in the law may alter the tax treatment of our ordinary shares or ADSs, as applicable, possibly on a retroactive basis. The following summary is not a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of our ordinary shares or ADSs, and does not cover the tax consequences that depend upon your particular tax circumstances. In particular, the following summary addresses tax consequences for holders of ordinary shares or ADSs who are not tax residents of South Africa. It specifically excludes the tax consequences for non-tax residents whose holding of shares or ADSs is effectively connected with a permanent establishment in South Africa through which the holder carries on business activities, or who is not a beneficial recipient of the dividends, or where the source of the transaction is to be in South Africa. In addition, it does not cover the tax consequences for the holder that is not entitled to the benefits of the double taxation agreement concluded between the Republic of South Africa and the United States of America signed on February 17, 1997 ( **U.S. Treaty** ). It also assumes that the holders would hold the ordinary shares or ADSs on capital account (that is, for investment purpose). We recommend that you consult your own tax adviser about the consequences of holding our ordinary shares or ADSs, as applicable, in your particular situation.



### ***Dividends***

South Africa does not currently levy any withholding tax on dividends. Rather, it currently imposes a corporate tax known as Secondary Tax on Companies ( **STC** ) at a rate of 10% on dividends declared by a South African company. It is important to appreciate that STC is not a withholding tax on dividends, but a tax on profits of a company. However, it was announced that STC would be abolished and be replaced by a traditional dividend withholding tax. At this stage it is expected that the new dividend withholding tax will be introduced in the near future. The rate of the new dividend withholding tax will be 10%. The new withholding tax will be imposed on, amongst others, non-resident shareholders, and it would be withheld by the company declaring and paying the dividend to its shareholders or the regulatory intermediary, as the case may be.

Article 10 of the U.S. Treaty provides that a dividend withholding tax may be levied by South Africa. However, it may not exceed 5% of the gross amount of the dividends if the beneficial owner is a company which holds directly at least 10% of the voting stock of the South African company paying the dividends. Although the U.S. Treaty refers to a maximum withholding tax rate of 15% in other cases, the rate would be 10%.

### ***Capital Gains Tax***

A Capital Gains Tax ( **CGT** ) was introduced with effect from October 1, 2001. In the case of an individual, 25% of the capital gain is included in its taxable income. In the case of a corporate entity, 50% of such gain is included in its taxable income. CGT is only applicable to non-residents if the proceeds from the sale are attributable to a permanent establishment of the non-resident shareholder. The terms of the U.S. Treaty (which will prevail in case of conflict) provides that the U.S. holder of ordinary shares or ADSs will not be subject to CGT if the assets have been held as capital assets, unless they are linked to a permanent establishment of such non-resident shareholder in South Africa. To the extent that shares or ADSs are held on revenue account, a similar principle would apply with reference to the payment of income tax, and income tax will only be payable to the extent that the holder carries on business in South Africa through a permanent establishment situation therein. The current corporate rate is equal to 28%. Any gains realized on the disposal of equity shares are automatically deemed to be of a capital nature if they have been held for a continuous period of 3 years. Such provision applies automatically and is not elective.

Generally the domestic laws of South Africa provide that a capital gain will be deemed to have been sourced in South Africa and be subject to South African tax to the extent that the asset related to an interest in immovable property situated in South Africa. It includes any equity shares held by a person in a company if

80% or more of the market value of the equity shares at the time of disposal thereof is attributable directly or indirectly to immovable property held otherwise than as trading stock; and

The person directly or indirectly holds at least 20% of the equity share capital of that company.

The provisions of the U.S. Treaty will override the deemed source rules to the extent applicable. Article 13 of the U.S. Treaty provides that South Africa may tax a gain that is attributable to the alienation of real property situated in South Africa, which concept includes the equivalent of a U.S. real property interest, even if held through shares.

### ***Security Transfer Tax***

A Security Transfer Tax ( **STT** ) is applicable in respect of the transfer of any security issued by a South African company at a rate of 0.25% of the taxable amount of the security concerned (generally the market value thereof). A security is defined to include depository receipt in a company, in addition to company shares. STT is not payable on the issue of any security.

Although ADSs in respect of our shares are not listed on the JSE, reference is specifically made to the transfer of depository receipts in a South African company. As a consequence, STT will therefore be payable on the transfer of ADSs. In addition, the process of depositing shares listed on the JSE in return for ADSs, or withdrawing such shares from the deposit facility, may attract STT as and when the shares are transferred to or from the depository institution.

STT is payable by the broker or participant if a transaction is effected through a stockbroker or a strata participant, but it may be recovered from the person acquiring the beneficial ownership of the rights concerned. In other instances, STT is payable by the person acquiring beneficial ownership.

STT is also payable on the subsequent redemption or cancellation of shares or cancellation of shares or ADSs.





### ***Interest***

It was recently announced that South Africa will ignore a traditional withholding tax on interest at the rate of 10%, which would be reduced to zero in the case of the U.S. Treaty. However, the South African government announced that the treaties will be renegotiated to refer generally to a minimum 5% withholding tax on interest unless one is dealing with a developed tax system such as the U.S.

### ***Capitalization Shares***

Capitalization shares distributed at the option of holders of shares in lieu of cash dividends are currently not subject to STC. However, this position may change to the extent that the new withholding tax on dividends is introduced.

### ***Voting Rights***

There are no limitations imposed by South African law or by our charter on the right of non-resident or foreign owners to hold or vote our ordinary shares.

### **Certain United States Federal Income Tax Considerations**

Except as described below under the heading *Non-U.S. Holders*, the following is a discussion of certain material U.S. federal income tax consequences for a U.S. holder of purchasing, owning and disposing of the ordinary shares (for purposes of this summary, references to the ordinary shares include the ADSs, unless the context otherwise requires). This summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase the ordinary shares. In particular, this summary deals only with U.S. holders that will hold the ordinary shares as capital assets. It does not address considerations that may be relevant to you if you are an investor that is subject to special tax rules, such as a bank, real estate investment trust, regulated investment company, insurance company, dealer in securities or currencies, trader in securities or commodities that elects mark-to-market treatment, person that will hold the ordinary shares as a hedge against currency risk or as a position in a straddle or conversion transaction, tax-exempt organization, person whose functional currency is not the U.S. dollar, person liable for alternative minimum tax, or a person who owns directly, indirectly or by attribution, at least 10 percent of our stock.

You will be a U.S. holder if you are a beneficial owner of ordinary shares and you are:  
an individual who is a citizen or resident of the United States;

a U.S. domestic corporation, or other entity treated as a domestic corporation for U.S. federal income tax purposes;

an estate whose income is subject to U.S. federal income tax regardless of its source; or

a trust if a U.S. court can exercise primary supervision over the trust's administration and one or more U.S. persons are authorized to control all substantial decisions of the trust.

If a partnership (including for this purpose any entity treated as a partnership for U.S. tax purposes) is a beneficial owner of the ordinary shares, the U.S. tax treatment of a partner in the partnership generally will depend on the status of the partner and the activities of the partnership. A holder of the ordinary shares that is a partnership and partners in such a partnership should consult their own tax advisors about the U.S. federal income tax consequences of holding and disposing of the ordinary shares.

A non-U.S. holder is a beneficial owner of ordinary shares that is not a U.S. person for U.S. federal income tax purposes. If you are a non-U.S. holder, the discussion below under *Non-U.S. Holders* will apply to you.

This summary is based on the U.S. Internal Revenue Code of 1986, as amended, or the Code, its legislative history, existing and proposed U.S. Treasury regulations, rulings, and decisions, all as now in effect and all of which may change. Any change could apply retroactively and could affect the continued validity of this summary.

In general, if you hold ADSs, you will be treated as the holder of the ordinary shares represented by those ADSs for U.S. federal income tax purposes.

We believe that we will not be a passive foreign investment company, or PFIC, for U.S. federal income tax purposes for the current taxable year. However, we cannot assure you that we will not be considered a PFIC in the current or future years. The determination whether or not we are a PFIC is a factual determination that is based on the types of income we earn and the value of our assets and cannot be made until the



close of the applicable tax year. If we were currently or were to become a PFIC, U.S. holders of ordinary shares would be subject to special rules and a variety of potentially adverse tax consequences under the Code.

***Taxation of Dividends***

Subject to the PFIC rules referred to below, under U.S. federal income tax laws, if you are a U.S. holder, the gross amount of dividends that you receive in cash (or that are part of a distribution that any shareholder has the right to receive in cash) in respect of the ordinary shares generally will be subject to U.S. federal income taxation as dividend income to the extent paid out of our current or accumulated earnings and profits (as determined for U.S. federal income tax purposes). You must include the amount of any South African tax withheld from the dividend payment in this gross amount even though you do not in fact receive it. Dividends received by an individual taxpayer during taxable years beginning before January 1, 2011 will be taxed at a maximum rate of 15% where certain holding period and other requirements are satisfied, if such dividends constitute qualified dividend income. Qualified dividend income includes dividends paid by a Qualified Foreign Corporation, and we believe that we are, and will continue to be, a Qualified Foreign Corporation. Holders of ordinary shares should consult their own tax advisors regarding the availability of the reduced dividend tax rate in light of their own particular circumstances. Dividends will not be eligible for the dividends-received deduction generally allowed to U.S. corporations in respect of dividends received from other corporations.

Dividends paid in South African Rand will be includible in your gross income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day you receive (or the depository receives, in the case of the ADSs) the dividend, regardless of whether the payment is in fact converted into U.S. dollars. If the foreign currency received as a dividend is not converted into U.S. dollars on the date of receipt, a U.S. holder will have a basis in the foreign currency equal to its U.S. dollar value on the date of receipt. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date you include the dividend payment in income to the date you convert the payment into U.S. dollars will be treated as ordinary income or loss. The gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitations. You generally should not be required to recognize any foreign currency gain or loss to the extent such dividends paid in South African Rand are converted into U.S. dollars immediately upon receipt by the applicable party. If we distribute non-cash property as a dividend, you generally will include in income an amount equal to the fair market value of the property, in U.S. dollars, on the date that it is distributed. Subject to certain limitations, a U.S. holder may be entitled to a credit or deduction against its U.S. federal income taxes for the amount of any South African taxes that are withheld from dividend distributions made to such U.S. holders. The decision to claim either a credit or deduction must be made annually, and will apply to all foreign taxes paid by the U.S. holder to any foreign country or U.S. possession with respect to the applicable tax year.

Dividends received from us will generally be income from non-United States sources, for U.S. foreign tax credit purposes, subject to various classifications and other limitations. The rules relating to computing foreign tax credits are complex. You should consult your own tax advisor to determine the foreign tax credit implications of owning ordinary shares.

Distributions in excess of current and accumulated earnings and profits, as determined for U.S. federal income tax purposes, will be treated as a non-taxable return of capital to the extent of your basis in the ordinary shares and thereafter as capital gain.

***Capital Gains***

Subject to the PFIC rules referred to below, if you are a U.S. holder and you sell your ordinary shares, you will recognize capital gain or loss in an amount equal to the difference between the U.S. dollar value of the amount you realize on the sale and your adjusted tax basis in the ordinary shares, determined in U.S. dollars. Such gain or loss generally will be long-term capital gain or loss if you held the ordinary shares for more than one year. Prior to January 1, 2011, long-term capital gain recognized by a non-corporate U.S. holder is generally subject to a maximum tax rate of 15%. In general, any capital gain or loss recognized upon the sale or exchange of ordinary shares will be treated as U.S. source income or loss, as the case may be, for U.S. foreign tax purposes. Your ability to offset capital losses against income is subject to limitations.

Deposits and withdrawals of ordinary shares by U.S. holders in exchange for ADSs will not result in the realization of gain or loss for U.S. federal income tax purposes.

To the extent that you incur South African stamp duty, MST or uncertified securities tax (to be replaced with STT) in connection with a *transfer or withdrawal of ordinary shares as described under Certain South African Tax Considerations Security Transfer Tax* above, such stamp duty, MST or uncertified securities tax will not be a creditable tax for U.S. foreign tax credit purposes.

### ***Medicare Tax on Unearned Income***

Newly enacted legislation requires certain U.S. holders that are individuals, estates or trusts to pay an additional 3.8% tax on, among other things, dividends on and capital gains from the sale or other disposition of ordinary shares for taxable years beginning after December 31, 2012. U.S. holders that are individuals, estates or trusts should consult their tax advisors regarding the effect, if any, of this legislation on their ownership and disposition of our ordinary shares.

### ***Non-U.S. Holders***

If you are a non-U.S. holder of the ordinary shares, you generally will not be subject to U.S. federal income or withholding tax on dividends received on such ordinary shares, unless such income is effectively connected with your conduct of a trade or business in the United States, and the dividends are attributable to a permanent establishment (or in the case of an individual, a fixed place of business) that you maintain in the United States if that is required by an applicable income tax treaty as a condition for subjecting you to U.S. taxation on a net income basis. In such cases, you generally will be taxed in the same manner as a U.S. holder, and will not be subject to U.S. federal income tax withholding. If you are a corporate non-U.S. holder, effectively connected dividends may, under certain circumstances, be subject to an additional branch profits tax at a 30% rate or a lower rate if you are eligible for the benefits of an income tax treaty that provides for a lower rate.

If you are a non-U.S. holder of the ordinary shares, you will also generally not be subject to U.S. federal income or withholding tax in respect of gain realized on the sale of such ordinary shares, unless (i) such gain is effectively connected with your conduct of a trade or business in the United States, and the gain is attributable to a permanent establishment (or in the case of an individual, a fixed place of business) that you maintain in the United States if that is required by an applicable income tax treaty as a condition for subjecting you to U.S. taxation on a net income basis; or (ii) in the case of gain realized by an individual non-U.S. holder, you are present in the United States for 183 days or more in the taxable year of the sale and certain other conditions are met. In the first case, the non-U.S. holder will be taxed in the same manner as a U.S. holder. In the second case, the non-U.S. holder will be subject to U.S. federal income tax at a rate of 30% on the amount by which such non-U.S. holder's U.S.-source capital gains exceed such non-U.S. holder's U.S.-source capital losses. If you are a corporate non-U.S. holder, effectively connected dividends may, under certain circumstances, be subject to an additional branch profits tax at a 30% rate or a lower rate if you are eligible for the benefits of an income tax treaty that provides for a lower rate.

### ***PFIC Rules***

We believe that our ordinary shares will not be treated as stock of a PFIC for U.S. federal income tax purposes for the current tax year. The determination of whether or not we are a PFIC is a factual determination that cannot be made until the close of the applicable tax year and that is based on the types of income we earn and the value of our assets (including goodwill), both of which are subject to change. In calculating goodwill for this purpose, we will value our total assets based on the total market value, determined with reference to the then market price of the ordinary shares, and will make determinations regarding the amount of this value allocable to goodwill. Because the determination of goodwill will be based on the market price of the ordinary shares, it is subject to change. It is possible that the U.S. Internal Revenue Service may challenge our valuation of our assets (including goodwill), which may result in us being classified as a PFIC. Thus, it is possible that we may be or become a PFIC in the current or any future taxable year and we cannot assure you that we will not be considered a PFIC in any such tax year.

In general, if you are a U.S. holder, we will be a PFIC with respect to you if for any taxable year in which you held the ordinary shares:

at least 75% of our gross income for the taxable year is passive income; or

at least 50% of the value, determined on the basis of a quarterly average, of our assets is attributable to assets that produce or are held for the production of passive income.

Passive income generally includes dividends, interest, royalties, rents (other than certain rents and royalties derived in the active conduct of a trade or business), the excess of gains over losses from certain types of transactions in commodities, annuities and gains from assets that produce passive income. If a foreign corporation owns at least 25% by value of the stock of another corporation, the foreign corporation is treated for purposes of the PFIC tests as

owning its proportionate share of the assets of the other corporation, as receiving directly its proportionate share of the other corporation's income.

If we are treated as a PFIC, and you are a U.S. holder that did not make a mark-to-market election, as described below, you will be subject to special rules with respect to:

any gain you realize on the sale or other disposition of your ordinary shares; and

any excess distribution that we make to you (generally, any distributions to you during a single taxable year that are greater than 125% of

the average annual distributions received by you in respect of the ordinary shares during the three preceding taxable years or, if shorter, your holding period for the ordinary shares).

Under these rules:

the gain or excess distribution will be allocated ratably over your holding period for the ordinary shares;

the amount allocated to the taxable year in which you realized the gain or excess distribution will be taxed as ordinary income;

the amount allocated to each prior year, with certain exceptions, will be taxed at the highest tax rate in effect for that year; and

the interest charge generally applicable to underpayments of tax will be imposed in respect of the tax attributable to each such year.

Special rules apply for calculating the amount of the foreign tax credit with respect to excess distributions by a PFIC.

If you own shares in a PFIC that are treated as marketable stock, you may make a mark-to-market election. If you make this election in a timely fashion, you will not be subject to the PFIC rules described above. Instead, in general, you will include as ordinary income each year the excess, if any, of the fair market value of your ordinary shares at the end of the taxable year over your adjusted basis in your ordinary shares. You will also be allowed to take an ordinary loss in respect of the excess, if any, of the adjusted basis of your ordinary shares over the fair market value at the end of the taxable year (but only to the extent of the net amount of previously included income as a result of the mark-to-market election). Your basis in the ordinary shares will be adjusted to reflect any such income or loss amounts.

We do not intend to furnish you with the information that you would need in order to make a qualified electing fund election to include your share of its income on a current basis.

If you own ordinary shares during any year that we are a PFIC, you must file U.S. Internal Revenue Service Form 8621 that describes the distribution received on the ordinary shares and the gain realized on the disposition of the ordinary shares. The reduced tax rate for dividend income, discussed in *Taxation of Dividends*, is not applicable to dividends paid by a PFIC.

#### ***U.S. Information Reporting and Backup Withholding Rules***

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries are subject to information reporting and may be subject to backup withholding at a rate currently of 28% unless the holder (i) is a corporation or other exempt recipient or (ii) provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. Backup withholding is not an additional tax, and the amount of any backup withholding from a payment to a U.S. holder will be allowed as a credit against the U.S. holder's U.S. federal income tax liability provided that the appropriate returns are filed. A non-U.S. holder generally may eliminate the requirement for information reporting and backup withholding by providing certification of its foreign status to the payor, under penalties of perjury, on IRS Form W-8BEN.

#### ***Recently Enacted Legislation Related to Disclosure of Information with Respect to Foreign Financial Assets***

Recently enacted legislation requires a U.S. holder that holds an interest in specified foreign financial assets to disclose certain information related to these holdings. This applies for any year in which the aggregate value of all such holdings is greater than US\$50,000. For these purposes, specified foreign financial assets include (i) any depository or custodial account maintained by certain foreign financial institutions and foreign investment vehicles, (ii) certain interest in, or securities issued by, non-U.S. persons, and (iii) certain other financial instruments or contracts held for investment where the issuer or counterparty is a non-U.S. person. In addition, a U.S. holder may be required to furnish certain information to avoid a presumption that the aggregate value of the U.S. holder's holdings of specified foreign financial assets are in excess of US\$50,000. Penalties may apply in the event of noncompliance.

These disclosure requirements are effective for taxable years beginning after March 18, 2010. As with all new legislation, the application of certain of these requirements in any particular circumstance may not be entirely clear. Prospective investors should consult their own tax advisors regarding the effect of this legislation in their particular circumstances.

**THE PRECEDING DISCUSSION OF CERTAIN UNITED STATES FEDERAL INCOME TAX CONSEQUENCES IS INTENDED FOR GENERAL INFORMATION ONLY AND DOES NOT CONSTITUTE TAX ADVICE. ACCORDINGLY, EACH INVESTOR SHOULD CONSULT ITS OWN TAX ADVISER AS TO PARTICULAR TAX CONSEQUENCES TO IT OF PURCHASING, HOLDING AND DISPOSING OF THE ORDINARY SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF ANY STATE, LOCAL OR FOREIGN LAWS, AND PROPOSED CHANGES IN APPLICABLE LAWS.**



**DIVIDENDS AND PAYING AGENTS**

Not applicable.

**STATEMENTS BY EXPERTS**

Not applicable.

**DOCUMENTS ON DISPLAY**

Our Memorandum and Articles of Association may be examined at our principal place of business at: Randfontein Office Park, Corner of Main Reef Road and Ward Avenue, Randfontein, 1760, South Africa. We also file annual and furnish interim reports and other information with the Securities and Exchange Commission, or the SEC. You may read and copy any reports or other information on file at the SEC's public reference room at the following location:

Public Reference Room

100 F Street, NW

Room 1580

Washington D.C. 20549

Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. The SEC filings are also available to the public from commercial document retrieval services. We file electronically with the SEC, and the documents it files are available on the website maintained by the SEC at [www.sec.gov](http://www.sec.gov).

**SUBSIDIARY INFORMATION**

Not applicable.

## **Item 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### **General**

We are exposed to market risks, including credit risk, foreign currency risk, commodity price risk and interest rate risk associated with underlying assets, liabilities and anticipated transactions. Following periodic evaluation of these exposures, we may enter into derivative financial instruments to manage these exposures. We have policies in areas such as counterparty exposure and hedging practices, which have been approved by our senior management. We do not hold or issue derivative financial instruments for trading or speculative purposes.

We did not apply hedge accounting to incidental hedges held in the past.

In accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, we account for our derivative financial instruments as hedging transactions if the following criteria are met:

in the case of a hedge of an anticipated future transaction, there is a high probability that the transaction will occur.

### **Foreign Currency Sensitivity**

In the ordinary course of business, we enter into transactions denominated in foreign currencies (primarily U.S. dollars, Australian dollars and Kina). In addition, we incur investments and liabilities in U.S. dollars, Canadian dollars, British pounds sterling and Australian dollars from time to time. As a result, we are subject to transaction and translation exposure from fluctuations in foreign currency exchange rates. We do not generally hedge our exposure to foreign currency exchange rates.

Our revenues and costs are very sensitive to the exchange rate of the Rand and other non-U.S. currencies to the U.S. dollar because gold is generally sold throughout the world in U.S. dollars, but most of our operating costs are incurred in Rand and other non-U.S. currencies. Appreciation of the Rand and other non-U.S. currencies against the U.S. dollar increases working costs at our operations when those costs are translated into U.S. dollars, which reduces operating margins and net income from our operations. Depreciation of the Rand and other non-U.S. currencies against the U.S. dollar reduces these costs when they are translated into U.S. dollars, which increases operating margins and net income from our operations. See *Item 3. Key Information Exchange Rates* and *Item 3. Key Information Risk Factors Because most of Harmony's production costs are in Rand and other non-U.S. currencies, while gold is generally sold in U.S. dollars, Harmony's financial condition could be materially harmed by an appreciation in the value of the Rand and other non-U.S. currencies*.

We did not have any currency contracts in place as of June 30, 2010, 2009 or 2008.

### **Commodity Price Sensitivity**

#### **General**

The market price of gold has a significant effect on our results of operations, our ability to pay dividends and undertake capital expenditures, and the market prices of our ordinary shares.

Gold prices have historically fluctuated widely and are affected by numerous industry factors over which we do not have any control. See *Item 3. Key Information Risk Factors The profitability of Harmony's operations, and the cash flows generated by those operations, are affected by changes in the market price for gold, which in the past has fluctuated widely*. The aggregate effect of these factors, all of which are beyond our control, is impossible for us to predict.

#### **Harmony's Hedging Policy**

As a general rule, we sell our gold production at market prices. We generally do not enter into forward sales, commodity, 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. For more detailed information on our hedging policy, see *Item 4.*

*Information on the Company Business Hedge Policy*.

#### **Commodity Sales Agreements**

We did not have any forward commodity sales agreements in place during fiscal 2010, 2009 and 2008.

**Interest Rate Sensitivity**

Our interest rate risk arises mainly from long-term borrowings. We have variable interest rate borrowings. Variable rate borrowings expose us to cash flow interest rate risk. We have not entered into interest rate swap agreements in fiscal years 2008, 2009 and 2010.

*Sensitivity analysis*

A change of 100 basis points in interest rates at June 30, 2010, 2009 and 2008 would have increased (decreased) profit or loss before tax by the amounts shown below. This analysis assumes that all other variables remain constant.

	<b>2010</b>	<b>June 30, 2009</b>	<b>2008</b>
		( <b>\$ in millions</b> )	
Increase in 100 basis points	2		3
Decrease in 100 basis points	(2)		(3)

The above table excludes the fixed rate convertible bond for fiscal 2009 and 2008. As it was accounted for at amortized cost, and had a fixed coupon interest rate rather than a floating coupon interest, interest rate changes did not affect reported profit and loss.

For further information on sensitivities, see note 4 of the consolidated financial statements in Item 18.

**Item 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

Not applicable.

## GLOSSARY OF MINING TERMS

**The following explanations are not intended as technical definitions, but rather are intended to assist the general reader in understanding certain terms as used in this annual report.**

*Alluvial*: the product of sedimentary processes in rivers, resulting in the deposition of alluvium (soil deposited by a river).

*Arenaceous*: said of a sediment or sedimentary rock consisting wholly or in part of sand-sized fragments or having a sandy texture or the texture of such a sediment or rock.

*Auriferous*: a substance that contains gold (AU).

*Beneficiation*: the process of adding value to gold products by transforming gold bullion into fabricated gold products.

*By-products*: Any products that emanate from the core process of producing gold, including silver and uranium in South Africa and copper, silver and molybdenum in Papua New Guinea.

*Calc-silicate rock*: A metamorphic rock consisting mainly of calcium-bearing silicates such as diopside and wollastonite, and formed by metamorphism of impure limestone or dolomite.

*Carbon in leach (CIL)*: Gold is leached from a slurry of gold ore with cyanide in agitated tanks and adsorbed on to carbon granules in the same circuit. The carbon granules are separated from the slurry and treated in an elution circuit to remove the gold.

*Carbon In Pulp (CIP)*: a common process used to extract gold from cyanide leach slurries. The process consists of carbon granules suspended in the slurry and flowing counter-current to the process slurry in multiple-staged agitated tanks. The process slurry, which has been leached with cyanide prior to the CIP process, contains solubilized gold. The solubilized gold is absorbed onto the carbon granules, which are subsequently separated from the slurry by screening. The gold is then recovered from the carbon by electrowinning onto steel wool cathodes or by a similar process.

*Carbon In Solution (CIS)*: a process similar to CIP except that the gold, which has been leached by the cyanide into solution, is separated by the process of filtration (solid/liquid separation). The solution is then pumped through six stages where the solution comes into contact with the activated carbon granules.

*Cash cost*: a measure of the average cost of producing an ounce of gold, calculated by dividing the total cash working costs in a period by the total gold production over the same period. Working costs represent total operating costs less certain administrative expenses, royalties and depreciation. In determining the cash cost of different elements of the operations, production overheads are allocated pro rata.

*Conglomerate*: a coarse-grained classic sedimentary rock, composed of rounded to sub-angular fragments larger than 2mm in diameter (granules, pebbles, cobbles, boulders) set in a fine-grained matrix of sand or silt, and commonly cemented by calcium carbonate, iron oxide, silica or hardened clay.

*Crosscut*: a mine working that is driven horizontally and at right angles to an adit, drift or level.

*Cut and fill*: a method of underground mining in which a stope is excavated and refilled with material (waste or tailings).

*Cut-off grade*: the grade at which the total profit from mining the orebodies, under a specified set of mining parameters, is maximized.

*Cyanide leaching*: the extraction of a precious metal from an ore by its dissolution in a cyanide solution.

*Decline*: an inclined underground access way.

*Deferred Stripping*: the removal of overburden through stripping in the current period to access ore expected to be exploited in a future period. Costs incurred with deferred stripping are deferred until the ore is accessed, in order to ensure matching of costs and revenues.

*Depletion*: the decrease in quantity of ore in a deposit or property resulting from extraction or production.

*Development*: activities (including shaft sinking and on-reef and off-reef tunneling) required to prepare for mining activities

and maintain a planned production level and those costs to enable the conversion of mineralized material to reserves.

*Electro-winning*: the process of removing gold from solution by the action of electric currents.

*Elution*: removal of the gold from the activated carbon before the zinc precipitation stage.

*Exploration*: activities associated with ascertaining the existence, location, extent or quality of mineralized material, including economic and technical evaluations of mineralized material.

*Fabricated gold*: gold on which work has been performed to turn it into a product, such as jewelry, which differs from a pure investment product, such as a gold bullion bar.

*Fatal injury frequency rate*: the number of fatal injuries per million hours worked.

*Fluvial*: produced by the action of a stream or river.

*Footwall*: the underlying side of a fault, orebody or stope.

*Forward purchase*: an agreement for the purchase of a commodity at a specified future date at a fixed price.

*Forward sale*: the sale of a commodity for delivery at a specified future date and price.

*Gold reserves*: the gold contained within proven and probable reserves on the basis of recoverable material (reported as mill delivered tons and head grade).

*Gold lease rate swap*: an agreement to pay a floating lease rate in exchange for the fixed lease rate inherent in establishing the fixed price in one or more forward gold sales.

