08

Progress

Pr

In terms of a strategy formulated in 2007, AECI is investing about R2 billion in its future growth. Good progress was made in 2008 in the capital investment programme. Details of this progress, and some of the people directly involved, are highlighted in this annual report.

AECI

Annual report 2008

Case study No. 1

A step change in technology

AEL's Initiating Systems Automated Plant (ISAP) project is a R620 million investment in a modern, automated, high volume, high quality shocktube plant and is due for final completion in 2010.

Cyril Gamede, operations director (second from left), elaborates:

"Completion of the project will result in a new global level of shocktube quality and reliability. AEL will have a progressive manufacturing platform from which to service its existing local customers and international growth aspirations.

"Led by Zola Khoza, factory manager, the ISAP team made good progress in 2008. Production was ramped up as planned and 39 million units were absorbed by the market. The ramp-up process will continue over the next two years. All the equipment required for full production of the high volume, underground narrow reef products will be installed by end of 2009 with ramp-up continuing into 2010. Automation of the lower volume surface products will also run into 2010."

AEL's ISAP team (from the left): Michael Taylor, Cyril Gamede, Gordon Morgan, Sheryl Kelly, Steve Caldwell, Zola Khoza.

21

Sc

Science of Progress

Delivery in terms of its major capital programme will see AECI strengthen its position as a world class supplier of products and services to customers, mainly in the mining and manufacturing sectors, in Africa and in other territories.

Furthermore, careful planning and investment currently in progress will see substantial areas of land surplus to the Group's requirements being released for sale in line with market demand.

The successful execution of projects and programmes depends on AECI's people. Their knowledge, innovation and customer-driven focus are key to the Group's prosperity.

Case studies outlined on the inside front cover and on pages 2, 26, 42, 72 and 90 are presented as illustrative examples of this.

Case study No. 2

Capital investment at Senmin

Theunis Botha (second from the left) is managing director of Senmin, the Sasolburg-based company in the Chemical Services Limited group where close on R1 billion is being invested in support of the AECI Group's strategic mining chemicals thrust.

"The guar plant was commissioned successfully in 2008, and the remaining four major projects will be completed in 2009," says Theunis. "Given the scale of the investment we have undertaken, this is both a challenging and rewarding time for my project directors and I and we are pleased that all our projects are on track and their business cases remain strong. Our customers will benefit from even better product and service packages once we've commissioned these modern and efficient facilities."

Senmin's project directors (from left): John Cullen, Theunis Botha, Frans Labuschange, Patrick Dicks, Stephen Foster, Phillip Viviers.

Values and profiles

Values

Our values guide behaviour to sustain excellent performance

We will

- focus intensely on delivering service excellence to our customers
- operate ethically, with integrity and care for others
- operate safely and with care for the environment and the community
- encourage innovation, nimbleness, teamwork and openness among our employees, and
- pursue and reward performance excellence.

AECI is a specialty product and services Group of companies which provides value-adding solutions to customers through science, technology and industry knowledge. The focus is on serving the mining and manufacturing sectors and the Group is investing substantial sums in its future growth in these areas.

Construction is in progress on six significant projects, with capital expenditure totalling about R2 billion. The projects, most of which are scheduled for completion by the end of 2009, relate mainly to the mining sector but capital is also being invested to augment the Group's ability to service consumer-driven markets.

AECI's core businesses serve global and regional markets. They are characterised by application know-how and service delivery, operate in niche markets, and are supported by leading international technology alliances.

Principal manufacturing sites are located in South Africa, near Johannesburg (mining solutions, provided by African Explosives Limited, "AEL", and specialty chemicals provided by Chemical Services Limited, "Chemserve") and Durban (specialty chemicals). Chemserve also has a number of smaller sites and its mining chemicals thrust is anchored in Senmin, which operates at Sasolburg in the Free State.

AEL and Chemserve have expanded their presence throughout sub-Saharan Africa. Both businesses continue to explore opportunities to take their product and service packages to niche markets in countries beyond their traditional areas of activity. In mining solutions, AEL has established a hub in South East Asia and its Global Channel business utilises the company's excellent technology and product position in initiating and bulk explosives systems to enter into mutually beneficial channel partnerships with leading regional explosives players internationally. Furthermore, DetNet aims to be the international leader in the design, production and sale of specialised electronic detonators. Chemserve has established a stable presence in Brazil and more acquisitions continue to be sought using the existing investment as a platform for growth.

AECI will exit the manufacture of industrial nylon fibres and polyethylene terephthalate at SANS Fibres in Bellville, Western Cape, with operations ceasing on 31 March 2009. SANS Technical Fibers at Stoneville, USA, will now be run as a stand-alone and self-sustaining entity for the foreseeable future.

The Group is fortunate that, in addition to its core businesses, it has a most valuable land asset, the release of which it can control and influence. The realisation of land and the utilisation of built assets that have become surplus to AECI's requirements are managed in the property portfolio, led by Heartland Properties. These activities are significant and offer prime holdings near Johannesburg and Cape Town for commercial, residential and industrial development and leasing purposes. 2 180 hectares of excess land are available for redevelopment over the next 10 to 15 years.

AECI has a total employee complement of about 6 000, many of whom are engaged in the Group's extensive sales, technical service and distribution networks.

The Company is domiciled in South Africa and is listed on the JSE Limited. At 31 December 2008, its market capitalisation was R6,1 billion.

Businesses

AEL is South Africa's leading economically empowered producer and supplier of commercial explosives, initiating systems, and blasting services and solutions to the mining, quarrying and allied industries. It is also a leading supplier to customers in Africa, beyond South Africa and has established a hub in South East Asia.

Chemical Services Limited manages a portfolio of 21 specialty chemical businesses, each focused on defined markets, with common values of innovative customer service and bottom line delivery. The group grows by acquisition and by organic growth.

Heartland Properties and **Heartland Leasing** manage the realisation of land and the letting of assets that are surplus to AECI's requirements. Heartland Leasing also provides site services to tenants at the Umbogintwini Industrial Complex, south of Durban, and oversees remediation prior to land release.

SANS Technical Fibers at Stoneville, USA, manufactures and markets a range of high performance, specialty nylon industrial fibres for niche market applications.

Group results at a glance
For the year ended 31 December 2008

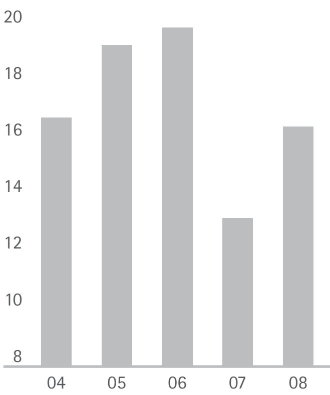
Highlights

- Revenue from continuing operations increased by 48 per cent
- Operating profit on continuing businesses improved by 39 per cent
- Headline earnings per share totalled 412 cents, 16 per cent more than in 2007
- The dividend for the year was 231 cents, compared with 213 cents in 2007

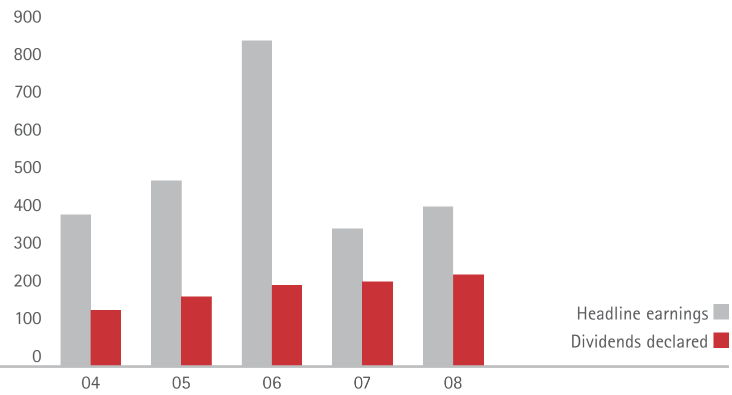
For the year ended 31 December 2008*

	2008	2007	% change
Revenue (R millions)	**14 340**	11 328	27
Profit from operations (R millions)	**1 190**	807	47
Headline earnings (R millions)	**443**	392	13
Net profit attributable to ordinary shareholders (R millions)	**385**	455	(15)
Headline earnings per ordinary share (cents)	**412**	355	16
Dividends declared per ordinary share (cents)	**231**	213	8
Market capitalisation at 31 December (R millions)	**6 060**	9 537	(36)
Trading margin (%)	**8,3**	7,1	
Return on net assets (%)	**20,3**	16,5	
Return on invested capital (ROIC) (%)	**16,4**	13,2	
Net borrowings as a percentage of shareholders' interest (%)	**59**	25	

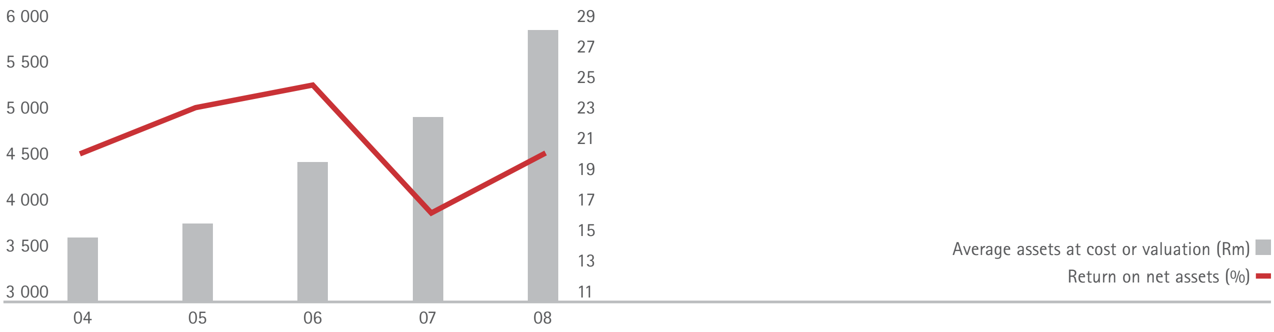
* Includes results of discontinued operations.



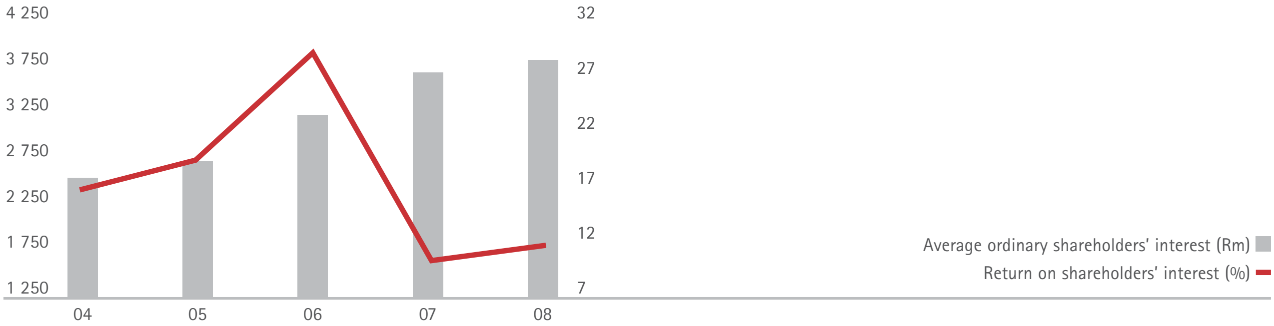
Return on invested capital (%)



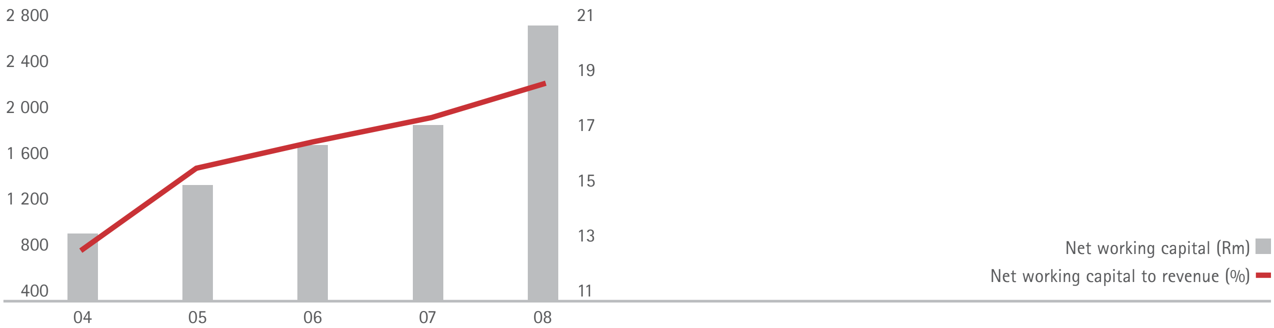
Headline earnings and dividends per ordinary share (cents)



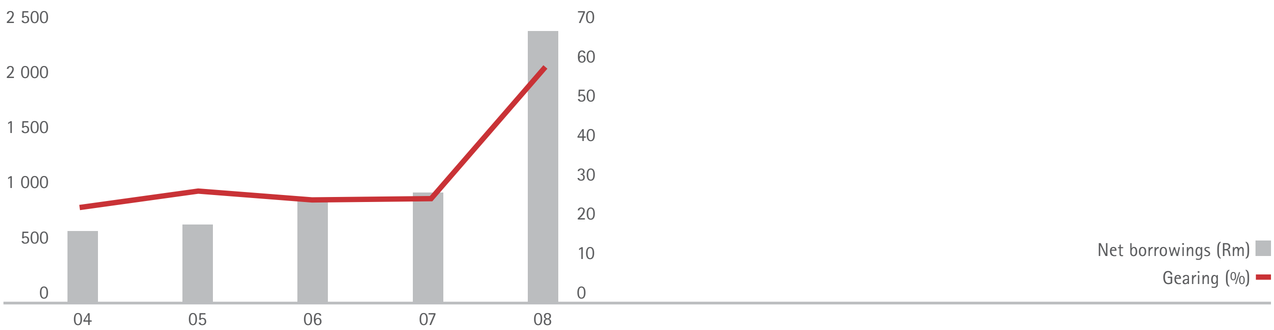
Return on net assets



Return on shareholders' interest



Net working capital to revenue



Net borrowings and gearing

Historical reviews

JSE Limited and share performance

	2008	2007	2006	2005	2004	2003
ORDINARY SHARE STATISTICS						
Market price (cents per share)						
High	**7 999**	9 600	7 005	5 300	3 942	3 400
Low	**4 250**	6 300	5 041	3 801	2 900	2 114
31 December	**5 099**	7 899	6 825	5 300	3 900	3 400
Earnings yield (%)	**8,1**	4,5	12,5	9,1	10,1	10,5
Dividend yield (%)*	**4,5**	2,7	3,0	3,3	3,5	3,5
Dividend cover*	**1,8**	1,7	4,2	2,8	2,8	3,0
In issue (millions)	**118,8**	120,7	120,7	120,7	119,7	118,5
Value traded (R millions)	**3 665**	5 898	3 072	2 555	1 476	995
Volume traded (millions)	**58,7**	73,3	51,0	55,9	44,2	38,2
Volume traded (%)	**49,4**	60,7	42,3	46,3	36,9	32,2
Market capitalisation (R millions)	**6 060**	9 537	8 241	6 399	4 669	4 029
ORDINARY SHARE PERFORMANCE						
(cents per share)						
Headline earnings	**412**	355	853	482	392	356
Dividends declared*	**231**	213	205	175	138	120
Net asset value	**3 601**	3 430	3 255	2 587	2 381	2 305

* The interim dividend in the current year and the final dividend declared after the balance sheet date have been used in the calculation.

AECI share price (rand)

Abridged financial statements

R millions	2008	2007	2006	2005	2004	2003
INCOME STATEMENTS [1]						
Revenue	**14 340**	11 328	10 212	8 768	7 911	7 659
Local	**10 347**	8 702	7 906	6 951	6 405	6 176
Foreign	**3 993**	2 626	2 306	1 817	1 506	1 483
Profit from operations	**1 190**	807	1 102	887	743	691
Net financing costs	**222**	130	103	90	139	150
Tax	**226**	217	353	225	173	135
Profit attributable to ordinary shareholders	**385**	455	916	486	283	239
Headline earnings	**443**	392	942	530	427	337
BALANCE SHEETS						
Total shareholders' interest	**3 969**	3 929	3 727	2 940	2 646	2 521
Deferred tax (net)	**(272)**	(165)	(111)	(291)	(327)	(353)
Net interest-bearing debt	**2 359**	1 001	940	798	615	1 019
Capital employed	**6 056**	4 765	4 556	3 447	2 934	3 187
Represented by:						
Property, plant, equipment, investment property, goodwill, Pension Fund surplus and investments	**4 177**	3 314	3 332	2 734	2 557	2 711
Current assets, excluding cash, less interest-free liabilities	**1 879**	1 451	1 224	713	377	476
Employment of capital	**6 056**	4 765	4 556	3 447	2 934	3 187
CASH FLOW STATEMENTS						
Cash generated by operations [2]	**1 124**	821	1 076	950	712	634
(Investment)/reduction in working capital	**(921)**	(627)	(259)	(295)	77	109
Expenditure relating to non-current provisions and restructuring	**(174)**	(68)	(143)	(42)	(21)	(64)
Net investments to maintain operations [3]	**(279)**	(272)	(177)	(104)	(112)	(22)
	(250)	(146)	497	509	656	657
Dividends paid	**(250)**	(237)	(206)	(167)	(135)	(123)
	(500)	(383)	291	342	521	534
Investment in expansion of assets [3]	**(747)**	(432)	(444)	(453)	(179)	(1 042)
Proceeds from disposal of investments and businesses	**24**	778	3	27	58	1
Net cash (utilised)/generated	**(1 223)**	(37)	(150)	(84)	400	(507)
Depreciation charges	**216**	233	223	212	224	223
Commitments						
Capital expenditure authorised	**978**	1 251	650	97	188	189
Future rentals on property, plant and equipment leased	**317**	253	290	235	196	158
	1 295	1 504	940	332	384	347

1 Includes the results of discontinued operations.

2 Profit from operations plus depreciation of property, plant and equipment and other non-cash flow items and after investment income, net financing costs and taxes paid.

3 Excludes property, plant and equipment of companies acquired.

Historical reviews (continued)

Ratios and employee details

	2008	2007	2006	2005	2004	2003
PROFITABILITY AND ASSET MANAGEMENT						
Profit from operations to revenue (%)	**8,3**	7,1	10,8	10,1	9,4	9,0
Trading cash flow to revenue (%)	**9,8**	9,2	13,0	12,5	12,2	11,9
Return on average net assets (%) [1]	**20,3**	16,5	24,8	23,4	20,4	19,3
Return on invested capital (ROIC) (%) [2]	**16,4**	13,2	19,9	19,3	16,8	16,0
Return on average ordinary shareholders' interest (%) [3]	**11,6**	10,6	29,2	19,4	16,7	14,7
Net working capital to revenue (%) [4]	**19,2**	17,8	16,8	15,7	12,0	14,2
Stock cover (days) [5]	**85**	79	81	74	68	67
Average credit extended to customers (days) [5]	**73**	70	70	66	59	55
LIQUIDITY						
Cash interest cover [6]	**4,6**	7,0	14,6	12,3	7,7	6,2
Interest-bearing debt to cash generated by operations	**1,5**	0,9	0,7	0,7	0,6	1,1
Gearing (%) [7]	**59,4**	25,5	25,2	27,1	23,2	40,4
Current assets to current liabilities	**1,4**	1,4	1,4	1,4	1,6	1,1
EMPLOYEES						
Number of employees at year-end [8]	**6 474**	7 123	7 705	7 251	7 260	8 167
Employee remuneration (R millions)	**1 804**	1 640	1 538	1 375	1 395	1 324
Value added per rand of employee remuneration (rand)	**1,68**	1,59	1,90	1,81	1,71	1,72

1 Profit from operations plus investment income related to average property, plant, equipment, investment property, goodwill, investments, inventories, accounts receivable and assets classified as held for sale less accounts payable and liabilities classified as held for sale.

2 Profit from operations less tax at standard rate plus investment income related to average property (excluding land revaluation), plant, equipment, investment property, goodwill, investments, inventories, accounts receivable and assets classified as held for sale less accounts payable, liabilities classified as held for sale and tax payable.

3 Headline earnings related to average ordinary shareholders' interest.

4 Excluding businesses sold and equity accounted and including working capital classified as held for sale.

5 Includes assets classified as held for sale.

6 Ratio of profit from operations after returns on the Pension Fund employer surplus and plan assets for post-retirement medical aid liabilities, less closure costs plus depreciation plus dividends received to net finance costs paid.

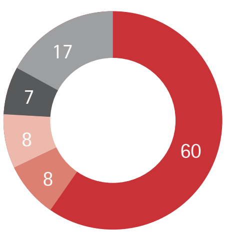
7 Interest-bearing debt less liquid funds as a percentage of total shareholders' interest.

8 Includes proportional share of joint venture employees.

Distribution of value added

Value added is the difference between revenue received from sales and the cost of raw materials, goods and services purchased outside the Group. It represents the basic surplus of income over expenditure generated by the Group and its employees through manufacturing and selling products and services.

	2008 R millions	%	2007 R millions	%
Revenue	**14 340**	**100**	11 328	100
Purchased materials and services	**11 334**	**79**	8 765	77
Value added through operations	**3 006**	**21**	2 563	23
Other income	**27**	**–**	47	–
Total value added	**3 033**	**21**	2 610	23
Distributed to:				
Employees	**1 804**	**60**	1 640	63
Lenders	**236**	**8**	165	6
Shareholders	**250**	**8**	237	9
Direct taxes	**226**	**7**	196	8
Reinvested in the Group	**517**	**17**	372	14
	3 033	**100**	2 610	100
MONETARY EXCHANGES WITH THE STATE				
The following monetary exchanges with the state took place during the year:				
Direct taxes	**226**		196	
Employees' tax collected on behalf of the state	**356**		293	
Property taxes paid to local authorities	**28**		32	
Skills development levies paid to the SA Revenue Service	**16**		10	
VAT collected on behalf of the state	**16**		43	
Channelled through the Group	**642**		574	



2008 (%)

2007 (%)

Shareholder analysis (Source: JP Morgan)

1. Analysis of registered shareholders and Company schemes

Registered shareholder spread

In accordance with the JSE Listings Requirements, the following table confirms that the spread of registered shareholders as detailed in the annual report and accounts at 24 December 2008 was:

Shareholder spread	Number of holders	% of total shareholders	Number of shares	% of issued capital
1—1 000 shares	2 596	58,32	1 021 711	0,86
1 001—10 000 shares	1 264	28,40	4 320 385	3,64
10 001—100 000 shares	423	9,50	13 993 094	11,77
100 001—1 000 000 shares	149	3,35	41 130 143	34,61
1 000 001 shares and above	19	0,43	58 381 653	49,12
Total	4 451	100,00	118 846 986	100,00

Public and non-public shareholdings

Within the shareholder base, we are able to confirm the split between public shareholdings and directors/ Company-related schemes as being:

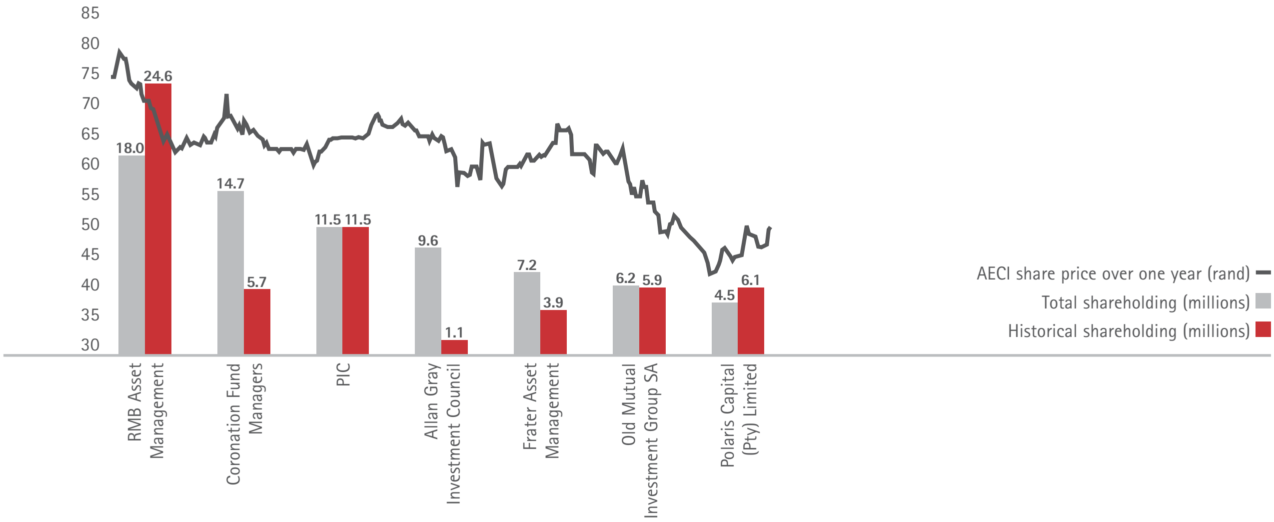
Shareholder type	Number of holders	% of total shareholders	Number of shares	% of issued capital
Non-public shareholders	5	0,13	11 937 122	10,04
– Treasury shares	1	0,04	11 884 699	10,00
– Directors	4	0,09	52 423	0,04
Public shareholders	4 446	99,87	106 909 864	89,96
Total	4 451	100,00	118 846 986	100,00

2. Substantial investment management and beneficial interests above 3 per cent

Through regular analysis of STRATE registered holdings, and pursuant to the provisions of Section 140a of the Companies Act, the following shareholders held directly and indirectly equal to or in excess of 3 per cent of the issued share capital at 24 December 2008:

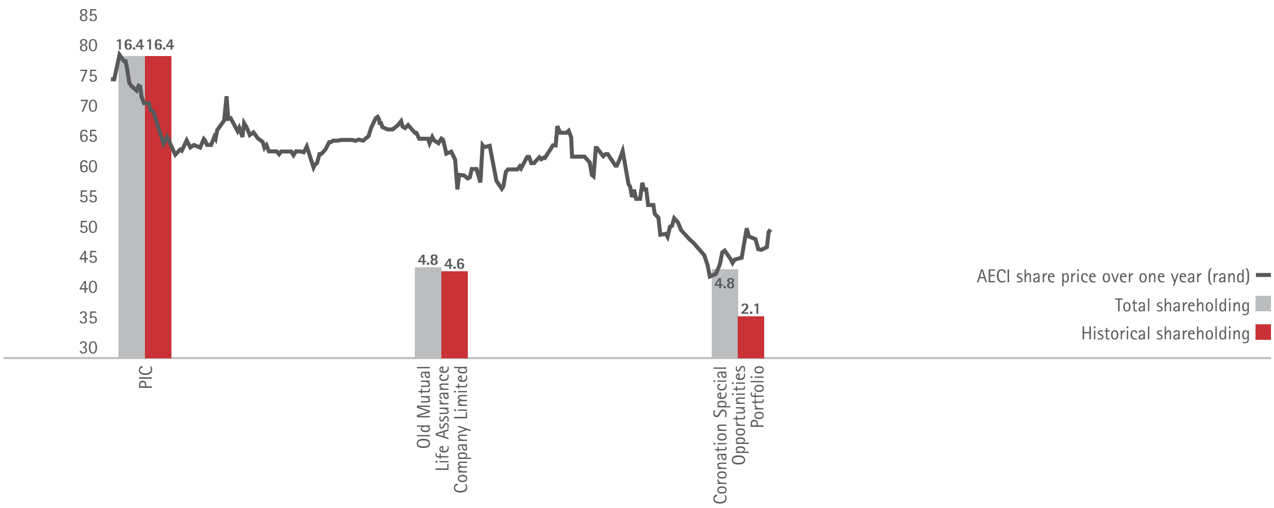
Investment manager	Total shareholding	%
RMB Asset Management	18 008 973	15,15
Coronation Fund Managers	14 716 940	12,38
Public Investment Corporation (PIC)	11 486 520	9,66
Allan Gray Investment Council	9 640 620	8,11
Frater Asset Management	7 239 240	6,09
Old Mutual Investment Group SA	6 162 449	5,19
Polaris Capital (Pty) Limited	4 499 060	3,79
Total	71 753 802	60,37

2. Substantial investment management and beneficial interests (continued)



Investment management shareholding positions above 3 per cent with 12-month change

Beneficial shareholdings	Total shareholding	%
PIC	16 367 320	13,77
Old Mutual Life Assurance Company Limited	4 848 119	4,08
Coronation Special Opportunities Portfolio	4 784 800	4,03
Total	26 000 239	21,88



Beneficial shareholding positions above 3 per cent with 12-month change

Shareholder analysis (continued)

2. Substantial investment management and beneficial interests (continued)

Investment manager	Total shareholding	%	Previous %
Investment managers now holding below 3 per cent			
PREVIOUSLY DISCLOSED HOLDINGS			
Sanlam Investment Management	2 627 457	2,21	5,17
STANLIB Asset Management	2 484 223	2,09	4,32
Investec Asset Management	1 494 436	1,26	7,80
Total	6 606 116	5,56	17,29
Beneficial owners now holding below 3 per cent			
BENEFICIAL OWNER			
Momentum Life Assurance	2 755 475	2,32	3,64
Total	2 755 475	2,32	3,64

3. Geographic split of shareholders

Region	Total shareholding	%
GEOGRAPHIC SPLIT OF INVESTMENT MANAGERS AND COMPANY-RELATED HOLDINGS		
South Africa	110 319 376	92,82
United States of America	2 759 493	2,32
United Kingdom	1 160 051	0,98
Rest of Europe	876 931	0,74
Rest of the world [1]	3 731 135	3,14
Total	118 846 986	100,00
GEOGRAPHIC SPLIT OF BENEFICIAL SHAREHOLDERS		
South Africa	111 490 497	93,81
United States of America	2 729 741	2,30
United Kingdom	1 046 797	0,88
Rest of Europe	1 406 683	1,18
Rest of the world [1]	2 173 268	1,83
Total	118 846 986	100,00

1 Represents all shareholdings except those in the above regions.

4. Shareholder categories

An analysis of beneficial shareholdings, supported by the Section 140a enquiry process, confirmed the following beneficial shareholder types:

Category	Total shareholding	% of issued capital
Pension funds	43 575 583	36,67
Unit trusts/mutual funds	31 306 570	26,34
Other managed funds	12 347 450	10,39
Corporate holding	11 884 699	10,00
Insurance companies	10 723 488	9,02
Private investors	4 420 065	3,72
Foreign government	1 027 352	0,86
Custodians	226 921	0,19
University	121 556	0,10
Investment trust	55 000	0,05
Remainder	3 158 302	2,66
Total	118 846 986	100,00

Beneficial shareholders split by category – includes categories above 2 per cent only (%)

5. Analysis of investment styles

Analysis into institutional attributes broadly indicates the following split of investment approach within the shareholder base:

Analysis of investment styles – includes categories above 1 per cent only (%)

Non-executive directors

[1] **Richard Dunne (60)**
CA(SA)
Richard joined AECI's Board in January 2007, and chairs the remuneration and nominations committees. He is also a member of the audit and risk committee. Richard retired from Deloitte & Touche in 2006, as chief operating officer. He is a member of the boards and audit and risk committees of Anglo Platinum, Investec Bank and Tiger Brands.

[2] **Schalk Engelbrecht (62)**
BSc, MBL
Schalk retired as AECI's chief executive in March 2008, having served in that position since 2003. He is a member of the remuneration and nominations committees. In 1980, Schalk joined Chemical Services Limited (Chemserve) where he managed a number of subsidiaries before being appointed that group's managing director in 1998. He also serves on the board of Imperial Holdings.

[3] **Zellah Fuphe (40)**
BSocialSc
She joined the AECI Board in 2007. A graduate of the University of Cape Town, Zellah is managing director of Plessey South Africa. Zellah serves on the Unisa School of Business and Leadership board and previously served on the Afric Oil (chair), Worldwide Coal Carolina (chair), Engen Limited, the Oceana Group and Worldwide African Investment Holdings boards.

[4] **Mike Leeming (65)**
BCom, MCom, FCMA, FIBSA, AMP (Harvard)
A non-executive member of the AECI Board since 2002, Mike is chairman of the audit and risk committee and a member of the corporate citizenship committee. He is a retired executive director of Nedcor and past chairman of the Banking Council of South Africa and president of the Institute of Bankers. He also serves as a non-executive director on the boards of Altron, Imperial Holdings, Real Africa and Woolworths.

5 Litha Nyhonyha (49)
CA(SA)
Appointed to the AECI Board in 2006, Litha is chairman of the corporate citizenship committee and a member of the audit and risk committee. He is executive chairman and a founder member of Regiments Capital, a black-controlled and managed financial services group. He is also a director of Plessey Telecommunications, Regiments Securities, Sovereign Foods and Worldwide African Investment Holdings.

6 André Parker (57)
BEcon (Hons)
He is the retired managing director of SABMiller Africa & Asia (Pty) Limited and served on several boards of SABMiller subsidiaries in these territories. André was also an executive committee member of SABMiller plc. He joined the AECI Board in 2007 and is a member of the remuneration and nominations committees.

7 Fani Titi (46)
BSc (Hons), MA, MBA
Fani joined AECI's Board in 2005 and assumed its chairmanship, as well as membership of the remuneration and nominations committees, in 2007. He is currently non-executive chairman of Investec Bank Limited and a director of Advtech Limited. He is an executive director of the Tsiya Group, a private equity firm.

Executive committee

1 Frank Baker (55)
BSc (Chem Eng)
Frank was appointed to AECI's Board in an executive capacity in 2007. He took up his position as managing director of Chemical Services Limited (Chemserve) in 2003. Frank joined AECI in 1976 and, having moved to Chemserve in a management position in 1993, he joined that company's executive committee in 1998 and its board in 1999. From 1993 to 2003 he managed several subsidiaries within the Chemserve group.

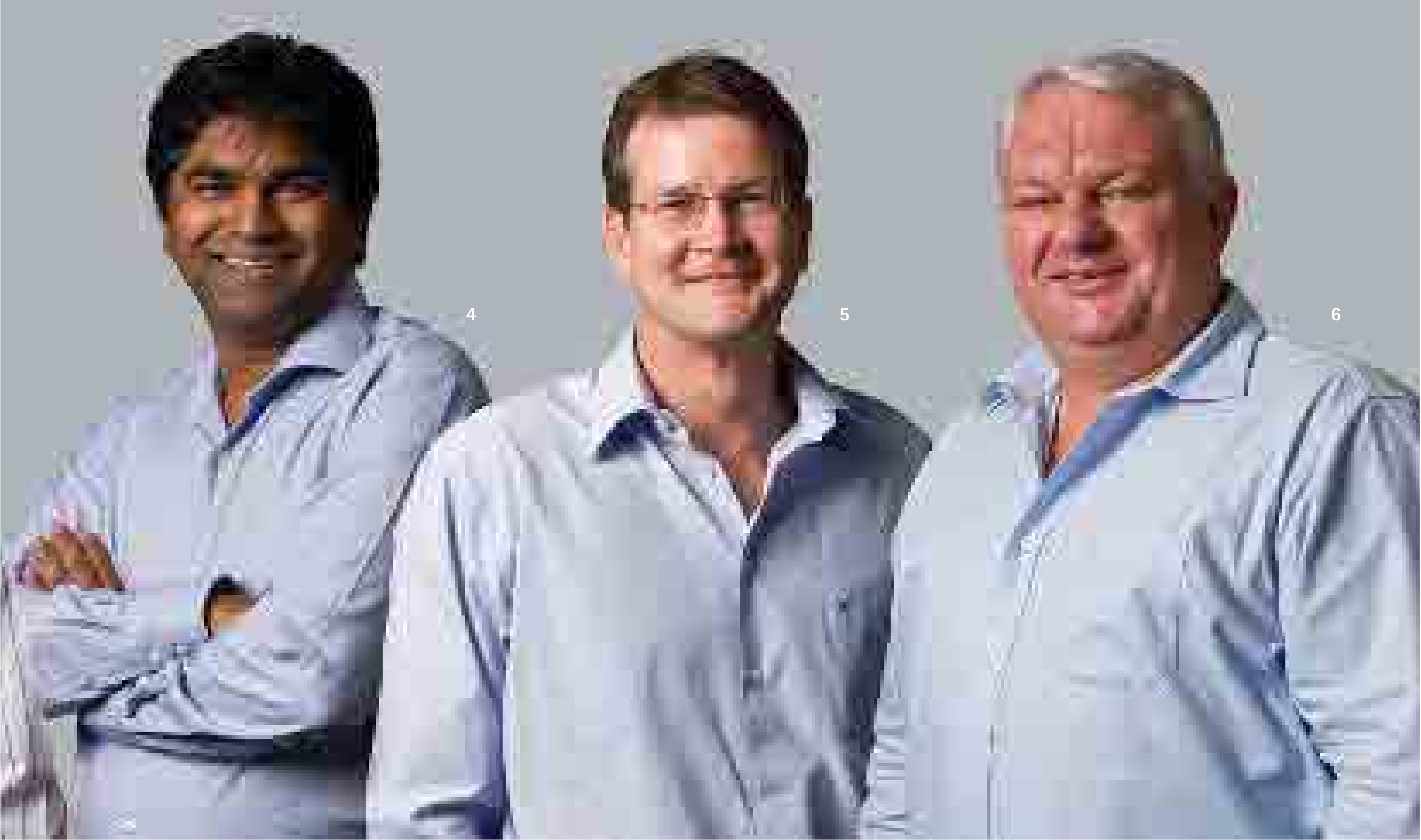
2 Anthony Diepenbroek (52)
BSc (Civil Eng), MBA, Pr Eng
He joined the Group as chief executive officer of Heartland Properties, and an AECI executive committee member, in 2008. Anthony has more than 20 years' experience in property- and development-related fields. These include construction and project management; sales and marketing; infrastructure and facilities planning; and the management of property portfolios, assets and property investment funds at executive level. He has also served as managing director of other JSE Limited-listed entities in the property sector.

3 Graham Edwards (54)
BSc (Mech Eng), BCom, MBA, PhD, Pr Eng
On 1 March 2008, Graham took over the position of Group chief executive. Prior to this, he was managing director of AEL and chairman of the DetNet joint venture. An executive director of AECI since 2007, Graham joined the Group as a design engineer in 1978 and worked in production, engineering, buying and strategic planning. He was appointed managing director of AEL in 1999.

4 Mark Kathan (38)
CA(SA)
Mark Kathan joined AECI in September 2008 as chief financial officer and financial director. Prior to his AECI appointment, Mark had worked for 11 years at a JSE Limited-Listed global packaging company where he held a senior finance position and was a member of that company's executive. He has experience in a broad spectrum of finance and business disciplines in South Africa and the rest of Africa.

5 **Tobie Louw (46)**
BSc (Eng)
Tobie joined AEL in 1988 and he returned to this company as managing director in April 2008. He also joined AECI's executive committee at that time. Tobie left the AECI Group in 1996, returning to Chemserve in 2000 as managing director of Lake International Technologies. In 2005, he was appointed to Chemserve's executive committee and became managing director of Chemserve Systems. He joined the Chemserve board in 2007.

6 **Jacques Pienaar (49)**
BA
He is general manager, Group human resources and safety, health and environment (SHE). The latter includes overall responsibility for land remediation activities. Jacques joined Chemserve in 1990 as industrial relations manager and moved to AECI in 1998. He is chairman of the AECI Employees Pension Fund, the AECI Employees Provident Fund and the AECI Medical Aid Society.



Senior managers

1 **Gary Cundill (41)**
BSc Eng (Chem), BEng Hons (Water), GDE (Civil)
Gary is Group manager: technology and SHEQ. He joined the Group in 2001 and his background is in technical development, project management and operations management. Gary has worked in the chemicals, steel and explosives industries.

2 **Alma Kennedy (39)**
BProc, LLB, LLM, MBA, HDip (Tax)
An admitted attorney, notary and conveyancer, Alma joined AECI as Group legal advisor and Company secretary in 2007. She has experience in global companies, in disciplines that include legal and company secretarial, corporate governance, mining, property and environmental law, mergers and acquisitions and corporate communications.

3 **Louis van der Walt (54)**
Bluris, LLB, CFP
He has been manager of AECI's Retirement Funds since 1999. He joined AECI as a legal advisor in 1991, having worked in similar capacities elsewhere. Louis is an Advocate of the High Court and a Certified Financial Planner.

Financial calendar

2008 final ordinary dividend No. 150	
Declaration date	23 February
Last date to trade cum dividend	8 April
Ex dividend trade	9 April
Record date	17 April
Payment date	20 April
5,5% preference shares dividend No. 142	
Declaration date	22 May
Last day to trade cum dividend	5 June
Ex dividend trade	8 June
Record date	12 June
Payment date	15 June
85th annual general meeting	**25 May**
2009 interim ordinary dividend No. 151	
Declaration date	27 July
Last day to trade cum dividend	4 September
Ex dividend trade	7 September
Record date	11 September
Payment date	14 September
2009 interim report released	**28 July**
5,5% preference shares dividend No. 143	
Declaration date	20 November
Last day to trade cum dividend	4 December
Ex dividend trade	7 December
Record date	11 December
Payment date	15 December
Financial year-end	**31 December**
2009 audited financial results released	**February 2010**
2009 annual report posted	**March 2010**

Chairman's letter to shareholders

As highlighted in my letter to you last year, AECI has embarked on a number of strategic initiatives. As a result of these, the Group will enhance its core businesses' future as providers of world class mining solutions and specialty chemicals to the mining and manufacturing sectors in South Africa, Africa and in other territories.

