

**CAPITALIZATION AND INDEBTEDNESS**

Not applicable.

**REASONS FOR THE OFFER AND USE OF PROCEEDS**

Not applicable.

**RISK FACTORS**

*In addition to the other information included in this annual report and the exhibits, you should also carefully consider the following factors related to our ordinary shares and ADSs. There may be additional risks that we do not currently know of or that we currently deem immaterial based on information currently available to us. Although Harmony has a formal risk policy framework in place, the maintenance and development of which is undertaken on an ongoing basis so as to help management address systematic categories of risk associated with its business operations, any of these risks could have a material adverse effect on our business, financial condition or results of operations, leading to a decline in the trading price of our ordinary shares or our ADSs. The risks described below may, in retrospect, turn out to be incomplete and therefore may not be the only risks to which we are exposed. Additional risks and uncertainties not presently known to us or that we now believe are immaterial (and have therefore not been included), could also adversely affect our businesses, results of operations or financial condition. The order of presentation of the risk factors below does not indicate the likelihood of their occurrence or the magnitude or the significance of the individual risks. The risks described below could occur individually or cumulatively and intensify in case of a cumulative occurrence.*

**Risks Relating to Our Business and the Gold Mining Industry**

*The profitability of our operations, and cash flows generated by those operations, are affected by changes in the price of gold. A fall in the gold price below our cash cost of production for any sustained period may lead to losses and require Harmony to curtail or suspend certain operations.*

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

- demand for gold for industrial uses, jewellery and investment;
- international or regional political and economic trends;
- strength or weakness of the US dollar (the currency in which gold prices generally are quoted) and of other currencies;
- financial market expectations on the rate of inflation;
- interest rates;
- speculative activities;
- forward sales by gold producers;
- actual or expected purchases and sales of gold bullion held by central banks or other large gold bullion holders or dealers; and
- production and cost levels for gold in major gold-producing nations, such as South Africa, China, the United States and Australia.

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

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

### Annual gold price: 2001 –2011

Calendar year	Price per ounce (US\$)		
	High	Low	Average
2001	293	256	271
2002	332	278	309
2003	412	322	361
2004	427	343	389
2005	476	411	434
2006	725	525	604
2007	841	608	695
2008	1,011	713	872
2009	1,212	810	972
2010	1,421	1,058	1,225
2011 (year to October 17, 2011)	1,990	1,314	1,541

On October 17, 2011, the afternoon fixing price of gold on the London bullion market was US\$1,682/oz.

While the aggregate effect of these factors is impossible to predict, if gold prices should fall below Harmony's cash cost of production and capital expenditure required to sustain production and remain at these levels for any sustained period, Harmony may record losses and be forced to curtail or suspend some or all of its operations. In addition, Harmony would also have to assess the economic impact of low gold prices on its ability to recover any losses that may be incurred during that period and on its ability to maintain adequate reserves.

Harmony's average cash cost per ounce of gold produced from continuing operations was US\$1,009 in fiscal 2011, US\$801 in fiscal 2010 and US\$583 in fiscal 2009.

### **Foreign exchange fluctuations could have a material adverse effect on Harmony's operational results and financial condition.**

Gold is priced throughout the world in US dollars and, as a result, Harmony's revenue is realized in US dollars, but most of our operating costs are incurred in Rand and other non-US currencies, including the Australian dollar and Kina. Any significant and sustained appreciation of the Rand and other non-US currencies against the dollar will materially reduce Harmony's Rand revenues and overall net income.

### **As Harmony currently does not enter into forward sales, commodity derivatives or hedging arrangements on future gold production, it is exposed to the impact of any significant decreases in the gold price.**

As a rule, Harmony sells its gold at the prevailing market price. Currently, the company does not enter into forward sales, commodity derivative or hedging arrangements to establish a price in advance for the sale of future gold production, although Harmony may do so in future. As a result, Harmony may realize the benefit of any short-term increase in the gold price, but is not protected against decreases; if the gold price should decrease significantly, Harmony's revenues may be materially adversely affected.

### **Global economic conditions could adversely affect the profitability of Harmony's operations.**

Harmony's operations and performance depend on global economic conditions. A global economic downturn may have follow-on effects on our business. These could include:

- key suppliers could become insolvent, resulting in a break-down in the supply chain; or
- the availability of credit may be reduced – this may make it more difficult for Harmony to obtain financing for its operations and capital expenditure or make financing more expensive.

In addition, uncertainty on global economic conditions may also increase volatility or negatively impact the market value of Harmony's securities.

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***Estimations of Harmony's gold reserves are based on a number of assumptions, including mining and recovery factors, future cash costs of production and the price of gold. As a result, quantities of gold produced may differ from current estimates.***

The mineral reserve estimates in this annual report are estimates of the mill-delivered quantity and grade of gold in Harmony's deposits and stockpiles. They represent the amount of gold that Harmony believes can be mined, processed and sold at prices sufficient to recover its estimated future cash costs of production, remaining investment and anticipated additional capital expenditures. Harmony's mineral reserves are estimated based on a number of factors, which have been stated in accordance with the SAMREC and JORC codes, SEC Industry Guide 7 and Sarbanes-Oxley. Calculations of Harmony's mineral reserves are based on estimates of:

- future cash costs;
- future gold prices; and
- future currency exchange rates.