*Grade*: the quantity of metal per unit mass of ore expressed as a percentage or, for gold, as ounces of gold per ton of ore.

*Greenfield*: a potential mining site of unknown quality.

*Greenstone*: a field term applied to any compact dark-green altered or metamorphosed basic igneous rock that owes its color to the presence of chlorite, actinolite or epidote.

*Grinding*: reducing mineralized rock to the consistency of fine sand by crushing and abrading in a rotating steel grinding mill.

*Head grade*: the grade of the ore as delivered to the metallurgical plant.

*Heap leaching*: a low-cost technique for extracting metals from ore by percolating leaching solutions through heaps of ore placed on impervious pads. Generally used on low-grade ores.

*Leaching*: dissolution of gold from the crushed and milled material, including reclaimed slime, for absorption and concentration on to the activated carbon.

*Level*: the workings or tunnels of an underground mine that are on the same horizontal plane.

*Littoral*: of or pertaining to a shore.

*Longhole sub-level caving*: a process for removing ore in which relatively thin blocks of ore are caused to cave in by successively undermining small panels of ore. The broken and caved ore is then extracted by mechanical means.

*Lost time injury frequency rate*: the number of lost time injuries per million hours.

*Measures:* conversion factors from metric units to U.S. units are provided below.

<b>Metric unit</b>		<b>U.S. equivalent</b>
1 tonne	= 1 t	= 1.10231 short tons
1 gram	= 1 g	= 0.03215 ounces
1 gram per tonne	= 1 g/t	= 0.02917 ounces per short ton
1 kilogram per tonne	= 1 kg/t	= 29.16642 ounces per short ton
1 kilometer	= 1 km	= 0.621371 miles
1 meter	= 1 m	= 3.28084 feet
1 centimeter	= 1 cm	= 0.3937 inches
1 millimeter	= 1 mm	= 0.03937 inches
1 hectare	= 1 ha	= 2.47105 acres

*Metallurgical plant:* a processing plant used to treat ore and extract the contained gold.

*Mill delivered tons:* a quantity, expressed in tons, of ore delivered to the metallurgical plant.

*Milling/mill:* the comminution of the ore, although the term has come to cover the broad range of machinery inside the treatment plant where the gold is separated from the ore.

*Mineable:* that portion of a mineralized deposit for which extraction is technically and economically feasible.

*Mineralization:* the presence of a target mineral in a mass of host rock.

*Mineralized material:* a mineralized body that has been delineated by appropriately spaced drilling and/or underground sampling to support a sufficient tonnage and average grade of metals to warrant further exploration. Such a deposit does not qualify as a reserve until a comprehensive evaluation based upon unit cost, grade, recoveries, and other material factors conclude legal and economic feasibility.

*Morphology:* the form or shape of a crystal or mineral aggregate.

*Open-pit/Open cast/Open cut:* mining in which the ore is extracted from a pit. The geometry of the pit may vary with the characteristics of the orebody.

*Ore:* a mixture of mineralized material from which at least one of the contained minerals can be mined and processed at an economic profit.

*Ore grade:* the average amount of gold contained in a ton of gold bearing ore expressed in ounces per ton.

*Mineral reserves:* that part of mineralized material which at the time of the reserve determination could be economically and legally extracted or produced. Mineral reserves are reported as general indicators of the life of mineralized materials. Changes in reserves generally reflect:

development of additional reserves;

depletion of existing reserves through production;

actual mining experience; and

price forecasts.

Grades of ore actually processed may be different from stated reserve grades because of geologic variation in different areas mined, mining dilution, losses in processing and other factors. Recovery rates vary with the metallurgical characteristics and grade of ore processed. Neither reserves nor projections of future operations should be interpreted as assurances of the economic life of mineralized material nor of the profitability of future operations.

*Orebody:* a well defined mass of mineralized material of sufficient mineral content to make extraction economically viable.

*Ounce:* one Troy ounce, which equals 31.1035 grams.

*Overburden:* the soil and rock that must be removed in order to expose an ore deposit.

*Overburden tons:* tons that need to be removed to access an ore deposit.





*Palaeotopography*: the topography implied at some time in the past.

*Pay limit*: the breakeven grade at which the orebody can be mined without profit or loss, calculated using the forecast gold price, working costs and recovery factors.

*Placer*: a sedimentary deposit containing economic quantities of valuable minerals mainly formed in alluvial environments.

*Precipitate*: the solid product of chemical reaction by fluids such as the zinc precipitation referred to below.

*Probable reserves*: reserves for which quantity and grade and/or quality are computed from information similar to that used for proven reserves, but the sites for inspection, sampling, and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven reserves, is high enough to assume continuity between points of observation.

*Prospect*: an area of land with insufficient data available on the mineralization to determine if it is economically recoverable, but warranting further investigation.

*Prospecting license*: an area for which permission to explore has been granted.

*Proven reserves*: reserves for which: (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade and/or quality are computed from the results of detailed sampling; and (b) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well-established.

*Pyrite*: a brassy-colored mineral of iron sulphide (compound of iron and sulfur).

*Quartz*: a mineral compound of silicon and oxygen.

*Recovery grade*: the actual grade of ore realized after the mining and treatment process.

*Reef*: a gold-bearing sedimentary horizon, normally a conglomerate band, that may contain economic levels of gold.

*Refining*: the final stage of metal production in which final impurities are removed from the molten metal by introducing air and fluxes. The impurities are removed as gases or slag.

*Rehabilitation*: the process of restoring mined land to a condition approximating its original state.

*Sampling*: taking small pieces of rock at intervals along exposed mineralization for assay (to determine the mineral content).

*Shaft*: a shaft provides principal access to the underground workings for transporting personnel, equipment, supplies, ore and waste. A shaft is also used for ventilation and as an auxiliary exit. It is equipped with a surface hoist system that lowers and raises conveyances for men, materials and ore in the shaft. A shaft generally has more than one conveyancing compartment.

*Slimes*: the finer fraction of tailings discharged from a processing plant after the valuable minerals have been recovered.

*Slurry*: a fluid comprising fine solids suspended in a solution (generally water containing additives).

*Smelting*: thermal processing whereby molten metal is liberated from beneficiated mineral or concentrate with impurities separating as lighter slag.

*Spot price*: the current price of a metal for immediate delivery.

*Stockpile*: a store of unprocessed ore.

*Stockwork*: mineralized material consisting of a three-dimensional network of planar to irregular veinlets closely enough spaced that the whole mass can be mined.

*Stope*: the underground excavation within the orebody where the main gold production takes place.

*Stripping*: the process of removing overburden to expose ore.

*Sulphide*: a mineral characterized by the linkages of sulfur with a metal or semi-metal, such as pyrite, FeS.

*Syncline*: a basin-shaped fold.

*Tailings*: finely ground rock from which valuable minerals have been extracted by milling.

*Tailings dam (slimes dam)*: Dam facilities designed to store discarded tailings.

*Ton*: one ton is equal to 2,000 pounds (also known as a short ton).

*Tonnage*: quantities where the ton or tonne is an appropriate unit of measure. Typically used to measure reserves of gold-bearing material in situ or quantities of ore and waste material mined, transported or milled.

*Tonne*: one tonne is equal to 1,000 kilograms (also known as a metric ton).

*Trend*: the arrangement of a group of ore deposits or a geological feature or zone of similar grade occurring in a linear pattern.

*Unconformity*: the structural relationship between two groups of rock that are not in normal succession.

*Waste*: ore rock mined with an insufficient gold content to justify processing.

*Waste rock*: the non-mineralized rock and/or rock that generally cannot be mined economically that is hoisted to the surface for disposal on the surface normally close to the shaft on an allocated dump.

*Yield*: the actual grade of ore realized after the mining and treatment process.

*Zinc precipitation*: a chemical reaction using zinc dust that converts gold solution to a solid form for smelting into unrefined gold bars.

**PART II**

**Item 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

Not applicable.

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**Item 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

**MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS**

At a general meeting held on November 23, 2009, our shareholders authorized the board to (i) place 10% of the unissued ordinary shares of the company under directors' control and (ii) authorizing the board to allot and issue up to 5% of all or any of our authorized but unissued ordinary shares for cash to such persons and on such terms as the board may, without restriction, from time to time, deem fit as and when suitable opportunities arise, but subject to the requirements of the JSE.

At a general meeting held on November 24, 2008, our shareholders authorized the board to (i) place 10% of the unissued ordinary shares of the company under directors' control and (ii) authorizing the board to allot and issue up to 10% of all or any of our authorized but unissued ordinary shares for cash to such persons and on such terms as the board may, without restriction, from time to time, deem fit as and when suitable opportunities arise, but subject to the requirements of the JSE.

At a general meeting held on November 26, 2007, our shareholders authorized the board to (i) place 10% of the unissued ordinary shares of the company under directors' control and (ii) authorizing the board to allot and issue up to 10% of all or any of our authorized but unissued ordinary shares for cash to such persons and on such terms as the board may, without restriction, from time to time, deem fit as and when suitable opportunities arise, but subject to the requirements of the JSE.

**USE OF PROCEEDS**

Not applicable.

## **Item 15. DISCLOSURE CONTROLS AND PROCEDURES**

### **(a) Disclosure Controls and Procedures**

As of June 30, 2010, our management, with the participation of our Chief Executive Officer ( **CEO** ) and Chief Financial Officer ( **CFO** ), carried out an evaluation, pursuant to Rule 13a-15 promulgated under the Exchange Act of the effectiveness of our disclosure controls and procedures . Based on the foregoing, our management, including the CEO and CFO, concluded that our disclosure controls and procedures were effective as of June 30, 2010.

### **(b) Management's Annual Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining effective internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Harmony's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements. Where appropriate, the necessary actions are taken to remedy any failings or weaknesses identified from review of the effectiveness of the internal control system.

Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human error. Internal control over financial reporting also can be circumvented by collusion or improper management override. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of change in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Management conducted an evaluation of the effectiveness of its internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ( **COSO** ). Management has assessed the effectiveness of internal control over financial reporting, as of June 30, 2010, and has concluded that such internal control over financial reporting was effective based upon those criteria.

PricewaterhouseCoopers Inc, an independent registered public accounting firm, which has audited the consolidated financial statements included in this Annual Report, has issued an attestation report on the effectiveness of Harmony's internal control over financial reporting as of June 30, 2010.

### **(c) Attestation Report of the Registered Public Accounting Firm**

See report of PricewaterhouseCoopers Inc, an independent registered public accounting firm, on page F-2.

### **(d) Changes in Internal Control over Financial Reporting**

There has been no change in Harmony's internal control over financial reporting that occurred during fiscal 2010 that has materially affected or is reasonably likely to materially affect, Harmony's internal control over financial reporting.

**Item 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

At this time, we do not have an individual audit committee financial expert as defined by the rules of the SEC.

The audit committee members through their collective experience do meet a majority of the definitions of the SEC for an audit committee financial expert in both the private and public sectors. The members have served as directors and officers of numerous public companies and have over the years developed a strong knowledge and understanding of IFRS as issued by the IASB, overseeing the preparation, audit and evaluation of financial statements. We believe that the combined knowledge, skills and experience of the Audit Committee, and their authority to engage outside experts as they deem appropriate to provide them with advice on matters related to their responsibilities, enable them, as a group, to act effectively in the fulfillment of their tasks and responsibilities required under the Sarbanes-Oxley Act of 2002. See *Item 7. Directors and Management Board Practices Audit Committee* .

**Item 16B. CODE OF ETHICS**

The Harmony Code of Ethics has been developed to respond to the challenge of ethical conduct in a business environment. The Code of Ethics goes beyond the company's legal and institutional responsibilities by formalizing our values. The purpose of the code is to guide employees' behavior, not to provide specific answers to every conceivable situation in the workplace. We approached the development and the annual review of the Code of Ethics in a fully inclusive manner, with broad consultation and information gathering at all levels of the company. Employees have been kept fully informed about the Code of Ethics and all employees are expected to comply with its contents. (The term "employees" is used in the broadest sense and includes all staff with which a service contract exists, including management, non-management, directors, contractors, consultants, suppliers and temporary staff.) An Ethics Committee was formed in May 2006, which consists of five executive managers and the Company Secretary (who chairs the meeting). This committee is required to meet quarterly to monitor the gift registers and any reported unethical behavior. The Code of Ethics is available on our website at [www.harmony.co.za](http://www.harmony.co.za).

**Item 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**  
**AUDIT FEES**

The following sets forth the aggregate fees billed for each of the two past fiscal years for professional fees to our principal accountants for the audit of the annual financial statements or for services normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years.

Fiscal year ended June 30, 2009	US\$1.631 million
Fiscal year ended June 30, 2010	US\$2.128 million

**AUDIT-RELATED FEES**

The following sets forth additional aggregate fees to those reported under Audit Fees in each of the last two fiscal years that were provided by the principal accountant that are reasonably related to the performance of the audit or review of the financial statements:

Fiscal year ended June 30, 2009	US\$0.331 million
Fiscal year ended June 30, 2010	US\$0.413 million

Fees related to interim reviews and review of interim reports, other SEC filings as well as guidance on section 404 Sarbanes Oxley compliance.

**TAX FEES**

The following sets forth the aggregate fees billed in each of the last two fiscal years for professional services rendered by the principal accountant for tax compliance, tax advice and tax planning:

Fiscal year ended June 30, 2009	US\$0.038 million
Fiscal year ended June 30, 2010	US\$0.107 million

Services comprised advice on capital gains tax issues, treatment of tax in respect of acquisitions, guidance on share option schemes.

**ALL OTHER FEES**

The following sets forth the aggregate fees billed in each of the last two fiscal years for products and services provided by the principal accountant not described above:

Fiscal year ended June 30, 2009	US\$0.300 million
Fiscal year ended June 30, 2010	US\$0.066 million

**AUDIT COMMITTEE APPROVAL**

Our audit committee pre-approves our engagement of PricewaterhouseCoopers Inc to render audit or non-audit services. All of the services described above were approved by the audit committee.

**Item 16D. EXEMPTIONS FROM LISTING STANDARDS FOR AUDIT COMMITTEES**

Not applicable.

**Item 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

Not applicable.

**Item 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT**

Not applicable.

**Item 16G. CORPORATE GOVERNANCE**

**Significant ways in which Harmony's corporate governance practices differ from practices followed by publicly-listed US companies.**

Foreign private issuers, such as Harmony, must briefly highlight any significant ways in which their corporate governance practices differ from those following by US-listed companies. Set out below is a brief, general summary of the significant differences:

US-listed companies are required to have a nominating/corporate governance committee and all members of this committee must be non-executive directors. Harmony has a Nomination Committee which comprises three non-executive board members. Post-financial year end an independent non-executive director was appointed Chairman of the Nomination Committee.

For US-listed companies, the chairperson of this committee is required to be the chairperson of the Board of Directors. The current chairman of the Harmony Board of Directors, Patrice Motsepe, is Chairman of one of Harmony's largest shareholders, African Rainbow Minerals Limited, and is thus not independent. A lead independent non-executive director was appointed in August 2010.

US-listed companies are required to have a remuneration committee composed entirely of independent directors. Harmony has appointed a Remuneration Committee, comprising three board members, all of whom are non-executive and two of whom are independent.

The non-management directors of US-listed companies must meet at regularly scheduled executive sessions without management. Although Harmony does not specifically require such meetings of its non-executive directors, the board has unrestricted access to all company information, records, documents and property. Directors may, if necessary, take independent professional advice at the company's expense and non-executive directors have access to management and may meet separately with management, without the attendance of executive directors.

US-listed companies are required to publish and distribute to shareholders an annual report within 120 days from the end of its fiscal year. Non-US companies such as Harmony are given 225 days from the end of the fiscal year.



**PART III**

**Item 17. FINANCIAL STATEMENTS**

We have elected to provide financial statements for the fiscal year ended June 30, 2010 and the related information pursuant to Item 18.

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**Item 18. FINANCIAL STATEMENTS**

**Financial Statements**

The financial statements appear in this annual report on Form 20-F beginning on page F-4. The report of the independent registered public accounting firm appears on page F-2.

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**Item 19. EXHIBITS**

- 1.1 Memorandum of Association of Harmony, as amended (incorporated by reference to Harmony's Registration Statement (file no. 333-13516) on Form F-3 filed on June 21, 2001).
- 1.2 Articles of Association of Harmony, as amended (incorporated by reference to Harmony's Annual Report on Form 20-F for the fiscal year ended June 30, 2005, filed on November 3, 2005).
- \*2.1 Notice to shareholders dated October 26, 2009 in respect of the Annual General Meeting held on November 23, 2009.
- 2.2 Deposit Agreement among Harmony, The Bank of New York, as Depositary, and owners and holders of American Depositary Receipts, dated as of August 12, 1996, as amended and restated as of October 2, 1996, as further amended and restated as of September 15, 1998 (incorporated by reference to Post-Effective Amendment No. 1 to Harmony's Registration Statement (file no. 333-5410) on Form F-6 filed on May 17, 2001).
- 2.3 Form of ADR (included in Exhibit 2.2).
- 4.1 Harmony (2003) Share Option Scheme, as amended (incorporated by reference to Harmony's Annual Report on Form 20-F for the fiscal year ended June 30, 2005, filed on November 3, 2005).
- 4.2 Harmony 2006 Share Scheme (incorporated by reference to Harmony's Annual Report on Form 20-F for the fiscal year ended June 30, 2007, filed on December 7, 2007).
- 4.3 Draw Down Facility Agreement with Westpac Bank dated June 27, 2007 (incorporated by reference to Harmony's Annual Report on Form 20-F for the fiscal year ended June 30, 2007, filed on December 7, 2007).
- 4.4 Sale Agreement with Randfontein Estates Limited, Clidet No. 726 (Proprietary) Limited and Clidet No. 770 (Proprietary) Limited dated December 18, 2007 (incorporated by reference to Harmony's Annual Report on Form 20-F for the fiscal year ended June 30, 2008, filed on October 29, 2008).
- 4.5 Shareholders Agreement between ARMGold/Harmony Joint Investment Company (Proprietary) Limited, Clidet No. 770 (Proprietary) Limited and Clidet No. 726 (Proprietary) Limited dated December 18, 2007 (incorporated by reference to Harmony's Annual Report on Form 20-F for the fiscal year ended June 30, 2008, filed on October 29, 2008).
- 4.6 Sale of Shares and Claim Agreement with Randfontein Estates Limited, ARMGold/Harmony Joint Investment Company (Proprietary) Limited and Clidet No. 770 (Proprietary) Limited dated December 18, 2007 (incorporated by reference to Harmony's Annual Report on Form 20-F for the fiscal year ended June 30, 2008, filed on October 29, 2008).
- 4.7 Deed of Extinguishment of Royalty (Hidden Valley Project) dated May June 11, 2008 (incorporated by reference to Harmony's Annual Report on Form 20-F for the fiscal year ended June 30, 2008, filed on October 29, 2008).
- 4.8 Senior Facility Agreement with Nedbank Limited dated September 28, 2007 (incorporated by reference to Harmony's Annual Report on Form 20-F for the fiscal year ended June 30, 2008, filed on October 29, 2008).

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- 4.9 Master Lease Facility Agreement between Morobe Consolidated Goldfields Limited and Westpac Bank PNG Limited (Hidden Valley Project) dated June 14, 2007 (incorporated by reference to Harmony's Annual Report on Form 20-F for the fiscal year ended June 30, 2008, filed on October 29, 2008).
- 4.10 Deed of Extinguishment of Royalty (Wafi-Golpu Project) dated February 16, 2009.
- 4.11 Master Purchase and Farmin Agreement dated May 22, 2008 between Morobe Consolidated Goldfields Limited, Wafi Mining Limited, Morobe Exploration Limited, Newcrest PNG 1 Limited, Newcrest PNG 2 Limited and Newcrest PNG 1 Limited.
- 4.12 Hidden Valley Joint Venture Agreement dated May 22, 2008 between Morobe Consolidated Goldfields Limited, Newcrest PNG 1 Limited and Hidden Valley Services Limited.
- 4.13 Master Co-operation Agreement dated on or about August 5, 2008 between Hidden Valley Services Limited, Wafi-

Golpu Services Limited, Morobe Exploration Services Limited, Harmony Gold (PNG Services) Pty Limited and Newcrest Mining Limited.

- \*4.14 Administration Expenses Agreement dated August 11, 2009 between Pamodzi Gold Free State (Proprietary) Limited (in provisional liquidation) and Harmony Gold Mining Company Limited
- \*4.15 Sale of Assets Agreement (South) dated September 8, 2009 between Pamodzi Gold Free State (Proprietary) Limited (in provisional liquidation) and Harmony Gold Mining Company Limited
- \*4.16 Sale of Assets Agreement (Waste Rock Dump) dated September 8, 2009 between Pamodzi Gold Free State (Proprietary) Limited (in provisional liquidation) and Avgold Limited
- \*4.17 Sale of Assets Agreement (North) dated September 8, 2009 between Pamodzi Gold Free State (Proprietary) Limited (in provisional liquidation), Avgold Limited and Harmony Gold Mining Company Limited
- \*4.18 Sale of Assets Agreement (Plant) dated September 8, 2009 between Pamodzi Gold Free State (Proprietary) Limited (in provisional liquidation) and Harmony Gold Mining Company Limited
- \*4.19 Facilities Agreement dated December 11, 2009 between Nedbank Limited, Harmony Gold Mining Company Limited and the Guarantors listed in Schedule 2
- \*4.20 Amended and Restated Sale Agreement dated March 18, 2010 between Harmony Gold Mining Company Limited, Africa Vanguard Resources (Doornkop) (Proprietary) Limited and Randfontein Estates Limited
- 8.1 Significant subsidiaries of Harmony Gold Mining Company Limited (incorporated by reference to Harmony's Annual Report on Form 20-F for the fiscal year ended June 30, 2009, filed on October 26, 2009).
- \*12.1 Certification of the principal executive officer required by Rule 13a-14(a) or Rule 15(d)-14(a), pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
- \*12.2 Certification of the principal financial officer required by Rule 13a-14(a) or Rule 15(d)-14(a), pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
- \*13.1 Certification of the principal executive officer, pursuant to Section 906 of the Sarbanes Oxley Act of 2002.
- \*13.2 Certification of the principal financial officer, pursuant to Section 906 of the Sarbanes Oxley Act of 2002.
- \* Filed herewith

**SIGNATURE**

Pursuant to the requirements of Section 12 of the Exchange Act, we hereby certify that we meets all of the requirements for filing on Form 20-F and that we have duly caused this annual report to be signed on our behalf by the undersigned, thereunto duly authorized.

**HARMONY GOLD MINING COMPANY  
LIMITED**

By: /s/ Graham Briggs  
Graham Briggs  
Chief Executive Officer  
Date: October 25, 2010

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of Harmony Gold Mining Company Limited

In our opinion, the accompanying consolidated balance sheets and the related consolidated income statements, statements of other comprehensive income, of changes in shareholders' equity and cash flows present fairly, in all material respects, the financial position of Harmony Gold Mining Company Limited and its subsidiaries at June 30, 2010 and 2009 and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2010 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2010, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control over Financial Reporting appearing under Item 15 (b). Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

**PricewaterhouseCoopers Inc**

Johannesburg, Republic of South Africa

October 25, 2010



Consolidated income statements  
For the years ended June 30, 2010

Figures in million	Note	2010	US Dollar 2009 *	2008 *
<b>Continuing operations</b>				
Revenue		1,489	1,277	1,269
Cost of sales	5	(1,383)	(1,083)	(1,122)
Production costs		(1,103)	(850)	(918)
Amortization and depreciation		(181)	(139)	(117)
Impairment of assets		(43)	(71)	(40)
Employment termination and restructuring costs		(27)	(4)	(29)
Other items		(29)	(19)	(18)
<b>Gross profit</b>		<b>106</b>	<b>194</b>	<b>147</b>
Corporate, administration and other expenditure		(50)	(36)	(30)
Social investment expenditure		(11)	(4)	(1)
Exploration expenditure		(29)	(29)	(28)
Profit on sale of property, plant and equipment	6	14	114	
Other expenses net	7	(8)	(3)	(15)
<b>Operating profit</b>	8	<b>22</b>	<b>236</b>	<b>73</b>
Profit/(loss) from associates	21	7	1	(11)
Impairment of investment in associate	21		(14)	(12)
Loss on sale of investment in subsidiary	9	(3)		
Net gain/(loss) on financial instruments	10	5	(10)	(58)
Investment income	11	25	49	39
Finance cost	12	(32)	(24)	(70)
<b>Profit/(loss) before taxation</b>		<b>24</b>	<b>238</b>	<b>(39)</b>
Taxation	13	(44)	(22)	(65)
<b>Net (loss)/profit from continuing operations</b>		<b>(20)</b>	<b>216</b>	<b>(104)</b>
<b>Discontinued operations</b>				
(Loss)/profit from discontinued operations	14	(4)	95	74
<b>Net (loss)/profit</b>		<b>(24)</b>	<b>311</b>	<b>(30)</b>
<i>Attributable to:</i>				
Owners of the parent		(24)	311	(30)
Non-controlling interest				

<b>(Loss)/earnings per ordinary share (cents):</b>	15		
(Loss)/earnings from continuing operations		(5)	52
(Loss)/earnings from discontinued operations		(1)	23
<b>Total (loss)/earnings for the period</b>		<b>(6)</b>	<b>75</b>
			<b>(8)</b>
<b>Diluted (loss)/earnings per ordinary share (cents):</b>	15		
(Loss)/earnings from continuing operations		(5)	51
(Loss)/earnings from discontinued operations		(1)	23
<b>Total diluted (loss)/earnings for the period</b>		<b>(6)</b>	<b>74</b>
			<b>(8)</b>

\* *The comparative periods have been re-presented for a change in discontinued operations. Refer to note 14.*

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statements of other comprehensive income  
For the years ended June 30, 2010

Figures in million	Note	2010	US Dollar 2009	2008
<b>Net (loss)/profit for the year</b>		<b>(24)</b>	<b>311</b>	<b>(30)</b>
Other comprehensive income/(loss) for the year, net of income tax		25	111	(204)
Foreign exchange translation	26	25	105	(246)
Fair value movement of available-for-sale investments	26		6	42
<b>Total comprehensive income/(loss) for the year</b>		<b>1</b>	<b>422</b>	<b>(234)</b>
<i>Attributable to:</i>				
Owners of the parent		1	422	(234)
Non-controlling interest				

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated balance sheets  
As at June 30, 2010

Figures in million	Note	US Dollar	
		2010	2009
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	16	3,874	3,614
Intangible assets	17	290	288
Restricted cash	18	19	21
Restricted investments	19	228	212
Investment in financial assets	20	2	7
Investment in associates	21	50	43
Deferred tax asset	13	246	222
Inventories	23	28	
Trade and other receivables	24	10	10
<b>Total non-current assets</b>		<b>4,747</b>	<b>4,417</b>
<b>Current assets</b>			
Inventories	23	129	134
Trade and other receivables	24	122	115
Income and mining taxes		10	6
Cash and cash equivalents		101	253
Assets of disposal groups classified as held for sale	14	362	508
		32	
<b>Total current assets</b>		<b>394</b>	<b>508</b>
<b>Total assets</b>		<b>5,141</b>	<b>4,925</b>
<b>Equity and liabilities</b>			
<b>Share capital and reserves</b>			
Share capital	25	4,027	4,004
Other reserves	26	(40)	(72)
Accumulated loss		(159)	(108)
<b>Total equity</b>		<b>3,828</b>	<b>3,824</b>
<b>Non-current liabilities</b>			
Deferred tax	13	709	643
			284

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Provision for environmental rehabilitation	27	222	198
Retirement benefit obligation and other provisions	28	22	22
Borrowings	29	129	14
<b>Total non-current liabilities</b>		<b>1,082</b>	<b>877</b>
<b>Current liabilities</b>			
Borrowings	29	27	33
Income and mining taxes		1	2
Trade and other payables	30	185	189
		213	224
Liabilities of disposal groups classified as held for sale	14	18	
<b>Total current liabilities</b>		<b>231</b>	<b>224</b>
<b>Total equity and liabilities</b>		<b>5,141</b>	<b>4,925</b>

The accompanying notes are an integral part of these consolidated financial statements.