For these strategic initiatives to succeed and to deliver on the Group's growth prospects, significant capital expansion and efficiency improvement projects are in progress. The Company's total capital investment was R1 044 million in 2008. The projects progressed well in the year, notwithstanding delays and cost escalations in some instances. The benefits of the investments will begin accruing to AECI from 2009, and more markedly from 2010. More detail on major projects is given later in this letter.

2008 was, of course, a particularly eventful year in the global economic arena. Apart from the credit crisis, some unprecedented peaks and fluctuations in commodity prices were experienced as were extreme shifts in the demand/supply balance. In view of the effect of high commodity prices on working capital requirements, and the Company's extensive capital expenditure programme, the Board and management deemed it prudent to negotiate additional term debt with various local financial institutions. The debt was arranged on favourable terms.

Trading performance

It gives me great pleasure to report that AECI as a whole delivered outstanding trading results in 2008. The Group's revenue from continuing operations increased by 48 per cent to R12 876 million and trading profit, before losses from the Pension Fund employer surplus and plan assets for post-retirement liabilities, was 39 per cent higher than in 2007 at R1 035 million.

It is also pleasing that margins remained more or less constant across the board and all the trading businesses managed commodity price volatility successfully.

Chemical Services Limited (Chemserve) was the star performer again, with revenue escalating by an impressive 50 per cent to R8 434 million and trading profit by 49 per cent to R851 million. Much of this increase is attributable to strong performances in Chemserve's mining-related businesses, including Chemical Initiatives, Industrial Oleochemical Products, Lake International and Senmin. The consumer-based businesses recorded mixed results, but were well managed and improved their margins.

Much of the capital programme that AECI embarked on in 2007 is focused on Chemserve's mining thrust and these projects are well on track. The guar plant and one of the two xanthate reactors, at Senmin in Sasolburg, were commissioned in the latter part of the year. The remaining projects will be commissioned during 2009. Although costs on certain of the projects have increased due to scope changes and foreign exchange rate increases, the projects are still expected to deliver acceptable returns.

Chemserve will focus on project delivery and working capital control in 2009, while continuing to explore acquisition opportunities.

AEL also had a good year, with revenue growth of 51 per cent to R4 079 million and a 52 per cent improvement in trading profit to R248 million. Contributors to this good performance were growth in the Surface and Massive business in South Africa and the mining boom in the rest of Africa. Trading profit growth was offset by the Narrow Reef business in South Africa where volumes remained under pressure owing to power shortages and safety-related issues. AEL also had to contend with a spike in the ammonia price, the worst such occurrence in 10 years.

Despite price movement in the market, AEL's operating margins remained constant at 6 per cent.

The Initiating Systems Automated Plant (ISAP) project is AEL's R620 million investment in a modern, high volume, high quality shocktube plant considered to be the "factory of the future". This project commenced in 2006 and is on track to be completed in 2010.

The first phase of the project has been completed and is operating to expectation. ISAP will position AEL as a hi-tech and safety-focused world class supplier of initiating systems and enhanced explosives.

Heartland Properties and Heartland Leasing manage the Group's property portfolio. Land sales declined by 4 per cent on the prior year. Revenue totalled R432 million, while trading profit contributed R45 million (R75 million in 2007) after R91 million (R83 million in 2007) of remediation expenses.

During the year, AECI's land holdings at Modderfontein and Somerset West were valued at R2 500 million by external professionals. It remains the Board's view that more value can be extracted from the property portfolio if it continues to be held and managed in the medium term. Depending on market conditions, the property business intends investing about R900 million over the next five years, at Modderfontein and Somerset West, to release more than 1 000 hectares of land to the market.

Owing to external factors, the property market in South Africa is currently depressed and Heartland does not anticipate significant sales over the next year to 18 months. During this lean period, the business will prepare land to ensure that it is optimally placed when market conditions improve.

Chairman's letter to shareholders (continued)

Portfolio

In accordance with authorisation received at the annual general meeting of the shareholders of AECI in May 2008, the Company repurchased a further 3 per cent of its own share capital in the year. As a consequence, AECI now holds 10 per cent of its share capital as treasury shares.

In the latter part of the year, AECI announced that it had, with great regret, decided to shut down the SANS Fibres (SANS) operations at Bellville, in the Western Cape. Over a protracted period, several unsuccessful attempts were made to dispose of the industrial nylon fibre and polyethylene terephthalate businesses as going concerns.

These businesses have been under significant pressure to deliver sustainable financial performances for the past few years. A number of factors including technology improvements in the Far East, high raw material prices that could not be recovered in the market, and excess global capacity did not make the businesses feasible without further large capital investment. It is most regrettable that 640 of our dedicated employees, some of them with many years of service, will be affected by the closure of operations at Bellville at the end of March 2009.

It is a tribute to the management and all employees at SANS that the business, which is accounted for as a discontinued operation, produced outstanding results for the year under very difficult circumstances. Trading profit before closure costs increased to R155 million (R19 million in 2007). This good performance is primarily attributable to the weakening of the rand in the year and high demand for fibre, post the closure announcement in November.

SANS's operation at Stoneville, in the USA, will continue to operate for the foreseeable future. This business is performing well and is self-sustainable. For the year SANS Technical Fibers, USA, delivered a trading profit of R49 million compared to a loss of R10 million in 2007. Certain strategic plant and equipment will be transferred from Bellville to Stoneville and this should enhance the operation's global footprint.

Progress on investing in growth

Delivery in terms of a strategy formulated in 2007 was the key theme in the year under review. The Group has moved towards strengthening its position as a world class supplier to the mining sector in particular, not only on the African continent but also in other countries around the globe. The six projects related to this are well on track to deliver in 2009 and 2010. They include AEL's ISAP project and five investments in Chemserve: acrylamide and polyacrylamide plants at Senmin, Sasolburg; a CS_2 plant and two xanthate reactors, also at Senmin; a sulphonation plant at Akulu Marchon, Gauteng; and an oleochemical plant at the Resitec joint venture in Brazil.

The progress of these investments will remain management's key focus for 2009. Their implementation and delivery, within the approved capital spend, will ensure optimal financial returns for several years to come.

It is intended that, during 2009, a Broad-Based Black Economic Empowerment (BBBEE) transaction will be effected in the form of an employee and a community share trust. Our shareholders will be asked for their approval prior to the transaction. The Company already has BBBEE structures in place at AEL and at Chemserve's ImproChem. Across the Group, management will also focus on other areas of the BBBEE scorecard to improve current ratings in the year ahead.

Directorate

In the 2008 financial year a number of changes to the Board took place. Schalk Engelbrecht retired in March after five years as chief executive and 28 years with the Group. He remains on the Board as a non-executive director.

Schalk was succeeded as chief executive by Graham Edwards, with effect from 1 March. Graham has been with the Group for 30 years and had been managing director of AEL since 1999. He was appointed an executive director to the Board in 2007.

In August, we regrettably said farewell to Roger Williams, who emigrated to the United Kingdom as a direct consequence of a tragedy in his immediate family in the environment of crime that continues to afflict South Africa and its people. We will miss Roger for his valuable contribution during his short stay at AECI and wish him and his family well in their new life.

Mark Kathan succeeded Roger as chief financial officer and financial director in September 2008. Prior to his AECI appointment, Mark had worked for 11 years at a JSE Limited-listed global packaging company where he held a senior finance position and was a member of that company's executive. He has experience in a broad spectrum of finance and business disciplines in South Africa and the rest of Africa.

In December 2008, Lex van Vught informed the Board that he wished to retire from his position as non-executive director of the Company. Lex had 40 years' involvement with AECI, including five years as its chief executive from 1998 to 2003. During that period his leadership in transforming the Company from an unfocused collection of largely commodity-based businesses into a specialty product and service solutions entity, was exemplary. On behalf of the Board, I would like to thank Lex again for his contribution in this regard. We will certainly miss him for the value that his insight and experience continued to add as a non-executive director.

Lex also served as chairman of the nominations and remuneration committees of the Board. These roles will be fulfilled by Richard Dunne from January 2009.

Alma Kennedy, Company secretary and legal advisor since 2007, will leave AECI at the end of March 2009. We thank her for her exceptional levels of dedication and professionalism during her tenure.

Ethics and governance

AECI remains committed to maintaining its high standards of corporate citizenship, a high level of ethics and integrity, and proactive management of corporate responsibility issues. Safety, health and environmental issues are the first item on the agenda of management meetings of operating companies and of AECI's executive committee. Community awareness and support are guided and monitored by the corporate citizenship committee.

The Group adheres to best practices in corporate governance. In line with this, Group-wide training commenced in 2008 to improve employees' understanding of their rights and duties in terms of ethics in the corporate environment. Training in matters relating to competition law was also initiated.

Outlook and strategic focus

It appears that the severe impacts of global recessionary trends will remain with us through 2009. The mining sector, a significant area of focus for AECI, has already suffered adverse impacts. Lower commodity prices are resulting in lower returns for our customers in this sector and those supplying the retail, manufacturing and automotive sectors have recorded some sharp declines in activity in recent months. The outlook for volume growth in 2009, therefore, is not promising.

The Company will need to be extremely vigilant of the overall business environment and avoid short-term decisions that could have adverse long-term impacts. 2009 will be a challenging year with much uncertainty and, therefore, the preservation of cash will be a priority. Specifically, the Board has requested AECI's management to:

- control working capital aggressively;
- progress key capital projects, while carefully reviewing all other capital expenditure;
- apply cost leadership principles across all businesses and activities; and
- maintain market share and margins through continued excellent service.

While 2009 is likely to be a challenging year, the Group will be well positioned for growth from 2010, when the environment is expected to improve and the benefits of the capital investment programme will begin to accrue.

I would like to thank all our shareholders, employees, business partners and other stakeholders for their continued support. I would also like to express my appreciation to AECI's management for their sustained efforts and to my colleagues on the Board for their wise counsel.

Fani Titi
Chairman
Woodmead, Sandton

23 February 2009

Case study No. 3

Shaping development

Beyers Strydom and Christopher Hinks are Heartland Properties' project managers at Somerset West and Modderfontein respectively. In 2008, both focused on infrastructure projects that will facilitate future developments at their sites.

Heartland Properties team (from left): Beyers Strydom, Christopher Hinks.

Commenting on Somerset West, Beyers says:

"Part of the Precinct 1 project, in the historic part of the site that includes buildings designed by Sir Herbert Baker, is a new entrance to the property that will play a key role in the future development of the area. The Precinct has set the tone in terms of infrastructure quality and densities for office and residential developments opposite the highly successful Somerset Mall."

Christopher Hinks says:

"In Gauteng, the PWV3 frontage roads project comprises a 2,5 km dual carriage way link between London Road and the R25 Modderfontein Road. It is an important east/west connection through the Modderfontein area, and will alleviate congestion at the existing R25, N3 and Van Riebeeck Road intersections. It is expected to be completed in April 2009 and will also offer alternative access to the N3 from Longmeadow Business Estate, further enhancing the Estate's desirability."

Corporate governance

The AECI Group and its directors are committed to the principles of good corporate governance and to applying the highest ethical standards in conducting business. Some years ago, the Board subscribed to the Code of Corporate Practices and Conduct as contained in the King Report on Corporate Governance of November 1994 ("King I"). The Board considers that the Company complies with all provisions of that Code. The Group further endorses the principles of openness, integrity and accountability advocated by the Code of Corporate Practices and Conduct set out in the King II report on Corporate Governance ("King II").

The Board considers that, throughout the accounting period as well as at the date of this report, the Company has been in compliance with the principles contained in the amended Code.

As long back as 1987, during a formal review of Group purpose and values, one of the Group's commitments was "honesty and integrity in all our activities". In addition to subscribing to the principles of King I and II, business process and governance practice have been refined over the years in response to developing trends in local and international best practice. The Company believes that a corporate culture of compliance with all applicable laws and procedures is a core competence of good corporate governance and that this culture of good governance serves to maximise sustainable returns and to provide all stakeholders with the assurance that the Group's businesses are being managed appropriately.

There is no "one-size-fits-all" approach to corporate governance and the Board believes that an appropriate corporate governance framework should conform to the size of the Company, its complexity, its structure and the risks affecting it, providing a structure through which objectives are set and monitored. Through such a vibrant and responsive system the chief executive, the management team and the Board can interact effectively and respond quickly to changing circumstances within a framework of solid corporate values, to provide enduring value to shareholders, while maintaining a balance between shareholder needs and the needs of other stakeholders.

The Board continually strives to find the correct balance between encouraging entrepreneurial flair and accountability and providing strategic leadership through the maintenance of strong governance.

The Board is satisfied that, in the 2008 financial year, its decision-making capability and the accuracy of the Company's reporting and financial results were maintained at a high level at all times with reliance being placed on the internal and external auditors and the audit and risk committee to raise any issues of financial- and risk-related concerns.

Continual improvement in the implementation of good governance practices

The Company strives constantly to develop and improve existing corporate governance structures and practices to ensure continued compliance with the recommendations of King II and other good governance practices.

For 2009, the key corporate governance areas of focus will remain:

- to continue to maintain compliance with the principles as contained in King II and evaluate the principles and implications of King III;
- a continued focus on strategic issues at Board level;
- a continued focus on corporate social responsibility and integrated sustainability matters, including people development and transformation;
- training and development of non-executive directors;
- the development and formalising of a succession plan for the executive directors and senior management; and
- continued training relevant to the Company's Code of Ethics, whistle blowing and competition matters.

Compliance with the JSE Limited's ("JSE") Listings Requirements and other legislation

An independent audit of the Company's compliance with the JSE Listings Requirements was performed during December. The Board had insight into the said audit report at its December 2008 meeting and is confident that the Company complies with all the provisions of the JSE Listings Requirements.

The Company is also in compliance with the provisions of the Companies Act, 1973 (as amended).

The Board

The Board charter

The AECI Board operates under an approved charter which regulates the way business is conducted. The charter is modeled on the principles recommended by King II, incorporates the powers of the Board, provides a clear division of responsibilities and sets out the accountability of Board members, collectively and individually, to ensure an appropriate balance of power and authority. In terms of the charter, the Board:

- defines its mission as representing the interests of shareholders in perpetuating a successful business that adheres to the vision and values of the Company and creates long-term value for shareholders;
- is accountable and responsible to shareholders for the performance and affairs of the Company;
- determines the Company's objectives, values and stakeholders relevant to its business and gives strategic direction to management;
- maintains full and effective control of the Company by ensuring that appropriate processes and procedures are in place to monitor and evaluate the implementation by management of its strategies, policies, performance criteria and business plans. To this end the Board undertakes a formal annual review of the Company's strategy and that of its component businesses, and similarly of the budgets proposed by management at the start of each financial year;
- appoints the chief executive and ensures that succession is planned;
- ensures that the Company complies with all relevant laws and regulations and that it communicates with its shareholders and other stakeholders openly with substance prevailing over form;
- assesses at least annually the key risk areas of the business and determines the policies and processes necessary to ensure the integrity of internal controls and risk management in the Company;
- develops the framework, policies and guidelines for safety, health and environmental management and other aspects of corporate citizenship, and monitors key indicators of performance in this field;
- defines levels of materiality, reserving specific powers to itself and delegating other matters with written authority to management; and
- establishes and sets the terms of reference for sub-committees of the Board.

Matters reserved for Board decision

The following matters are reserved for decision by the Board, on the basis of any recommendation as may be made from time to time by the executive committee or other committees:

- accounting policies: adoption of any significant change or departure;
- articles of association: amendments to, recommendation to shareholders;
- external auditors and head of internal audit: appointment, removal and replacement of;
- Board of directors:
  - appointment to and removal from;
  - appointments of chairman, deputy chairmen, executive directors and non-executive directors, and their terms of reference and powers;
  - approval of nominations of alternate directors;
  - frequency of Board meetings.

- borrowings: exercise of borrowing powers except those involving agreements with banking or other institutions operating in the Republic of South Africa in respect of banking facilities which are repayable, renewable or subject to review within a period of one year;
- budgets: the approval thereof on an annual basis;
- capital funding: terms and conditions of rights issues, capital issues or issues of convertible stock including shares or stock issued for acquisitions;
- circulars to shareholders: approval of and authority for posting;
- committees of directors: in particular executive, audit and risk, nominations, remuneration, and corporate citizenship committees – appointment of, terms of reference and changes in composition of;
- community investment: approval of annual budgets and special/ extraordinary single contributions in excess of R5 million;
- employee share incentive/option schemes: approval of schemes, rules and amendments to rules recommended by the remuneration committee;
- employment equity: formulation or approval of recommended policies;
- financial:
  - annual financial statements (including directors' responsibility statement): approval of;
  - interim reports: approval of;
  - unlisted investments: valuation of;
  - dividends: declaration of;
  - unclaimed dividends: forfeiture of.
- industrial relations: approval of recommended policies;
- investments, fixed assets and capital projects: commitments, acquisitions or disposals in excess of limits specified by the Board from time to time;
- litigation: prosecution, defence or settlement of, where material and except in the ordinary course of business;
- meetings: annual general and general: convening of;
- pension and provident funds: approval of rules and amendments thereto having a material effect on the actuarial liabilities of the funds, where applicable;
- prioritisation of resources: prioritising the allocation of capital and technical and human resources;
- prospectuses, rights offer and merger documents: approval of and authority for posting;
- public officer: appointment and removal of;
- secretary: appointment and removal of;
- share capital:
  - recommendation to shareholders of increase, reduction or alteration, including share warrants or options;
  - allotment, issue or other disposal of shares of the Company (except for shares allotted under the share incentive scheme);
- shareholder resolutions: recommendations to shareholders for approval of any ordinary or special resolutions;
- share register:
  - confirmation of grant of authority for the approval of rectification to;
  - establishment of branch or duplicate register in a foreign country;
- shares: variation of rights attaching to, where such power is vested in the directors;
- standards of conduct: approval of the Code of Ethics;
- stock exchange listings: decision to list the Company shares on the stock exchanges anywhere in the world, or to terminate any such listings; and
- strategy and policy: the approval of.

Board structure

In terms of the Company's articles of association, at least half of all directors must at all times be non-executive directors. Currently the Board is comprised of three executive and seven non-executive directors, six of whom are independent.

Board members are required, on an annual basis, to perform an "independence test" based on the guidelines provided in the Listings Requirements of the JSE.

The role and person of the non-executive chairman is separate from that of the chief executive. The Board meets at least quarterly and on other occasions when necessary. Directors are appointed or removed by the Board or by the Company's shareholders in general meeting, in each case in accordance with the articles of association. The appointment of new directors by the Board is subject to confirmation by shareholders in general meeting and all directors are subject to retirement by rotation and re-election by shareholders at least once every three years. A balance of skills, gender and demographic representation is taken into account in determining an effective composition of the Board. Board appointments are done in accordance with a formal appointment policy, which includes proper screening of candidates, formal interviews and the completion of a "fit and proper test" by successful candidates.

Composition of the Board

The Company adopts the philosophy that the Board needs to be large enough to accommodate the necessary skills, but still small enough to promote cohesion, flexibility and effective participation. Accordingly, the current Board of 10 directors includes three executive directors and seven non-executive directors.

Independent non-executive directors

1. F Titi (chairman)
2. RMW Dunne
3. Z Fuphe
4. MJ Leeming
5. LM Nyhonyha
6. AC Parker

Non-executive director

1. S Engelbrecht

Executive directors

1. GN Edwards (chief executive)
2. FPP Baker
3. KM Kathan (financial director and chief financial officer)

The Board has considered the classification of directors as independent non-executive, non-executive and executive. This classification is renewed on an annual basis or more frequently if necessary. The Company believes that directors should not only be independent according to the JSE Listings Requirements, but also in thought and action in both fact and perception by shareholders.

Skills and experience of the Board

The Board comprises persons with diverse experience including banking, chemical, accounting and business and is of the opinion that having directors with relevant business and industry experience is beneficial to the Board as whole, as directors with such backgrounds can provide a useful perspective on significant risk and competitive advantages and an understanding of the challenges facing the business. The Board monitors the mix of skills and experience of directors to assess whether the Board has the necessary tools to perform its oversight function effectively. The Board further reviews the skills, knowledge, gender and diversity at Board level going forward to ensure that it is appropriate and effective and takes into account succession plans for non-executive and executive directors.

The expectation of the Board is that, at a minimum, directors should possess the requisite knowledge and expertise to fulfill an appropriate role within the mix of capabilities the Board deems appropriate and to exercise diligence. This includes attending Board and committee meetings and coming prepared to provide thoughtful input at such meetings. Directors need to devote the proper amount of time and attention and develop the broad-based and specific knowledge required to fulfill their obligations in this regard.

Directors are expected to:

- prepare for and attend all Board and committee meetings, unless there are exceptional circumstances preventing them from doing so;
- actively participate in meetings;
- develop and maintain a high level of knowledge about the Company's business;
- keep current in the directors' own specific fields of expertise; and
- develop a broad understanding of their role and responsibilities as directors.

Other directorships

Directors are expected to ensure that they have sufficient time available to properly carry out their duties and responsibilities as directors of the Company. Non-executive directors, in particular, are required to carefully assess and guard against potential entanglements such as service on an excessive number of boards.

Selection and rotation of directors

The Company's articles of association require a minimum of six and maximum of 12 directors, the majority of whom should be independent. Between annual general meetings, the Board may appoint a director/s to fill casual vacancies or as an additional director by majority vote to serve until the next annual general meeting.

The nominations committee considers all Board appointments. In terms of the charter of this committee the responsibility of the committee includes reviewing the Board structure, size, composition and balance between executive and non-executive directors and making recommendations to the Board regarding adjustments that are deemed appropriate; identifying and recommending for Board approval executive and non-executive candidates for appointment to the Board; and ensuring that plans for succession are in place, particularly for the chairman and chief executive.

Terms of employment of directors

Executive directors are employees of the Company and have standard terms and conditions of employment and do not receive any special remuneration or other benefits for their additional duties as executive directors. None of the executive directors have extended employment contracts or special termination benefits, and there is no restraint of trade in place. The Board, on the recommendation of the remuneration committee, determines the remuneration of executive directors and other senior executive managers.

No non-executive director has an employment contract with the Company.

Board assessment and evaluation of directors

In terms of the Board charter, directors must be assessed individually as well as collectively as a Board. The collective assessment of the Board must evaluate the Board's contribution as a whole and, specifically, must review areas in which the functions of the Board could be improved.

The remuneration committee, in consultation with the chairman of the Board, evaluates the chief executive on regular basis. The evaluation is based on objective criteria, including business performance, achievement of long-term strategic objectives, development of management, and other such issues. The remuneration committee must provide an evaluation report for deliberation by the full Board.

The Board must evaluate the performance of the chairman of the Board on an annual basis.

In line with the above requirements, evaluation of the performance of the chairman, as well as the chief executive, the financial director, the Company secretary, the Board as a whole and all of the Board's sub-committees was completed in November 2008 and feedback from the process was discussed at the February 2009 Board meeting.

In addition, every second or third year, as required, an independent third party undertakes a performance review of the Board in terms of the following:

- the quality and overall effectiveness of Board meetings;
- the information available to Board members to support decision making;
- the Board's role in the formulation of and commitment to business strategy;
- the Board's evaluation of the chief executive and the planning for succession;
- evaluation of the Board's structure in terms of its executive and non-executive components; and
- the suitability of the Board's composition and sub-committees.

The Board met four times in 2008. Attendance at meetings was as follows:

	25 February	26 May	28 July	1 December
FPP Baker	✓	✓	✓	✓
RMW Dunne	✓	✓	✓	✓
GN Edwards	✓	✓	✓	✓
S Engelbrecht	✓	✓	✓	✓
Z Fuphe	✓	*	✓	✓
KM Kathan				✓**
MJ Leeming	✓	✓	✓	✓
LM Nyhonyha	✓	*	✓	✓
AC Parker	✓	✓	✓	✓
F Titi	✓	✓	✓	✓
LC van Vught	✓	✓	✓	✓***
RA Williams	✓	✓	✓	****

✓ Indicates attendance.
* Indicates absence with apology.
** Appointed 1 September.
*** Retired 31 December.
**** Resigned 31 August.

Board relationship to staff and external advisors

To the extent that they may require such access to make informed decisions, Board members have unrestricted access to the Company's records, information, documents and property. In addition, Board members have unrestricted access to consult senior management on any aspect of the Company's operations. Finally, Board members may collectively or individually, at the expense of the Company, consult external professional advisors on any matter of concern to the Company after having advised the chief executive or chairman.

Induction and training

For the Board to function effectively, the resources necessary for developing and refreshing the knowledge and skills of non-executive directors must be provided. To this end, all non-executive directors have an open invitation to visit the operations of the Company and to meet with management. The objective is to ensure that non-executive directors are able to obtain as full a picture of the Company's operations as possible, in order to make informed decisions and hence enhance the effectiveness of the Board.

Although the Company does not have a formal procedure for the induction and training of directors to ensure that they are aware of their statutory duties, obligations and potential liabilities, the Company secretary has compiled directors' manuals, which are updated on a regular basis and which contain the following documents and information:

- letter from the Company secretary: an introductory letter from the Company secretary including the dates of meetings for the year in question;
- Board composition: the names, addresses and contact details of directors and their assistants, if applicable;
- Board procedures: copies of the Board charter; audit and risk committee terms of reference; nominations committee terms of reference; remuneration committee terms of reference; executive committee terms of reference; corporate citizenship committee terms of reference; performance appraisal procedures in terms of King II;
- Board policies: trading in securities policy; appointment to the Board policy; information disclosure and communications policy; conflict of interest policy; non-audit services policy; Code of Ethics;
- directors' duties and responsibilities;
- insurance;
- forms: directors' declaration of interests, directors' letter to associates, directors' letter to investment managers, Schedule 18, Schedule 21; and
- general: Company's articles of association.

The Company secretary further provides directors with an update at each Board meeting, covering the following:

- JSE Listings Requirements: a detailed explanation of compliance requirements for the Company and its directors for the next quarter as well as any updates on the Listings Requirements. At the end of each year, an external audit report pertaining to the Company's compliance with the Listing Requirements would also be included;
- statutory legal update: articles on new legal developments, Bills, Acts and effective dates, Government Gazettes;
- Board governance: articles on developments in this area;
- media: all pertinent media articles since the last Board meeting; and
- Securities Exchange News Service (SENS) announcements: all SENS announcements by the Company since the last Board meeting.

Information requirements of directors and Board processes

It is regarded as critical that directors have sufficient information to enable them to make informed decisions and, therefore, the Board continually reviews the information requirements of directors to enable them to fulfill their duties and responsibilities effectively. Most of the information is received from management but also from:

- financial and other reports;
- Board and committee meetings;
- direct communication with management;
- operational visits and presentations to analysts, fund managers and the media;
- new developments; and
- access to senior management other than the chief executive.

Directors are informed timeously of matters that will be discussed at Board meetings and are provided with information relating thereto about a week prior to scheduled meetings.

Delegation of authorities

The Board has approved the delegation of authorities to the Board sub-committees and to the executive committee, where appropriate.

Board meetings

At a minimum, Board meetings are held every quarter. A special meeting is also held in May each year to discuss strategic issues. Overall attendance at Board meetings in 2008 is reflected in the table on page 33.

The annual general meeting was held in May 2008 and was well attended by directors, including the chairman of the Board and the chairman of the audit and risk committee.

Board meetings are structured to encourage participation and dialogue and to ensure effective decision making. Submissions relevant to the agendas of Board and committee meetings are sent to directors and members of the committees about a week in advance of meetings. All submissions and matters discussed at meetings are strictly confidential.

Attendance at meetings

Directors have an obligation to ensure near perfect attendance at, and to actively participate in, meetings of the Board and Board committees on which they serve, and to spend the time required and meet as frequently as necessary to discharge their duties and responsibilities with due care. They are also expected to attend the annual general meeting of shareholders.

Annual strategy review

The annual strategy session is usually held in May of each year and is designed to facilitate the review of the Company's medium- and long-term strategic plans and priorities.

Company secretary

The Board is responsible for the selection and appointment of the Company secretary who must be a suitably qualified person as contemplated in Section 268 of the Companies Act of South Africa, No. 61 of 1973; ("the Act").

The Company secretary is responsible for the duties set out in Section 268g of the Act and for ensuring compliance with the JSE Listings Requirements.

Directors have access to the services and advice of the Company secretary.

The certificate required to be signed in terms of subsection (d) of the Act appears on page 95 of this report.

Board committees

In accordance with the recommendations of King II, the Board has established five sub-committees to assist in the execution of its responsibilities. Each of these sub-committees has written charters under which authority is delegated to each committee by the Board. The composition and responsibility of each sub-committee is summarised below.

Audit and risk committee

The audit and risk committee is comprised of three independent non-executive directors. The committee meets four times per year. Meetings are attended by the Company secretary as secretary to the committee and by the external auditors, the head of internal audit, the chief executive and the chief financial officer. Current members of the committee are:

- MJ Leeming (chairman)
- RMW Dunne
- LM Nyhonyha

The committee has written terms of reference and its responsibilities include, among others:

- considering and nominating to the Board, the appointment and/or termination of the external auditors, including their independence and objectivity;
- determining the audit fee of the external auditors;
- considering and setting mandatory term limits on the period the lead audit partner of the external auditors may serve the Company;
- considering and determining the use of the external auditors for non-audit related services;
- determining with the external auditors the nature and scope of the audit;
- evaluating the effectiveness of the external audit;
- confirming internal audit's charter and audit plan;

- evaluating the effectiveness of internal audit;
- considering the appropriateness of the expertise and experience of the chief financial officer;
- reviewing and assessing the Company's risk identification, measurement and control systems and their implementation;
- reviewing and approving the accounting policies and practices and any proposed changes thereto;
- assisting the directors in fulfilling their responsibilities that published financial reports are objective, complete and accurate and that the financial statements comply with International Financial Reporting Standards and securities exchange requirements; and
- receiving and dealing with complaints related to accounting matters.

Individual committee members chair the quarterly financial review meetings at the Company's operating businesses.

The committee also meets with the internal and external auditors, outside of meetings, as frequently as is required.

The external and internal auditors report to the committee at each meeting on the results of their work.

The committee met four times in the year. Attendance at meetings was as follows:

	22 February	24 July	1 October	27 November
RMW Dunne	✓	✓	✓	✓
MJ Leeming	✓	✓	✓	✓
LM Nyhonyha	✓	✓	✓	✓

✓ Indicates attendance.

Nominations committee

The Board established a nominations committee in 2002. The committee is comprised of at least three non-executive directors. Meetings of the committee are held at least annually and additional meetings are held when deemed necessary. The general manager, Group human resources and SHE, attends all meetings of the committee as secretary and the chief executive by invitation. Current members of the committee are:

- RMW Dunne (appointed chairman 1 January 2009)
- S Engelbrecht (appointed 1 January 2009)
- AC Parker
- F Titi

The responsibility of the committee includes reviewing the Board structure, size, composition and balance between executive and non-executive directors and making recommendations to the Board regarding adjustments that are deemed appropriate; identifying and recommending for Board approval executive and non-executive candidates for appointment to the Board; and ensuring that plans for succession are in place, particularly for the chairman and chief executive.

The committee met three times in the year. Attendance at meetings was as follows:

	25 February	28 July	1 December
RMW Dunne	✓	✓	✓
AC Parker	✓	✓	✓
F Titi	✓	✓	✓
LC van Vught	✓	✓	✓*

✓ Indicates attendance.

* Retired 31 December.

Remuneration committee

The Board established a remuneration committee some years ago. The committee is comprised of at least three non-executive directors. Meetings of the committee are held at least twice a year and additional meetings are held when deemed necessary. The general manager, Group human resources and SHE, attends all meetings of the committee as secretary and the chief executive by invitation when necessary to discuss the remuneration of executive directors and senior management. No attendee may participate in any discussion or decision regarding his or her own remuneration. Current members of the committee are:

- RMW Dunne
  (appointed chairman 1 January 2009)
- S Engelbrecht
  (appointed 1 January 2009)
- AC Parker
- F Titi

The responsibilities of the committee include reviewing and amending, if appropriate, the Company's remuneration philosophy and policy with particular reference to the remuneration of executive directors and senior management; ensuring that executive directors and senior management are fairly rewarded for their individual contributions to the Company's overall performance, having regard to the interests of shareholders and the financial condition of the Group; approving remuneration packages designed to attract, retain and motivate high-performing executive directors and senior management; establishing appropriate criteria to measure the performance of executive directors and senior management; and approving specific remuneration packages for individual executive directors and members of senior management.

The committee met three in the year. Attendance at meetings was as follows:

	25 February	28 July	1 December
RMW Dunne	✓	✓	✓
AC Parker	✓	✓	✓
F Titi	✓	✓	✓
LC van Vught	✓	✓	✓*

✓ Indicates attendance.

* Retired 31 December.

Corporate citizenship committee

The Board established a corporate citizenship committee in 2003. The committee is comprised of at least three non-executive directors. Meetings of the committee are held at least twice a year. The Company secretary attends all meetings of the committee as secretary. The responsibilities of the committee include the review and assessment of progress by the Group in areas such as economic empowerment, employment equity, social responsibility investment, education, training, safety, occupational health and environmental practice. Current members of the committee are:

- LM Nyhonyha (chairman)
- GN Edwards
- Z Fuphe
- MJ Leeming
- JJ Pienaar

The committee met three times in the year. Attendance at meetings was as follows:

	7 May	25 August	12 November
GN Edwards	✓*	✓	✓
Z Fuphe	**	✓	✓
MJ Leeming	✓	✓	✓
LM Nyhonyha	✓	✓	✓
JJ Pienaar	✓*	✓	✓
LC van Vught	***		

✓ Indicates attendance.

* Appointed 6 May.

** Appointed 8 May.

*** Resigned 6 May.

Executive committee

The Board established an executive committee many years ago. The committee is constituted to assist the chief executive in managing the Company. Subject to matters reserved for decision by the Board, the chief executive's authority in managing the Company is unrestricted. The responsibilities of the chief executive include implementation of the strategies and policies of the Company; managing its businesses and affairs; prioritising the allocation of capital and technical and human resources; establishing best management practices and standards; senior management appointments and the assessment of senior management performance; and making recommendations to the Board on matters which are reserved for decision by the Board, including the fees payable to non-executive directors.

The executive committee consists of all the executive directors who hold office from time to time together with such senior managers as the Board may appoint from time to time. The committee meets once a month. Details of the executive committee members are given on pages 18 and 19 of this report.

Accountability and internal control

The directors are required by the Companies Act of South Africa to prepare annual financial statements which fairly present the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss for that period, in conformity with International Financial Reporting Standards (IFRS). The Company's external auditors are responsible for examining and reporting to shareholders their opinion on the annual financial statements of the Company and its subsidiaries and for performing an audit in accordance with generally accepted accounting and auditing standards in order to determine whether the financial statements are in accordance with the Companies Act, IFRS and the JSE Listings Requirements.

Following discussions with the external auditors, the directors consider that, in preparing the financial statements, the Company has consistently used appropriate accounting policies supported by reasonable and prudent judgement and estimates. All applicable international accounting standards have been followed. The directors have formally reviewed the budgets and forecasts of the businesses and have concluded that the Group will continue in business for the foreseeable future and, accordingly, the going concern basis of accounting remains appropriate.

The directors are also responsible for maintaining adequate accounting records and they have general responsibility for ensuring that an effective risk management process is in place to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

To enable the directors to meet these responsibilities, management sets standards and implements systems of risk management and internal control aimed at reducing the risk of error or loss in a cost-effective manner. The Company's internal audit function independently appraises the Group companies' internal controls and reports directly to the audit and risk committee. In addition, the management of each operating business and corporate function submits an annual Letter of Assurance to the audit and risk committee of the Company affirming that the internal controls in entities for which they have responsibility are adequate for their operations.

The directors are of the opinion, based on the information and explanations given by management, the internal auditors and the external auditors, that during the year there were no material breakdowns of internal controls and that these controls are adequate so that the financial records may be relied on for preparing the financial statements and maintaining accountability for assets and liabilities. The directors believe that assets are protected and used as intended with appropriate authorisation.

The auditors concur with the above statements by the directors.

Risk management

The Board recognises risk management as a key business tool to assess the balance between risk and reward in current and new businesses. Risk management also aims to protect the Group against hazards and uncertainties which might prevent the achievement of business goals.

The Board is responsible for the risk management process and is assisted in its responsibilities by the audit and risk committee. The day-to-day responsibility for risk management, and the design and implementation of appropriate processes to manage risk, resides with management.

The risk management process is designed to ensure that:

- all relevant risks are identified and evaluated, based on their potential impact and their likelihood of occurrence;
- risks and the required processes and controls to manage these risks are assessed in line with the Board's risk appetite; and
- appropriate management information and monitoring processes are in place to manage the exposure to each of the key risks so that, where required, necessary corrective action can be taken.

During the year, each operating unit updated its business risk profile and identified key risks and the controls required to mitigate those risks. A similar process was then carried out to identify those risks and related controls which are important for the Group as a whole. The Group risk assessment was debated and approved by the Board and forms the focus of the internal audit programme for the next financial year. The key risks and their status are reported to the audit and risk committee four times a year.

Key risk profile

The main operational risks currently facing the Group are:

- impacts of the global recessionary crisis. Like other companies in South Africa and internationally, AECI will be impacted by the current economic crisis. The following areas are of concern to management:
  - liquidity through the crisis;
  - decline of customers' markets, resulting in decreased sales for the Group;
  - credit risk in respect of customers, especially those based outside of South Africa; and
  - key suppliers' business continuity through the crisis, especially suppliers contracted for the major capital programme.
- completion of all growth capital projects currently in progress. The Board has approved R1,7 billion for growth projects for AEL and Chemical Services Limited. To date, the Group has spent R854 million and is projected to spend a further R884 million during 2009 and 2010. It is imperative that these projects be completed timeously and within approved budget; and
- safety, health and environmental (SHE) considerations. These are risks which are inherent in AECI's businesses. The well-being of employees and contractors, customers and the community at large is of paramount importance. Further, it is essential that AECI protects the environment in which it operates so as to continue being an acceptable corporate citizen in the territories in which it has a presence.

Management of key risks

The Group's executive committee regularly reviews the business environment. Management is focusing on:

- tightly controlled cash management;
- working capital management; and
- cost reductions.

During 2008, the Group restructured its debt to a longer-term arrangement with various financial institutions.

To manage capital projects, steering committees have been established, project management expertise has been employed, and much of the work has been outsourced to reputable project houses. Reporting to AECI's executive committee takes place monthly, and on a quarterly basis to the Board.

In managing SHE risks, the Group is guided by a formal SHE policy, supported by a set of standards. Regular training and reporting are in place. More detail is given in the corporate citizenship chapter of this annual report.

Ethics

Code of Ethics

AECI and all its businesses are committed to a policy of fair dealing and integrity in the conduct of their businesses. In support of the above, the Company has adopted a formal Code of Ethics with which all directors and employees are required to comply. The Code requires all employees to act with honesty and integrity and to maintain the highest ethical standards. First issued in 1997, the document was updated in 2006 and printed copies were distributed to all employees. New employees also receive copies and, to maximise the updated Code's accessibility, it has been made available on AECI's intranet and on the intranets of operating companies, where available. The Code can only be amended by the Board which reviews the Code periodically to ensure that it remains current and relevant to AECI's businesses.

The Code addresses the following:

- compliance with laws and regulations;
- conflict of interest – outside activities, employment and directorships; relationships with clients, customers and suppliers;
- business practices – gifts, hospitality and favours; remuneration; anti-competitive behaviour;
- Group funds and property;
- accounting standards;
- competition law matters; and
- security of information - obtaining and safeguarding information; access to information; insider trading.

Whistle blowing programme

As part of the Code's revision process, a service known as the EthicsLine was put in place. It is aimed at enabling employees, customers, suppliers and managers or other stakeholders, on a confidential basis, to raise concern in cases where conduct is deemed to be contrary to ethical behaviour and the Code of Ethics. It is administered by the accounting firm, Deloitte & Touche. Therefore, the service is totally independent of AECI and the anonymity of individuals reporting fraud or dishonest and inappropriate behaviour is protected. Legitimate issues and concerns reported are forwarded for appropriate action to the Group legal advisor, the financial director and the head of internal audit.

Conflict of interest

The Company has adopted a formal Conflict of Interest policy and all employees with the ability to bind the Company (contractually or otherwise) are required to complete and submit a Conflict of Interest declaration.

Fraud and illegal acts

The Group does not engage in or accept or condone engaging in any illegal acts in the conduct of its business. The Group's policy is to actively pursue and encourage prosecution of perpetrators of fraudulent or other illegal activities should it become aware of any such acts. A zero tolerance approach has been adopted.

Formal training for all employees on the Company's Code of Ethics, the EthicsLine as well as other applicable policies commenced during 2008.

Dealing in securities

In accordance with the JSE's guidelines, the Company has adopted a "closed period" policy. During this time, directors and designated employees are prohibited from dealing in the Company's securities, either directly or indirectly, on the basis of unpublished price sensitive information about the business of the Group. Identified employees are advised to that effect. The closed period endures from the end of a financial reporting period until the publication of financial results for that period. Additional closed periods may be declared from time to time if circumstances so warrant.

Dealings in securities by directors and officers of the Company require prior approval by the chairman or chief executive, depending on the person dealing in the securities. Any share dealings by directors and officers of the Company are notified to the JSE for publication via SENS.

The Company also has an information disclosure and communications policy designed to:

- record AECI's procedure with regard to communicating with the media, investment community, securities professionals and other audiences to avoid selective disclosure of material information; and
- govern the disclosure of price sensitive information to the public in a broad, comprehensive and lawful manner.