These factors, which significantly impact mineral reserve estimates, are beyond Harmony's control. As a result, reserve estimates in this annual report should not be interpreted as assurances of the economic life of Harmony's gold and other precious metal deposits or the future profitability of operations.

Since these mineral reserves are estimates based on assumptions related to factors detailed above, should there be changes to these, we may in future need to revise these estimates. In particular, if Harmony's cash operating and production costs increase or the gold price decreases, recovering a portion of Harmony's mineral reserves may become uneconomical. This will lead, in turn, to a reduction in estimated reserves.

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

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

- locating orebodies;
- geological nature of the orebodies;
- identifying the metallurgical properties of orebodies;
- estimating the economic feasibility of mining orebodies;
- developing appropriate metallurgical processes;
- obtaining necessary governmental permits; and
- constructing mining and processing facilities at any site chosen for mining.

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

- future gold and other metal prices;
- anticipated tonnage, grades and metallurgical characteristics of ore to be mined and processed;
- anticipated recovery rates of gold and other metals from the ore; and
- anticipated total costs of the project, including capital expenditure and cash costs.

**Actual cash costs, capital expenditure, production and economic returns may differ significantly from those anticipated by feasibility studies for new development projects.**

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

- availability and timing of necessary environmental and governmental permits;
- timing and cost of constructing mining and processing facilities, which can be considerable;
- availability and cost of skilled labor, power, water and other materials;
- accessibility of transportation and other infrastructure, particularly in remote locations;
- availability and cost of smelting and refining arrangements;
- availability of funds to finance construction and development activities; and
- spot and expected future commodity prices of metals including gold, silver, copper, uranium and molybdenum.

Harmony currently maintains a range of focused exploration programs, concentrating on areas not too distant from its operational mines, as well as a number of prospective known gold mineralized regions around the world. During fiscal 2010 and fiscal 2011, the bulk of exploration expenditure was allocated to activities in Papua New Guinea ("PNG") and South Africa. However, there is no assurance that any future development projects will extend the life of our existing mining operations or result in any new commercial mining operations.

**Costs associated with pumping water inflows from closed mines adjacent to our operations could adversely affect Harmony's operational results.**

Certain of our mining operations are adjacent to the mining operations of other companies. A mine closure can affect continued operations at an adjacent mine if appropriate preventative steps are not taken. In particular, this could include the ingress of underground water when pumping operations at the closed mine are suspended. This can result in damage to property, operational disruptions and additional pumping costs, which would adversely affect any one of our adjacent mining operations.

**Fluctuations in input production prices linked to commodities may adversely affect Harmony's operational results and financial condition.**

Fuel, energy and consumables, including diesel, heavy fuel oil, chemical reagent, explosives, tyres, steel and mining equipment consumed in mining operations form a relatively large part of the operating costs and capital expenditure of a mining company. Harmony has no control over the costs of these consumables, many of which are linked to some degree to the price of oil and steel.

Fluctuations in oil and steel prices have a significant impact on operating cost and capital expenditure estimates and, in the absence of other economic fluctuations, could result in significant changes in the total expenditure estimates for new mining projects or render certain projects non-viable.

**The supply of electricity and increases in the cost of power may adversely affect our results of operations and our financial condition.**

In South Africa, each of our mining operations depends on electrical power generated by the state utility, Eskom, which holds a monopoly on the South African market. As a result of increased demand exceeding available generating capacity, South Africa has been subject to disruptions in electrical power supply. In fiscal 2008, electricity supply was interrupted by Eskom, halting production at certain of our mines. This led to management restructuring operating processes to control and reduce our consumption of electricity at all our operations. There have been no further disruptions and we have been able to continue production at a reduced electricity allocation as required by the energy conservation scheme ("ECS") and interim rules imposed by Eskom. However, an insufficient supply of electricity may affect our operational results and financial condition.

As a result of Eskom's planned capital expansion program to deal with power constraints, an average annual tariff increase of 25% for the three-year multi-year price determination period has been approved by the National Energy Regulator South Africa ("NERSA"). The first increase was implemented on 1 April 2010. These increases will have a negative impact on our results of operations going forward.

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PNG has limited power generation and distribution capacity. This capacity is increasing but, currently, Harmony mines and projects still rely heavily on own power generation using diesel. The cost of this power will fluctuate with changes in the oil price.

