AECI ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2009

MAINTAINING FOCUS

MAINTAININGFOCUSMAINTAININGFOCUS

MAINTAININGFOCUSMAINTAININGFOCUSMAINTAININGFOCUSMAINTAININGFOCUS

AECI

FO•CUS

verb (used with object)

1. to bring to a focus or into focus: to focus the lens of a camera.
2. to concentrate: to focus one's thoughts.
3. concentrate or be concentrated.

verb (used without object)

4. to become focused.

Related forms:

fo•cus•a•ble, adjective
fo•cus•er, ound

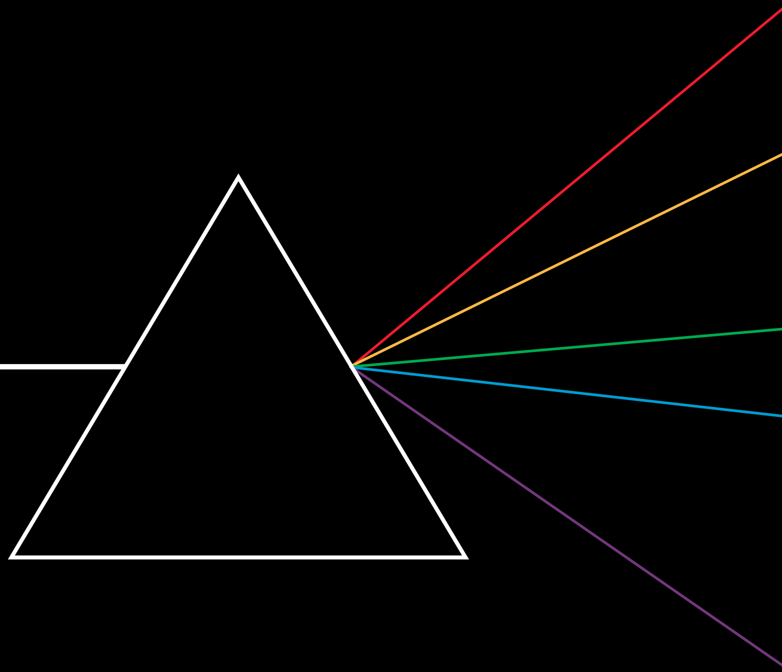
noun

5. a central point, as of attraction, attention, or activity.
6. **Physics.** a point at which rays of light, heat, or other radiation, meet after being refracted or reflected.
7. **Optics.**
   a. the focal point of a lens.
   b. the focal length of a lens.
   c. the clear and sharply defined condition of an image.
   d. the position of a viewed object or the adjustment of an optical device necessary to produce a clear image: in focus; out of focus.

AECI

"MAINTAINING FOCUS" IS THE OVERALL THEME FOR THIS ANNUAL REPORT. BY CONCENTRATING ON SPECIFIC STRATEGIES, AECI WAS ABLE TO DELIVER A PROFITABLE PERFORMANCE IN A YEAR WHEN THE EFFECTS OF THE GLOBAL ECONOMIC CRISIS HAD A SERIOUS IMPACT ON TRADING ACTIVITIES. A FURTHER RESULT OF MAINTAINING FOCUS THROUGH THE CRISIS IS THAT THE GROUP IS WELL PLACED TO GAIN MAXIMUM ADVANTAGE FROM ANY IMPROVEMENT IN SOUTHERN AFRICAN, AFRICAN AND INTERNATIONAL BUSINESS ENVIRONMENTS IN 2010 AND BEYOND.

CONTENTS



1

AECI'S CHAIRMAN, IN HIS LETTER TO SHAREHOLDERS IN THE 2008 ANNUAL REPORT, NOTED THAT "2009 WILL BE A CHALLENGING YEAR WITH MUCH UNCERTAINTY AND, THEREFORE, THE PRESERVATION OF CASH WILL BE A PRIORITY." THE BOARD REQUESTED THAT AECI'S MANAGEMENT CONCENTRATE ON FOUR KEY AREAS TO STEER THE COMPANY THROUGH THE ECONOMIC CRISIS. STRATEGIES IN THIS REGARD, SUMMARIES ON HOW THEY WERE APPLIED, AND THE RESULTS THEREOF, ARE PROVIDED ON PAGES 29, 43, 73 AND 93.

VALUES AND PROFILE

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;

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 in 2009 the Group invested a further R1 billion of the R2 billion strategic capital programme in capital projects to enhance its future growth in these areas.

By the end of 2009, all significant projects were mechanically complete. Commissioning had been concluded or was in progress. Although the projects relate mainly to the mining sector, capital was also 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 (explosives and mining services, provided by AEL Mining Services, and specialty chemicals provided by Chemical Services).

Chemical Services, which comprises 20 separate operations, also has a major site near Durban as well as a number of smaller sites country-wide. Its mining chemicals thrust is anchored in Senmin, which operates at Sasolburg in the Free State.

AEL Mining Services and Chemical Services have expanded their presence beyond South 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.

AEL Mining Services has a presence in 23 countries. It is well established across the African continent and, in line with the company's international strategy, business in its South East Asian hub made pleasing progress in 2009, particularly in Indonesia. In the year, the company's excellent technology and product position in initiating systems and bulk explosives enabled it to enter into mutually beneficial channel partnerships with leading regional explosives players in Europe and in South America.

Chemical Services has established a stable presence in Brazil and more acquisitions continue to be sought using the existing investment as a platform for growth. To an increasing degree, opportunities in other territories in Southern Africa and beyond are being explored.

In addition to its core businesses, the Group has a most valuable land asset, the release of which it manages carefully. The property activities are managed by Heartland and this company seeks to optimise the value of the property holdings surplus to AECI's operational requirements by selling land and by selectively investing in revenue-producing buildings in order to grow an existing portfolio of properties.

The land holdings are significant and are located in prime locations near Johannesburg and Cape Town. More than 2 000 hectares of excess land are available for redevelopment over the next 15 to 20 years for residential, commercial and industrial end uses and for leasing purposes.

SANS Technical Fibers, in the USA, is the Group's fourth business.

AECI has a total employee complement of about 6 450, 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 2009, its market capitalisation was R7,4 billion.

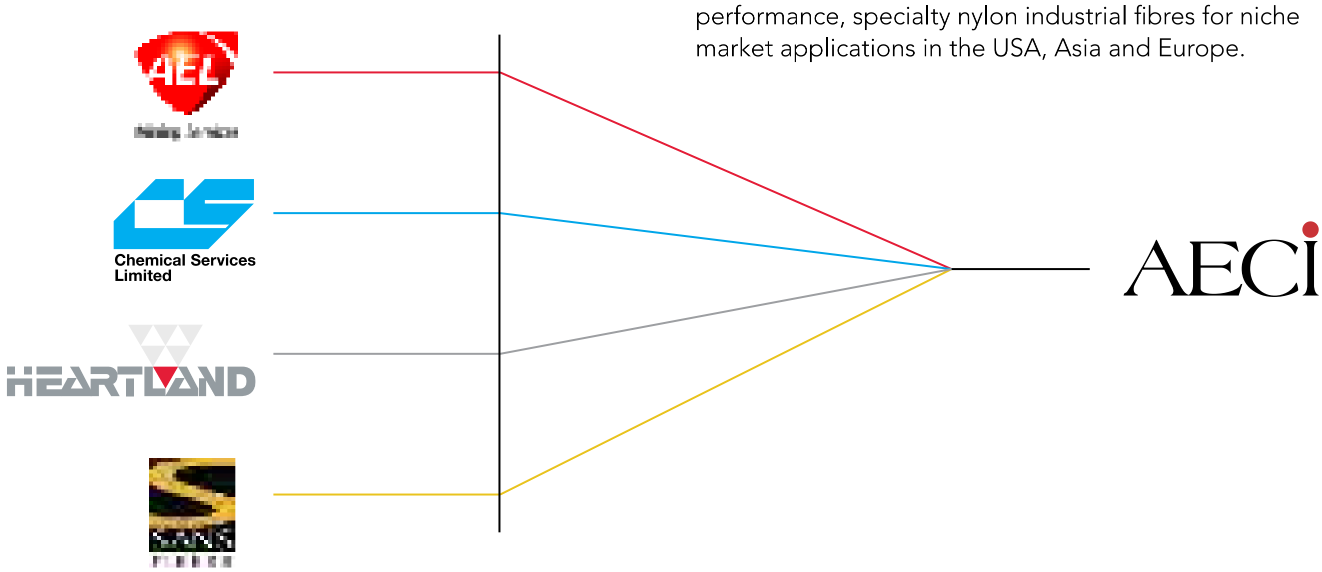
BUSINESSES

AEL Mining Services is a leading developer, producer and supplier of commercial explosives, initiating systems and blasting services for mining, quarrying and construction markets in Africa and in chosen markets abroad. It is the largest supplier of explosives technology and initiating systems in Africa. The company comprises 16 businesses complemented by production facilities and offices throughout Southern Africa, Africa, and selected international regions in Europe, South America and South East Asia.

Chemical Services is the specialty chemicals component of the AECI Group. It is the largest specialty chemicals organisation in Southern Africa and comprises 20 autonomous business units, supplying a diverse range of specialty chemicals, raw materials and related services to a broad spectrum of industries. Chemical Services has sales, distribution, production and laboratory facilities located in key centres throughout South Africa and has also established production and distribution facilities in Southern Africa and abroad.

Heartland manages the land and property-based asset portfolio of the AECI Group. The focus is on development projects that can best realise value from land that has become surplus to AECI's operational requirements and, therefore, can be made available for alternative use. More than 2 000 hectares are available, mainly at Modderfontein, near Johannesburg in Gauteng, and at Somerset West near Cape Town, Western Cape. The company is also tasked with letting and managing buildings at Modderfontein, Potchefstroom in the North West, Somerset West, and at Umbogintwini, south of Durban in KwaZulu-Natal.

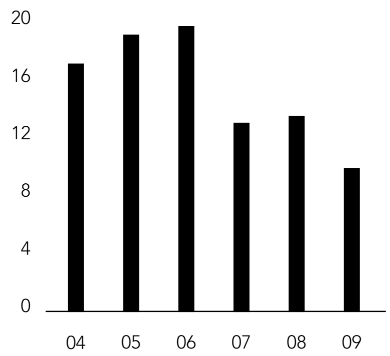
SANS Technical Fibers at Stoneville in North Carolina (USA), manufactures and markets a range of high performance, specialty nylon industrial fibres for niche market applications in the USA, Asia and Europe.



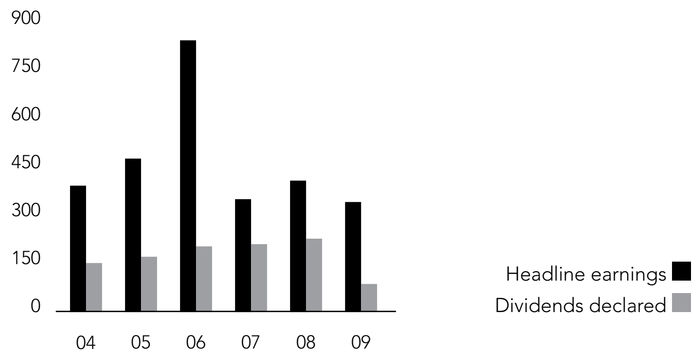
GROUP RESULTS AT A GLANCE

	2009	2008	% change
For the year ended 31 December 2009			
Revenue (R millions)	**11 178**	14 340	(22)
Profit from operations (R millions)	**833**	986	(16)
Headline earnings (R millions)	**370**	443	(16)
Net profit attributable to ordinary shareholders (R millions)	**421**	385	9
Headline earnings per ordinary share (cents)	**346**	412	(16)
Dividends declared per ordinary share (cents)	**90**	231	(61)
Market capitalisation at 31 December (R millions)	**7 386**	6 060	22
Profit from operations to revenue (%)	**7,5**	6,9	
Return on net assets (%)	**12,6**	16,9	
Return on invested capital (%)	**10,0**	13,6	
Net borrowings as a percentage of shareholders' interest (%)	**53**	59	

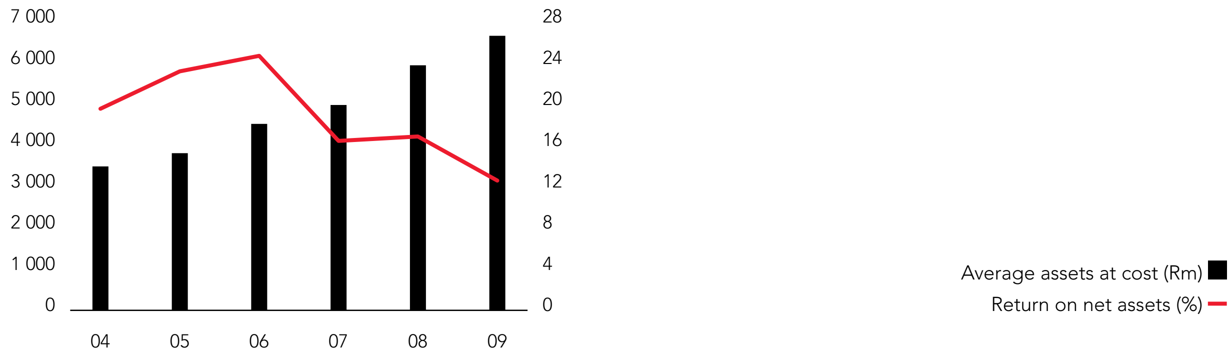
Return on invested capital (%)