This policy has been brought to the attention of all AECI employees and must be adhered to by them.

Director and officer liability insurance

The Company has in place directors' and officers' liability insurance which provides some cover against legal action by third parties.

Investor relations and shareholder communication

The Company's chief executive, the chief financial officer and the managing directors of Group operating companies conduct regular presentations on the Group's performance and strategy to analysts, institutional investors and the media in South Africa.

To ensure that the Company communicates with its smaller shareholders and those stakeholders without access to the electronic media, the Company publishes and reports on details of its corporate actions and performance, including its half- and full-year financial results, in one English and one Afrikaans daily national newspaper.

The Group's communications function also maintains regular contact with the media by disseminating relevant information. The Company maintains a website through which information is available on, *inter alia*, the Company's latest financial and operational performance, its management and its history.

The website address is www.aeci.co.za

Case study No. 4

Market conversion programme

AEL's Narrow Reef mining business has spearheaded the market conversion programme from traditional capped fuse igniter cord initiating systems to modern shocktube systems. Liesel de Villiers (second from left) is the director in charge and says:

"My team and I redoubled our efforts and engaged extensively with our customers in 2008. We've made pleasing progress in what is the world's largest market conversion in commercial explosives in recent times.

"It is most satisfying that, from September 2008, AEL's monthly sales of shocktube have exceeded those of the traditional capped fuse product. By definition it means that, with our support, more than half of our narrow reef customers are enjoying the benefits of a safer, more efficient and higher quality product.

"We'll sustain our market conversion efforts in 2009 and 2010 and we will continue to add value to customers' operations with the products, expertise, training and on-site know-how we offer."

Liesel's team includes (from left): Franky Botha, Liesel de Villiers, Sean O'Brien, Hendrik Jansen van Rensburg, Hennie du Toit.

Review of operations: mining solutions

AEL is AECI's mining solutions arm and provides fragmentation products and services to customers in the mining, quarrying and construction sectors. In terms of size and technological capability, AEL is a leading player in the global explosives market and comprises 17 businesses, in four main business groups.

The businesses are as follows:

- AEL South Africa Narrow Reef: Gold, Platinum, Customer Operations, Industrial Explosives;
- AEL South Africa Surface and Massive: Coal, Quarry Services, Opencast, Industrial Nitrates;
- AEL Africa: Botswana, Central Africa, East Africa, West Africa, Zimbabwe, Africa Development;
- AEL International: South East Asia, Global Channel, DetNet.

Each business has a specific market focus and delivers consistently high levels of fragmentation solutions from a common business platform comprising Global Business Services, Central Operations, Research and Development, and Financial and Information Services.

Global Business Services concentrates on the service needs of all 17 AEL businesses; Central Operations includes the nitrates and initiating systems complexes at Modderfontein; and Research and Development is tasked with providing ongoing innovation in AEL's three key customer commitments of productivity, safety and security of supply.

AEL's strategy is to:

- grow internationally through partnerships with leading regional players, by building AEL's operations in South East Asia and by growing DetNet's electronic detonator range;
- grow the African business through improved asset productivity and footprint expansion;
- enhance the value of the South African businesses through improved safety, productivity and security of supply to customers; and
- continually improve the business platform's innovation and service levels.

Business environment

The global mining boom drove explosives volumes and shortages internationally, straining operations and dictating cost recoveries in the market. Ammonia shortages and increased input costs resulted in global ammonium nitrate prices reaching unprecedented levels. Inflationary pressures increased as commodity prices, fuel and financing costs escalated. The rand's weakness contributed to local inflation and to raw material price increases in rand terms, but enhanced rand metal prices and foreign earnings.

Power shortages in South Africa and new safety regulations impacted particularly on underground gold and platinum volumes, where advantage could not be gained from high metal prices. Greater infrastructural spend in the road and construction sectors buoyed quarrying activity in all countries where AEL operates.

Financial performance

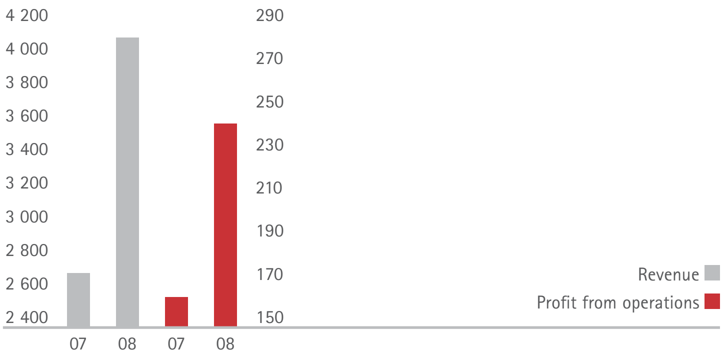
AEL recorded a significant improvement in performance owing to sound growth in its African and South African Surface and Massive businesses. The rand's weakness against major currencies boosted foreign earnings and the International business made significant progress in establishing its Indonesian hub and in securing coal contracts. Capital projects progressed satisfactorily.

Good growth in operating profit did not translate into a significant improvement in trading margin, with high ammonia costs having a diluting effect. Gold and platinum mining in South Africa's narrow reef sectors continued to be constrained by power shortages and safety-related issues with volumes declining again, notwithstanding an improved second half-year.

The DetNet joint venture delivered a strong performance in the year.

Operating profit increased by 52 per cent to R248 million owing to volume growth in specific mining sectors, coupled with the positive effect of a weaker rand on US$-based earnings. Sales rose 51 per cent on the previous year to R4,1 billion in markets where volumes were slow at first, ammonia input costs soared and the rand had a marked influence.

Sales growth was underpinned by higher mining and quarrying activity in African and South African Surface and Massive operations where volumes in coal, surface platinum, copper and quarrying were pleasing. Performance was tempered by continued volume pressure in the narrow reef sectors where, notwithstanding a stronger finish and market share stability, volumes declined year-on-year.



Financial performance (Rm)

AEL's executive committee

1 Liesel de Villiers (44)
Liesel is AEL's business director responsible for the Narrow Reef mining sector. She joined the company in 1987 as an engineer-in-training and gained experience in the areas of engineering, information technology, supply chain and strategic planning before joining the marketing function and taking up the position of business director in 2005. Liesel also has a BCom degree in economics.

2 Wayne Du Chenne (44)
Wayne is director: business services, tasked with establishing and deploying a world class service portfolio across a range of AEL activities. Wayne joined AEL in 1993 as a technical representative and was appointed an explosives engineer in 1995. He played a key role in developing the value added blasting concept and served as project manager in this area. In 2003, he was appointed managing director: Central Africa, responsible for AEL's businesses in Zambia and the DRC. He took up his current position in 2008. He has completed an MBA degree.

3 Rafael Fernandes (37)
Rafael was appointed AEL's financial controller in 2007 and financial director in 2008. A registered chartered accountant, he joined the company in 1996 as financial manager of a wholly-owned subsidiary. He moved to AEL's head office as finance manager and, thereafter, became business accountant. He left in 2001, returning to AEL two years later and continued to provide financial and management support to sales and marketing business units.

4 Cyril Gamede (45)
Cyril joined AEL in 2002 as operations director. He has an MSc (Eng) degree, an MBA and a qualification in labour law. Cyril's background and experience are in engineering, projects, operations and industrial relations. He has also worked in the FMCG and infrastructure industries.

5 Piet Halliday (56)
Piet joined the company in 1980 after completing a PhD degree in the synthesis of high energy sensitisers for explosives. As director: research and technology, he has overall responsibility for the technical aspects of AEL's products worldwide.

6 Tobie Louw (46)
Managing director and a member of AECI's executive committee.
See page 19.

7 Stuart Wade (51)
Stuart was appointed AEL's business director: Africa in 2000 and joined the company's executive committee in 2008. He started his career in the mining industry and moved to AEL in 1984. He worked in several senior positions, including managing an independent subsidiary, before taking on his current role. As the executive responsible for the Africa business, Stuart has a portfolio of chairmanships and is tasked with directing further strategic growth initiatives in Africa.

8 Colin Wilson (46)
Colin is AEL's business director: Surface and Massive. He joined the company in 1983 as an engineer-in-training and subsequently gained additional experience in explosives manufacture, research, surface and underground mining operations and business management. Colin was appointed to his current position, with responsibility for AEL's South African surface mining business, in 2007.

DetNet

9 Gys Landman (47)
He was appointed chief executive officer of DetNet in 2007. His qualifications include a PhD (Eng) and degrees in business management and economics. Prior to joining AEL in 1984, Gys lectured at the University of the Witwatersrand, and had gained extensive experience in production management in the mining industry.

Review of operations: mining solutions (continued)

AEL's operating margins benefited from growth but were adversely affected by the ammonia price, the price of imported ammonium nitrate and growth-related higher fixed costs. At 6 per cent, the margin remained in line with the previous year. The efficiencies gained from the capital programme are expected to contribute to margin improvement going forward.

Manufacturing costs rose ahead of inflation, in line with volumes and the cost of running two manufacturing bases during the shocktube market conversion.

Net capital expenditure totalled R389 million, similar to 2007's level. Average working capital as a ratio of sales increased from 14,5 per cent in 2007 to 16,2 per cent, reflecting higher ammonium nitrate stock levels carried in anticipation of continued healthy sales growth. The increased value of ammonia-related stock also impacted on the working capital ratio.

Review of operations

2008 was both rewarding and challenging. Increased levels of market activity locally and abroad, an active investment portfolio (most notably in shocktube), and the execution of the largest ever explosives market conversion in recent times stretched resources. The impact and management of the highest ammonia price spike in 10 years also required careful consideration.

South Africa

AEL's South African activities delivered mixed results. The Surface and Massive business grew whilst the Narrow Reef business struggled to recover from the declining market and market share losses of 2007.

Surface and Massive

Surface and Massive's good volume growth was evident across all sectors with high demand from coal, quarrying, opencast platinum and diamonds. The supply of ammonium nitrate-related bulk products came under pressure as all sectors experienced volume peaks in the third quarter. Imported ammonium nitrate was needed to meet this demand, despite AEL's own ammonium nitrate complex operating at high efficiencies.

New environmentally-beneficial product innovations were introduced and brought productivity gains for customers, as recycled oils were incorporated into products.

Underground Narrow Reef

AEL's Narrow Reef business essentially stabilised its market share, after the losses of 2007. Total market volumes for narrow reef gold and platinum declined, however, putting increased pressure on the business. Cost containment drives and focused customer service neutralised some of the negative volume effects.

Narrow Reef's project to convert underground customers from capped fuse igniter cord initiating systems to the safer shocktube system is the world's biggest explosives market conversion programme in recent times. Ongoing success in challenging conditions, across a broad spectrum of customers, is proof of AEL's ability to develop and bring new technology advantages to the market and of its skills in effecting the change professionally, in strong partnership with customers.

The Initiating Systems Automated Plant (ISAP) project is AEL's R620 million investment in a modern, high volume, high quality shocktube plant considered to be the "factory of the future".

Early in 2008, new technology and components from ISAP were incorporated into AEL's highest volume narrow reef initiation product, the Reefmaster*. These improvements were introduced as part of the market conversion programme, with pleasing results. It is expected that all capacity for Reefmaster* will be installed in 2009. In 2008, the market conversion programme progressed well and, from September, monthly sales of Reefmaster* have exceeded those of capped fuse.

Africa

As expected, the company's Africa business experienced strong volume growth in the copper and cobalt sectors in Central Africa. East and West African volume growth was driven primarily by increased gold production. Escalation in mining activity in Africa again vindicated AEL's decision to invest in selected, expected growth nodes and to develop a competency to bring world class explosives services to customers in remote locations.

AEL Zambia plc commissioned its new cartridged explosives plant at Mufulira and the Lumwana mine began receiving explosives from its on-site AEL bulk plant. In the Democratic Republic of Congo, AEL's operations are servicing copper and cobalt customers throughout the Katanga Province. Increased demand in Ghana was met with the commissioning of a new bulk plant at Tarkwa, and another plant was shipped to supply a new contract in Egypt.

The Africa business developed new sourcing and logistics channels to ensure security of supply in short markets and to contain escalating logistics costs and complexity. Further footprint expansion is being planned for 2009, with the focus on improved efficiencies in existing African operations.

International

AEL's International activities (outside the African continent) made significant progress in both the South East Asian and Global Channel businesses.

In South East Asia AEL expanded its Indonesian operations and secured new coal contracts, resulting in further investments in on-site bulk plants and mobile manufacturing units. Logistics and product sourcing were developed further to service the region as new contracts are pursued.

AEL's Global Channel business utilises the company's excellent technology and product position in initiating and bulk explosives systems to enter into mutually beneficial channel partnerships with leading regional explosives players internationally. This has led to an increased global focus and organisational restructuring for the effective execution of this strategy. New partnerships were established in 2008 and investments in the new ISAP shocktube plant, the electronic detonator capability in DetNet, and the broader range of explosives technologies are all key enablers of the growth strategy.

Sustaining the trend set in 2007, DetNet delivered significant growth in operating profit, with increased volumes and further improvements made to established and new offerings in its product range.

Further product development in 2008 enhanced the DetNet-based electronics range's position as a world leader. AEL benefited significantly from the marketing of DetNet's products, bringing improved blasting and tunnelling solutions to customers in specific applications throughout Africa. Most noteworthy was the use of electronic detonators in civil works for the Gautrain, Gauteng's rapid rail link that will be operational in 2010.

DetNet's product performance and hi-tech advantages generated additional brand strength for AEL abroad, where the electronics range is offered as part of AEL's full service package.

Sales to third parties in Australia, Europe and South America were sound. In 2009, the focus will remain on sales growth and customer service, product improvements, capacity enhancement and further support of the internationalisation strategy.

Review of operations: mining solutions (continued)

Projects, products and technology

AEL's major capital projects programme made satisfactory progress in 2008 and contributed to the company's strategic growth goals of increased product and service competitiveness, and selective international growth.

Capital expenditure of R40 million was invested in AEL's ammonium nitrate complexes at Modderfontein. The nitrates projects comprised safety-related statutory components and additional environmentally- and efficiency-focused initiatives relating to ammonia recoveries. A project for capacity expansion was progressed and, by year-end, was in the scoping stage.

At the initiating systems complex, there was a further R133 million investment in ISAP, bringing total spend to R408 million of an estimated R620 million. Phase 1 of the project, Bernice, aimed at producing 40 million new-age delay detonators per year. It is complete and is delivering to expectation.

The second phase, Charlize, is aimed at doubling Bernice's capacity and delivering the auto-assembly of Reefmaster* products. Good progress was made, with a number of high speed assembly machines dry commissioned. This phase of the project is slightly behind schedule mainly because certain technology developments took longer than expected. Since the ISAP project includes several such breakthrough developments that will deliver the targeted quality, volume and unit cost edge, longer development periods than originally anticipated are sometimes required. Several new technologies have been patented and will provide AEL with competitive advantages into the future, not only in South African and African markets but also in markets elsewhere being targeted by AEL.

Although the mechanical completion of ISAP is expected in 2010, auto-assembled Reefmaster* products will to be produced on the first assembly lines in the second quarter of 2009. During this same period, the robotic arm assembly cell for surface products will be commissioned on trial units.

Capital invested in remote operations in the South African, African and the International businesses focused on servicing existing and new contracted customers. Investments in Central and West Africa enabled AEL to continue building a leading African mining explosives position, with competitive regional service capabilities where growth potential is greatest. In Indonesia, investments in on-site plant increased as new coal contracts were secured. It is expected that expenditure in this region will continue in coming years, as will investments in international channel partnerships.

Economic empowerment

AECI and a consortium led by the Tiso Group have partnered in AEL since 2004. AEL is level 5 compliant in terms of BEE scoring and is targeting level 4 by enhancing its rating in the preferential procurement and employment equity arenas.

Safety, health and environment

As always, issues relating to safety, health and the environment received attention at all AEL operations and at customer sites.

Additional environmental accreditations were attained across the businesses.

New safety regulations increased pressure on South Africa's underground mining sectors. AEL reviewed how it can best contribute to its customers' efforts in achieving their objectives in this regard.

Outlook

The global economic crisis that followed the global mining boom brought a sudden change to 2008's volume trends. Customers in sectors such as copper, platinum and diamonds responded quickly to both the slowdown in global demand and to the drop in commodity prices. Quarrying volumes also eased while the mining and quarrying sector paused to evaluate expected short- and long-term demand. Gold and coal volume trends were steady.

The duration and extent of the global economic crisis and the commodities slump remain unclear. Overall, a decline is anticipated in explosives volumes, notwithstanding the start-up of some large new African and international contracts.

AEL has responded rapidly at customer sites where operations have been reduced. Nonetheless, the company will continue its growth and investment programmes and will continue to review these regularly. The programmes are concentrated on carefully selected sectors locally and abroad.

Operational efficiency initiatives will be sustained and cash flow should improve in 2009 as the benefits of investments and reductions in ammonium nitrate stock levels are realised.

* Trademark

Review of operations: specialty chemicals

Chemical Services Limited (Chemserve) is the specialty chemicals arm of AECI and manages a portfolio of 21 businesses, each focused on specific markets with common values of innovative customer service and bottom line delivery. Historically, the Chemserve group has grown by acquisition and by organic growth. It is currently undertaking a major capital investment programme.

Each Chemserve business aspires to be the supplier of choice for customers in its markets, supported by the best technology available, a carefully designed service package, and with the lowest possible cost base. Technology is sourced from international partners and is also developed in-house. Full service package business models provide customers with innovative solutions to their chemistry-driven requirements and differentiate Chemserve from competitors in terms of skills and competencies.

Chemserve's strategy is to:

- expand its mining chemicals product and service offering in South Africa, the rest of Africa, and in other geographical areas where the full service model is valued and the mining profile fits the company's capabilities;
- grow its joint venture business in Brazil, based on oleochemical expertise it shares with its partner, and move into other sectors where the partnership has appropriate expertise;
- grow and manage its South African portfolio; and
- expand businesses in its portfolio into Africa, and into other territories where suitable markets exist.

Business environment

The 2008 environment was distinctly altered by the mid-year global financial crisis. The first six months were driven by rapidly rising oil, commodity and specialty chemicals prices, and the fallout from South Africa's electricity crisis. Several product shortages resulted, concerns developed over the very high prices reached by some products and problems were experienced with shipping availability on some routes. The South African rand and the Brazilian real were strong and affected product pricing, exports, margins and transport costs. The decline in South African consumer spending was offset by global demand.

In the latter part of the year prices of many commodities declined substantially, with oil sliding to less than a third of its highs in five months. Prices of some other products dropped even faster. Rand product prices in some instances remained high, bolstered by the weakening currency. The Brazilian real also declined against major currencies.

Performance

The excellent performance reported by Chemserve in the first half was sustained for the full year, despite the economic slowdown. Revenue increased by 50 per cent to R8,4 billion and trading profit was up 49 per cent to R851 million. Operating margins, at 10,1 per cent, remained at 2007's levels and volumes were 3,8 per cent higher. Organic growth accounted for most of this increase, aided in the second half by contributions from the Chemfit, Dustaway, Tenside Trading and Bergen Trading acquisitions.

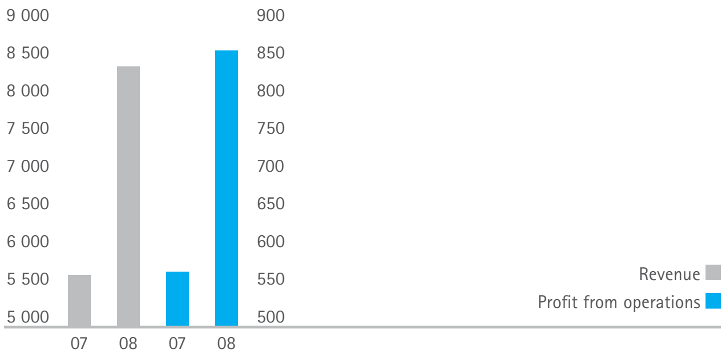
Chemserve benefited from 2008's growth in mining, infrastructure construction and certain consumer-driven sectors but was adversely affected by the drop-off in automotive manufacture, and the white goods and furniture markets. Volumes remained static except in mining, agriculture and infrastructure construction.

2008 saw a change for the group from the consumer-driven boom of prior years to a more sedate mining and construction focus, with continued support from some consumer areas. Parts of businesses within Chemiphos, Crest Chemicals (Crest) and Lake International (Lake) were repositioned during the year to align them more with their areas of focus.

Reduced consumer demand impacted directly, to a greater or lesser extent, on companies such as Akulu Marchon, Duco Speciality Coatings, Dussek Campbell, Industrial Urethanes and Resinkem. Some of these companies' customers have cut back their manufacturing activities to deal with high inventories and decreased demand.

Chemical Initiatives (CI), Industrial Oleochemical Products, ImproChem, Lake and Senmin benefited from strong demand in the precious and base metals mining industries.

Chemserve Perlite enjoyed good demand from the wine manufacturing sector and Plaaskem benefited from the full integration of the UAP distribution business and an improved agricultural season. Chemserve's manufacturing sector businesses produced mixed results. Plastamid continued to struggle with competition from imported specialty plastics and the drop-off in synthetic fibre waste from SANS Fibres. Chemiphos had a mixed performance in its specialised phosphoric acid markets but grew its fledgling construction chemicals business. Crest had an excellent year and again grew considerably, aided by its efficient trading and logistics systems and some acquisitions.



Financial performance (Rm)

Chemserve management team

1 Frank Baker (55)

Managing director and an executive director of AECI. See page 18.

2 Mark Dytor (47)

Having joined Chemserve as a sales representative in 1984, and after successfully managing two group companies, Mark was appointed to the group's executive committee in 1998 and subsequently to its board. In addition to his portfolio of chairmanships, he has been tasked with the growth of Chemserve's mining business. Within the AECI Group, he is a non-executive director of AEL.

3 Oscar Loreti (45)

He joined Chemserve as group technical manager in 2007 and his qualifications include a Masters degree in technology mechanical engineering. Oscar is responsible for driving the group's SHE management system, ensuring that technical standards are set and maintained, and ensuring that expansion projects are completed professionally. Before joining Chemserve, he had gained experience in engineering-related activities in the steel industry.

4 Trevor Street (61)

Trevor started his Chemserve career as a sales representative more than 30 years ago. Several management positions followed and he was appointed an executive director on the Chemserve board in 1991. Since 1997, he has served as chairman of several Chemserve subsidiaries and his responsibilities include the pursuit of acquisitions for the group's growth.

5 Chris Kotze (43)

Chris joined Chemserve's quality assurance department in 1990. He was appointed to his current position as group information technology manager in 1998. His qualifications include a BSc degree and a diploma in Datametrics.

6 Edwin Ludick (44)

Edwin joined the Chemserve group as a human resources manager in 1991 and was appointed to its executive committee in 2008. He is currently managing director of Chemserve Systems, having managed other group businesses prior to this. He has a BCom (Hons) degree.

7 John Mahlase (47)

He is Chemserve's group human resources manager and, formerly, its industrial relations manager. Before joining the group as a human resources consultant in 1997, John had gained extensive experience in the discipline. He has an Honours degree in industrial psychology as well as an Advanced Diploma in labour law.

8 Chris Povall (51)

Chris joined the company 11 years ago as financial manager and was appointed to Chemserve's executive committee and board as financial director in 2006. Prior to his Chemserve career, he had gained experience in the auditing field and had been financial director of a major media company. Chris has a BCom degree and is a qualified chartered accountant.

9 Schalk Venter (42)

With a qualification in analytical chemistry, Schalk joined Chemserve Systems in 1991 as a sales representative. He was appointed managing director of this subsidiary in 1997 and moved to AECI Coatings in the same capacity in 2001. He was appointed to the Chemserve executive committee in 2005 and to its board in 2007. He is currently managing director of Akulu Marchon.

Review of operations: specialty chemicals (continued)

Newly-acquired Chemfit exceeded expectations with a good performance in the markets it serves with niche specialised products and logistics. ImproChem had a steady year despite little volume growth in its markets and growing price pressures. It embarked on further innovative water saving projects, this time in Kenya. A re-engineered Chemserve Systems produced a pleasing improvement notwithstanding little market growth.

The paper chemicals sector, while under pressure worldwide, produced a reasonable year for Specialty Minerals SA and SA Paper Chemicals. Demand for leather hides in South Africa dropped with the decline in automotive manufacture, but Simitri had a steady year by growing market share. The strong Brazilian real in the first half-year negatively affected Resitec's customers, and the currency's fall in the second half resulted in significant losses from the revaluation of foreign currency loans.

Capital programme

2008 was the second year of Chemserve's major capital programme, with spending of R390 million on approved capital of R1,2 billion for the construction and expansion of manufacturing capacity in guar, pelletised xanthates, carbon disulphide (CS_2), acrylamide, polyacrylamide, oleochemicals and sulphonation. The capital programme has been resourced with experienced personnel, and project houses have been engaged to assist with the project management of the CS_2 and polyacrylamide plants owing to their size and complexity.

Managing the process has been complex with major global and South African projects demanding much of the local skills base and project resources, the availability and costs of components and steel fluctuating wildly, and the need for design work until late in the programme for some specialised processes.

Detailed design processes unearthed both shortcomings and opportunities in three projects which led to some delays and an additional capital requirement. The markets for the products from these plants have remained robust, particularly as part of their justification was import replacement.

At Senmin's site at Sasolburg, in the Free State, the integrated acrylamide and polyacrylamide facility will start up in the third quarter of 2009. It is a joint venture with Ciba Specialty Chemicals. The civils construction work is largely complete and installation of major plant items is underway.

Chemserve businesses

Akulu Marchon	supplier of raw materials to the cosmetics, toiletry and detergent industries.
Chemical Initiatives	manufacturer and supplier of sulphur-based chemicals and services to sectors such as agriculture, mining, pulp and paper, and packaging.
Chemfit	supplies traded and blended specialty chemicals to a wide range of industries, including water treatment, food, detergents, plastics, coatings, adhesives and sealants.
Chemiphos	manufactures poly-phosphoric acid (for catalyst manufacturers) and ortho-phosphoric acid (for, *inter alia*, beverage manufacturers); trades in pigments, nutriceuticals and construction chemicals.
Chemserve Perlite	manufactures and markets products derived from the mineral perlite. Customers are in sectors such as agriculture, food and beverages, mining, electroplating, industrial oils and construction.

The guar gangue depressant plant expansion was commissioned in the fourth quarter, in time to meet the projected increase in market demand. The first of two new xanthate collector lines was commissioned in the fourth quarter, together with a pelletising operation to produce a solid non-dusting product. The second xanthate line is due for installation in March and commissioning by mid-2009.

The methane-based CS_2 plant at Senmin is scheduled to come on line in mid-2009 and this will allow the phasing out of the outdated and environmentally unfriendly charcoal-based process. Finished product tanks are complete, ready for final imports of CS_2 before the new plant is commissioned.

Akulu Marchon's new sulphonation facility at Chloorkop, in Gauteng, will be commissioned in the second quarter of 2009. Plant structures are in place and major equipment is being installed.

Resitec's oleochemical fractionation column at Lages, in Brazil, was almost complete by year-end with commissioning planned for February 2009.

In the year, CI fully commissioned its elemental plant nutrient sulphur plant, at Umbogintwini near Durban, and initial sales demand has been very encouraging.

In addition to the major capex items already discussed, Chemserve spent R205 million on smaller capital and safety-related projects, including installations at customer sites, and R78 million on acquisitions.

Working capital was well managed, with the average ratio for the year being 16 per cent of sales.

Portfolio changes and investments

Chemfit was acquired with effect from 1 July. ImproChem bought Dustaway, a specialised dust suppression operation. Crest acquired the coatings business of Tenside Trading, and Bergen Trading, a chemicals trading business. All these acquisitions were integrated successfully into the acquiring businesses.

By year-end, the proposed acquisitions of Cellulose Derivatives, a manufacturer of carboxymethylcellulose, and of CH Chemicals, a chemicals distributor, had been lodged with the Competition Commission for approval.

Chemserve sold 10 per cent of its 60 per cent holding in Resitec to MeadWestvaco. The latter also bought out the minority shareholders, resulting in Resitec becoming a 50:50 joint venture from the middle of 2008.

Chemserve Systems	serves a diversified customer base in PVC stabilisers, electroplating, specialised lubricants, foundry resins, silicone-based products, industrial cleaning, non-destructive testing, fire protection, marine, metal conversion, coatings and polymer conversion.
Crest Chemicals	imports and supplies ex-stock a wide range of chemicals to all major industries including paint and coatings, oil and gas, food and beverages, pharmaceuticals and personal care.
Duco Speciality Coatings	the leading supplier of high technology paint finishes to the South African automotive manufacturing and refinish markets.
Dussek Campbell	manufactures and distributes cable saturants, cable filling compounds and accessory products to power and telecommunication cable manufacturers.
ImproChem	provides energy solutions, water treatment, water optimisation and total water management to industry and to water authorities in Southern Africa.
Industrial Oleochemical Products	produces fatty acid derivatives and related products, as well as alkyd resins. Customers are in mining, chemicals, coatings, inks and adhesives, and plastics and rubber.

Review of operations: specialty chemicals (continued)

Safety

The Chemserve group achieved its safety targets, with a Total Recordable Injury Rate of less than 1 and a Lost-Time Injury Rate below 0,5 for the first time. Most of Chemserve's companies reported an improved performance and a decrease in the general severity of incidents. This improvement is attributable to increased senior management involvement, the focus on safety systems, structures and training at operating companies, and considerable effort from all employees to avoid unsafe acts.

Regrettably, a fatality occurred when a labour hire employee entered a vessel against instruction and died.

Economic empowerment

Chemserve embarked on a process to enable each operating company and the group as a whole to generate a documented BBBEE scorecard on a regular basis. This has been followed by a strategic process in which each company has identified projects to improve low scoring areas.

Strategic growth activities

Mining chemicals

Senmin continued its successful vendor management programme in South Africa and is expanding these services to Botswana, Namibia and Zambia. Australia and Indonesia are under consideration as additional markets. CI has developed its logistics chain to supply sulphur to numerous sulphur-consuming mining operations in Southern and Central Africa.

Step-out strategy

Resitec had a difficult first half with the strong Brazilian real slowing growth. Thereafter, the global financial crisis caused a dramatic decline in the Brazilian automotive market, reducing demand for Resitec's synthetic rubber emulsifier.

Raw materials have been obtained for the new fractionation column already referred to and pre-marketing of products has commenced. Chemserve continues to evaluate other acquisition possibilities in Brazil where price expectations may be tempered as a result of the financial crisis.

Chemserve businesses (continued)

Industrial Urethanes	manufactures and supplies polyurethane raw materials and blended systems. Products are applied in the automotive, mining, white goods, construction, footwear, furniture and other industries.
Lake International Technologies	manufacturer and distributor of products and services for explosives, fertilizers, food ingredients, coatings, glass manufacture and general chemicals.
Plaaskem	manufactures and distributes specialised agricultural chemical products, including insecticides, fungicides, herbicides, plant nutrition and fertigation products.
Plastamid	compounds and distributes engineering polymers and technical compounds for the South African and selected export plastic conversion markets.
Resinkem	manufactures and markets urea formaldehyde resins, formaldehyde solutions, urea, and resins for the timber, paper, animal feed and foundry industries.

Challenges and outlook

The major challenge of 2009 will be the maintenance of margins established in 2008, and the conservation of cash.

The group will focus on completing its major capital projects in South Africa and in Brazil and on commercialising them as rapidly as possible.

South African power generation capacity remains a major source of concern. Without an adequate and reliable power supply, Chemserve cannot run its plants efficiently at capacity. Customers in the mining and industrial markets will be similarly affected.

Anticipating a challenging 2009, Chemserve will be looking to conserve cash wherever possible:

- deferring non-critical capital expenditure;
- continuing to carefully manage the working capital ratio;
- reducing the use of overtime and temporary employees;
- re-engineering businesses where necessary; and
- optimising human resources and costs.

At the same time, Chemserve will remain vigilant for opportunities which often emerge in difficult times.

Resitec (Brazil)	manufactures and supplies emulsifiers for synthetic rubber production and fatty acid esters for the adhesive, construction, surfacing and coating, mining and rubber industries.
SA Paper Chemicals	a leading supplier of chemicals to the South African pulp, paper and board industries.
Senmin	manufactures and markets a comprehensive range of specialty chemicals for the mining industry, including froth, flotation and tailings treatment products. Further value is added to the customer by managing the full chemical extractives function on mines.
Simitri	provides customers in textiles and tanning with specialty chemicals and services. The range includes biocides, liming auxiliaries, fungicides, tanning agents, defoamers and finishing products.
Specialty Minerals SA	produces precipitated calcium carbonate products used as hi-tech, value-added filler and coating materials in paper production.

Review of operations: property

AECI's property activities which are managed by two companies, Heartland Properties and Heartland Leasing, generated revenue of R432 million in the year, compared with R450 million in 2007. This comprised property sales of 35 hectares of land (170 000m² of commercial and industrial bulk rights) which generated R169 million of revenue, with the balance from leasing and service activities. Operating profit of R45 million (2007 – R75 million) was achieved after recognising R91 million (2007 – R83 million) of remediation expenses. After deducting remediation expenditure, the property activities earned a net cash flow of R37 million, compared with an outflow of R48 million the previous year.

Heartland Properties

Heartland Properties' focus is on projects to develop and sell land. Land that has become surplus to the operational requirements of AECI's businesses is converted to zoned residential, commercial or industrial land for sale.

The conversion process seeks to optimise the value that can be achieved through strategic macro planning, optimum design and installation of infrastructure services and the release of appropriately sized land parcels to match market demand. Market demand for land varies as a function of the macro economic cycle and local business cycles which are driven by shortages of supply in zoned industrial, office or residential space.

Purchasers, who are primarily developers, buy in bulk with the objective of developing above-ground structures, for home-owners in the case of land zoned for residential use and for investors and end users in the case of land zoned for non-residential uses. Investors seek to derive annuity income from leasing the buildings to tenants and are mainly Property Loan Stock companies listed on the JSE Limited or private individuals.

Market conditions

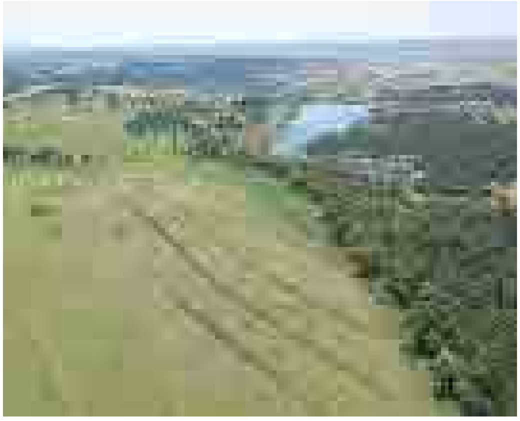
Investors and potential investors in South African real estate became much less optimistic about prospects for the domestic economy in 2008 and this had a direct impact on the demand for land. The lack of optimism can be ascribed to the recent movement in South African interest rates and the global financial credit market crisis.

Prior to 2008, Heartland Properties disposed of all land that had already gone through extensive planning and approval processes and land that required relatively low expenditure on bulk infrastructure. Perhaps fortuitously the company is now at the point where, having sold out all of its available land, it is in the process of creating new land stock at a time when market demand for real estate investment is low. It can take up to three years to obtain full environmental, local authority and capital expenditure approvals for new land releases.

Heartland Properties is now focused on creating a sustainable pipeline of available land for its next phase of growth and for the long-term future. This strategic planning takes into account expected demand as well as its anticipated timing for both residential and non-residential uses.

Notwithstanding the current state of the property market, demand for well located zoned land is likely to be resilient going forward. Accordingly, Heartland Properties is undertaking the strategic macro planning of four major projects, cognizant of the macro and micro market conditions.

Over the past five years, Heartland has achieved an average rate of sale of 100 hectares per annum and 35 hectares per annum at Modderfontein and Somerset West respectively. The planning of future projects endeavours to ensure that land is prepared to guarantee a continuous supply, taking into account the long planning and delivery cycle imposed by the township approval process and current environmental legislation.

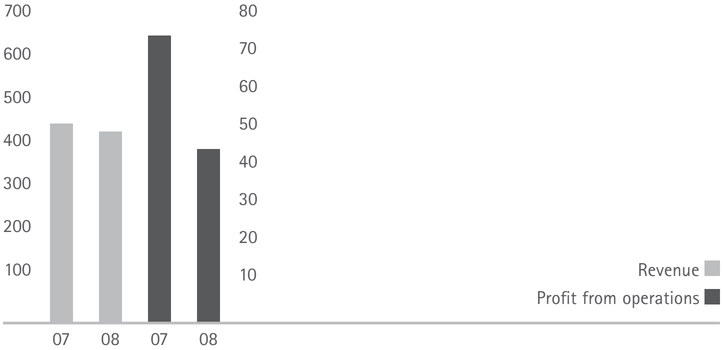


Land valuation

In 2008, the Valuation Division of Old Mutual Investment Group Property Investments completed a full review of Heartland's development plans and compiled an independent valuation of R2,5 billion, as at July, for that portion of surplus Group-owned property located in Modderfontein and Somerset West.

The value reported was completed on a market valuation basis, which assumes the premise of willing buyer willing seller. The value is an independent professional estimate of what a buyer might be prepared to pay for the land in its current form, discounted at an average, real rate of 25 per cent, being the developer's assumed required rate of return.

Strategic alternatives for the property portfolio have been reviewed by AECI. The Company believes that better value for shareholders will be provided by retaining the property portfolio in the Group in the medium term.



Financial performance (Rm)

Heartland Properties' executive team

1 Anthony Diepenbroek (52)
Chief executive officer and a member of AECI's executive committee. See page 18.

2 Neil Hayes (30)
Neil joined the company as financial controller in 2004 and, in 2006, was promoted to financial director. He has a BCom (Hons) degree and is a registered chartered accountant.

3 Leticia Potts (33)
Having joined the AECI Group as a civil planner in 1997, Leticia moved to Heartland as a project planner in 2000. A number of promotions followed and, in 2008, she was appointed development director at national level. Leticia is currently completing an MSc degree in real estate.

4 Jaco Strydom (31)

Jaco joined Heartland in 2004 as national quantity surveyor and was appointed commercial director in 2008. He has overall responsibility for project execution at Modderfontein and at Somerset West. Jaco has a BSc (Quantity Surveying) degree, is a registered Professional Quantity Surveyor and is a professional member of the Association of South African Quantity Surveyors.

5 Mike Walsh (40)

Mike immigrated to South Africa, from Ireland, in 1992. Prior to joining Heartland as sales manager in 2002, he had worked in the corporate property field at other JSE Limited-listed companies. He was appointed sales director in 2005 and is responsible for overseeing sales at all sites.

Review of operations: property (continued)

Projects

Modderfontein – Westlake View

This project will release 58 hectares of land onto the market in 2010, predominantly for warehousing and distribution. Demand for well located land targeted at providing warehousing and distribution facilities for the logistics industry has resulted in Longmeadow Business Estate becoming the destination of choice for many blue chip companies. Westlake View is a further extension to Longmeadow. The attraction of this land will be enhanced further with the creation of additional access, via the nearby London Road interchange, expected to be completed in April 2009.

Modderfontein – Longlake

Scheduled for phased commencement in 2010 and with land release expected to start soon, this project will release 350 hectares of land with an initial 15 hectares and 38 hectares zoned for commercial, and warehousing and distribution respectively. Longlake is the most exciting prospect for the development of Modderfontein. Much of Heartland's efforts in recent years focused on development on the perimeter of its landholding. Longlake, situated on either side of the busy Marlboro interchange, is the first step in opening up the "heart" of the Modderfontein landholding and, eventually, will create connectivity through to Chloorkop and Allandale Road. This project will change significantly the existing paradigm of access for residential and employment opportunities, bringing them much closer to Sandton than ever before.

Modderfontein - Founders Hill Erf 18

The relocation of Centenary Way as a result of alignment of the Gautrain has created a highly desirable piece of land, some 18 hectares in extent, overlooking the Modderfontein golf course. This land is in the planning process for a commercial office estate and can be brought to the market from 2009.

Development framework: Modderfontein

Modderfontein – Highlands

A shortage of social housing in close proximity to employment opportunities was an essential catalyst for the birth of this 129 hectare social housing and warehousing and distribution project. Various sources have identified the need for an additional 31 000 residential units in the area and, subject to appropriate development finance being in place for this segment of the affordable housing market, the land can be delivered commencing from 2010.

Somerset West - De Beers Football Club

This project has been over 12 months in planning. It will result in the relocation of the De Beers Football Club to its new home on the main site, with new facilities. The area currently occupied by the Club will then be prepared for sale to a developer, with rights to develop up to 1 200 residential units.

Highlight for 2008

In the 2008 financial year, Heartland Properties achieved revenue from sales of land of R169 million. This comprised the sale of industrial land at the Longmeadow Business Estate and the Lakeside shopping centre, in Modderfontein, for R65 million. These were "infill" sales while the major process of planning the next major releases is underway as already described.

The balance of sales of R104 million were achieved at Somerset West. The Beach Road and Historic Precinct sales represent the start of the implementation of projects on the core area west of Route 44 – the road between Strand and Somerset West, and Stellenbosch.

Outlook

Although companies have no control over financial market conditions or interest rates, they must be aware of the dangers represented by market instability and make adequate provision for unpredictable changes in financial conditions. Heartland's business model takes this reality into account. Although the planning of projects that have a two- to three-year lead time is proceeding, the installation of infrastructure services can be held back until firm sale agreements have been concluded. In addition, expenditure on bulk services are in lieu of statutory bulk services contributions. Once these installed services are handed over to the relevant local authority, ownership and maintenance liability vests with that local authority.