Also, see *Item 5. "Electricity in South Africa."*

***We may experience problems in identifying, financing and managing new acquisitions and integrating them with our existing operations.***

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

- our ability to identify appropriate assets for acquisition and/or to negotiate acquisitions on favorable terms;
- obtaining the financing necessary to complete future acquisitions;
- difficulties in assimilating the operations of the acquired business;
- difficulties in maintaining our financial and strategic focus while integrating the acquired business;
- problems in implementing uniform standards, controls, procedures and policies;
- increasing pressures on existing management to oversee a rapidly expanding company; and
- to the extent we acquire mining operations outside South Africa or Australasia, encountering difficulties relating to operating in countries in which we have not previously operated.

Our ability to make successful acquisitions and any difficulties or time delays in achieving successful integration of any of such acquisitions could have a material adverse effect on our business, operating results, financial condition and share price.

***Certain factors may affect our ability to support the carrying value of our property, plant and equipment, goodwill and other assets on our balance sheet.***

Harmony reviews and tests the carrying value of its assets when events or changes in circumstances suggest that this amount may not be recoverable.

At least on an annual basis for goodwill, and when there are indications that impairment of property, plant and equipment and other assets may have occurred, estimates of expected future cash flows for each group of assets are prepared. These estimates are prepared at the lowest level at which identifiable cash flows are considered as being independent of the cash flows of other mining assets and liabilities. Expected future cash flows are inherently uncertain, and could materially change over time. Such cash flows are significantly affected by reserve and production estimates, together with economic factors such as spot and forward gold prices, discount rates, currency exchange rates, estimates of costs to produce reserves and future capital expenditures.

As at 30 June 2011, Harmony had substantial amounts of property, plant and equipment, goodwill and other assets on its consolidated balance sheets. Impairment charges relating to these assets were recorded and if any one or a combination of these uncertainties should occur, management may be required to recognize further impairment charges, which could affect Harmony's financial results and condition.

***Given the nature of mining and the type of gold mines we operate, we face a material risk of liability, delays and increased cash costs of production from environmental and industrial accidents and pollution.***

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

- rock bursts;
- seismic events;
- underground fires;

- cave-ins or falls of ground;
- discharges of gases and toxic chemicals;
- release of radioactive hazards;
- flooding;
- pillar mining;
- accidents; and
- other conditions resulting from drilling, blasting and the removal and processing of material from a deep-level mine.

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

- flooding of the open-pit;
- collapse of open-pit walls;
- accidents associated with operating large open-pit and rock transportation equipment; and
- accidents associated with preparing and igniting of large-scale open-pit blasting operations.

Hazards associated with waste-rock mining include:

- accidents associated with operating a waste dump and rock transportation; and
- production disruptions caused by weather.

We are at risk from any or all of these environmental and industrial hazards. The occurrence of any of these hazards could delay production, increase cash costs and result in financial liability to Harmony.

***The nature of our mining operations presents safety risks.***

The environmental and industrial risks identified above also present safety risks for Harmony's operations and its employees and could lead to the suspension and potential closure of operations for indeterminate periods. Safety risks, even in situations where no injuries occur, can have a material adverse effect on Harmony's operations and production.

See Item 4. "Regulation – Health and Safety Matters".

***Illegal mining, or criminal mining, at our operations could pose a threat to the safety of employees and result in damage to property.***

Security issues related to criminal mining came to the fore in fiscal 2009, when criminal mining activities resulted in the deaths of criminal miners. The threat of fire caused by these activities poses a risk to the safety of our employees and could also result in property damage, which in turn could have an adverse impact on production.

See Item 4. "Regulation – Health and Safety Matters".

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

Harmony has third-party liability coverage for most potential liabilities, including environmental liabilities. While we believe that our current insurance coverage for the hazards described above is adequate and consistent with industry practice, we may be subject to liability for pollution (excluding sudden and accidental pollution) or other hazards against which we have not insured or cannot insure,

including those for past mining activities. Harmony also maintains property and liability insurance consistent with industry practice, but this insurance contains exclusions and limitations on coverage. In addition, there can be no assurance that insurance will be available at economically acceptable premiums. As a result, in future, Harmony's insurance coverage may not cover the claims against it for environmental or industrial accidents or pollution.

***Harmony's operations may be negatively impacted by inflation.***

Harmony's operations have been materially affected by inflation. Inflation in South Africa has fluctuated widely in recent years, reaching 11.6% at the end of fiscal 2008 before decreasing to 6.9% at the end of fiscal 2009 and to 4.2% by the end of fiscal 2010. Levels were flat during fiscal 2011, with the inflation rate increasing slightly to 4.6% at the end of fiscal 2011. However, working costs and wages, especially, have increased in recent years, resulting in significant cost pressures for the mining industry. In addition, electricity prices rose by 25% in fiscal 2010 and fiscal 2011 and are expected to increase by a further 25% in fiscal 2012.

The inflation rate in PNG has been relatively flat in recent years at around 7%, ending fiscal 2011 at 9.6%. Rising fuel and food prices contributed to the result as did the historically low level of the PGK/A\$ cross rate which led to imported inflation. While the PNG central bank has implemented measures aimed at addressing inflationary pressure, higher fuel prices, ongoing government spending and rising domestic demand, along with the construction of the LNG plant, are still present and will continue to keep upward pressure on inflation.