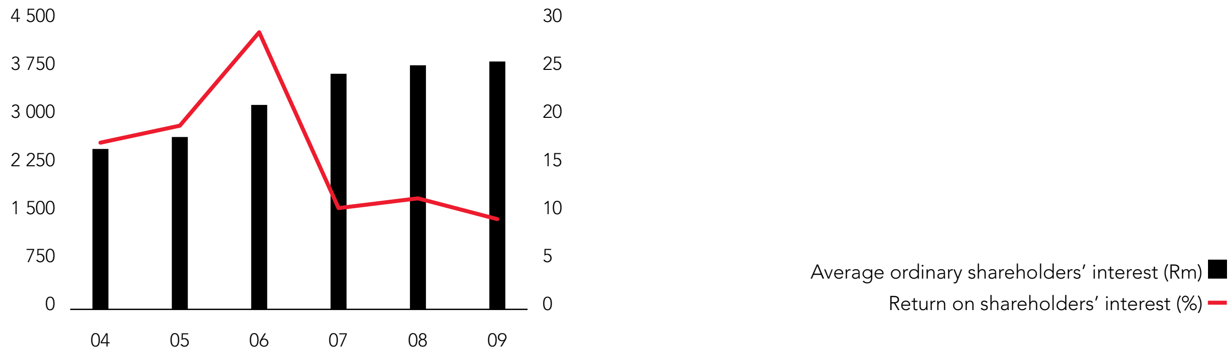
Headline earnings and dividends per ordinary share (cents)



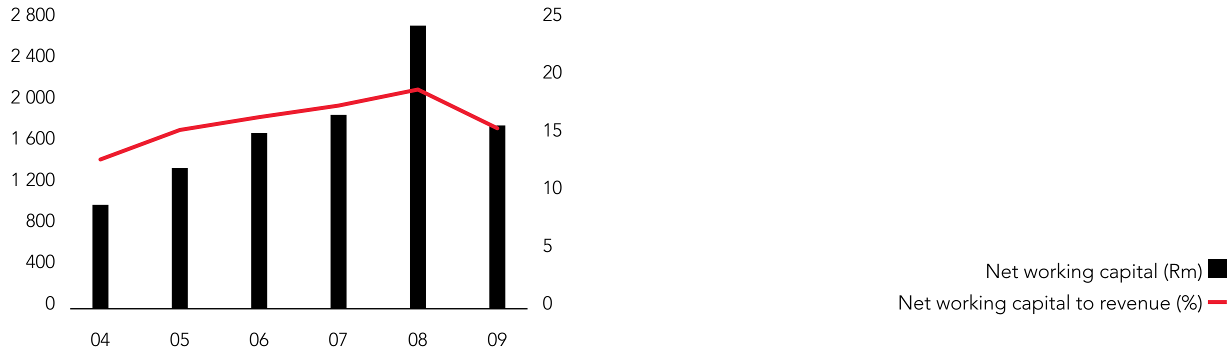
Return on net assets



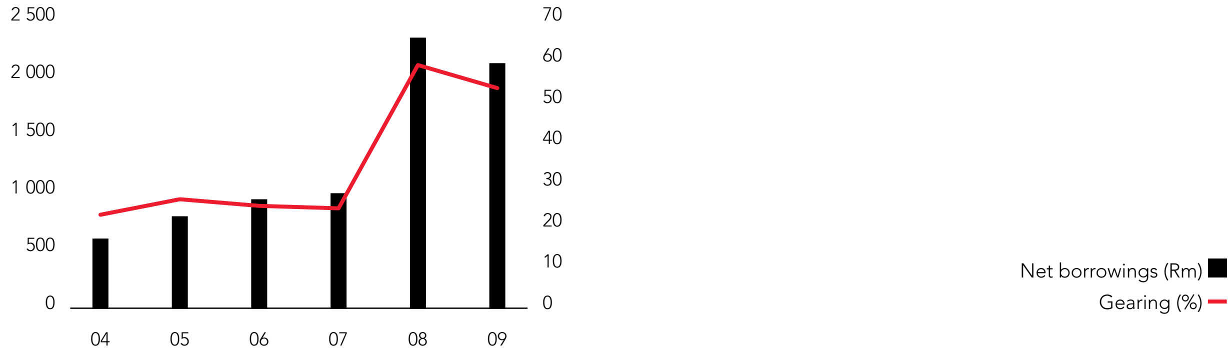
Return on shareholders' interest



Net working capital to revenue



Net borrowings and gearing



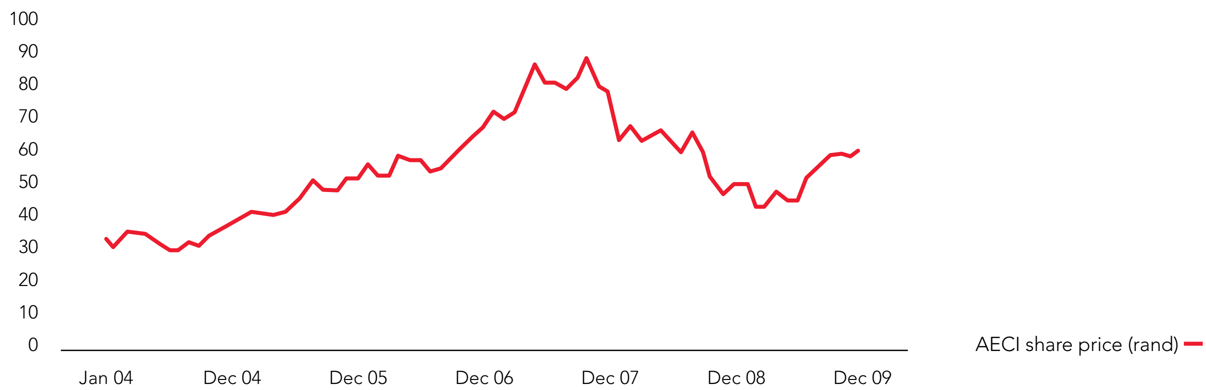
HISTORICAL REVIEWS

JSE LIMITED AND SHARE PERFORMANCE

	2009	2008	2007	2006	2005	2004
Ordinary share statistics						
Market price (cents per share)						
High	**6 698**	7 999	9 600	7 005	5 300	3 942
Low	**4 005**	4 250	6 300	5 041	3 801	2 900
31 December	**6 200**	5 099	7 899	6 825	5 300	3 900
Earnings yield (%)	**5,6**	8,1	4,5	12,5	9,1	10,1
Dividend yield (%) *	**1,5**	4,5	2,7	3,0	3,3	3,5
Dividend cover *	**3,8**	1,8	1,7	4,2	2,8	2,8
In issue (millions)	**119,1**	118,8	120,7	120,7	120,7	119,7
Value traded (R millions)	**1 992**	3 665	5 898	3 072	2 555	1 476
Volume traded (millions)	**37,9**	58,7	73,3	51,0	55,9	44,2
Volume traded (%)	**31,8**	49,4	60,7	42,3	46,3	36,9
Market capitalisation (R millions)	**7 386**	6 060	9 537	8 241	6 399	4 669
Ordinary share performance (cents per share)						
Headline earnings	**346**	412	355	853	482	392
Dividends declared *	**90**	231	213	205	175	138
Net asset value	**3 671**	3 601	3 430	3 255	2 587	2 381

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

AECI share price (rand)



ABRIDGED FINANCIAL STATEMENTS

R millions	**2009**	2008	2007	2006	2005	2004
Income statements [1]						
Revenue	**11 178**	14 340	11 328	10 212	8 768	7 911
Local	**8 449**	10 347	8 702	7 906	6 951	6 405
Foreign	**2 729**	3 993	2 626	2 306	1 817	1 506
Profit from operations	**833**	986	807	1 102	887	743
Net financing costs	**218**	222	130	103	90	139
Tax	**188**	226	217	353	225	173
Profit attributable to ordinary shareholders	**421**	385	455	916	486	283
Headline earnings	**370**	443	392	942	530	427
Statements of financial position						
Total shareholders' interest	**4 058**	3 969	3 929	3 727	2 940	2 646
Deferred tax (net)	**(259)**	(272)	(165)	(111)	(291)	(327)
Net interest-bearing debt	**2 143**	2 359	1 001	940	798	615
Capital employed	**5 942**	6 056	4 765	4 556	3 447	2 934
Represented by:						
Property, plant, equipment, investment property, goodwill, Pension Fund employer surplus accounts and investments	**5 016**	4 177	3 314	3 332	2 734	2 557
Current assets, excluding cash and cash equivalents, less interest-free liabilities	**926**	1 879	1 451	1 224	713	377
Employment of capital	**5 942**	6 056	4 765	4 556	3 447	2 934
Statements of cash flows						
Cash generated by operations [2]	**489**	1 224	821	1 076	950	712
Changes in working capital	**1 161**	(978)	(627)	(259)	(295)	77
Expenditure relating to non-current provisions and restructuring	**(198)**	(217)	(68)	(143)	(42)	(21)
Net investments to maintain operations [3]	**(20)**	(279)	(272)	(177)	(104)	(112)
	1 432	(250)	(146)	497	509	656
Dividends paid	**(167)**	(250)	(237)	(206)	(167)	(135)
	1 265	(500)	(383)	291	342	521
Investment to expand operations [3]	**(1 055)**	(747)	(432)	(444)	(453)	(179)
Proceeds from disposal of investments and businesses	**94**	24	778	3	27	58
Net cash generated/(utilised)	**304**	(1 223)	(37)	(150)	(84)	400
Depreciation charges	**267**	216	233	223	212	224
Commitments						
Capital expenditure authorised	**737**	978	1 251	650	97	188
Future rentals on property, plant and equipment leased	**185**	317	253	290	235	196
	922	1 295	1 504	940	332	384

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

	2009	2008	2007	2006	2005	2004
Profitability and asset management						
Profit from operations to revenue (%)	**7,5**	6,9	7,1	10,8	10,1	9,4
Trading cash flow to revenue (%)	**9,8**	8,4	9,2	13,0	12,5	12,2
Return on average net assets (%) [1]	**12,6**	16,9	16,5	24,8	23,4	20,4
Return on invested capital (%) [2]	**10,0**	13,6	13,2	19,9	19,3	16,8
Return on average ordinary shareholders' interest (%) [3]	**9,5**	11,6	10,6	29,2	19,4	16,7
Net working capital to revenue (%) [4]	**15,9**	19,2	17,8	16,8	15,7	12,0
Inventory cover (days) [5]	**67**	85	79	81	74	68
Average credit extended to customers (days) [5]	**55**	73	70	70	66	59
Liquidity						
Cash interest cover [6]	**3,5**	4,7	7,0	14,6	12,3	7,7
Interest-bearing debt to cash generated by operations	**1,9**	1,4	0,9	0,7	0,7	0,6
Gearing (%) [7]	**52,8**	59,4	25,5	25,2	27,1	23,2
Current assets to current liabilities	**1,4**	1,4	1,4	1,4	1,4	1,6
Employees						
Number of employees at year-end [8]	**6 459**	6 474	7 123	7 705	7 251	7 260
Employee remuneration (R millions)	**1 923**	1 804	1 640	1 538	1 375	1 395
Value added per rand of employee remuneration (rand)	**1,59**	1,68	1,59	1,90	1,81	1,71

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 the 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 plus return on Pension Fund employer surplus account and return on plan assets from post-retirement medical aid liabilities less closure costs plus depreciation and 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

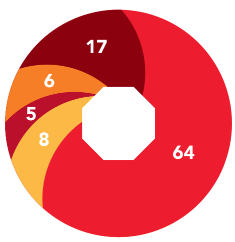
Value added is the difference between revenue received from sales and the cost of raw materials, goods and services purchased outside the Group. It represents the basic surplus of income over expenditure generated by the Group and its employees through manufacturing and selling products and services.