The projects outlined above demonstrate this strategy and illustrate a commitment to developing major metropolitan nodes without incurring additional financial risk. Heartland Properties has, in this manner, adopted a prudent approach in the prevailing volatile global real estate market.

Heartland Leasing

Heartland Leasing is the company in the Group's property portfolio tasked with letting and managing buildings at Modderfontein (Gauteng), Potchefstroom (North West), Somerset West (Western Cape) and Umbogintwini (KwaZulu-Natal) that are surplus to the Group's needs.

The company provides a range of services to mainly chemical-based manufacturers at the Umbogintwini Industrial Complex (UIC), south of Durban, and manages the responsibilities associated with remediation and re-use of land impacted by historical manufacturing activities at the abovementioned AECI-owned sites.

For its remediation activities, Heartland Leasing prioritises cash spend on projects related to reducing safety, health and environmental risks both on- and off-site, compliance with enviro-legal requirements, and the clean-up of land affected by past operations. Wherever possible, clean-up and land re-use initiatives are planned in parallel to ensure that expenditure on remediation is followed as closely as is feasible by income generation through the release of land for alternative use by third parties.

Leased assets

Gross income on leased assets and the sale of services was R263 million in 2008. The gross lettable area under the company's management totalled 326 000 m^2, unchanged from the previous year, after the demolition of 15 000 m^2 of redundant buildings and the bringing of an equivalent new area into the portfolio's revenue stream.

The vacancy rate was 13 per cent in December 2008.

For the leasing business, a highlight was the decision by Toyota South Africa to establish a container handling facility, 5 hectares in extent, at the UIC. This reinforces the site's importance as an industrial node in the South Durban area. By year-end, civils work in preparation for Toyota South Africa's move were in progress and it is expected that the project will be commissioned in the first half of 2009.

Heartland Leasing's executive team

1 Ewan Alanthwaite (48)
Ewan took up his position as services director in January 2008. He has qualifications in electrical engineering and in general management. Ewan joined AECI in 1985 as an apprentice electrician at Umbogintwini, eventually being appointed that site's engineering manager in 2000 and services manager in 2006.

2 Reg Bhikum (49)
He was appointed managing director in 2005. Since joining AECI in 1981, Reg has held positions in administration, sales, logistics and general management. Prior to taking up his current portfolio, he was general manager of Umbogintwini Operations Services and led the transformation of that multi-user site to ensure its alignment with the needs of the new AECI. Reg is a BCom graduate, has a diploma in Datametrics and has completed the University of Cape Town's Executive Management Programme.

3 Martin Burr (56)
Martin joined AECI in 1977 and has worked in various Group companies in the project, production and general management fields. He moved to Heartland as regional manager, Western Cape, in 2001 and took up his position as remediation director, Western Cape, in 2005. Martin has BSc (Chem Eng) and BCom (Hons) degrees.

4 Rod de Klerk (59)
He is remediation director, Gauteng, with 30 years' experience in the AECI Group across a range of engineering, production, projects, maintenance, and training and development functions. In 2002, subsequent to playing a key role in the final decommissioning of Modderfontein's ammonia and urea plants, Rod transferred to remediation activities at Group level. He was appointed to his current position in 2005.

5 Ron Nicolas (45)
He joined Heartland Leasing in January 2008 as commercial director, having held directorships in finance at other manufacturing companies. He also has experience in internal auditing, and sales and marketing. Ron has BCom, BCompt (Hons) and MBL degrees.

6 Nick Tsouros (44)
Nick is the company's leasing director. He joined AECI as an apprentice fitter in 1984 and subsequently worked in engineering, contracts, procurement and supply. He moved to Heartland in 2000 as procurement manager, became increasingly involved in leasing activities and was appointed a director in 2005. Nick has diplomas in purchasing management and practical accounting, and a certificate in estate agency.

Review of operations: property (continued)

Services

Utilities and services such as steam, water, electricity, effluent treatment and security are provided and managed by Heartland Leasing at the UIC. A major advantage of this arrangement is that it allows the site's 13 main manufacturing companies and more than 50 smaller tenants to focus on their core businesses.

It is pleasing that, notwithstanding South Africa's electricity supply shortages in the early part of the year and sharply higher coal prices, Heartland Leasing was able to continue providing an uninterrupted and effective service to all tenants requiring steam and electricity.

Remediation

Remediation activities still requiring completion at Somerset West and Umbogintwini continued in 2008. Where work has been completed, land has been made available for redevelopment or is in the process of being released for alternative use.

Pleasing progress continued at Modderfontein and Potchefstroom aimed at mitigating risk arising from historically-contaminated land and making land, wherever possible, re-usable. Particular highlights were the agreement reached with the National Nuclear Regulator, which allowed for the safe disposal of the remaining portion of material at Potchefstroom classified as being radioactive, and the remediation of the igniter cord area at Modderfontein.

The relevant local, provincial, and national authorities, as well as other stakeholders, remained generally supportive of the environmental aspects of projects at all sites. Heartland Leasing's ability to meet remediation goals effectively and timeously is facilitated by their ongoing input and cooperation. Such cooperation was particularly evident at Umbogintwini, where formal approval for the use of an innovative method for capping waste sites, known as a vegetative cap, was approved by the regulatory authorities. This approval was received after extensive scientific work over several years demonstrated that the performance of a vegetative cap, as part of a comprehensive remediation management programme, is equivalent to that of a conventional cover.

Outlook

In 2009, Heartland Leasing will continue to focus on reducing the vacancy rate with a view to enhancing the financial delivery of all of its sites. The successful remediation of a 5 hectare parcel of land at Umbogintwini has made that area available for redevelopment. Options for its use are being considered and include the possible extension of the company's "build-to-let" initiatives in future years. Efforts will also continue to attract other major tenants to the UIC.

Heartland Leasing is confident that its business will continue to prosper provided that the letting climate for industrial and commercial premises remains relatively robust and that the input costs associated with the provision of services at Umbogintwini remain manageable, particularly with respect to coal and electricity prices.

Review of operations: specialty fibres

SANS Fibres

In November, AECI announced that it was contemplating the closure of the industrial fibres and polyethylene terephthalate operations at SANS Fibres (SANS) in Bellville, Western Cape. SANS has been under threat for some time and exhaustive and protracted attempts to find sustainable solutions for its long-term future were unsuccessful.

Once production ceases at the end of March 2009, asset recovery and site clearance will commence and are expected to be completed by the end of the year. Land realisation will also commence by end-2009.

Early in November 2008, the South African Clothing and Textile Workers Union (SACTWU), being the representative union, and other consulting parties were given due notice of the contemplated closure in writing, inviting them to enter into a process of consultation on relevant issues, as required by law.

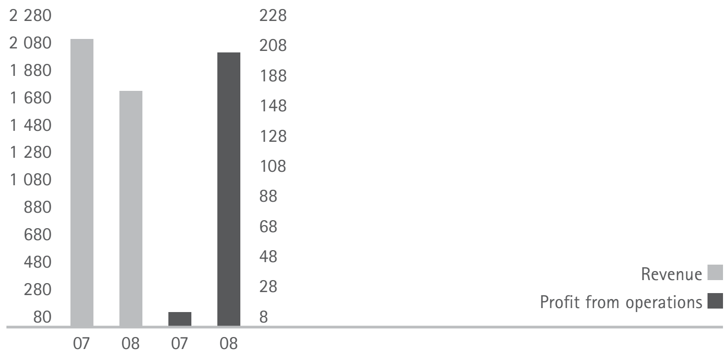
In February 2009, the parties reached agreement on the rationale for closure. The parties also agreed on issues relating to the closure and retrenchment process and confirmed 31 March 2009 as the date on which operations will cease at Bellville.

SANS Technical Fibers at Stoneville, North Carolina, USA, is not affected by the closure of Bellville. It is, and is expected to remain, profitable. It will run as a stand-alone operation for the foreseeable future and is accounted for in continuing operations.

As a result of the closure and the subsequent disposal of Bellville's assets, the cash from the disposal, after providing for closure costs, will be approximately equal to the carrying value on the balance sheet. This process is expected to be completed in the next 12 to 18 months and could include the sale of the land.

The immediate effect of the Bellville closure is that a provision for closure costs of R148 million after tax (R204 million before tax) was taken against headline earnings in 2008, and this resulted in a reduction in HEPS of 137 cents for the financial year ended 31 December 2008.

SANS recorded a trading profit of R204 million in 2008.



Financial performance (Rm)

Review of operations: conclusion

Business conditions in 2008 were extremely volatile, both in terms of input costs and availability on the one hand, and customer demand on the other. Added to this was the global financial crisis which started in the USA and spread to all parts of the world in the fourth quarter of the year.

The Group's positioning as a leading supplier of specialty products and services, mainly to the mining and manufacturing sectors, enabled it to not only weather the storm but to record significant growth during the year. More importantly 2008 was also a year of excellent progress in the execution of AECI's strategic objectives, especially in respect of its capital expenditure programmes.

As already reported, the Group has a demanding capital expenditure programme with major projects amounting to some R2 billion over two to three years. Both AEL and Chemserve are well advanced in the execution of their projects with beneficial use scheduled for 2009 and 2010. Even in the current economic climate, these projects are still expected to earn healthy returns on their investment and will put AEL and Chemserve in a strong strategic position in their respective market places.

In the property arena, pleasing progress was made in zoning and installing bulk infrastructure at the Group's Modderfontein and Somerset West sites. This will position Heartland Properties well for the sale of significant extents of land in the next up-cycle.

During the year, AECI continued its practice of active portfolio management with some smaller acquisitions in the Chemserve group and, regrettably, the announced closure of the Bellville operations of SANS Fibres. SANS Technical Fibers, in the USA, was a subsidiary of SANS Fibres but has now been set up as a stand-alone company in the Group.

The volatile and difficult business environment is set to continue in 2009, and AECI has focused its resources and management on maintaining the momentum on delivery of its strategy and the continued optimisation of its businesses. I am confident that the Group has the quality of management, the clarity of focus, and the resources to see it through these difficult times and that it will emerge from the current downturn as a stronger entity.

I thank our customers, shareholders and all our employees for their support during the year. AECI looks forward to strengthening its relationship with you as we face up to the current challenges together.

Graham Edwards
Chief executive
Woodmead, Sandton

23 February 2009

Case study No. 5

Champion of wellness

A recent knowledge and perception survey has confirmed that, regrettably, a significant stigma is still associated with being HIV-positive. In a bid to deal with this, the Group's well established HIV/Aids programme has been taken to another level.

Sister Marina Deneys

Under the banner of Siyaninakekela ("We show we care"), Sister Marina Deneys of Chemical Services Limited spearheaded the extension of the programme to deal with all issues of wellness rather than dealing with HIV/Aids-related matters in isolation. Because its employees are a crucial asset, the AECI Group is committed to their health and safety.

Sister Marina explains:

"Rather than focusing separately on HIV/Aids, wellness is catered for in a holistic way. Other conditions such as hypertension, diabetes and cancer are included, together with lifestyle matters such as diet and exercise.

"Siyaninakekela is driven at grass roots levels by our Champions of Wellness," she says. "It is most satisfying that the programme has gained wide acceptance and is now being implemented throughout the AECI Group. Buy-in by unions has been particularly gratifying."

Corporate citizenship

Companies, like private citizens, have rights and responsibilities, with the generation of wealth being only one measure of success. To an ever-increasing degree, stakeholders expect businesses to act as social, economic and environmental forces for good.

As a leading Group of companies that provide specialty products and services to customers mainly in the mining and manufacturing sectors, AECI is committed to making a positive contribution to the lives of individuals and communities in South Africa. The focus is on how the Group relates to external stakeholders, the marketplace, government and society as a whole; how it measures and manages performance in matters relating to safety, health and environmental impacts; and how it meets its obligations to help all citizens become meaningful participants in the country's economy, in particular the advancement of its employees from previously disadvantaged groups. Such matters are overseen by the corporate citizenship committee on behalf of the Board, in terms of clear guidelines.

Corporate social investment

Corporate social investment (CSI) goes far beyond the philanthropy of the past – that is, donating money to good causes. It is an ongoing responsibility that AECI's businesses accept for their environment, both human and physical. To this end, the AECI Group employs best practices so as to promote the improvement of the overall quality of life of local communities. The Company's CSI programme concentrates on assisting the communities in which it operates through investments in skills training as well as early childhood and community development.

Through its alignment with the Group's strategy and business objectives, the programme is deliberate, focused, progressive and is guided by a formal policy framework. The programme's main objective is to mutually benefit the Group and its stakeholders.

Policy

Through its CSI programme, the AECI Group is committed to empowering and uplifting disadvantaged individuals and communities in South Africa.

Specifically, AECI wishes to:

- address inequality in South Africa by making a measurable improvement in the lives and welfare of the disadvantaged communities in which it operates; and
- enhance the Company's image and reputation as a caring and responsible corporate citizen.

Efforts in this regard are long-standing and the programme's focus is demonstrated by initiatives, such as those listed below, which were supported by an investment of some R5 million in 2008:

- The Johannesburg Youth Orchestra Company, which has been supported by AECI for some years, is now an Associate Member of Jeunesses Musicales International, the world's largest NGO for youth music. The company runs three programmes: orchestras and ensembles, instrumental individual training as well as a schools project, and teacher training. The Orchestra also has more than 180 young learners in a project in Soweto, with instruction in wind instruments for adults being a recent addition to its offering.

- Africa Foundation empowers and supports community champions, enabling them to seek and participate in finding their own solutions to their local needs. Meaningful consultation with communities on issues ranging from leadership and decision-making through to implementation, remains the critical success factor in ensuring sustainability. AECI is partnering Africa Foundation in two projects: a prospering permaculture garden at Mnqobokazi in KwaZulu-Natal, as well as the Mbhedula and Welverdiend craft markets in KwaZulu-Natal and Mpumalanga respectively, where women who have been trained in certain crafts are selling their products. This project was established in 2007.
- Project Literacy is a non-profit organisation that runs accredited Adult Basic Education and Training (ABET) programmes. The "Run Home to Read" initiative is a successful project with some outstanding results in preparing young children for school. At the same time, children's caregivers are taught to read and/or tell them stories. This has the additional benefit of enhancing communication in families and promotes the love of reading.
- Sparrow Educational Trust. Sparrow Schools' Combined Vocational Skills Training Centre's skills learning programmes for carpentry, welding and motor mechanics received accreditation from the relevant Sectoral Education and Training Authorities (SETAs) in 2008 thus enabling the learners to graduate with a nationally-recognised qualification. The recognised qualification assists the youth at Sparrow Schools in their quest for economic independence.

  AECI contributed to making the accreditations possible. Not only did the Company provide funding for skills programmes but it also became involved at a "hands-on" level by facilitating access to assessor training for Sparrow's educators, and by providing management support.

  During the year, AECI also initiated, funded and participated in a joint assessor training programme with Sparrow Educational Trust and St. Anthony's Skills Centre. Four participants from Sparrow, two from AECI and one from St. Anthony's completed the programme successfully.
- Business Against Crime achieved promising results in supporting government's efforts to reduce violent organised crime and improve the criminal justice system. As a result of this government/business partnership, latest published crime statistics reflect a significantly lower rate of increase for Gauteng when compared to the rest of the country.

  At local police station level, AECI became involved with the victim support unit at the Sandton Police Station by funding various counselling training courses. In addition, the Company donated technical equipment for processing fingerprint data to the Sandton Community Policing Forum.
- Imbali. Ten jobless crafters participated in four courses where they learnt various patchwork, quilt-making and sewing skills. It is most pleasing that six of them subsequently secured permanent employment in factories while two are proposing to set up their own businesses. The crafters were able to make 120 quilts for their community's newly-built pre-school.
- Early childhood development. AECI again supported the Ntataise Trust, a service provider operating a network of training facilities for aspiring caregivers. Through AECI's participation, the Trust's beneficiaries increased to include trainees in Tshepang, which is in Bethlehem in the Free State, and in Kelru, located in Daveyton in Gauteng. Furthermore, AECI provided funding for training skills at a new resource centre in Rammulotsi, which is also in the Free State.

The Trust launched the Masuputsela project, which is also in Rammulotsi. Masuputsela, which means "to give direction", is part of a national project exploring ways to extend early learning opportunities to disadvantaged children. A van loaded with educational toys and children's books is becoming a familiar sight in Rammulotsi and is bringing a playgroup project to the northern areas of the Free State for the first time. The interactive programme involves mothers, grandmothers and children in targeted communities, who help facilitators set up an instant playroom for the children's enjoyment and education.

Ntataise Trust's contribution to uplifting the people of South Africa was recognised via two awards in 2008: a "Good Practice in Skills Development" award from the Department of Labour and the Mail & Guardian's "Investing in the Future" award for education.

- PROTEC. Recent media reports on Outcomes-Based Education and the general state of education in South Africa highlighted the importance of organisations such as PROTEC and the opportunities that they provide for students. PROTEC aims to uplift maths and science competencies so as to increase the number of young people with the ability and interest to pursue careers in technology, engineering and science. The success of the programme is measured by matric examination results and post-school placements.

  PROTEC at Umbogintwini is one of eight branches operating in KwaZulu-Natal. Since its inception, the Umbogintwini branch has been running a Learner Excellence Programme for students attending high schools in surrounding areas, which are under-resourced, with few adequately qualified teachers and limited learning materials and facilities.

  The programme caters for 40 underprivileged black learners in grades 10, 11 and 12. The matriculants of 2008 once again demonstrated the programme's worth by achieving a 100 per cent pass rate, and 71 per cent receiving university exemption.

- Food and Trees for Africa. The Serema School Permaculture Project, near Mokopane in Limpopo, is the only source of naturally grown fresh fruit, vegetables and herbs for the local community. Ten, trained project members generate year-round income through the sale of produce in excess of their own requirements. Going forward, it is planned that the project will be expanded to contribute to feeding schemes for HIV-infected members of the community.

In AECI's mining solutions business, the Tiso AEL Development Trust, a shareholder in AEL, and the AEL social investment committee directed contributions totalling about R1 million to support the following initiatives:

- R400 000 to four primary schools and four high schools in Tembisa, Gauteng. The assistance focused on upgrading the standard of maths and science education, largely under the auspices of the Maths Centre – an NGO that specialises in the teaching of Maths in schools. The programme is receiving good feedback.
- AEL remains involved with 11 students pursuing degrees in business at CIDA. In addition to funding their fees and subsistence, the company has also allocated mentors to them. Some former students have been absorbed into AEL's internship programme, which places qualified young people into positions at AEL. The objective is to provide them with experience, thereby enhancing their employability. Seven interns were placed in 2008.
- Nurturing the Orphans of Aids for Humanity in Ivory Park, Gauteng, received R150 000 towards its running costs and a further R150 000 for initiating the construction of a new branch.

In the year, Chemserve invested R2 million in community development projects, charitable organisations and educational institutions.

A fully equipped science laboratory was handed over to Bokamoso Secondary School, in Tembisa. To ensure maximum sustainability and utilisation of this facility, the Chemserve group pledged to fund the upgrading of science educators' qualifications.

Chemserve is also funding an outreach programme in Hoedspruit, Limpopo, coordinated by a nature-based schooling system. The programme includes environmental education, maths, science, technology and computer literacy. It is targeted at educators from rural disadvantaged communities in the area.

Bursaries continued to be awarded to students who are selected on academic merit, with an emphasis on candidates from previously disadvantaged backgrounds.

Furthermore, Chemserve is participating in the "Ikusasa Lami" project coordinated by Edit Works Africa, which works in partnership with the Gauteng Department of Education to identify best performing and talented grade 12 learners with the view to selecting potential bursary students.

Via Heartland Properties at Modderfontein, a key site for AECI's property activities, the AECI Group continued to build on its long-standing relationship with the on-site Nobel Primary School, which caters for 1 000 learners, by investing financial and planning resources towards the development of a new entrance, parking and security infrastructure for the school.

Skills development: learnerships and training

As in previous years, AEL provided training for the National Certificate in Chemical Operations for both employed and unemployed learners. These groups were trained on levels 1 and 2 of the qualification in the manufacturing sector. Selected operators also attended NTC 2 and 3 courses via Ekurhuleni West College.

78 learners from AEL registered for engineering and chemical operations learnerships in the following disciplines: Engineering Electrical, Engineering Instrumentation, Engineering Mechanical Fitting, and Chemical Operations.

In the field of engineering training, AEL expanded its artisan development programme to meet the higher technology needs of its new manufacturing plants. Eleven new learner artisans were recruited and are at various stages of training between the Technical Training Centre, at Modderfontein, and AEL's plants.

Many employees undertook operator multi-skilling training throughout the year. AEL intends continuing with this initiative, again with an emphasis on the company's automation process.

At the annual graduation function, 83 learners graduated in NQF 1 and 2, NTC 2 and 3, ABET 4, procurement, and proficiency in software packages.

Chemserve's training and development initiatives are aligned to skills acquisition and employment equity goals. Over and above skills training, some of the interventions implemented include:

- the Chemserve Leadership Development Programme, launched in 2007, is proving to be a resounding success, with more than 100 participants making good progress;
- eight senior employees attended the Programme for Management Development at the University of Cape Town. In an attempt to consolidate and broaden leadership capacity in the Chemserve group, an additional 10 senior employees are participating in a process known as Nine Conversations in Leadership guided by a management consultant;
- Chemserve continued to offer in-service training to students from various universities of technology, primarily in the chemical engineering, analytical chemistry and polymer technology disciplines;
- 25 artisan and chemical operations learnership agreements were entered into with employees as well as unemployed learners. In addition, there are six learnership agreements through the Chartered Institute for Management Accountants;
- over 50 supervisors and potential supervisors have undergone the competency-enhancing Super Management Programme; and
- Chemserve took over the Sasol Polymers' Training Centre (chemical operations) at Umbogintwini. Registration with the Chemical Industries Education and Training Authority (CHIETA) is underway with the training centre intended to become operational in the second quarter of 2009.

At Heartland Leasing, the second company in AECI's property business, learnerships at the Umbogintwini site include in-service training for two analytical chemistry students, one engineer-in-training, and two engineer-in-training candidates have been identified for development to attain their Government Certificate of Competency. This is issued to electrical and mechanical engineers once they have met certain theoretical and practical requirements.

Apprenticeships have been offered to three electricians and two fitters. In addition, five prospective apprentices have been selected for indenture via the CHIETA. Theoretical training is via accredited training service providers. It is intended that on completion of their trade tests, the apprentices will be considered for appointment as qualified artisans.

Furthermore, two trainees participated in the Boiler Attendant programme, at NQF 4 level, two employees benefited from the New Managers programme, and eight enrolled in the Finance for Non-Financial Managers course.

Labour relations

In the mining solutions business, focus areas in 2008 included establishing employment equity sub-committees; developing a guideline on the application of suspension with full pay and guidelines on adherence to the grievance procedure; and developing a better understanding of incentive bonus schemes.

More contentious issues dealt with by AEL in the year included the provision of transport for artisans on standby; demands for payment in the event of employees not arriving at work as the result of the failure of late night transport arrangements; demands for a closure bonus relating to capped safety fuse manufacture at Modderfontein; the payment and structure of incentive bonuses; the incorporation of a market rate allowance into basic pay for payroll artisans; and the transfer of employees from staff to payroll conditions.

With the formation of the new Chemical Workers Union (CWU), interactions with organised labour presented new challenges and required the establishment of new relationships. For 2009, indications are that existing agreements will be challenged, possibly including the *modus operandi* for effecting AEL's automation-related downsizing.

CWU's membership, at Modderfontein, is almost 40 per cent of unionised employees.

Chemserve's mature and positive relationship with trade unions continued in 2008. National substantive wage negotiations were conducted under the auspices of the National Bargaining Council of the Chemical Industries Industrial Chemical sector. An agreement was reached with representative unions in difficult economic conditions, without any industrial action.

In November, AECI announced that it was contemplating the closure of operations at SANS in Bellville, Western Cape, after exhaustive and protracted attempts to find sustainable solutions for SANS's long-term future proved unsuccessful.

Accordingly, SANS gave the South African Clothing and Textile Workers Union, being the representative union, and other consulting parties due notice of the contemplated closure in writing, inviting them to enter into a process of consultation on issues associated with the contemplated closure, as required by law.

In February 2009, the parties reached agreement on the rationale for the closure of the SANS operations. The parties also agreed on issues relating to the closure and retrenchment process and confirmed 31 March 2009 as the date on which operations will cease at Bellville.

In line with a commitment made in 2007, AECI is making funds available for reskilling affected SANS employees and is assisting them in finding alternative employment wherever possible.

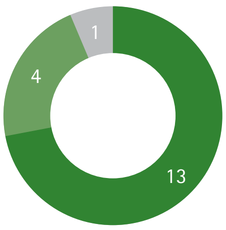
Employment equity

(excluded here are employees at manufacturing and business activities outside of South Africa)

% = percentage of employees from designated group per category.

Figures in all the graphics refer to employee numbers.

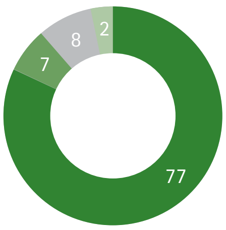
2008



Top management – 28%

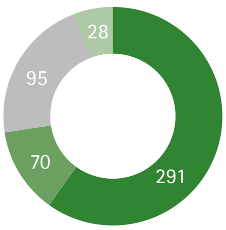
2007

Top management – 22%



Senior management – 18%

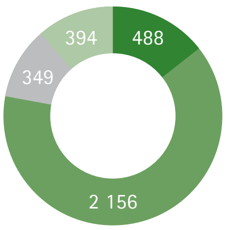
Senior management – 12%



Middle management and professionals – 40%

Middle management and professionals – 39%

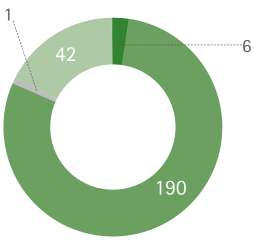
2008



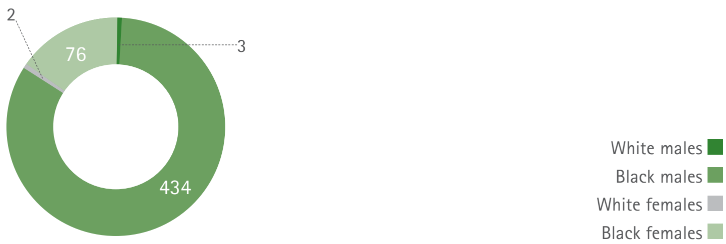
Skilled and semi-skilled – 86%

2007

Skilled and semi-skilled – 89%



Unskilled – 97%



Unskilled – 99%

In addition to targeted recruitment practices, in-service training, and career and succession planning, AECI's businesses have consultative processes in place for dealing with employment equity issues. With input from steering committees, formal development programmes are in place for the advancement of employees from designated groups.

Overall in the Group, some progress has been made in the top and senior management categories, with representation of designated groups increasing by 6 per cent in both categories. Representation in other categories is generally unchanged and efforts to improve representation at all levels continue to be made.

Since its first employment equity report in 2002, the mining solutions businesses' designated group representation has improved by 15 per cent. Challenges have been experienced with regard to making significant demographic changes due to ever-increasing skills requirements as well as skills shortages experienced by the country.

Particular attention will be given to continually improving employment equity, particularly in the middle to senior management categories.

The skills shortage is especially acute in the mining engineering discipline. To secure an independent source of suitable engineers, AEL has initiated a bursary programme for second year students, where the students work at AEL customers' mines but are on AEL's payroll.

Chemserve's development programmes have been introduced to facilitate the achievement of employment equity goals. Recruitment and promotion practices remain the main focus in addressing demographic imbalances and under-representation of designated employee groups. In 2008, the majority of recruits and promotions were from designated groups.

AECI's property business has recognised the shortage of skilled persons, from designated groups, with specific knowledge in land development. Consequently, Heartland Properties instituted a planned and constructive programme aimed at enabling previously disadvantaged individuals and organisations to gain full and equal access to opportunities appropriate to their competence and potential. Suitable candidates have been identified for in-service training and future employment has been extended to include a much wider pool of potential participants.

In compliance with the Employment Equity Act, the AECI Group continues to use the two-tier consultation structure and process, where one representative from each business-specific committee attends and participates in the centralised, Group committee. As in the past, AECI's consolidated Employment Equity report was submitted to the Department of Labour.

Economic empowerment

Investigations into a transaction to facilitate a black ownership initiative in AECI's ordinary shares are at an advanced stage. Such a transaction would complement the Group's other, well established Broad-Based Black Economic Empowerment (BBBEE) strategies. One such long-standing strategy is to involve historically disadvantaged South Africans as equity partners in Group businesses, or as preferred suppliers to Group companies, to the extent that they are the true beneficiaries of such initiatives, without undue disadvantage to shareholders of the Company.

The BBBEE transaction under investigation comprises two elements, the first being the empowerment of permanent South African employees of the AECI Group through an employee share trust and the second being the creation of a perpetual community service trust promoting education and development in areas immediately adjacent to the factories and operations of the AECI Group in South Africa.

It is contemplated that the transaction will be finalised and implemented in 2009.

Employee well-being

Several years ago, AECI's executive committee took a strategic decision to encourage all employees to join AECI's Medical Aid Society. To facilitate this, a low-cost membership option was introduced and, as a result, the vast majority of Group employees and their dependants now have access to affordable medical aid cover. Membership of the medical aid is the first step in moving from a fragmented approach to employee well-being to a consolidated and holistic system.

It is intended that, ultimately, employee assistance programmes, occupational health initiatives, HIV/Aids and other chronic illness interventions, stress management and overall employee health and well-being will be integrated into an overall care system. This should have a positive effect on the cost of providing quality employee benefits and care in future years. In addition, costs associated with factors such as disability cover and employee absenteeism, and impacts on retirement funds, should reduce as a result.

Over and above Group-based initiatives, each AECI company has employee assistance programmes catering for its specific needs. Individual counselling is available for HIV/Aids, trauma, family-related matters, addiction, bereavement and stress-related issues in the workplace or at home.

HIV/Aids

HIV/Aids continues to ravage communities worldwide, with South Africa and Africa as a whole being among the most afflicted regions. AECI recognises that people are a crucial asset and as such the Company is committed to their health and safety. Minimising the effects of this pandemic is an important element of the Company's strategy.

Interventions are concentrated in three main areas:

- prevention against infection, with training and awareness-raising being the main components. A multi-faceted approach is employed, including seminars, newsletters, intranet-based quizzes and plays. Condoms are provided to employees at no cost to them;
- Voluntary Counselling and Testing is available to employees and they are encouraged to make use of the service. This provides an opportunity for one-on-one discussions, tailored to the needs of the individual; and
- treatment for HIV-positive employees. Most of the Company's employees and their dependants are members of medical aids and as such have access to the "Aid for AIDS" programme. The programme provides a practical, comprehensive and caring structure within which infected individuals can receive the best possible care.

A recent knowledge and perception survey showed that a significant stigma is still associated with being HIV-positive. As a result, infected individuals frequently put off testing and treatment until they are already seriously ill. Once this stage is reached, recovery to a reasonable level of health may take a substantial period of time, and is sometimes impossible.

In a bid to deal with this stigma, a comprehensive wellness programme has been launched. Rather than focusing separately on HIV/Aids, wellness is catered for in a holistic way. Other conditions such as hypertension, diabetes and cancer are included, together with lifestyle matters such as diet and exercise.

The role of HIV/Aids peer educators has been extended and they now work as Champions of Wellness, encouraging their colleagues to take better care of their health. To facilitate and foster this, wellness steering committees have been established and are functioning at Group level and in the operating companies.

In 2006 an external party assessed the impact that HIV/Aids is expected to have on the Group. The HIV prevalence among AECI employees was expected to peak at 9,8 per cent in 2007, and to fall to 9,6 per cent in 2008, declining gradually thereafter. Costs attributable to HIV/Aids were estimated to be R14 million (in 2005 money) for 2008. These costs arise from paid sick leave, productivity losses, training and replacement expenses, disability processing expenses, and medical and funeral expenses. They do not include costs associated with the life and disability insurance benefits provided by the Group. These costs are not expected to rise significantly in the coming years.

Safety, health and environment (SHE)

Policy

The AECI Group is committed to a clean, safe and healthy environment for its employees, contractors, customers and surrounding communities.

The AECI executive committee, guided by the corporate citizenship committee, is responsible for the regular review of the Group safety, health and environmental policy, for the guidance of Group companies in its implementation, and for monitoring performance.

Standards

We require each Group company:

- to adopt a safety, health and environmental policy that meets the needs of its businesses;
- to hold line management accountable for the implementation of the safety, health and environmental policy;
- to develop and maintain appropriate procedures to support the safety, health and environmental policy;
- to manage safety, health and environmental risks in a manner that meets all the legal requirements of the countries in which it operates and accepted international criteria;
- to be prepared for and to deal with any emergency;
- to ensure that employees and contractors are trained effectively;
- to maintain a record of safety, health and environmental information and to meet statutory record-keeping requirements; and
- to audit its performance against its policy, standards and procedures and to report this regularly to the AECI executive committee.

Graham Edwards
Chief executive
Woodmead, Sandton

23 February 2009

The well-being of AECI's employees and contractors, customers and the community at large is of great importance. Furthermore, AECI sees it as essential that the Group protects the environment in which it operates.

AECI's management of SHE-related issues is guided by a formal SHE policy, and performance is measured in the context of supporting SHE standards. The policy and standards are agreed to and approved by the Group chief executive. They are reviewed periodically, and most recently during 2008, by the corporate citizenship committee on behalf of the Board to ensure that they remain appropriate to AECI's diverse businesses and changing operating environment.

At the beginning of each year, the chief executives of AECI's businesses are required to submit a Letter of Assurance, with respect to SHE-related issues, to the Group chief executive. This, *inter alia*, provides confirmation that the particular business complies in all material respects with AECI's SHE standards. In the event that such confirmation cannot be given, the Letter details the nature of the deviation and what will be done to correct the situation.

AECI comprises a broad spectrum of businesses. These range from large manufacturing plants producing chemicals and explosives, to small operations on customer sites providing application services, to property leasing and the development activities. Consequently, their SHE-related issues are very different. It is inevitable therefore, that a certain degree of generalisation occurs when commenting on such diverse activities within a single report.

Achievements

After several years of rising injury rates, it is very pleasing to report a 27 per cent reduction in the Group's Total Recordable Incident Rate (TRIR) for employees. At year-end, this indicator stood at 0,83 as result of deliberate efforts by the operating companies.

The wellness programme, described in more detail elsewhere in this report, has met with real acceptance from employees. Buy-in by unions has been particularly gratifying.

Many of AECI's operations have the potential to impact significantly on the environment. Consequently, the management of environmental issues is very important. The ISO 14001 environmental management standard is the most widely recognised, externally verifiable standard in use internationally. AEL has implemented the standard at its main South African manufacturing operations, and at most of its international sites. Most of Chemserve's manufacturing facilities that can have a significant environmental impact have the standard in place, and, in the property segment, Heartland Leasing has implemented ISO 14001 at its Umbogintwini site.

AECI has registered two projects under the Clean Development Mechanism (CDM). The second project, a nitrous oxide reduction installation at No. 11 nitric acid plant, has reduced emissions of this potent greenhouse gas by 80 per cent.

Disappointments

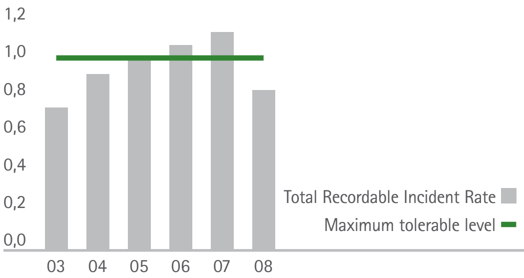
Regrettably, the Group recorded two work-related employee fatalities during the year:

- in March, a temporary employee doing work at a KwaZulu-Natal Chemserve subsidiary site, died in a storage vessel that was being cleaned; and
- in March, a fire occurred in an explosives manufacturing building at AEL's Modderfontein site. An employee suffered serious burns in the incident and subsequently died.

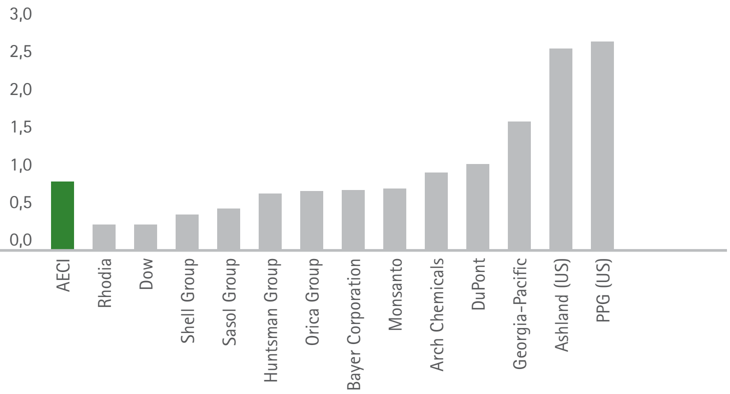
Equally regrettable were the two contractor fatalities:

- in January, an employee of a garden services company contracted to AEL took shelter beneath a tree at Modderfontein during a storm. The tree was struck by lightning resulting in the man being killed; and
- in December, a driver working for a logistics company contracted to AEL was crushed to death by his vehicle.

Safety and occupational health performance



TRIR – employees



Benchmarked TRIR

Safety and occupational health performance is expressed as the Total Recordable Incident Rate (TRIR). AECI benchmarks itself against an appropriate grouping of international companies and remains of the opinion that, while zero incidents must be the ultimate target, the interim maximum tolerable level should remain at 1,0 for 2009.

The benchmarked TRIR graph presented here has been compiled by an independent consultant from the latest information available from the various companies' websites at the time of writing. Due to minor variations in reporting formats, the rate was recalculated in certain cases to provide results uniform with the USA's Occupational Safety and Health Administration system of reporting.

TRIR performance by AECI company

AEL's employee incident rate increased marginally from 2007's 0,59 to 0,75, and Property's rose from 2007's 1,13 to 1,45. Commendable improvements in incident rates were achieved at Chemserve and SANS. In 2007, these companies' rates were at 1,64 and 1,63 respectively and, in 2008, they declined to 1,00 and 0,44.

Causes of injuries and occupational illnesses (employees)

The circumstances that led to recorded occupational injuries and illnesses in 2008 were not dissimilar from those observed in previous years. The nature of much of the Group's business involves dealing with potentially hazardous chemicals, including explosive, corrosive and toxic substances. Automated operations and protective systems can reduce risks to employees, but do not eliminate them. Automation is being implemented increasingly in the Group. Nevertheless, incidents arising from manual handling remain a significant issue, particularly in those companies with an ageing workforce. Injuries due to falling, usually linked to carelessness, remain a significant component of the incidents reported. The proportion of incidents related to moving machinery decreased compared with previous years.

It is pleasing to note that, for the first time in recent years, no recordable injuries arose as a result of road accidents on Company business.

	Employees	Contractors	Combined
AEL	0,75	0,91	0,77
Chemical Services	1,00	2,69	1,33
SANS Fibres	0,44	0,18	0,32
Property	1,45	0,49	0,68
AECI Group	0,83	1,07	0,89

TRIR performance by AECI company

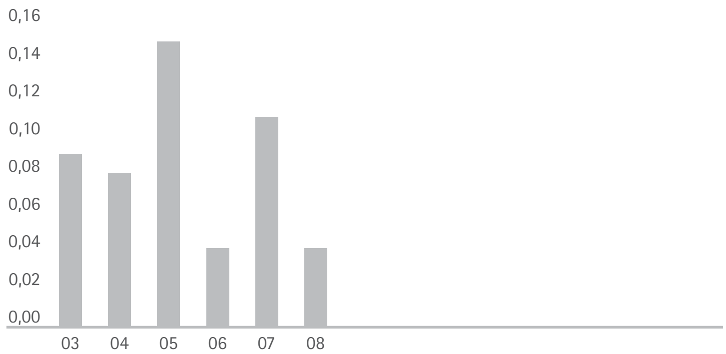
The number of occupational illnesses reported in 2008 declined. One employee was removed temporarily from the workplace due to high lead levels in his blood. Two employees were unable to continue with their normal work, due to occupational asthma. No cases of noise-induced hearing loss were reported.

Other incidents of significance

- a road tanker containing ammonium nitrate solution, contracted to AEL, caught fire while travelling on the N3 south of Johannesburg;
- at AEL's Modderfontein site, 14,5 tons of 25 per cent ammonia solution were spilled into the factory stormwater system after the drain valve of a tanker was left open;
- at the same site, 4,5 tons of 71 per cent sulphuric acid were spilled into the factory stormwater system, after a valve broke off a tank. Although the tank was bunded, the acid sprayed over the top of the wall;
- a truck operated by a Chemserve subsidiary spilled 200 kg of ammonium lauryl sulphate onto the N1 near Midrand, resulting in the road being closed for clean-up; and
- complaints were received from residents near Modderfontein. These complaints related to ash dust emissions from Heartland's remediation operations where ash is being made available to third parties for recycling.

	Serious	Moderate	Total
Explosions	–	–	–
Thermal burns	5	3	8
Chemical exposure	3	–	3
Chemical burns	3	2	5
Injuries from falling	8	2	10
Injuries from moving machinery	4	2	6
Injuries from handling objects	10	8	18
Injuries from lifting objects	–	1	1
Other	5	4	9
Total	**38**	**22**	**60**

Causes of injuries and occupational illnesses (employees)

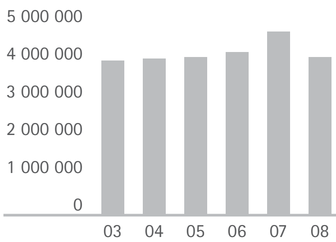


Occupational illness rate – employees

Environmental performance

This section deals with current operations and excludes waste arising from land remediation activities. Data relate to the Group's main operations in South Africa.