Harmony's profits and financial condition could be adversely affected when cost inflation is not offset by devaluation in operating currencies or an increase in the price of gold.

***The socio-economic framework in the regions in which Harmony operates may have an adverse effect on its operations and profits.***

Harmony has operations in South Africa and PNG. As a result, changes or instability to the economic or political environment in any of these countries or in neighboring countries could affect an investment in Harmony. It is difficult to predict the future political, social and economic direction in these countries, or any other country in which Harmony operates, and the impact government decisions may have on its business.

***Actual and potential shortages of production inputs may affect Harmony's operations and profits.***

Harmony's operational results may be affected by the availability and pricing of consumables such as fuel, chemical reagents, explosives, steel and other essential production inputs. Issues with regards to availability of consumables may result from shortages as well as long lead times to deliver, which could result in production delays and production shortfalls. These shortages and delayed deliveries may be experienced where industrial action affects Harmony's suppliers. These issues could also affect the pricing of the consumables, especially if shortages are experienced. The price of consumables may be substantially affected by changes in global supply and demand, along with weather conditions, governmental controls and other factors. A sustained interruption to the supply of any of these consumables would require Harmony to find acceptable substitute suppliers and could require it to pay higher prices for such materials. Any significant increase in the prices of these consumables would increase operating costs and affect production considerations.

***We compete with mining and other companies for key human resources.***

Harmony competes with mining and other companies globally to attract and retain key human resources at all levels with the appropriate technical skills and operating and managerial experience necessary to continue operating its business. The need to recruit, develop and retain skilled employees is particularly critical with historically disadvantaged South Africans ("HDSAs"), women in mining in South Africa, and recruiting and training local landowners in PNG. The global shortage of key mining skills, including geologists, mining engineers, metallurgists and skilled artisans has been exacerbated by increased mining activity across the globe. Despite various initiatives, there can be no assurance that we will attract and retain skilled and experienced employees. Should Harmony lose any of its key personnel, its business may be harmed and its operational results and financial condition could be affected. See *Item 6. "Employees"*.

***Since our South African labor force has substantial trade union participation, we face the risk of disruption from labor disputes and new South African labor laws.***

Despite a history of constructive engagement with labor unions, there are periods when various stakeholders are unable to agree on dispute resolution processes. Disruptive activities on the part of labor, which normally differ in intensity, then become unavoidable. Due to the high level of union membership among our employees, we are at risk of production stoppages for indefinite periods due to

strikes and other disputes. Significant labor disruptions have affected our operations and financial condition before and we are not able to predict whether we will experience significant labor disputes in future.

South African employment law sets out minimum terms and conditions of employment for employees. Although these may be improved by agreements between us and the trade unions, prescribed minimum terms and conditions form the benchmark for all employment contracts. See *Item 6. "Employees"*.

We are required to submit a report under South African employment law detailing the progress made towards achieving employment equity in the workplace. If this report is not submitted, we could incur substantial penalties.

Developments in South African employment law may increase our cash costs of production or alter our relationship with our employees and trade unions, which may have an adverse effect on our business, operating results and financial condition.

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

The HIV/AIDS epidemic in South Africa and PNG poses risks to us in terms of potentially reduced productivity, and increased medical and other costs. If there is a significant increase in the incidence of HIV/AIDS infection and related diseases among the workforce over the next several years, this may have an adverse impact on our operations, projects and financial condition.

See *Item 4. "Regulation – Health & Safety Matters"*.

***The cost of occupational healthcare services and the potential liabilities related to occupational health diseases may increase in future.***

Harmony's operations in South Africa are subject to health and safety regulations which could impose significant costs and burdens. The present Mine Health and Safety Act 29 of 1996 imposes various duties on mines and grants the authorities broad powers to, among others, close unsafe mines and order corrective action on health and safety matters. Operations in PNG are subject to the following laws and regulations: PNG Mining Act 1992, PNG Mining Safety Act 1997, PNG Mining Safety Regulation 1935 (updated 2006) and PNG Environment Act 2000.

There is a risk that the cost of providing health services and implementing various programs could increase in future, depending on changes to underlying legislation and the profile of its employees. This increased cost, should it transpire, is currently indeterminate.

The Occupational Diseases in Mines and Works Act 78 of 1973 ("ODIMWA") governs the payment of compensation and medical costs for certain illnesses contracted by people employed in mines or at sites where activities ancillary to mining are conducted. The principles of compensation under ODIMWA are currently being tested in the Mr. Thembekekile Mankayi v AngloGold Ashanti court case. Please see *Item 8. "Financial Information – Legal Proceedings"* for further information. Should anyone bring similar claims against Harmony in future, those claimants would need to provide evidence proving that silicosis was contracted while in the employment of the Company and that it was contracted due to negligence on the Company's part. The link between the cause (negligence by the Company while in its employ) and the effect (the silicosis) will be an essential part of any case. It is therefore uncertain as to whether the Company will incur any costs related to silicosis claims in the future and due to the limited information available on any claims and potential claims and the uncertainty of the outcome of these claims, no estimation can be made for the possible obligation. Should Harmony be unsuccessful in defending any claims that may be lodged, it would have an adverse impact on the Company's financial condition.