	2009 R millions	**%**	2008 R millions	%
Revenue	**11 178**	**100**	14 340	100
Purchased materials and services	**8 155**	**73**	11 334	79
Value added through operations	**3 023**	**27**	3 006	21
Other income	**33**	**-**	27	-
Total value added	**3 056**	**27**	3 033	21
Distributed to:				
Employees	**1 923**	**64**	1 804	60
Lenders	**244**	**8**	236	8
Shareholders	**167**	**5**	250	8
Direct taxes	**188**	**6**	226	7
Reinvested in the Group	**534**	**17**	517	17
	3 056	**100**	3 033	100

Monetary exchanges with the state

The following monetary exchanges with the state took place during the year:		
Direct taxes	**188**	226
Employees' tax collected on behalf of the state	**507**	356
Property taxes paid to local authorities	**19**	28
Skills development levies paid to the SA Revenue Service	**23**	16
VAT collected on behalf of the state	**195**	16
Channelled through the Group	**932**	642

Distribution of value added (%)



2009

Distribution of value added (%)

2008

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 dated 31 December 2009 was:

Shareholder spread	Number of holders	% of total shareholders	Number of shares	% of issued capital
1–1 000 shares	2 299	56,28	818 815	0,69
1 001–10 000 shares	1 189	29,11	3 877 039	3,25
10 001–100 000 shares	432	10,57	15 163 940	12,73
100 001–1 000 000 shares	149	3,65	45 985 427	38,60
1 000 001 shares and above	16	0,39	53 290 648	44,73
Total	4 085	100,00	119 135 869	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 spread	Number of holders	% of total shareholders	Number of shares	% of issued capital
Non-public shareholders	5	0,12	11 938 338	10,02
– Treasury shares	1	0,02	11 884 699	9,98
– Own holdings	4	0,10	53 639	0,04
Public shareholders	4 080	99,88	107 197 531	89,98
Total	4 085	100,00	119 135 869	100,00

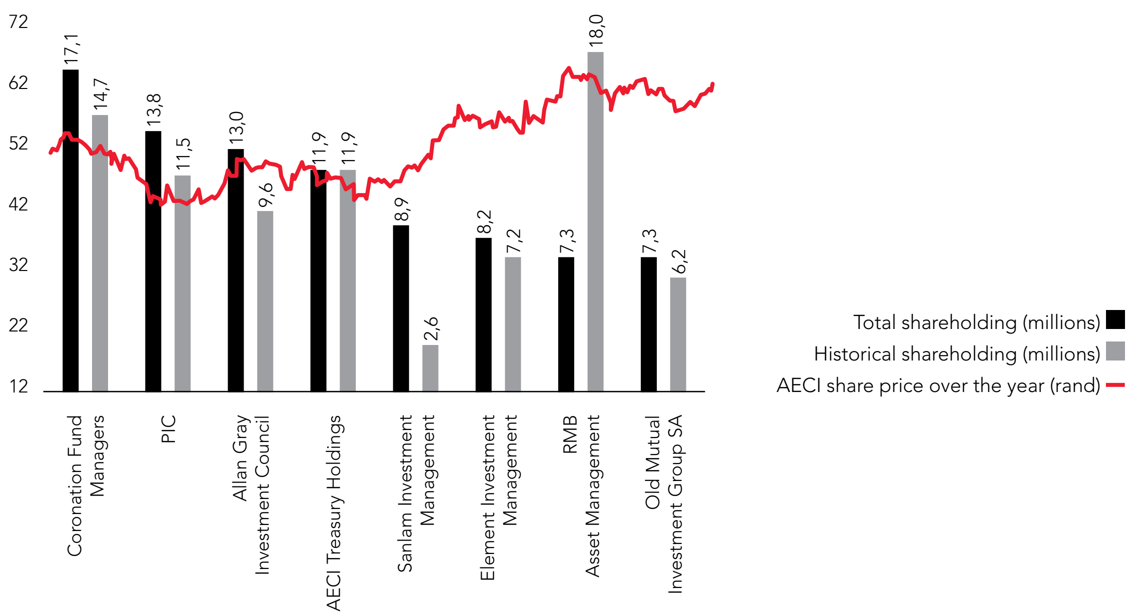
2. SUBSTANTIAL INVESTMENT MANAGEMENT AND BENEFICIAL INTERESTS

SUBSTANTIAL INVESTMENT MANAGEMENT AND BENEFICIAL INTERESTS ABOVE 3%

Through regular analysis of STRATE registered holdings, and pursuant to the provisions of Section 140A of the Companies Act, No. 61 of 1973, as amended, the following shareholders held directly and indirectly equal to or in excess of 3% of the issued share capital as at 31 December 2009:

Investment manager	Total shareholding	%
Coronation Fund Managers	17 140 177	14,39
Public Investment Corporation (PIC)	13 819 246	11,60
Allan Gray Investment Council	13 029 530	10,94
AECI Treasury Holdings (Pty) Limited	11 884 699	9,98
Sanlam Investment Management	8 879 340	7,45
Element Investment Management	8 240 992	6,92
RMB Asset Management	7 262 010	6,10
Old Mutual Investment Group SA	7 261 218	6,09
Total	87 517 212	73,47

Investment management shareholding positions above 3% with 12-month change



SHAREHOLDER ANALYSIS

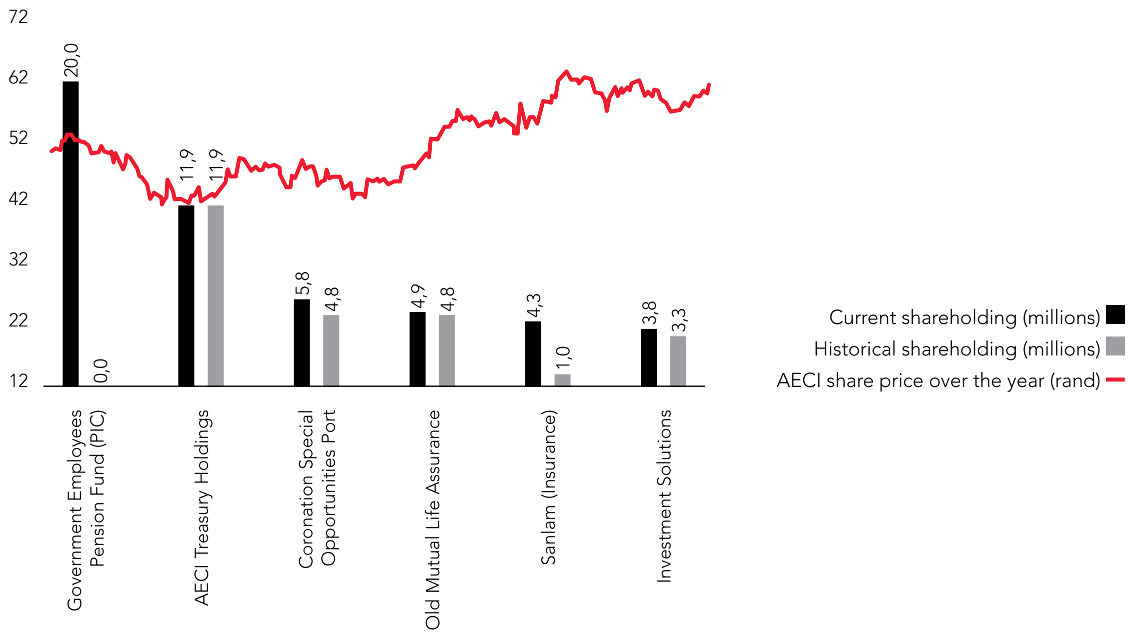
(continued)

2. SUBSTANTIAL INVESTMENT MANAGEMENT AND BENEFICIAL INTERESTS (continued)

Beneficial shareholdings	Total shareholding	%
Government Employees Pension Fund (PIC) [1]	20 002 770	16,79
AECI Treasury Holdings (Pty) Limited	11 884 699	9,98
Coronation Special Opportunities Port	5 802 745	4,87
Old Mutual Life Assurance Company Limited	4 925 033	4,13
Sanlam (Insurance)	4 304 476	3,61
Investment Solutions	3 838 169	3,22
Total	50 757 892	42,60

1 In June 2009, Government Employee Pension Fund (GEPF) assets were transferred from the PIC into the name of GEPF.

Beneficial shareholding positions above 3% with 12-month change



2. SUBSTANTIAL INVESTMENT MANAGEMENT AND BENEFICIAL INTERESTS (continued)

PREVIOUSLY DISCLOSED HOLDINGS

Manager	Total shareholding	%	Previous %
Investment managers now holding below 3%			
Polaris Capital (Pty) Limited (renamed Abax Investments in January 2010)	1 985 913	1,67	3,79
Rand Merchant Bank	1 460 548	1,23	2,38
Total	3 446 461	2,90	6,17
Beneficial owners now holding below 3%			
PIC	–	–	13,77
Total	–	–	13,77

3. GEOGRAPHIC SPLIT OF SHAREHOLDERS

GEOGRAPHIC SPLIT OF INVESTMENT MANAGERS AND COMPANY-RELATED HOLDINGS

Region	Total shareholding	% of issued capital
South Africa	107 841 610	90,52
United States of America and Canada	3 870 332	3,25
United Kingdom	533 877	0,45
Rest of Europe	741 665	0,62
Rest of the world [1]	6 148 385	5,16
Total	119 135 869	100,00

1 Represents all shareholdings except those in the above regions.

GEOGRAPHIC SPLIT OF BENEFICIAL SHAREHOLDERS

Region	Total shareholding	% of issued capital
South Africa	111 036 101	93,20
United States of America and Canada	3 656 904	3,07
United Kingdom	510 269	0,43
Rest of Europe	1 272 898	1,07
Rest of the world [1]	2 659 697	2,23
Total	119 135 869	100,00

1 Represents all shareholdings except those in the above regions.

SHAREHOLDER ANALYSIS
(continued)

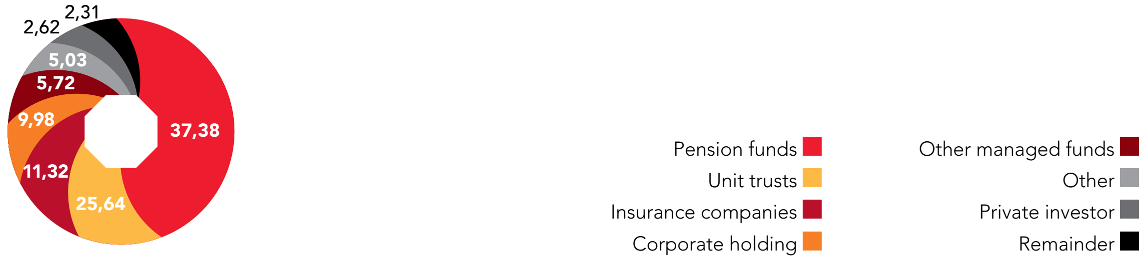
4. SHAREHOLDER CATEGORIES

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	44 533 042	37,38
Unit trusts	30 542 374	25,64
Insurance companies	13 488 980	11,32
Corporate holding	11 884 699	9,98
Other managed funds	6 817 308	5,72
Other	5 993 817	5,03
Private investor	3 121 434	2,62
Foreign government	850 858	0,71
Custodians	319 756	0,27
Mutual fund	234 887	0,20
Hedge fund	160 352	0,13
University	158 514	0,13
Trading position	133 553	0,11
Investment trust	42 800	0,04
Charity	37 005	0,03
Remainder	816 490	0,69
Total	119 135 869	100,00

4. SHAREHOLDER CATEGORIES (continued)

Beneficial shareholders: split by category (%) [1]

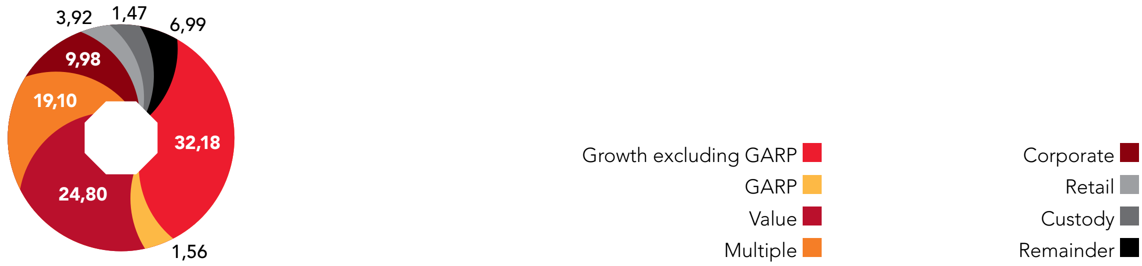


1 Includes categories above 2% only.

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 (%) [1]



1 Includes categories above 1% only.

NON-EXECUTIVE DIRECTORS

FANI TITI (47)

BSc (Hons), MA, MBA

Fani joined AECI's Board in 2005 and assumed its chairmanship, as well as membership of the Nominations and Remuneration Committees, in 2007. He is currently non-executive chairman of Investec Bank Limited and an executive director of the Tsiya Group, a private equity firm.

RICHARD DUNNE (61)

CA(SA)

Richard joined AECI's Board in 2007 and chairs the Nominations, Remuneration and Risk Committees. He is also a member of the Audit Committee and chairs Chemical Services Limited's financial review committee. Richard retired from Deloitte & Touche in 2006, as chief operating officer. He is a member of the boards and audit committees of Anglo Platinum, the Standard Bank Group and Tiger Brands.