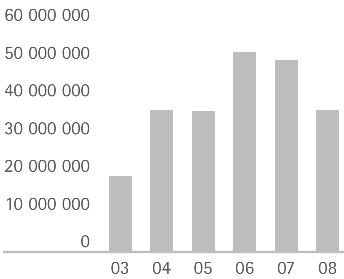
The rising trend in water consumption by the Group is reversing, with consumption falling 14 per cent in 2008. AEL and Chemserve both achieved reductions. The shutdown of part of SANS's operations accounted for most of 2008's decrease.



Water usage (kℓ per year)

Water usage by business (%)

There was a 27 per cent decrease in the Group's electricity consumption. AEL's consumption remained largely unchanged, as did that of Property, while Chemserve's usage fell by 18 per cent. The sale of Dulux in 2007 contributed to the Group's year-on-year reduction. The largest change however, occurred as a result of the shutdown of part of SANS's operations.

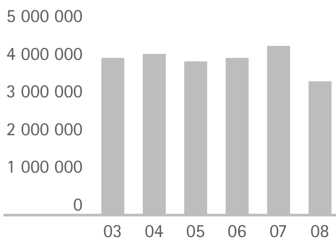


Electricity usage (KWh per year)

Electricity usage by business (%)

In addition to electricity, the Group's operations also consume energy in the form of coal, gas and fuel oil.

Total energy consumed in 2008 was 21 per cent lower than in 2007. This reduction was, by and large, due to the changes in electricity usage reflected above.

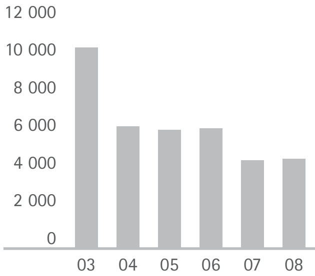


Total energy usage (GJ per year)

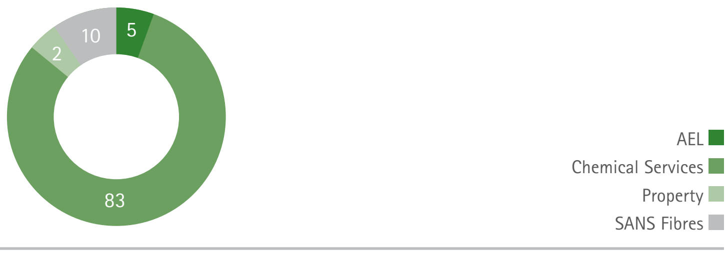
Total energy usage by business (%)

Hazardous waste generated by Group operations increased by 2 per cent in 2008. AEL recorded a significant improvement, after closure of the capped fuse plant and reduced production at the safety fuse plant.

This was more than offset, however, by a large increase in waste arisings from Chemserve. Most of this was due to unusually large amounts of waste from a subsidiary after a plant shutdown and from a clean-up exercise conducted at Chemserve's Chloorkop site. Again, the closure of certain SANS plants led to a large drop in total waste arisings.



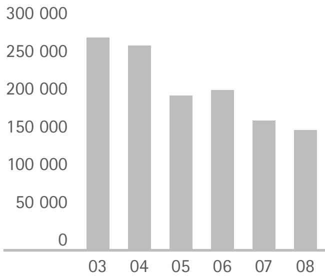
Hazardous waste arisings (tons per year)



Hazardous waste arisings by business (%)

The issue of global warming, with greenhouse gases being a major contributor, is receiving increasing attention. Most of this is focused on the burning of fossil fuels for energy, which generates carbon dioxide (CO_2).

Consequently, the potential for global warming is commonly expressed in terms of carbon dioxide equivalence. The Group's CO_2 emissions fell by 8 per cent in 2008. AEL achieved some reductions and SANS's emissions halved, for reasons already stated.



CO_2 arisings (tons per year)

CO_2 arisings by business (%)

Emissions other than CO_2 can also have a significant impact in terms of global warming potential.

Ammonium nitrate is used extensively in the explosives and fertilizer industries. It is manufactured from nitric acid and ammonia. AEL has two nitric acid plants at Modderfontein, the No. 9 and No. 11 plants. Nitrogen oxide gases are produced through the oxidation of ammonia on a platinum-rhodium metal catalyst gauze in the ammonia burners of AEL's nitric acid plants.

Most of the gas generated is in the form of nitric oxide, which is absorbed by water to form nitric acid. Some of the gas produced is in the form of nitrous oxide, which is typically released into the atmosphere as it does not have any economic value or toxicity at typical emission levels. However, it is a greenhouse gas with a global warming potential approximately 300 times per unit mass that of CO_2.

To combat global warming, a number of countries have ratified the Kyoto Protocol, thereby committing to reduce their emissions of greenhouse gases, or to engage in emissions trading were they to maintain or increase emissions of these gases.

Provision was made in the Kyoto Protocol for the registration of Clean Development Mechanism (CDM) projects, which allow participants in developing countries to generate Certified Emissions Reductions (CERs) by lowering their emission levels of greenhouse gases. CERs can then be sold to those entities that are under an obligation to reduce greenhouse gases but are unable to achieve the required reduction.

AEL has registered two CDM projects with the United Nations Framework Convention on Climate Change (UNFCCC). These are for the No. 9 and No. 11 nitric acid plants, and they were registered in November 2007 and February 2008 respectively. The projects involve the installation of secondary catalysts in the ammonia burners of the plants, below the primary gauze catalyst. This secondary catalyst decomposes the residual nitrous oxide without affecting the production of nitric acid.

The secondary catalyst in the No. 9 plant was installed in November 2007 but had to be removed in June 2008 when the method of installation caused the primary catalyst to fail on two occasions. AEL is currently exploring various alternatives to rectify this situation.

The project on the No. 11 nitric acid plant has been far more successful. The secondary catalyst was installed in September 2007 and has reduced nitrous oxide emissions consistently by 80 per cent. This plant has a production capacity about 2,5 times that of the No. 9 plant, meaning that the effect of the secondary catalyst on total emission levels is far greater than could be achieved on the smaller plant.

In 2008, these projects reduced the emissions of greenhouse gases from the nitric acid plants by the equivalent of 239 000 tons of CO_2. To put this in perspective, the reduction is significantly greater than the AECI Group's total CO_2 emissions of 153 000 tons in 2008.

Land remediation

The guiding principles underlying AECI's remediation activities are to protect human health and the environment; to use good science, proven concepts, and best available techniques not entailing excessive cost; and to work with regulatory authorities and share information with interested and affected parties.

A risk-based approach guides the remediation process and human health and environmental risk assessments are undertaken at appropriate stages in individual projects. These assessments influence subsequent activities.

Annual reviews of the Group's environmental liability have been conducted by independent consultants since 1995 and the level of detail increases each year. The reviews are a reasonable approach to quantifying the potential future liability that has resulted from past operations. It is assumed that good management and operating practices at current operating sites will reduce remediation requirements over time.

Liability review findings are used to plan detailed remediation projects and to motivate Group companies to initiate necessary remediation and environmental management activities. At end-2008, the environmental liability for the Group was estimated at R146 million for remediation.

Responsible Care*

Responsible Care* is the global chemical industry's voluntary initiative for continuous improvement of performance in safety, health and environmental practices. It is a public commitment to responsible management and stewardship of products and services throughout the lifecycle of products. It is also the vehicle used by the industry in its pursuit of improved performance in the areas of safety, health, the environment and product stewardship.

Responsible Care* was launched by the Canadian Chemical Producers' Association in 1984 and has now been adopted in 53 countries. The Chemical and Allied Industries' Association is the custodian of Responsible Care* in South Africa. In line with the guidelines of the International Council of Chemical Associations, the South African programme is based on eight fundamentals:

1. a formal commitment by each member company to a set of guiding principles;
2. a series of codes, guidance notes and checklists to help companies fulfill their commitment;
3. the development of indicators against which improvements in performance can be measured;

4. open communication on safety, health and environmental matters with interested parties, both inside and outside the industry;
5. opportunities for companies to share views and exchange experiences on implementing Responsible Care*;
6. consideration of how best to encourage all member companies to commit themselves to, and participate in, Responsible Care*;
7. a title and logo which clearly identify national programmes as being consistent with, and part of, the Responsible Care* concept; and
8. procedures for verifying that member companies have implemented the measurable or practical elements of Responsible Care*.

In South Africa, signatories have their compliance with the management practice standards verified by third party auditors. The following AECI subsidiaries have been audited successfully against these standards:

- AEL (Modderfontein operations)
- Akulu Marchon
- Chemfit
- Chemical Initiatives
- Chemiphos
- Chemserve Perlite
- Chemserve Systems
- Duco Speciality Coatings
- Dussek Campbell
- Heartland Leasing (Umbogintwini operations)
- ImproChem
- Lake International Technologies
- Resitec
- Senmin
- Specialty Minerals SA

Looking to the future

The challenges faced by companies in the SHE arena do not normally change dramatically from year to year. AECI's management continues to be concerned by two primary issues arising from the context in which most of the Group's companies operate:

- a serious skills shortage, impacting on the Company's ability to staff operations with personnel who have the necessary aptitude, training and experience. The effect of this is felt particularly at supervisory and middle management levels; and
- a culture of risk-taking, impacting on the level of care that employees take in the course of their employment not to cause harm or injury to themselves, to others or to the environment.

  The causes underlying this culture are numerous, but two major contributing factors are the inordinately high level of violent crime with which employees in South Africa have to co-exist, and a degree of fatalism arising from the high levels of untreated HIV-infection in the community.

Further training in the area of process safety will continue to be made available throughout the Group, as this is still seen as a weak area in AECI's SHE efforts.

The bulk of AECI's environmental legacy remediation spend is now complete and work in 2009 will focus mainly on monitoring.

It has been pleasing to report the improved performance of AECI in the areas of safety, health and the environment. The challenge now is not only to maintain this improvement but to better it in future years.

Jacques Pienaar
General manager
Group human resources and SHE
Woodmead, Sandton

23 February 2009

* Trademark

Case study No. 6

Adding value through enhanced service

ONduka, the potable water, sewage and effluent division of Chemserve's ImproChem, has implemented unique changes to traditional philosophies of operation. As a result, its performance has made a step change improvement and the business is entrenched as a leader in the markets it serves.

Group leader, Tam Moodliar (second from left) elaborates:

"We turned a business that operates in a commoditised market into a highly specialised operation. A small but effective product range is supported via the provision of an excellent value-added service to customers.

"The team has worked hard at communicating this value and we have brought honesty and integrity to an untrusting market. Time and effort were also invested in environmental issues. We have given presentations and provided customer training on the dangers of overdosing treatment chemicals, and the subsequent negative effects downstream on plant and animal life. In the sewage and effluent sectors, we have partnered closely with customers to improve water quality by optimising their processes. In this way we are contributing to a safe and sustainable environment for all."

The ONduka team: Mona Januarie, Tam Moodliar, Monwabisi Ngcambu, Swehile Mbatha, Siyasanga Mneno, Eugene Mhlanga.

Annual financial statements

Foreign currencies

The following conversion guide is provided to facilitate the interpretation of this report. At 31 December one foreign unit was worth approximately:

	2008 (R)	2007 (R)
Euro	**13,20**	10,01
Japanese yen	**0,10**	0,06
Pound sterling	**13,58**	13,63
Swiss franc	**8,87**	6,05
US dollar	**9,37**	6,81

Independent auditors' report

To the shareholders of AECI Limited

Report on the financial statements

We have audited the Group annual financial statements and the annual financial statements of AECI Limited, which comprise the balance sheets at 31 December 2008, and the income statements, the statements of changes in equity and cash flow statements for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report as set out on pages 102 to 113 and 96 to 99 respectively.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the consolidated and separate financial position of AECI Limited at 31 December 2008, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended, in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

KPMG Inc.
Registered auditor

Per N van Niekerk
Chartered Accountant (SA)
Registered auditor
Director
85 Empire Road, Parktown, 2193, Johannesburg
31 March 2009

Approval of annual financial statements

The following reports and statements have been approved by the Board of directors:

Values and profile
Corporate governance
Review of operations
Corporate citizenship
Directors' report
Audit and risk committee's report
Remuneration report
Accounting policies
Balance sheets
Income statements
Cash flow statements
Notes to the cash flow statements
Statements of changes in equity
Notes to the financial statements

For and on behalf of the Board

Fani Titi
Chairman
Woodmead, Sandton

31 March 2009

Graham Edwards
Chief executive

Declaration by the Company secretary

I hereby confirm that AECI Limited has lodged with the Registrar of Companies all such returns in respect of the year under review, as are required of a public company, in terms of the Companies Act, No. 61 of 1973, as amended, and that all such returns are, to the best of my knowledge and belief, true, correct and up-to-date.

Alma Kennedy
Company secretary
Woodmead, Sandton

31 March 2009

Directors' report

The directors have pleasure in submitting their report together with the Group and Company annual financial statements for the year ended 31 December 2008.

Nature of business

AECI is a specialty product and services Group of companies which provides value-adding solutions to customers through science, technology and industry knowledge. The focus is on serving the mining and manufacturing sectors and the Group is investing substantial sums in its future growth in these areas.

Construction is in progress on six significant projects, with capital expenditure totalling about R2 billion. The projects, most of which are scheduled for completion by the end of 2009, relate mainly to the mining sector but capital is also being invested to augment the Group's ability to service consumer-driven markets.

AECI's core businesses serve global and regional markets. They are characterised by application know-how and service delivery, operate in niche markets, and are supported by leading international technology alliances.

Principal manufacturing sites are located in South Africa, near Johannesburg (mining solutions, provided by African Explosives Limited "AEL", and specialty chemicals provided by Chemical Services Limited, "Chemserve") and Durban (specialty chemicals). Chemserve also has a number of smaller sites and its mining chemicals thrust is anchored in Senmin, which operates at Sasolburg in the Free State.

AEL and Chemserve have expanded their presence throughout sub-Saharan Africa. Both businesses continue to explore opportunities to take their products and service packages to niche markets in countries beyond their traditional areas of activity. In mining solutions, AEL has established a hub in South East Asia and its Global Channel business utilises the company's excellent technology and product position in initiating and bulk explosives systems to enter into mutually beneficial channel partnerships with leading regional explosives players internationally. Furthermore, DetNet aims to be the international leader in the design, production and sale of specialised electronic detonators. Chemserve has established a stable presence in Brazil and more acquisitions continue to be sought using the existing investment as a platform for growth.

AECI will exit the manufacture of industrial nylon fibres and polyethylene terephthalate at SANS Fibres in Bellville, with operations ceasing on 31 March 2009. SANS Technical Fibers at Stoneville, USA, will now be run as a stand-alone and self-sustaining entity for the foreseeable future.

The Group is fortunate that, in addition to its core businesses, it has a most valuable land asset, the release of which it can control and influence. The realisation of land and the utilisation of built assets that have become surplus to AECI's requirements are managed in the property portfolio, led by Heartland Properties. These activities are significant and offer prime holdings near Johannesburg and Cape Town for commercial, residential and industrial development and leasing purposes. 2 180 hectares of excess land are available for redevelopment over the next 10 to 15 years.

Group results

The activities and results of the Group have been reviewed on pages 28 to 89.

Going concern

The financial statements have been prepared using appropriate accounting policies, supported by reasonable and prudent judgements and estimates. The directors are of the opinion that the Group has adequate resources to continue as a going concern in the foreseeable future.

Borrowing powers

In terms of its articles of association, the Company has unlimited borrowing powers.

Accounting policies

The audited annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and their interpretation in line with the International Accounting Standards Board (IASB), the Listings Requirements of the JSE Limited and the Companies Act, No. 61 of 1973, as amended, remain consistent with those applied to the 30 June 2008 interim results published in July 2008.

Independent auditors

The independent auditors, KPMG Inc., will be recommended for reappointment at the forthcoming annual general meeting. Mr N van Niekerk will be recommended for appointment as the individual designated auditor who will undertake the audit of the Company for the ensuing year. All non-audit services provided by KPMG Inc. are tabled at and approved by the audit and risk committee.

Share capital and share premium

The issued ordinary share capital of the Company, at 31 December 2008, was R118 846 986 (2007 – R120 742 578).

The Company also has in issue 3 000 000 5,5 per cent cumulative preference shares of R2 each.

Details of the share premium and the movements during the year are provided in note 11 on page 129 of the annual financial statements.

STRATE

Dematerialisation of the Company's issued shares commenced in July 2001. Shares still in paper form are no longer good for delivery and will require to be dematerialised before participation in any transaction. Shareholders may direct any enquiries in this regard to the Company's transfer secretaries on telephone number +27 0861 100 950 in South Africa or +44 0870 889 3176 in the United Kingdom.

Dividends to ordinary and preference shareholders

A final dividend of 141 cents per share was declared on Monday, 23 February 2009, and is payable on Monday, 20 April 2009.

Details of the dividends declared and paid on the Company's ordinary and preference shares during the 2008 financial year are set out in note 24 to the financial statements.

Directorate and secretary

Details of the directorate and secretary of the Company, at the date of this report, are shown on pages 16 to 19 and page 20 respectively.

In terms of Section 22.4 of the Company's articles of association, Messrs RMW Dunne, LM Nyhonyha and AC Parker retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Changes to the Board

The following directors were appointed during the financial year ended 31 December 2008:

- Dr GN Edwards was appointed chief executive with effect from 1 March;
- Mr S Engelbrecht was appointed a non-executive director with effect from 1 April; and
- Mr KM Kathan was appointed financial director and chief financial officer with effect from 1 September.

In terms of the Company's articles of association, all new directors appointed must retire at the following annual general meeting. Shareholders will be asked to confirm the appointment of Mr KM Kathan.

Directors' report (continued)

The following directors retired and/or resigned during the financial year ended 31 December 2008:

- Mr S Engelbrecht retired as chief executive with effect from 1 March;
- Mr RA Williams resigned as financial director and chief financial officer with effect from 31 August; and
- Mr LC van Vught retired as a non-executive director on 31 December.

Directors' and Company secretary's interests in shares

At 31 December 2008, the directors and their associates (as defined in terms of the JSE Listings Requirements) had the following direct and indirect beneficial interests in the share capital of the Company:

	NUMBER OF SHARES		NUMBER OF SHARES	
	2008 Direct	2008 Indirect	2007 Direct	2007 Indirect
EXECUTIVE DIRECTORS				
FPP Baker	2 500	–	1 500	–
GN Edwards	2 000	–	600	–
RA Williams [1]	–	–	6 000	–
	4 500	–	8 100	–
NON-EXECUTIVE DIRECTORS				
S Engelbrecht [2]	46 623	600	4 000	600
MJ Leeming	2 500	7 000	2 500	7 000
LC van Vught [3]	6 000	5 500	6 000	5 500
	55 123	13 100	12 500	13 100
	59 623	13 100	20 600	13 100

1 Resigned with effect from 31 August 2008.

2 An executive director until 1 March 2008.

3 Retired on 31 December 2008.

There have been no changes in the above interests between the end of the financial year and the date of this report.

Major shareholders

Details of the interests of shareholders who are directly or indirectly beneficially interested in 3 per cent or more of the Company's capital, are included on pages 12 to 15 of this annual report.

Subsidiaries and joint ventures

Details of each trading subsidiary and joint venture are set out in the notes 34 and 33 on pages 161 and 162, and page 160 respectively.

The aggregate net profits and losses, after tax, of subsidiaries and joint ventures attributable to the Company for 2008 were as follows:

Profits: R579 million (2007 – R823 million).

Losses: R237 million (2007 – R156 million).

Special resolution

The Company passed the following special resolution at the annual general meeting held on 26 May 2008:

- to grant the directors the general authority to buy back a maximum of 5 per cent of the Company's issued shares.

Material changes

There have been no material changes in the financial or trading position of the Company and its subsidiaries since 31 December 2008.

Major capital expenditure

The Group made total additions to its property, plant and equipment of R1 044 million (2007 – R688 million) in the past financial year.

Litigation statement

In terms of Section 11.26 of the JSE Listings Requirements the directors are not aware of any litigation or arbitration proceedings, including proceedings that are pending or threatened, that may have or had in the recent past, being at least the previous 12 months, a material effect on the Company's financial position.

Directors' responsibility statement

The directors whose names appear in this annual report collectively and individually accept full responsibility for the accuracy of the information given and certify that, to the best of their knowledge and belief, there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that this statement contains all information required by law and the JSE Listings Requirements.

The directors acknowledge that their responsibility includes: designing, implementing and maintaining internal controls relevant to the presentation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The directors' responsibility also includes maintaining adequate accounting records and an effective system of risk management.

Interests of directors and officers

During 2008, no contracts were entered into in which directors and officers of the Company had an interest and which significantly affected the business of the Company. The directors had no interests in any third party or company responsible for managing any of the business activities of AECI.

Remuneration and employee incentive participation schemes

Full details regarding directors' remuneration and the Group's long-term incentive schemes are disclosed in the notes 29 and 30 on pages 149 to 156.

Audit and risk committee's report

The Corporate Laws Amendment Act, No. 24 of 2006 ("CLAA") came into effect in December 2007. In compliance with the CLAA, an audit and risk committee ("the committee") was formally appointed by the Board of directors.

The committee comprises Messrs MJ Leeming (chairman), RMW Dunne and LM Nyhonyha, all of whom are non-executive directors and who act independently. The definition set out in Section 269 of the CLAA was used to test the independence of each member of the audit and risk committee.

In the financial year ended 31 December 2008, and in addition to the duties set out in the committee's terms of reference, a summary of which is provided on pages 35 and 36 of this annual report, the committee carried out its functions as follows:

- nominated the appointment of KPMG Inc. ("KPMG") as the registered independent auditor after satisfying itself, through enquiry, that KPMG is independent as defined in terms of the CLAA;
- determined the fees to be paid to KPMG and its terms of engagement;
- ensured that the appointment of KMPG complied with the CLAA and any other legislation relating to the appointment of auditors;
- approved a non-audit services policy which determines the nature and extent of any non-audit services which KPMG is permitted to perform;
- considered and approved, in terms of the non-audit services policy, assignments in terms of which KPMG performed non-audit services on behalf of the Company;
- considered that KPMG is registered on the JSE Register of Auditors; and
- considered and approved an internal audit charter.

The committee has considered and satisfied itself of the appropriateness of the experience and expertise of the financial director.

Furthermore, the committee has satisfied itself, through enquiry, that KPMG and Mr N van Niekerk, the designated auditor, are independent of the Company.

The committee recommended the financial statements for the year ended 31 December 2008, for approval, to the Board. The Board has subsequently approved the financial statements which will be open for discussion at the forthcoming annual general meeting.

Mike Leeming
Chairman
Audit and risk committee
Woodmead, Sandton

31 March 2009

Remuneration report

The remuneration philosophy endorsed by the remuneration committee and the Board is to set basic salary and benefits in line with market norms whilst rewarding excellent performance through generous short- and longer-term incentives. For all employees and executives, basic salary is managed in relation to market median, having regard to individual performance against defined objectives. Benefits such as travel allowances and contributions to retirement and medical funds are maintained at market-competitive levels.

Executive directors and senior managers

For executives and senior management, an annual incentive bonus is provided with awards dependent partly on strategic delivery and partly on the achievement of defined financial targets over a three-year period. These targets incorporate a required rate of real growth in either or both operating profit after tax and headline earnings per share. The proportion of basic salary which may be earned as an annual bonus varies according to the position of each individual. In terms of current guidelines, full attainment of financial targets and strategic objectives gives rise to a bonus of 50 per cent for the chief executive and between 40 and 50 per cent for executive directors and the leaders of operating businesses. Outperformance of financial targets yields a higher percentage bonus. The remuneration committee approves bonuses before payment.

Executives and senior management also participate either in a share option scheme, as approved by shareholders in 2001, or in a benefit unit scheme which emulates the performance of share options. These schemes are intended to align the longer-term interests of executives with those of shareholders. In 2003, the remuneration committee approved an earnings-per-share-based scheme that supplements the existing option scheme and links long-term executive wealth accumulation more directly to the actual financial performance of the Company.

Details of the remuneration earned and share options held by executive directors are disclosed in notes 29 and 30 to the financial statements.

Non-executive directors

The Board applies principles of good corporate governance relating to directors' remuneration and also keeps abreast of changing trends. Governance of directors' remuneration is undertaken by the remuneration committee.

The remuneration of non-executive directors is determined by the Company's shareholders in general meeting, acting pursuant to a recommendation of the Board acting, in turn, pursuant to a recommendation of the executive committee.

The remuneration committee takes cognizance of market norms and practices, as well as the additional responsibilities placed on Board members by new legislation and corporate governance principles.

Independent non-executive directors do not have service contracts and are not members of the Group's pension schemes. The Company does not grant options or shares to non-executive directors. Non-executive directors receive an annual fee for their contribution. The annual fee comprises a base retainer fee and, where applicable, a committee membership fee. Fees are not dependant on individual attendance at meetings. Full details of directors' remuneration are set out on pages 149 to 156.

The Group pays for all travel and accommodation expenses incurred by directors to attend Board meetings and visits to Company businesses. Details of the emoluments paid to non-executive directors are given in note 29 to the financial statements.

No non-executive director has an employment contract with the Company.

Accounting policies

Statement of compliance

The consolidated financial statements and the separate financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS), and interpretations of those standards, as adopted by the International Accounting Standards Board (IASB) and applicable legislation, and in accordance with the requirements of the Companies Act of South Africa.

The following accounting standards, interpretations and amendments to published accounting standards which are relevant to the Group but not yet effective, have not been adopted in the current year:

- IAS 1 – relating to the presentation of financial statements
  (effective for annual periods commencing on or after 1 January 2009)

  Revised IAS 1 introduces the term "total comprehensive income", which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. Revised IAS 1, which becomes mandatory for the Group's 2009 consolidated financial statements, is expected to have a significant impact on the presentation of the consolidated financial statements.

- IAS 23 – borrowing costs amendment – relating to the capitalisation of interest
  (effective for annual periods commencing on or after 1 January 2009)

  The revised version of IAS 23 generally requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Also, it does not permit the option of immediately recognising all borrowing costs as an expense, which was the benchmark treatment in the previous version of the standard. The Group will apply the amended standard from 1 January 2009, but it is not expected to have any material impact on the accounts of the Company or the Group.

- IAS 27 – accounting for ownership changes in a subsidiary
  (effective for annual periods commencing on or after 1 July 2009)

  Amended IAS 27 requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27, which become mandatory for the Group's 2010 consolidated financial statements, are not expected to have a significant impact on the consolidated financial statements.

- IAS 32 – puttable financial instruments and obligations arising on their liquidation
  (effective for annual periods commencing on or after 1 January 2009)

  Amendments to IAS 32 require puttable instruments, and 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, to be classified as equity if certain conditions are met. The amendments, which become mandatory for the Group's 2009 consolidated financial statements, with retrospective application required, are not expected to have any impact on the consolidated financial statements.

- IFRS 2 – amendment to share-based payment - vesting conditions and cancellations
  (effective for annual periods commencing on or after 1 January 2009)

  The amendment clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS 2 will become mandatory for the Group's 2009 consolidated financial statements, with retrospective application. The Group has not yet determined the potential effect of the amendment.

- IFRS 3 – relating to revision of the standard on business combinations
  (effective for annual periods commencing on or after 1 July 2009)

  Revised IFRS 3 business combinations (2008) incorporates the following changes that are likely to be relevant to the Group's operations:

  - the definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations;
  - contingent consideration will be measured at fair value, with subsequent changes therein recognised in profit or loss;
  - transaction costs, other than share and debt issue costs, will be expensed as incurred;
  - any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognised in profit or loss; and
  - any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

  Revised IFRS 3, which becomes mandatory for the Group's 2010 consolidated financial statements, will be applied prospectively and, therefore, there will be no impact on prior periods in the Group's 2010 consolidated financial statements.

- IFRS 8 – relating to the reporting of operating segments
  (effective for annual periods commencing on or after 1 January 2009)

  IFRS 8 operating segments introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Group's 2009 consolidated financial statements, will require a change in the presentation and disclosure of segment information based on the internal reports regularly reviewed by the Group's chief operating decision maker in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segmental information in respect of its business and geographical segments (see note 31). Under the management approach, the Group will present segment information in respect of mining solutions, specialty chemicals, property, specialty fibres and Group services.

Basis of measurement

The consolidated financial statements and the separate financial statements have been prepared on the going concern basis using the historical cost convention, except for financial instruments at fair value through profit or loss, available-for-sale-financial assets, derivative instruments and liabilities for cash-settled share-based payment arrangements which are measured at fair value.

Functional and presentation currency

The consolidated financial statements and the separate financial statements have been prepared in South African rand, which is the Company's functional currency. All the financial information has been rounded to the nearest million of rand, except where otherwise stated.

Significant accounting policies

The significant accounting policies of the Group as set out herein have been applied consistently throughout the Group and are consistent with those followed in the previous year in all material respects, except as otherwise stated.

Certain comparative amounts for the previous year have been reclassified for the current year's presentation.
In addition, the comparative income statement and cash flow statement for 2007 have been re-presented as a result of the Group's decision to retain SANS Technical Fibers, USA as a continuing operation for the foreseeable future. The operation was presented as a discontinued operation in 2007.

Accounting policies (continued)

Basis of consolidation

Subsidiaries

Subsidiaries are those entities controlled by the Company. Control is the power to govern the financial and operating policies of an entity so as to obtain economic benefits from its activities.

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. The results of subsidiaries acquired or disposed of during the year are included from the dates control commenced and up to the dates control ceased. Intergroup transactions and balances between Group entities, as well as any unrealised income and expenditure arising from such transactions, are eliminated on consolidation. Minority interests in the net assets of subsidiaries are identified separately from the Group's equity therein.

Joint ventures

Joint ventures are those entities in respect of which there is a contractual agreement whereby the Group and one or more other venturers undertake an economic activity, which is subject to joint control.

The Group's participation in joint ventures is accounted for using the proportionate consolidation method by including its share of the underlying assets and liabilities and income statement items with items of a similar nature on a line-by-line basis from the dates of their acquisition until their disposal. Intergroup transactions and balances between Group entities are eliminated on proportionate consolidation to the extent of the Group's interest in the joint venture.

Associates

An associate is an entity in which the Group holds an equity interest, over which the Group has significant influence and is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the associate but is not control or joint control over those policies. Significant influence is presumed to exist when the Group holds between 20 and 50 per cent of the voting power of another entity.

The post-acquisition results of associate companies are accounted for in the consolidated financial statements using the equity method of accounting from the date that significant influence commences until the date that significant influence ceases. Where a Group entity transacts with an associate of the Group, unrealised profits are eliminated to the extent of the Group's interest in the associate.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint ventures in the separate financial statements are recognised at cost less impairment losses.

Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operation that has been disposed of or is classified as held for sale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When the operation is classified as a discontinued operation, the comparative income statement and cash flow statement are re-presented as if the operation had been discontinued from the start of the comparative period.

Goodwill

The excess of cost of business combinations over the net value of identifiable assets, liabilities and contingent liabilities at acquisition is capitalised as goodwill in the Group financial statements and is stated at cost less accumulated impairment losses. Goodwill is not amortised. Goodwill of associates is included in the carrying amount of the relevant associate. Goodwill acquired in a business combination for which the agreement date was before 31 March 2004 was previously amortised on a systematic basis over its estimated useful life.

The accumulated amortisation previously raised has been set off against the cost. On disposal of a subsidiary, associate, jointly controlled entity or business unit to which the goodwill was allocated on acquisition, the amount attributable to such goodwill is included in the determination of the profit or loss on disposal.

If, on a business combination, the fair value of the Group's interest in the identifiable assets and liabilities exceeds the cost of acquisition, this excess is recognised in the income statement immediately.

Deferred tax

A deferred tax asset is the amount of income tax recoverable in future periods in respect of deductible temporary differences, the carry forward of unused tax losses and unused tax credits. A deferred tax liability is the amount of income tax payable in future periods in respect of taxable temporary differences.

Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. The tax base of an asset is the amount that is deductible for tax purposes if the economic benefits from the asset are taxable, or is the carrying amount of the asset if the economic benefits are not taxable. The tax base of a liability is the carrying amount of the liability less the amount deductible in respect of that liability in future periods.

Deferred tax is provided for using the balance sheet method providing for temporary differences between the carrying values of assets and liabilities for accounting purposes and their corresponding values for tax purposes. Deferred tax is also provided for on tax losses. No deferred tax is provided for on temporary differences relating to the initial recognition of goodwill; the initial recognition (other than in a business combination) of an asset or a liability to the extent that neither accounting nor tax profit is affected on acquisition; and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future.

A deferred tax asset is only recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax assets are reviewed at each reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity.

Deferred tax is measured at rates that have been enacted or substantially enacted at the balance sheet date.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure directly attributable to the acquisition of an asset. The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the asset into a working condition for its intended use, as well as gains and losses on qualifying cash flow hedges and borrowing costs attributable to that asset. Depreciation is provided on property, plant and equipment, other than land, on the straight-line basis at rates which will write off the assets over their estimated useful lives. Assets under construction are not depreciated until they are brought into use for the first time. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Accounting policies (continued)

The estimated useful lives are as follows:

- buildings 5 to 56 years
- plant and equipment 3 to 30 years
- furniture and fittings 3 to 15 years
- computer equipment 3 to 10 years
- motor vehicles 3 to 12 years

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amounts of the items sold and are recognised in the income statement.

Specific plant spares are valued at cost and are depreciated over the estimated useful lives of the plants to which they relate.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The cost of maintaining property, plant and equipment is recognised in the income statement.

Investment properties

Certain of the Group's land, which was originally acquired as an item of property, plant and equipment and which was subsequently determined to be surplus to the Group's requirements, is included at deemed cost on transition to IFRS. The deemed cost was at values determined by sworn appraisers in a period prior to the implementation of IFRS. The basis of the valuation was open market value at the time and the surplus over original cost was taken to non-distributable reserves. When such land is eventually sold to third parties, the proportion of the non-distributable reserve relating to that land is transferred to distributable reserves. Investment properties comprising properties surplus to the Group's requirements, and leased to third parties, are stated at cost less accumulated depreciation and impairment losses. Land is not depreciated and buildings are estimated to have useful lives of 20 years.

Assets classified as held for sale

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered principally through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter, the assets (or disposal groups) are measured at the lower of their carrying amount and the fair value less costs to sell.

Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a *pro rata* basis except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefits and investment property, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in the income statement.

Gains are not recognised in excess of any cumulative impairment losses.

Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities the reversal is recognised directly in equity.

Non-financial assets

The carrying amounts of the Group's non-financial assets other than inventories and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If there is any indication that an asset may be impaired, its recoverable amount is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of its fair value, less costs to sell, and its value in use. Value in use is estimated taking into account future cash flows, forecast market conditions and the expected lives of the assets. An impairment loss is recognised whenever the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. Subsequent to the recognition of an impairment loss, the depreciation charge for the asset is adjusted to allocate its remaining carrying value, less any residual value, over its remaining useful life.

Impairment losses recognised in respect of a cash-generating unit are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to reduce the carrying amount of the other assets of the cash-generating unit.

An impairment loss is reversed only to the extent that the carrying amount of the asset or cash-generating unit does not exceed the net carrying amount that would have been determined if no impairment loss had been recognised. A reversal of an impairment loss is recognised in the income statement.

Goodwill and the cash-generating units to which it has been allocated are tested for impairment on an annual basis even if there is no indication of impairment. Impairment losses on goodwill are not reversed.

Inventories

Inventories of raw and packing materials, products and intermediates and merchandise are carried at cost using the first-in-first-out (FIFO) method.

The cost of products, intermediates and merchandise comprises raw and packing materials, manufacturing costs, depreciation and an appropriate allocation of production overheads. Costs may also include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases.

Accounting policies (continued)

Spares not specific to particular plants and stores are carried at weighted average cost.

Property developments include the cost of properties acquired for resale and development costs.

In all cases inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses, taking into account obsolescence.

Provisions

A provision is recognised when the Group has a present legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will occur and where a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Non-current provisions are determined by discounting the expected future cash flows to their present value at a pre-tax rate that reflects current market assessment of the time value of money.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Environmental remediation

A provision for environmental remediation is recognised in accordance with the Group's environmental policy and applicable legal requirements. The adequacy of the provision is reviewed annually at the balance sheet date against changed circumstances, legislation and technology.

Revenue

Revenue comprises net invoiced sales of goods and services to customers, after cash and early settlement discounts and rebates, and excluding value-added tax; rental income from investment properties; and sales of property that is surplus to the Group's requirements.

Revenue in respect of goods and services sold is recognised when the significant risks and rewards of ownership have been transferred to the purchaser, when delivery has been made and title has passed, when the amount of the revenue and the related costs can be measured reliably and recovery of the sales consideration is probable.

Revenue in respect of rentals received from leasing activities is recognised on a straight-line basis over the period of the lease, where fixed escalation clauses apply, and when there is a reasonable expectation that recovery of the lease rental is probable. Where no fixed escalation clauses are applicable to a lease, rental income is recognised in the period in which it is due by the lessee.

Revenue in respect of property transactions is recognised when there is a binding, unconditional sale agreement. Agreements are unconditional only when the purchase price is covered, in full, by either cash deposited with the conveyancing attorney or by means of a guarantee from an acceptable bank in favour of the Company and when servicing arrangements and costs are substantially finalised.

Foreign currencies

Foreign currency translations

Transactions in foreign currencies are translated into the functional currencies of each entity within the Group at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into the functional currency of the entity concerned at the rates of exchange ruling at the dates that fair value was determined.

Gains or losses arising on exchange differences are credited to or charged against income. Costs associated with forward cover contracts linked to borrowings are included in financing costs.

Foreign operations

The financial statements of foreign operations within the Group are translated into South African rand as follows:

- assets, including goodwill, and liabilities at the rates of exchange ruling at the balance sheet date;
- income, expenditure and cash flow items at the weighted average rate of exchange during the accounting period;
- differences arising on translation are recognised directly in equity and disclosed under the foreign currency translation reserve in non-distributable reserves;
- when a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to the income statement; and
- differences arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the foreign currency translation reserve.

Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity securities, accounts receivable, cash and cash equivalents, loans and borrowings, and accounts payable.

Derivative financial instruments

The Group uses derivative financial instruments including currency and interest rate swaps, forward rate agreements and forward exchange contracts to manage its exposure to foreign exchange, interest rate and commodity price risks arising from operational, financing and investment activities. The Group does not hold or issue derivative financial instruments for trading purposes.

Financial instruments are recognised initially at fair value plus, for investments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition these instruments are measured as set out below.

Investments

Listed investments classified as financial assets at fair value through profit and loss are carried at market value, calculated by reference to securities exchange prices ruling at the close of business on the balance sheet date. Changes in the market value are taken to the income statement.

Unlisted investments classified as available-for-sale financial assets are stated at fair value. Changes in fair value are taken directly to equity unless there is objective evidence that the asset is impaired, in which event the impairment loss is recognised in the income statement. Fair value, for this purpose, is a value arrived at by using appropriate valuation techniques. When an instrument is derecognised, the cumulative gain or loss in equity is transferred to the income statement.

Accounting policies (continued)

Accounts receivable

Accounts receivable are measured at amortised cost, using the effective interest method, after providing for impairment losses.

Cash and cash equivalents

Cash and cash equivalents are stated at fair value.

Financial liabilities

Financial liabilities are measured at fair value plus transaction costs with changes in fair value being included in the income statement.

Derivative instruments

Derivative instruments are measured at fair value with changes in fair value being included in the income statement, other than derivatives designated as cash flow hedges.

Offset

If a legally enforceable right currently exists to set off recognised amounts of financial assets and liabilities, which are in determinable monetary amounts, and the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously, the relevant financial assets and liabilities are offset.

Hedge accounting

If a fair value hedge meets the conditions for hedge accounting, any gain or loss on the hedged item attributable to the hedged risk is included in the carrying amount of the hedged item and recognised in the income statement.

If a cash flow hedge meets the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in the income statement.

If an effective hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses recognised in equity are transferred to the income statement in the same period in which the asset or liability affects the income statement.

If the hedge of a forecast transaction subsequently results in the recognition of an asset or liability, the associated gains or losses recognised in equity are included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued on a prospective basis when the hedge no longer meets the hedge accounting criteria (including when the hedge becomes ineffective); when the hedge instrument is sold, terminated or exercised; when, for cash flow hedges, the forecast transaction is no longer expected to occur; or when the hedge designation is revoked. Any cumulative gain or loss on the hedging instrument for a forecast transaction is retained in equity until the transaction occurs, unless the transaction is no longer expected to occur, in which case it is transferred to the income statement.

Investment income

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable. Dividend income from investments is recognised when the shareholders' right to receive payment has been established.

Borrowing costs

Borrowing costs (net of investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets) directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Research and development costs

Research costs are written off in the income statement in the year in which they are incurred. Development costs are reviewed on an ongoing basis and are capitalised if they can be measured reliably, result in an asset that can be identified and it is probable that the asset will generate future economic benefits. Development costs are expensed in the income statement if they do not qualify for capitalisation. If a project is abandoned during the development stage, the total accumulated expenditure is written off in the income statement. Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

Leases

Finance leases

Leases that transfer substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired in terms of finance leases are capitalised at the lower of fair value and the present value of the minimum lease payments at the inception of the lease, and depreciated over the shorter of the lease term and the estimated useful life of the asset unless it is reasonably certain that the Group will retain ownership by the end of the lease term. Lease payments are allocated using the effective interest rate method to determine the lease finance cost, which is charged against profit or loss over the lease period, and the capital repayment, which reduces the finance lease liability to the lessor.