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Consolidated statements of changes in shareholders' equity  
For the years ended June 30, 2010

		Number of ordinary shares issued	Share capital	Share premium	Accumulated loss	Other reserves	Total
Figures in million (US Dollar)							
<i>Note</i>			25			26	
<b>Balance</b>	<b>June 30, 2007</b>	<b>399,608,384</b>	<b>32</b>	<b>3,720</b>	<b>(388)</b>	<b>2</b>	<b>3,366</b>
Dividends declared					(1)		(1)
Issue of shares							
- Exercise of employee share options		1,786,213		12			12
- Exchange for PNG Royalty		1,859,159		20			20
Share-based payments				3		6	9
Total comprehensive loss for the year					(30)	(204)	(234)
<b>Balance</b>	<b>June 30, 2008</b>	<b>403,253,756</b>	<b>32</b>	<b>3,755</b>	<b>(419)</b>	<b>(196)</b>	<b>3,172</b>
Issue of shares							
- Exercise of employee share options		1,322,964		7			7
- Exchange for PNG Royalty		3,364,675		23			23
- Capital raising		18,045,441	1	186			187
Share-based payments						13	13
Total comprehensive income for the year					311	111	422
<b>Balance</b>	<b>June 30, 2009</b>	<b>425,986,836</b>	<b>33</b>	<b>3,971</b>	<b>(108)</b>	<b>(72)</b>	<b>3,824</b>
Issue of shares							
- Exercise of employee share options		505,584		3			3
- Issued for AVR D investment		2,162,359		21			21
Share-based payments				(1)		20	19
Repurchase of equity interest (note 26(f))						(13)	(13)
Total comprehensive income for the year					(24)	25	1
Dividends paid <sup>(1)</sup>					(27)		(27)
<b>Balance</b>	<b>June 30, 2010</b>	<b>428,654,779</b>	<b>33</b>	<b>3,994</b>	<b>(159)</b>	<b>(40)</b>	<b>3,828</b>

(1) Dividend per share is disclosed under the earnings per share note. Refer to note 15  
The accompanying notes are an integral part of these consolidated financial statements.

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Consolidated cash flow statements  
For the years ended June 30, 2010

Figures in million	Notes	2010	US Dollar 2009	2008
<b>Cash flow from operating activities</b>				
Cash generated by operations	31	214	319	268
Interest received		25	51	38
Dividends received				5
Interest paid		(12)	(31)	(57)
Income and mining taxes paid		(17)	(85)	(18)
<b>Cash generated by operating activities</b>		<b>210</b>	<b>254</b>	<b>236</b>
<b>Cash flow from investing activities</b>				
Increase in amounts invested in environmental trusts		(1)		(11)
Decrease/(increase) in restricted cash		2	(9)	28
Proceeds on disposal of Big Bell operation	31	3		
Acquisition of Steyn 2 and Target 3	31	(36)		
Proceeds on disposals of Papua New Guinea joint venture	31		235	
Proceeds on disposals of Randfontein Cooke assets	31		209	
Proceeds on disposal of South Kal Mine operation	31			18
Proceeds on disposal of available-for-sale financial assets		7		184
Increase in intangible assets		(2)	(4)	(3)
Decrease/(increase) in other non-current investments		1	(4)	(11)
Proceeds on disposal of property, plant and equipment		16	6	18
Additions to property, plant and equipment		(443)	(339)	(552)
<b>Cash (utilised)/generated by investing activities</b>		<b>(453)</b>	<b>94</b>	<b>(329)</b>
<b>Cash flow from financing activities</b>				
Borrowings raised		168		323
Borrowings paid		(57)	(427)	(256)
Ordinary shares issued		3	194	12
Dividends paid		(29)		(1)
<b>Cash generated/(utilised) by financing activities</b>		<b>85</b>	<b>(233)</b>	<b>78</b>
<b>Foreign currency translation adjustments</b>				
		<b>6</b>	<b>85</b>	<b>(2)</b>
Net (decrease)/increase in cash and equivalents		(152)	200	(17)
Cash and equivalents beginning of period		253	53	70

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<b>Cash and equivalents</b>	<b>end of period</b>	<b>101</b>	<b>253</b>	<b>53</b>
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The accompanying notes are an integral part of these consolidated financial statements.

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Notes to the consolidated financial statements

For the years ended June 30, 2010

## 1 General information

Harmony Gold Mining Company Limited ( **the Company** ) and its subsidiaries (collectively **Harmony** or the **group** ) are engaged in gold mining and related activities, including exploration, extraction and processing. Gold bullion, the group's principal product, is currently produced at its operations in South Africa and Papua New Guinea, where the construction of the Hidden Valley Mine is substantially complete. Hidden Valley Mine reached commercial levels of production during May 2010.

The Company is a public company, incorporated and domiciled in South Africa. The address of its registered office is Randfontein Office Park, Corner Main Reef Road and Ward Avenue, Randfontein, 1759.

The consolidated financial statements were authorized for issue by the board of directors on October 11, 2010

## 2 Accounting policies

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied in all years presented, unless otherwise stated.

### 2.1 Basis of preparation

The financial statements of the group have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ( **IFRS** ), IFRIC Interpretations and the Companies Act of South Africa applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets and financial liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

#### **New standards, amendments to standards and interpretations to existing standards adopted by the group:**

\* The following amendment to a standard has become effective and the effect has been disclosed by the group:

*IFRS 7 (Amendment) Financial Instruments disclosures: Improving Disclosures about Financial Instruments (effective from periods beginning January 1, 2009).*

The amendment increases the disclosure requirements about fair value measurement and reinforces existing principles for disclosure about liquidity risk. The amendment introduces a three-level hierarchy for fair value measurement disclosure and requires some specific quantitative disclosures for financial instruments in the lowest level in the hierarchy. In addition, the amendment clarifies and enhances existing requirements for the disclosure of liquidity risk primarily requiring a separate liquidity risk analysis for derivative and non-derivative financial liabilities. The effect of the amendment has been disclosed in note 4, Financial Risk Management.

\* The following standards or amendments to standards have become effective but was not relevant to the group:

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IFRS 1 and IAS 27 (Amendment) IFRS 1 First-Time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate.

IAS 39 (Amendment) IAS 39 Financial Instruments: Recognition and Measurement Exposures Qualifying for Hedge Accounting.

IFRIC 15 Agreements for the Construction of Real Estate.

\* The following standards or amendments to standards have become effective but had no impact on the results of the group:

*IFRS 2 (Amendment) Share-Based Payment: Vesting Conditions and Cancellations (effective from periods beginning January 1, 2009).*

The amendment deals with two matters. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.

*IFRS 3 (Revised) Business Combinations (effective from periods beginning July 1, 2009).*

The new standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently re-measured at fair value through income. Goodwill may be calculated based on the parent's share of net assets or it may include goodwill related to the minority interest. All transaction costs will be expensed.

Notes to the consolidated financial statements

For the years ended June 30, 2010

*IAS 18 (Amendment) Revenue (no effective date, amendment is made to the appendix which is not part of the standard, effective on date of publication)*

The amendment is part of the International Accounting Standards Board ( **IASB** ) annual improvements project published in April 2009. An additional paragraph has been added to the appendix to IAS 18, providing guidance on whether an entity is acting as principal or agent.

*IAS 27 (Revised) Consolidated and separate financial statements (effective from periods beginning July 1, 2009)*

The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. They will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognized in profit or loss. A corresponding amendment to IAS 21 was made as a result of IAS 27 (Revised) that clarifies that upon partial disposal of a subsidiary that includes a foreign operation, the group is required to re-attribute the proportionate share of the cumulative exchange differences recognized in other comprehensive income to the non-controlling interests in that foreign operation (i.e. the transaction is recognized in equity). Only upon loss of control of a subsidiary that includes a foreign operation is the cumulative amount of exchange differences relating to that foreign operation reclassified from other comprehensive income to profit or loss.

*IAS 32 and IAS 1 (Amendment) IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of financial statements: Puttable Financial Instruments and Obligations Arising on Liquidation (effective from periods beginning January 1, 2009).*

The amendments require entities to classify the following types of financial instruments as equity, provided they have particular features and meet specific conditions: a) puttable financial instruments (for example, some shares issued by co-operative entities); b) instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation (for example, some partnership interests and some shares issued by limited life entities). Additional disclosures are required about the instruments affected by the amendments.

*IFRIC 9 and IAS 39 Embedded Derivatives (effective from periods beginning 1 July 2009)*

The amendment results in a mandatory assessment of an embedded derivative following reclassification of a financial assets out of the fair value through profit or loss category. The assessment will not have taken place at initial recognition, as the entire asset was accounted for at fair value. The amendment is necessary to ensure that, following a reclassification from the fair value category, entities apply the requirements for the separation of an embedded derivative that is not closely related to the host contract. The assessment should be made on the basis of the circumstances that existed when the entity first became a party to the contract. In addition, if the fair value of the embedded derivative that would have to be separated cannot be reliably measured, the hybrid financial asset in its entirety should remain in the fair value through profit or loss category.

*IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective from periods beginning October 1, 2008)*

IFRIC 16 provides guidance on identifying the foreign currency risks that qualify as a hedged risk (in the hedge of a net investment in a foreign operation). It secondly provides guidance on where, within a group, hedging instruments that are hedges of a net investment in a foreign operation can be held to qualify for hedge accounting. Thirdly, it provides guidance on how an entity should determine the amounts to be reclassified from equity to profit or loss for both the hedging instrument and the hedged item.

*IFRIC 17 Distributions of Non-cash Assets to Owners (effective from periods beginning July 1, 2009)*

IFRIC 17 applies to the accounting for distributions of non-cash assets (commonly referred to as dividends in specie) to the owners of the entity. The interpretation clarifies that: a dividend payable should be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity; an entity should measure the dividend payable at the fair value of the net assets to be distributed; and an entity should recognize the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss.

*IFRIC 18 Transfers of assets from customers (effective from periods beginning July 1, 2009)*

The interpretation clarifies the accounting treatment for transfers of property, plant and equipment received from customers. This Interpretation applies to agreements with customers in which the entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment and the entity must then use the item of property, plant and equipment either to connect the customer to a network or to provide the customer with on-going access to a supply of goods and services, or to do both.

*Improvements projects*

These amendments are the result of conclusions the Board reached on proposals made in its annual improvement project. Unless otherwise specified, the amendments are effective for annual accounting periods beginning on or after January 1, 2009, although entities are permitted to adopt them earlier. The group does not expect the new or revised statements and revised interpretations to have a significant effect on the financial statements.

Notes to the consolidated financial statements  
For the years ended June 30, 2010

**Standards, amendments to standards and interpretations to existing standards that are not yet effective and have not been early adopted by the group:**

At the date of authorization of these financial statements, the standards, amendments to standards and interpretations listed below were in issue but not yet effective. These new standards and interpretations have not been early adopted by the group and a reliable estimate of the impact of the adoption thereof for the group cannot yet be determined for all of them, as management is still in the process of determining the impact of these standards and interpretations on future financial statements. The group plans on adopting these standards, amendments to standards and interpretations on the dates when they become effective.

*IFRS 1 (Amendment): First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters (effective for periods beginning on or after January 1, 2010)*

The amendment addresses the retrospective application of IFRSs to particular situations including: the use of deemed cost for oil and gas assets; determination of whether an arrangement contains a lease; and decommissioning liabilities included in the cost of property, plant and equipment and is aimed at ensuring that the entities applying IFRSs will not face undue cost or effort in the transition process. This amendment will not have an impact on the group.

*IFRS 1 (Amendment): First-time Adoption of International Financial Reporting Standards – Limited Exemptions from Comparative IFRS 7 Disclosures for First-time Adopters (effective for periods beginning on or after July 1, 2010)*

The additional amendment relieves first-time adopters of IFRSs from presenting comparative information for new three level classification disclosures required by the March 2009 amendments to IFRS 7 Financial Instruments: Disclosures . It thereby ensure that first-time adopters benefit from the same transition provisions that amendments to IFRS 7 provides to current IFRS preparers. This amendment will not have an impact on the group.

*IFRS 2 (Amendment) – Group cash-settled and share-based payment transactions (effective from periods beginning January 1, 2010)*

The amendment provide a clear basis to determine the classification of share based payments in consolidated and separate financial statements. In addition to incorporating IFRIC 8, Scope of IFRS 2 , and IFRIC 11, IFRS 2 group and treasury share transactions , the amendment also expand on the guidance in IFRIC 11 to address group arrangements that were not considered by that interpretation. The group does not have a cash settled share based payments scheme.

*IFRS 5 (Amendment) – Measurement of non-current assets (or disposal groups) classified as held for sale (effective from periods beginning January 1, 2010)*

The amendment is part of the IASB s annual improvements project published in April 2009. The amendment provides clarification on disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty). The group is still in process of determining the effect of this amendment on the

financial statements.

*IFRS 9 Financial instruments (effective from periods beginning January 1, 2013)*

IFRS 9 simplifies accounting for financial assets as requested by many constituents and stakeholders. In particular, it replaces multiple measurement categories in IAS 39 with a single principle-based approach to classification. IFRS 9 removes complex rule-driven embedded derivative guidance in IAS 39 and requires financial assets to be classified in their entirety. IFRS 9 eliminates the need for multiple impairment models, such that only one impairment model for financial assets carried at amortized cost will be required. The group is still in the process of determining the effect of this standard on the financial statements.

*IAS 1 (Amendment) Presentation of financial statements (effective from periods beginning January 1, 2010)*

The amendment is part of the International Accounting Standards Board's (IASB) annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.

*IAS 7 (Amendment) Statement of cash flows (effective from periods beginning January 1, 2010)*

The amendment is part of the IASB's annual improvements project published in April 2009. The amendment clarifies that only expenditure that results in a recognized asset in the statement of financial position can be classified as a cash flow from investing activities. The group currently does not expect the amendment to impact the financial statements.

Notes to the consolidated financial statements  
For the years ended June 30, 2010

*IAS 17 (Amendment) Leases (effective from periods beginning January 1, 2010)*

The amendment is part of the IASB's annual improvements project published in April 2009. The amendment deletes relevant guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating, using the general principles of IAS 17.

*IAS 24 (Revised) Related-party disclosures (effective from periods beginning January 1, 2011)*

The revised standard removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. It also clarifies and simplifies the definition of a related party.

*IAS 32 (Amendment) Classification of rights issues (effective from periods beginning February 1, 2010)*

The amendment recognizes that the previous requirement to classify foreign-currency denominated rights issued to all existing shareholders on a pro rata basis as derivative liabilities is not consistent with the substance of the transaction, which represents a transaction with owners acting in their capacity as such. The amendment therefore creates an exception to the "fixed for fixed" rule in IAS 32 and requires rights issues within the scope of the amendment to be classified as equity.

*IAS 36 (Amendment) Impairment of Assets (effective from periods beginning January 1, 2010)*

The amendment is part of the IASB's annual improvements project published in April 2009. The amendment clarifies that the largest cash generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment as defined by paragraph 5 of IFRS 8 "Operating segments", that is; before the aggregation of segments with similar economic characteristics permitted by paragraph 12 of IFRS 8.

*IAS 38 (Amendment) Intangible assets (effective from periods beginning January 1, 2010)*

The amendment is part of the IASB's annual improvements project published in April 2009. The amendment clarifies the description of valuation techniques commonly used by entities when measuring the fair value of intangible assets acquired in a business combination, where there is no active market. The effect of the amendment will be recorded in future periods when such transactions are entered into.

*IAS 39 (Amendment) Financial instruments: Recognition and measurement (effective from periods beginning January 1, 2010)*

There were 3 amendments made to IAS 39 as part of the IASB's annual improvements project published in April 2009.

- (i) The scope exemption within IAS 39.2(g) was amended to clarify that it only applies to forward contracts that will result in a business combination at a future date, as long as the term of the forward contract does not exceed a reasonable period normally necessary to obtain any required approvals and to complete the transaction .

- (ii)



Clarification that amounts deferred in equity are only reclassified to profit or loss when the underlying hedged cash flows affect profit or loss.

- (iii) An additional example of a closely related embedded prepayment option in a debt instrument was added to the adoption guidance in IAS 39 AG 30. Wording with respect to the assessment of put and call features in convertible instruments was clarified.

*IFRIC 14 (Amendment): The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – Prepayment of Minimum Funding Requirements (effective for financial periods beginning on or after January 1, 2011).*

This amendment applies in the limited circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits such an entity to treat the benefit of such an early payment as an asset. The group does not believe the amendment will have an impact on the group.

*IFRIC 19 Extinguishing financial liabilities with equity instruments (effective from periods beginning July 1, 2010)*

This interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. It does not address the accounting by the creditor, nor does it apply to situations where the liability may be extinguished with equity instruments in accordance with the agreed terms of the instrument (for example, convertible bonds). The group currently does not expect this interpretation to have a material effect on the financial statements.

#### *Improvements projects*

Certain improvements to IFRS 2009 (periods beginning on or after January 1, 2010) and IFRS 2010 (each has its own effective date, the earliest being periods beginning on or after July 1, 2010).

Notes to the consolidated financial statements

For the years ended June 30, 2010

## 2.2 Consolidation

The consolidated financial information includes the financial statements of the Company, its subsidiaries, its proportionate interest in joint ventures, special purpose entities ( **SPEs** ) and its interests in associates.

(i) **Subsidiaries**, which are those entities in which the group generally has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the group and are no longer consolidated when control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, shares issued or liabilities assumed at the date of exchange plus costs directly attributable to the exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interests. Non-controlling interests are carried at a proportion of the net identifiable assets acquired.

The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

In situations of successive share purchases when control already existed at the date of further acquisition, no fair value adjustment is made to the identifiable net assets acquired and any excess/deficit purchase price over the carrying value of non-controlling interests acquired is accounted for in equity.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated on consolidation. Unrealized losses are also eliminated and may provide evidence of an impairment that should be recognized. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the group.

(ii) **Associates** are those entities over in which the group has significant influence, but not control over operational and financial policies, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted for by using the equity method of accounting, and are initially recognized at cost. The cost of an acquisition is measured as the fair value of the assets given, shares issued or liabilities assumed at the date of exchange plus costs directly attributable to the acquisition.

The group's share of the associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movement in reserves is recognized in other reserves. Cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the group's shares of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

The group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment losses.

The carrying value of an associate is reviewed on a regular basis and, if an impairment in the carrying value has occurred, it is written off in the period in which such impairment is identified.

Unrealized gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associates. Unrealized losses are also eliminated unless the transaction provide evidence of an impairment that should be recognized.

Accounting policies of associates have been reviewed to ensure consistency with the policies adopted by the group.

- (iii) **Joint venture** entities are those entities in which the group holds an interest and shares joint control over strategic, financial and operating decisions with one or more other ventures under a contractual arrangement. The group's interest in jointly controlled entities is accounted for by proportionate consolidation. Under this method, the group includes its share of the joint venture's individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the group's financial statements.

The group recognizes the portion of gains or losses on the sale of assets by the group to the joint venture that is attributable to the other ventures. The group does not recognize its share of profits or losses from the joint venture that result from the purchase of assets by the group from the joint venture until it resells the assets to an independent party. However, if a loss on the transaction provides evidence of a reduction in the net realizable value of current assets or an impairment loss, the loss is recognized immediately.

Notes to the consolidated financial statements

For the years ended June 30, 2010

Joint ventures operations and assets: The group and company has contractual arrangements with other participants to engage in joint activities or invest in joint assets other than through a separate entity. The group and company includes its assets, liabilities and share of income and expenditure in such joint venture operations with similar items in its financial statements.

- (iv) **Special purpose entities (SPEs)** are those undertakings that are created to satisfy specific business needs of the group. These are consolidated where the group has the right to the majority of the benefits of the SPE and/or is exposed to the majority of the risk thereof. SPEs are consolidated in the same manner as subsidiaries when the substance of the relationship indicates that the SPE is controlled by the group.
- (v) **Transactions with non-controlling interests.** The group applies a policy of treating transactions with minority interests as transactions with equity owners of the group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

### 2.3 Foreign currency translation

- (i) **Functional and presentation currency:** Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in South African Rand and US dollars for the benefit of local and international users. The Company's financial statements are presented in its functional currency, being South African Rand.

For translation of the Rand financial statement items to US dollar, the average of R7.58 (2009: R9.00) (2008: R7.26) per US\$1 was used for income statement items (unless this average was not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case these items were translated at the rate on the date of the transactions) and the closing rate of R7.63 (2009: R7.72) per US\$1 for asset and liability items. Equity items were translated at historic rates.

References to A\$ refers to Australian currency, R to South African currency, \$ or US\$ to United States currency and K or Kina to Papua New Guinean currency.

- (ii) **Transactions and balances:** Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation to year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except where deferred in equity as qualifying cash flow hedges and qualifying investment hedges. Gains and losses recognized in the income statement are included in the determination of other expenses net.

Changes in the fair value of monetary securities denominated in a foreign currency classified as available for sale are analyzed between translation differences resulting from changes in the amortized cost of the security, and other changes in the carrying amount of the security. Translation differences related to the changes in amortized cost are recognized in profit or loss, and other changes in carrying amount are recognized in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss.

Translation differences on non-monetary financial assets such as equities classified as available for sale are included in other comprehensive income.

- (iii) Group companies:** The results and financial position of all group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
- a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
  - b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the date of the transactions);
  - c) all resulting exchange differences are recognized as a separate component of other comprehensive income;
  - d) equity items are translated at historic rates.

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Notes to the consolidated financial statements

For the years ended June 30, 2010

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is sold or control is otherwise lost, exchange differences that were recorded in other comprehensive income are recognized in profit or loss in the period in which the foreign operation is sold or control is otherwise lost.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign entity and translated at the closing rate.

## 2.4 Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the executive committee. Refer to note 38 for detailed guidance on the identification of an operating and reportable segment.

## 2.5 Property, plant and equipment

- (i) **Mining assets** including mine development costs and mine plant facilities are initially recorded at cost, where after it is measured at cost less accumulated depreciation and impairment. Costs includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate assets as appropriate only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably.

At the group's surface mines, when it has been determined that a mineral property can be economically developed as a result of establishing proved and probable reserves, costs incurred to develop the property are capitalized as incurred until the mine is considered to have moved into the production phase. These costs include costs to further delineate the ore body and remove overburden to initially expose the ore body. Stripping costs incurred during the production phase to remove waste ore are deferred and charged to production costs on the basis of the average life-of-mine stripping ratio. The average stripping ratio is calculated as the number of tonnes of waste material removed per tonne of ore mined. The average life-of-mine ratio is revised annually in the light of additional knowledge and change in estimates. The cost of excess stripping is capitalized as mine development costs when the actual stripping ratio exceeds the average life-of-mine stripping ratio. Where the average life-of-mine stripping ratio exceeds the actual stripping ratio, the cost is charged to the income statement.

At the group's underground mines, all costs incurred to develop the property, including costs to access specific ore blocks or other areas of the underground mine, are capitalized to the extent that such costs will provide future economic benefits. These costs include the cost of shaft sinking and access, the costs of building access ways, lateral development, drift development, ramps, box cuts and other infrastructure development.

During the development stage, the group may enter into arrangements whereby it agrees to transfer a part of its mineral interest in consideration for an agreement by another party (the farmee) to meet certain expenditure which would otherwise have to be undertaken by the group. Such arrangements, referred to as farm-in transactions, are accounted for as executory contracts particularly when the

expenditures to be incurred by the farmee are discretionary in nature, and the mineral interest to be transferred may vary depending upon such discretionary spend. At the date of completion of each party's obligations under the farm-in arrangement, the group derecognizes the proportion of the mining assets and liabilities associated with the joint venture that it has sold to the farmee, and recognizes its interest in the capital expenditure (consideration received) at fair value within operating assets. The difference between the net disposal proceeds and the carrying amount of the asset disposed of is recognized in profit or loss.

Borrowing costs are capitalized to the extent that they are directly attributable to the acquisition and construction of qualifying assets. Qualifying assets are assets that take a substantial time to get ready for their intended use. These costs are capitalized until the asset moves into the production phase. Other borrowing costs are expensed.

The net assets of operations placed on care and maintenance are impaired to their recoverable amount. Expenditure on the care and maintenance of these operations is charged against income, as incurred.

Where a depreciable asset is used in the construction or extension of a mine, the depreciation is capitalized against the mines cost.

- (ii) **Non-mining assets:** Land is shown at cost and not depreciated. Other non-mining fixed assets are shown at cost less accumulated depreciation and accumulated impairment losses.

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Notes to the consolidated financial statements

For the years ended June 30, 2010

- (iii) **Undeveloped properties** are initially valued at the fair value of resources obtained through acquisitions. The carrying value of these properties are annually tested for impairment. Once development commences, these properties are transferred to mining properties and accounted for in accordance with the related accounting policy.
- (iv) **Mineral and surface use rights** represent mineral and surface use rights for parcels of land both owned and not owned by the group. Mineral and surface rights include acquired mineral use rights in production, development and exploration phase properties. The amount capitalized related to a mineral and surface right represents its fair value at the time it was acquired, either as an individual asset purchase or as part of a business combination, and is recorded at cost of acquisition.

Production phase mineral interests represent interests in operating properties that contain proved and probable reserves. Development phase mineral interests represent interests in properties under development that contain proved and probable reserves. Exploration phase mineral interests represent interests in properties that are believed to potentially contain (i) other mineralized material such as inferred material within pits; measured, indicated and inferred material with insufficient drill spacing to qualify as proved and probable reserves; (ii) around-mine exploration potential such as inferred material not immediately adjacent to existing reserves and mineralization but located within the immediate mine infrastructure; (iii) other mine-related exploration potential that is not part of measured, indicated or inferred material and is comprised mainly of material outside of the immediate mine area; or (iv) greenfield exploration potential that is not associated with any production, development or exploration phase property as described above.

The group's mineral use rights are enforceable regardless of whether proved or probable reserves have been established. In certain limited situations, the nature of a use changes from an exploration right to a mining right upon the establishment of proved and probable reserves. The group has the ability and intent to renew mineral use rights where the existing term is not sufficient to recover all identified and valued proved and probable reserves and/or undeveloped mineral interests.

- (v) **Leased assets:** The group leases certain property, plant and equipment. Leases of property, plant and equipment where the group has substantially all the risks and rewards of ownership are classified as finance leases. The assets are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Finance lease payments are allocated using the rate implicit in the lease, which is included in finance costs, and the capital repayment, which reduces the liability to the lessor. The corresponding rental obligations, net of finance charges, are included in non current Borrowings, with the current portion included under Current Liabilities.

Capitalized lease assets are depreciated over the shorter of their estimated useful lives and the lease terms.

- (vi) **Depreciation and amortization** of mineral property interests, mineral and surface rights, mine development costs and mine plant facilities are computed principally by the units of production method over the life of mine based on estimated quantities of economically recoverable proved and probable reserves, which can be recovered in future from known mineral deposits.



In most instances, proved and probable reserves provide the best indication of the useful life of the Group's mines (and related assets). However, in some instances, proved and probable reserves may not provide a realistic indication of the useful life of the mine (and related assets). This may be the case, for example, where management is confident that further resources will be converted into reserves and are approaching economic decisions affecting the mine on this basis, but has chosen to delay the work required to designate them formally as reserves. Management's confidence in the economical recovery of such resources may be based on historical experience and available geological information. In instances where management is able to demonstrate the economic recovery of such resources with a high level of confidence, such additional resources, as well as the associated future development costs of accessing those resources, are included in the calculation of depreciation and amortization.

Changes in management's estimates of economically recoverable reserves and resources impact depreciation and amortization on a prospective basis. During fiscal 2010, the Group revised its estimate of the useful lives of the Doornkop and Masimong operations to include certain resources in addition to proved and probable reserves. The inclusion of such resources resulted from increased confidence in the economic extraction of resources due to additional surface and underground drilling undertaken in the current year. The effect of including such resources in the useful life of these operations decreased annual depreciation by approximately US\$1 million.

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Notes to the consolidated financial statements

For the years ended June 30, 2010

**(vii) Depreciation and amortization of non-mining fixed assets:** Other non-mining fixed assets are depreciated on a straight line basis over their estimated useful lives as follows:

Vehicles at 20% per year;

Computer equipment at 33.3% per year; and

Commercial, off-the-shelf software at 50% per year; and

Furniture and equipment at 16.67% per year.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized in the income statement.

**(viii) Depreciation and amortization of mineral and surface use rights:** Mineral rights associated with production phase mineral interests are amortized over the life of mine using the units-of-production method in order to match the amortization with the expected underlying future cash flows. Mineral interests associated with development and exploration phase mineral interests are not amortized until such time as the underlying property is converted to the production stage.

For details on the group's accounting policy on impairments, refer to note 2.8.

## 2.6 Exploration costs

The group expenses all exploration and evaluation expenditures until it is concluded that a future economic benefit is more likely to be realized than not, i.e. probable. The information used to make that determination depends on the level of exploration as well as the degree of confidence in the ore body.

Exploration and evaluation expenditure on greenfield sites, being those where the group does not have any mineral deposits which are already being mined or developed, is expensed as incurred until a final feasibility study has been completed, after which the future pre-commercial production expenditure is capitalized within development costs if the final feasibility study demonstrates that future economic benefits are probable. Capitalization of pre-production cost ceases when commercial levels of production are reached. Commercial levels of production is discussed under production start date in note 3.12.