SCHALK ENGELBRECHT (63)

BSc, MBL

Schalk retired as AECI's chief executive in 2008, having served in that position since 2003. He is a member of the Nominations, Remuneration and Risk Committees. In 1980, Schalk joined Chemical Services Limited 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.

ZELLAH FUPHE (41)

BSocialSc

She joined the AECI Board in 2007 and is a member of the Corporate Citizenship Committee. 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 boards of Afric Oil (chair), Worldwide Coal Carolina (chair), Engen Limited, the Oceana Group and Worldwide African Investment Holdings.

MIKE LEEMING (66)

BCom, MCom, FCMA, FIBSA, AMP (Harvard)

A non-executive member of the AECI Board since 2002, Mike is chairman of the Audit Committee, a member of the Corporate Citizenship Committee and chairman of Heartland's financial review 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.

LITHA NYHONYHA (50)

CA(SA)

Appointed to the AECI Board in 2006, Litha is chairman of the Corporate Citizenship Committee, a member of the Audit Committee and chairman of AEL Mining Services' financial review 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.

EXECUTIVE COMMITTEE

EXECUTIVE DIRECTORS

GRAHAM EDWARDS (55)

BSc (Mech Eng), BCom, MBA, PhD, Pr Eng

He is AECI's chief executive, which position he took up in 2008. Prior to this, he was managing director of AEL Mining Services (AEL) and he has also served as 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.

FRANK BAKER (56)

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. He will retire from Chemserve and from the AECI Board on 31 March 2010.

MARK KATHAN (39)

CA(SA)

Mark joined AECI in 2008 as financial director and chief financial officer. Prior to his AECI appointment, he 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.

OTHER EXECUTIVE COMMITTEE MEMBERS

ANTHONY DIEPENBROEK (53)

BSc (Civil Eng), MBA, Pr Eng

He joined the Group as managing director of Heartland, 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.

TOBIE LOUW (47)

BSc (Eng)

Tobie joined AEL in 1988 and he returned to this company as managing director in 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. In 2005, he was appointed to Chemserve's executive committee and became managing director of Chemserve Systems. He joined the Chemserve board in 2007.

SENIOR MANAGERS

GARY CUNDILL (42)

BSc (Chem Eng), BEng Hons (Water), GDE (Civil), Pr Eng

Gary is Group manager: technology, safety, health, environment and quality. He has worked in the chemicals, steel and explosives industries, and joined the Group in 2001. His background lies in technical development, and in project and operations management. Gary manages the corporate citizenship portfolio, and fulfils the role of chief information officer for the AECI Group.

TED REA (41)

Bluris, LLB, LLM

Ted is AECI's acting Company secretary. He is an admitted attorney and worked as an associate in a legal firm before joining AECI's legal department in 1998.

LOUIS VAN DER WALT (55)

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.

SHAREHOLDERS' CALENDAR

2009 FINAL ORDINARY CASH DIVIDEND NO. 152

Declaration date	22 February
Last date to trade cum dividend	9 April
Ex dividend trade	12 April
Record date	16 April
Payment date	19 April

5,5% PREFERENCE SHARES DIVIDEND NO. 144

Declaration date	21 May
Last day to trade cum dividend	4 June
Ex dividend trade	7 June
Record date	11 June
Payment date	15 June

86TH ANNUAL GENERAL MEETING — **24 May**

2010 INTERIM ORDINARY DIVIDEND NO. 153

Declaration date	27 July
Last date to trade cum dividend	3 September
Ex dividend trade	6 September
Record date	10 September
Payment date	13 September

2010 INTERIM REPORT RELEASED — **28 July**

5,5% PREFERENCE SHARES DIVIDEND NO. 145

Declaration date	19 November
Last day to trade cum dividend	3 December
Ex dividend trade	6 December
Record date	10 December
Payment date	15 December

FINANCIAL YEAR-END — **31 December**

2010 FINANCIAL RESULTS RELEASED — **February 2011**

2010 ANNUAL REPORT ISSUED — **April 2011**

CHAIRMAN'S LETTER TO SHAREHOLDERS

I am pleased to report that, after a very challenging year, the AECI Group as a whole achieved satisfactory financial results in 2009. Our customers in the core business sectors of mining and manufacturing experienced an extremely turbulent trading environment.

Most sectors in the mining industry experienced a significant downturn in activity. In the first half of the year some mines in South Africa and the rest of the continent reduced production or, in some cases, suspended their operations. It was only in the latter part of 2009 that the mining sector improved, as did commodity prices.

Demand from the manufacturing sector in South Africa declined by 13% overall, owing to the global economic crisis and exacerbated by a strong R/US$ exchange rate which had a negative effect on the country's exports.

Notwithstanding these challenging trading conditions AECI's management, with the Board's support, maintained its focus on completing the strategic capital programme embarked on since 2007. I am pleased to report that all the strategic investments in Chemical Services Limited (Chemserve), as well as AEL Mining Services' (AEL's) Initiating Systems Automation Programme (ISAP), were mechanically complete by the end of the year. Furthermore, cash management was excellent and delivered more than R1 billion in cash by reducing working capital.

TRADING PERFORMANCE

The effects of the global economic crisis and the strong rand/US$ currency exchange rate, in particular, had a severe effect on AECI's sales volumes and results.

Furthermore, the Group's performance was adversely impacted by the following:

- inventory and foreign exchange revaluations of R125 million, primarily in the first half-year;
- restructuring costs of R51 million;
- the effects of a major bad debt of R163 million in respect of sulphur sales to the mining industry in the Zambian copper belt region; and
- a depressed property development market as demand fell away due to the recession and credit approvals by banks became tighter as a consequence of the banking crisis. Also, Heartland experienced some cancellations of and defaults on prior sales.

Revenue from continuing operations, at R10,7 billion, was 16,8% lower than that achieved in the prior year. Headline earnings were R370 million, 16% lower than the previous year and headline earnings per share of 346 cents were achieved.

AEL

AEL delivered improved results, particularly noteworthy if viewed in the context of the poor start to the year by its mining customers. Revenue was unchanged at R4,1 billion as lower ammonia prices and a stronger R/US$ exchange rate offset other cost-driven price increases. Profit from operations increased by 20% to R298 million and an improved profit margin of 7,3% was achieved.

The margin improvement is attributable to restructuring of the business, a change in product mix and a shift in focus from merely supplying products to offering customers a performance-enhancing services package. The continued conversion in initiating systems from capped fuse to shocktube technology also contributed to the improvement. An additional 18 million holes a year were switched to the safer shocktube system. By year-end 85% of the conversion programme had been completed, with the balance planned for 2010.

In the South African business, the slow decline in narrow reef mining was offset by the coal sector's growth. Long-term contract renewals for industrial ammonium nitrate sales to non-mining and construction customers lifted prices off a very low base.

The Africa business was negatively affected by the stronger rand and by depressed diamond and copper markets in the first half of the year. Better than expected sales in surface gold and a recovery in the copper markets in Central Africa assisted in offsetting this.

The International business gained pleasing momentum with AEL being awarded four coal on-mine full service tenders in Indonesia. The necessary plant was deployed quickly and efficiently and all start-up targets were met. Additional sales channel partnerships were developed in Europe and South America. AEL's technology and know-how will impact positively on revenue going forward as the international strategy evolves.

The DetNet joint venture's products have proved to be reliable, effective and highly competitive globally. However, the downturn in the US construction sector and in the African diamond and platinum sectors had a serious negative impact on the operation's performance for the year.

With ISAP mechanically complete, the focus in 2010 will be on ramp-up and the completion of peripherals. By end-2009, the plant had already produced more than 65 million detonators and more than 280 million metres of tubing.

AEL invested R439 million in capital projects in the year. R170 million was spent on ISAP, with the balance for the start-up of bulk sites in Indonesia, further support for African mining projects and various replacement-type projects.

CHEMSERVE

Chemserve's results were negatively affected by the recession and the resultant, sharp decline in volumes. Most of Chemserve's customers operate in the mining, manufacturing and automotive sectors where the effects of the crisis were most evident. Revenue declined by 23% to R6,5 billion and profit from operations was 43% lower at R483 million. It is management's view that the automotive sector will take much longer to recover than other sectors and therefore Duco Speciality Coatings and Plastamid, which serve the automotive market, were restructured.

On the positive side Chemserve Perlite, Crest Chemicals, Industrial Oleochemical Products, Lake International and Specialty Minerals SA achieved excellent results and Senmin demonstrated good resilience against the downturn notwithstanding the slowdown in platinum mining in the first half-year.

Strong cash management in a declining revenue environment generated over R1 billion in cash, through reductions in working capital.

The capital expansion programme neared completion. R801 million was invested in capital expenditure, with R567 million of this being spent on the strategic growth projects.

Two acquisitions and the repurchase of TISO Capital's 25,1% shareholding in ImproChem were concluded during the year at a total cost of R96 million. Both acquisitions, namely Cobito and CH Chemicals, were integrated into existing Chemserve businesses and their performances exceeded expectations.

Chemserve's challenging year was exacerbated by a bad debt in Chemical Initiatives. The full impact of this debt was R163 million. Management has fully appreciated the seriousness of the write-off and has implemented the necessary risk management measures to prevent a similar occurrence in future.

HEARTLAND

Heartland manages the Group's property portfolio. The property market remained severely depressed. Furthermore, Heartland reversed R104 million in revenue and R52 million in operating profit recognised in 2008. The reversals were as a result of defaults on deals resulting from banks becoming far more stringent in granting credit to their property development clients, exacerbated by adverse trading conditions in the property market.

As a consequence, Heartland's operating performance was sustained primarily by the leasing and services segments. Operating results, net of environmental management costs, declined by 27% to R33 million. Environmental management expenditure was R13 million.

The business continued preparing land for sale and investing in infrastructure so as to be optimally placed once the market recovers from its current depressed position. R86 million was invested in bulk infrastructure in the year and 57 hectares of land are ready for sale.

SANS TECHNICAL FIBERS

SANS Technical Fibers (STF), based in North Carolina in the USA, had a challenging start to the year as the global automotive market deteriorated sharply. The business relies primarily on the US automotive industry, and incurred a loss from operations in the first six months. However, STF repositioned itself and developed export markets in Asia and Europe, thereby limiting its volume decline. Revenue declined by 25% to US$27 million and an operating profit of US$1,1 million was delivered for the year.

The company spent US$1,4 million on capital projects while a further US$3 million has been approved for the installation of plant transferred from SANS Fibres' Bellville site, subsequent to the latter's closure. The business remained cash positive and generated cash through the liquidation of working capital. It is AECI's intention to optimise and grow the business going forward.

DISCONTINUED OPERATION: SANS FIBRES

SANS Fibres' operations in Bellville in the Western Cape ceased in March 2009. All the working capital has been liquidated and the remaining plant and equipment not transferred to the US has been sold. 60% of the site has already been sold to a Cape Town-based developer.

REVIEW OF 2009'S FOCUS AREAS

In my letter to shareholders last year, I indicated that the Board had requested AECI's management to focus on some key areas to steer the Company through the economic crisis. Specifically, progress in the year under review in this regard was as follows:

CONTROL WORKING CAPITAL AGGRESSIVELY

The Company reduced its net working capital ratio to sales in all businesses, with each business having been given set cash targets. The success achieved was due to a concerted effort by all members of management and specific mention must be made of the Chemserve team which delivered more than a R1 billion in cash from the reduction in the business' working capital.

PROGRESS KEY PROJECTS, WHILE CAREFULLY REVIEWING ALL OTHER CAPITAL EXPENDITURE

During the year, management reduced its capital budget by R250 million by delaying some replacement and less urgent capital expenditure projects. Of the R1,2 billion spent on capital expenditure, R738 million was invested in the strategic capital programme.

The following Chemserve plants were commissioned:

- the second (and final) xanthate reactor, at Senmin;
- a sulphonation plant for Akulu Marchon;
- Senmin's carbon disulphide plant;
- an oleochemical plant at Resitec.

The polyacrylamide plant at Senmin was mechanically complete by the end of 2009 and is being commissioned. Benefits have already been derived from projects that were brought on line in the year and, in 2010, the focus will be on ramping-up these plants to specified capacities.

AEL's ISAP plant is also mechanically complete and ramp-up will continue in 2010 as ancillary equipment is installed.

APPLY COST LEADERSHIP PRINCIPLES

Where necessary, areas of the business were restructured and, regrettably, this resulted in some retrenchments. Wherever possible, staff were redeployed into other areas. R51 million was spent on restructuring. The Group Office was also restructured across all levels of employees.

MAINTAIN MARKET SHARE AND MARGINS THROUGH CONTINUED EXCELLENT SERVICE

It was most pleasing that Chemserve maintained its market share through the crisis. Although the business' margins were depressed in the first six months, performance in the second half was more in line with that of previous years.

Chemserve's full service model has been replicated by AEL in certain areas of the latter's business. AEL grew market share thanks to its international expansion which included the award of a 50% supply tender from the largest thermal coal miner in the world, based in Indonesia. AEL deployed the necessary plant and equipment for this large contract successfully and all start-up targets were met. The entire project was completed in less than three months, considered to be a world first!