***Laws governing mineral rights affect our business.***

Our operations in South Africa and PNG are subject to legislation regulating mineral rights and mining those rights. In South Africa, we are governed by the South African Mineral and Petroleum Resources Development Act 2002 ("MPRDA") and in PNG by the Mining Act of 1992 (PNG). See *Item 4. "Regulation – South Africa"* for a description of the principal objectives set out in the MPRDA.

Under the MPRDA, tenure over established mining operations is secured for up to 30 years (and then renewable for periods not exceeding 30 years each), provided that mining companies applied for new-order mining rights over existing operations within five years of May 1, 2004 or before the existing right expires, whichever was the earlier date and fulfill requirements specified in the MPRDA and the Broad-Based Socio-Economic Empowerment Charter for the South African mining industry ("**Mining Charter**").



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The licenses for all of our South African operations have been granted. We will be eligible to apply for new licenses over existing operations, provided we comply with the MPRDA. Failure to comply with the conditions of the mining licenses could have a material adverse effect on our operations and financial condition.

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 also set and the South African mining industry committed to securing financing to fund participation by HDSAs totaling R100 billion in 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 target participation of 26%. 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 objectives of 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, 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 resources and skills development; employment equity; procurement and beneficiation. 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 progress made by the mining industry after five years of implementing the provisions of the Mining Charter, the Department of Mineral Resources ("DMR") released the Revised Mining Charter on September 13, 2010. The requirement under the Mining Charter for mining entities to achieve a 26% HDSA ownership of mining assets by 2014 has been retained. Amendments 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 exclude non-discretionary procurement expenditure;
- (iii) achieve a minimum of 40% HDSA demographic representation by 2014 at executive management (board) level, senior management (executive committee) level, core and critical skills, middle management level and junior management level;
- (iv) invest up to 5% 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 organized labor.

All these targets 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 revised 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. Harmony obtained all of its licenses three years ago and has no reason to believe that our mining licenses will be cancelled or suspended. Harmony will incur costs in meeting its obligations under the Revised Mining Charter and Scorecard.

The MPRDA also 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. For fiscal 2011, the average royalty rate for our South African operations was 0.63% of gross sales.

The Mining Act of 1992 (PNG) is based on Australian legislation. Accordingly, mineral rights in PNG also belong to the government of PNG which has a statutory right to obtain a participating interest of up to 30% in mining development projects. The

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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 types of tenements issued include: exploration license; mining lease; special mining lease; alluvial mining lease; lease for mining purpose; and mining easement.

Harmony's PNG mining operation is subject to a 2% royalty payment to the government of PNG. If we want to expand any of our initiatives in PNG into additional areas under exploration, these operations would need to convert the existing exploration licenses prior to the start of mining and that process could require landowner title approval. There can be no assurance that any approval would be received.

Please also see *Item 4. "Regulation"* for further information.

### ***We are subject to extensive environmental regulations.***

As a gold mining company, Harmony is subject to extensive environmental regulation. We expect the trend of rising production costs due to compliance with South African and PNG environmental laws and regulations to continue.

The MPRDA, certain other environmental legislation and the administrative policies of the South African government regulate the impact of the Company's prospecting and mining operations on the environment. On the suspension, cancellation, termination or lapsing of a prospecting permit or mining authorization, Harmony will remain liable for compliance with the provisions of various relevant regulations, including any rehabilitation obligations. This liability will continue until the appropriate authorities have certified that the Company has complied with such provisions.

Estimates of ultimate closure and rehabilitation costs are significant and based principally on current legal and regulatory requirements that may change materially. Environmental provisions are accrued when they become known, probable and can be reasonably estimated. In future, Harmony may incur significant costs for compliance with increasingly stringent requirements being imposed under new legislation. This may include the need to increase and accelerate expenditure on environmental rehabilitation and to alter environmental provisions, which could have a material effect on its results and financial condition. Harmony may also face increased environmental costs should other mines in the vicinity fail to meet their obligations on pumping or treatment of water. Also impacting on the financial condition of the Company is the requirement by the DMR for cash collateral or guarantees for Harmony's environmental obligations.

The South African government has reviewed requirements imposed on mining companies to ensure environmental restitution. For example, following the introduction of an environmental rights clause in South Africa's constitution, a number of environmental legislative reform processes have been initiated. Legislation passed as a result of these initiatives has tended to be materially more onerous than previous laws in South Africa. Examples of such legislation include the MPRDA, the National Nuclear Regulator Act 1999, the National Water Act of 1998 and the National Environmental Management Act 1998, which include stringent 'polluter pays' provisions. The adoption of these or additional or more comprehensive and stringent requirements, particularly for the management of hazardous waste, pollution of ground and groundwater systems and duty to rehabilitate closed mines, may result in additional costs and liabilities.