Exploration and evaluation expenditure on brownfield sites, being those adjacent to mineral deposits which are already being mined or developed, is expensed as incurred until the group is able to demonstrate that future economic benefits are probable through the completion of a feasibility study, after which the expenditure is capitalized as mine development cost. A feasibility study consists of a comprehensive study of the viability of a mineral project that has advanced to a stage where the mining method, in the case of underground mining, or the pit configuration, in the case of an open pit, has been established, and which, if an effective method of mineral processing has been determined, includes a financial analysis based on reasonable assumptions of technical, engineering, operating economic factors and the evaluation of other relevant factors. The feasibility study, when combined with existing knowledge of the mineral property that is adjacent to mineral deposits that are already being mined or developed, allows the group to conclude that it is more likely than not that it will obtain future economic benefit from the expenditures.

Exploration and evaluation expenditure relating to extensions of mineral deposits which are already being mined or developed, including expenditure on the definition of mineralization of such mineral deposits, is capitalized as a mine development cost following the completion of an economic evaluation equivalent to a feasibility study. This economic evaluation is distinguished from a feasibility study in that some of the information that would normally be determined in a feasibility study is instead obtained from the existing mine or development. This information when combined with existing knowledge of the mineral property already being mined or developed allow the directors to conclude that more likely than not the group will obtain future economic benefit from the expenditures.

Exploration properties acquired are recognized in the balance sheet within development cost and are shown at cost less provisions for impairment determined in accordance with the group's accounting policy on impairment of non-financial assets (note 2.8).

## **2.7 Intangible assets**

Intangible assets consist of all identifiable non-monetary assets without physical substance. They are stated at cost less accumulated amortization and accumulated impairment losses, if any. The following are the main categories of intangible assets:

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Notes to the consolidated financial statements  
For the years ended June 30, 2010

**(i) Intangible assets with an indefinite useful life**

Intangible assets with an indefinite useful life are not amortized but tested for impairment on an annual basis. Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary, associate, joint venture or business at the date of acquisition. Goodwill on acquisition of subsidiaries, joint ventures and businesses are included in intangible assets. Goodwill on acquisition of associates is included in investments in associates and tested for impairment as part of the overall balance.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are recognized immediately in the income statement and are not reversed. The impairment testing is performed annually on June 30 or when events or changes in circumstances indicate that it may be impaired.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. If the composition of one or more cash-generating units to which goodwill has been allocated changes due to a re-organization, the goodwill is re-allocated to the units affected.

The gain or loss on disposal of an entity includes the carrying amount of goodwill relating to the entity sold.

**(ii) Intangible assets with a finite useful life**

Acquired computer software licenses that requires further internal development are capitalized on the basis of costs incurred to acquire and bring to use the specific software. Cost to bring to use the specific software, includes software development employee costs and attributable overheads. Development expenditure incurred that will not likely generate probable future economic benefits and cannot be reliability measured are recognized as an expense as incurred. Intangible assets with a finite useful life are amortized on a straight line basis of over their estimated useful lives, which are reviewed annually, as follows:

Computer software at 20% per year.

**2.8 Impairment of non-financial assets**

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

Assets that are subject to amortization are reviewed annually on June 30 for impairment or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Each operating shaft, along with allocated common assets such as plants and administrative offices, is considered to be a cash generating unit as each shaft is largely independent from the cash flows of other shafts and assets

belonging to the group.

Fair value less cost to sell is generally determined by using discounted estimated future cash flows. Future cash flows are estimated based on quantities of recoverable minerals, expected gold prices (considering current and historical prices, price trends and related factors), production levels and cash costs of production, all based on life-of-mine plans. Future cash flows are discounted to their present value using a post tax discount rate that reflect current market assessments of the time value of money and risk specific to the asset.

The term *recoverable minerals* refers to the estimated amount of gold that will be obtained from reserves and resources and all related exploration stage mineral interests (except for other mine-related exploration potential and greenfields exploration potential discussed separately below) after taking into account losses during ore processing and treatment. Estimates of recoverable minerals from such related exploration stage mineral interests will be risk adjusted based on management's relative confidence in such materials. In estimating future cash flows, assets are grouped at the lowest level for which there are identifiable cash flows that are largely independent of cash flows from other asset groups. With the exception of other mine-related exploration potential and greenfields exploration potential, estimates of future undiscounted cash flows are included on an area of interest basis, which generally represents an individual operating mine, even if the mines are included in a larger mine complex.

In the case of mineral interests associated with other mine-related exploration potential and greenfields exploration potential, cash flows and fair values are individually evaluated based primarily on recent exploration results and recent transactions involving sales of similar properties, if any. Assumptions underlying future cash flow estimates are subject to significant risks and uncertainties.

Notes to the consolidated financial statements  
For the years ended June 30, 2010

Non-financial assets other than goodwill that suffered an impairment are reviewed annually for possible reversal of the impairment at June 30. Reversal of impairments is also considered when there is objective evidence to indicate that the asset is no longer impaired. Where an impairment subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but not higher than the carrying value that would have been determined had no impairment been recognized in prior years.

## 2.9 Financial instruments

Financial instruments are initially measured at fair value when the group becomes a party to their contractual arrangements. Transaction costs are included in the initial measurement of financial instruments, with the exception of financial instruments classified as at fair value through profit or loss. The subsequent measurement of financial instruments is discussed below.

A financial asset is derecognized when the right to receive cash flows from the asset has expired or the group has transferred its rights to receive cash and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the assets.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss recognized in equity is recognized in profit and loss.

On derecognition of a financial liability, the difference between the carrying amount of the liability extinguished or transferred to another party and the amount paid is recognized in profit or loss.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

### *Financial assets*

The group classifies its financial assets in the following categories: loans and receivables, available-for-sale, held-to-maturity and at fair value through profit or loss. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Purchases and sales of financial assets are recognized on trade-date, the date on which the group commits to purchase or sell the asset.

- (i) **Loans and receivables**, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the group provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans and receivables are subsequently measured at amortized cost using the effective interest method. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date

which are classified as non-current assets. Loans and receivables include trade and other receivables (excluding VAT and prepayments), restricted cash and cash and cash equivalents.

### **Cash and cash equivalents**

Cash and cash equivalents are defined as cash on hand, deposits held at call with banks and short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents exclude restricted cash (discussed below).

### **Restricted cash**

Restricted cash consists of cash collateral posted for guarantees and performance bonds related to environmental rehabilitation and as security deposits on mining tenements.

### **Trade and other receivables**

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. A provision for impairment of receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced through the use of a provision for impairment (allowance account) and the amount of the loss is recognized in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the income statement.

Notes to the consolidated financial statements  
For the years ended June 30, 2010

- (ii) **Available-for-sale financial assets**, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of the investment within 12 months of the balance sheet date.

Available-for-sale financial assets are subsequently carried at fair value. Changes in the fair value of monetary securities denominated in a foreign currency and classified as available for sale are analyzed between translation differences resulting from changes in amortized cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognized in profit or loss, while translation differences on non-monetary securities are recognized in other comprehensive income. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognized in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in other comprehensive income are reclassified in the income statement as profit or loss from investment securities. Dividends on available-for-sale equity instruments are recognized in the income statement as part of investment income when the group's right to receive payments is established. Interest on available-for-sale securities calculated using the effective interest method is recognized in the income statement as part of investment income.

The fair values of quoted investments are based on current bid prices. If the value for a financial instrument cannot be obtained from an active market, the group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances. The valuation techniques make maximum use of market inputs and rely as little as possible on entity-specific inputs.

The group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If considered impaired, the cumulative loss—measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss—is removed from other reserves and recognized in the income statement. Subsequent increases in the fair value are recognized in equity—impairment losses recognized in the income statement on equity instruments are not reversed through the income statement.

- (iii) **Held-to-maturity investments** are non-derivative financial assets with fixed or determinable payments and fixed maturities that the group's management has the positive intention and ability to hold to maturity. The group's held-to-maturity investments are subsequently measured at amortized cost using the effective interest method.

A portion of restricted investments held by the trust funds (refer note 19) are classified as held-to-maturity investments.



The group assesses at the end of each reporting period whether there is objective evidence that a held-to-maturity investment is impaired as a result of an event. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the held-to-maturity investment's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated income statement. If a held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal of the previously recognized impairment loss is recognized in the consolidated income statement.

- (iv) **Financial assets at fair value through profit or loss have two sub-categories:** financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management in terms of specified criteria. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date. These assets are subsequently measured at fair value with gains or losses arising from changes in fair value recognized in the income statement in the period in which they arise. Dividend income from these assets is recognized in the income statement as part of investment income when the group's right to receive payment is established.

Notes to the consolidated financial statements  
For the years ended June 30, 2010

***Financial liabilities***

***Borrowings***

Borrowings are initially recognized at fair value net of transaction costs incurred and subsequently measured at amortized cost, comprising original debt less principal payments and amortization, using the effective yield method. Any difference between proceeds (net of transaction cost) and the redemption value is recognized in the income statement over the period of the borrowing using the effective interest rate method.

Fees paid on the establishment of loan facilities are capitalized as a pre-payment and amortized over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

***Trade and other payables***

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. Payables are classified as current liabilities if payment is due within a year or less. If not, they are presented as non-current liabilities.

**2.10 Inventories**

Inventories which include bullion on hand, gold in process, gold in lock-up, ore stockpiles and stores and materials, are measured at the lower of cost and net realizable value after appropriate allowances for redundant and slow moving items. Cost of bullion, gold in process and gold in lock-up is determined by reference to production cost, including amortization and depreciation at the relevant stage of production. Ore stockpiles are valued at average production cost. Stockpiles and gold in lock-up are classified as a non current asset where the stockpile exceeds current processing capacity and where a portion of static gold in lock-up is expected to be recovered more than 12 months after balance sheet date.

Stores and materials consist of consumable stores and are valued at weighted average cost.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to perform the sale.

Gold in process inventories represent materials that are currently in the process of being converted to a saleable product. Conversion processes vary depending on the nature of the ore and the specific mining operation, but include mill in-circuit, leach in-circuit, flotation and column cells, and carbon in-pulp inventories. In-process material is measured based on assays of the material fed to process and the projected recoveries at the respective plants. In-process inventories are valued at the average cost of the material fed to process attributable to the source material coming from the mine, stockpile or leach pad plus the in-process conversion costs, including the applicable depreciation relating to the process facility, incurred to that point in the process. Gold in process includes gold in lock-up which is generally measured from the plants onwards. Gold in lock-up is estimated as described under the section dealing with critical accounting estimates and judgements (refer to note 3). It is expected to be extracted when plants are

demolished at the end of its useful lives, which is largely dependant on the estimated useful life of the operations feeding the plants. Where mechanized mining is used in underground operations, in-progress material is accounted for at the earliest stage of production when reliable estimates of quantities and costs are capable of being made. Given the varying nature of the group's open pit operations, gold in process represents either production in broken ore form or production from the time of placement on heap leach pads.

## **2.11 Non-current assets or disposal group held for sale and discontinued operations**

A non-current asset or disposal group (a business grouping of assets and their related liabilities) is designated as held for sale and stated at lower of carrying value and fair value less cost to sell, when its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The classification as held for sale of a non-current asset or disposal group occurs when it is available for immediate sale in its present condition and the sale is highly probable. A sale is considered highly probable if management is committed to a plan to sell the non-current asset or disposal group, an active divestiture programme has been initiated, the non-current assets or disposal group is marketed at a price reasonable to its fair value and the disposal will be completed within one year from classification.

Upon classification of a non-current asset or disposal group as held for sale, it is reviewed for impairment. The impairment charged to the income statement is the excess of the carrying value of the non-current asset or disposal group over its expected net selling price (fair value less costs to sell). At each subsequent reporting date, the carrying values are remeasured for possible impairment. A reversal of impairment is recognized for any subsequent increase in net selling price but not in excess of the cumulative impairment loss already recognized.

No depreciation is provided on non-current assets from the date they are classified as held for sale.

Notes to the consolidated financial statements  
For the years ended June 30, 2010

When a disposal group is classified as held for sale it is also necessary to assess whether or not the criteria for discontinued operations are met. If the criteria are met, the results of the disposal group are classified as discontinued operations in the income statement and the comparative amounts restated for all periods presented. No restatement of balance sheet comparative amounts are done.

If a non-current asset or disposal group is classified as held for sale but the criteria for classification as held for sale are no longer met, the disclosure of such non-current asset or disposal group as held for sale is ceased.

On ceasing such classification, the non-current assets are reflected at the lower of:  
the carrying amount before classification as held for sale adjusted for any depreciation or amortization that would have been recognized had the assets not been classified as held for sale; or  
the recoverable amount at the date the classification as held for sale ceases. The recoverable amount is the amount at which the asset would have been recognized after the allocation of any impairment loss arising on the cash generating unit as determined in accordance with the group's policy on impairment of non-financial assets.

Any adjustment required to be made on reclassification is charged to the income statement on reclassification, and included in income from continuing operations.

Where the disposal group was also classified as a discontinued operation, the subsequent classification from held for sale also requires that the discontinued operation be included in continuing operations. Comparative information in the income statement and cash flow note disclosures relating to the classification as a discontinued operation is re-presented accordingly. Comparative information in the balance sheet is not re-presented for this change.

## **2.12 Environmental obligations**

Estimated long-term environmental obligations, comprising pollution control, rehabilitation and mine closure, are based on the group's environmental management plans in compliance with current technological, environmental and regulatory requirements.

Based on disturbances to date, the net present value of expected rehabilitation cost estimates are recognized and provided for in full in the financial statements. The estimates are reviewed annually and are discounted using a pre-tax risk-free rate that is adjusted to reflect the current market assessments of the time value of money and the risks specific to the obligation.

Annual changes in the provision consist of finance costs relating to the change in the present value of the provision and inflationary increases in the provision estimate, as well as changes in estimates. The present value of environmental disturbances created are capitalized to mining assets against an increase in the rehabilitation provision. If a decrease in liability exceed the carrying amount of the asset, the excess is recognized immediately in the income statement. If the asset value is increased and there is an indication that the revised carrying value is not recoverable, an impairment test is performed in accordance with the accounting policy dealing with impairments of non financial assets. Rehabilitation projects undertaken, included in the estimates are charged to the provision as incurred. The cost of on-going current programmes to prevent and control pollution is charged against income as incurred. Over time, the liability is increased to reflect an interest element, and the capitalized cost is depreciated over the life of

the related asset.

### **2.13 Environmental trust funds**

Contributions are made to the group's trust funds, created in accordance with statutory requirements, to fund the estimated cost of pollution control, rehabilitation and mine closure at the end of the life of the group's mines. The trusts are consolidated into the group as the group exercises full control of the trust. Income earned on investments classified as held-to-maturity is accounted for as investment income and accrues on a time proportion basis. Fair value movements on investments designated as fair value through profit or loss are reflected in the net gain/(loss) on financial instruments. The funds in the trust funds are included under restricted investments on the balance sheet.

### **2.14 Provisions**

Provisions are recognized when the group has a present legal or constructive obligation as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the present value of the best estimate of the expenditure required to settle the present obligation at balance sheet date using a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the obligation. This estimate takes into account the associated risks and uncertainties. The increase in the provision due to the passage of time is recognized as interest expense.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic benefits will be required, the provision is reversed.

Notes to the consolidated financial statements  
For the years ended June 30, 2010

## 2.15 Current and deferred taxation

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

The group follows the comprehensive liability method of accounting for deferred tax using the balance sheet approach. Under this method deferred income taxes are recognized for the tax consequences of temporary differences by applying expected tax rates to the differences between the tax base of all assets or liabilities and its balance sheet carrying amount, except to the extent that deferred tax arises from the initial recognition of an asset or liability in a transaction that is not a business combination and does not affect the accounting or taxable profit or loss at the time of the transaction. Deferred tax is charged to profit or loss, except where the tax relates to items recognized in other comprehensive income or directly in equity in which case the tax is also recognized in other comprehensive income or directly in equity. The effect on deferred tax of any changes in tax rates is recognized in the income statement, except to the extent that it relates to items previously charged or credited directly to equity.

The principal temporary differences arise from amortization and depreciation on property, plant and equipment, provisions, post retirement benefits, unutilized tax losses and unutilized capital allowances carried forward. Deferred tax assets relating to the carry forward of unutilized tax losses and unutilized capital allowances are recognized to the extent that it is probable that future taxable profit will be available against which the unutilized tax losses and unutilized capital allowances can be utilized.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries, joint ventures and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

## 2.16 Employee benefits

- (i) **Pension and provident plans are funded through annual contributions.** The group pays fixed contributions into a separate entity in terms of the defined contribution pension and provident plans which is charged to the income statement in the year to which they relate. The group's liability is limited to its annually determined contributions and has no further liability, legally or constructive if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.
- (ii) **Medical plans:** The group provides medical cover to current employees and certain retirees through certain funds. The medical accounting costs for the defined benefit plan are assessed using the projected unit credit method. The health care obligation is measured as the present value of the estimated future cash outflows using high quality government bond interest rates consistent with the term and risks of the obligation less the fair value of plan assets together with adjustments for

unrecognized past service cost. Actuarial gains and losses as a result of these valuations are recognized in the income statement at revaluation date. The future liability for current and retired employees and their dependents is accrued in full based on actuarial valuations obtained annually.

- (iii) **Equity compensation benefits:** The group operates an equity-settled, share-based payments plan, where the group grants share options to certain employees in exchange for services received. Equity share-based payments are measured at fair value that includes market performance conditions but excluded the impact of any service and non market performance conditions of the equity instruments at the date of the grant. The share-based payments are expensed over the vesting period, based on the group's estimate of the shares that are expected to eventually vest. The group used an appropriate option pricing model in determining the fair value of the options granted. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the estimates of the number of options that are expected to become exercisable are revised. The impact of the revision of original estimates, if any, are recognized in the income statement, with a corresponding adjustment to equity. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.
- (iv) **Termination benefits** are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

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- (v) **Leave pay:** The group accrues for the cost of the leave days granted to employees during the period in which the leave days accumulate.

### 2.17 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### 2.18 Leases

Leases in which a significant portion of the risk and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

For the group's policy on finance leases, refer to note 2.5 (v).

### 2.19 Revenue recognition

- (i) **Revenue** arising from gold sales is recognized when the price is determinable, the product has been delivered in accordance with the terms of the contract, the significant risks and rewards of ownership have been transferred to the customer and collection of the sales price is reasonably assured. These criteria are typically met when the gold arrives at the refinery.

Revenue further excludes value-added tax. Revenues from silver and other by-products sales are credited to production costs as a by-product credit.

- (ii) **Interest income:** Interest is recognized on a time proportion basis, taking into account the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the group.

- (iii) **Dividend income** is recognized when the shareholder's right to receive payment is established. This is recognized at the last date of registration.

### 2.20 Dividends declared

Dividends declared are recognized in the period in which they are approved by the Board of directors.

Dividends are payable in South African Rand.

## 3 Critical accounting estimates and judgements

The preparation of the financial statements in conformity with IFRS requires the group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The resulting accounting estimates may differ from actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

### 3.1 Impairment of mining assets



The recoverable amount of mining assets is generally determined utilizing discounted future cash flows. Management also considers such factors as the quality of the individual orebody, market risk, asset specific risks and country risk in determining the fair value.

Key assumptions for the calculations of the mining assets recoverable amounts are the gold price, marketable discount rates (cost-to-sell), exchange rates and the annual life-of-mine plans. In determining the gold price to be used, management assess the long-term views of several reputable institutions on the gold price and based on this, derive the gold price. The life-of-mine plans are based on the proved and probable reserves as included in the Reserve Declaration, which are determined in terms of SAMREC and JORC, as well as resources where management has high confidence in the ore-body and economical recovery of gold, based on historic and similar geological experience. The marketable discount rate was estimated at 2%.

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During the year under review, the group calculated the recoverable amounts (generally fair value less costs to sell) based on updated life of mine plans, a gold price of R275 000 per kilogram (US\$1050 per ounce) and a post tax real discount rate, which ranges between 5.92% and 10.72% depending on the asset (2009: R225 000 per kilogram (US\$750 per ounce) and a 9.34% discount rate) (2008: R180 000 per kilogram (US\$750 per ounce) and a discount rate of 11.36%). Cash flows used in the impairment calculations are based on life-of-mine plans which exceed five years for the majority of the mines. Refer to note 5 for details of impairments recorded.

Should management's estimate of the future not reflect actual events, further impairments may be identified. Factors affecting the estimates include:

changes to proved and probable ore reserves;

economical recovery of resources

the grade of the ore reserves may vary significantly from time to time;

review of strategy;

differences between actual commodity prices and commodity price assumptions;

unforeseen operational issues at the mines;

changes in capital, operating mining, processing and reclamation costs.

*Sensitivity analysis*

One of the most significant assumptions that influence the life-of-mine plans and therefore impairments is the expected gold price. A 10% decrease in the gold price at June 30, 2010 would have resulted in an additional impairment at Steyn 2 Shaft of US\$1.8 million. This analysis assumes that all other variables remain constant.

**3.2 Impairment of investment in associate**

The investments in associates are evaluated annually for impairment by comparing the entire carrying value of the investment to the recoverable amount, which is the higher of value in use or fair value less costs to sell.

**3.3 Valuation of available-for-sale financial assets**

If the value of financial instruments cannot be obtained from an active market, the group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models refined to reflect the issuer's specific circumstances. When considering indications of an impairment, management considers a prolonged decline to be longer than 12 months. The significance of the decline is assessed for each security individually.

**3.4 Estimate of exposure and liabilities with regard to rehabilitation costs**

Estimated long-term environmental obligations, comprising pollution control, rehabilitation and mine closure, are based on the group's environmental management plans in compliance with current technological, environmental and regulatory requirements.

Significant judgement is applied in estimating ultimate rehabilitation cost that will be required in future to rehabilitate the group's mines. Ultimate cost may significantly differ from current estimates.

Management used an inflation rate of 6.23% (2009: 6%) (2008: short-term (two years): 9% and long term: 6%) and the expected life of the mines according to the life-of-mine plans in the calculation of the estimated net present value of the rehabilitation liability. The discount rates used for the calculation are dependant on the shaft's life of mine and are as follows: for 12 months 6.75% (2009: 6.75%) (2008: 12.25%); for 1-5 years 8% (2009: 8.25%) (2008: 11.75%); for 6-9 years 8.5% (2009: 8.25%) (2008: 10.5%) and for 10 years or more 9% (2009: 8.75%) (2008: 10.25%). These estimates were based on recent yields determined on government bonds.

### **3.5 Estimate of employee benefit liabilities**

An updated actuarial valuation is carried out at the end of each financial year. Assumptions used to determine the liability included a discount rate of 10.3%, no increases in employer subsidies (in terms of the agreement) and mortality rates according to the SA 1956/62 mortality table (SA's tables) (60 years) and a medical inflation rate of 8.14% (2009: discount rate of 10%, 60 years and 7.8% inflation rate) (2008: discount rate of 12%, 60 years and 9.8% inflation rate).

Management determined the discount rate by assessing financial instruments with similar terms to the liability. The changes to the discount rate and medical inflation rate are similar to changes in interest and inflation rates in South Africa.

### **3.6 Estimate of taxation**

The group is subject to income tax in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The group recognizes liabilities for anticipated tax audit queries based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters are different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Notes to the consolidated financial statements

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Management has to exercise judgement with regards to deferred tax assets. Where the possibility exists that no future taxable income may flow against which these assets can be offset, the deferred tax assets are not recognized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. When different tax rates apply to different levels of taxable income, deferred tax assets and liabilities are measured using the average tax rates that are expected to apply to the taxable profit (tax loss) of the periods in which the temporary differences are expected to reverse. At the group's South African operations, such average tax rates are directly impacted by the profitability of the relevant mine. The deferred tax rate is therefore based on the current estimate of future profitability of an operation when temporary differences will reverse, based in tax rates and tax laws that have been enacted at the balance sheet date.

The future profitability of each mine, in turn, is determined by reference to the Life-of-Mine ( LoM ) plan for that operation. The LoM plan is influenced by factors as disclosed in note 3.1, which may differ from one year to the next and ultimately result in the deferred tax rate changing from one year to the next. Refer to note 13 for further detail.

### **3.7 Fair value of share-based payments**

The fair value of options granted are being determined using either a binominal, Black-Scholes or a Monte Carlo valuation model. The significant inputs into the model are: vesting period, risk free interest rate, volatility, price on date of grant and dividend yield. (Refer to note 34 for detail on each of the share option schemes.)

### **3.8 Impairment of goodwill**

Due to the wasting nature of mining assets and the finite life of a mine's reserves, the allocation of goodwill to a shaft will eventually result in an impairment charge for the goodwill. The group tests annually whether separately identifiable goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2.8. These calculations require the use of estimates as stated in note 3.1.

### **3.9 Gold in lock-up**

Gold in lock-up is estimated based on the expected volumes treated and calculated plant call factor. Plant call factor is the efficiency measurement of the percentage of gold extracted from the ore. Management need to exercise judgement with regards to lock-up volumes, life-of-mine plans, gold prices, exchange rates and post tax real discount rates.

### **3.10 Assessment of contingencies**

Contingencies will only realize when one or more future events occur or fail to occur. The exercise of significant judgement and estimates of the outcome of future events are required during the assessment of the impact of such contingencies.

### **3.11 Gold mineral reserves and resources**

Gold mineral reserves and resources are estimates of the amount of ounces that can be economically and legally extracted from the group's properties. In order to calculate the gold mineral reserves and resources, estimates and assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, commodity prices and exchange rates.

Estimating the quantities and/or grade of the reserves and resources requires the size, shape and depth of the ore bodies to be determined by analyzing geological data such as the logging and assaying of drill samples. This process may require complex and difficult geological judgements and calculations to interpret the data.

Because the economic assumptions used to estimate the gold mineral reserves and resources change from year to year, and because additional geological data is generated during the course of operations, estimates of the mineral reserves and resources may change from year to year. Changes in the reserves and resources may affect the group's financial results and financial position in a number of ways, including:

- asset carrying values may be affected due to changes in estimated cash flows;

- depreciation and amortization charged in the income statement may change as they are calculated on the units-of-production method; and

- environmental provisions may change as the timing and/or cost of these activities may be affected by the change in mineral reserves.

At the end of each financial year, the estimate of proved and probable gold mineral reserves and resources is updated. Depreciation of mining assets is prospectively adjusted, based on these changes.

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**3.12 Production start date**

Various relevant criteria are considered in order to assess when the mine is substantially complete and ready for its intended use and moves into the production phase. Some of the criteria would include but are not limited to the following:

the level of capital expenditure compared to the total project cost estimates;

the ability to produce gold in a saleable form (where more than an insignificant amount of gold has been produced); and

the ability to sustain the on-going production of gold.

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Notes to the consolidated financial statements  
for the years ended June 30, 2010

#### 4 Financial risk management

The group's financial instruments expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and other price risk), credit risk and liquidity risk. The group may use derivative financial instruments to hedge certain risk exposures.

The group's financial instruments are set out below:

Figures in million (US Dollar)	Loans and receivables	Available- for-sale financial assets	Held-to- maturity investments	Fair value through profit or loss	Financial liabilities at amortized cost
<b>At June 30, 2010</b>					
Restricted cash	19				
Restricted investments			53	175	
Investments in financial assets		2			
Trade and other receivables	97				
Cash and cash equivalents	101				
Borrowings					156
Trade and other payables					59
<b>At June 30, 2009</b>					
Restricted cash	21				
Restricted investments			212		
Investments in financial assets		7			
Trade and other receivables	90				
Cash and cash equivalents	253				
Borrowings					47
Trade and other payables					71

The carrying amount of loans and receivables, held-to-maturity investments and financial liabilities at amortized cost approximate their fair value.

Risk management is carried out by a central treasury department (group treasury) under policies approved by the Board of Directors. Group treasury identifies, evaluates and hedges certain selected financial risks in close co-operation with the group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and the investment of excess liquidity.

##### (a) Market risk

###### (i) Foreign exchange risk

The group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar (US\$). Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency. Harmony's revenues are sensitive to the R/US\$ exchange rate as all revenues are generated by gold sales denominated in US\$. Harmony generally does not enter into forward sales, derivatives or other hedging arrangements to establish exchange rates in advance for the sale of its future gold production.

The group is exposed to foreign exchange risk arising from intercompany loans denominated in a currency other than the functional currency of that entity. Harmony generally does not enter into forward sales, derivatives or other hedging arrangements to manage this risk.

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Notes to the consolidated financial statements  
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*Sensitivity analysis*

The group has reviewed its foreign currency exposure on financial assets and financial liabilities and has identified the following sensitivities for a 10% change in the exchange rate.

Figures in million	US Dollar	
	2010	2009
A\$ against US\$		
Increase by ten percent	1	1
Decrease by ten percent	(1)	(1)
Closing rate	0.85	0.81
Kina against A\$		
Increase by ten percent	30	17
Decrease by ten percent	(30)	(17)
Closing rate	2.31	2.71

**(ii) Other price risk**

The group is exposed to the risk of fluctuations in the fair value of the available-for-sale financial assets as a result of changes in market prices (other than changes in interest rates and foreign currencies). Harmony generally does not use any derivative instruments to manage this risk.