DIRECTORATE

At the end of 2009 André Parker, who served on the AECI Board for two years in the capacity of non-executive director, resigned. I would like to thank André for his contribution over that time. Another non-executive director is being sought.

Frank Baker, managing director of the Chemical Services group since 2003, will retire from this position on 31 March 2010 after a 34-year career with the AECI Group. At the same time, he will also retire as an executive director of AECI Limited, having served on the Board in this capacity since 2007. My fellow directors join me in thanking him for his contribution to the affairs of the Company and the Board over many years.

Mark Dytor, an executive director of Chemserve, has been appointed acting managing director of this company.

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 every business and of AECI's Executive Committee. Community awareness and support are guided and monitored by the Corporate Citizenship Committee of the Board.

The Group adheres to best practices in corporate governance. The Board has formed a separate Risk Committee which will be active from 2010. Previously, the Risk Committee formed part of the Group's Audit and Risk Committee.

The requirements of the third King Report on Governance for South Africa, 2009, will be implemented during 2010 and the Group will report accordingly from 2011.

BBBEE TRANSACTION

The Group intended to embark on a BBBEE transaction involving employees and communities through structured trusts in 2009. This transaction was put on hold due to economic uncertainties. AECI will review its position in this regard towards the end of 2010.

Management has nonetheless made progress on BBBEE matters on other fronts, with each business having been set specific targets for achievement in specified time frames.

OUTLOOK AND STRATEGIC FOCUS

The slow turnaround in manufacturing and continued recovery in the mining sector should assist in improving volumes in 2010. However, a strong local currency could pressurise margins and dampen this improvement.

Delivery and consolidation will be the focus in the next financial year. Specifically, the Group will aim to:

- ramp-up strategic capital projects;
- grow volumes to support the delivery of these projects;
- maintain working capital ratios in a range between 16% and 18%, thus preserving cash;
- enhance its sales focus on opportunities outside South Africa; and
- curtail business risks in a volatile trading environment.

The successful execution of the above should facilitate the delivery of an improved financial performance in 2010.

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

30 March 2010

2

THE BOARD REQUESTED THAT AECI'S MANAGEMENT "CONTROL WORKING CAPITAL AGGRESSIVELY". IN THE 2009 FINANCIAL YEAR, THE GROUP'S NET WORKING CAPITAL AS A RATIO OF REVENUE IMPROVED TO 15,9% FROM 19,2% AT THE END OF 2008. CASH MANAGEMENT WAS EXCELLENT AND THE REDUCTION IN WORKING CAPITAL DELIVERED MORE THAN R1 BILLION IN CASH. THE EFFORTS OF CHEMSERVE IN THIS REGARD WERE PARTICULARLY COMMENDABLE.

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. The Board is committed to the principles of openness, integrity and accountability and supports the principles contained in the Code of Corporate Practices and Conduct set out in the King II report on Corporate Governance ("King II"). The Board is taking steps to ensure that the Group will be compliant with the third King Report on Corporate Governance for South Africa, 2009 ("King III").

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 King II. AECI has further reviewed the rules and regulations of the Listings Requirements of the JSE Limited ("JSE") and is satisfied that it complied in all material respects with these regulations.

To the best of the Board's knowledge, the Company is also in compliance with the provisions of the Companies Act, No. 61 of 1973, as amended ("the Act").

In subscribing to the principles of King 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.

The Board strives continually 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 2009 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.

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.

The Board's governance policies and procedures are updated regularly to ensure ongoing adherence to the Listings Requirements of the JSE, King II and current legislation.

AECI will evaluate areas where governance at a corporate and subsidiary company level can be strengthened. The implications of the proposed new Companies Act, No. 71 of 2008, in South Africa, as well as King III will also be analysed and appropriate steps taken to ensure compliance.

INFORMATION TECHNOLOGY (IT)

The forthcoming introduction of King III has a number of implications for the management of IT in companies. AECI has conducted an analysis of the implications of this section of King III on its IT management philosophy, and has prepared an action plan to address certain identified shortcomings.

IT governance will become a Board agenda item, although the Board may decide to assign the responsibility of monitoring IT governance to the Risk Committee. The role of chief information officer has been assigned to a senior Group manager.

The functions of the existing IT Forum are being extended, to enable it to play a more active role in enabling IT governance. New IT policies have been drafted, which were approved by the Executive Committee at its meeting in February 2010 and will be implemented during the year.

THE YEAR AHEAD

For 2010, the key corporate governance areas of focus will remain:

- to evaluate the implications of King III and implement the principles of this Code;
- a continued focus on strategic issues at Board level;
- a continued focus on corporate social responsibility and integrated sustainability matters, including the development of Company employees and transformation;
- the identification and management of business risks;
- the development and formalising of a succession plan for executive directors and senior management;
- continued training relevant to the Company's Code of Ethics, whistle blowing and competition matters; and
- the continued training and development of non-executive directors.

THE BOARD

COMPOSITION

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. Currently, AECI's Board consists of nine directors, five of whom are independent non-executive directors, one is a non-executive director and three are executive directors, as follows:

Independent non-executive directors

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

Non-executive director

1. S Engelbrecht

Executive directors

1. GN Edwards (chief executive)
2. FPP Baker (retiring on 31 March 2010)
3. KM Kathan (financial director and chief financial officer)

Mr AC Parker resigned as an independent non-executive director with effect from 31 December 2009.

The guidelines contained in the Listings Requirements of the JSE were used to determine the category most applicable to each director, whether independent non-executive, non-executive or executive.

The position of chairman is held by an independent non-executive director.

SKILLS AND EXPERIENCE OF THE BOARD

The Board comprises persons with experience in diverse industries including banking, chemical, accounting and business. The Board is of the opinion that having directors with relevant business and industry experience is beneficial to the Board as a whole, since directors with such backgrounds can provide a useful perspective on significant risks and competitive advantages as well as 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 fulfil 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 an appropriate amount of time and attention to their duties and develop the broad-based as well as the specific knowledge required to fulfil 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;
- attend shareholders' 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 conflicts of interest and entanglements such as service on an excessive number of boards.

MEETINGS AND ATTENDANCE

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 fulfil their duties and responsibilities effectively.

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. 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.

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.

The Board meets at least quarterly and on other occasions when necessary. There were five Board meetings during the financial year. Attendance by directors at Board meetings is set out on page 38 of this report.

APPOINTMENTS TO THE BOARD

A balance of skills and experience, 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 applicants.

RETIREMENT AND RE-ELECTION OF DIRECTORS

The Company's articles of association require a minimum of six and a 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.

One third of the directors are subject, by rotation, to retirement and re-election at the annual general meeting in terms of the Company's articles of association. The names of directors submitted for re-election are accompanied by brief biographical details (refer to pages 18 and 19 of this annual report) to enable shareholders to make an informed decision in respect of their election. Directors who will present themselves for re-election at the forthcoming annual general meeting are:

- Z Fuphe
- MJ Leeming
- F Titi

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 chairman conducted one-on-one interviews with each Board member to obtain their views on the effectiveness of the Board as a whole and on the strategy and structure of the Company. There were also meetings attended by the non-executive directors only. The opinions of the members on the role and functioning of the Board were sent to the chief executive by the chairman.

The Remuneration Committee, in consultation with the chairman of the Board, evaluates the chief executive on a 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. 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;
- an 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.

ROLES AND RESPONSIBILITIES

The Board operates under an approved Board charter which regulates the way business is conducted. The Board charter 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 Board charter, the primary responsibilities of the Board include the following:

- to provide strategic direction to the Company;
- to determine the Company's purpose, values and stakeholders relevant to its business and to develop strategies combining all three elements;
- to ensure that procedures are in place to monitor and evaluate the implementation of strategies, policies, senior management performance criteria and business plans;
- to review and approve the financial objectives, plans and actions, including significant capital allocations and expenditure;
- to define its mission as representing the interests of the Company and its shareholders in perpetuating a successful business that adheres to the vision and values of the Company and creates long-term value for shareholders;
- to be accountable and responsible to shareholders for the performance and affairs of the Company;

- to determine the Company's objectives, values and stakeholders relevant to its business and give strategic direction to management;
- to appoint the chief executive and ensure that succession is planned;
- to ensure 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;
- to assess at least annually the key risk areas of the business and determine the policies and processes necessary to ensure the integrity of internal controls and risk management in the Company;
- to develop the framework, policies and guidelines for safety, health and environmental management and other aspects of corporate citizenship, and monitor key indicators of performance in this field;
- to define levels of materiality, reserving specific powers to itself and delegating other matters with written authority to management; and
- to establish and set 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:

- approval of the Company's strategy and monitoring the implementation thereof;
- adoption of any significant change to or departure from accounting policies;
- changes to the Board and its committees;
- exercise of borrowing powers;
- approval of the declaration of distributions to shareholders;
- the approval of budgets 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;
- community investment: approval of annual budgets and special/extraordinary single contributions in excess of R5 million;
- approval of employee share incentive/option schemes, rules and amendments to rules recommended by the Remuneration Committee;
- formulation or approval of recommended policies relating to employment equity;
- 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;
- pension and provident funds: approval of rules and amendments thereto having a material effect on the actuarial liabilities of the funds, where applicable; and
- prioritisation of resources: prioritising the allocation of capital and technical and human resources.

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.

The Company secretary further provides directors with updates on regulations and statutory matters at each Board meeting.

DELEGATION OF AUTHORITIES

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

COMPANY SECRETARY

The appointment and removal of the Company secretary is a matter for the Board as a whole. The Company secretary advises the Board on the appropriate procedures for the management of meetings and the implementation of governance procedures, and is further responsible for providing the Board collectively, and each director individually, with guidance on the discharge of their responsibilities in terms of legislation and regulatory requirements applicable in South Africa. The Company secretary monitors directors' dealings in securities and ensures adherence to "closed periods" for share trading.

BOARD SUB-COMMITTEES

In accordance with the recommendations of King II, the Board has established six sub-committees to assist in the execution of its responsibilities. Of these, the Risk Committee will commence its work separately from the Audit Committee in 2010.

Each sub-committee has written terms of reference under which authority is delegated to each committee by the Board. The composition and responsibilities of each sub-committee are summarised here.

AUDIT AND RISK COMMITTEE

The Audit and Risk Committee is comprised of three independent non-executive directors. The committee met four times during the 2009 financial year. Meetings are attended by the Company secretary as secretary, the external auditors, the head of internal audit, the chief executive and the chief financial officer. Attendance by members at meetings is set out on page 38 of this report. 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:

- appointment of the external auditors and ensuring their independence and objectivity;
- determining the audit fee of the external auditors;
- 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 the expertise, resources and experience of the financial director and senior members of management responsible for the financial function;
- 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 comply with relevant legislation and regulations; 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 minutes of these meetings are reviewed by the Audit Committee. 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 Audit and Risk Committee will be split into two separate committees in 2010.

The Risk Committee was appointed by the Board on 30 November 2009. The members of the newly-formed committee are:

- RMW Dunne (chairman)
- JAA Diepenbroek
- GN Edwards
- S Engelbrecht
- KM Kathan
- TJ Louw

The Company secretary will attend meetings as secretary. The committee has written terms of reference and its responsibilities include, among others:

- to review the Group's risk philosophy, strategy and policies from time to time and ensure that they are managed effectively;
- to review material losses and their estimated costs and the resultant reduction in earnings or cash flows;
- to monitor the risk management process;
- to consider and evaluate, among others, the following:
  - » register of key risks;
  - » estimated costs of significant losses;
  - » whether risk management costs are consistent with the risk profile of the business;
  - » material losses;
  - » reduction in earnings or cash flows caused by unforeseen accidents;
  - » material changes to the risk profile;
  - » details of risk finance arrangements that could expose the Company;
  - » the risk-bearing capacity of the business;
  - » due diligence activities;
  - » IT risks; and
  - » environmental risks.
- to review the adequacy and overall effectiveness of the Group's risk management function and its implementation by management;
- to oversee sustainability issues including considering and recommending the corporate citizenship report, or similar statements, to the Board for approval;
- to monitor external developments relating to the practice of corporate accountability and the reporting of specific associated risks, including emerging and prospective impacts;
- to evaluate identified risks and the actions taken to mitigate these risks;
- to review the adequacy of insurance coverage;
- to review risk identification and measurement methodologies;
- to review risk that is not or will not be insured; and
- to review any legal matters that could have a significant impact on the Group's business together with the Group's legal advisor, where necessary.

NOMINATIONS COMMITTEE

The Nominations Committee is comprised of four non-executive directors, three of whom are independent. Chemical Services Limited's human resources manager attends the meetings as secretary. The committee met twice in the year. Attendance by members at meetings is set out on page 38 of this report.

Current members of the committee are:

- RMW Dunne (chairman)
- S Engelbrecht
- AC Parker (resigned 31 December)
- 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 the chief executive.