Operating leases

All other leases are classified as operating leases. Payments made under operating leases are charged against income on a straight-line basis over the period of the lease.

Employee benefits

Short-term employee benefits

The cost of all short-term employee benefits is recognised in the income statement during the period in which the employee renders the related service.

Accruals for employee entitlements to salaries, performance bonuses and annual leave represent the amount of the Group's present obligation as a result of employees' services provided to the balance sheet date. Accruals have been calculated at undiscounted amounts based on current salary rates.

Retirement benefits

The Group provides defined-contribution and defined-benefit funds for the benefit of employees, the assets of which are held in separate funds. These funds are financed by payments from employees and the Group, taking account of recommendations of independent actuaries.

Defined-contribution plans

A defined-contribution plan is a post-retirement benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts.

Obligations for contributions to defined-contribution pension plans are recognised in the income statement as incurred.

Accounting policies (continued)

Defined-benefit plans

A defined-benefit plan is a post-retirement benefit other than a defined-contribution plan.

The Group's net obligation in respect of defined-benefit plans is determined using the projected unit credit method. Actuarial valuations are conducted every three years and interim adjustments to those valuations are made annually.

The difference between the present value of the Group's defined-benefit obligations and the fair value of plan assets represents an actuarial gain or loss. Actuarial losses are recognised immediately in the income statement. Actuarial gains are only recognised to the extent that the Company has a legally enforceable right thereto. To the extent that there is uncertainty as to the entitlement to a surplus, no asset is recognised.

Post-retirement medical aid benefits

The Group provides post-retirement healthcare benefits to certain of its retirees. The present value of the post-retirement medical aid obligations is actuarially determined annually on the projected unit credit method. Actuarial gains and losses are recognised immediately in the income statement.

Equity compensation benefits

In respect of options granted after 7 November 2002, the fair value of the options is measured initially at grant date and recognised in the income statement over the vesting period with reference to the costs determined in accordance with the binomial option pricing model. The Group has also granted cash-settled share appreciation rights to certain employees under an equity-based incentive scheme. The fair value is measured at the grant date using the binomial option pricing model and recognised in the income statement over the vesting period with a corresponding increase in liabilities. The liability is remeasured at each balance sheet date and at settlement date. Any changes in the fair value of the liability are recognised in the income statement.

Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement age.

Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of prior years.

Dividends

Dividends are recognised as a liability when declared and are included in the statement of changes in equity. Secondary tax on companies in respect of such dividends is recognised as a liability when the dividends are recognised as a liability and is included in the tax charge in the income statement.

Segmental reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Inter-segmental transactions are made on an arm's length basis.

On a primary segmental basis, the Group is organised as follows:

- mining solutions, comprising mainly the manufacture of explosives and initiating systems used by the mining industry;
- specialty chemicals, comprising niche-orientated small- to medium-sized businesses marketing specialty chemicals to a broad range of industries;
- specialty fibres, comprising mainly the manufacture of nylon yarns used for industrial purposes; and
- property, comprising mainly the realisation of surplus land and property assets of the Group.

On a secondary segmental basis, the geographical locations of the Group's activities have been identified.

The basis of segmental reporting is representative of the internal structure used for management reporting.

Judgements made by management and sources of estimation uncertainty

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Certain accounting policies have been identified as involving particularly complex or subjective judgements or assessments, as follows:

Deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that taxable income will be available in future against which they can be utilised. Future taxable profits are estimated based on business plans which include estimates and assumptions regarding economic growth, interest, inflation and tax rates and competitive forces.

Environmental remediation

Estimating the future costs of environmental and rehabilitation obligations is complex and requires management to make estimates and judgements because most of the obligations will be fulfilled in the future and contracts and laws are often not clear regarding what is required. The resulting provisions are further influenced by changing technologies and political, environmental, safety, business and statutory considerations. As explained in note 13 to the financial statements, the Group has to apply judgement in determining the environmental remediation provision. The provision may need to be adjusted when detailed characterisation of the land is performed.

Asset lives and residual values

Property, plant and equipment is depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In reassessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as current market conditions, the remaining useful life of an asset and disposal values.

Post-retirement benefit obligations

Post-retirement defined benefits are provided for certain existing and former employees. Actuarial valuations are based on assumptions which include employee turnover, mortality rates, the discount rate, the expected long-term rate of return of retirement plan assets, healthcare inflation cost and rates of increase in compensation costs. The net present value of current estimates for post-retirement medical aid benefits have been discounted to their present value at 7,9 per cent per annum (2007 – 9 per cent) being the estimated investment return assuming the liability is fully funded. Medical cost inflation of 5,8 per cent per annum has been assumed (2007 – 6,3 per cent). See note 30 to the financial statements.

Balance sheets
at 31 December 2008

	Note	GROUP 2008 R millions	GROUP 2007 R millions	COMPANY 2008 R millions	COMPANY 2007 R millions
ASSETS					
Non-current assets		**4 510**	3 557	**5 744**	5 086
Property, plant and equipment	1	**2 431**	1 567	**329**	251
Investment property	2	**422**	411	**67**	62
Goodwill	3	**1 013**	986	**923**	950
Pension Fund employer surplus	4	**213**	226	**213**	226
Investment in subsidiaries	5			**3 970**	3 352
Other investments	6	**98**	124	**41**	72
Deferred tax	7	**333**	243	**201**	173
Current assets		**6 441**	4 699	**2 827**	2 117
Inventories	8	**2 795**	1 580	**1 193**	675
Accounts receivable	9	**3 188**	2 024	**1 553**	919
Assets classified as held for sale	10	**14**	667	**14**	503
Cash and cash equivalents		**444**	428	**67**	20
Total assets		**10 951**	8 256	**8 571**	7 203
EQUITY AND LIABILITIES					
Ordinary capital and reserves		**3 852**	3 788	**3 149**	3 228
Share capital and share premium	11	**215**	453	**333**	463
Non-distributable reserves		**427**	271	**267**	214
Retained earnings		**3 210**	3 064	**2 549**	2 551
Preference share capital	11	**6**	6	**6**	6
Shareholders' equity		**3 858**	3 794	**3 155**	3 234
Minority interest		**111**	135		
Total equity		**3 969**	3 929	**3 155**	3 234
Non-current liabilities		**2 385**	954	**2 481**	1 558
Deferred tax	7	**61**	78	**–**	–
Loans from subsidiaries	5			**544**	1 062
Non-current borrowings	12	**1 745**	502	**1 477**	200
Non-current provisions	13	**579**	374	**460**	296
Current liabilities		**4 597**	3 373	**2 935**	2 411
Accounts payable	14	**3 225**	2 021	**1 658**	1 116
Current borrowings	15	**1 058**	927	**1 142**	952
Liabilities classified as held for sale	10	**–**	250	**–**	234
Tax payable		**314**	175	**135**	109
Total liabilities		**6 982**	4 327	**5 416**	3 969
Total equity and liabilities		**10 951**	8 256	**8 571**	7 203

Income statements
for the year ended 31 December 2008

		GROUP		COMPANY	
	Note	**2008 R millions**	2007 R millions	**2008 R millions**	2007 R millions
CONTINUING OPERATIONS					
Revenue	16	**12 876**	8 710	**5 601**	3 425
Net operating costs	17	**(11 841)**	(7 963)	**(5 350)**	(3 333)
Profit from operations		**1 035**	747	**251**	92
Net (loss)/income from Pension Fund employer surplus account	4	**(13)**	30	**(13)**	30
Net (loss)/income from plan assets for post-retirement medical aid liabilities	13	**(57)**	36	**(46)**	26
		965	813	**192**	148
Fair value adjustments – interest		**(16)**	5	**(16)**	5
Interest expense	18	**(233)**	(159)	**(246)**	(176)
Interest received	19	**28**	28	**328**	181
Investment income	20	**12**	11	**238**	227
Share of profit of associate companies	6	**1**	1		
		757	699	**496**	385
Impairment of goodwill	3	**(42)**	(20)	**(27)**	(3)
Impairment of property, plant and equipment	1	**(4)**	(36)	**–**	–
Impairment of investments	6	**–**	(1)	**–**	(1)
Profit on disposal of businesses		**–**	4	**–**	8
Profit before tax		**711**	646	**469**	389
Income tax expense	21	**(238)**	(246)	**(80)**	(78)
Profit from continuing operations		**473**	400	**389**	311
DISCONTINUED OPERATIONS					
(Loss)/profit from discontinued operations, net of tax	22	**(94)**	67	**(116)**	89
Profit for the year		**379**	467	**273**	400
Attributable to:					
Ordinary shareholders		**385**	455	**271**	398
Preference shareholders		**2**	2	**2**	2
Minority interest		**(8)**	10		
		379	467	**273**	400
Per ordinary share (cents)					
– Attributable earnings	23	**358**	412		
– Diluted attributable earnings	23	**356**	408		
– Headline earnings	23	**412**	355		
– Diluted headline earnings	23	**410**	352		
Continuing operations					
– Attributable earnings		**445**	351		
– Diluted attributable earnings		**443**	348		
– Ordinary dividends paid	24	**231**	213		
– Ordinary dividends declared after the balance sheet date	24	**141**	141		

Cash flow statements
for the year ended 31 December 2008

	Note	GROUP 2008 R millions	GROUP 2007 R millions	COMPANY 2008 R millions	COMPANY 2007 R millions
Cash generated by operations	i	**1 590**	1 148	**613**	416
Dividends received		**12**	12	**238**	232
Interest paid		**(276)**	(173)	**(251)**	(180)
Interest received		**30**	30	**344**	193
Income tax paid	ii	**(232)**	(196)	**(89)**	(4)
Changes in working capital	iii	**(921)**	(627)	**(465)**	(301)
Expenditure relating to non-current provisions		**(71)**	(67)	**(71)**	(67)
Expenditure relating to retrenchments and restructuring		**(103)**	(1)	**(103)**	*
Cash available from operating activities		**29**	126	**216**	289
Dividends paid	24	**(250)**	(237)	**(277)**	(259)
Cash flows from operating activities		**(221)**	(111)	**(61)**	30
Cash flows from investing activities		**(1 002)**	74	**(1 229)**	(217)
Net replacement of property, plant and equipment to maintain operations		**(279)**	(272)	**(121)**	(66)
Replacement of property, plant and equipment		**(361)**	(307)	**(132)**	(74)
Proceeds from disposal of property, plant and equipment		**82**	35	**11**	8
Investments to expand operations		**(747)**	(432)	**(1 108)**	(885)
Acquisition of – property, plant and equipment		**(644)**	(373)	**(39)**	(62)
– investments		**(25)**	(1)	**–**	–
– subsidiaries	iv	**(64)**	(49)	**–**	(1)
– businesses	iv	**(14)**	(9)	**–**	(23)
Net loans with subsidiaries and joint ventures				**(1 069)**	(799)
Proceeds from disposal of investments and businesses		**24**	778	**–**	734
Proceeds from disposal of – subsidiaries	iv	**10**	–	**–**	–
– discontinued operations	iv	**–**	761	**–**	714
– businesses	iv	**–**	10	**–**	20
– listed investments		**14**	7	**–**	–
Net cash utilised		**(1 223)**	(37)	**(1 290)**	(187)
Cash flows from financing activities		**1 136**	108	**1 337**	118
Non-current borrowings – raised		**1 620**	47	**1 613**	33
– repaid		**(307)**	(276)	**(260)**	(240)
Movement in current borrowings		**61**	337	**114**	325
Share repurchase		**(238)**	–	**(130)**	–
(Decrease)/increase in cash and cash equivalents		**(87)**	71	**47**	(69)
Cash and cash equivalents at the beginning of the year		**428**	375	**20**	89
Translation gain/(loss) on cash and cash equivalents		**90**	(5)	**–**	–
Classified as held for sale		**13**	(13)	**–**	–
Cash and cash equivalents at the end of the year		**444**	428	**67**	20

* Nominal amount.

Notes to the cash flow statements
for the year ended 31 December 2008

		GROUP		COMPANY	
		2008 R millions	2007 R millions	**2008 R millions**	2007 R millions
i.	**CASH GENERATED BY OPERATIONS**				
	Profit from continuing operations	**1 035**	747	**251**	92
	Profit from discontinued operations	**155**	60	**114**	70
	Profit from operations	**1 190**	807	**365**	162
	Adjusted for non-cash movements:				
	Depreciation and amortisation	**216**	233	**50**	97
	Impairments of loans to subsidiaries	**–**	–	**33**	48
	Non-current provisions	**199**	123	**169**	111
	Surplus on disposal of property, plant and equipment	**(38)**	(2)	**(4)**	(2)
	Surplus on disposal of listed investments	**(10)**	(4)	**–**	–
	Change in fair value of investments	**33**	(9)	**–**	–
		1 590	1 148	**613**	416
ii.	**INCOME TAX PAID**				
	Owing at the beginning of the year	**(175)**	(99)	**(109)**	(1)
	Current charge for the year	**(371)**	(271)	**(115)**	(112)
	Changes in the Group	**–**	1	**–**	–
	Owing at the end of the year	**314**	175	**135**	109
		(232)	(196)	**(89)**	(4)
iii.	**CHANGES IN WORKING CAPITAL**				
	(Increase)/decrease in inventories	**(1 215)**	120	**(518)**	330
	(Increase)/decrease in accounts receivable	**(1 164)**	218	**(634)**	292
	Increase/(decrease) in accounts payable	**1 162**	(352)	**500**	(389)
		(1 217)	(14)	**(652)**	233
	Translation differences	**17**	2	**(22)**	5
	Impairments	**(37)**	(9)	**(37)**	(9)
	Classified from/(to) held for sale	**314**	(314)	**263**	(263)
	Changes in the Group	**2**	(292)	**(17)**	(267)
		(921)	(627)	**(465)**	(301)
iv.	**CHANGES IN THE GROUP**				
	Property, plant and equipment	**(17)**	(39)	**–**	(74)
	Investments	**–**	(3)	**–**	(22)
	Working capital	**2**	(292)	**(17)**	(267)
	Deferred and current tax	**–**	(1)	**–**	–
	Borrowings	**–**	(6)	**–**	*
	Minority interest	**24**	3	**–**	–
	Non-distributable reserves	**(15)**	(4)	**–**	–
	Post-acquisition retained earnings	**–**	20	**–**	–
	Net loss/(surplus) on disposal of investments and businesses	**17**	(382)	**17**	(341)
	Goodwill	**57**	(9)	**–**	(6)
	Net cash outflow/(inflow)	**68**	(713)	**–**	(710)
	Disposal of businesses and subsidiaries	**(10)**	(771)	**–**	(734)
	Proceeds on disposal of discontinued operations (see note 22)	**–**	(767)	**–**	(720)
	Cash costs of disposals (see note 22)	**–**	6	**–**	6
	Proceeds on disposal of other businesses and subsidiaries	**(10)**	(10)	**–**	(20)
	Acquisition of businesses and subsidiaries (see note 32)	**78**	58	**–**	24
	Net consideration paid to acquire subsidiaries	**64**	49	**–**	1
	Net consideration paid to acquire businesses	**14**	9	**–**	23
		68	(713)	**–**	(710)

Statements of changes in equity
for the year ended 31 December 2008

R millions	Ordinary share capital	Share premium	Total ordinary capital	Property revaluation surplus
GROUP				
Balance at 1 January 2007	110	343	453	261
Changes in the Group				
Foreign currency loan translation differences				
Deferred tax on foreign currency loan translation differences				
Transfers to retained earnings				(18)
Foreign operation translation differences				
Cash flow hedge fair value adjustments				
Deferred tax on fair value adjustments				
Recognition of share-based payments				
Profit for the year				
Dividends paid				
Balance at 31 December 2007	110	343	453	243
Changes in the Group				6
Foreign currency loan translation differences				
Deferred tax on foreign currency loan translation differences				
Transfers to retained earnings				(9)
Foreign operation translation differences				
Cash flow hedge fair value adjustments				
Deferred tax on fair value adjustments				
Recognition of share-based payments				
Profit for the year				
Dividends paid				
Shares repurchased during the year	(3)	(235)	(238)	
Balance at 31 December 2008	**107**	**108**	**215**	**240**
COMPANY				
Balance at 1 January 2007	120	343	463	243
Foreign currency loan translation differences				
Deferred tax on foreign currency loan translation differences				
Transfers to retained earnings				(1)
Recognition of share-based payments				
Profit for the year				
Dividends paid				
Balance at 31 December 2007	120	343	463	242
Foreign currency loan translation differences				
Deferred tax on foreign currency loan translation differences				
Transfers to retained earnings				(1)
Cash flow hedge fair value adjustments				
Deferred tax on fair value adjustments				
Recognition of share-based payments				
Profit for the year				
Dividends paid				
Shares repurchased during the year	(2)	(128)	(130)	
Balance at 31 December 2008	**118**	**215**	**333**	**241**

* Nominal amount.

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences from the translation of the financial statements of foreign operations, as well as from the translation of monetary items receivable from or payable to a foreign operation.

Property revaluation surplus reserve

The surplus on revaluation of property arose on the revaluation of all Group property on a date prior to the transition to International Financial Reporting Standards and is used as deemed cost in accordance with IFRS 1. The surplus is released to retained earnings as and when the related investment property is disposed.

Foreign currency translation reserve	Other non-distributable reserves	Total non-distributable reserves	Retained earnings	Total	Minority interest	Preference share capital	Total equity
20	13	294	2 848	3 595	126	6	3 727
5		5	(21)	(16)	(1)		(17)
(3)		(3)		(3)			(3)
1		1		1			1
	1	(17)	17	–			–
(8)		(8)		(8)			(8)
	(2)	(2)		(2)			(2)
	1	1		1			1
	*	*		*			*
			455	455	10	2	467
			(235)	(235)		(2)	(237)
15	13	271	3 064	3 788	135	6	3 929
15		21		21	(24)		(3)
125		125		125			125
(33)		(33)		(33)			(33)
		(9)	9	–			–
46		46		46	8		54
	8	8		8			8
	(2)	(2)		(2)			(2)
	*	*		*			*
			385	385	(8)	2	379
			(248)	(248)		(2)	(250)
				(238)			(238)
168	**19**	**427**	**3 210**	**3 852**	**111**	**6**	**3 969**
(32)	3	214	2 409	3 086		6	3 092
1		1		1			1
*		*		*			*
		(1)	1	–			–
	*	*		*			*
			398	398		2	400
			(257)	(257)		(2)	(259)
(31)	3	214	2 551	3 228		6	3 234
84		84		84			84
(24)		(24)		(24)			(24)
	(1)	(2)	2	–			–
	(7)	(7)		(7)			(7)
	2	2		2			2
	*	*		*			*
			271	271		2	273
			(275)	(275)		(2)	(277)
				(130)			(130)
29	**(3)**	**267**	**2 549**	**3 149**		**6**	**3 155**

Other non-distributable reserves

Included in other non-distributable reserves is a revaluation reserve for cash flow hedges, a reserve for the share of earnings of associate companies, an equity-settled share-based payment reserve and the statutory reserve required for the Group's captive insurance subsidiary company.

Notes to the financial statements
for the year ended 31 December 2008

R millions	Property	Plant and equipment	Furniture and fittings	Computer equipment	Motor vehicles	Under construction	Total
1. PROPERTY, PLANT AND EQUIPMENT							
Group							
2008							
Cost	**507**	**3 137**	**85**	**183**	**187**	**1 063**	**5 162**
At the beginning of the year	**397**	**1 682**	**72**	**132**	**137**	**462**	**2 882**
Additions	**57**	**227**	**11**	**29**	**42**	**671**	**1 037**
Additions through business combinations	**–**	**–**	**1**	**1**	**2**	**–**	**4**
Transfer from assets held for sale	**47**	**1 178**	**2**	**19**	*****	**6**	**1 252**
Disposals and transfers	**(10)**	**(116)**	**(2)**	**(1)**	**(5)**	**(7)**	**(141)**
Changes in the Group	**(2)**	**47**	**(2)**	**(2)**	*****	**(76)**	**(35)**
Translation differences	**18**	**119**	**3**	**5**	**11**	**7**	**163**
Less: accumulated depreciation and impairment	**167**	**2 261**	**55**	**135**	**113**	**–**	**2 731**
At the beginning of the year	**131**	**957**	**48**	**93**	**86**	**–**	**1 315**
Disposals and transfers	**(4)**	**(80)**	*****	**(1)**	**(4)**	**(6)**	**(95)**
Additions through business combinations	**–**	*****	*****	**1**	**1**	**–**	**2**
Transfer from assets held for sale	**20**	**1 117**	*****	**19**	**–**	**6**	**1 162**
Changes in the Group	**(4)**	**(4)**	**(3)**	*****	*****	*****	**(11)**
Translation differences	**6**	**81**	**2**	**4**	**8**	*****	**101**
Impairment during the year	**–**	**43**	**–**	**–**	**–**	**–**	**43**
Depreciation for the year	**18**	**147**	**8**	**19**	**22**	*****	**214**
Carrying amount	**340**	**876**	**30**	**48**	**74**	**1 063**	**2 431**
2007							
Cost	397	1 682	72	132	137	462	2 882
At the beginning of the year	398	2 616	100	165	113	301	3 693
Additions	95	337	14	21	40	181	688
Additions through business combinations	–	104	*	–	*	*	104
Transfer to assets held for sale	(47)	(1 178)	(2)	(19)	*	(6)	(1 252)
Disposals and transfers	(5)	(100)	(1)	(14)	(8)	(8)	(136)
Changes in the Group	(44)	(94)	(39)	(21)	(8)	(9)	(215)
Translation differences	*	(3)	*	*	*	3	–
Less: accumulated depreciation and impairment	131	957	48	93	86	–	1 315
At the beginning of the year	151	1 700	57	124	81	–	2 113
Disposals and transfers	(4)	(96)	(1)	(13)	(6)	–	(120)
Additions through business combinations	–	71	–	–	–	–	71
Transfer to assets held for sale	(20)	(1 117)	–	(19)	*	(6)	(1 162)
Changes in the Group	(17)	(68)	(20)	(18)	(6)	–	(129)
Translation differences	*	(2)	*	*	(1)	–	(3)
Impairment during the year	3	304	–	1	–	6	314
Depreciation for the year	18	165	12	18	18	–	231
Carrying amount	266	725	24	39	51	462	1 567

* Nominal amount.

R millions	Property	Plant and equipment	Furniture and fittings	Computer equipment	Motor vehicles	Under construction	Total
1. PROPERTY, PLANT AND EQUIPMENT (continued)							
Company							
2008							
Cost	**35**	**1 496**	**23**	**42**	**18**	**84**	**1 698**
At the beginning of the year	**21**	**493**	**24**	**21**	**17**	**15**	**591**
Additions	**13**	**81**	**3**	**5**	**2**	**63**	**167**
Additions through business combinations	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Transfer from assets held for sale	**1**	**978**	**–**	**19**	**–**	**6**	**1 004**
Disposals and transfers	**–**	**(54)**	**–**	**(3)**	**(1)**	**(6)**	**(64)**
Changes in the Group	**–**	**(2)**	**(4)**	**–**	**–**	**6**	**–**
Less: accumulated depreciation and impairment	**8**	**1 299**	**15**	**34**	**13**	**–**	**1 369**
At the beginning of the year	**6**	**292**	**16**	**15**	**11**	**–**	**340**
Disposals and transfers	**–**	**(47)**	*****	**(3)**	**–**	**(6)**	**(56)**
Transfer from assets held for sale	**1**	**972**	**–**	**19**	**–**	**6**	**998**
Changes in the Group	**–**	**3**	**(3)**	*****	**–**	**–**	**–**
Impairment during the year	**–**	**39**	**–**	**–**	**–**	**–**	**39**
Depreciation for the year	**1**	**40**	**2**	**3**	**2**	**–**	**48**
Carrying amount	**27**	**197**	**8**	**8**	**5**	**84**	**329**
2007							
Cost	21	493	24	21	17	15	591
At the beginning of the year	57	1 519	51	58	19	29	1 733
Additions	4	116	9	4	3	*	136
Additions through business combinations	–	1	*	*	*	–	1
Transfer to assets held for sale	(1)	(978)	–	(19)	*	(6)	(1 004)
Disposals and transfers	–	(77)	–	(2)	(2)	–	(81)
Changes in the Group	(39)	(88)	(36)	(20)	(3)	(8)	(194)
Less: accumulated depreciation and impairment	6	292	16	15	11	–	340
At the beginning of the year	20	1 060	27	46	12	–	1 165
Disposals and transfers	(1)	(72)	–	(1)	(1)	–	(75)
Transfer to assets held for sale	(1)	(972)	–	(19)	*	(6)	(998)
Changes in the Group	(13)	(72)	(18)	(17)	(3)	–	(123)
Impairment during the year	–	269	–	1	–	6	276
Depreciation for the year	1	79	7	5	3	–	95
Carrying amount	15	201	8	6	6	15	251

* Nominal amount.

Notes to the financial statements
for the year ended 31 December 2008 **(continued)**

1. PROPERTY, PLANT AND EQUIPMENT (continued)

Impairment losses

The Group's decision to close the remaining South African businesses of SANS Fibres (SANS) (see note 22) led to indications that all items of property, plant and equipment relating to these businesses may be further impaired. The plants of the nylon light decitex industrial (LDI) and polyethylene terephthalate (PET) polymer businesses will be dismantled and disposed of. The cost of dismantling the plants is expected to be higher than the recoverable value and, therefore, the assets have been fully impaired with the related impairment losses being recognised in the income statement of the Group under the heading of discontinued operations. This resulted in the recognition of impairment losses of R39 million for the year.

Other impairments of plant and equipment of R4 million were recognised in the income statement.

In 2007, impairment losses on the property, plant and equipment of SANS's businesses of R279 million was recognised in the income statement and classified as discontinued operations (see note 22). The impairment losses related to the polyester LDI and heavy decitex industrial businesses of SANS, which were closed in December 2007, and the nylon LDI and PET businesses. Impairment losses of R35 million on the plant and equipment of SANS Technical Fibers LLC were recognised.

R1 million on other plant and equipment was also recognised in the income statement under continuing operations.

Additional information

	GROUP		COMPANY	
	2008 R millions	2007 R millions	**2008 R millions**	2007 R millions
Insured value of property, plant and equipment	**8 101**	9 233	**3 188**	6 506
Registers containing details of the properties of the Company and its subsidiaries and joint ventures are available for inspection at the registered offices of the companies.				

2. INVESTMENT PROPERTY

	GROUP		COMPANY	
	2008 R millions	2007 R millions	**2008 R millions**	2007 R millions
Cost or deemed cost	**477**	464	**123**	116
At the beginning of the year	**464**	473	**116**	120
Additions	**7**	*	**7**	*
Disposals and transfers	**29**	(9)	**–**	(4)
Changes in the Group	**(23)**	–	**–**	–
Less: accumulated depreciation	**55**	53	**56**	54
At the beginning of the year	**53**	55	**54**	52
Disposals and transfers	*****	(4)	**–**	–
Depreciation for the year	**2**	2	**2**	2
Carrying amount	**422**	411	**67**	62
Fair value	**2 964**	4 100	**228**	186

* Nominal amount.

In 2008, the Valuation Division of Old Mutual Investment Group Property Investments compiled an independent valuation of R2 456 million, as at July, for that portion of the surplus Group-owned property located in Modderfontein and Somerset West. The valuation was performed to determine an indicative market value. Market value is based on the concept of highest and best use, which can be defined as the optimum likely use to which a property can be exploited, given the physical feasibility, the economic viability and legal constraints. A number of valuation techniques were used depending on the optimum likely use of the property. These techniques included the comparable sales approach, the residual sales approach based on a discounted cash flow and the income approach for the income-producing properties.

2. INVESTMENT PROPERTY (continued)

The comparable sales approach is based on recent sales of comparable properties in the surrounding area, which are analysed to provide an estimate of value for the subject property, with adjustments for differing characteristics. The comparable transactions are analysed in terms of their use and the purchase price adjusted for variances in the quality of the space. This purchase price is then divided by the Gross Lettable Area (GLA) to determine a value rate per square metre which is applied to the subject property in order to derive a value. The residual sales approach determines the present value of the difference between the income that will be derived from the sale of the subdivided erven, less the costs to be incurred to produce the income generated from the sale of the subdivided erven to arrive at a residual land value. The income approach is based on a discounted cash flow, incorporating the lease obligations, including escalations, to termination. At lease expiry, a new lease is assumed and the commencing rent is assumed to be the current gross market rental escalated at an appropriate growth rate. The present value of the future cash flow is added to the present value of the hypothetical exit value, being the hypothetical net annual income capitalised into perpetuity at an appropriate market-related rate. The discount and exit capitalisation rates are determined by reference to comparable sales, appropriate surveys prepared by industry professionals, benchmarking against other comparable valuations, and after consultation with experienced and informed persons in the property industry including other valuers, brokers, managers and investors.

The fair value of the remaining investment property is management's value based on the current usage and situation of the property.

In 2007, the fair value of investment property was determined based on an indicative third party offer for the Group's entire property portfolio and, for the Company, is based on management's valuation of the property.

	GROUP		COMPANY	
	2008 R millions	2007 R millions	**2008 R millions**	2007 R millions
Related amounts recognised in the income statement				
Rental income from investment property	**117**	103	**131**	121
Direct operating expenses				
– related to generating rental income	**(33)**	(30)	**(33)**	(30)
– not directly related to generating income	**(14)**	(16)	**(14)**	(16)

3. GOODWILL

	GROUP 2008	GROUP 2007	COMPANY 2008	COMPANY 2007
Cost	**1 091**	1 022	**977**	977
At the beginning of the year	**1 022**	1 035	**977**	983
Additions	**60**	7	**–**	9
Foreign currency translation	**12**	(4)	**–**	–
Disposals	**(3)**	–	**–**	–
Derecognition on the sale of Dulux business	**–**	(16)	**–**	(15)
Less: accumulated impairment losses	**78**	36	**54**	27
At the beginning of the year	**36**	16	**27**	24
Impairment charge for the year	**42**	20	**27**	3
Carrying amount	**1 013**	986	**923**	950
Goodwill is allocated to groups of cash-generating units based on Group business segments as follows:				
Mining solutions	**273**	273	**–**	–
Specialty chemicals	**740**	713	**923**	950
Carrying amount	**1 013**	986	**923**	950

Notes to the financial statements
for the year ended 31 December 2008 (continued)

3. GOODWILL (continued)

Goodwill arose on the acquisition of subsidiaries and businesses by the Group. The goodwill in the specialty chemicals segment is allocated to individual business units. During the year, a number of these business units were reorganised within the Group, which resulted in the impairment of the related goodwill allocated to those business units.

Impairment of goodwill

Goodwill is tested for impairment by calculating the value-in-use of the cash-generating unit or units to which the goodwill is allocated.

Value in use was determined by discounting the future cash flows generated from the continuing use of the cash-generating unit and was based on the following key assumptions:

- cash flows were projected based on actual operating results and the business plan; and
- a discount rate of 13,7 per cent was applied in determining the recoverable amount of the units. The discount rate was estimated based on the Group's weighted average cost of capital.

A reasonably possible change in the assumptions used to calculate the value in use is not likely to cause the carrying value of the remaining cash-generating units to exceed their recoverable amount.

	GROUP		COMPANY	
	2008 R millions	2007 R millions	**2008 R millions**	2007 R millions
4. PENSION FUND EMPLOYER SURPLUS				
At the beginning of the year	**226**	196	**226**	196
Pro rata share of investment (loss)/income earned by the AECI Pension Fund	**(13)**	30	**(13)**	30
At the end of the year	**213**	226	**213**	226
An employer surplus account was created by the AECI Pension Fund on 1 October 2006 (see note 30), which the Company has recognised as an asset. The employer surplus account is allocated a *pro rata* share of the investment returns on the AECI Pension Fund invested assets and recognises the profit or loss in the income statement.				
5. INVESTMENT IN SUBSIDIARIES				
(see note 34)				
Unlisted shares			**920**	921
– At cost			**976**	976
– *Less*: accumulated impairment losses			**(56)**	(55)
Loans to subsidiaries			**3 050**	2 431
– Amounts owing			**3 190**	2 539
– *Less*: accumulated impairment losses			**(140)**	(108)
Investment in subsidiaries			**3 970**	3 352
Loans from subsidiaries			**(544)**	(1 062)
Net investment in subsidiaries			**3 426**	2 290

All subsidiaries' financial information included in the financial statements is prepared as at the reporting date of the parent.

Impairment losses on investments in unlisted shares of dormant companies were made with reference to the net asset value of those companies. Where this resulted in the value of the investment having a fair value lower than the carrying value, the investments were impaired (see note 17).

Impairment losses on the loans to subsidiary companies were made with reference to the net asset value of those companies and their ability to repay the loans. Where this resulted in the loan having a fair value lower than its carrying value, the loans were impaired. Impairment losses on loans were reversed in the prior year as a result of the related loan being recovered during the year (see note 17).

6. OTHER INVESTMENTS

Associate companies

Summarised financial information	GROUP 2008 R millions	GROUP 2007 R millions	COMPANY 2008 R millions	COMPANY 2007 R millions
Total assets	**74**	100	**–**	–
Total liabilities	**(46)**	(76)	**–**	–
Revenue	**144**	103	**–**	–
Profit for the year	**2**	1	**–**	–

During the year the Group acquired a further effective holding of 9 per cent (2007 - 16 per cent) in Agvantage (Pty) Limited at a cost of R2 million (2007 - R3 million). The Group has significant influence as the actual holding is 50 per cent (2007 - 32 per cent) but the investment is held by a joint venture company in which the Group has a 50 per cent interest.

	GROUP 2008 %	GROUP 2007 %	COMPANY 2008 %	COMPANY 2007 %
Dussek Campbell (Pty) Limited	**49**	49	**–**	–
Agvantage (Pty) Limited	**25**	16	**–**	–

	GROUP 2008 R millions	GROUP 2007 R millions	COMPANY 2008 R millions	COMPANY 2007 R millions
Unlisted shares at fair value	**5**	3	**–**	–
Indebtedness	**(5)**	(5)	**–**	–
Post-acquisition retained income	**5**	4	**–**	–
Balance at the beginning of the year	**4**	4		
Dividend received	**–**	(1)		
Current year's share of profit of associate companies	**1**	1		
Total investment in associate companies	**5**	2		
Joint ventures (see note 33)			**35**	51
Unlisted shares at cost			**28**	28
Loans to joint ventures			**7**	23
Investments at fair value through profit and loss				
Listed investments at market value	**82**	98	**–**	–
Available-for-sale investments				
Unlisted investments at fair value	**11**	24	**6**	21
Shares				
– Botswana Ash (Pty) Limited	**–**	14	**–**	14
– Other	**5**	2	**–**	–
Indebtedness of unlisted investments	**6**	8	**6**	7
Total other investments	**93**	122	**41**	72
Total investments	**98**	124	**41**	72

The investment in Botswana Ash (Pty) Limited was transferred to assets and liabilities classified as held for sale at its carrying amount (see note 10). The investment was impaired during 2007 by R1 million.

Notes to the financial statements
for the year ended 31 December 2008 (continued)

	GROUP 2008 R millions	GROUP 2007 R millions	COMPANY 2008 R millions	COMPANY 2007 R millions
7. DEFERRED TAX				
At the beginning of the year	**(165)**	(111)	**(173)**	(72)
Transfer from net profit				
– normal activities	**(140)**	20	**(47)**	(18)
– disposals and impairments	**(9)**	(75)	**(10)**	(83)
– change in tax rate	**7**	–	**7**	–
Transferred directly (to)/from equity				
– foreign currency loan translation	**33**	1	**24**	–
– fair value adjustments	**2**	(1)	**(2)**	–
Changes in the Group	*****	1	**–**	–
At the end of the year	**(272)**	(165)	**(201)**	(173)
Analysis by major temporary differences:				
Property, plant and equipment	**85**	86	**13**	(2)
Provisions	**(336)**	(243)	**(284)**	(219)
Share options hedge premium	**(5)**	(8)	**(4)**	(7)
Pension Fund surplus	**60**	66	**60**	66
Deferred foreign exchange differences	**21**	(12)	**10**	(14)
Computed tax losses	**(115)**	(86)	**–**	–
Fair value adjustments	**18**	16	**(2)**	–
Other	**–**	16	**6**	3
	(272)	(165)	**(201)**	(173)
Comprising:				
Deferred tax assets	**(333)**	(243)	**(201)**	(173)
Deferred tax liabilities	**61**	78	**–**	–
	(272)	(165)	**(201)**	(173)
8. INVENTORIES				
Raw and packing materials	**1 189**	544	**450**	159
Products and intermediates	**1 457**	969	**742**	515
Merchandise	**21**	12	**–**	–
Spares and stores	**15**	10	**1**	1
Property developments	**113**	45	**–**	–
	2 795	1 580	**1 193**	675
Inventories included above stated at fair value less costs to sell	**285**	108	**117**	64

* Nominal amount.

	GROUP		COMPANY	
	2008 R millions	2007 R millions	**2008 R millions**	2007 R millions
9. ACCOUNTS RECEIVABLE				
Trade	**2 855**	1 738	**1 461**	792
Pre-payments	**55**	52	**15**	19
Other	**278**	234	**77**	108
	3 188	2 024	**1 553**	919
Trade receivables are exposed to credit risk as described in note 27.				
The maximum exposure to credit risk for trade receivables at 31 December by geographic region was:				
South Africa	**2 013**	1 570	**880**	871
Rest of Africa	**309**	240	**123**	44
North America	**37**	45	**2**	–
South America	**39**	48	**26**	28
Asia	**23**	36	**21**	29
Australia	**13**	8	**7**	3
Europe	**47**	45	**33**	35
United Kingdom	**374**	59	**369**	55
Classified as held for sale	**–**	(313)	**–**	(273)
	2 855	1 738	**1 461**	792
The ageing of gross trade receivables at 31 December was:				
Not past due	**2 203**	1 591	**1 257**	836
Past due 0-30 days	**500**	284	**185**	155
Past due 30-90 days	**141**	145	**16**	81
Past due more than 90 days	**78**	73	**37**	23
Classified as held for sale	**–**	(313)	**–**	(273)
	2 922	1 780	**1 495**	822
The ageing of impairments of trade receivables at 31 December was:				
Not past due	**(16)**	(1)	**(15)**	(1)
Past due 0-30 days	**(3)**	(3)	**(2)**	(3)
Past due 30-90 days	**(21)**	(8)	**(2)**	(7)
Past due more than 90 days	**(27)**	(30)	**(15)**	(19)
	(67)	(42)	**(34)**	(30)
Net trade receivables	**2 855**	1 738	**1 461**	792
Impairment of trade receivables				
At the beginning of the year	**(42)**	(35)	**(30)**	(25)
Additional impairments recognised during the year	**(50)**	(18)	**(27)**	(13)
Impairments reversed during the year	**18**	4	**17**	2
Impairments applied to trade receivables deemed irrecoverable	**7**	7	**6**	6
At the end of the year	**(67)**	(42)	**(34)**	(30)
Carrying amount of balances where terms have been renegotiated	**7**	13	**7**	12

Notes to the financial statements
for the year ended 31 December 2008 **(continued)**

10. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

The Group has decided to dispose of its investment in Botswana Ash (Pty) Limited, an unlisted investment previously measured as a financial asset available-for-sale. The Group has entered into an agreement to sell its shares in that company but there are a number of conditions precedent which have to be met before the disposal can meet the criteria to derecognise the asset. As a result, the investment has been classified as held for sale at its carrying amount. The final sale price is still to be determined but management believes that the carrying amount represents the fair value of the asset.

The assets and liabilities classified as held for sale in 2007 related to the LDI and the PET polymer businesses of SANS. The Group actively engaged with several parties interested in purchasing the businesses. These negotiations were unsuccessful and were terminated during the year (see note 22). As a result, it is not expected that the disposal groups will be realised through a sales transaction and are, therefore, no longer classified as held for sale.

The major classes of assets and liabilities of businesses and subsidiaries that have been classified as held for sale are as follows:

	GROUP		COMPANY	
	2008 R millions	2007 R millions	**2008 R millions**	2007 R millions
Assets classified as held for sale				
Property, plant and equipment †	**–**	90	**–**	6
Available-for-sale investments	**14**	–	**14**	–
Inventory	**–**	251	**–**	224
Accounts receivable	**–**	313	**–**	273
Cash and cash equivalents	**–**	13	**–**	–
	14	667	**14**	503
Liabilities classified as held for sale				
Accounts payable	**–**	250	**–**	234
	–	250	**–**	234

† Net of impairments of R252 million (Company – R214 million) in 2007.