*Sensitivity analysis*

A one percent increase in the share price at the reporting date, with all other variables held constant, would have increased other comprehensive income by US\$1.8 million (2009: US\$0.1 million); an equal change in the opposite direction would have decreased other comprehensive income by US\$1.8 million (2009: US\$0.1 million). The analysis is performed on the same basis for 2009.

*Commodity price sensitivity*

The profitability of the group's operations, and the cash flows generated by those operations, are affected by changes in the market price of gold. Harmony generally does not enter into forward sales, derivatives or other hedging arrangements to establish a price in advance for the sale of future gold production.

**(iii) Cash flow and fair value Interest rate risk**

The group's interest rate risk arises mainly from long-term borrowings. The group has variable interest rate borrowings. Variable rate borrowings expose the group to cash flow interest rate risk. The group has not entered into interest rate swap agreements.

*Sensitivity analysis*

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) profit or loss before tax by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2009.

Figures in million	US Dollar	
	2010	2009
Increase by 100 basis points	2	
Decrease by 100 basis points	(2)	

**(b) Credit risk**

Credit risk is the risk that a counterparty may default or not meet its obligations timeously. Financial instruments, which subject the group to concentrations of credit risk, consist predominantly of restricted cash, restricted investments, trade and other receivables (excluding non-financial instruments) and cash and cash equivalents.

Exposure to credit risk on trade and other receivables is monitored on a regular basis. The credit risk arising from restricted cash, cash and cash equivalents and restricted investments is managed by ensuring amounts are only invested with financial institutions of good credit quality. The group has policies that limit the amount of credit exposure to any one financial institution.

Notes to the consolidated financial statements  
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***Cash and cash equivalents and restricted cash***

Financial institutions credit rating by exposure:

Figures in million	US Dollar	
	2010	2009
<i>Credit rating</i>		
<b>South African operations</b>		
AAA	57	92
AA <sup>(1)</sup>	7	13
AA- <sup>(1)</sup>	25	81
A+	5	47
A	2	
<b>Total South African operations</b>	<b>96</b>	<b>233</b>
<b>International operations</b>		
AA <sup>(1)</sup>	24	40
<b>Total International operations</b>	<b>24</b>	<b>40</b>
<b>Total cash and cash equivalents and restricted cash</b>	<b>120</b>	<b>273</b>
<sup>(1)</sup> Includes restricted cash		
AA	7	9
AA-	12	12
<b>Total restricted cash</b>	<b>19</b>	<b>21</b>

It is the policy of the group to renegotiate credit terms with long-standing customers who have a good credit history with the group. These customers are monitored on an ongoing basis to ensure that the customer remains within the renegotiated terms.

The group's maximum exposure to credit risk is represented by the carrying amount of all financial assets determined to be exposed to credit risk, amounting to US\$445.5 million as at June 30, 2010 (2009: US\$575.8 million).

**(c) Liquidity Risk**

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and the availability of funding through an adequate amount of committed credit facilities.

In the ordinary course of business, the group receives cash from its operations and is required to fund working capital and capital expenditure requirements. The cash is managed to ensure that surplus funds are invested in a manner to achieve market-related returns and to provide sufficient liquidity at the minimum risk. The group is able to actively source financing at competitive rates.

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Notes to the consolidated financial statements  
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The following are the contractual maturities of financial liabilities (including principle and interest payments):

Figures in million	US Dollar	
	<i>Current</i>	<i>More than 1 year</i>
<b>2010</b>		
Borrowings <sup>(1)(2)(3)</sup>	41	152
Trade and other payables (excluding non-financial liabilities)	59	
	<b>100</b>	<b>152</b>
<b>2009</b>		
Borrowings <sup>(1)(2)</sup>	33	15
Trade and other payables (excluding non-financial liabilities)	71	
	<b>104</b>	<b>15</b>

(1) US\$21 million is due between 0 to 6 months. (2009: nil).

(2) US\$20 million is due between 6 to 12 months. (2009: US\$32.9 million).

(3) US\$40 million is due between 1 to 2 years. (2009: US\$4.6 million).

**(d) Capital risk management**

The primary objective of managing the group's capital is to ensure that there is sufficient capital available to support the funding requirements of the group, in a way that optimizes the cost of capital and matches the current strategic business plan.

The group manages and makes adjustments to the capital structure, which consists of debt and equity as and when borrowings mature or when funding is required. This may take the form of raising equity, market or bank debt or hybrids thereof. The group may also adjust the amount of dividends paid, sell assets to reduce debt or schedule projects to manage the capital structure.

There were no changes to the group's approach to capital management during the year.

**(e) Fair value determination**

Effective July 1, 2009, the group adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

1) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

2) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

3) Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the group's assets and liabilities that are measured at fair value at June 30, 2010.

Figures in million	US Dollar		
	Level 1	Level 2	Level 3
Assets			
Available-for-sale financial assets			2
Fair value through profit or loss		175	

The following table presents the group's assets and liabilities that are measured at fair value at June 30, 2009.

Figures in million	US Dollar		
	Level 1	Level 2	Level 3
Assets			
Available-for-sale financial assets		6	1
Fair value through profit or loss			

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Figures in million	<b>2010</b>	<b>US Dollar 2009</b>	<b>2008</b>
<b>5 Cost of sales</b>			
Production costs (a)	1,103	850	918
Amortization and depreciation of mining properties, mine development costs and mine plant facilities	175	130	107
Amortization and depreciation of assets other than mining and mining related assets (b)	6	9	10
Rehabilitation expenditure (c)	4	1	1
Care and maintenance cost of restructured shafts	8	5	10
Employment termination and restructuring costs (d)	27	4	29
Share-based payments (e)	20	13	6
Impairment of assets (f)	43	71	40
Provision for post retirement benefits (g)	(3)		1
<b>Total cost of sales</b>	<b>1,383</b>	<b>1,083</b>	<b>1,122</b>

- (a) Production costs include mine production, transport and refinery costs, applicable general and administrative costs, movement in inventories and ore stockpiles and ongoing environmental rehabilitation costs as well as transfers to and from deferred stripping. Ongoing employee termination costs are included, however employee termination costs associated with major restructuring and shaft closures are excluded. Production costs, analyzed by nature, consist of the following:

Figures in million	<b>2010</b>	<b>US Dollar 2009</b>	<b>2008</b>
Labor costs, including contractors	762	540	632
Stores and materials	302	215	229
Water and electricity	160	93	90
Insurance	24	25	19
Transportation	19	15	9
Changes in inventory	(3)	(2)	11
Capitalization of mine development costs	(157)	(106)	(109)
Deferred stripping	1		
By-products sales	(5)	(3)	(4)
Royalty expense	4		
Other	(4)	73	41
<b>Total production cost</b>	<b>1,103</b>	<b>850</b>	<b>918</b>

- (b) Amortization and depreciation of assets other than mining and mining related assets consist of the following:

**US Dollar**

Figures in million	<i>2010</i>	<i>2009</i>	<i>2008</i>
Other non-mining assets	2	1	4
Intangible assets	4	3	2
Amortization of issue costs		5	4
<b>Total amortization and depreciation</b>	<b>6</b>	<b>9</b>	<b>10</b>

(c) For the assumptions used to calculate the rehabilitation costs, refer to note 3.4.

This expense includes the change in estimate for the rehabilitation provision as well as ongoing rehabilitation cost.

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Figures in million	2010	US Dollar 2009	2008
(d) Employment termination and restructuring costs consist of the following:			
Harmony Gold Mining Company Limited (Harmony)	9	1	10
Randfontein Estates Limited (Randfontein)	1	1	5
Evander Gold Mines Limited (Evander)	15	1	3
ARMGold/Harmony Freegold Joint Venture Company (Proprietary) Limited (Freegold)	2	1	10
Avgold Limited (Avgold)			1
<b>Total employment termination and restructuring cost</b>	<b>27</b>	<b>4</b>	<b>29</b>

During fiscal 2010 certain shafts in Virginia (included in Harmony) and Evander were closed and placed on care and maintenance. These closures was due to mining no longer being economically viable as a result of the current economic situation. The group also engaged in a voluntary retrenchment process during the year, resulting in retrenchment costs for various operations.

(e) Refer to note 34 for details on the share-based payments schemes operated by the group.

(f) Impairment consist of the following:

Figures in million	2010	US Dollar 2009	2008
Virginia <sup>(1)</sup>	33	7	
Target <sup>(1)</sup>	1	31	
Evander <sup>(1)</sup>	9	33	16
Kalgold <sup>(1)</sup>			8
Other underground asset <sup>(2)</sup>			3
Other underground goodwill <sup>(2)</sup>			13
<b>Total impairment of assets</b>	<b>43</b>	<b>71</b>	<b>40</b>

<sup>(1)</sup> During fiscal 2010 impairments to the value of US\$40 million were recognized mainly as a result of the shaft closures

discussed under  
note 5(d) above.

The remaining  
balance for  
2010 and the  
impairment  
recognized in  
2009 resulted  
from revised  
business  
(life-of-mine)  
plans, which are  
completed in  
June of each  
year and  
included  
increases in  
electricity cost  
and labor cost.  
Included in the  
business plans  
in 2009 for  
Evander and  
Target was  
additional  
capital  
expenditure that  
was needed to  
access reserve  
ounces in areas  
where  
geological  
anomalies have  
been  
discovered.

These  
adjustments  
impacted  
negatively on  
the recoverable  
amount of  
property, plant  
and equipment  
and contributed  
to the  
recognition of  
the impairments  
at the shafts.  
Impairment tests  
were performed

as required by IAS 36, *Impairment of Assets*, and as a result these impairments were recorded. For assumptions used to calculate the recoverable amount, refer to note 3.1.

- (2) During 2008 certain underground operations, classified as Other underground, was also impaired. For further details on the allocation of goodwill, refer to note 17.

Notes to the consolidated financial statements  
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- (g) The net credit of US\$2.5 million is a result of curtailments in 124 members post employment subsidies due to renegotiation of employment contracts. These members were transferred from Freegold employment conditions to Harmony employment conditions.

Figures in million	<i>2010</i>	<b>US Dollar</b> <i>2009</i>	<i>2008</i>
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## 6 Profit on sale of property, plant and equipment

Profit on sale of property, plant and equipment	14	114	
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During fiscal 2010 the group concluded the sale of the Jeanette prospecting rights to Taung Gold Limited for a total consideration and profit of US\$10 million.

During June 2010 the group concluded a sale of royalty rights in Australia to Regis Resources Limited for a total consideration and profit of US\$3.5 million.

Included in the total for 2009 is US\$111.9 million profit on sale of 50% of Harmony's gold and copper assets in Morobe province, PNG, to Newcrest Mining Limited ( **Newcrest** ) in terms of the Master Purchase and Farm-in agreement. The sale was concluded in three stages. Refer to note 22.

Figures in million	<i>2010</i>	<b>US Dollar</b> <i>2009</i>	<i>2008</i>
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## 7 Other expenses net

Foreign exchange loss/(gain) net (a)	10	(14)	(13)
Loss on financial instruments			1
Bad debts provision (credit)/expense (b)	(2)	11	14
Bad debts written off (b)	4	3	
Other (income)/expenses net	(4)	3	13
<b>Total other expenses net</b>	<b>8</b>	<b>3</b>	<b>15</b>

- (a) (i) During fiscal 2010, foreign exchange losses relating to the Australasian intercompany loans amounting to US\$12.2 million (2009: loss of US\$22.3 million) (2008: gain of US\$15.3 million) were recognized in the consolidated income statement.

During fiscal 2008, two intercompany loans, previously designated as forming part of the net investment of the group's international operations, were de-designated, mainly as a result of the expected repayment of these loans. In accordance with the group's accounting policies, accumulated exchange gains that arose while the loans were considered to form part of the group's net investment in its international operations remain in equity and are only reclassified to the consolidated income statements as and when the loans are repaid. The repayment of these loans resulted in an exchange gain of US\$53.1 million being recognized in the consolidated income statement in the 2009 financial year. Following the adoption of the amendment to IAS 21, *The Effects of Changes in Foreign Exchange Rates*, on 1 July 2009, the remaining accumulated exchange reserves relating to these de-designated loans will remain in equity until the Australian and or

PNG operations are sold, or control is otherwise lost.

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Notes to the consolidated financial statements  
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(ii) In fiscal 2010 foreign exchange gains amounting to US\$2.9 million were realized on the liquidation of Harmony Gold Peru SA and Harmony Precious Metal Services SAS, wholly owned subsidiaries of Harmony.

(iii) During fiscal 2009, foreign exchange losses of US\$30.0 million were recognised relating to the exchange movements on the US\$ denominated Pamodzi Resources Fund 1 LLP (PRF) loan for the Cooke transaction. Refer to note 21 for further detail.

In anticipation of the receipt of the purchase consideration for the Cooke assets, the group arranged a forward exchange contract, allowing the group to sell the proceeds at R10.27 per US\$1 on 21 April 2009. The gain on this arrangement was US\$21.1 million.

- (b) In 2010 financial year, trade debt and loans of US\$3.8 million (2009: US\$3.4 million) was written off as the group considered the debts irrecoverable. During 2010 a net credit to the doubtful debt provision of US\$2.1 million was made, where debt was no longer considered doubtful. During the 2009 financial year a provision of US\$11.2 million was made where the group considered the recoverability of the debts to be doubtful. Refer to note 24.

The provision amount in 2008 includes a provision for the outstanding balance of US\$6.4 million on the sale of Deelkraal to Ogoerion Construction CC.

Figures in million	2010	US Dollar 2009	2008
<b>8 Operating profit</b>			
The following have been included in operating profit:			
<b>Auditors remuneration</b>	3	3	4
<b>External</b>			
Fees current year	2	2	2
Fees prior year under provision			
Fees other services			1
<b>Internal</b>			
Fees current year	1	1	1
<b>9 Loss on sale of investment in subsidiary</b>			
Loss on sale of Big Bell Operations (Proprietary) Limited	3		

During January 2010 the group concluded the sale of Big Bell Operations (Proprietary) Limited (Big Bell), an operation in Western Australia, for a total consideration of US\$3.2 million. The group realized a net loss of US\$3.3 million after recycling a foreign currency reserve of US\$4 million on disposal date from other comprehensive income to the consolidated income statement. An amount of US\$3.0 million was released to the group as a result of the performance bonds being replaced by the purchaser.

Notes to the consolidated financial statements  
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Figures in million	<i>2010</i>	<b>US Dollar</b> <i>2009</i>	<i>2008</i>
<b>10 Net gain/(loss) on financial instruments</b>			
<i>Available-for-sale</i>			
Impairment recognized in profit or loss (a)		(12)	
Loss on sale of investments (b)			(63)
Realized portion of fair value movement (b)	1	2	
	1	(10)	(63)
<i>Fair value through profit or loss</i>			
Fair value gain on environmental trust funds	4		
Fair value adjustment (c)			5
	4		5
<b>Total net gain/(loss) on financial instruments</b>	<b>5</b>	<b>(10)</b>	<b>(58)</b>

- (a) The impairment in the 2010 and 2009 financial years relates to the portion of fair value losses reclassified from other reserves to the income statement when certain investments were considered to be permanently impaired. The amount in 2010 relates to several small investments, while the amount in 2009 relates to the Dioro Exploration NL (Dioro) investment.
- (b) The group disposed of its entire shareholding in Avoca Resources Limited (Avoca), Alloy Resources Limited (Alloy) and various other smaller investments during the 2010 financial year for a total consideration of US\$6.6 million. Total fair value gains of US\$1 million relating to these investment were reclassified from other reserves to the income statement. Refer to note 20 and 26 in this regard.

The amount in the 2009 financial year relates to the realised portion of the fair value gains reclassified from other reserves to the income statement on the disposal of the Dioro investment. Refer to note 20(b) and 26 for further detail.

During the 2008 financial year the group disposed of its remaining investment (7 348 079 shares) in Gold Fields Limited for a loss of US\$63 million, which was acquired in December 2006 in exchange for its interest in Western Areas Limited.

- (c) The sale agreement of African Rainbow Minerals Limited ( **ARM** ) shares gave rise to a non-derivative financial instrument that was designated as at fair value through profit or loss . The fair value movement recognized is equivalent to the interest paid on the Nedbank loans, which were guaranteed by the group. These guarantees were cancelled in September 2007.

Figures in million	<i>2010</i>	<b>US Dollar</b> <i>2009</i>	<i>2008</i>
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**11 Investment income**

<i>Interest received</i>	25	49	34
Loans and receivables	3	10	5
Held-to-maturity investments	10	19	18
Cash and cash equivalents	12	20	11
 <i>Dividend income on available-for-sale investments</i>			5
<b>Total investment income</b>	<b>25</b>	<b>49</b>	<b>39</b>

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Notes to the consolidated financial statements  
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Figures in million	2010	US Dollar 2009	2008
<b>12 Finance costs</b>			
<i>Financial liabilities</i>			
Bank and short-term facilities		2	5
Convertible unsecured fixed rate bonds		15	22
Nedbank Limited	11	23	38
Westpac Bank			
Rand Merchant Bank			2
Other creditors			1
Total finance costs from financial liabilities	11	40	68
<i>Non-financial liabilities</i>			
Post-retirement benefits	2	2	1
Time value of money and inflation component of rehabilitation costs	17	11	15
South African Revenue Services (SARS)	2	2	8
Total finance costs from non-financial liabilities	21	15	24
<b>Total finance cost before interest capitalized</b>	<b>32</b>	<b>55</b>	<b>92</b>
Interest capitalized		(31)	(22)
<b>Total finance costs</b>	<b>32</b>	<b>24</b>	<b>70</b>

The capitalization rate used to determine the amount of borrowing costs eligible for capitalization during the year is 10.6% (2009: 12.3% and 2008: 11.7%).

Figures in million	2010	US Dollar 2009	2008
<b>13 Taxation</b>			
<i>SA normal taxation</i>			
Mining tax (a)			
- current year	6	14	5
- prior year		5	15
Non-mining tax (b)			
- current year	5	18	1
- prior year		1	1
			345

Deferred tax (c)			
- deferred tax	48	40	55
<i>Foreign normal taxation</i>			
- deferred tax (d)	(15)	(56)	(12)
<b>Total normal taxation</b>	<b>44</b>	<b>22</b>	<b>65</b>

- (a) Mining tax on gold mining income in South Africa is determined according to a formula, based on the taxable income from mining operations. Gold mining companies within the group that have elected to be exempt from Secondary Tax on Companies (STC) are taxed at higher rates than those that have not made the election.

All qualifying mining capital expenditure is deducted from taxable mining income to the extent that it does not result in an assessed loss. Accounting depreciation is eliminated when calculating the South African mining tax income. Excess capital expenditure is carried forward as unredeemed capital to be claimed from future mining taxable income. The group has several tax paying entities in South Africa. In terms of the mining ring-fencing application, each ring-fenced mine is treated separately and deductions can normally only be utilized against mining income generated from the relevant ring-fenced mine.

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Notes to the consolidated financial statements  
for the years ended June 30, 2010

The formulas for determining the South African gold mining tax rates for the 2008, 2009 and 2010 financial years are:

$$Y = 43 - 215/X \text{ (entities whom elected not to pay STC)}$$

$$Y = 34 - 170/X \text{ (entities whom did not make the election)}$$

Where Y is the percentage rate of tax payable and X is the ratio of taxable income, net of any qualifying capital expenditure that bears to mining income so derived, expressed as a percentage.

- (b) Non-mining income is taxed at 35% (exempt from STC) and 28% (no election made). Non-mining companies are taxed at the statutory corporate rate of 28%.
- (c) The deferred tax rate used to calculate deferred tax is based on the current estimate of future profitability when temporary differences will reverse, based on tax rates and tax laws that have been enacted at balance sheet date. Depending on the profitability of the operations, the deferred tax rate can consequently be significantly different from year to year.
- (d) Mining and non-mining income of Australian and PNG operations are taxed at a standard tax rate of 30%.

**Income and mining tax rates**

The tax rates remained unchanged for the 2010 and 2009 financial years.

Major items causing the group's income tax provision to differ from the maximum mining statutory tax rate of 43% (2009: 43% and 2008: 43%) were:

Figures in million	<i>2010</i>	<b>US Dollar</b> <i>2009</i>	<i>2008</i>
Tax on net profit from continuing operations at the maximum mining statutory tax rate	(10)	(102)	17
Non-allowable deductions	(19)	(33)	(93)
Profit/(loss) from associates	3	1	(5)
Difference between effective mining tax rate and statutory mining rate on mining income	2	14	4
Difference between non-mining tax rate and statutory mining rate on non-mining income	3	11	
Effect on temporary differences due to changes in effective tax rates	(95)	53	(10)
Prior year adjustment - mining and non-mining tax		(5)	(16)
Capital allowance, sale of business and other rate differences	72	39	38
<b>Income and mining taxation</b>	<b>(44)</b>	<b>(22)</b>	<b>(65)</b>
<b>Effective income and mining tax rate</b>	<b>183%</b>	<b>9%</b>	<b>-167%</b>



Notes to the consolidated financial statements  
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Figures in million	US Dollar	
	2010	2009
<b>Deferred tax</b>		
Deferred tax liabilities and assets on the balance sheet as at June 30, 2010 and June 30, 2009 relate to the following:		
Gross deferred tax liability	711	643
Amortization and depreciation	709	620
Product inventory not taxed		12
Other	2	11
Gross deferred tax asset	(248)	(222)
Unredeemed capital expenditure	(198)	(183)
Provisions, including non-current provisions	(35)	(30)
Tax losses	(15)	(9)
Disposal groups classified as held for sale		
<b>Net deferred tax liability</b>	<b>463</b>	<b>421</b>

Movement in the net deferred tax liability recognized in the balance sheet is as follows:

Balance at beginning of year	421	383
Total charge per income statement	33	29
Foreign currency translation	9	9
Tax directly charged to equity		
<b>Balance at end of year</b>	<b>463</b>	<b>421</b>

The following amounts that is expected to realize or be recovered in the next 12 months have been included in the deferred tax liabilities and assets:

Deferred tax liabilities	37	15
Deferred tax assets	(25)	(12)
<b>Net current deferred tax liability</b>	<b>12</b>	<b>3</b>

As at June 30, certain subsidiaries in the group had the following tax credits:

Unredeemed capital expenditure available for utilization against future mining taxable income

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	1,783	1,586
Tax losses carried forward utilizable against taxable income	52	25
Capital Gains Tax (CGT) losses available to be utilized against future CGT gains.	61	74

As at June 30, the group has not recognized the following deferred tax asset amounts

386	379
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The unrecognized temporary differences are:

Unredeemed capital expenditure	1,070	926
Tax losses	15	27
CGT losses	61	74
Temporary differences relating to investments in associates	156	154

**Secondary Taxation on Companies**

STC is a tax levied on South African companies at a rate of 10% with effect from October 1, 2007 on dividends distributed.

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Notes to the consolidated financial statements  
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Current and deferred tax are measured at the tax rate applicable to undistributed income and therefore only take STC into account to the extent that dividends have been received or paid.

On declaration of a dividend, the Company includes the STC on this dividend in its computation of the income tax expense in the period of such declaration.

Figures in million	US Dollar	
	2010	2009
Available STC credits at end of year	18	35

On August 13, 2010, the Board of Directors approved a final dividend for the 2010 financial year of 50 SA cents per share. The total dividend amounts to US\$29.3 million As the dividends declared exceed the STC credits available, STC on the amount of US\$9.6 million is payable at a rate of 10%.

#### 14 Disposal groups classified as held for sale and discontinued operations

i) The assets and liabilities relating to the Mount Magnet operation (operation in Western Australia) have been presented as held for sale following the approval of the group's management on May 17, 2010, on which date the formal process was started to find a willing buyer. These operations also met the criteria to be classified as discontinued operations. Consequently, the consolidated income statements, earnings per share and related notes for comparative periods have been re-presented to include income and expenses relating to the Mount Magnet operation in discontinued operations.

The conditions precedent for the sale of Mount Magnet assets were fulfilled and the transaction became effective on July 20, 2010. Refer to note 37.

ii) The assets and liabilities relating to the Cooke 1, Cooke 2, Cooke 3, Cooke plant and relating surface operations (operations in the Gauteng province) have been presented as held for sale following the approval of the group's management on October 16, 2007 to sell these assets to Rand Uranium (Proprietary) Limited (Rand Uranium). These operations were also deemed to be discontinued operations. The two part sale was concluded on November 21, 2008 and April 22, 2009. Refer to note 21.

(iii) During 2008, the assets and liabilities related to South Kal (operation in Australia) and Orkney operations (operations in Northwest province) have been presented as held for sale following approval of the group's management and Board of Directors on April 20, 2007. The operations met the criteria to be classified as discontinued operations and were reported in the Discontinued Operations other segment in the segment report.

On December 6, 2007, the sale relating to the South Kal operation (operation in Australia) was concluded at a loss, net of tax, of US\$7.6 million and the assets were derecognized.

On February 27, 2008, the sale relating to the Orkney operations (operations in the Northwest province) was concluded at a profit of US\$8.9 million and the assets were derecognized.

Notes to the consolidated financial statements  
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*The assets and liabilities for the operations classified as held for sale at the reporting dates are as follows:*

Figures in million	US Dollar	
	2010	2009
<b>Balance sheet</b>		
<b>Assets of disposal groups classified as held for sale</b>		
Property, plant and equipment	29	
Deferred income tax	2	
Inventories	1	
<b>Total assets of disposal groups classified as held for sale</b>	<b>32</b>	

<b>Balance sheet</b>		
<b>Liabilities of disposal groups classified as held for sale</b>		
Deferred income tax	2	
Provision for environmental rehabilitation	16	
Trade and other payables		
<b>Total liabilities of disposal groups classified as held for sale</b>	<b>18</b>	

*The analysis of the results and cash flows of discontinued operations are disclosed in the tables below:*

Figures in million	US Dollar		
	2010	2009	2008
<b>Income statement</b>			
Revenue		69	312
Reversal of impairment (a)		28	5
Expenses net	(4)	(103)	(251)
Profit on sale of shares		171	9
Profit on sale of property, plant and equipment		2	4
(Loss)/profit from discontinued operations before tax	(4)	167	79
Taxation		(72)	(5)
<b>(Loss)/profit for the year from discontinued operations</b>	<b>(4)</b>	<b>95</b>	<b>74</b>
<b>Cash flows</b>			
Operating cash flows	(6)	8	71
Investing cash flows		202	(16)
Foreign exchange translation adjustment		77	(7)
<b>Total cash flows</b>	<b>(6)</b>	<b>287</b>	<b>48</b>
			352



a) Mount Magnet was previously classified as held for sale for a period until June 2009. On ceasing to be classified as held for sale, the carrying value was re-measured as per IFRS 5 (see note 2.11) and depreciation amounting to US\$28 million was recorded in 2009. This also led to the recording of a reversal of impairment of US\$28 million.

**15 (Loss)/earnings per share**

Basic (loss)/earnings per share is calculated by dividing the net income attributable to shareholders by the weighted number of ordinary shares in issue during the year.

Figures in million	<i>2010</i>	<b>US Dollar</b> <i>2009</i>	<i>2008</i>
Weighted average number of ordinary shares in issue ( '000)	426,382	414,121	400,750
Net (loss)/profit from continuing operations	(20)	216	(104)
Net (loss)/profit from discontinued operations	(4)	95	74
<b>Total net (loss)/profit attributable to shareholders</b>	<b>(24)</b>	<b>311</b>	<b>(30)</b>

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Notes to the consolidated financial statements  
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Figures in million	US Dollar		
	2010	2009	2008
Basic (loss)/earnings per share from continuing operations (cents)	(5)	52	(26)
Basic (loss)/earnings per share from discontinued operations (cents)	(1)	23	18
<b>Total basic (loss)/earnings per share (cents)</b>	<b>(6)</b>	<b>75</b>	<b>(8)</b>

#### Fully diluted (loss)/earnings per share

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potential dilutive ordinary shares as a result of share options granted to employees under the share option schemes in issue. A calculation is performed to determine the number of shares that could have been acquired at fair value, determined as the average annual market share price of the Company's shares, based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

Figures in million	US Dollar		
	2010	2009	2008
Weighted average number of ordinary shares in issue ( 000)	426,382	414,121	400,750
Potential ordinary shares ( 000)	1,465	1,842	2,144
<b>Weighted average number of ordinary shares for fully diluted earnings per share ( 000)</b>	<b>427,847</b>	<b>415,963</b>	<b>402,894</b>
Fully diluted (loss)/earnings per share from continuing operations (cents)	(5)	51	(26)
Fully diluted (loss)/earnings per share from discontinued operations (cents)	(1)	23	18
<b>Total fully diluted (loss)/earnings per share (cents)</b>	<b>(6)</b>	<b>74</b>	<b>(8)</b>

The inclusion of share options issued to employees, as potential ordinary shares, has a dilutive effect on the earnings per share.

#### Dividend per share

Dividend declared in terms of dividend notice no. 79 to all registered shareholders on the recording date of August 13, 2009.