REMUNERATION COMMITTEE

The Remuneration Committee is comprised of four members, three of whom are independent non-executive directors. Two meetings were held during the financial year. Attendance by members at meetings is set out on page 38 of this report.

The chief executive attends by invitation when necessary to discuss the remuneration of executive directors and senior management. Chemical Services Limited's human resources manager attends the meeting as secretary. No attendee may participate in any discussion or decision regarding his or her own remuneration.

Current members of the committee are:

- RMW Dunne (chairman)
- S Engelbrecht
- AC Parker (resigned 31 December 2009)
- 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.

CORPORATE CITIZENSHIP COMMITTEE

The committee is comprised of four members, three of whom are independent non-executive directors. The Company secretary attends all meetings of the committee as secretary. The Group manager: technology and SHEQ is also in attendance at the meetings.

Two meetings were held during 2009. Attendance by members at meetings is set out on page 38 of this report.

The responsibilities of the committee include the review and assessment of progress by the Group in areas such as Broad-Based Black 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

EXECUTIVE COMMITTEE

The Executive 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 business and affairs;
- prioritising the allocation of capital, 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 comprises 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 and the Company secretary attends as secretary. Details of the members of the Executive Committee are set out on pages 20 and 21 of this annual report.

ATTENDANCE: BOARD AND COMMITTEE MEETINGS

Director	Board	Audit and risk	Nominations	Remuneration	Corporate citizenship
FPP Baker [1]	5 of 5				
RMW Dunne	5 of 5	4 of 4	2 of 2 [2]	2 of 2 [2]	
GN Edwards	5 of 5	4 of 4 [3]	2 of 2 [3]	2 of 2 [3]	2 of 2
S Engelbrecht	4 of 5 [4]		2 of 2	2 of 2	
Z Fuphe	4 of 5 [4]				2 of 2
KM Kathan	5 of 5	4 of 4 [3]			2 of 2 [3]
MJ Leeming	5 of 5	4 of 4 [2]			2 of 2
LM Nyhonyha	5 of 5	4 of 4			2 of 2 [2]
AC Parker [5]	5 of 5		2 of 2	2 of 2	
F Titi	5 of 5 [2]		2 of 2	2 of 2	

1 Retiring on 31 March 2010.
2 Chairman.
3 Attendance by invitation.
4 Absence with apology.
5 Resigned on 31 December 2009.

ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

The attendance at meetings in the 2009 financial year is summarised in the table above.

ACCOUNTABILITY AND INTERNAL CONTROL

The directors are required in terms of the Act and the Listings Requirements of the JSE 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 in order to determine whether the financial statements are in accordance with the Act, IFRS and the Listings Requirements of the JSE.

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 bad debt write-off at Chemical Initiatives highlighted certain areas for improvement in risk management, as well as the need to strengthen the internal control environment in this regard. 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 responsibilities for risk management and the design and implementation of appropriate processes to manage risk reside 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 business 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 recovery from the global economic crisis. The following are of concern to management:
  - » liquidity of the Company should commodity prices increase sharply and rapidly;
  - » liquidity of customers as revenue recovers; and
  - » credit risk in respect of customers, especially those based outside of South Africa.
- successful ramp-up of Senmin's polyacrylamide plant and AEL's automated detonator plant;
- enabling a Group structure that ensures optimal performance in terms of good corporate governance to support the entrepreneurial spirit of the business; 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 reviews the business environment regularly. Management will continue to focus on:

- tightly controlled cash management;
- maintaining working capital ratios in a range between 16% and 18%;
- cost reductions; and
- improving trading margins.

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. New employees also receive copies of the Code and, to maximise the updated Code's accessibility, it has been made available on AECI's intranet and on the intranets of operating businesses, 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

A service known as the EthicsLine is 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. The EthicsLine is administered by 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.

CONFLICTS OF INTEREST

The Company has adopted a formal Conflicts 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 and continued in 2009.

DEALING IN SECURITIES

In accordance with the Listings Requirements of the JSE, the Company has adopted a Trading in Securities policy. In terms of the policy, there is a "closed period" that endures from the end of the financial reporting period until the publication of financial results for this period. Additional closed periods may be declared from time to time if circumstances so warrant.

During closed periods, 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 Company secretary advises the directors of all the closed periods.

Dealings in securities by directors and officers of the Company require prior approval by the chairman or the 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 the Securities Exchange News Service (SENS).

The Company also has in place 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.

DIRECTORS AND OFFICERS 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 financial director and the managing directors of Group businesses conduct regular presentations on the Group's performance and strategy to analysts, institutional investors and the media in South Africa.

Presentations, corporate actions and reports on performance, as well as any other information deemed relevant, are published on the Company's website. Shareholders and stakeholders are advised of newly-published items via SENS. Other information on the Company, such as inter alia its management and history, is also available on the website.

The website address is www.aeci.co.za

To ensure that the Company communicates with those shareholders and stakeholders without access to the electronic media, the Company also 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 maintains regular contact with the media by disseminating relevant information.

Shareholders are encouraged to attend the annual general meeting of the Company.

3

THE BOARD REQUESTED THAT MANAGEMENT "PROGRESS KEY PROJECTS, WHILE CAREFULLY REVIEWING ALL OTHER CAPITAL EXPENDITURE". MANAGEMENT REDUCED ITS CAPITAL BUDGET BY R250 MILLION BY DELAYING SOME REPLACEMENT AND LESS URGENT CAPITAL EXPENDITURE PROJECTS. OF THE R1,2 BILLION SPENT ON CAPITAL EXPENDITURE, R738 MILLION WAS INVESTED IN THE STRATEGIC CAPITAL PROGRAMME.

REVIEW OF OPERATIONS: AEL MINING SERVICES EXECUTIVE TEAM

1 TOBIE LOUW (47)

Managing director and a member of AECI's Executive Committee. See page 21.

2 LIESEL DE VILLIERS (45)

Liesel is the executive director responsible for AEL Southern Africa. She joined the company in 1987 as an engineer-in-training and gained experience in the areas of engineering, IT, 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.

3 WAYNE DU CHENNE (45)

Wayne is executive director – Global 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.

1 2 3 4

4 RAFAEL FERNANDES (38)

Rafael was appointed AEL's financial controller in 2007 and financial director in 2008. He is responsible for AEL's company finance and IT functions. He is a registered chartered accountant and joined the company in 1996 as financial manager of a wholly-owned subsidiary. Rafael 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.

5 CYRIL GAMEDE (46)

Cyril joined AEL in 2002 and is executive director of operations. 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.

6 PIET HALLIDAY (57)

Piet joined the company in 1980 after completing a PhD degree in the synthesis of high energy sensitisers for explosives. As executive group director – technology, he has overall responsibility for the technical aspects of AEL's products worldwide. Piet was recently awarded the prestigious International Society of Explosives Engineers' President's Award in recognition of his contribution to the Society and his profession.

7 STUART WADE (52)

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

8 COLIN WILSON (47)

Colin is executive director - AEL International. 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 in July 2009 and is responsible for AEL's international growth strategy outside of the African continent.

5 6 7 8

REVIEW OF OPERATIONS: AEL MINING SERVICES

AEL

AEL Mining Services (AEL) is a leading developer, producer and supplier of commercial explosives, initiating systems and blasting services for mining, quarrying and construction markets in Africa and in other chosen markets. In terms of its size and technological capability, AEL is a top five player in the global explosives market. The company comprises 16 businesses in three main business groups, namely Southern Africa, Africa and International. AEL was relaunched as AEL Mining Services, with an updated corporate identity, in February 2010 as part of its targeted international positioning.

The businesses are as follows:

- **AEL Southern Africa:** Coal; Gold and Uranium; Industrial Explosives and Industrial Nitrates; Open Pit and Massive; Platinum and Chrome; Quarry Services;
- **AEL Africa:** Africa Development; Botswana; Central Africa; East Africa; West Africa; Zimbabwe and Mozambique;
- **AEL International:** Asia Pacific; International Development; and Latin America Channels.

Each of the 16 businesses 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 extensive and complex service needs of all 16 businesses; Central Operations includes the large nitrates and initiating systems complexes at Modderfontein; and Research and Development is tasked with providing ongoing technology and product innovation aligned with AEL's three key customer commitments of mining optimisation, mining safety and security of supply.

AEL's strategy is to:

- enhance the value of the Southern Africa business through improved mining optimisation, safety and innovation offerings to customers in the region;
- grow the Africa business through improved asset productivity and footprint expansion;
- grow AEL International in selected markets with footprint expansion in Asia Pacific and select partnerships with leading regional players in Europe and South America; and
- continually improve the group's business platform to facilitate and enable enhanced value and growth.

BUSINESS ENVIRONMENT

A slow recovery from the global commodity crisis late in 2008 became evident in the second half of 2009 but remained commodity-specific. Cutbacks and mothballing in the mining sector slowed as the year progressed and sectors such as surface gold and coal, most notably in Indonesia, Southern Africa and West Africa continued steadily throughout the year. Copper, diamond and platinum mining remained generally suppressed and the slow decline in volumes in the South African narrow reef gold sector continued, exacerbated by safety-related mine closures and notwithstanding greater stability in electricity supply.

The cost of some key input products decreased, most notably ammonia and fuel. Global ammonia prices dropped sharply due to demand and supply corrections as well as the more than 20% strengthening of the rand against the US dollar.

Providing service solutions at KPC, in Indonesia.

Aerial view of ISAP, at Modderfontein.

FINANCIAL PERFORMANCE

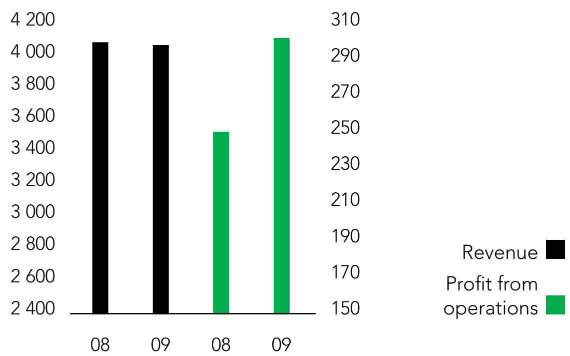
AEL's business restructuring and customer focus programmes initiated in 2008 yielded pleasing results. The business was able to cope well under challenging conditions, working even more closely with customers and responding rapidly to changes in their needs in a volatile business environment.

Costs were cut where appropriate whilst investment in growth and strategic positioning programmes was maintained. The creation, in 2008, of 16 highly responsive, customer-focused businesses with well defined parameters, well supported by services units, enabled AEL to execute streamlining and growth initiatives simultaneously across many of its commodity sectors in the 23 countries in which it operates.

The shift from merely supplying customers with product to providing them with a more comprehensive, performance-enhancing services package gained momentum as customers increasingly recognised the positive impact on mining optimisation of such services. This, coupled with selected price shifts in low value contracts and various product mix changes, contributed to profit growth.

Profit from operations increased by 20% on 2008's R248 million to R298 million, even though volumes softened overall and revenue year-on-year remained essentially unchanged at R4 070 million (2008: R4 079 million). Sales revenues in 2008 were inflated due to a temporary spike in ammonia costs which increased market prices.

Financial performance: AEL Mining Services
(Rm)



As expected, and in line with specific market recoveries, AEL's performance in the second half-year was significantly better than that in the first. The annual operating margin at 7,3% improved from 6,1% the previous year and will continue to improve as the capital investment cycle runs its course.

Working capital was well managed. Inventory and debtor levels decreased significantly from the mid-crisis peaks of 2008. Neither significant debtor nor inventory write-offs were required, despite an increase in provisions in 2008.

Company cash flows also improved in the year.

Net capital expenditure was R439 million, which included the deployment of a large on-site plant and operation with an investment of over US$15 million at Kaltim Prima Coal (KPC), a new customer in Indonesia. Another R170 million was spent on the Initiating Systems Automation Programme (ISAP) shocktube complex at Modderfontein, bringing total spend to date on this project to R570 million.

ISAP was fully installed by end-2009. In 2010 the focus will be on ramping-up individual plants to targeted output levels.

SOUTHERN AFRICA BUSINESS

Continued pressure on narrow reef gold volumes was countered by coal mining to an extent, whilst platinum and diamond volumes remained depressed for most of the year. Specific areas in the Southern African business performed well, however. In addition, long-term contract renewals on industrial ammonium nitrate sales to non-mining and construction customers lifted prices off a very low base. The year was characterised by excellent customer liaison to assist customers in coping with the commodity crisis in the first part of 2009.

The shocktube conversion programme continued, with an additional 18 million holes a year converted to the safer shocktube system from fuse igniter cord. The conversion programme is 85% complete and will be concluded in 2010. The new ISAP product performed well and was well received by the market.

A number of other initiatives were undertaken to improve business performance, including a change in packaged explosives products and sourcing.