	GROUP 2008 R millions	GROUP 2007 R millions	COMPANY 2008 R millions	COMPANY 2007 R millions
11. SHARE CAPITAL AND SHARE PREMIUM				
Ordinary shares				
Authorised				
180 000 000 shares of R1 each	**180**	180	**180**	180
Issued				
At the beginning of the year				
Group: 110 431 458 shares (2007 - 110 431 458)	**110**	110		
Company: 120 742 578 shares (2007 - 120 742 578)			**120**	120
Repurchased during the year				
Group: 3 469 171 shares (2007 - nil)	**(3)**	–		
Company: 1 895 592 shares (2007 - nil)			**(2)**	–
At the end of the year				
Group: 106 962 287 shares (2007 - 110 431 458)	**107**	110		
Company: 118 846 986 shares (2007 - 120 742 578)			**118**	120
Share premium less share issue expenses	**108**	343	**215**	343
At the beginning of the year	**343**	343	**343**	343
Shares repurchased during the year	**(235)**	–	**(128)**	–
	215	453	**333**	463
Treasury shares held by a subsidiary company 11 884 699 shares (2007 - 10 311 120)	**12**	10		
Unissued shares under the control of the directors:				
– Shares reserved to meet the requirements of the Company's share option scheme (see note 30)	**1**	1	**1**	1
The Company has purchased call options over AECI ordinary shares which will obviate the need for the Company to issue new shares in terms of the AECI share option scheme.				
Preference shares				
Authorised and issued				
3 000 000 5,5 per cent cumulative shares of R2 each	**6**	6	**6**	6

In terms of the Company's articles of association all payments of dividends on the preference shares and all payments to be made in respect of the preference shares in the event of liquidation shall be made in pound sterling and calculated as though the shares were one pound sterling. The capital repayment to preference shareholders, in the event of liquidation, is limited to 3 150 000 pound sterling (1,05 pound sterling per share).

Capital management

The Board of directors' policy is to maintain a strong capital base so as to maintain investor and market confidence and to sustain future development of the business. The Board of directors monitors the spread of shareholders, the level of dividends to ordinary shareholders and return on capital, which the Group defines as profit from operations plus investment income related to average property, plant and equipment, goodwill, investments, inventories and accounts receivable less accounts payable. The Group's target is to achieve a return on net assets of 23 per cent. In 2008 the return was 20,3 per cent (2007 – 16,5 per cent).

Notes to the financial statements
for the year ended 31 December 2008 (continued)

	Weighted closing interest rate %	GROUP 2008 R millions	GROUP 2007 R millions	COMPANY 2008 R millions	COMPANY 2007 R millions
12. NON-CURRENT BORROWINGS					
Unsecured					
Local					
Loans					
2008/2013	14,60	**1 500**	3	**1 500**	3
2006/2008	–	**–**	4	**–**	–
Foreign					
Loans – US dollar	4,06	**52**	209	**52**	195
Loans – other currencies	7,00	**12**	–	**–**	–
Secured					
Local					
Loans – other [1]	14,14	**16**	29	**2**	3
		1 580	245	**1 554**	201
Minority shareholder loan to subsidiary					
2004/2012 [2]	14,48	**277**	299		
		1 857	544	**1 554**	201
Current portion (see note 15)		**112**	42	**77**	1
		1 745	502	**1 477**	200

1 Secured in terms of capitalised finance lease agreements over plant and equipment having a net book value of R1 million (2007 – R18 million) and mortgages over property having a net book value of R17 million (2007 - R24 million).

2 Equity loan from empowerment consortium to AEL Holdco Limited. Interest and capital repayments of the loan have been guaranteed by the Company.

Summary of repayments

R millions	Year	Local	Foreign	Total
Group				
	2009	98	14	**112**
	2010	97	3	100
	2011	576	47	623
	2012	646	–	646
	2013	376	*	376
		1 793	64	1 857
Company				
	2009	72	5	77
	2010	70	–	70
	2011	549	47	596
	2012	435	–	435
	2013	376	–	376
		1 502	52	1 554

* Nominal amount.

	GROUP		COMPANY	
	2008 R millions	2007 R millions	**2008 R millions**	2007 R millions
13. NON-CURRENT PROVISIONS				
At the beginning of the year	**374**	389	**296**	313
Expenditure incurred during the year	**(71)**	(67)	**(71)**	(67)
Charged to the income statement during the year				
– Net operating costs	**199**	123	**169**	111
– Net loss/(income) from plan assets for post-retirement medical aid liabilities	**57**	(36)	**46**	(26)
Transferred from/(to) accounts payable	**20**	(35)	**20**	(35)
At the end of the year	**579**	374	**460**	296
Made up as follows:				
Environmental remediation	**146**	140	**141**	138
Post-retirement medical aid benefits	**513**	334	**399**	258
Actuarial valuation of obligations	**919**	797	**712**	617
Plan assets to meet post-retirement medical aid contribution liability	**(406)**	(463)	**(313)**	(359)
Current portion included in accounts payable (see note 14)	**(80)**	(100)	**(80)**	(100)
	579	374	**460**	296
Plan assets to meet post-retirement medical aid contribution liability	**(406)**	(463)	**(313)**	(359)
At the beginning of the year	**(463)**	(427)	**(359)**	(333)
Pro rata share of investment return earned by the AECI Pension Fund	**25**	(65)	**19**	(51)
Benefits paid	**32**	29	**27**	25

Environmental remediation

The environmental remediation provision is based on the Group's environmental policy and obligations in terms of legislation to remediate land. The expenditure is expected to be incurred substantially in 2009 and 2010 and to be completed in the foreseeable future. When detailed characterisation of the land is performed, the provision may need to be adjusted.

Post-retirement medical aid benefits

Details of the nature of the post-retirement medical aid benefits provision are contained in note 30. The costs will be incurred over the lifetime of all eligible employees and will vary depending on expected lives, changes to salary inflation, healthcare costs and discount rates. Assumptions used to determine the provision are also detailed in note 30.

Notes to the financial statements
for the year ended 31 December 2008 (continued)

		GROUP		COMPANY	
		2008 R millions	2007 R millions	**2008 R millions**	2007 R millions
14.	**ACCOUNTS PAYABLE**				
	Trade	**1 994**	1 228	**1 004**	641
	Non-trade	**981**	585	**404**	267
		2 975	1 813	**1 408**	908
	Closure costs	**170**	108	**170**	108
	Current portion of non-current provisions (see note 13)	**80**	100	**80**	100
		3 225	2 021	**1 658**	1 116
15.	**CURRENT BORROWINGS**				
	Current portion of non-current borrowings (see note 12)	**112**	42	**77**	1
	Unsecured interest-bearing short-term borrowings	**946**	885	**1 065**	951
		1 058	927	**1 142**	952
16.	**REVENUE**				
	Sale of goods and related services	**14 054**	11 005	**6 613**	5 590
	Leasing of investment property	**117**	103	**131**	121
	Sale of surplus land	**169**	220	**–**	29
	Sales to subsidiary companies			**321**	232
		14 340	11 328	**7 065**	5 972
	Continuing operations	**12 876**	8 710	**5 601**	3 425
	Local	**9 470**	6 988	**4 142**	2 914
	Foreign	**3 406**	1 722	**1 138**	318
	Sales to subsidiary companies			**321**	193
	Discontinued operations	**1 464**	2 618	**1 464**	2 547
	Local	**877**	1 714	**877**	1 711
	Foreign	**587**	904	**587**	797
	Sales to subsidiary companies			**–**	39
		14 340	11 328	**7 065**	5 972

	GROUP 2008 R millions	GROUP 2007 R millions	COMPANY 2008 R millions	COMPANY 2007 R millions
17. NET OPERATING COSTS				
Cost of sales	**10 813**	8 414	**5 608**	4 629
Selling and distribution expenses	**1 157**	1 091	**576**	646
Closure costs and related impairments	**204**	117	**204**	117
Administrative expenses	**1 180**	1 016	**516**	535
Net operating costs	**13 354**	10 638	**6 904**	5 927
Continuing operations	**11 841**	7 963	**5 350**	3 333
Discontinued operations – closure costs and related impairments	**204**	117	**204**	117
Discontinued operations	**1 309**	2 558	**1 350**	2 477
Net operating costs have been arrived at after taking into account:				
Auditors' remuneration	**17**	16	**6**	5
– Audit fees	**16**	15	**6**	5
– Other services	**1**	1	*****	*
Auditors' remuneration	**17**	16	**6**	5
– Continuing operations	**16**	14	**5**	4
– Discontinued operations	**1**	2	**1**	1
– Other services included in costs of disposal of discontinued operations	**–**	1	**–**	1
Change in fair value of listed investments classified as at fair value through profit and loss – continuing operations	**33**	(9)	**–**	–
Depreciation and amortisation	**216**	233	**50**	97
– Property, plant and equipment	**214**	231	**48**	95
– Investment property	**2**	2	**2**	2
Depreciation and amortisation	**216**	233	**50**	97
– Continuing operations	**211**	172	**45**	40
– Discontinued operations	**5**	61	**5**	57
Foreign exchange gains	**(333)**	(98)	**(140)**	(40)
– Realised	**(179)**	(75)	**(32)**	(33)
– Unrealised	**(154)**	(23)	**(108)**	(7)
Foreign exchange gains	**(333)**	(98)	**(140)**	(40)
– Continuing operations	**(265)**	(80)	**(72)**	(22)
– Discontinued operations	**(68)**	(18)	**(68)**	(18)

* Nominal amount.

Notes to the financial statements
for the year ended 31 December 2008 **(continued)**

	GROUP		COMPANY	
	2008 R millions	2007 R millions	**2008 R millions**	2007 R millions
17. NET OPERATING COSTS (continued)				
Foreign exchange losses	**301**	93	**162**	41
– Realised	**225**	74	**117**	33
– Unrealised	**76**	19	**45**	8
Foreign exchange losses	**301**	93	**162**	41
– Continuing operations	**247**	77	**108**	25
– Discontinued operations	**54**	16	**54**	16
Technical fees paid	**13**	11	**–**	(1)
– Continuing operations	**13**	11	**–**	–
– Discontinued operations	**–**	–	**–**	(1)
Inventory	**147**	38	**136**	37
– Losses and write-downs	**166**	57	**139**	40
– Reversal of losses and write-downs	**(19)**	(19)	**(3)**	(3)
Inventory losses, write-downs and reversals	**147**	38	**136**	37
– Continuing operations	**145**	28	**132**	27
– Discontinued operations	**2**	10	**4**	10
Investments and loans to subsidiary companies			**33**	48
– Impairments			**33**	62
– Reversal of impairments			**–**	(14)
Impairments and reversals of impairment on investments and loans to subsidiary companies			**33**	48
– Continuing operations			**33**	48
– Discontinued operations			**–**	–
Increase in non-current provisions – continuing operations	**199**	123	**169**	111
– Environmental remediation	**76**	93	**74**	92
– Post-retirement medical aid benefits	**123**	30	**95**	19
Operating lease costs	**70**	90	**20**	50
– Continuing operations	**61**	78	**11**	36
– Discontinued operations	**9**	12	**9**	14
Research and development expenditure	**13**	7	**10**	4
– Continuing operations	**13**	6	**10**	3
– Discontinued operations	**–**	1	**–**	1

	Group 2008 R millions	Group 2007 R millions	Company 2008 R millions	Company 2007 R millions
17. NET OPERATING COSTS (continued)				
Surplus on disposal of listed investments – continuing operations	**(10)**	(4)	**–**	–
Surplus on disposal of property, plant and equipment	**(38)**	(2)	**(4)**	(2)
– Property	**(28)**	–	**–**	*
– Plant and equipment	**(10)**	(2)	**(4)**	(2)
(Surplus)/loss on disposal of property, plant and equipment	**(38)**	(2)	**(4)**	(2)
– Continuing operations	**(2)**	(2)	**4**	(2)
– Discontinued operations	**(36)**	–	**(8)**	–
Total salaries and other staff costs	**1 804**	1 640	**577**	695
Salaries and other staff costs	**1 681**	1 542	**514**	628
Company contributions to pension funds	**123**	98	**63**	67
Total salaries and other staff costs	**1 804**	1 640	**577**	695
– Continuing operations	**1 651**	1 296	**424**	367
– Discontinued operations	**153**	344	**153**	328
18. INTEREST EXPENSE				
Interest paid	**(276)**	(173)	**(251)**	(180)
Non-current borrowings	**(93)**	(61)	**(49)**	(19)
Current borrowings	**(183)**	(112)	**(178)**	(109)
Subsidiary companies			**(24)**	(52)
Interest capitalised	**40**	8	**3**	–
	(236)	(165)	**(248)**	(180)
Continuing operations	**(233)**	(159)	**(246)**	(176)
Discontinued operations	**(3)**	(6)	**(2)**	(4)
19. INTEREST RECEIVED				
Subsidiary companies and joint ventures			**327**	178
Loans and receivables	**30**	30	**17**	15
	30	30	**344**	193
Continuing operations	**28**	28	**328**	181
Discontinued operations	**2**	2	**16**	12

* Nominal amount.

Notes to the financial statements
for the year ended 31 December 2008 **(continued)**

		GROUP		COMPANY	
		2008 R millions	2007 R millions	**2008 R millions**	2007 R millions
20.	**INVESTMENT INCOME**				
	Dividends from investments	**12**	11	**5**	7
	– Listed	**7**	4		
	– Unlisted	**5**	7	**5**	7
	Dividends from unlisted South African subsidiaries			**233**	225
		12	11	**238**	232
	Continuing operations	**12**	11	**238**	227
	Discontinued operations	**–**	–	**–**	5
	Aggregate income from subsidiaries and joint ventures				
	Dividends			**233**	225
	Net interest received			**303**	126
	Secretarial and administrative fees			**15**	10
				551	361

	GROUP		COMPANY	
	2008	2007	**2008**	2007
	R millions	R millions	**R millions**	R millions
21. INCOME TAX EXPENSE				
Current tax	**(423)**	(276)	**(163)**	(113)
South African and foreign normal tax	**(398)**	(247)	**(153)**	(109)
Foreign withholding taxes	**(1)**	*	**–**	*
Secondary tax on companies	**(24)**	(29)	**(10)**	(4)
Deferred tax	**192**	61	**99**	105
Temporary differences	**183**	61	**89**	105
Disposals and impairments	**9**	–	**10**	–
	(231)	(215)	**(64)**	(8)
Adjustment for prior years	**5**	(2)	**–**	(4)
South African normal tax	**52**	5	**48**	1
Deferred tax	**(47)**	(7)	**(48)**	(5)
	(226)	(217)	**(64)**	(12)
Continuing operations	**(238)**	(246)	**(80)**	(78)
Discontinued operations	**12**	29	**16**	66
Analysis of deferred tax charge by major temporary differences:				
Property, plant and equipment	**14**	49	**(4)**	71
Provisions	**137**	24	**95**	58
Share options hedge premium	**(3)**	(10)	**(3)**	(9)
Pension Fund employer surplus	**6**	(9)	**6**	(9)
Deferred foreign exchange differences	**–**	1	**–**	*
Computed tax losses	**29**	(12)	**–**	(23)
Fair value adjustments	**(2)**	(1)	**2**	–
Change in rate	**7**	–	**7**	–
Other	**4**	19	**(4)**	17
	192	61	**99**	105
Prior year adjustment	**(47)**	(7)	**(48)**	(5)
	145	54	**57**	100
Computed tax losses				
Utilised to reduce deferred tax or create deferred tax assets	**415**	223	**–**	–
Losses on which no deferred tax assets were raised because of uncertainty regarding their utilisation	**148**	152	**–**	–
	563	375	**–**	–
	%	%	**%**	%
Reconciliation of tax rate computed in relation to profit before tax				
Effective rate	**37,4**	31,7	**19,0**	2,9
Capital and non-taxable receipts	**3,2**	17,1	**20,3**	38,7
Non-deductible expenses	**(9,0)**	(4,8)	**(6,3)**	(1,0)
Secondary tax on companies	**(4,0)**	(4,3)	**(2,9)**	(1,1)
Adjustment for prior years	**0,8**	(0,3)	**(0,1)**	(1,0)
Capital gains	**(0,7)**	(7,0)	**(0,2)**	(9,5)
Tax rate change	**(1,1)**	–	**(1,8)**	–
Other	**1,4**	(3,4)	**–**	–
South African standard rate	**28,0**	29,0	**28,0**	29,0

* Nominal amount.

Notes to the financial statements
for the year ended 31 December 2008 (continued)

22. DISCONTINUED OPERATIONS

The Group decision's to exit the businesses in the specialty fibres segment, taken in 2007, included the anticipated sales of the nylon LDI and PET polymer businesses, including SANS Technical Fibers, USA. Following unsuccessful attempts to dispose of the SANS businesses, the decision was taken that SANS Technical Fibers, USA will not be disposed of and will run as a stand-alone and self-sustaining entity for the foreseeable future and has, therefore, been reclassified as a continuing operation with the comparative figures adjusted accordingly. The remaining South African businesses of SANS will be closed and will discontinue manufacturing activities at the end of March 2009. As a result, closure costs and impairments in respect of these businesses amounting to R204 million have been charged to the income statement in the year to 31 December 2008.

The loss on disposal of discontinued operations is in respect of the disposal of the Dulux business. The loss was incurred as a result of a reduction of the purchase price based on a revised estimate of the cost of remediation of certain property occupied by Dulux.

	GROUP		COMPANY	
	2008 R millions	2007 R millions	**2008 R millions**	2007 R millions
Results of discontinued operations				
Revenue	**1 464**	2 618	**1 464**	2 547
Net operating costs	**(1 309)**	(2 558)	**(1 350)**	(2 477)
Profit from operations	**155**	60	**114**	70
Closure costs and inventory impairments	**(204)**	(117)	**(204)**	(117)
Loss after closure costs	**(49)**	(57)	**(90)**	(47)
Interest paid	**(3)**	(6)	**(2)**	(4)
Interest received	**2**	2	**16**	12
Investment income	**–**	–	**–**	5
Impairment of discontinued plant and equipment	**(39)**	(62)	**(39)**	(62)
Impairment of property, plant and equipment classified as held for sale	**–**	(217)	**–**	(214)
Net (loss)/surplus on disposals of investments and businesses	**(17)**	378	**(17)**	333
(Loss)/profit before tax	**(106)**	38	**(132)**	23
Tax	**12**	29	**16**	66
(Loss)/profit for the year	**(94)**	67	**(116)**	89
Cash flows from/(utilised by) discontinued operations				
Net cash from operating activities	**(63)**	6	**(64)**	35
Net cash from investing activities	**65**	(106)	**66**	(125)
Net cash from financing activities	**4**	49	**4**	31
	6	(51)	**6**	(59)
Effect of the disposals				
Property, plant and equipment	**–**	86	**–**	70
Goodwill	**–**	16	**–**	15
Investments	**–**	1	**–**	24
Deferred tax	**–**	1	**–**	–
Inventory	**–**	191	**–**	172
Accounts receivable	**–**	246	**–**	226
Cash and cash equivalents	**–**	8	**–**	–
Borrowings	**–**	(1)	**–**	–
Accounts payable	**17**	(146)	**17**	(126)
Post-acquisition distributable reserves	**–**	(20)	**–**	–
Foreign currency translation reserve	**–**	4	**–**	–
Minority interest	**–**	(3)	**–**	–
Costs of disposal	**–**	6	**–**	6
Net assets and liabilities	**17**	389	**17**	387
(Loss)/surplus on disposal	**(17)**	378	**(17)**	333
Consideration received in cash	**–**	767	**–**	720

	GROUP 2008 R millions	GROUP 2007 R millions
23. EARNINGS PER SHARE		
Headline earnings are derived from:		
Profit attributable to ordinary shareholders	**385**	455
Continuing operations		
Impairment of goodwill	**42**	20
Impairments of property plant and equipment and other investments before tax	**4**	37
Surplus on disposal of property, plant and equipment and businesses	**(2)**	(4)
Tax effects of the above items	**(1)**	(10)
Discontinued operations		
Impairment of property, plant and equipment	**39**	279
Net loss/(surplus) on disposal of investments and businesses	**17**	(378)
Surplus on disposal of property, plant and equipment	**(36)**	*
Tax effects of the above items	**(5)**	(7)
Headline earnings	**443**	392

	GROUP 2008	GROUP 2007
Earnings per ordinary share (cents)		
Attributable	**358**	412
– Continuing operations	**445**	351
– Discontinued operations	**(87)**	61
Headline	**412**	355
– Continuing operations	**485**	390
– Discontinued operations	**(73)**	(35)
Weighted average number of ordinary shares in issue	**119 453 853**	120 742 578
Deduct treasury shares held	**11 884 699**	10 311 120
	107 569 154	110 431 458

Attributable and headline earnings per share have been calculated on the profit for the financial year as shown above and on the weighted average number of ordinary shares in issue of 107 569 154, net of treasury shares (2007 - 110 431 458).

	GROUP 2008	GROUP 2007
Diluted earnings per ordinary share (cents)		
Attributable	**356**	408
– Continuing operations	**443**	348
– Discontinued operations	**(87)**	60
Headline	**410**	352
– Continuing operations	**483**	387
– Discontinued operations	**(73)**	(35)

At 31 December 2008 there were 793 100 (2007 - 1 179 880) options outstanding under the employees' share option scheme. Taking these share options into account, diluted earnings per ordinary share and diluted headline earnings per ordinary share have been calculated on the profit for the financial year as shown above and on a weighted average number of shares of 108 118 964 (2007 - 111 384 469).

The average share price of AECI Limited since the beginning of the financial year, used in the determination of potentially dilutive ordinary shares, is R62,37 (2007 - R79,07) compared to an average exercise price on the outstanding options of R19,13 (2007 - R15,20).

* Nominal amount.

Notes to the financial statements
for the year ended 31 December 2008 **(continued)**

	GROUP	
	2008	2007
23. EARNINGS PER SHARE (continued)		
Reconciliation of the weighted average number of ordinary shares for diluted earnings per share:		
Weighted average number of ordinary shares	**107 569 154**	110 431 458
Number of options available for future exercise	**793 100**	1 179 880
Number of shares that would be issued at fair value	**(243 290)**	(226 869)
Weighted average number of ordinary shares for diluted earnings per share calculation	**108 118 964**	111 384 469

The diluted earnings per ordinary share have been shown in accordance with the provisions of IAS 33 (earnings per share). The Company has purchased call options over AECI ordinary shares which will obviate the need for the Company to issue new shares in terms of the AECI share option scheme. In practice, therefore, there will be no future dilution of earnings from this source.

	GROUP		COMPANY	
	2008 R millions	2007 R millions	**2008 R millions**	2007 R millions
24. DIVIDENDS				
Ordinary				
Final for the previous year: No. 148 of 141 cents (2007 - 141 cents) paid 21 April 2008	**152**	155	**167**	170
Interim for the current year: No. 149 of 90 cents (2007 - 72 cents) paid 15 September 2008	**96**	80	**108**	87
Total ordinary dividends paid: 231 cents (2007 - 213 cents)	**248**	235	**275**	257
Preference				
Nos. 140 and 141 paid 13 June 2008 and 15 December 2008 respectively	**2**	2	**2**	2
	250	237	**277**	259
Proposed final dividend No. 150 for the year ended 31 December 2008 of 141 cents (2007 - 141 cents) per share payable on 20 April 2009	**151**	156	**168**	170
Secondary tax on companies thereon	**15**	16	**17**	17

		GROUP		COMPANY	
		2008 R millions	2007 R millions	**2008 R millions**	2007 R millions
25.	**BORROWINGS AND CONTINGENT LIABILITIES**				
	Borrowings	**2 803**	1 429	**2 619**	1 152
	Non-current (see note 12)	**1 745**	502	**1 477**	200
	Current (see note 15)	**1 058**	927	**1 142**	952
	Contingent liabilities	**82**	94	**–**	–
	Disputes with the SA Revenue Service in respect of various tax matters				
	– property realisation companies	**78**	72	**–**	–
	– other	**4**	22	**–**	–
	Guarantees*	**34**	46	**225**	319
		2 919	1 569	**2 844**	1 471
26.	**COMMITMENTS**				
	Capital commitments authorised	**978**	1 251	**65**	108
	Contracted for	**550**	340	**22**	62
	Not contracted for	**428**	911	**43**	46
	The expenditure will be financed from funds on hand and generated internally, supplemented by borrowings against facilities available to the Group				
	The above includes the Group's share of capital commitments of joint ventures				
	Future rentals on property, plant and equipment leased	**317**	253	**101**	129
	Payable within one year	**144**	77	**64**	29
	Payable between one and five years	**171**	139	**37**	79
	Payable thereafter	**2**	37	**–**	21
		1 295	1 504	**166**	237

* Company – inclusive of guarantee as described in note 12.

Notes to the financial statements
for the year ended 31 December 2008 (continued)

27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Group finances its operations by a combination of retained profits, current borrowings, non-current borrowings and financial instruments such as trade bills denominated in both rand and foreign currencies. The Group also enters into derivative transactions in order to manage the currency and interest rate risk arising from its operations.

The Group raises non-current and current borrowings centrally and on-lends to its operating units at market-related interest rates. The Group borrows in both the local and international debt markets in rand and foreign currencies, mainly at floating rates of interest. It uses derivatives where appropriate to generate the desired effective currency and interest rate profile. The derivatives used for this purpose are principally forward foreign currency contracts, cross-currency swaps, forward rate agreements, interest rate swaps and interest rate caps and floors.

The Group does not write interest rate or currency options and only purchases currency options where these are considered to offer a cost-effective alternative to forward foreign exchange contracts. It is Group policy that no financial instruments are purchased or sold unless they relate to underlying commercial transactions.

The main risks arising in the normal course of business from the Group's financial instruments are currency, interest rate, equity, liquidity and credit risk. This note presents information about the Group's exposure to these risks and the Group's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included with other relevant notes as indicated.

The Board of directors is responsible for the risk management activities in the Group. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. Internal audit undertakes both regular and *ad-hoc* reviews of risk management controls and procedures, the results of which are reported to the Group audit and risk committee. This committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

	GROUP			
	Carrying amount		Fair value	
	2008 R millions	2007 R millions	**2008 R millions**	2007 R millions
Categories of financial instruments and fair values				
Financial assets				
Available-for-sale financial assets [1]	**473**	464	**473**	464
– Unlisted investments	**5**	16	**5**	16
– Unlisted investments classified as held for sale	**14**	–	**14**	–
– Associate companies	**10**	7	**10**	7
– Cash and cash equivalents	**444**	428	**444**	428
– Cash and cash equivalents classified as held for sale	**–**	13	**–**	13
Financial assets at fair value through profit and loss	**82**	98	**82**	98
– Listed investment classified as held for trading	**82**	98	**82**	98
Loans and receivables	**3 194**	2 345	**3 194**	2 345
– Accounts receivable	**3 188**	2 024	**3 188**	2 024
– Accounts receivable classified as held for sale	**–**	313	**–**	313
– Loans relating to unlisted investments	**6**	8	**6**	8
	3 749	2 907	**3 749**	2 907

1 Items are classified as available-for-sale when they are not classified in another category or when specifically designated as such.

	GROUP			
	Carrying amount		**Fair value**	
	2008 R millions	2007 R millions	**2008 R millions**	2007 R millions
27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)				
Financial liabilities				
– Loans by associate companies	**(5)**	(5)	**(5)**	(5)
– Accounts payable	**(3 145)**	(1 921)	**(3 145)**	(1 921)
– Accounts payable classified as held for sale	**–**	(250)	**–**	(250)
– Borrowings	**(2 803)**	(1 429)	**(2 803)**	(1 429)
	(5 953)	(3 605)	**(5 953)**	(3 605)

Fair value of financial instruments

The carrying amounts of financial instruments are either at fair value based on the methods and assumptions for determining the fair value as stated in the accounting policies or at values which approximate fair value based on the nature or maturity period of the financial instrument.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income and the value of its financial instruments. The objective of market risk management is to manage and control exposures within acceptable limits.

(a) Currency risk

The Group's non-South African operations are relatively small in relation to its total operations. Where possible, foreign entities match their assets and liabilities in the same currency to avoid unnecessary currency exposures. However, forward currency markets do not exist in some of the territories in which the Group operates.

Currency risk arises as a result of sale and purchase transactions and borrowings in currencies other than rand. The currencies giving rise to currency risk are mainly US dollar, Japanese yen, euro and pound sterling. Currency exposures are managed using appropriate exposure management techniques.

The board of directors of each operating unit is tasked with managing the foreign currency exposures arising within its own unit in consultation with the central treasury function. All material purchases and sales in foreign currencies are transacted through the central treasury.

Fair value hedges

Fair value hedges have been recognised for the net exposure to trading in foreign currency. Forward exchange contracts have been designated as hedging instruments in respect of amounts denominated in US dollars, pound sterling, euro and Japanese yen.

The fair value of the hedging instruments at 31 December 2008 was R194 million (2007 – R46 million). The profits on the hedging instruments for the year were R15 million (2007 – losses of R2 million) and the gain on the hedged item attributable to the hedged risk was nil (2007 – nominal).

Notes to the financial statements
for the year ended 31 December 2008 **(continued)**

		GROUP			
		Foreign amount		**2008**	2007
	Foreign currency	**2008**	2007	**R millions**	R millions
27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)					
Transactions in foreign currencies					
Forward exchange contracts at 31 December 2008, relating to specific balance sheet items					
Accounts receivable				**122**	310
	Euro	**1**	3	**12**	33
	Pound sterling	*****	1	**3**	12
	US dollar	**11**	38	**107**	265
Accounts payable				**368**	360
	Euro	**7**	6	**92**	61
	Japanese yen	**6**	62	**1**	4
	Pound sterling	**2**	2	**32**	33
	Swiss franc	*****	3	**2**	18
	US dollar	**25**	36	**241**	244
Non-current borrowings				**1**	172
	US dollar	*****	25	**1**	172
Forward exchange contracts at 31 December 2008, not relating to specific balance sheet items but which were entered into to cover firm import and export commitments not yet due					
Imports				**273**	173
	Euro	**9**	5	**115**	48
	Pound sterling	**3**	1	**36**	17
	Swiss franc	**3**	3	**27**	22
	US dollar	**10**	13	**95**	86
Exports				**42**	51
	US dollar	**4**	7	**42**	51

Cash flow hedges

The Group has hedged its foreign currency exposure on the import of plant and equipment by a subsidiary company by entering into forward exchange contracts for the purchase commitments. The fair value of the forward exchange contracts at 31 December was R169 million (2007 – R76 million).

The Group has hedged its foreign currency exposure on the import of raw materials by entering into forward exchange contracts for the purchase commitments. The fair value of the forward exchange contracts at 31 December 2008 was R88 million (2007 – nil).

The cash flows relating to the hedging instrument will occur in 2009 and will not affect the income statement if the hedge is effective as the amount recognised in equity will be removed from equity and recognised in the initial cost of the items of plant and equipment, and inventory.

The amount recognised directly in equity for the year in respect of this cash flow hedge is a credit of R14 million (2007 – debit of R4 million).

27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

Exposure to currency risk

The Group's exposure to foreign currency risk at 31 December was:

	2008					2007				
R millions	**Euro**	**Pound sterling**	**Swiss franc**	**US dollar**	**Other**	Euro	Pound sterling	Swiss franc	US Dollar	Other
Cash and cash equivalents	**2**	**3**	**–**	**(1)**	**–**	7	1	–	67	6
Trade receivables	**30**	**7**	**–**	**631**	**21**	39	9	–	210	12
Other receivables	**–**	**–**	**–**	**5**	**4**	1	1	–	7	–
Interest-bearing liabilities	**–**	**–**	**–**	**(47)**	**–**	–	–	–	(194)	–
Trade payables	**(131)**	**(38)**	**(2)**	**(422)**	**(17)**	(78)	(37)	(18)	(303)	(6)
Other payables	**–**	**–**	**–**	**(13)**	**(1)**	–	–	–	(4)	(1)
Gross balance sheet exposure	**(99)**	**(28)**	**(2)**	**153**	**7**	(31)	(26)	(18)	(217)	11
Forward exchange contracts	**195**	**65**	**29**	**188**	**1**	76	38	40	186	4
Net exposure	**96**	**37**	**27**	**341**	**8**	45	12	22	(31)	15

The following significant exchange rates applied during the year:

	Closing rate		**Average rate**	
	2008 Rand	2007 Rand	**2008 Rand**	2007 Rand
Euro	**13,20**	10,01	**12,01**	9,66
Japanese yen	**0,10**	0,06	**0,08**	0,06
Pound sterling	**13,58**	13,63	**15,06**	14,10
Swiss franc	**8,87**	6,05	**7,52**	5,89
US dollar	**9,37**	6,81	**8,21**	7,04

Sensitivity analysis

Based on the Group's net exposure to currency risk, a 10 per cent strengthening of the rand at 31 December would have increased equity and profit by the amounts shown below, assuming all other variables remained constant:

	GROUP	
	2008 R millions	2007 R millions
Revaluation reserve	**(26)**	(8)
Profit for the year before tax	**(16)**	(4)

Notes to the financial statements
for the year ended 31 December 2008 **(continued)**

27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(b) Interest rate risk

The Group borrows extensively in both local and offshore markets to minimise its borrowing costs in rand terms.

Exposure to interest rate risk on borrowings and receivables is managed on a proactive basis. Depending on market conditions, the Group makes appropriate use of forward rate agreements, interest rate swaps and interest rate caps and floors to generate the desired interest rate profile and to manage exposure to interest rate fluctuations. No target levels of exposure are maintained.

The interest rate risk profile of financial liabilities of the Group, at 31 December 2008, was:

	Total		Floating rate financial liabilities		Fixed rate financial liabilities	
Currency	**2008 R millions**	2007 R millions	**2008 R millions**	2007 R millions	**2008 R millions**	2007 R millions
Rand						
– Current	**1 045**	923	**1 041**	915	**4**	8
– Non-current	**1 695**	297	**1 686**	281	**9**	16
Other						
– Current	**13**	4	**5**	–	**8**	4
– Non-current	**50**	205	**47**	194	**3**	11
Total	**2 803**	1 429	**2 779**	1 390	**24**	39

	Fixed rate financial liabilities		Weighted average interest rate		Weighted average period for which rate is fixed	
	2008 R millions	2007 R millions	**2008 %**	2007 %	**2008 Months**	2007 Months
Rand						
– Current	**4**	8	**14,1**	17,4	**12,0**	13,0
– Non-current	**9**	16	**14,1**	13,1	**20,0**	36,9
Other						
– Current	**8**	4	**7,3**	6,9	**11,0**	12,0
– Non-current	**3**	11	**6,97**	6,9	**16,0**	7,0
	24	39	**10,8**	11,2	**26,7**	24,0

The fair value adjustments on interest rate swap contracts were a gain of R6 million in 2008 and R5 million in 2007.

Cash flow hedges

The Group has hedged its interest rate exposure on certain non-current borrowings of the Company by entering into forward rate agreements for the interest repayment commitments. The fair value of the forward rate agreements at 31 December 2008 was R6 million (2007 – nil).

The cash flows relating to the hedging instruments will occur in 2009 and will not affect the income statement if the hedge is effective as the amount recognised in equity will be removed from equity and reclassified to retained income.

The amount recognised directly in equity for the year in respect of the cash flow hedges was a debit of R6 million (2007 – nil).

(c) Equity risk

The Group has listed investments as part of a portfolio in a subsidiary company and these investments are listed on the JSE Limited (JSE). Equity price risk arises from these equity securities. The securities are classified as at fair value through profit and loss as their performance is actively monitored and they are managed on a fair value basis (see note 6). A 1 per cent increase in the FTSE-JSE all share index would have resulted in an increase in the value of the securities and profit before tax of R1 million (2007 – R1 million), assuming that all other variables remained unchanged.

Liquidity risks

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages liquidity risk through the management of working capital and cash flows. A balance between continuity of funding and flexibility is maintained through the use of borrowings from a range of institutions with varying debt maturities.

27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(i) Maturity profile of financial liabilities at 31 December

Group

R millions	Carrying amount	Contractual cash flows	Within 1 year	1 to 2 years	2 to 5 years	More than 5 years
2008						
Financial liabilities						
Secured non-current borrowings	**16**	**16**	**6**	**5**	**5**	**–**
Unsecured non-current borrowings	**1 841**	**1 841**	**105**	**95**	**1 641**	*****
Unsecured short-term borrowings	**946**	**946**	**946**	**–**	**–**	**–**
Interest on non-current borrowings [1]	**40**	**1 127**	**258**	**255**	**614**	**–**
Loans by associate companies	**5**	**5**	**5**	**–**	**–**	**–**
Accounts payable	**2 164**	**2 164**	**2 164**	**–**	**–**	**–**
Other payables	**941**	**941**	**941**	**–**	**–**	**–**
Total financial liabilities	**5 953**	**7 040**	**4 425**	**355**	**2 260**	**–**
Percentage profile (%)		**100**	**63**	**5**	**32**	**–**
2007						
Financial liabilities						
Secured non-current borrowings	29	29	12	6	11	–
Unsecured non-current borrowings	515	515	30	203	89	193
Unsecured short-term borrowings	885	885	885	–	–	–
Interest on non-current borrowings [1]	–	190	54	50	86	*
Loans by associate companies	5	5	5	–	–	–
Accounts payable	1 336	1 336	1 336	–	–	–
Accounts payable classified as held for sale	250	250	250	–	–	–
Other payables	585	585	585	–	–	–
Total financial liabilities	3 605	3 795	3 157	259	186	193
Percentage profile (%)		100	83	7	5	5

1 Interest is based on the closing rate at 31 December and the repayment dates of the borrowings.

* Nominal amount.

(ii) Borrowing facilities

The Group ensures that adequate borrowing facilities are in place. The Group maintains a policy of ensuring that expected peak cash flows over the next 12 months are comfortably exceeded by existing facilities in order to preserve operational flexibility.

Some of the Group's loan agreements contain financial covenants. The Group complied with all such covenants.

Credit risks

Credit risks arise on cash and cash equivalents, investments and accounts receivable. The risk on cash and cash equivalents is managed by only investing with financially sound institutions and by setting prudent exposure limits for each institution. The risk arising on trade receivables is managed through normal credit policies using credit limits, continual review and exception reporting. The exposure to credit risk relating to trade receivables is decentralised with each operating unit managing its own credit control procedures because of the Group's diversified customer base. Adequate provision is made for impairment losses. Details of the carrying amounts and exposure to credit risk of trade receivables, as well as impairments recognised, are contained in note 9.

At the balance sheet date, the maximum exposure to credit risk is represented by the carrying amount of each financial asset on the balance sheet.

Notes to the financial statements
for the year ended 31 December 2008 (continued)

28. RELATED PARTY INFORMATION

The subsidiaries of the Group are identified in note 34, joint ventures and partnerships in note 33 and associate companies in note 6.

All transactions and balances with these related parties have been eliminated in accordance with, and to the extent required by, IAS 27 – consolidated and separate financial statements, IAS 28 – investments in associates and IAS 31 – interests in joint ventures.

Dividends received from associate companies amounted to nil (2007 – R1 million) and loans from associate companies amounted to R5 million (2007 – R5 million) (see note 6).

Transactions with directors are disclosed in notes 29 and 30.

Transactions with related parties are made on terms equivalent to those that prevail in arm's length transactions.

The transactions that took place with related parties of the Company were as follows:

	COMPANY	
	2008 R millions	2007 R millions
Sales by the Company to		
– Subsidiaries	**321**	232
– Other	**–**	5
Sales to the Company by		
– Subsidiaries	**36**	43
Dividends received by the Company from		
– Subsidiaries	**233**	225
– Associates	**–**	1
Interest received by the Company from		
– Subsidiaries	**326**	177
– Joint ventures	**1**	1
Interest paid by the Company to		
– Subsidiaries	**24**	52
Rental of premises to the Company by		
– AECI Pension Fund	**4**	4
– Subsidiaries	**17**	21
Commission and administration fees paid by the Company to		
– Subsidiaries	**61**	47
Fees received by the Company from		
– Subsidiaries	**15**	11
– Joint ventures	**1**	1
Company contributions to pension and provident funds		
– AECI Pension Fund	**55**	45
– AECI Supplementary Pension Fund	**2**	5
– AECI Employees Provident Fund	**35**	35
– Chemical Services Group Provident Fund	**2**	5
Outstanding balances with related parties of the Company at 31 December were as follows:		
Amounts owing to the Company by		
– Subsidiaries	**3 190**	2 539
– Joint ventures	**7**	23
Amounts owing by the Company to		
– Subsidiaries	**544**	1 062

29. DIRECTORS' EMOLUMENTS AND INTERESTS

Executive directors

R thousands	NC Axelson [1]	FPP Baker	GN Edwards [2]	S Engelbrecht [3]	KM Kathan [4]	RA Williams [5]	Total
2008							
Basic salary		**1 860**	**2 124**	**663**	**672**	**1 344**	**6 663**
Bonus and performance-related payments [6]		**4 186**	**1 475**	**282**	**462**	**858**	**7 263**
Expense allowances, medical aid and insurance contributions		**347**	**374**	**97**	**125**	**235**	**1 178**
Retirement fund contributions		**415**	**248**	**726**	**65**	**131**	**1 585**
Share options exercised		**–**	**–**	**–**	**–**	**–**	**–**
Benefit unit payments		**–**	**–**	**–**	**–**	**–**	**–**
Aggregate emoluments		**6 808**	**4 221**	**1 768**	**1 324**	**2 568**	**16 689**
Aggregate emoluments paid by subsidiaries		**(6 808)**	**–**	**–**	**–**	**–**	**(6 808)**
Aggregate emoluments paid by the Company		**–**	**4 221**	**1 768**	**1 324**	**2 568**	**9 881**
2007							
Basic salary	1 308	1 548	1 470	2 652		800	7 778
Bonus and performance-related payments [6]	631	505	31	1 093		392	2 652
Expense allowances, medical aid and insurance contributions	418	302	274	349		116	1 459
Retirement fund contributions	3 032	426	185	966		92	4 701
Share options exercised	–	–	–	–		–	–
Benefit unit payments	–	–	–	–		–	–
Aggregate emoluments	5 389	2 781	1 960	5 060		1 400	16 590
Aggregate emoluments paid by subsidiaries	–	(2 781)	–	–		–	(2 781)
Aggregate emoluments paid by the Company	5 389	–	1 960	5 060		1 400	13 809

1 NC Axelson retired on 31 July 2007.
2 GN Edwards was appointed chief executive on 1 March 2008.
3 S Engelbrecht retired as chief executive and an executive director on 1 March 2008. He was appointed non-executive director on 1 April 2008.
4 KM Kathan was appointed chief financial officer and financial director on 1 September 2008.
5 RA Williams resigned on 31 August 2008.
6 Bonus and performance-related amounts are in respect of the current year's performance and are paid in the following year.
7 Share options issued to directors are set out in note 30. In 2008, after retirement as an executive director, S Engelbrecht exercised 90 000 options which generated a benefit of R4 251 188 before tax. None of the other directors exercised any of their options in either the current or the previous year.
8 There were no pensions paid by the Company to directors or past directors of the Company.
9 No compensation was paid to any director or past director for loss of office.
10 There are no service contracts with any director which have a notice period of longer than one month.