6.2 US cents

Figures in million	US Dollar	
	2010	2009

#### 16 Property, plant and equipment

Mining properties, mine development costs and mine plant facilities	2,910	1,628
Mining assets under construction	108	725
Undeveloped properties	839	1,253
Deferred stripping	9	
Other non-mining assets	8	8
<b>Total property, plant and equipment</b>	<b>3,874</b>	<b>3,614</b>

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Notes to the consolidated financial statements  
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Figures in million	US Dollar	
	2010	2009
<b>Mining properties, mine development costs and mine plant facilities</b>		
<i>Cost</i>		
Balance at beginning of year	3,236	2,521
Acquisition Pamodzi Gold Free State (Proprietary) Limited (Pamodzi FS) assets (a)	37	
Additions	379	219
Disposals	(52)	(324)
Adjustment to rehabilitation asset	24	27
Transfers and other movements	1,060	160
Translation	82	(113)
Net reclassification (to)/from held for sale	(226)	746
Balance at end of year	4,540	3,236
<i>Accumulated depreciation and impairments</i>		
Balance at beginning of year	1,608	989
Impairment of assets	43	71
Disposals	(17)	(141)
Depreciation (b)	175	153
Depreciation capitalized to mining assets under construction	6	5
Translation	35	(89)
Net reclassification (to)/from held for sale	(220)	620
Balance at end of year	1,630	1,608
<b>Net book value</b>	<b>2,910</b>	<b>1,628</b>
<b>Mining assets under construction</b>		
<i>Cost</i>		
Balance at beginning of year	725	561
Additions (c)	51	300
Finance costs capitalized		31
Disposals		(186)
Transfers and other movements	(667)	13
Translation	(1)	6
<b>Book value</b>	<b>108</b>	<b>725</b>
<b>Undeveloped property</b>		

**Cost**

Balance at beginning of year	1,320	1,436
Additions		23
Disposals	(9)	(39)
Transfers and other movements	(393)	(173)
Translation	15	(40)
Net reclassification (to)/from held for sale	(28)	113
Balance at end of year	<b>905</b>	<b>1,320</b>

**Accumulated depreciation and impairment**

Balance at beginning of year	67	2
Reversal on impairment of assets (b)		(10)
Translation	3	(12)
Net reclassification (to)/from held for sale	(4)	87
Balance at end of year	<b>66</b>	<b>67</b>
<b>Net book value</b>	<b>839</b>	<b>1,253</b>

Notes to the consolidated financial statements  
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Figures in million	US Dollar	
	2010	2009
<b>Deferred stripping</b>		
<i>Cost</i>		
Balance at beginning of year		
Additions	10	
Transferred to production cost	(1)	
<b>Book value</b>	<b>9</b>	
<b>Other non-mining assets</b>		
<i>Cost</i>		
Balance at beginning of year	49	44
Additions	3	4
Disposals	(1)	
Translation	1	
Net reclassification from held for sale		1
Balance at end of year	<b>52</b>	<b>49</b>
<i>Accumulated depreciation and impairments</i>		
Balance at beginning of year	41	40
Disposals		
Depreciation for the year	2	1
Impairment of fixed assets		
Translation	1	
Balance at end of year	<b>44</b>	<b>41</b>
<b>Net book value</b>	<b>8</b>	<b>8</b>
<b>Total net book value</b>	<b>3,874</b>	<b>3,614</b>

- (a) During the 2010 financial year the group concluded separate purchase agreements with the liquidators of Pamodzi FS for the purchase of its Free State assets and inventories (refer to note 23). The consideration paid for the mining assets was US\$36.6 million and US\$16.0 million was paid for the inventories.
- (b) For 2009 and 2010 the amounts include both continuing and discontinued operations.
- (c) On 1 December 2008, Harmony issued 3.4 million shares to Rio Tinto Limited to cancel the Rio Tinto royalty rights over Wafi-Golpu in Papua New Guinea. The value of the issued shares were

US\$23.4 million.

(d) Additional disclosures

Figures in million	<b>US Dollar</b>	
	<b>2010</b>	<b>2009</b>
<b>Leased assets</b>		
Carrying value of capitalized leased assets (included in mining properties, mine development costs and mine plant facilities)	14	17
Cost	21	21
Accumulated depreciation	(7)	(4)
Finance lease additions	2	1

Except for the leased assets mentioned above, none of the assets listed above have been pledged or otherwise committed as security for any liabilities.

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Notes to the consolidated financial statements  
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Figures in million	US Dollar	
	2010	2009
<b>17 Intangible assets</b>		
<b>Goodwill</b>		
<i>Cost</i>		
Balance at beginning of year	307	304
Acquired through purchase of subsidiaries		
Translation	4	3
Balance at end of year	<b>311</b>	<b>307</b>
<i>Accumulated amortization and impairments</i>		
Balance at beginning of year	27	27
Translation	1	
Balance at end of year	<b>28</b>	<b>27</b>
<b>Net book value (a)</b>	<b>283</b>	<b>280</b>
<b>Computer software (b)</b>		
<i>Cost</i>		
Balance at beginning of year	13	8
Acquired during the year	2	4
Translation	1	1
Balance at end of year	<b>16</b>	<b>13</b>
<i>Accumulated amortization and impairments</i>		
Balance at beginning of year	5	2
Amortization charge for the year	4	3
Balance at end of year	<b>9</b>	<b>5</b>
<b>Net book value</b>	<b>7</b>	<b>8</b>
<b>Total net book value</b>	<b>290</b>	<b>288</b>

(a) The net book value of goodwill has been allocated to the cash generating units:



Bambanani	29	29
Tshepong	73	72
Phakisa	174	172
Joel	5	5
Other	2	2
	<b>283</b>	<b>280</b>

(b) The amount relates to the implementation of an Oracle ERP software application.

Figures in million	US Dollar	
	2010	2009
<b>18 Restricted cash</b>		
Environmental guarantees call account (a)	15	15
Security deposits (b)		
Cash management account (c)	4	6
<b>Total restricted cash</b>	<b>19</b>	<b>21</b>

(a) The amount relates to funds set aside for guarantees made to the Department of Mineral Resources in South Africa for environmental and rehabilitation obligations.

(b) The amount relates to security deposits on mining tenements.

Notes to the consolidated financial statements  
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- (c) The amount relates to funds set aside by the international operations for guarantee related performance bonds for Australia environmental obligations. Following the sale of Mount Magnet this cash will again be available for general corporate purposes. Refer to note 37.

Figures in million	US Dollar	
	2010	2009
<b>19 Restricted investments</b>		
Investments held by Environmental Trust Funds (a)	223	207
Investments held by Social Trust Fund (b)	5	5
<b>Total restricted investments</b>	<b>228</b>	<b>212</b>
<b>(a) Environmental Trust Funds consist of:</b>		
- Held-to-maturity financial assets	48	207
- Fair value through profit or loss financial assets	175	
<b>Total Environmental Trust Funds</b>	<b>223</b>	<b>207</b>

The environmental trust funds are irrevocable trusts under the group's control. Contributions to the trusts are invested in interest-bearing short term investments or medium term equity-linked notes issued by commercial banks that provide guaranteed interest and additional interest or growth linked to the growth of the Shareholder Weighted Top 40 index (SWIX 40) of the JSE. The equity-linked notes are designated fair value through profit or loss investments and recorded at fair value whilst the interest-bearing short term investments are classified as held-to-maturity and recorded at amortized cost. These investments provide for the estimated cost of rehabilitation at the end of the life of the group's mines. Income earned on the investments is retained in the funds and reinvested.

Reconciliation of the movement in the Environmental Trust Funds:

Figures in million	US Dollar	
	2010	2009
Balance at beginning of year	207	206
Interest income	9	21
Fair value movement	4	
Disposal of business		(20)
Contributions made	1	
Translation	2	
<b>Balance at end of year</b>	<b>223</b>	<b>207</b>

- (b) The social trust fund is an irrevocable trust under the group's control and is classified as a held to maturity investment. The group has undertaken to donate over a period of 10 years to The Harmony Gold Mining Group Social Plan Trust in terms of an agreement signed on 3 November 2003. An initial donation of

R19 million (US\$2.7 million) was made during the 2004 year. Thereafter installments of R3.5 million (US\$0.45 million) per annum was and will be made with the final installment to be made in 2013. The purpose of the Trust is to fund the social plan to reduce the negative effects of restructuring on the group's workforce, to put measures in place to ensure that the technical and life skills of the group's workforce are developed and to develop the group's workforce in such a manner to avoid or minimize the effect of job losses and a decline in employment through turnaround or redeployment strategies.

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Notes to the consolidated financial statements  
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Figures in million	US Dollar	
	2010	2009
Reconciliation of the movement in the Social Trust Fund:		
Balance at beginning of year	5	5
Contributions made*	1	
Interest accrued*		
Claims paid*	(1)	
<b>Balance at end of year</b>	<b>5</b>	<b>5</b>

\* Please note that for the 2009 financial year when these amounts were translated into US dollars, the amounts were less than US\$0.5 million and were rounded down, resulting in no movement being shown for the year.

Figures in million	US Dollar	
	2010	2009
<b>20 Investment in financial assets</b>		
Balance at beginning of year	7	9
Additions		8
Disposals	(6)	(4)
Fair value movement of available-for-sale investments		(3)
Translation	1	(3)
<b>Balance at end of year</b>	<b>2</b>	<b>7</b>

The carrying amount consists of the following:

**Available-for-sale financial assets**

Investment in Alloy (a)		
Investment in Avoca (b)		5
Investment in other listed and unlisted shares (c)	2	2
<b>Total available-for-sale financial assets</b>	<b>2</b>	<b>7</b>

- (a) During 2006, the group received 5 million shares, valued at A\$0.20 per share in Alloy as consideration for the sale of mining tenements. During fiscal 2009, the investment was considered permanently impaired, resulting in a cumulative loss of US\$0.4 million, net of tax, recognized in other reserves, being reclassified from other reserves to the consolidated income statement. Subsequent to the impairment, a gain of US\$0.04 million) was recognized in other comprehensive income. Tax on this revaluation amounted to R0.1 million (US\$0.01 million), which has been charged directly to equity.

During fiscal 2010 these shares were sold resulting in a net loss of US\$0.1 million. Refer to note 10.

- (b) On 17 April 2009, the group received 3 809 524 Avoca shares, valued at A\$1.50 per share, as consideration for the disposal of its Dioro shares. During fiscal 2010 a fair value loss of US\$0.3 million (2009: US\$0.5 million fair value gain) have been recognized in other comprehensive income, net of tax.

During fiscal 2010 these shares were sold resulting in a net profit of US\$0.1 million. Refer to note 10.

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Notes to the consolidated financial statements  
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- (c) These investments are evaluated by the directors on an annual basis to ensure that no significant prolonged decline in the value of the investments has occurred. During fiscal 2010 the group disposed of certain listed investments for a net loss of US\$0.2 million. Refer to note 10. Fair value gains recognized in other comprehensive income for the year totaled US\$0.8 million (2009: Nil). During fiscal 2010 the group did not receive any income from these investments (2009: Nil).

## 21 Investment in associates

Figures in million	US Dollar	
	2010	2009
Balance at beginning of year	43	19
Subsidiary becoming associate		25
Share of profit after tax	7	1
Impairment of share in associate		(14)
Translation		12
<b>Balance at end of year</b>	<b>50</b>	<b>43</b>
<b>The carrying amount consists of:</b>		
Pamodzi Gold Limited (a)		
Rand Uranium (Proprietary) Limited (b)	50	43
<b>Total investment in associates</b>	<b>50</b>	<b>43</b>

- (a) On February 27, 2008, Pamodzi Gold Limited ( **Pamodzi** ) bought the Orkney operations from the group for a consideration of 30 million Pamodzi shares. This resulted in Harmony owning 32.4% of Pamodzi valued at US\$46.5 million being US\$1.54 per share on acquisition date. Pamodzi was listed on the JSE and had interests in operating gold mines in South Africa.

An impairment of the investment in associate of US\$12.3 million was recognized at June 30, 2008, as the market value of the share had decreased to US\$0.62 per share. The fair value of the investment was US\$18.6 million. For the four months to June 30, 2008, the group recognized US\$10.6 million as its share of losses from associates.

On September 30, 2008, an impairment test was performed and an impairment of US\$13.5 million was recorded, bringing the total impairment recorded on the investment to date to US\$25.8 million. After taking into account the Group's share of losses of US\$3.7 million, the carrying value at December 31, 2008 was R0. Total share in losses to date was US\$14.3 million. Subsequently, the Group has not recognized its share of any further losses. Pamodzi was placed in liquidation and the trading of its shares on the JSE was suspended.

At the time of this report being finalized no audited financial statements were available for years ending December 31, 2009 and 2008. The extract below represents unaudited information for the nine months ended March 31, 2009. No financial information subsequent to this date is available, and therefore no information has been disclosed for 2010.



Notes to the consolidated financial statements  
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Figures in million	US Dollar	
	2010	2009
		100%
Revenue		69
Production costs		(89)
Operating loss		(20)
<b>Net loss</b>		<b>(40)</b>

The financial position as at March 31, 2009 is disclosed below:

Non-current assets	260
Current assets	18
<b>Total assets</b>	<b>278</b>
Current liabilities	241
Non-current liabilities	62
<b>Total liabilities</b>	<b>303</b>

- (b) The group owns a 40% share of Rand Uranium, which is an unlisted company registered in South Africa, with gold mining operations in the Gauteng province of South Africa.

The group's interest was obtained by the completion of two transactions, discussed below.

On November 21, 2008, the company's wholly-owned subsidiary Randfontein Estates Limited disposed of its Randfontein Cooke assets to a newly formed wholly-owned subsidiary Rand Uranium, for a consideration of US\$328 million, settled with Rand Uranium shares. In a related transaction on the same date, 60% of these shares were sold to PRF for US\$197 million. US\$40 million was paid on the effective date and the balance of US\$157 million was paid on April 20, 2009. Interest was charged on the outstanding balance at 5% per annum, resulting in US\$3.3 million being recognized in the income statement. The interest was also received on April 20, 2009.

The conditions precedent for the second part of the Rand Uranium transaction relating to the sale of the Old Randfontein assets to Rand Uranium were fulfilled on April 22, 2009. These assets were valued at US\$20 million. Additional shares were issued in settlement and 60% of these shares were sold to PRF in terms of the agreement. PRF paid its portion of the purchase price, US\$12 million, in cash on April 20, 2009.



The shareholders' agreement includes certain restrictions on the group's ability to dispose of its shares in Rand Uranium for a period of up to four years from the effective date, being November 21, 2008. In addition, PRF has the right, for a period of up to four years after the effective date, to have first claim on the proceeds, up to a specified amount, in the event of a disposal of the operations. Harmony has first right of refusal in such an event. However due to the contingent nature of the provision, the group has made no adjustments to the associate's carrying amount.

The group recognised a profit of US\$171.1 million (before tax) on these transactions during the 2009 year. This profit is included in the profit from discontinued operations. Refer to note 14.

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The group recognized its share of the post-acquisition profits of US\$7 million (7 months ending June 30, 2009: US\$5.1 million).

Rand Uranium has a year end of June 30. The audited financial information of Rand Uranium for the years ended June 30, 2010 and at June 30, 2010 and June 30, 2009 are as follows:

Figures in million	US Dollar	
	2010	2009
	100%	100%
Revenue	223	101
Production costs	(172)	(75)
Gross profit	51	26
<b>Net profit</b>	<b>18</b>	<b>12</b>
Non-current assets	612	577
Current assets	27	29
<b>Total assets</b>	<b>639</b>	<b>606</b>
Current liabilities	23	24
Non-current liabilities	100	91
<b>Total liabilities</b>	<b>123</b>	<b>115</b>

## 22 Investment in Joint Venture

### Morobe Mining Joint Venture (MMJV) Partnership agreement (50%)

The group has a 50% interest in gold and copper assets located in the Morobe province. Newcrest owns the remaining 50% interest in these assets. This partnership was formed during the 2009 financial year through a range of transactions, which are discussed below.

On April 22, 2008 Morobe Consolidated Goldfields Limited and Wafi Mining Limited, subsidiaries of Harmony Australia, entered into a Master Purchase and Farm-in Agreement with Newcrest. This agreement provided for Newcrest to purchase a 30.01% participating interest (stage 1) and a further farm-in of an additional 19.99% participating interest in Harmony's Morobe gold and copper assets, giving them a 50% interest. The total value of the transaction was estimated at US\$530 million.

On July 16, 2008, the conditions to the Master Purchase and Farm-in agreement were finalized, which included regulatory and statutory approvals by the PNG Government. Stage 1 completion took place on July 31, 2008, and a total consideration of US\$229.8 million was received on August 7, 2008, of which US\$50.0 million was placed in a jointly controlled escrow account. This amount was subsequently

released to Harmony following confirmation of approval of an exploration license during September 2008 by the PNG Mining authorities.

Harmony recognized a profit of US\$57.9 million on the completion of stage 1, which represented a sale of a 30.01% undivided interest of Harmony's PNG gold and copper assets and liabilities comprising the joint venture.

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Notes to the consolidated financial statements  
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During the farm-in period, Harmony agreed to transfer a further 19.99% interest to Newcrest in consideration for an agreement by Newcrest to meet certain expenditure which would otherwise have to be undertaken by Harmony. The interest to be transferred was conditional on the level of capital expenditures funded by Newcrest at certain milestones, and by the end of February 2009, Newcrest acquired another 10% through the farm-in arrangement. The final 9.99% was acquired by June 30, 2009.

At the date of completion of each party's obligations under the farm-in arrangement, Harmony derecognized the proportion of the mining assets and liabilities in the joint venture that it had sold to Newcrest, and recognized its interest in the capital expenditure at fair value. The difference between the net disposal proceeds and the carrying amounts of the asset disposed of during the farm-in arrangement amounted to a gain of US\$54 million, which has been included in the consolidated income statement for 2009.

The following are the group's effective share of income, expenses, assets and liabilities, which are included in the 2010 consolidated financial statements:

Figures in million	US Dollar	
	2010	2009
	50%	50%
Revenue	10	
Production costs	(8)	
Gross profit	2	
Other costs	(40)	(12)
<b>Net loss</b>	<b>(38)</b>	<b>(12)</b>
Non-current assets	382	185
Current assets	48	44
<b>Total assets</b>	<b>430</b>	<b>229</b>
Non-current liabilities	22	161
Current liabilities	19	36
<b>Total liabilities</b>	<b>41</b>	<b>197</b>

Figures in million	US Dollar	
	2010	2009

**23 Inventories**

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Gold in lock-up	27	37
Gold in process, ore stockpiles and bullion on hand	68	43
Stores and materials at weighted average cost	63	54
Total inventories	158	134
Non-current portion of gold in lock-up and gold in-process	(28)	
	<b>130</b>	<b>134</b>
Net reclassification to held for sale	(1)	
<b>Total current portion of inventories</b>	<b>129</b>	<b>134</b>
Included in the balance above is:		
<b>Inventory valued at net realizable value</b>	<b>27</b>	<b>30</b>

During the year the group acquired a waste rock dump valued at US\$2.7 million and a gold plant containing gold in lock-up valued at US\$13.3 million from Pamodzi FS, which have been included in the cost of inventory.

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Notes to the consolidated financial statements  
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During the year, US\$3.9 million (2009:US\$0.6 million) was provided for slow moving stock. The total provision at June 30, 2010 was US\$7.5 million (2009:US\$3.6 million).

Figures in million	US Dollar	
	2010	2009
<b>24 Trade and other receivables</b>		
<b>Current</b>		
<i>Financial assets:</i>		
Trade receivables (gold)	44	33
Other trade receivables (a)	30	34
Provision for impairment	(13)	(15)
Trade receivables net	61	52
Loans to associates and joint ventures (b)	5	15
Interest and other receivables (c)	12	11
Employee receivables	2	2
Insurance claims receivable (d)	7	
<i>Non-financial assets:</i>		
Prepayments	9	10
Value added tax	26	25
<b>Total current trade and other receivables</b>	<b>122</b>	<b>115</b>
<b>Non-current</b>		
<i>Financial assets:</i>		
Loans to associates (e)	23	24
Other loans receivable	2	2
Provision for impairment (f)	(15)	(16)
<b>Total non-current trade and other receivables</b>	<b>10</b>	<b>10</b>

- (a) Included in other trade receivables is an amount of US\$0.7 million (2009: US\$9.1 million) owed by Rand Uranium.
- (b) An amount of US\$5 million (2009: US\$4.8 million) is due from Rand Uranium for services and goods supplied in terms of the service level agreements entered into between the group and Rand Uranium. Also included in 2009 is an amount of US\$9.7 million receivable by Harmony's Australian operations, from Newcrest for their portion of the loan to the MMJV companies.
- (c) Included in interest and other receivables is an amount of US\$2.2 million owing by Pamodzi FS in terms of the asset purchase agreements, for rehabilitation trust funds to be released to the group.

- (d) The insurance claim receivable of US\$7.1 million relates to damage caused by an underground fire at the Bambanani operation. The claim was settled subsequent to the 2010 financial year end.
- (e) Included in the balance for 2010 is a loan of US\$8.3 million (2009: US\$8.5 million) to Rand Uranium. The loan bears interest at a 3 month JIBAR plus 250 basis points and is repayable on November 21, 2015. The loan has been subordinated. Also included in this balance is a loan of US\$15.2 million, (2009: US\$15.0 million) owed by Pamodzi. The loan bore interest at prime rate until March 2009 when Pamodzi was placed into liquidation. Harmony is a concurrent creditor in the Pamodzi Orkney liquidation.

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- (f) Included in this balance is the amount of US\$15.2 million, (2009: US\$15.0 million) relating to the loan owed by Pamodzi. In 2009 an amount of US\$1.1 million relating to the loan owed by Ubuntu, included in other loans receivable, was also provided for and subsequently written off during the 2010 financial year. Interest of US\$1.5 million was charged on these loans in fiscal 2009. No interest was charged in fiscal 2010.

The movement in the provision for impairment of trade receivables during the year was as follows:

Figures in million	US Dollar	
	2010	2009
Balance at beginning of year	15	17
Provision for impairment of receivables	2	4
Unused amounts reversed	(4)	(6)
Receivables written off during the year		
<b>Balance at end of year</b>	<b>13</b>	<b>15</b>

The movement in the provision for impairment of loans receivables during the year was as follows:

Balance at beginning of year	16	2
Provision for impairments of loans		13
Loans written off during the year	(1)	(1)
Translation		2
<b>Balance at end of year</b>	<b>15</b>	<b>16</b>

*The ageing of trade receivables at the reporting date was:*

	<i>Gross</i>	<i>Impairment</i>
<b>June 30, 2010</b>		
Fully performing	55	
Past due by 1 to 30 days	3	
Past due by 31 to 60 days	2	
Past due by 61 to 90 days	1	
Past due by more than 90 days	4	4
Past due by more than 361 days	9	9
	<b>74</b>	<b>13</b>
	<i>Gross</i>	<i>Impairment</i>
<b>June 30, 2009</b>		
Fully performing	35	
Past due by 1 to 30 days	14	



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Past due by 31 to 60 days	1	
Past due by 61 to 90 days	1	
Past due by more than 90 days	7	6
Past due by more than 361 days	9	9
	<b>67</b>	<b>15</b>

*The ageing of loans receivable at the reporting date was:*

	<i>Gross</i>	<i>Impairment</i>
<b>June 30, 2010</b>		
Fully performing	10	
Past due by 1 to 30 days		
Past due by 31 to 60 days		
Past due by 61 to 90 days		
Past due by more than 90 days		
Past due by more than 361 days	15	15
	<b>25</b>	<b>15</b>

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Figures in million	US Dollar	
	2010	2009
	<i>Gross</i>	<i>Impairment</i>
<b>June 30, 2009</b>		
Fully performing	10	
Past due by 1 to 30 days		
Past due by 31 to 60 days		
Past due by 61 to 90 days		
Past due by more than 90 days	2	2
Past due by more than 361 days	14	14
	<b>26</b>	<b>16</b>

Based on past experience, the group believes that no impairment allowance is necessary in respect of fully performing receivables as the amount relates to customers that have a good track record with the group. Similarly, the other loans and receivables noted above, other than those provided for, are fully performing and considered to be a low credit risk.

During fiscal 2008, the balance of US\$6 million due from Ogoerion Construction CC for the purchase of the Deelkraal surface assets was impaired. In fiscal 2009, the deal was renegotiated and the Deelkraal plant was excluded from the transaction. The purchase price was revised and as a result, the balance due and the related provision for impairment of trade receivables was reversed.

During fiscal 2010 and 2009 there was no renegotiation of the terms of any receivable, other than as discussed above.

As at June 30, 2010 and June 30, 2009, there was no collateral pledged or held for any of the receivables.

## 25 Share capital

### Authorized

1 200 000 000 (2008: 1 200 000 000) ordinary shares of SA 50 cents each

10 958 904 (2009: 10 958 904) redeemable convertible preference shares of SA 50 cents each

### Issued

428 654 779 (2009: 425 986 836) ordinary shares of SA 50 cents each. All issued shares are fully paid. Included in the total of issued shares is an amount of 2 314 shares held by Lydenburg Exploration Limited, a wholly owned subsidiary of the Company.

10% of the authorised but unissued shares are under the control of the directors until the forthcoming annual general meeting. Note 34 set out details in respect of the share option scheme and shares held in trust for employees of the group.

The directors of the Company has a general authority to issue shares for cash up to a maximum of 5% of the issued share capital in any one financial year. This is in terms of the annual general meeting of shareholders on November 23, 2009 and valid until the forthcoming annual general meeting. The general authority is subject to the Listings Requirements of the JSE Securities Exchange South Africa and the Companies Act no 61 of 1973 of South Africa, as amended.

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### Share issues

#### 2010 Financial year

On March 19, 2010, Harmony concluded an agreement with Africa Vanguard Resources (Doornkop) (Proprietary) Limited (AVRD) for the purchase of its 26% share of the mining titles on the Doornkop South Reef. Part of the purchase consideration was the issuance of 2 162 359 Harmony shares to AVRD. In terms of the purchase agreement 975 419 Harmony shares are held in escrow until May 1, 2014. Refer to note 26

#### 2009 Financial year

On December 1, 2008, Harmony issued 3 364 675 shares to Rio Tinto. The Harmony shares were issued to cancel the Rio Tinto royalty rights over Wafi-Golpu in PNG. The value of issued shares was US\$23 million at R71.98 per share.

Harmony engaged in capital raising by issuing two tranches of shares following the resolution passed by shareholders at the Annual General Meeting held on November 24, 2008. The first tranche was issued into the open market between November 25, 2008 and December 19, 2008. In this tranche, 10 504 795 Harmony shares were issued at an average subscription price of R93.20, resulting in US\$97.9 million before costs being raised. The cost of the issue was US\$1.9 million, or 1.5%, of the value of shares issued.

A second tranche of shares was issued for cash into the open market between February 10, 2009 and March 6, 2009. This tranche consisted of 7 540 646 Harmony shares at an average subscription price of R124.45, resulting in US\$93.5 million before costs being raised. The cost of the issue was US\$1.6 million or 1.6% of the value of shares issued. The combined share issue amounts to US\$192 million, or 4.5%, of the issued share capital as at September 30, 2008.

Figures in million	US Dollar	
	2010	2009
<b>26 Other reserves</b>		
Foreign exchange translation reserve (a)	(86)	(111)
Fair value movement of available-for-sale financial assets (b)	4	4
Equity component of convertible bond (c)	41	41
Acquisition of non-controlling interest in subsidiary (d)	(57)	(57)
Share-based payments (e)	75	55
Repurchase of equity interest (f)	(13)	
Other	(4)	(4)
<b>Total other reserves</b>	<b>(40)</b>	<b>(72)</b>

The different categories of other reserves are made up as follows:

<b>Foreign exchange translation reserve</b>		
Balance at beginning of year	(111)	(216)
Realized portion reclassified through profit or loss	1	(53)
Current year's foreign exchange movement	24	158

<b>Balance at end of year</b>	<b>(86)</b>	<b>(111)</b>
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Figures in million	US Dollar	
	2010	2009
<b>Fair value movement of available-for-sale financial assets</b>		
Balance at beginning of year	4	(2)
Impairment recognized in profit or loss		12
Tax on impairment		(3)
Realized portion reclassified through profit or loss	(1)	(2)
Tax on realized portion		
Fair value movement – unrealized		(3)
Tax on fair value movement		1
Translation	1	1
<b>Balance at end of year</b>	<b>4</b>	<b>4</b>
<b>Equity component of convertible bond</b>		
Balance at beginning/end of year	41	41
<b>Acquisition of non-controlling interest in subsidiary</b>		
Balance at beginning/end of year	(57)	(57)
<b>Share-based payments</b>		
Balance at beginning of year	55	42
Share-based payments expensed	20	13
<b>Balance at end of year</b>	<b>75</b>	<b>55</b>
<b>Repurchase of equity interest</b>		
Acquired equity interest during the year	(13)	
<b>Balance at end of year</b>	<b>(13)</b>	
<b>Other reserves</b>		
Balance at beginning/end of year	(4)	(4)

- (a) The balance of the foreign exchange translation reserve movement represents the cumulative translation effect of the group's off-shore operations. The US dollar amount includes the translation effect from Rand to US dollar.