AFRICA BUSINESS

The Africa business recorded a fair performance, despite diamond and copper volumes being severely depressed in the first half of the year. Good sales in surface gold and an improved recovery in copper positions in Central Africa aided. Diamond volumes remained low throughout the year with a recovery expected later in 2010.

A number of key contracts were renewed and the new packaged explosives plant in Zambia came on line with excellent product quality, output rates and very low waste levels. It is well positioned for increased regional demand.

The Africa business team took a broader view regarding mine closures and mothballing, working closely with customers to ensure rapid start-up post-crisis. This proved to be highly effective as volumes began their recovery.

INTERNATIONAL BUSINESS

AEL continued to build its capability to establish businesses in selected target markets outside of Africa whilst maintaining a cautious approach to growth.

Four tenders at coal mines in Indonesia were awarded to AEL, the largest being to supply 50% of KPC's annual explosives and related services requirements. On-mine operations at KPC were deployed in a highly effective and efficient manner, with all start-up targets being met when the supply contract took effect in October.

Indonesian sales volumes are now significant and volume targets for the last months of 2009 were met. Further volume growth from these operations is expected in 2010.

Other international opportunities were developed further, most notably in the sale of shocktube products to selected channel partners in Europe and South America. The development of the ISAP shocktube complex and related products and know-how are expected to impact positively on sales initiatives abroad.

Regional channel partnerships for an extended range of products and technologies are being shaped, most notably in underground bulk systems and electronic initiators.

DETNET

DetNet's products have proved to be reliable, effective and highly competitive globally. The DetNet technology platform, and DetNet as a technology development and support entity, is well respected. In 2009 the joint venture partners, AEL Mining Services and Dyno Nobel, assumed all sales responsibilities to enhance the global footprint of DetNet's electronic systems.

The DetNet JV entity's capability as a product and systems development and support centre was also aligned further to enable the JV to retain its global leadership position in this arena in an ever-evolving mining industry.

SUPPORT SERVICE UNITS

AEL's ability to deal with rapid and significant market changes was a credit not only to the business teams but equally the result of the capability of the service units within the company. The deployment of the KPC plant in Indonesia in less than three months, with no recordable injury, was due primarily to the execution capability of the Global Services unit.

Central Operations at Modderfontein continued to cope with ammonium nitrate supply issues and new ISAP plant installations amid the large-scale market conversion to shocktube initiating systems. The research and development unit further progressed ISAP-related leading technology and product development whilst working on broader new generation solutions.

Risk was a central theme in 2009 and leadership from the finance, IT and legal functions ensured effective management thereof.

MAJOR PROJECTS

Major projects in 2009 included the final installation of all new plants for the ISAP shocktube complex. The plastic shocktubing plant in ISAP is complete and running at high efficiency levels. The second and final detonator plant was installed and commissioned, and has produced for trial purposes. The first plant has produced over 65 million detonators, 280 million metres of tubing, 1,8 million auto-assembled units and is being ramped-up further. ISAP's final stage high speed assembly plant progressed; the second robotic assembly unit was also completed and is in production. The focus in 2010 will be on ramping-up all plants and on extending the product range.

A number of other capital projects were also completed, ranging from various plant upgrades, the in-house design and manufacture of five world-first, leading technology mobile manufacturing units deployed at KPC, remote bulk plants, and emission reduction projects.

SAFETY, HEALTH AND ENVIRONMENT

The positive trend in safety and health performance noted in the second half of 2008 was sustained, with a reduction in the Total Recordable Injury Rate for employees from 0,75 in 2008 to 0,58 in 2009. There were no fatalities. Good progress was made in environmental programmes. A culture of care and respect for the environment was encouraged and developed further.

OUTLOOK

The recovery of most mining sectors to pre-crisis levels is expected through 2010 and into 2011. The recovery in copper should lead that in platinum, with diamonds taking the longest to reach firm volume levels. Surface gold is expected to remain steady whilst the South African narrow reef gold sector is expected to continue to focus on reversing current volume declines.

Rand strength will continue to affect AEL's profit performance, given its foreign revenue earnings, imported input costs and rand commodity prices which affect mining customers. It is anticipated that global ammonium nitrate consumption will begin a steady increase in 2010 and concern for ammonium nitrate-related shortages could return from 2011.

A recovery is forecast in sales of electronic detonator systems, used extensively in the diamond and platinum sectors.

AEL will maintain its close liaison with customers in 2010 to facilitate recovery. Effective execution of current strategies and projects will remain a central theme. Investment in operational capability, productivity and growth will continue but overall capital investment should start decreasing with the completion of the ISAP complex. As ISAP volumes ramp-up and old plants are shut, the additional cost of running both the new and old plants will reduce. Cash generation to reduce borrowings and to fund future growth projects will remain an imperative.

Bringing existing and future customers continued benefits in mining safety, mining optimisation and security of supply remains at the core of the company's business model. Delivery in terms of this model, with meticulous care, is the brand essence of AEL.

REVIEW OF OPERATIONS: CHEMICAL SERVICES LIMITED MANAGEMENT TEAM

1 FRANK BAKER (56)

Outgoing managing director and an executive director of AECI. See page 20.

2 MARK DYTOR (48)

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

3 OSCAR LORETI (46)

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.

1 2 3 4

4 CHRIS KOTZE (44)

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.

5 EDWIN LUDICK (45)

Edwin joined the Chemserve group as a human resources manager in 1991, was appointed to its executive committee in 2008 and to its board in January 2010. He is currently managing director of Chemserve Systems, having managed other group businesses prior to this. He has a BCom (Hons) degree.

6 JOHN MAHLASE (48)

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.

7 CHRIS POVALL (52)

Chris joined the company 12 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.

8 SCHALK VENTER (43)

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.

5 6 7 8

REVIEW OF OPERATIONS: CHEMICAL SERVICES LIMITED

CHEMSERVE

Chemical Services Limited (Chemserve) is the specialty chemicals arm of AECI and manages a portfolio of 20 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. In 2009 Chemserve mechanically completed the major capital investment programme which commenced in 2007.

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, competencies and value-add for their customers.

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. Senmin, Chemical Initiatives (CI) and ImproChem are driving this strategic thrust;
- expand its water-, oil-, gas- and energy-related product and service offering from Southern Africa to the rest of Africa, and to other geographical areas where the full service model is valued. ImproChem will be the vehicle for the push out of Southern Africa;
- explore the opportunities for sales of specialist products and services offered by the global focus on food production and preservation, and agriculture;
- grow its joint venture business in Brazil, based on oleochemical expertise it shares with its partner, move into other sectors where the partnership has appropriate expertise, and seek other appropriate investment opportunities;
- manage and grow its South African portfolio; and
- expand businesses in its portfolio into Africa, and into other territories where suitable markets exist.

BUSINESS ENVIRONMENT

The start to 2009 was particularly difficult with mines closed or on reduced rates and large manufacturing operations and paper mills on short time or care and maintenance. In the year to October, South African volumes were down 13% overall in manufacturing where capacity utilisation dropped to 79%. The food and beverage sector grew by 2%. General manufacturing declined by 13%, motor vehicles production by 36%, paper and paper products by 13%, petroleum, chemicals and plastics by 10%, and the value of building plans passed fell by 21% (40% from 2007's peak). Mining production volumes dropped 7% from 2008's levels, and 15% from the peak in 2007.

The rand started the year weak at R/US$9,37, weakened further, and then strengthened, closing the year at R/U$7,37. This caused additional net realisable value write-downs of inventory and uncovered export debtors. Fortunately the oil price increased early in 2009 and remained firm, keeping base chemical prices up despite a worldwide reduction in demand.

PERFORMANCE

The slowdown in performance experienced by Chemserve in the first half-year continued into the second six months, exacerbated by the currency strength and worsened by a bad debt with a Zambian sulphur distributor which came to light in the latter part of 2009.

Fractionation column at Resitec, in Brazil.

Carbon disulphide plant, at Senmin.

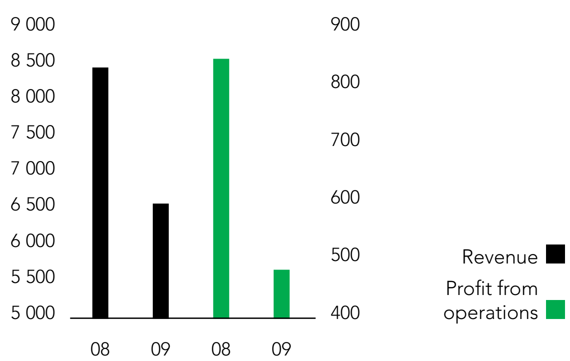
Revenue decreased by 23% to R6 524 million (2008: R8 434 million) and trading profit decreased by 43% to R483 million (2008: R851 million), after provision for the bad debt of R163 million and restructuring costs of R39 million. The trading margin decreased to 7,4% from 10,1% in 2008 (10,5% if the bad debt and restructuring costs are excluded) on volumes which were 27% lower than in the previous year.

Prices held firm for the first half of the year but came under pressure in the second half. Nonetheless, overall prices increased by 5,6%. Given the business environment in 2009, with the mining and manufacturing sectors severely affected by the global economic crisis, Chemserve's businesses did well to limit the decrease in trading profit on dramatically reduced volumes.

On the positive side, significant growth was achieved by Chemserve Perlite (Perlite), Crest Chemicals (Crest), Industrial Oleochemical Products (IOP), Lake International (Lake) and Specialty Minerals SA (SMSA).

Perlite recorded good sales into the glucose and wine industry. Crest maintained its effective distribution model and benefited from the integration of CH Chemicals. IOP enjoyed high demand for phosphate recovery reagents and its plant ran at reasonable rates. Lake benefited from modest growth in the food and beverage industry, the acquisition of Cobito which outperformed expectations, and the pull through of demand from AEL. SMSA's low cost base, good purchasing and high efficiencies resulted in a good performance despite the volume decline in the paper industry.

Financial performance: Chemical Services Limited
(Rm)



Chemfit's performance was robust, matching its 2008 earnings despite lower volumes, and considerable efforts to reduce costs and improve margins yielded results. Senmin maintained its revenue and profitability despite the considerable drop in volumes in the first quarter, pressure in the mining industry to reduce chemical consumption, and pricing challenges due to the strong currency and falling commodity prices.

Akulu Marchon (Akulu), Chemserve Systems (Systems), Chemiphos, ImproChem, Plaaskem, Resinkem and SA Paper Chemicals (SAPCO) were all affected by lower demand from customers and considerable price pressures aggravated by the rand strength.

Akulu noted improved conditions in the last quarter. ImproChem controlled costs and retained market share but volumes, especially toll volumes, dropped significantly and the strong rand impacted on margins and foreign earnings. Resinkem's very low cost base and high efficiencies assisted the business through a period of reduced prices and volumes which were lower, in line with the chipboard industry's performance. SAPCO had to contend with reduced volumes due to mill shutdowns and commercial down time, pricing pressures from a strong rand and global purchasing arrangements, and the disruption caused by the BASF purchase of Ciba.

Simitri, which serves the leather industry, was divisionalised into SAPCO to reduce its overhead costs and its production facility was closed. Leather volumes locally were negatively impacted by the reduction in automotive upholstery demand.

Resitec had a mixed year with a very strong Brazilian real, but demand returned from the synthetic rubber industry in the last quarter to provide a base load with improved prices. The fractionation column looks promising now that operational issues affecting product quality are being resolved. The business has written-down inventory and impaired assets relating to a discontinued food business.

Particularly hard hit in the year were Plastamid and Duco Speciality Coatings (Duco), both of which are exposed to the automotive and railway industries. Industrial Urethanes was also severely affected, owing to demand from the white goods market being at its lowest in many years. Plastamid was impacted further by the loss of SANS Fibres' textile fibre waste which was a very important low cost raw material for its in-house products. Plastamid has been restructured to eliminate as much cost as possible and Duco has been re-engineered to become a logistics and services company with no in-house manufacturing. The company's Struandale site, in Port Elizabeth, has been sold.

CHEMSERVE'S 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, 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.
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, pharmaceutical and personal care.
Duco Speciality Coatings	the leading supplier of high technology paint finishes to the South African automotive OEM 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 water authorities in Southern Africa.

DEBT WRITE-OFF

CI exported large quantities of raw sulphur to a distributor in Zambia in 2008, at the peak of the commodity boom. The sulphur sold to the distributor was procured by mines in the copper belt region.

During the latter part of 2008 the price of sulphur declined rapidly and severely. Despite this, the customer continued to make regular payments during the first half of 2009. In the latter part of the year, however, it became apparent to management that the balance of the receivable outstanding could not be recovered from the distributor.

Accordingly, management has provided R125 million in respect of the probable bad debt and has further processed adjustments in respect of pricing adjustments, foreign exchange revaluations and net realisable inventory adjustments of R38 million.

COSTS, MARGINS AND GROWTH

All businesses, including those which performed well in 2009, reduced their costs by reviewing expenditure and by bottom slicing to reduce the effort and resources allocated to less profitable products and markets. The focus on maintaining and improving margins resulted in better purchasing, inventory management and pricing.