Notes to the financial statements
for the year ended 31 December 2008 **(continued)**

29. DIRECTORS' EMOLUMENTS AND INTERESTS (continued)

Non-executive directors

R thousands	Directors' fees	Chairman/ committee fees	Additional payments	**2008 Total**	2007 Total
CB Brayshaw (retired on 21 May 2007)	–	–	–	**–**	107
RMW Dunne (appointed 1 January 2007)	150	145	–	**295**	206
S Engelbrecht (appointed 1 April 2008)	113	–	–	**113**	–
Z Fuphe (appointed 1 November 2007)	150	26	–	**176**	20
MJ Leeming	150	210	–	**360**	252
LM Nyhonyha	150	185	–	**335**	208
AC Parker (appointed 21 May 2007)	150	55	–	**205**	80
AE Pedder CBE (retired on 21 May 2007)	–	–	–	**–**	257
F Titi	150	450	–	**600**	390
LC van Vught (retired on 31 December 2008)	150	94	–	**244**	243
	1 163	1 165	–	**2 328**	1 763

Aggregate emoluments

R thousands	**2008 Total**	2007 Total
Executive directors	**16 689**	16 590
Non-executive directors	**2 328**	1 763
	19 017	18 353

Interest of directors in the share capital of the Company

The aggregate beneficial holdings of the directors of the Company in the issued ordinary shares of the Company at 31 December 2008 were as follows:

	Number of shares			
	2008 Direct	**2008 Indirect**	2007 Direct	2007 Indirect
Executive directors				
FPP Baker	**2 500**	**–**	1 500	–
GN Edwards	**2 000**	**–**	600	–
RA Williams [1]	**–**	**–**	6 000	–
	4 500	**–**	8 100	–
Non-executive directors				
S Engelbrecht	**46 623**	**600**	4 000	600
MJ Leeming	**2 500**	**7 000**	2 500	7 000
LC van Vught	**6 000**	**5 500**	6 000	5 500
	55 123	**13 100**	12 500	13 100
	59 623	**13 100**	20 600	13 100

1 RA Williams resigned on 31 August 2008.

2 Certain directors have outstanding share options as detailed in note 30.

30. EMPLOYEE BENEFITS

Retirement benefits

The Group provides retirement benefits for all its permanent employees by means of a number of independent defined-benefit pension schemes and defined-contribution provident funds.

At 31 December 2008 the following funds were in existence:

	Date of last statutory valuation
Defined-benefit funds	
– AECI Pension Fund	1 March 2006
– AECI Employees Pension Fund	1 March 2007
– AECI Supplementary Pension Fund	1 March 2008
– Dulux Employees Pension Fund	1 March 2007
Defined-contribution funds	
– AECI Employees Provident Fund	n/a
– Chemical Services Group Provident Fund	n/a

Members pay a maximum contribution of 7,5 per cent of earnings, with the employer's contribution being 9 per cent.

The assets of the funds are under the control of the trustees of the respective funds.

All funds are governed by the Pension Fund Act, No. 24 of 1956, as amended. Defined-benefit funds are actuarially valued every three years using the accrued benefit method of valuation by independent firms of consulting actuaries, while for defined-contribution funds, no statutory valuations are required.

Principal actuarial assumptions at 31 December 2008 were as follows:

	GROUP	
	2008 %	2007 %
Discount rate	**7,90**	9,00
Expected return on plan assets	**7,90**	9,00
Future price inflation	**3,50**	5,10
Future salary increases	**5,00**	6,60
Future pension increases	**3,15**	4,61

The total cost recognised in the income statement of R37 million (2007 - R40 million) in respect of the defined-contribution funds represents contributions payable by the Group at the rates specified in the rules of the schemes. Amounts recognised in the income statement in respect of the defined-benefit funds were as follows:

	GROUP	
	2008 R millions	2007 R millions
Current service cost	**70**	69
Interest cost	**549**	496
Expected return on plan assets	**(946)**	(812)
Employer surplus account	**13**	(30)
Net actuarial loss recognised in the year	**404**	297
Recognised in profit from operations in respect of defined-benefit funds	**90**	20
Actual return on plan assets	**(436)**	1 534

Notes to the financial statements
for the year ended 31 December 2008 **(continued)**

30. EMPLOYEE BENEFITS (continued)

Retirement benefits

Based on interim valuations by the funds' actuaries, the funded status of the defined-benefit funds at 31 December 2008 was as follows:

	GROUP	
	2008 R millions	2007 R millions
Fair value of plan assets	**9 880**	10 758
At the beginning of the year	**10 758**	9 651
Expected return on plan assets	**946**	812
Net actuarial (loss)/gain	**(1 382)**	723
Employer contributions	**57**	50
Employee contributions	**33**	36
Benefits paid	**(532)**	(410)
Assets distributed on settlements	**–**	(104)
Present actuarial value of defined-benefit obligations	**6 390**	6 274
At the beginning of the year	**6 274**	5 901
Current service cost	**70**	69
Interest cost	**549**	496
Liabilities extinguished on settlements	**–**	(81)
Benefits paid	**(532)**	(410)
Employee contributions	**33**	36
Net actuarial (loss)/gain	**(4)**	263
	3 490	4 484
Less: Pension Fund employer surplus	**213**	226
Surplus of plan assets over defined-benefit obligations	**3 277**	4 258
Included in the fair value of plan assets are:		
Financial instruments of the Group	**8**	11
Property occupied by the Group	**14**	13

The surplus of assets over liabilities has not been recognised in the Group financial statements because:

- a substantial portion thereof is required to meet the solvency reserves determined to be necessary by the funds' actuaries; and
- the Company has no legal entitlement to the surplus, either during the life of the funds or on their dissolution, beyond the amount credited to the employer surplus account.

Historical information on retirement benefits

	GROUP				
	2008 R millions	2007 R millions	2006 R millions	2005 R millions	2004 R millions
Fair value of plan assets	**9 880**	10 758	9 651	7 558	5 553
Present actuarial value of defined-benefit obligations	**(6 390)**	(6 274)	(5 901)	(4 965)	(4 191)
	3 490	4 484	3 750	2 593	1 362
Less: Pension Fund employer surplus	**213**	226	196	–	–
Net assets	**3 277**	4 258	3 554	2 593	1 362

30. EMPLOYEE BENEFITS (continued)

Post-retirement medical aid benefits

The Group provides medical aid benefits for all its permanent employees, principally via the AECI Medical Aid Society. Historically, qualifying employees were granted a subsidy on their medical aid contributions after retirement. The obligation of the employer to continue to subsidise medical aid contributions after retirement is no longer a condition of employment for new employees.

Principal actuarial assumptions for the post-retirement medical aid benefits were as follows:

	GROUP	
	2008 **%**	2007 %
Annual increase in healthcare costs	**5,8**	6,3
Discount rate	**7,9**	9,0

Based on interim valuations by the funds' actuaries, the funded status of the defined-benefit funds at 31 December 2008 was as follows:

	GROUP	
	2008 **R millions**	2007 R millions
Present actuarial value of defined-benefit obligations	**919**	797
At the beginning of the year	**797**	767
Current service cost	**5**	6
Interest cost	**69**	67
Liabilities extinguished on settlements	**(66)**	(69)
Net actuarial loss	**114**	26

Sensitivity analysis

An increase of 1 per cent and a decrease of 1 per cent in the assumed medical cost trend rates would have effected the obligation as follows:

	GROUP	
	1% increase **R millions**	**1% decrease** **R millions**
Current service cost	–	–
Interest cost	–	–
Increase/(decrease) in carrying amount of post-retirement medical aid obligation	91	(75)

Share option scheme

AECI Limited offers share options, without payment, to those employees of the Company or its subsidiary companies who the Board of directors, in its absolute discretion, considers play a role in the management of the Company or subsidiary companies and contribute to their growth and profitability.

Participants are entitled to exercise their options as follows:

After 2 years – up to 20 per cent of the shares
After 3 years – up to 40 per cent of the shares
After 4 years – up to 60 per cent of the shares
After 5 years – up to 100 per cent of the shares

If an option is not exercised within 10 years from the date such option was granted, it will lapse.

If a participant retires on pension, or otherwise leaves the employ of AECI Limited or one of its subsidiary companies for a reason approved by the Board of directors, the participant shall nevertheless continue to have the same rights and obligations under the scheme in respect of the participant's options as if the participant had remained in the employ of the Company or subsidiary company.

In the event that the participant ceases to be an employee otherwise than as a result of death, retirement on pension or other reasons approved by the Board of directors, any option not yet exercised will lapse.

Notes to the financial statements
for the year ended 31 December 2008 **(continued)**

30. EMPLOYEE BENEFITS (continued)

Details of outstanding share options at 31 December 2008 were:

		Number of shares			
Expiry date	**Exercise price (Rand)**	**Originally granted**	**Since exercised**	**Since lapsed**	**Still outstanding**
October 2008	4,50	4 804 000	4 644 000	160 000	–
December 2008	7,52	40 000	40 000	–	–
May 2009	7,00 – 7,20	95 000	95 000	–	–
June 2009	7,50	35 000	24 000	–	11 000
July 2009	15,80	40 000	–	40 000	–
August 2009	9,00	80 000	16 000	64 000	–
October 2009	11,00	80 000	–	–	80 000
December 2009	12,65	40 000	40 000	–	–
December 2009	12,77	200 000	188 000	–	12 000
March 2010	13,45	100 000	100 000	–	–
April 2010	13,78	20 000	–	–	20 000
June 2010	13,05	90 000	90 000	–	–
July 2010	13,23	32 000	–	32 000	–
October 2010	11,45	35 000	35 000	–	–
December 2011	17,50	1 460 000	1 127 000	–	333 000
May 2013	23,60	413 900	76 800	–	337 100
		7 564 900	6 475 800	296 000	793 100

Movements in the number of share options held by employees were as follows:

	Number of options	
	2008	2007
Outstanding at the beginning of the year	**1 179 880**	1 896 080
Lapsed during the year	**(30 000)**	–
Exercised during the year		
– Exercised against share options hedge [1]	**(356 780)**	(716 200)
Outstanding at the end of the year	**793 100**	1 179 880
Details of share options exercised during the year		
Expiry date	**2008 – 2013**	2008 – 2013
Weighted average exercise price per share	**R7,37**	R15,24

	GROUP	
	2008 R millions	2007 R millions
Equity-settled share-based payment transactions recognised in the income statement	*	*

The fair value of the share options granted after 7 November 2002 is determined at grant date using the binomial option pricing model. The value of options expected to be exercised is recognised in the income statement over the vesting period of the options. All share options have now vested.

* Nominal amount.

1 The Company has purchased call options which will be exercised instead of issuing new ordinary shares which would otherwise have been issued when employees exercise their share options.

30. EMPLOYEE BENEFITS (continued)

Included in outstanding share options are the following options granted to directors:

Expiry date	Exercise price (Rand)	Granted	Number of shares Exercised	Lapsed	Outstanding
FPP Baker	17,50	20 000	–	–	20 000
FPP Baker	23,60	14 000	–	–	14 000
GN Edwards	23,60	14 000	–	–	14 000
S Engelbrecht	4,50	50 000	50 000	–	–
S Engelbrecht	17,50	40 000	40 000	–	–
S Engelbrecht	23,60	67 600	–	–	67 600
		205 600	90 000	–	115 600

Movements in the number of share options held by directors were as follows:

	Number of options 2008	2007
Outstanding at the beginning of the year	**205 600**	328 600
Changes in directors during the year	**–**	(123 000)
Exercised during the year		
– Exercised against share options hedge [1]	**(90 000)**	–
Outstanding at the end of the year	**115 600**	205 600

1 The Company has purchased call options which will be exercised instead of issuing new ordinary shares which would otherwise have been issued when employees exercise their share options.

Cash-settled share-based scheme (benefit units)

AECI Limited offers benefit units, without payment, to those employees of the Company or its subsidiary companies who the Board of directors, in its absolute discretion, considers play a role in the management of the Company or subsidiary companies and contribute to their growth and profitability.

The terms and conditions of the benefit units scheme are identical to the share option scheme except that they are settled in cash instead of by the issue of new ordinary shares.

The benefit units were issued for the first time in 2005.

Details of outstanding benefit units at 31 December 2008 were:

Expiry date	Date granted	Exercise price (Rand)	Granted	Number of shares Exercised	Lapsed	Outstanding
February 2015	1 March 2005	41,00	332 200	21 660	–	310 540
July 2016	1 August 2006	56,00	221 085	850	–	220 235
February 2017	1 March 2007	70,90	199 725	–	–	199 725
July 2017	1 August 2007	80,45	29 200	–	29 200	–
February 2018	1 March 2008	67,25	184 550	–	–	184 550
			966 760	22 510	29 200	915 050

	GROUP 2008 R millions	2007 R million
Cash-settled share-based payment transactions recognised in the income statement	**(8)**	9
Total carrying amount of cash-settled share-based transaction liabilities	**8**	16

Notes to the financial statements
for the year ended 31 December 2008 (continued)

30. EMPLOYEE BENEFITS (continued)

Included in outstanding benefit units are the following units granted to directors:

	Date granted	Exercise price (Rand)	Number of units Granted	Exercised	Lapsed	Outstanding
FPP Baker	1 March 2005	41,00	10 300	–	–	10 300
FPP Baker	1 August 2006	56,00	6 700	–	–	6 700
FPP Baker	1 March 2007	70,90	5 750	–	–	5 750
FPP Baker	1 March 2008	67,25	6 550	–	–	6 550
GN Edwards	1 March 2005	41,00	10 300	–	–	10 300
GN Edwards	1 August 2006	56,00	6 700	–	–	6 700
GN Edwards	1 March 2007	70,90	5 750	–	–	5 750
GN Edwards	1 March 2008	67,25	26 000	–	–	26 000
S Engelbrecht	1 March 2005	41,00	57 000	–	–	57 000
S Engelbrecht	1 August 2006	56,00	28 125	–	–	28 125
S Engelbrecht	1 March 2007	70,90	26 200	–	–	26 200
			189 375	–	–	189 375

31. INDUSTRY SEGMENT ANALYSIS

	2008 R millions	2007 R millions	**2008 R millions**	2007 R millions	**2008 R millions**	2007 R millions
Business segment analysis	**Revenue**		**Intersegment revenue**		**Total segment revenue**	
Continuing operations	**12 876**	8 710	**–**	–	**12 876**	8 710
Mining solutions	**4 009**	2 658	**70**	40	**4 079**	2 698
Specialty chemicals	**8 199**	5 462	**235**	156	**8 434**	5 618
Property	**386**	401	**46**	49	**432**	450
Specialty fibres	**282**	189	**–**	–	**282**	189
Group services, development and intergroup	**–**	–	**(351)**	(245)	**(351)**	(245)
Discontinued operations	**1 464**	2 618	**–**	–	**1 464**	2 618
Decorative coatings	**–**	654	**–**	–	**–**	654
Specialty chemicals	**–**	15	**–**	–	**–**	15
Specialty fibres	**1 464**	1 949	**–**	–	**1 464**	1 949
	14 340	11 328	**–**	–	**14 340**	11 328

31. INDUSTRY SEGMENT ANALYSIS (continued)

	2008 R millions	2007 R millions	2008 R millions	2007 R millions	2008 R millions	2007 R millions
Business segment analysis	**Profit from operations**		**Depreciation**		**Impairments**	
Continuing operations	**1 035**	747	**211**	172	**4**	55
Mining solutions	**248**	163	**115**	86	**–**	1
Specialty chemicals	**851**	570	**93**	74	**4**	20
Property	**45**	75	**3**	3	**–**	–
Specialty fibres	**49**	(10)	**–**	8	**–**	33
Group services, development and intergroup	**(158)**	(51)	*****	1	**–**	1
Discontinued operations	**155**	60	**5**	61	**39**	281
Decorative coatings	**–**	44	**–**	12	**–**	–
Specialty chemicals	**–**	(3)	**–**	*	**–**	–
Specialty fibres	**155**	19	**5**	49	**39**	281
	1 190	807	**216**	233	**43**	336
Business segment analysis	**Assets**		**Liabilities**		**Capital expenditure**	
Continuing operations	**9 335**	6 584	**2 827**	1 828	**1 007**	627
Mining solutions	**2 844**	1 785	**881**	399	**389**	359
Specialty chemicals	**5 575**	3 847	**1 583**	1 023	**595**	236
Property	**686**	685	**162**	188	**16**	11
Specialty fibres	**203**	158	**19**	15	**6**	21
Group services, development and intergroup	**27**	109	**182**	203	**1**	–
Discontinued operations	**514**	651	**398**	443	**37**	61
Decorative coatings	**–**	(4)	**–**	1	**–**	20
Specialty chemicals	**–**	–	**–**	–	**–**	–
Specialty fibres	**514**	655	**398**	442	**37**	41
	9 849	7 235	**3 225**	2 271	**1 044**	688

* Nominal amount.

Assets in the property segment include land revaluation of R374 million (2007 – R375 million).

Capital expenditure includes interest capitalised of R40 million (2007 – R8 million).

Transactions between segments are at prices considered to be at arm's length.

Notes to the financial statements
for the year ended 31 December 2008 **(continued)**

31. INDUSTRY SEGMENT ANALYSIS (continued)

	2008	2007
Assets consist of:		
Property, plant and equipment	**2 431**	1 567
Investment property	**422**	411
Goodwill	**1 013**	986
Inventory	**2 795**	1 580
Accounts receivable	**3 188**	2 024
Assets classified as held for sale	**–**	667
	9 849	7 235
Liabilities consist of:		
Accounts payable	**3 225**	2 021
Assets classified as held for sale	**–**	250
	3 225	2 271

Geographical segment analysis	**Revenue**		**Assets**		**Capital expenditure**	
Continuing operations	**12 876**	8 710	**9 335**	6 584	**1 007**	627
Republic of South Africa	**9 830**	6 988	**8 528**	6 191	**957**	565
Rest of Africa	**2 446**	1 312	**549**	136	**44**	40
Europe	**30**	43	*****	5	**–**	–
North America	**300**	203	**205**	158	**6**	21
South America	**151**	116	**43**	94	**–**	1
Rest of the world	**119**	48	**10**	*	**–**	*
Discontinued operations	**1 464**	2 618	**514**	651	**37**	61
Republic of South Africa	**872**	1 714	**514**	650	**37**	61
Rest of Africa	**81**	238	**–**	1	**–**	–
Europe	**220**	266	**–**	–	**–**	–
North America	**2**	–	**–**	–	**–**	–
South America	**32**	78	**–**	–	**–**	–
Rest of the world	**257**	322	**–**	–	**–**	–
	14 340	11 328	**9 849**	7 235	**1 044**	688

* Nominal amount.

32. ACQUISITIONS OF SUBSIDIARIES AND BUSINESSES

The following acquisitions, paid for in cash, were made by the Group during the year:

Acquiree	Date of acquisition	% shares acquired	Consideration R millions	Net profit after tax since acquisition R millions
Subsidiary acquired				
Chemfit Industrial Holdings (Pty) Limited	1 July	100	74	6
Businesses acquired				
Bergen Trading cc [1]	1 December		4	
Chemical Specialities Limited [1]	1 April		1	
Dustaway (Pty) Limited [1]	1 July		6	
Tenside Trading cc [1]	1 July		3	
			88	

1 The acquirees' profit or loss since the acquisition date cannot be determined due to the fact that the businesses acquired were merged with existing cash-generating units in the Group.

Acquisitions during the year had the following effect on the Group's assets and liabilities:

	R millions
Acquirees' net assets at the acquisition date	
Property, plant and equipment	1
Inventory	27
Accounts receivable	47
Accounts payable	(47)
Net identifiable assets and liabilities	28
Goodwill on acquisition	60
Consideration	88
Less: contingency payment outstanding	(10)
Net cash flow	78

Notes to the financial statements
for the year ended 31 December 2008 (continued)

33. INTERESTS IN JOINT VENTURES

	Effective percentage held by AECI Limited	
	2008	2007
Crest Chemicals (Pty) Limited	**50**	50
DetNet International Limited [1]	**50**	50
DetNet South Africa (Pty) Limited	**50**	50
DetNet Detonadores Electronicos Limitada [2]	**50**	50
Resinkem (Pty) Limited	**50**	50
Resitec Industria Quimica Limited [3] †	**50**	
Specialty Minerals South Africa (Pty) Limited	**50**	50

	2008 R millions	2007 R millions
The proportionate amounts relating to joint ventures were as follows:		
Balance sheets		
Property, plant, equipment and investments	**56**	23
Current assets	**302**	222
Total assets	**358**	245
Equity	**146**	81
Non-current borrowings	**87**	39
Current liabilities	**125**	125
Total equity and liabilities	**358**	245
Income statements		
Revenue	**766**	577
Cost of sales	**(587)**	(441)
Other income	**6**	2
Other expenses	**(112)**	(98)
Profit before tax	**73**	40
Tax	**(24)**	(13)
Profit for the year	**49**	27
Cash flow statements		
Cash flow from operating activities	**(30)**	(26)
Cash flow from investing activities	**(5)**	(11)
Cash flow from financing activities	**(35)**	(19)
Commitments		
Capital expenditure authorised	**1**	3
Future rentals on property, plant and equipment leased	**3**	21
	4	24

1 Ireland

2 Chile

3 Brazil

† The company became a joint venture during 2008 and was previously held as a subsidiary (see note 34).

34. PRINCIPAL SUBSIDIARIES [1]

	Issued share capital 2008	Effective shareholding		Interest of AECI Limited #			
				Shares		Net indebtedness	
	Number of shares	2008 %	2007 %	2008 R millions	2007 R millions	2008 R millions	2007 R millions
Holding companies							
Directly held							
AECI International (Ireland) Limited [1]	**1**	**100**	100	*****	*	**–**	*
AECI Treasury Holdings (Pty) Limited	**100**	**100**	100	*****	*	**258**	150
Athena Paint Investments S.A. [3]	**230 000**	**100**	100	**1**	1	**(39)**	(39)
Capex (Pty) Limited	**1 000 000**	**100**	100	*****	*	*****	*
Indirectly held							
African Explosives Holdings (Pty) Limited	**43 311 779**	**75**	75	**–**	–	**–**	–
African Explosives International Limited [2]	**1 307**	**75**	75	**–**	–	**–**	–
Athena Investments Limited S.A. [3]	**24 243 800**	**75**	75	**–**	–	**–**	–
Insurance							
Directly held							
AECI Captive Insurance Company Limited	**810 000**	**100**	100	**11**	11	*****	*
Chemrisk Services (Pty) Limited	**20 000**	**–**	100	**–**	*	**–**	*
Mining solutions							
Directly held							
AEL Holdco Limited	**99 800 000**	**75**	75	**75**	75	**2 162**	1 708
Indirectly held							
AEL Chemico-Mali SARL [14]	**8 659**	**75**	75	**–**	–	**–**	–
AEL (Mauritius) Limited [13]	**866**	**75**	75	**–**	–	**–**	–
African Explosives (Nigeria) Limited [6]	**352 000**	**–**	75	**–**	–	**–**	–
African Explosives Limited ++	**100**	**75**	75	**–**	–	**–**	–
African Explosives (Botswana) Limited [4]	**3**	**75**	75	**–**	–	**–**	–
African Explosives (Burkina Faso) Limited [16]	**100 000**	**75**	75	**–**	–	**–**	–
African Explosives (DRC) Limited [17]	**10 000**	**75**	75	**–**	–	**–**	–
African Explosives (Ghana) Limited [5]	**1 000 000**	**75**	75	**–**	–	**–**	–
African Explosives (Tanzania) Limited [7]	**26**	**75**	75	**–**	–	**–**	–
African Explosives (Zambia) Limited [8]	**25 508 250**	**60**	60	**–**	–	**–**	–
Paints and allied products							
Directly held							
Dulux (Mozambique) Limitada [10]	**100**	**100**	100	**–**	1	**–**	3
Property							
Heartland Properties (Pty) Limited	**100**	**100**	100	*****	*	**210**	(12)
Other property subsidiaries				**3**	3	**(47)**	228

1 See notes on page 162.

Notes to the financial statements
for the year ended 31 December 2008 **(continued)**

34. PRINCIPAL SUBSIDIARIES (continued)

	Issued share capital 2008	Effective shareholding		Interest of AECI Limited #			
				Shares		Net indebtedness	
	Number of shares	2008 %	2007 %	2008 R millions	2007 R millions	2008 R millions	2007 R millions
Specialty chemicals							
Directly held							
Chemical Services Limited	**83 127 950**	**100**	100	**818**	818	**(548)**	(734)
Indirectly held							
Akulu Marchon (Pty) Limited +	**410 000**	**100**	100	**–**	–	**–**	–
Atlas Consolidated Industries (Pty) Limited +	**200**	**100**	100	**–**	–	**–**	–
Chemfit Industrial Holdings (Pty) Limited	**4 000**	**100**	–	**–**	–	**–**	–
Chemical Initiatives (Pty) Limited +	**1**	**100**	100	**–**	–	**–**	–
Chemiphos SA (Pty) Limited	**170**	**100**	100	**–**	–	**–**	–
Chemserve Perlite (Pty) Limited +	**800 000**	**100**	100	**–**	–	**–**	–
Chemserve Systems (Pty) Limited +	**625 000**	**100**	100	**–**	–	**–**	–
Duco Speciality Coatings (Pty) Limited	**100 000**	**100**	100	**–**	–	**–**	92
ImproChem (Pty) Limited	**4 000**	**75**	75	**–**	–	**–**	–
Industrial Oleochemical Products (Pty) Limited +	**4 001**	**100**	100	**–**	–	**–**	–
Industrial Urethanes (Pty) Limited +	**100**	**100**	100	**–**	–	**–**	–
Lake International Technologies (Pty) Limited +	**13 395**	**100**	100	**–**	–	**–**	–
Metswako Chemicals (Pty) Limited [4]	**1 000**	**75**	75	**–**	–	**–**	–
Plaaskem (Pty) Limited +	**400**	**100**	100	**–**	–	**–**	–
Plastamid (Pty) Limited	**128 500**	**100**	100	**–**	–	**–**	–
Resitec Industria Quimica Limited [15] †	**2 905 200**	**–**	60	**–**	–	**–**	–
SA Paper Chemicals (Pty) Limited +	**220 443**	**100**	100	**–**	–	**–**	–
Senmin SA (Pty) Limited	**50 000**	**100**	100	**–**	–	**–**	–
Specialty fibres							
Directly held							
SANS Fibres (Pty) Limited +	**17 979 433**	**100**	100	**8**	8	**(46)**	(13)
Indirectly held							
SANS Fibers Incorporated [12]	**100**	**100**	100	**–**	–	**198**	138
SANS Fibres (Europe) Limited [2]	**1 000**	**100**	100	**–**	–	**(3)**	(3)
SANS Technical Fibers LLC [12]		**100**	100	**–**	–	**–**	–
Other				**4**	4	**361**	(149)
				920	921	**2 506**	1 369

\# Cost less impairments.
\+ Trading as an agent on behalf of AECI Limited.
++ Trading as an agent on behalf of AEL Holdco Limited.
† The company became a joint venture during 2008 (see note 33).
* Nominal amount.

All companies are incorporated in the Republic of South Africa except for the following:

1 Ireland; 2 United Kingdom; 3 Grand Duchy of Luxembourg; 4 Botswana; 5 Ghana; 6 Nigeria; 7 Tanzania; 8 Zambia; 9 Malawi; 10 Mozambique; 11 Swaziland; 12 United States of America; 13 Mauritius; 14 Mali; 15 Brazil; 16 Burkina Faso; 17 Democratic Republic of Congo.

Notice of annual general meeting

AECI Limited

Incorporated in the Republic of South Africa
(Registration No 1924/002590/06)
Share code: AFE ISIN code: ZAE000000220
("AECI" or "the Company" or the "Group")

Notice is hereby given that the 85th annual general meeting of shareholders of AECI Limited will be held on the ground floor, AECI Place, 24 The Woodlands, Woodlands Drive, Woodmead, Sandton on Monday, 25 May 2009 at 09:00 for the following purposes:

1. Adoption of annual financial statements

Ordinary resolution number 1:

To receive and adopt the annual financial statements for the year ended 31 December 2008.

2. Re-appointment of independent auditors

Ordinary resolution number 2:

To authorise the directors to re-appoint KPMG Inc. as the independent auditors of the Company and to appoint Mr N van Niekerk, being a member of KPMG Inc., as the individual designated auditor to hold office for the ensuing year.

3. Re-election of directors

Ordinary resolution number 3:

Resolved that the following directors, who are required to retire by rotation in terms of the provisions of the articles of association of the Company but, being eligible, offer themselves for re-election (condensed biographies of these directors appear on page [insert] of this annual report), be re-elected:

3.1 Mr RMW Dunne

3.2 Mr LM Nyhonyha

3.3 Mr AC Parker

4. Appointment of directors

Ordinary resolution number 4:

Resolved that the following director, who was appointed during the financial year, be appointed in terms of the provisions of the articles of association of the Company (the "articles") (a condensed biography of this director appears on page 19 of this annual report):

4.1 KM Kathan

Notice of annual general meeting (continued)

To consider and, if approved, to pass with or without modification, the following resolutions:

5 Directors' fees

Ordinary resolutions numbers 5.1 to 5.6:

Resolved that the fees of non-executive directors of the Company be increased by a weighted average inflation adjusted rate of 11,4 per cent, with effect from 1 January 2009, as follows:

5.1 the chairman of the Board from R600 000 to R670 000;

5.2 audit and risk committee chairman's fee from R130 000 to R148 000;

5.3 audit and risk committee member's fee from R65 000 to R70 000;

5.4 non-executive directors from R150 000 to R165 000;

5.5 chairman of other Board committees from R80 000 (in addition) to R90 000 in (addition); and

5.6 members of other Board committees from R40 000 (in addition) to R45 000 (in addition).

6 General authority to repurchase shares

Special resolution number 1:

Resolved that as a renewable general authority contemplated in Sections 85 to 89 of the Companies Act (Act 61 of 1973) as amended (the "Act"), the directors of the Company be and are hereby authorised at their discretion to procure that the Company, or any subsidiaries of the Company, acquire the Company's shares, subject to the articles, the provisions of the Act and subject to the JSE Limited (the "JSE") Listings Requirements by the purchase on the JSE of ordinary shares issued by the Company provided that:

- the number of ordinary shares acquired in the aggregate in any one financial year shall not exceed 5 (five) per cent of the Company's issued ordinary share capital from the date of the grant of this authority;
- this general authority shall lapse on the earlier of the date of the next annual general meeting of the Company or the date 15 months from the date of passing of this special resolution;
- general repurchases may not be made at a price greater than 10 (ten) per cent above the weighted average of the market value of the ordinary shares for the 5 (five) business days immediately preceding the date on which the transaction is effected;
- the general repurchase of securities will be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the Company and the counter party;
- at any point in time, a company may only appoint one agent to effect any repurchases on the Company's behalf;
- the Company or its subsidiary may not repurchase securities during a prohibited period as defined in the JSE Listings Requirements unless they have in place a repurchase programme where the dates and quantities of securities to be traded during the relevant period are fixed (not subject to any variation) and full details of the programme have been disclosed in an announcement on the Securities Exchange News Service (SENS) prior to the commencement of the prohibited period; and
- when the Company has cumulatively repurchased 3 (three) per cent of the initial number of the relevant class of securities, and for each 3 (three) per cent in aggregate of the initial number of that class acquired thereafter, an announcement will be made;
- after such repurchase the Company will still comply with the JSE Listings requirements concerning shareholder spread requirements; and
- the number of shares purchased and held by a subsidiary or subsidiaries of the Company shall not exceed 10 (ten) per cent in the aggregate of the of the number of issued shares in the Company at the relevant times.

The reason and effect for this special resolution is to authorise the directors, if they deem it appropriate in the interests of the Company, to procure that the Company or subsidiaries of the Company acquire or purchase ordinary shares issued by the Company subject to the restrictions contained in the above resolution.

At the present time the directors have no specific intention with regard to the utilisation of this authority, which will only be used if the circumstances are appropriate. If the authority is exercised, the ordinary shares will be purchased on the JSE.

The directors, after considering the effect of a repurchase of up to 5 (five) per cent of the Company's issued ordinary shares, are of the opinion that if such repurchase is implemented:

i. the Company and its subsidiaries will be in a position to pay their debt in the ordinary course of business for a period of 12 (twelve) months after the date of the general repurchase;

ii. recognised and measured in accordance with the accounting policies used in the latest audited annual Group financial statements, the assets of the Company and its subsidiaries will exceed the liabilities of the Company and its subsidiaries for a period of 12 (twelve) months after the date of the general repurchase;

iii. the share capital and reserves of the Company and its subsidiaries will be adequate for ordinary business purposes for the period of 12 (twelve) months after the date of the general repurchase; and

iv. the available working capital of the Company and its subsidiaries will be adequate for ordinary business purposes for the period of 12 (twelve) months after the date of the general repurchase.

The Company will ensure that its sponsor will provide the necessary letter on the adequacy of the working capital in terms of the JSE Listings Requirements, prior to the commencement of any purchase of the Company's shares on the open market.

In terms of the JSE Listings Requirements for this special resolution, the following general information is included in the annual report which is distributed together with this notice of annual general meeting:

i. directors and management (refer to pages 16 to 20);

ii. major shareholders of the Company (refer to pages 12 to 15);

iii. directors' interest in securities (refer to page 98); and

iv. share capital of the Company (refer to page 97).

Material changes

Other than the facts and developments reported on in the annual report, there have been no material changes in the financial or trading position of the Company and its subsidiaries since 31 December 2008.

Litigation statement

The Company and its subsidiaries are not party to any material litigation or arbitration proceedings nor is it aware of any pending material litigation or arbitration proceedings, including proceedings that are pending or threatened, that may have or had in the recent past, being at least the previous 12 (twelve) months, a material effect on the Group's financial position.

Directors' responsibility statement

The directors whose names appear on pages 16 to 19 of the annual report, collectively and individually accept full responsibility for the accuracy of the information given and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that this resolution contains all information required by law and the JSE Listings Requirements.

Notice of annual general meeting (continued)

Voting and proxies

On a show of hands, every shareholder present in person or represented in terms of section 188 of the Act shall have one vote and on a poll every shareholder present in person or by proxy or so represented shall have one vote for every share held by such shareholder.

A shareholder entitled to attend, speak and vote at the annual general meeting is entitled to appoint a proxy or proxies to attend, speak and vote in place of that shareholder. A proxy need not be a shareholder of the Company.

Registered holders of certificated AECI shares and holders of dematerialised AECI shares in their own name and who are unable to attend the annual general meeting and who wish to be represented at the meeting, must complete and return the attached form of proxy in accordance with the instructions contained in the form of proxy so as to be received by the share registrars, Computershare Investor Services (Pty) Limited, 70 Marshall Street, Johannesburg 2001 (PO Box 61051, Marshalltown, 2107) or Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH, England, by no later than 09:00 on Thursday, 21 May 2009.

Holders of AECI shares (whether certificated or dematerialised) through a nominee should make timeously the necessary arrangements with that nominee or, if applicable, their Central Securities Depository Participant (CSDP) or broker to enable them to attend and vote at the annual general meeting or to enable their votes in respect of their AECI shares to be cast at the annual general meeting by that nominee or a proxy or a representative.

Equity securities held by a share trust or scheme will not have their votes at general/annual general meetings taken into account for the purposes of resolutions proposed in terms of the JSE Listing Requirements.

Shares held as treasury shares may also not vote.

By order of the Board

Alma Kennedy
Company secretary
Woodmead, Sandton

31 March 2009

Form of proxy

AECI Limited
Incorporated in the Republic of South Africa
(Registration No 1924/002590/06)
Share code: AFE ISIN code: ZAE000000220
("the Company")

Only for the use of registered holders of certificated ordinary shares in the Company and the holders of dematerialised ordinary shares in the capital of the Company in "own name" form, at the annual general meeting to be held at 09:00 on Monday, 25 May 2009, on the ground floor, AECI Place, 24 The Woodlands, Woodlands Drive, Woodmead, Sandton.

Holders of ordinary shares in the Company (whether certificated or dematerialised) through a nominee must not complete this form of proxy but should timeously inform that nominee, or, if applicable, their Central Securities Depository Participant (CSDP) or stockbroker of their intention to attend the annual general meeting and request such nominee, CSDP or stockbroker to issue them with the necessary authorisation to attend or provide such nominee, CSDP or stockbroker with their voting instructions should they not wish to attend the annual general meeting in person but wish to be represented thereat. Such ordinary shareholders must not return this form of proxy to the transfer secretaries or to the registered office of the Company.

I/We .... of ....
(name and address in block letters)

being a shareholder/s of the above Company, holding .... ordinary shares in the Company, hereby appoint

1. of .... or, failing him/her, ...

2. of .... or, failing him/her, ...

3. the chairman of the annual general meeting, as my/our proxy to attend, speak and vote for me/us and on my/our behalf or to abstain from voting at the annual general meeting of the Company and at any adjournment thereof as follows:

	Insert an "X" or the number of votes exercisable (one vote per share)		
Proposed resolution	**For**	**Against**	**Abstain**
Ordinary resolutions:			
1. Adoption of annual financial statements			
2. Re-appointment of independent auditors			
3. Re-election of directors			
3.1 RMW Dunne			
3.2 LM Nyhonyha			
3.3 AC Parker			
4. Appointment of director			
4.1 KM Kathan			
5. Directors' fees			
5.1 Chairman of the Board			
5.2 Audit and risk committee chairman			
5.3 Audit and risk committee member			
5.4 Non-executive directors			
5.5 Chairman of other Board committees			
5.6 Members of other Board committees			
Special resolution:			
1. General authority to repurchase shares			

Insert an "X" in the relevant spaces above according to how you wish your votes to be cast. However, if you wish to cast your votes in respect of a lesser number of ordinary shares than you own in the Company, insert the number of ordinary shares held in respect of which you desire to vote (see note 2).

Signed at .... on 2009

Signature/s ....
Assisted by (where applicable)

Each shareholder is entitled to appoint a proxy (who need not be a shareholder of the Company) to attend, speak and vote in place of that shareholder at the annual general meeting.

Please read the notes on the reverse side of this form of proxy.

Notes to the form of proxy

1. A shareholder may insert the name of a proxy of the shareholder's choice in the space provided, with or without deleting "the chairman of the meeting", but any such deletion must be initialed by the shareholder. The person whose name stands first on the form of proxy and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names follow.

2. Please insert an "X" in the relevant space according to how you wish your votes to be cast. However, if you wish to cast your votes in respect of a lesser number of shares than you own in the Company, insert the number of shares held in respect of which you wish to vote. Failure to comply with the above will be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting as he/she deems fit in respect of all the shareholder's votes exercisable at the annual general meeting. A shareholder or his/her proxy is not obliged to use all the votes exercisable by the shareholder or by his/her proxy, but the total of the votes cast in respect of which abstention is recorded may not exceed the total number of the votes exercisable by the shareholder or by his/her proxy.

3. To be valid, the completed form of proxy must reach the offices of the Company's share registrars by no later than 48 hours prior to the annual general meeting (excluding Saturdays, Sundays and public holidays).

4. Where there are joint holders of any shares, only that holder whose name appears first in the register in respect of such shares need sign this form of proxy.

5. The completion and lodging of this form of proxy will not preclude the relevant shareholder from attending the annual general meeting and speaking and voting in person at the annual general meeting to the exclusion of any proxy appointed in terms of this proxy form.

6. Any alteration to this form of proxy must be signed in full and not initialed.

7. If this form of proxy is signed under a power of attorney, then such power of attorney or a notarially certified copy thereof must be sent with this form of proxy for noting (unless it has already been noted by the transfer secretaries).

   A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries.

8. The chairman of the annual general meeting may accept any form of proxy which is completed other than in accordance with these notes if he is satisfied as to the manner in which the shareholder wishes to vote.

Administration

Secretary and registered office
EA Rea (Acting)
First floor
AECI Place
24 The Woodlands
Woodlands Drive
Woodmead
Sandton (no mail deliveries to this address)

Postal address
Private Bag X21
Gallo Manor
2052
Telephone: +27 11 806 8700
Telefax: +27 11 806 8701

Web address
www.aeci.co.za

London secretary
St James's Corporate Services Limited
6 St James's Place
London SW1A 1NP, England

Transfer secretaries
Computershare Investor Services (Pty) Limited
70 Marshall Street, Johannesburg
and
Computershare Investor Services plc
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH, England

Auditors
KPMG Inc.

Bankers
First National Bank of Southern Africa Limited
The Standard Bank of South Africa Limited

South African sponsor
Rand Merchant Bank
(A division of FirstRand Bank Limited)
1 Merchant Place
Fredman Drive
Sandton

PRODUCED BY GROUP COMMUNICATIONS, AECI LIMITED

DESIGNED BY HKLM

PRINTED BY COLORPRESS ON SAPPI'S AVALON MATT

www.aeci.co.za