The realized portion reclassified through profit or loss relates to the sale of Big Bell operations in Australia and the liquidation of Harmony Gold Peru SA and Harmony Precious Metal Services SAS. Refer to note 7 for further detail.

- (b) The balance of the fair value movement reserve represents the movement in the fair value of the available-for-sale financial assets. For details on the movement, refer to note 20. For details regarding the realised portion reclassified to profit or loss refer to note 10(b).
- (c) On May 24, 2004, the group issued a convertible bond. The amount representing the value of the equity conversion component is included in other reserves, net of deferred income taxes. The equity conversion component is determined on the issue of the bonds and is not changed in subsequent periods.
- (d) On March 15, 2004 Harmony announced that it had made an off market cash offer to acquire all the ordinary shares, listed and unlisted options of Abelle, held by non-controlling interests. The excess of the purchase price of US\$86.5 million over the carrying amount of the non-controlling interest acquired, amounting to US\$55 million, has been accounted for under other reserves.

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- (e) The group issues equity-settled instruments to certain qualifying employees under an Employee Share Option Scheme to purchase shares in the Company's authorised but unissued ordinary shares. Equity share-based payments are measured at the fair value of the equity instruments at the date of the grant. Share-based payments are expensed over the vesting period, based on the group's estimate of the shares that are expected to eventually vest. During fiscal 2010 a share-based payment expense of US\$19.5 million (2009: US\$12.6 million) was charged to the income statement. (Refer to note 34 for more detail).
- (f) On March 19, 2010, Harmony Gold Mining Company Limited concluded an agreement with AVRD, for the purchase of its 26% share of the mining titles of the Doornkop South Reef. From an accounting perspective, the sale of the 26% share in the mining titles was never recognized and accounted for as an in-substance call option by AVRD over the 26% mineral right. This was due to AVRD not being exposed to any losses relating to the Doornkop mineral right, and entitled at any point in time to repay the Nedbank loan guaranteed by Harmony thereby becoming unconditionally entitled to the upside in the mineral right. The agreement to purchase AVRD's 26% interest during fiscal 2010 is therefore considered to be a repurchase of the option (equity interest). The difference between the value of the shares issued of US\$20.5 million (see note 25), the liability to African Vanguard Resources (Proprietary) Limited (see note 29(a)) and transaction costs, have been taken directly to equity.

**27 Provision for environmental rehabilitation**

The group's mining and exploration activities are subject to extensive environmental laws and regulations. These laws and regulations are continually changing and are generally becoming more restrictive. The group has made, and expects to make in the future, expenditures to comply with such laws and regulations, but cannot predict the full amount of such future expenditures. Estimated future reclamation costs are based principally on legal and regulatory requirements. The following is a reconciliation of the total liability for environmental rehabilitation:

Figures in million	US Dollar	
	2010	2009
<i>Provision raised for future rehabilitation</i>		
Balance at beginning of year	198	196
Disposal of assets	(6)	(32)
Change in estimate - Balance sheet	7	27
Change in estimate - Income statement	4	
Additions to assets	17	
Time value of money and inflation component of rehabilitation costs (a)	16	13
Translation	2	(6)
Balance at end of year	238	198
Disposal groups classified as held for sale	(16)	
<b>Total provision for environmental rehabilitation</b>	<b>222</b>	<b>198</b>

- (a) Includes both continuing and discontinued operations. During fiscal 2010 the group recognized time value of money credit adjustments of US\$2.2 million relating to both the sale of Big Bell and reclassification of Mount Magnet to held for sale.



While the ultimate amount of rehabilitation costs to be incurred

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Notes to the consolidated financial statements  
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in the future is uncertain, the group has estimated that, based on current environmental and regulatory requirements, the total cost for the mines, in current monetary terms, is approximately US\$346.6 million (2009: US\$285.4 million). Refer to note 3.4 for the estimations and judgements used in the calculations.

Included in the charge to the income statement is an amount of US\$3 million (2009: US\$4 million) relating to the time value of money.

Figures in million	US Dollar	
	2010	2009
<i>Future net obligations</i>		
Ultimate estimated rehabilitation cost	347	285
Amounts invested in environmental trust funds (Refer to note 19)	(223)	(207)
<b>Total future net obligations</b>	<b>124</b>	<b>78</b>

The group intends to finance the ultimate rehabilitation costs from the money invested in environmental trust funds, ongoing contributions, as well as the proceeds on sale of assets and gold from plant clean-up at the time of mine closure. The group has guarantees in place relating to the environmental liabilities. Refer to notes 19 and 36.

Figures in million	US Dollar	
	2010	2009
<b>28 Retirement benefit obligation and other provisions</b>		
<b>Non-current</b>		
Retirement benefit obligation (Refer to note 32)	20	20
Other	2	2
<b>Total non-current provisions</b>	<b>22</b>	<b>22</b>

**29 Borrowings****Unsecured borrowings**

Africa Vanguard Resources (Proprietary) Limited (a)		4
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<b>Total unsecured non-current borrowings</b>		<b>4</b>
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**Secured borrowings**

Nedbank Limited (b)		
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Liability amount		29
Less: current portion		(29)

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Westpac Bank (c)	8	10
Liability amount	12	14
Less: current portion	(4)	(4)
Nedbank Limited (d)	121	
Principal amount	146	
Less: unamortized issue costs	(2)	
Less: current portion	(23)	
<b>Total secured non-current borrowings</b>	<b>129</b>	<b>10</b>
Total non-current borrowings	129	14
Total current portion of borrowings	27	33
<b>Total borrowings</b>	<b>156</b>	<b>47</b>

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Notes to the consolidated financial statements  
for the years ended June 30, 2010

- (a) The loan to AVRD from its holding company African Vanguard Resources (Proprietary) Limited has been derecognized during the year. Refer to note 26(f). The loan was unsecured and interest free.
- (b) On July 30, 2003, AVRD partially funded the purchase of an undivided 26% share of the Mining titles relating to the Doornkop South Reef project, with a R140 million (US\$19.1 million) Nedbank term loan facility. This facility to AVRD was guaranteed by Harmony and certain of its subsidiaries. As a result of this guarantee and other factors, the company was required to consolidate AVRD into the group.

On March 31, 2010, the company settled this facility as part of the purchase consideration. Refer to note 26(f). Interest on the loan facility accrued at a variable rate equal to JIBAR plus 2% and was payable on settlement of the loan amount. Interest accrued and capitalized during the year, up to settlement date, amounted to US\$2.2 million (2009: US\$3.3 million).

Following the settlement of the loan facility Harmony is no longer required to consolidate AVRD as part of the group.

- (c) In July 2007, Morobe Consolidated Goldfields (MCG) entered into a finance lease agreement with Westpac Bank for the purchase of mining fleet to be used on the Hidden Valley project.

During the 2009 financial year, MCG sold 50% of the finance lease liability to Newcrest in terms of the Master Purchase and Farm-In agreement.

Interest is charged at US LIBOR plus 1.25% per annum. Interest is accrued monthly and lease installments are repayable quarterly terminating June 30, 2013. The mining fleet financed is used as security for these loans.

The future minimum lease payments are as follows:

Figures in million	US Dollar	
	2010	2009
Due within one year	4	4
Due between one and two years	5	5
Due between two and five years	3	6
	12	15
Future finance charges		(1)
	12	14

- (d) On December 11, 2009, the Company entered into a loan facility with Nedbank Limited, comprising a term facility of R900 million (US\$119.4 million) and a revolving credit facility of R600 million (US\$79.6 million). The facility was utilized to fund the acquisition of the Pamodzi FS assets (refer note 16) as well as the group's major capital projects and working capital requirements. Interest accrues on a day to day basis over the term of the loan at a variable interest rate, equal to 3 month JIBAR plus 3.5%. Interest is repayable quarterly.

The term facility is repayable bi-annually in equal installments of R90 million (US\$11.8 million) over five years. The revolving credit facility is repayable after three years. The term facility is fully drawn and R300 million (US\$40.5 million) was drawn on the revolving credit facility.

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Notes to the consolidated financial statements  
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- (e) On November 12, 2009 the Australian operations raised a new loan with BMW Finance of US\$3.6 million for insurance premium funding. A deposit of US\$0.7 million was paid. The loan bore interest at 6.1% and was repayable monthly in equal installments of US\$0.4 million with the last installment paid in June 2010.

Figures in million	US Dollar	
	2010	2009
The exposure of the group's borrowings to changes in interest rates and contractual repricing is as follows:		
Variable	156	10
Current		33
Between 1 to 2 years		
Between 2 to 5 years		
Over 5 years		4
<b>Total borrowings</b>	<b>156</b>	<b>47</b>
Variable	100.0%	21.6%
Current	0.0%	69.6%
Between 1 to 2 years	0.0%	0.0%
Between 2 to 5 years	0.0%	0.0%
Over 5 years	0.0%	8.8%
<b>Total borrowings</b>	<b>100.0%</b>	<b>100.0%</b>

**The maturity of borrowings is as follows:**

Current	27	33
Between 1 to 2 years	28	4
Between 2 to 5 years	101	6
Over 5 years		4
<b>Total borrowings</b>	<b>156</b>	<b>47</b>

## The effective interest rates at the balance sheet date were as follows:

Africa Vanguard Resources (Proprietary) Limited (a) #	0.0%	0.0%
Nedbank Limited (b)*	0.0%	11.9%
Westpac Bank (c)	2.0%	2.0%
Nedbank Limited (d)	10.1%	0.0%
BMW Financing (e) *	0.0%	0.0%

# Derecognized as  
AVRD is no  
longer a SPE

\* Loan repaid in  
full

**Other borrowings**

The level of the Harmony's borrowing powers, as determined by its Articles of Association, shall not exceed with the consent of the Harmony's general meeting, exceed R40 million or the aggregate from time to time of the issued and paid-up share capital of the company, together with the aggregate of the amounts standing to the credit of all distributable and non-distributable reserves (including minority interests in subsidiary companies and provisions for deferred taxation) and any share premium accounts of the group.

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Notes to the consolidated financial statements  
for the years ended June 30, 2010

### 30 Trade and other payables

Figures in million	US Dollar	
	2010	2009
<i>Financial liabilities:</i>		
Trade payables	54	63
Other liabilities	5	8
<i>Non-financial liabilities:</i>		
Payroll accruals	44	39
Leave liabilities	34	31
Shaft related accruals	21	20
Other accruals	23	27
Value added tax	4	1
	185	189
Disposal groups classified as held for sale		
<b>Total trade and other payables</b>	<b>185</b>	<b>189</b>

#### Leave liability

Employee entitlements to annual leave are recognized on an ongoing basis. An accrual is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. The movement in the liability recognized in the balance sheet is as follows:

Figures in million	US Dollar	
	2010	2009
Balance at beginning of year	31	29
Benefits paid	(35)	(27)
Movement due to sale of business		(2)
Translation		(1)
Total expense per income statement	38	32
	34	31
Disposal groups classified as held for sale		
<b>Balance at end of year</b>	<b>34</b>	<b>31</b>

### 31 Cash generated by operations

All amounts disclosed include discontinued operations.

#### Reconciliation of profit before taxation to cash generated by operations:

US Dollar



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Figures in million	2010	2009	2008
Profit before taxation <sup>(1)</sup>	20	405	33
<i>Adjustments for:</i>			
Amortization and depreciation	181	167	123
Impairment of assets	43	61	36
Loss on financial instruments			1
Profit on sale of mining assets	(14)	(287)	(15)
Net (decrease)/increase in provision for post retirement benefits	(3)	1	1
Net increase in provision for environmental rehabilitation	2		2
(Profit)/loss from associates	(7)	(1)	11
Impairment of investment in associate		14	12
Share-based payments	20	13	6
Net (gain)/loss on financial instruments	(5)	10	59
Loss on sale of investment of subsidiary	3		
Dividends received			(5)
Interest received	(25)	(51)	(38)
Interest paid	30	26	76
Provision for doubtful debts	(2)	11	
Bad debts written off	4	3	
Other non cash transactions	8		
<i>Effect of changes in operating working capital items:</i>			
Receivables	(13)	(15)	4
Inventories	(20)	(20)	7
Accounts payable and accrued liabilities	(8)	(18)	(45)
<b>Cash generated by operations</b>	<b>214</b>	<b>319</b>	<b>268</b>

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Notes to the consolidated financial statements  
for the years ended June 30, 2010

- (1) Includes discontinued operations

**Additional cash flow information**

The income and mining taxes paid in the statement of cash flow represents actual cash paid less refunds received.

*Acquisitions and disposals of Subsidiaries / Businesses:*

**For the financial year ended June 30, 2010**

- (a) Disposal of Big Bell Operations

During January 2010 the group concluded the sale of Big Bell Operations (Proprietary) Limited, a wholly owned subsidiary and operation in Western Australia, for a total consideration of US\$3.2 million.

The aggregate fair values of assets and liabilities sold were:

Figures in million	<b>2010</b>	<b>US Dollar 2009</b>	<b>2008</b>
Property, plant and equipment	8		
Rehabilitation liability	(6)		
Profit on disposal	1		
<b>Proceeds received in cash</b>	<b>3</b>		

- (b) Acquisition of Pamodzi FS assets

On February 18, 2010 the group concluded the acquisition of the Pamodzi FS assets for a total consideration of R405 million (US\$53 million), of which R280 million (US\$36 million) is attributable to property, plant and equipment and R120 million (US\$16 million) to inventories.

The principal non-cash transactions for the year were the issue of shares for the acquisition of 26% share of the mining titles on Doornkop South Reef from AVR D (refer to note 25) and the share based-payments (refer to note 34).

**For the financial year ended June 30, 2009**

- (a) Disposal of Randfontein Cooke Assets

During the year, the group disposed of its Cooke and Old Randfontein assets to Rand Uranium, a wholly owned subsidiary. In a related transaction, 60% of Rand Uranium shares were disposed of to PRF in two tranches. For detail, refer to note 21(b).

The aggregate fair value of the assets and liabilities sold were:

**US Dollar**

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Figures in million	<i>2010</i>	<i>2009</i>	<i>2008</i>
<i>Transaction one</i>			
Property, plant and equipment		42	
Environmental trust fund		3	
Rehabilitation liability		(4)	
Other costs		(2)	
Foreign exchange movements		5	
Profit on disposal		153	
<b>Proceeds received in cash</b>		197	

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Notes to the consolidated financial statements  
for the years ended June 30, 2010

Figures in million	2010	US Dollar 2009	2008
<i>Transaction two</i>			
Property, plant and equipment		1	
Environmental trust fund		8	
Rehabilitation liability		(13)	
Foreign exchange movements		(2)	
Profit on disposal		18	
<b>Proceeds received in cash</b>		<b>12</b>	

(b) MM Joint Venture

During the year Harmony and Newcrest entered into a joint venture agreement, which provided that Newcrest would purchase a 30.01 participating interest and a further buy-out of an additional 19.99% participating interest in Harmony's MMJV gold and copper assets.

The aggregate fair value of the assets and liabilities sold were:

Figures in million	2010	US Dollar 2009	2008
<i>Stage 1: 30.01% Participating interest</i>			
Property, plant and equipment		185	
Trade and other receivables		6	
Inventory		1	
Non-current loans		(10)	
Rehabilitation liability			
Foreign exchange movements		(11)	
Profit on disposal		58	
<b>Proceeds received in cash</b>		<b>229</b>	
<i>Stage 2: 10% Participating interest</i>			
Property, plant and equipment		52	
Trade and other receivables		1	
Inventory		1	
Non-current loans		(3)	
Trade and other payables		(5)	
Rehabilitation liability			
Profit on disposal		44	

Disposal proceeds	90
Proceeds received in cash	

<b>Proceeds received by way of the farm-in agreement</b>	<b>90</b>
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*Stage 3: 9.99% Participating interest*

Property, plant and equipment	72
Trade and other receivables	2
Inventory	3
Non-current loans	(3)
Trade and other payables	(6)
Rehabilitation liability	(3)
Profit on disposal	10

Disposal proceeds	75
Proceeds received in cash	(6)

<b>Proceeds received by way of the farm-in agreement</b>	<b>69</b>
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The principal non-cash transactions for the year were the acquisition of PNG royalty agreement (refer to note 16(c), share-based payments (refer to note 34) and share exchange of Dioro for Avoca (refer to note 20(b)).

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Notes to the consolidated financial statements  
for the years ended June 30, 2010

**For the financial year ended June 30, 2008**

- (a) On December 6, 2007, the group disposed of its assets and liabilities in South Kal Mine to Dioro. The aggregate fair value of the assets and liabilities sold were:

Figures in million	<i>2010</i>	<b>US Dollar</b>	<i>2009</i>	<i>2008</i>
Property, plant and equipment				50
Consumables				3
Shares				3
Rehabilitation liability				(8)
Loss on disposal				(12)
Disposal proceeds				36
Proceeds received by way of shares				(18)
<b>Proceeds received in cash</b>				<b>18</b>

- (b) On February 27, 2008, the group disposed of its assets and liabilities in its Orkney operations to Pamodzi Gold Limited. The aggregate fair value of assets and liabilities sold were:

Figures in million	<i>2010</i>	<b>US Dollar</b>	<i>2009</i>	<i>2008</i>
Property, plant and equipment				38
Environmental trust fund				4
Leave liability				(2)
Rehabilitation liability				(7)
Profit on disposal				13
Disposal proceeds				46
Proceeds received by way of shares				(46)

**Cash and cash equivalent at disposal**

The principal non-cash transactions for the year were the acquisition of the PNG royalty agreement (refer to note 16(b)), share-based payments (refer to note 34) and the purchase of assets under finance lease (refer to note 27).

**32 Retirement benefit obligations**

- (a) **Pension and provident funds:** The group contributes to several pension and provident funds governed by the Pension Funds Act, 1956 for the employees of its South African subsidiaries. The pension funds are multi-employer industry plans. The group's liability is limited to its annually determined contributions.

The provident funds are funded on the money accumulative basis with the member's and employer's contributions having been fixed in the constitution of the funds.

The Australian group companies make contributions to each employee's Superannuation (pension) funds in accordance with the Superannuation Guarantee Scheme (SGS). The SGS is a Federal Government initiative enforced by law which compels employers to make regular payments to regulated funds providing for each employee on their retirement. The SGS were set at a minimum of 9% of gross salary and wages for the 2010 financial year (2009: 9%). The fund is a defined contribution plan.

Substantially all the group's employees are covered by the above mentioned retirement benefit plans. Funds contributed by the group for the 2010 financial year amounted to US\$55.2 million (2009: US\$39.8 million).

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Notes to the consolidated financial statements  
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- (b) **Post-retirement benefits other than pensions:** Most of the supervisory and managerial workers in South Africa participate in the Minemed medical scheme, as well as other medical schemes. The group contributes to these schemes on behalf of current employees and retired employees who retired prior to December 31, 1996 (Minemed scheme). The annual contributions for these retired employees are fixed. The group's contributions to these schemes on behalf of current employees amounted to US\$13.9 million for 2010 and US\$8.6 million for 2009.

Harmony inherited a post-retirement medical benefit obligation, which existed at the time of the Freegold acquisition in 2002. The group's obligation in this regard is to pay a subsidy of 2% for every completed year of employment up to a maximum of 50% of total medical aid contributions, commencing on date of retirement. Should the employee die, either in service or after retirement, this benefit will transfer to his/her dependents. The medical aid tariffs are based on the Minemed medical scheme options. Except for the pre-mentioned employees, Harmony has no other post-retirement obligation for the other group employees.

Assumptions used to determine this liability include, a discount rate of 10.3%, a mortality rate according to the SA 1956/62 mortality table and a medical inflation rate of 8.1%. It is also assumed that all members will retire at the age of 60 and will remain on the current benefit option.

The liability is based on an actuarial valuation conducted during the financial year ended June 30, 2010, using the projected unit credit method. The next actuarial valuation will be performed on June 30, 2011.

Figures in million	US Dollar	
	2010	2009
Present value of unfunded obligations	20	20
Movement in the liability recognized in the balance sheet		
Balance at beginning of year	20	17
Contributions paid	(1)	
Other expenses included in staff costs/current service cost	1	1
Interest cost	2	2
Net actuarial loss recognized during the year <sup>(1)</sup>	1	
Curtailments <sup>(2)</sup>	(3)	
<b>Balance at end of year</b>	<b>20</b>	<b>20</b>

- (1) The net actuarial loss recognized during the 2008 financial year was US\$2 million, in the 2007 financial year a



gain of  
US\$2 million  
and in the 2006  
financial year a  
loss of  
US\$1.3 million.

- (2) The terms of  
employment of  
124 members  
changed,  
resulting in a  
reduction of the  
liability of  
US\$2.8 million.

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Notes to the consolidated financial statements  
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The principal actuarial assumptions used for accounting purposes were:

Figures in million	US Dollar	
	2010	2009
Discount rate	10.3%	10.0%
Healthcare inflation rate	8.1%	7.8%
Normal retirement age	60	60
The net liability of the defined benefit plan is as follows:		
Present value of defined benefit obligation	20	20
Fair value of plan assets		
<b>Net liability</b>	<b>20</b>	<b>20</b>

The present value of the defined benefit obligation was US\$17 million in the 2008 financial year, US\$15.2 million in the 2007 financial year and US\$14.9 million in 2006 financial year.

The effect of a one percentage point increase and decrease in the assumed medical cost trend rates is as follows:

Effect on:	1%	1%
	Increase	Increase
Aggregate of service cost and interest cost	1	
Defined benefit obligation	4	3
Effect on:	1%	1%
	Decrease	Decrease
Aggregate of service cost and interest cost	1	
Defined benefit obligation	4	3

The group expects to contribute approximately US\$0.6 million to its benefit plan in 2011.

Figures in million	US Dollar	
	2010	2009
<b>33 Employee benefits</b>		
<b>Number of permanent employees as at June 30:</b>		
South African operations*	36,204	37,316
International operations**	1,105	979
<b>Total number of permanent employees</b>	<b>37,309</b>	<b>38,295</b>

**Aggregated earnings**

The aggregate earnings of employees including directors were:

Salaries and wages and other benefits	716	509
Retirement benefit costs	55	40
Medical aid contributions	14	9
<b>Total aggregated earnings</b>	<b>785</b>	<b>558</b>

\* There was no employees attributable to the discontinued operations at June 30, 2010 (2009: 0; 2008: 3 618).

\*\* The total employees at Australian operations at June 30, 2010 was 56 (2009: 48, 2008: 873). Of this total, 12 employees (2009: 0; 2008: 0) were attributable to the discontinued operations. The total for the international operations includes the MMJV employees.

During fiscal 2010, US\$5 million (2009: US\$2 million; 2008: US\$0.7 million) was included in the payroll cost for termination costs. This excludes the cost for voluntary retrenchment process (refer to note 5).

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Notes to the consolidated financial statements  
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### **Directors remuneration**

During fiscal 2010, the directors received remuneration of US\$1.8 million, comprising of US\$1.3 million for salaries, US\$0.03 million for retirement contributions and US\$0.31 million for bonuses. The non-executive directors received US\$0.6 million in directors fees. The aggregate of remuneration received by senior management was US\$3.2 million.

During fiscal 2009, the directors received remuneration of US\$1.1 million, comprising of US\$0.74 million for salaries, US\$0.03 million for retirement contributions and US\$0.33 million for bonuses. The non-executive directors received US\$0.4 million in directors fees. The aggregate of remuneration received by senior management was US\$2.7 million.

### **34 Share option scheme**

The group currently has the 2001, 2003 schemes and the 2006 share plan that are active. The objective of these schemes is to recognise the contributions of senior staff to the group's financial position and performance and to retain key employees.

#### **The options granted under the 2001 and 2003 schemes**

A fifth of the options granted under the 2001 and 2003 schemes are exercisable annually from the grant date with an expiry date of 10 years from the grant date. The offer price of these options equaled the closing market price of the underlying shares on the trading date immediately preceding the granting of the options.

On resignation and retirement, share options which have not yet vested will lapse and share options which have vested may be taken up at the employee's election before the last day of service. Payment of shares forfeited will therefore not be required. On death, all options vest immediately and the deceased estate has a period of twelve months to exercise these options.

Following the introduction of the 2006 share plan, no further options are expected to be allocated under these two schemes.

<i>Number of share options relating to the 2001 and 2003 option schemes</i>	<i>2010</i>	<i>2009</i>
Share options granted	28,442,420	28,442,420
Exercised	19,133,887	18,570,971
Vested but not exercised	2,264,585	1,791,215
Unvested		1,059,343
Forfeited and lapsed	7,043,948	7,020,891
<i>Vesting periods of unvested shares</i>		
Within one year		1,059,343
<b>Total number of shares unvested</b>		<b>1,059,343</b>

No options were granted in fiscal 2010 and 2009 for the 2001 and 2003 option schemes.

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Notes to the consolidated financial statements  
for the years ended June 30, 2010

<i>Activity on share options granted but not yet exercised</i>	<i>Shares</i>	<i>Weighted average option price (SA Rand)</i>
<b>For the year ended June 30, 2010</b>		
Balance at beginning of year	2,850,558	47.58
Options exercised	(562,916)	44.16
Options forfeited and lapsed	(23,057)	43.75
<b>Balance at end of year</b>	<b>2,264,585</b>	<b>48.47</b>

**For the year ended June 30, 2009**

Balance at beginning of year	4,528,239	49.14
Options exercised	(1,321,303)	51.42
Options forfeited and lapsed	(356,378)	53.12
<b>Balance at end of year</b>	<b>2,850,558</b>	<b>47.58</b>

<i>List of options granted but not yet exercised (listed by grant date)</i>	<i>At June 30, 2010</i>	<i>Option price (SA Rand)</i>	<i>Remaining life (years)</i>
April 24, 2001	17,000	36.50	0.8
November 20, 2001	167,901	49.60	1.4
September 23, 2002		66.00	2.2
March 27, 2003	125,300	91.60	2.7
August 10, 2004	482,967	66.15	4.1
April 26, 2005	1,471,417	39.00	4.8
<b>Total option granted but not yet exercised</b>	<b>2,264,585</b>		

The number of shares held by the Harmony Share Trust at year end amounted to 63 500 (2009: 63 500). This trust is considered to be an SPE and is therefore consolidated in accordance with the group's accounting policies.

<i>List of options granted but not yet vested (listed by grant date)</i>	<i>2010</i>	<i>2009</i>
August 10, 2004		316 498
April 26, 2005		742 845

**Total options granted but not yet vested** **1,059,343**

Figures in million	US Dollar	
	<i>2010</i>	<i>2009</i>
Average market price options traded during the year	6	11
Average fair value of share options vested during the year	8	14
Share based cost recognised		1

The share based cost is calculated using the binominal valuation model based on the following assumptions at grant date:

	Option allocation	
	<i>August 10, 2004</i>	<i>April 26, 2005</i>
Price at date of grant (SA Rand per share)	66.15	39.00
Risk-free interest rate:	9.9%	8.4%
Expected volatility:	40.0%	35.0%
Expected dividend yield:	0.0%	0.0%
Vesting period:	5 years	5 years

Share based payments are measured at the fair value of the equity instruments at the date of the grant. The cost is expensed over the vesting period, based on the group's estimate of the options that are expected to eventually vest. The only vesting conditions for the 2001 and 2003 schemes is that the employees should be in the employment of the group.

The volatility measured at the standard deviation of expected share price returns were based on statistical analysis of daily share prices over the last three years before grant date.

Notes to the consolidated financial statements  
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**The shares granted under the 2006 share plan**

The 2006 share plan consist of both performance shares (PS) and share appreciation rights (SARs). The PS will vest after three years from the grant date, if and to the extent that the performance conditions have been satisfied. The SARs will vest in equal thirds in year 3, 4 and 5 after grant date, subject to the performance conditions having been satisfied. The SARs have an expiry date of 6 years from the grant date and the offer price equals the closing market price of the underlying shares on the trading date immediately preceding the grant.

The aggregate number of shares which may be allocated to the share plan on any day, when added to the total number of unexercised SARs, unvested performance shares, and restricted shares which have been allocated for SAR s and PS, and any other employee share scheme operating by the company, shall not exceed 14% of the number of issued ordinary shares of the company from time to time. On June 30, 2010, 4 361 937 PS and 7 992 023 SARS (2009: 3 718 127 PS and 5 284 500 SARs) had been allocated to participating employees.

Termination of employees participation in the share plan is based on No Fault and Fault definitions.

In the case of SARs, if employment is terminated for No Fault reasons, then the value of the appreciation in all unvested and un-exercised SARs is settled in shares or cash at the option of the employer as at the date of termination of employment, after the deduction of any tax payable. The employer has no past practice of settling in cash.