Harmony's PNG operations are also subject to various laws and regulations relating to protection of the environment, which are similar in scope to those of South Africa. The Environment Act 2000 governs the environmental permitting and regulatory aspects of mining projects. An environmental impact statement is required when projects are likely to have an adverse impact on the environment. This statement must be lodged with the Department of Environmental Conservation where, for large projects, it may be forwarded to Environment Council for review. Public consultation is an integral part of this review.

See *Item 4. "Regulation – Environmental Matters"* for further discussion on the applicable legislation and our policies on environmental matters.

### ***Mining companies are increasingly required to consider and ensure the sustainable development of, and provide benefits to, the communities and countries in which they operate.***

As a result of public concern about the perceived ill effects of economic globalization, businesses in general and large international companies such as Harmony, in particular, face increasing public scrutiny of their activities.

These businesses are under pressure to demonstrate that while they seek a satisfactory return on investment for shareholders, other stakeholders including employees, communities surrounding operations and the countries in which they operate, also benefit from their commercial activities. Such pressures tend to be particularly focused on companies whose activities are perceived to have a high

impact on their social and physical environment. The potential consequences of these pressures include reputational damage, legal suits and social spending obligations.

Existing and proposed mining operations are often located at or near existing towns and villages, natural water courses and other infrastructure. Mining operations must therefore be designed to mitigate and/or manage their impact on such communities and the environment. Specifically at our PNG operations, cognizance of landowner rights may require measures that could include agreed levels of compensation for any adverse impact the mining operation may continue to have on the community. The cost of these measures could increase capital expenditure and operating costs and therefore impact Harmony's operational results and financial condition.

***Compliance with emerging climate change regulations could result in significant costs for Harmony, and climate change may present physical risks to our operations.***

Greenhouse gases ("GHGs") are emitted directly by Harmony's operations and indirectly as a result of consuming electricity generated by external utilities. Emissions from electricity consumption are indirectly attributable to Harmony's operations. There are currently a number of international and national measures to address or limit GHG emissions, including the Kyoto Protocol and the Copenhagen Accord, in various phases of discussion or implementation. Both South Africa and PNG are non-Annex I countries and therefore do not have emission reduction targets under the Kyoto Protocol in the first commitment period, ending 2012.

After the climate summit in Copenhagen in December 2009, South Africa committed to 30% clean energy by 2025 with the vision that South Africa's GHG emissions would peak by 2020-2025 at the latest, plateau for a decade and then decline by 40% by 2050. The South Africa government published a climate change response green paper in November 2010 and a carbon tax discussion paper in December 2010. The policy process, culminating in the publication of a climate change response white paper, is expected later in 2011, with GHG legislation likely to be enacted after that. An emissions trading discussion paper is expected during 2011. It is possible that legislation to cap national emissions, introduce a trading scheme for GHG emission allowances and/or extend the current carbon tax will be enacted, though timing of this is uncertain.

The largest portion of GHG emissions is predominantly electricity related, with electricity expenditure amounting to 15% of Harmony's operational costs in South Africa. While cost management is clearly a strategic issue for Harmony, of even greater importance is that energy supply be constant and reliable, given the implications of loss of energy on both production and health and safety. GHG emissions regulations, which would increase the price of energy, within reason, will not affect Harmony as significantly as regulation that stipulates emission thresholds, or sets technology standards that may result in insecure energy supply. Already certain compliance costs from power suppliers are being passed on to the Group in the form of price increases. For instance, in South Africa since 2009, Harmony has paid a levy of R0.02 per kilowatt hour for electricity generated by fossil fuels. These levies may increase over time and additional levies may be introduced in future in South Africa or PNG, which could result in a significant increase in our costs.

The South African government is exploring implementing a carbon tax to offset carbon emissions in the country. A discussion paper on carbon taxation was published by the South African government in December 2010. This discussion paper mentions a potential carbon tax of R75 - R200 per tonne of CO2 emitted.

The aim is to reduce emissions in terms of South Africa's commitment made at the Copenhagen conference. The proposed tax follows the undertaking by government to reduce South Africa's carbon footprint by an ambitious 34% by 2020.

The South African National Treasury has established a working group comprising a number of different industries to evaluate the impact of this proposed tax on the different sectors of industry. Harmony is participating in this initiative, as is the Chamber of Mines.

As our current mines have a life expectancy of up to 25 years, we are undertaking capital projects to sustain and increase production at Phakisa, Doornkop, Kusasalethu, Tshepong and Hidden Valley operations. These expansions will extend our mining operations by ten years or more, by which time GHG regulations are expected to be a permanent feature of the global economy. Future climate change regulation will therefore need to be considered for all Harmony's extensions and acquisitions. All new greenfields and brownfields projects are required by company policy to consider the impact of climate change in their design and planning.