In the case of performance shares, if employment is terminated for No Fault reasons, then

First the maximum number conditionally awarded is pro-rated for the time period until the termination date;

Then this adjusted number is reduced to a third on the assumption that Harmony s performance was a median one with one third vesting, after taking into account any portion of shares that have banked already in terms of the 2009 issue;

And then settled in shares sold on the market for cash, and paid to the participant after the deduction of any tax payable.

In either case, if employment is terminated for Fault reasons, all unvested and un-exercised SARs and all PS not yet vested are lapsed and cancelled.

<i>Number of shares relating to the 2006 share plan at June 30,</i>	<i>2010</i>	<i>2009</i>
Shares granted	12,353,960	9,002,627
Vested	185,473	
Performance shares		
Share appreciation rights	185,473	
Unvested	10,082,512	7,854,749
Performance shares	3,492,402	3,302,163
Share appreciation rights	6,590,110	4,552,586
Shares forfeited	2,085,975	1,147,878
Performance shares	869,536	415,964



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Share appreciation rights	1,216,439	731,914
<i>Vesting periods of unvested shares:</i>		
Within one year	1,550,416	503,589
One to two years	3,463,496	1,651,892
Two to three years	2,728,330	3,675,954
Three to four years	1,492,598	1,329,960
Four to five years	847,672	693,354
<b>Total number of unvested shares</b>	<b>10,082,512</b>	<b>7,854,749</b>

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Notes to the consolidated financial statements  
for the years ended June 30, 2010

<i>For the year ended June 30,</i>	<i>2010</i>		<i>2009</i>	
	<i>Shares</i>	<i>Weighted average option price (SA Rand)</i>	<i>Shares</i>	<i>Weighted average option price (SA Rand)</i>
<i>Activity on PS and SARs granted but not yet exercised</i>				
Balance at beginning of year	7,854,749		4,236,938	
Performance shares	3,302,164	n/a	1,341,444	n/a
Share appreciation rights	4,552,585	79.38	2,895,494	81.04
Options granted	3,351,333		4,325,907	
Performance shares	643,810	n/a	2,206,026	n/a
Share appreciation rights	2,707,523	77.28	2,119,881	77.81
Options lapsed	(938,097)		(708,096)	
Performance shares	(453,572)	n/a	(245,306)	n/a
Share appreciation rights	(484,525)	78.54	(462,790)	92.79
Options vested	(185,473)			
Performance shares		n/a		
Share appreciation rights	(185,473)	112.64		
Balance at end of year	10,082,512		7,854,749	
Performance shares	3,492,402	n/a	3,302,164	n/a
Share appreciation rights	6,590,110	77.65	4,552,585	79.38
		<i>At June 30,</i>	<i>Strike</i>	<i>Remaining</i>
<i>List of shares granted but not yet exercised (listed by grant date)</i>		<i>2010</i>	<i>price (SA Rand)</i>	<i>life (years)</i>
<i>Performance shares</i>				
November 15, 2007		777,910	n/a	0.40
March 07, 2008		12,308	n/a	0.70
December 05, 2008		2,058,372	n/a	1.40
November 15, 2009		643,810	n/a	2.40

Share appreciation rights			
November 15, 2006	336,552	112.64	2.38
November 15, 2007	1,729,611	70.54	3.38
March 07, 2008	46,154	102.00	3.69
December 05, 2008	1,934,780	77.81	4.44
November 16, 2009	2,543,015	77.28	5.40
<b>Total options granted but not yet exercised</b>	<b>10,082,512</b>		

Figures in million	US Dollar	
	2010	2009
Average fair value of share options vested during the year	3	0
Share based cost recognised	19	12

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Notes to the consolidated financial statements  
for the years ended June 30, 2010

The share based cost is calculated using the Monte Carlo simulation on the market-linked PS and Black-Scholes on the SARs. For the 2009 PS allocation the group linked 50% of the share allocation to market conditions and the remaining 50% to non-market internal conditions. The following assumptions were applied at grant date:

	Performance shares	SAR s
Price at date of grant (SA Rand per share)		
- November 15, 2006 share allocation	n/a	112.64
- November 15, 2007 share allocation (valuation date December 21, 2007)	n/a	68.44
- November 15, 2007 share allocation (valuation date April 21, 2008)	n/a	92.25
- March 7, 2008 share allocation	n/a	102.00
- December 5, 2008 share allocation (valuation date December 5, 2008)	n/a	77.81
- December 5, 2008 share allocation (valuation date February 16, 2009)	n/a	116.90
- November 16, 2009 share allocation (valuation date November 27, 2009)	n/a	81.50
- November 16, 2009 share allocation (valuation date December 23, 2009)	n/a	75.60
- November 16, 2009 share allocation (valuation date May 3, 2010)	n/a	72.14
Risk-free interest rate:		
- November 15, 2006 share allocation	9.58%	8.79%
- November 15, 2007 share allocation (valuation date December 21, 2007)	10.81%	9.84%
- November 15, 2007 share allocation (valuation date April 21, 2008)	11.71%	10.68%
- March 7, 2008 share allocation	11.04%	10.44%
- December 5, 2008 share allocation (valuation date December 5, 2008)	8.55%	8.43%
- December 5, 2008 share allocation (valuation date February 16, 2009)	8.18%	8.30%
- November 16, 2009 share allocation (valuation date November 27, 2009)	0.00%	8.63%
- November 16, 2009 share allocation (valuation date December 23, 2009)	0.00%	8.57%
- November 16, 2009 share allocation (valuation date May 3, 2010)	7.29%	0.00%
Expected volatility*:		
- November 15, 2006 share allocation	34.71%	26.37%
- November 15, 2007 share allocation (valuation date December 21, 2007)	46.32%	35.10%
- November 15, 2007 share allocation (valuation date April 21, 2008)	49.52%	41.72%
- March 7, 2008 share allocation	50.49%	54.50%
- December 5, 2008 share allocation (valuation date December 5, 2008)	56.62%	48.61%
- December 5, 2008 share allocation (valuation date February 16, 2009)	70.86%	49.03%
- November 16, 2009 share allocation (valuation date November 27, 2009)		49.29%
- November 16, 2009 share allocation (valuation date December 23, 2009)		49.21%
- November 16, 2009 share allocation (valuation date May 3, 2010)	37.34%	
Expected dividend yield:		
- for all allocations	0.00%	0.00%
Vesting period (from grant date):		
	3	
- for all allocations	years	5 years

\* The volatility is measured as an annualised standard deviation of historical share price returns, using an exponentially weighted moving average (EWMA) model, with a lambda of 0.99. The volatility is calculated on the grant date, and takes into account the previous three years of historical data.

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Notes to the consolidated financial statements  
for the years ended June 30, 2010

Share based costs are measured at the fair value of the equity instruments at the date of the grant as defined in IFRS 2. The grant date is the date of which the entity and counterparty have a shared understanding of the terms and conditions of the share-based payment arrangement. The cost is expensed over the vesting period, based on the group's estimate of the options that are expected to eventually vest, within the rules of IFRS2.

**For November 15, 2006, November 15, 2007 and March 7, 2008 issue:**

The performance criteria imposed by the board and which must be satisfied before settlement of any PS under these awards are linked to the Company's TSR in comparison to the Philadelphia XAU index of international gold and precious metal mining companies (50%) and the JSE Gold Mining index (50%).

The following performance criteria was imposed per the Harmony (2006) Share Plan which must be satisfied before the settlement of any SARs:

that the Company's headline earnings per share have grown since the allocation date by a minimum of CPI plus 3%;

that the Company's performance has since the allocation date been a satisfactory achievement in terms of the Company's sustainability index.

**For December 5, 2008 issue:**

The Performance Criteria imposed by the Board and which must be satisfied before the Settlement of any PS under this Award are linked to the Company's TSR (Total Shareholder Return) in comparison to the SA Gold Index (50%) and the SA Resource Index (50%);

The following performance criteria was imposed per the Harmony (2006) Share Plan which must be satisfied before the settlement of any SARs:

that the Company's headline earnings per share have grown since the allocation date by more than the CPI.

**For November 16, 2009 issue:**

The Performance Criteria imposed by the Board, and which must be satisfied before the Settlement of any Performance Shares under this Award, are as follows:

50% of the number shares awarded are to be linked to the annual gold production of the company in relation to the targets set annually.

50% of the number shares awarded are linked to the Company's TSR (Total Shareholder Return) in comparison to the South African Gold peers.

The following performance criteria was imposed per the Harmony (2006) Share Plan which must be satisfied before the settlement of any SARs:

the Company's headline earnings per share should grow, since the allocation date, by more than the CPI.

For options granted during the year, the following fair values were used as a basis to recognise share-based payment cost:

For options measured on November 27, 2009, the value is R44.52 per share for SARs.

For options measured on December 23, 2009, the value is R39.26 for SARs.

For options measured on May 3, 2010, the value is R38.49 for PS.

**35 Related parties**

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None of the directors or major shareholders of Harmony or, to the knowledge of Harmony, their families, had interest, direct or indirectly, in any transaction since July 1, 2007 or in any proposed transaction that has affected or will materially affect Harmony or its subsidiaries, other than as stated below.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the group, directly or indirectly, including any director (whether executive or otherwise) of the group.

Directors and executive management's remuneration is disclosed in note 33.

African Rainbow Minerals Limited (ARM) currently holds 14.6% of Harmony's shares. Patrice Motsepe, Andre Wilkens, Joaquim Chissano and Frank Abbott are directors of ARM.

Harmony currently holds 40% of the shares of Rand Uranium. Graham Briggs, Hannes Meyer and Fikile De Buck are directors of Rand Uranium. Dr Simo Lushaba is a member of the Rand Uranium Investment Committee.

A list of the group's subsidiaries, associates and joint ventures has been included in Annexure A.

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Notes to the consolidated financial statements  
for the years ended June 30, 2010

**Material transactions with associates and joint ventures:**

Besides the transactions disclosed below, the group concluded the following transactions with related parties:

Pamodzi Refer to note 16.

AVRD Refer to note 26.

On July 10, 2008, the group disposed of its interest in Village Reef Gold Mining Company to To the Point Growth Specialists Investments 2 (Pty) Ltd (To the Point). Bernard Swanepoel was an executive director of both Harmony and To the Point during 2008.

Figures in million	US Dollar	
	2010	2009
<b>Sales and services rendered to related parties</b>		
Associates	58	24
Joint Venture	1	
	<b>59</b>	<b>24</b>
<b>Purchases and services acquired from related parties</b>		
Associates	4	1
<b>Outstanding balances due by related parties</b>		
Associates	16	22
Joint Ventures	130	10
	<b>146</b>	<b>32</b>
<b>Outstanding balances due to related parties</b>		
Associates	4	

Refer to note 24 for detail on the items relating to the loans to/(from) associates and joint ventures and provisions raised against these loans.

Figures in million	US Dollar	
	2010	2009
<b>36 Commitments and Contingencies</b>		
<b>Capital expenditure commitments</b>		
Contracts for capital expenditure	17	32
Share of Joint Venture s contract for capital expenditure	27	30
Authorised by the directors but not contracted for	132	95
		416



**Total capital commitments** **176** **157**

This expenditure will be financed from existing resources and where appropriate, borrowings.

The group is contractually obliged to make the following payments in respect of operating leases, including for land and buildings, and for mineral tenement leases:

Figures in million	US Dollar	
	<i>2010</i>	<i>2009</i>
Within one year	4	5
Between one year and five years	1	1
	<b>5</b>	<b>6</b>

This includes US\$0.9 million for the MMJV. For details on the group's finance leases, refer to note 29.

Figures in million	US Dollar	
	<i>2010</i>	<i>2009</i>
<b>Contingent liabilities</b>		
Guarantees and suretyships	3	3
Environmental guarantees (i)	67	39
	<b>70</b>	<b>42</b>

- (i) Included in the balance for fiscal 2010 is an amount of US\$17.0 million (2009: US\$16.8 million) relating to guarantees provided for the Rand Uranium transaction. These guarantees will be cancelled once Rand Uranium puts its own guarantees in place. US\$14.6 million has been pledged as collateral for environmental guarantees in favour of certain financial institutions. Refer to note 18.

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Notes to the consolidated financial statements  
for the years ended June 30, 2010

### **Contingent liability**

- (a) **Class action:** On April 18, 2008, Harmony Gold Mining Company Limited was made aware that it has been named or may be named as a defendant in a lawsuit filed in the U.S. District Court in the Southern District of New York on behalf of certain purchasers and sellers of Harmony's American Depository Receipts (ADRs) and options with regard to certain of its business practices. Harmony has retained legal counsel.

During January 2009, the plaintiff filed an Amended Complaint with the United States District Court ( Court ). Subsequently, the Company filed a Motion to Dismiss all claims asserted in the Class Action Case. On March 19, 2010 the Court denied the Company's application for dismissal and subsequently the Company filed a Motion for Reconsideration in which it requested the Court to reconsider its judgement. This matter was heard on April 27, 2010 and the Company's request for reconsideration of judgement was denied. The Company is defending the matter and the legal process is taking its course. It is currently not possible to estimate if there will be a financial effect, or what that effect might be.

- (b) The group may have a potential exposure to rehabilitate groundwater and radiation that may exist where the group has and/or continues to operate. The group has initiated analytical assessments to identify, quantify and mitigate impacts if and when (or as and where) they arise. Numerous scientific, technical and legal studies are underway to assist in determining the magnitude of the contamination and to find sustainable remediation solutions. The group has instituted processes to reduce future potential seepage and it has been demonstrated that Monitored Natural Attenuation (MNA) by the existing environment will contribute to improvement in some instance. The ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements. Should the Group determine that any part of these contingencies require them being recorded and accounted for as liabilities, i.e. where they become quantifiable and probable, it could have a material impact on the financial status of the Group.
- (c) Due to the interconnected nature of mining operations, any proposed solution for potential flooding and potential rdecant risk posed by deep groundwater needs to be a combined one, supported by all the mines located in these goldfields. As a result, the Department of Mineral Resource and affected mining companies are involved in the development of a Regional Mine Closure Strategy. In view of the limitation of current information for the accurate estimation of a liability, no estimate can be made for the obligation.
- (d) On December 1, 2008, the group issued 3 364 675 to Rio Tinto for the purchase of Rio Tinto's rights to the royalty agreement entered into prior ro the group's acquisition of the Wafi deposits in PNG. The shares were valued at US\$23 million on the transaction date. An additional US\$10 million in cash will be payable when the decision to mine is made. Of this amount, Harmony is responsible for paying the first US\$6 million, with the balance of US\$4 million being borne equally by the joint venture partners.
- (e) In terms of the sale agreements entered into with Rand Uranium (refer note 14), Harmony retained financial exposure relating to environmental disturbances and degradation caused by the group before the effective date, in excess of US\$10 million of potential claims. Rand Uranium is therefore liable of all claims up to US\$10 million and retains legal liability. The likelihood of potential claims cannot be determined presently and no provision for any liability has been made in the financial statements.

### **37 Subsequent events**

**Sale of Mount Magnet**

On July 20, 2010, the group concluded an agreement with Ramelius Resources Limited to sell its 100% share in Mount Magnet Gold NL (Mount Magnet) for a total consideration of US\$35 million. The group recognised a profit of US\$18.4 million. Refer to note 14 in this regard.

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Notes to the consolidated financial statements  
for the years ended June 30, 2010

### **Dividends**

On August 13, 2010, the Board of Directors approved a final dividend for the 2010 financial year of 50 SA cents per share. The total dividend amounts to US\$29.3 million. As this dividend was declared after the reporting date, it has not been reflected in the financial statements for the period ended June 30, 2010. The dividend was paid on September 20, 2010.

### **Merriespruit South region and Freegold option**

On September 3, 2010, Harmony Gold Mining Company Limited (Harmony) concluded two transactions with Witwatersrand Consolidated Gold Resources Limited ( **Wits Gold** ), in which Wits Gold will obtain a prospecting right over Harmony's Merriespruit South area and the option held by ARMGold/Harmony Freegold Joint Venture Company (Proprietary) Limited (Freegold), a wholly owned subsidiary of Harmony. The option was to acquire a beneficial interest of up to 40% in any future mines established by Wits Gold on certain properties in the Southern Free State (Freegold option), which will be cancelled. Harmony will abandon a portion of its mining right in respect of the Merriespruit South area to enable Wits Gold to include this area in its prospecting right, which is located immediately south of the Merriespruit South area.

The total consideration was US\$47 million, (US\$9 million for the prospecting area and US\$38 million for the cancellation of the option agreement), which will be settled in cash or in a combination of cash and shares in Wits Gold, when all remaining conditions precedent to the transaction have been fulfilled.

### **Evander 6 and Twistdraai**

On September 10, 2010, Harmony concluded a sale of assets agreement with Taung Gold Limited ( **Taung** ), in which Taung acquired the Evander 6 shaft, the related infrastructure and surface right permits as well as a mining right over the Evander 6 and Twistdraai areas. The total purchase consideration is US\$29 million, which will be settled in cash when all remaining conditions precedent to the transaction have been fulfilled.

### **Closure of Merriespruit 1**

On October 4, 2010, the decision was made to finally close Merriespruit 1 shaft, under the Section 189 (of the Labour Relations Act) already in place. The closure was postponed in terms of an agreement reached with organized labour to keep the shaft open while it remained profitable.

## **38 Segment report**

The group has only one product, being gold. In order to determine operating and reportable segments, management reviewed various factors, including geographical location as well as managerial structure. It was determined that an operating segment consists of a shaft or a group of shafts managed by a single general manager and management team.

After applying the quantitative thresholds from IFRS 8, the reportable segments were determined as:

Bambanani, Doornkop, Evander, Joel, Kusasalethu, Masimong, Phakisa, Target, Tshepong, Virginia, Papua New Guinea and Mount Magnet (classified as held for sale and discontinued operation). In 2008 and 2009 the Cooke operations were also classified as held for sale and discontinued operations. All other operating segments

have been grouped together under *All other surface operations*, under their classification as either continuing or discontinued.

When assessing profitability, the chief operating decision maker ( **CODM** ) considers the revenue and production costs of each segment. The net of these amounts is the operating profit or loss. Therefore, operating profit has been disclosed in the segment report as the measure of profit or loss.

The CODM does not consider depreciation or impairment and therefore these amounts have not been disclosed in the segment report, but does consider capital expenditure which has been disclosed.

Segment assets consist of mining assets included under property, plant and equipment which can be attributed to the shaft or group of shafts. Current and non-current group assets that are not allocated at a shaft level, form part of the reconciliation to total assets.

A reconciliation of the segment totals to the group financial statements has been included in note 39.

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Notes to the consolidated financial statements  
for the years ended June 30, 2010

**Segment report 2010 (US dollar)**

	<b>Revenue</b> <i>US\$m</i>	<b>Production cost</b> <i>US\$m</i>	<b>Production profit</b> <i>US\$m</i>	<b>Mining assets</b> <i>US\$m</i>	<b>Capital expenditure</b> <i>US\$m</i>	<b>Ounces produced*</b> <i>oz</i>	<b>Tons milled*</b> <i>t 000</i>
<b>Continuing operations</b>							
<b>South Africa</b>							
<b>Underground</b>							
Bambanani	147	98	49	125	28	133,007	582
Doornkop	68	54	14	372	45	62,694	595
Evander operations	120	113	7	121	23	111,724	869
Joel	69	50	19	23	10	64,495	484
Kusasaletu	184	144	40	390	57	175,029	1,141
Masimong	168	93	75	105	23	155,609	991
Phakisa	50	43	7	533	64	44,079	374
Target	116	88	28	333	51	113,782	857
Tshepong	241	151	90	478	35	216,986	1,674
Virginia operations	187	177	10	89	24	170,013	1,826
<b>Surface</b>							
All other surface operations	129	84	45	17	11	119,954	10,077
<b>Total South Africa</b>	<b>1,479</b>	<b>1,095</b>	<b>384</b>	<b>2,586</b>	<b>371</b>	<b>1,367,372</b>	<b>19,470</b>
<b>International</b>							
Papua New Guinea	10	8	2	494	71	61,173	335
<b>Total international</b>	<b>10</b>	<b>8</b>	<b>2</b>	<b>494</b>	<b>71</b>	<b>61,173</b>	<b>335</b>
<b>Total continuing operations</b>	<b>1,489</b>	<b>1,103</b>	<b>386</b>	<b>3,080</b>	<b>442</b>	<b>1,428,545</b>	<b>19,805</b>
<b>Discontinued operations</b>							
Mount Magnet				29			
<b>Total discontinued operations</b>				<b>29</b>			
<b>Total operations</b>	<b>1,489</b>	<b>1,103</b>	<b>386</b>	<b>3,109</b>	<b>442</b>	<b>1,428,545</b>	<b>19,805</b>

Reconciliation of the  
segment information  
to the consolidated  
income statement and  
balance sheet (refer to  
note 39)

			2,032
<b>1,489</b>	<b>1,103</b>		<b>5,141</b>

\* Production statistics are unaudited.

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Notes to the consolidated financial statements  
for the years ended June 30, 2010

**Segment report 2009 (US dollar)**

	<b>Revenue</b> <i>US\$m</i>	<b>Production cost</b> <i>US\$m</i>	<b>Production profit</b> <i>US\$m</i>	<b>Mining assets</b> <i>US\$m</i>	<b>Capital expenditure</b> <i>US\$m</i>	<b>Ounces produced*</b> <i>oz</i>	<b>Tons milled*</b> <i>t 000</i>
<b>Continuing operations</b>							
<b>South Africa</b>							
<b>Underground</b>							
Bambanani	103	72	31	91	6	121,530	570
Doornkop	38	31	7	330	44	42,150	605
Evander operations	168	111	57	122	24	190,075	1,241
Joel	56	41	15	31	6	65,684	566
Kusasaletu	158	117	41	352	47	174,321	1,061
Masimong	135	73	62	86	14	154,034	981
Phakisa	19	12	7	474	51	22,216	204
Target	76	60	16	287	38	87,225	710
Tshepong	198	109	89	471	28	230,778	1,516
Virginia operations	226	165	61	116	22	258,170	2,493
<b>Surface</b>							
All other surface operations	100	59	41	18	9	114,648	9,778
<b>Total South Africa</b>	<b>1,277</b>	<b>850</b>	<b>427</b>	<b>2,378</b>	<b>289</b>	<b>1,460,831</b>	<b>19,725</b>
<b>International</b>							
Papua New Guinea				458	198		
<b>Total international</b>				<b>458</b>	<b>198</b>		
<b>Total continuing operations</b>	<b>1,277</b>	<b>850</b>	<b>427</b>	<b>2,836</b>	<b>487</b>	<b>1,460,831</b>	<b>19,725</b>
<b>Discontinued operations</b>							
Cooke operations	69	50	19		10	80,377	1,419
Mount Magnet				34			
<b>Total discontinued operations</b>	<b>69</b>	<b>50</b>	<b>19</b>	<b>34</b>	<b>10</b>	<b>80,377</b>	<b>1,419</b>
<b>Total operations</b>	<b>1,346</b>	<b>900</b>	<b>446</b>	<b>2,870</b>	<b>497</b>	<b>1,541,208</b>	<b>21,144</b>



Reconciliation of the  
segment information  
to the consolidated  
income statement and  
balance sheet (refer to  
note 39)

(69)	(50)	2,055
<b>1,277</b>	<b>850</b>	<b>4,925</b>

\* Production statistics are unaudited.

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Notes to the consolidated financial statements  
for the years ended June 30, 2010  
**Segment report 2008 (US dollar)**

	<b>Revenue</b> <i>US\$m</i>	<b>Production cost</b> <i>US\$m</i>	<b>Production profit</b> <i>US\$m</i>	<b>Mining assets</b> <i>US\$m</i>	<b>Capital expenditure</b> <i>US\$m</i>	<b>Ounces produced*</b> <i>oz</i>	<b>Tons milled*</b> <i>t 000</i>
<b>Continuing operations</b>							
<b>South Africa</b>							
<b>Underground</b>							
Bambanani	128	102	26	98	15	154,879	912
Doornkop	35	31	4	273	48	44,038	494
Kusasaletu	133	103	30	304	44	164,215	981
Evander operations	193	127	66	131	33	231,799	1,447
Joel	52	39	13	16	5	59,557	449
Masimong	96	88	8	94	16	116,424	892
Phakisa	4	2	2	312	40	4,024	34
Target	69	51	18	275	35	79,602	686
Tshepong	223	125	98	404	27	265,914	1,649
Virginia operations	204	180	24	107	20	247,820	2,349
Other operations	6	13	(7)	13	1	8,305	86
<b>Surface</b>							
All other surface operations	126	57	69	19	19	147,980	9,524
<b>Total South Africa</b>	<b>1,269</b>	<b>918</b>	<b>351</b>	<b>2,046</b>	<b>303</b>	<b>1,524,557</b>	<b>19,503</b>
<b>International</b>							
Papua New Guinea				580	197		
<b>Total international</b>				<b>580</b>	<b>197</b>		
<b>Total continuing operations</b>	<b>1,269</b>	<b>918</b>	<b>351</b>	<b>2,626</b>	<b>500</b>	<b>1,524,557</b>	<b>19,503</b>
<b>Discontinued operations</b>							
Cooke operations	194	123	71	86	22	236,170	3,906
Mount Magnet	56	41	15	66	4	75,297	966
Other operations	59	66	(7)		16	74,433	1,048
<b>Total discontinued operations</b>	<b>309</b>	<b>230</b>	<b>79</b>	<b>152</b>	<b>42</b>	<b>385,900</b>	<b>5,920</b>
<b>Total operations</b>	<b>1,578</b>	<b>1,148</b>	<b>430</b>	<b>2,778</b>	<b>542</b>	<b>1,910,457</b>	<b>25,423</b>

Reconciliation of the  
segment information  
to the consolidated  
income statement and  
balance sheet (refer to  
note 39)

(309)	(230)	1,932
<b>1,269</b>	<b>918</b>	<b>4,710</b>

\* Production statistics are unaudited.

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Notes to the consolidated financial statements  
for the years ended June 30, 2010

**39 Reconciliation of segment information to consolidated income statements and balance sheet:**

The reconciliation of segment data to consolidated financials line item in the segment reports is broken down into the following elements, to give a better understanding of the differences between the income statement, balance sheet and the segment report.

*Revenue from:*

Figures in million	2010	US Dollar 2009	2008
Discontinued operations		69	309
<i>Production costs from:</i>			
Discontinued operations		50	230

*Reconciliation of cash operating profit to consolidated profit/(loss) before taxation and discontinued operations:*

Total segment revenue	1,489	1,346	1,578
Total segment production costs	(1,103)	(900)	(1,148)
Cash operating profit	386	446	430
Less discontinued operations		(19)	(79)
	386	427	351
Cost of sales items other than production costs	(280)	(233)	(204)
Amortisation and depreciation of mining properties, mine development cost and mine plant facilities	(175)	(130)	(107)
Amortisation and depreciation of other than mining and mining related assets	(6)	(9)	(10)
Rehabilitation expenditure	(4)	(1)	(1)
Care and maintenance cost of restructured shafts	(8)	(5)	(10)
Employment termination and restructuring costs	(27)	(4)	(29)
Share-based payments	(20)	(13)	(6)
Impairment of assets	(43)	(71)	(40)
Provision for post retirement benefits	3		(1)
<b>Gross profit</b>	<b>106</b>	<b>194</b>	<b>147</b>
Corporate, administration and other expenditure	(50)	(36)	(30)
Social investment expenditure	(11)	(4)	(1)
Exploration expenditure	(29)	(29)	(28)
Profit on sale of property, plant and equipment	14	114	
Other expenses net	(8)	(3)	(15)

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<b>Operating profit</b>	<b>22</b>	<b>236</b>	<b>73</b>
Profit/(loss) from associates	7	1	(11)
Impairment of investment in associate		(14)	(12)
Loss on sale of investment in subsidiary	(3)		
Net gain/(loss) on financial instruments	5	(10)	(58)
Investment income	25	49	39
Finance cost	(32)	(24)	(70)
<b>Profit/(loss) before taxation and discontinued operations</b>	<b>24</b>	<b>238</b>	<b>(39)</b>

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Notes to the consolidated financial statements  
for the years ended June 30, 2010

*Reconciliation of total segment assets to consolidated assets includes the following:*

Figures in million	<b>2010</b>	<b>US Dollar 2009</b>	<b>2008</b>
<b>Non-current assets</b>			
Property, plant and equipment	794	744	906
Intangible assets	290	288	283
Restricted cash	19	21	10
Restricted investments	228	212	188
Investment in financial assets	2	7	9
Investment in associates	50	43	19
Deferred tax asset	246	222	190
Inventories	28		
Trade and other receivables	10	10	18
<b>Current assets</b>			
Inventories	129	134	89
Trade and other receivables	122	115	112
Income and mining taxes	10	6	11
Cash and cash equivalents	101	253	53
Restricted cash			
Assets of disposal groups classified as held for sale	3		44
	<b>2,032</b>	<b>2,055</b>	<b>1,932</b>