Harmony is also likely to be exposed to GHG emission regulation thresholds, specifically leakage from refrigerant gas use. Harmony will therefore be required to manage CFC-free refrigerant gas, and will consider using absorption chillers. This could have cost implications for the Company.

In addition, Harmony's operations could be exposed to a number of physical risks from climate change, such as increased rainfall, reduced water availability, higher temperatures and extreme weather events. Events or conditions such as flooding or inadequate water supplies could disrupt Harmony's operations and rehabilitation efforts, and could increase health and safety risks at operations. In

addition, such events or conditions could have adverse effects, such as increased disease prevalence, on Harmony's workforce and communities close by.

See Item 4. "Environmental Matters" for disclosure regarding our GHG emissions.

***Our operations in South Africa are subject to water use licenses, which could impose significant costs.***

Under South African law, Harmony's local operations are subject to water use licenses that govern each operation's water use. These licenses require, among other issues, that mining operations achieve and maintain certain water quality limits for all water discharges, where these apply. The majority of our South African operations are lawful users with existing water permits in terms of the Water Act of 1954. Nevertheless, the South African operations have applied to the relevant regional directors for water use licenses in terms of the National Water Act, 1998. Submissions were made as early as 2003 and Harmony has been working closely with the regional directors in the review process; a number of our operations have been issued with licenses or draft licenses.

We anticipate that the conditions of the licenses may require Harmony to consider and implement alternate water management measures that may have a significant cost implication for our business. Any failure on Harmony's part to achieve or maintain compliance with the requirements of these licenses for any of its operations may result in Harmony being subject to penalties, fees and expenses or business interruption due to revoked water licenses. Any of these could have a material effect on our business, operating results and financial condition.

See Item 4. "Regulation – Environmental Matters" for disclosure regarding our water usage and management.

***We may have exposure to rehabilitate potential groundwater pollution, which may include salination, and radiation contamination that may exist where we have operated or continue to operate.***

Due to the interconnected nature of mining operations, any proposed solution for potential flooding and decant risk posed by deep groundwater needs to be a combined one supported by all mines located in the goldfields and government in the event of legacy issues. As a result, the DMR and affected mining companies are involved in developing a regional mine closure strategy. In view of limited current information, no reliable estimate can be made for this possible obligation, which could be material and have an adverse impact on Harmony's financial condition.

Harmony has initiated analytical assessments to identify, quantify and mitigate impacts, should they arise. Numerous scientific, technical and legal studies are under way to assist in determining the magnitude of possible contamination of groundwater and to find sustainable remediation solutions. Harmony has instituted processes to reduce possible future potential seepage and it has been demonstrated that monitored natural attenuation 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 potential liability has been made in the financial statements. Should these costs be significant, this could have a material impact on Harmony's operational results and financial condition.

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

We are incorporated in South Africa. Each of our directors and executive officers (and our independent registered public accounting firm) resides outside the United States. Substantially all of the assets of these persons and substantially all our assets are located outside the United States. As a result, it may not be possible for investors to enforce a judgment against these persons or ourselves obtained in a court of the United States predicated upon the civil liability provisions of the federal securities or other laws of the United States or any state thereof. A foreign judgment is not directly enforceable in South Africa, but constitutes a cause of action which will be enforced by South African courts provided that:

- the court that pronounced the judgment had jurisdiction to entertain the case according to the principles recognized by South African law with reference to the jurisdiction of foreign courts;
- the judgment is final and conclusive;
- the judgment has not lapsed;

- the recognition and enforcement of the judgment by South African courts would not be contrary to public policy, including observance of the rules of natural justice which require that the documents initiating the United States proceeding were properly served on the defendant and that the defendant was given the right to be heard and represented by counsel in a free and fair trial before an impartial tribunal;
- the judgment does not involve the enforcement of a penal or revenue law; and
- the enforcement of the judgment is not otherwise precluded by the provisions of the Protection of Business Act 99 of 1978, as amended, of the Republic of South Africa.

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

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

In terms of Section 404 of the Sarbanes-Oxley Act of 2002, we are required to furnish a report by our management on our internal control over financial reporting. The report in this annual report contains, among other matters, an assessment of the effectiveness of our internal control over financial reporting as of the end of the fiscal year, including a statement as to whether or not our internal controls over financial reporting are effective. If we fail to maintain the adequacy of our internal controls, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with the Sarbanes-Oxley Act. The requirement to evaluate and report on our internal controls also applies to companies that we may acquire and therefore, this assessment may be complicated by any future acquisitions. While we continue to dedicate resources and management time to ensuring that we have effective controls over financial reporting, failure to achieve and maintain an effective internal control environment could have a material adverse effect on the market's perception of our business and our stock price. See *Item 15. "Disclosure Controls and Procedures"* for management assessment as of June 30, 2011. In addition to management's assessment of internal controls over financial reporting, we are required to have our independent registered public accounting firm publicly disclose their conclusions regarding the effectiveness of Harmony's internal controls over financial reporting.

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

***Sales of large quantities of our ordinary shares and ADSs, or the perception that these sales may occur, could adversely affect the prevailing market price of such securities.***

The market price of our ordinary shares or ADSs could fall if large quantities of ordinary shares or ADSs are sold in the public market, or there is a perception in the marketplace that such sales could occur. Subject to applicable securities laws, holders of our ordinary shares or ADSs may decide to sell them at any time. The market price of our ordinary shares or ADSs could also fall as a result of any future offerings of ordinary shares, ADSs or securities exchangeable or exercisable for its ordinary shares or ADSs, or the perception in the marketplace that these sales might occur. We may make such offerings of additional ADS rights, letters of allocation or similar securities at any time or from time to time in the future.

***Because we have a significant number of outstanding share options, our ordinary shares are subject to dilution.***

We have employee share option schemes as well as other share schemes. The employee share option schemes came into effect in 2001, 2003 and 2006. Our board has authorized up to 14% of the issued share capital to be used for these plans. As a result, shareholders' equity interests in us are subject to dilution to the extent of the potential future exercises of the options through share schemes.

***We may not pay dividends or make similar payments to our shareholders in the future.***

Harmony's dividend policy is to pay cash dividends only if funds are available for that purpose. Whether funds are available depends on a variety of factors, including the amount of cash available, our capital expenditures and other cash requirements existing at the time. Under South African law, we are only entitled to pay a dividend or similar payment to shareholders if we meet the solvency and liquidity tests set out in the Companies Act 71 of 2008 (as amended) including its Regulations (the "**Companies Act**") and our Articles of Association. Cash dividends or other similar payments may not be paid in the future.

In February 2007, the South African Government announced a proposal to replace Secondary Tax on Companies with a 10% withholding tax on dividends and other distributions payable to shareholders. The amendments will be implemented in phases and are expected to become effective in the near future. Although this may reduce the tax payable on our South African operations, thereby increasing distributable earnings, the withholding tax will generally reduce the amount of dividends or other distributions received by shareholders.

**Item 4. INFORMATION ON THE COMPANY**

**BUSINESS**

**History and Development**

We conduct underground and surface gold mining and related activities, including exploration, processing and smelting. We are currently the third largest producer of gold in South Africa, producing approximately one-fifth of the country's annual gold output, and we ranked among the largest gold producers in the world, with operations and projects in South Africa and PNG. Our gold sales were approximately 1.3 million ounces of gold in fiscal 2011. As at June 30, 2011, our mining operations reported total proven and probable reserves of 41.6 million ounces, primarily from South African sources. In fiscal 2011, we processed approximately 21.3 million tons of ore.

In fiscal 2011, 92% of our total gold production took place in South Africa. In fiscal 2011, approximately 90% of our South African gold came from underground mines, and approximately 10% came from our surface operations (which include the Kalgold opencast operation and the Phoenix operation). For more detailed information about our activities, see *Item 4. "Information on the Company – Business – Harmony's Mining Operations – Overview"* and the notes to the consolidated financial statements included in this annual report. Mining is a highly regulated industry, and we operate under a variety of statutes and regulations. For more detailed information about these statutes and regulations, see *Item 4. "Information on the Company – Regulation"* and *Item 10. "Additional Information – Memorandum and Articles of Association"*.

The majority of our exploration and evaluation done during fiscal 2011 has been focused on PNG. Our PNG exploration and evaluation opportunities are handled through the international office in Brisbane, Australia. Exploration in South Africa focused on Joel North and Poplar (north-west of Evander 8).

We were incorporated and registered as a public company in South Africa on August 25, 1950 (under registration number 1950/038232/06). We have expanded from a single lease-bound mining operation into an independent, world-class gold producer. From 1997 to 2004, we acquired additional mineral rights in the Free State, Mpumalanga, Gauteng and North West provinces in South Africa through various mergers and acquisitions. In our most recent transaction in fiscal 2010, we acquired the President Steyn 1 and 2 shafts, Loraine 3 shaft, Freddie's 7 and 9 shafts as well as the President Steyn gold plant, collectively known as the Pamodzi Free State assets, from Pamodzi Gold Free State (Proprietary) Limited (In Liquidation) ("**Pamodzi FS**"). See *Item 4. "Principal Investments"*. These shafts have been included in the Bambanani and Target operations. In building our international portfolio, we acquired Hill 50 and New Hampton in Western Australia in 2001 and 2002, respectively, and started our exploration portfolio in PNG with projects in the Morobe province originally through our acquisition of Abelle in 2003. In the past three years, we disposed of several operations in South Africa and Australia, as well as 50% of our interests in gold and copper assets in PNG. See *Item 4. "Disposals"*.

Our principal executive offices are located at Randfontein Office Park, Corner of Main Reef Road and Ward Avenue, Randfontein, 1760, South Africa and the telephone number at this location is +27-11-411-2000.