Growth was difficult to achieve outside of the acquisitions, but most Chemserve businesses held their market share or improved it as a consequence of maintaining and enhancing service levels.

CASH

It was most pleasing that strict working capital management released over R1 billion in cash.

STRATEGY IMPLEMENTATION

Chemserve has made substantial investments in mining chemicals production capacity to service local and international markets, and on infrastructure at mines to supply the services required. Senmin has built an impressive team of qualified and experienced people to meet the mining industry's needs, including team members based at mining extraction sites. A mining chemicals strategy update follows in this operational review.

ImproChem is no longer restricted geographically by technology agreements and is engaged in expanding its operations beyond Southern Africa. This business will be the main vehicle for implementing Chemserve's water, oil, gas and energy strategy.

CHEMSERVE'S BUSINESSES

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.
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, 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 board, timber, paper, animal feed and foundry industries.
Resitec (in Brazil)	an international manufacturer and supplier of emulsifiers for synthetic rubber production. It also supplies fatty acid esters for the food industry and has restructured its business to be more market-orientated with the introduction of new food ingredient, lubricant, adhesive, construction, surfacing and coating, mining, rubber processing and printing divisions.
SA Paper Chemicals	a leading supplier of chemicals to the South African pulp, paper and board industries.
Senmin	manufactures and markets purpose chemicals for the froth flotation and tailings treatment segments of the mining sector.
Specialty Minerals SA	produces precipitated calcium carbonate products used primarily as hi-tech, value-added filler and coating materials in paper production.

Through Lake and Plaaskem, in particular, Chemserve is exploring medium-term opportunities in the food and agricultural chemicals markets in order to focus on the most promising areas.

In Brazil, the focus will be on commercialising Resitec's expanded oleochemical facilities that were brought on line in 2009. Acquisition opportunities have started to reappear in Brazil and will receive attention in 2010.

Two very successful acquisitions were made in 2009: 80% of the shares in Cobito, which services the poultry industry, were purchased. The business was integrated into Lake and the business of CH Chemicals was bought and integrated into Crest. Both acquisitions are operating well.

More Chemserve companies are expanding their footprints in Africa. As expected, the lead has been taken by the businesses involved in mining chemicals and water treatment, but others are also identifying opportunities.

MINING CHEMICALS STRATEGY UPDATE

The global economic crisis had a major negative impact on the mining industry in 2009, especially in the first half when diamond and copper mines in Southern Africa ceased operations abruptly. Closures, care and maintenance programmes and chemical cuts had a significant impact on volumes sold into this sector. In addition commodity chemical prices fell to record lows. Chemserve's sales to the mining sector were R1 679 million, 35% less than comparative 2008 sales revenues.

The sulphur trading business was hard hit, with sales into the mining sector at R184 million compared to almost R1 200 million in 2008. The outlook for 2010 is optimistic with copper and diamond mines re-opening and commodity prices strengthening. Some large capital projects are coming on line and these are expected to have a significant impact on volumes and margins over the next 12 months.

The continued focus on mining chemicals is critical to Chemserve's long-term growth. The group's vendor service model is unique and innovative and its value at mines in South Africa and Africa continues to gain acceptance. Akulu, CI, ImproChem, IOP, Senmin and Systems provide customers with tailored account management solutions which include on-site production and process management, dosing control, storage, logistics, maintenance, training and environmental compliance. Together with proven expertise in ore beneficiation, this model has resulted in improved yields, more effective use of scarce water resources and the streamlined use of systems that improve customers' profits.

Offices and storage facilities have been opened in Botswana, Kenya, Mozambique and Zambia and new facilities are planned for Namibia and Tanzania later in 2010. As Chemserve's new production facilities ramp-up production, opportunities are being explored for exports to regions in Australasia and South America.

As mining projects in Southern and Central Africa come on line, opportunities in these territories will continue to be pursued.

CAPITAL PROGRAMME

By the end of 2009, Chemserve's R1 200 million major capital programme was drawing to an end. Projects included a fractionation plant at Resitec, Akulu's sulphonation plant, additional capacity for Senmin's guar plant, and Senmin's pelletised xanthate plant, carbon disulphide (CS_2) plant and its acrylamide and polyacrylamide plants.

All projects are mechanically complete and commissioned with the exception of the acrylamide and polyacrylamide plants. Their three-stage commissioning process commenced in January 2010 and will be concluded in the second quarter.

Resitec's fractionation plant experienced some quality issues which are being resolved with the assistance of IOP and MeadWestvaco, the joint venture partner in Resitec. The plant is operating well at current market rates.

The guar plant runs well and has capacity to meet growing demand in Southern Africa. The xanthate reactors have been commissioned and are operating at design capacity. Production of pelletised product is being hampered by performance of a dryer downstream of the reactors. The resolution of this issue is receiving focused attention. The CS_2 plant has been run at design capacity. This project will have a significant impact on Senmin's profitability due to its considerably reduced cost base compared to that of the old plant and imports.

SAFETY

Chemserve achieved its safety targets, with a Total Recordable Injury Rate (TRIR) for employees of 0,96. This reflects the continued focus by executive and senior management on safety systems, structures and training. Most importantly, there is increased safety awareness among employees and a commitment from them to take responsibility for their own and others' safety.

The focus on safety will continue in 2010 and will be steered by the outcome of a safety attitude survey among 1 500 employees.

OUTLOOK

The outlook for 2010 and beyond is underpinned by the strength of the rand, the recovery of the South African economy, and the resurgence of the African mining industry which seems well underway.

The capital programme, which has required considerable resource for two years, is close to completion and all indications are that the markets served by the investments in oleochemicals, surfactants and mining have recovered sufficiently to load the plants adequately.

Akulu, Resitec and Senmin will focus on growth on the back of their new capacities and improved efficiencies. The other Chemserve companies have trimmed costs and shed unprofitable business in 2009, and they are well set up to take advantage of any upturn.

REVIEW OF OPERATIONS: HEARTLAND
EXECUTIVE TEAM

1 ANTHONY DIEPENBROEK (53)

Managing director and a member of AECI's Executive Committee. See page 21.

2 REG BHIKUM (50)

With the consolidation of AECI's property activities into a single entity, Reg was appointed managing director of operation services at the end of 2009. Since joining AECI in 1981, Reg has held positions in administration, sales, logistics and management. Prior to taking up his current portfolio, he was managing director of Heartland Leasing. Reg is a BCom graduate, has a diploma in Datametrics and has completed the University of Cape Town's Executive Management Programme.

3 NEIL HAYES (31)

Neil was appointed financial director in 2006. He joined the company as financial controller in 2004 and has a BCom (Hons) degree and is a registered chartered accountant.

4 LETICIA POTTS (34)

Leticia was appointed national development director in 2008. She joined the AECI Group as a civil planner in 1997 and moved to Heartland as a project planner in 2000. Leticia has completed an MSc degree in real estate.

1 2 3 4

5 JACO STRYDOM (32)

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

6 NICK TSOUROS (45)

Nick was appointed leasing director of Heartland Leasing in 2005. He retains this position in the consolidated Heartland. Nick joined AECI as an apprentice in 1984 and subsequently worked in engineering, contracts, procurement and supply. He moved to Heartland in 2000 as procurement manager and became increasingly involved in leasing activities.

7 MIKE WALSH (41)

Mike was appointed sales director in 2005 and is responsible for overseeing sales at all sites. He 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.

5 6 7

REVIEW OF OPERATIONS: HEARTLAND

HEARTLAND

AECI's property activities have been restructured so that they are all managed through one entity which comprises three components: land development, property investment and facilities management.

Land development activities focus 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 **property investment** activities relate to letting 342 000m² of available space and managing about 500 tenants. The vision is to define the portfolio into investment-grade buildings and opportunities for redevelopment, with the objective of achieving a critical mass for the portfolio.

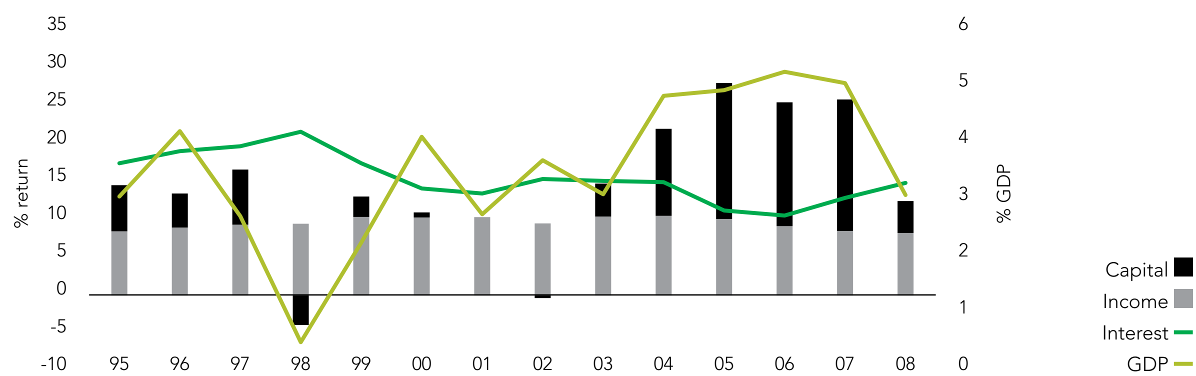
Facilities management activities relate to the provision of a range of services to mainly chemical-based manufacturers at the AECI-owned Umbogintwini Industrial Complex (UIC), south of Durban.

MARKET CONDITIONS

The year provided many challenges for the South African property industry in general and for Heartland in particular. Independent research shows that the average annual total return from real estate over the last 40 years has been 14%, with total return being the sum of income return and capital growth. The investment property database (IPD), which comprises property investment data collated from participating property portfolios valued at some R80 billion, indicates that total returns from 2004 to 2007 were in excess of 22%. By the end of 2008, total returns had declined to about 12% – a level last seen in 2002 as shown in the graph below. The trend did not reverse in 2009.

During the same 2004 to 2007 period new rental stock, where construction had commenced prior to the market decline, came onto the market and created a surplus of lettable space.

Total IPD returns vs GDP growth



Sources: IPD and BER

Longmeadow Business Estate: well-located and easily accessible.

Aerial view: Longmeadow Business Estate.

Simultaneously, infrastructure and building costs increased by 60%. New development is difficult to finance while existing space remains vacant and the return from property is below the cost of capital.

Higher infrastructure costs and the scarcity of appropriately zoned land have resulted in an increase in the value of land of about 150%. Land input costs also impact on rental; rental rates are declining and vacancies are escalating both in South Africa and globally. A reversal of this is required to create any meaningful prospects of another property boom.

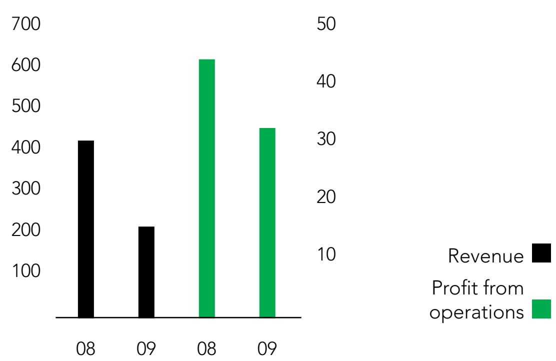
PERFORMANCE

Revenue for the combined property activities for the year was R211 million (2008: R432 million), net income was R33 million (2008: R45 million) and a trading cash outflow of R57 million was incurred.

The global financial crisis caused South African banks to re-evaluate their exposure to property risk. When assessing credit applications by developers, banks are seeking to reduce the development risk and, therefore, are applying rigorous credit criteria and are stringently enforcing pre-loan conditions where facilities are approved. These pre-loan conditions are a function of covenants to which potential tenants are prepared to commit and, in the prevailing economic conditions, tenants are re-evaluating the risks associated with commitments to lease agreements. Developers in turn are unable to satisfy the banks' stipulated pre-loan conditions, resulting in credit facilities being withdrawn.

As a consequence of this environment, two transactions which had been recognised in 2008 were adversely affected and resulted in a profit reversal of R52 million in 2009.

Financial performance: Heartland
(Rm)



Included in the trading cash flow is R86 million spent on infrastructure development. A large portion of this was invested in three bulk infrastructure projects, in line with Heartland's strategy of creating a sustainable pipeline of land available for sale and development.

These projects included the London Link Road construction and the Westfield substation upgrade, at Modderfontein, and the Helderberg Coastal Sewer construction in association with the City of Cape Town, at Somerset West. R13 million was spent on remediation and environmental projects.

FULFILLING A GROUP ROLE

In line with the AECI Group's objectives for 2009, Heartland focused aggressively on working capital management.

Specifically:

CONTROLLING TOWN PLANNING

The conversion of a portion of agricultural land to a proclaimed, serviced and zoned township stand is the essence of Heartland's business. This requires the identification of the quantum and sequence of land to be planned as well as its zoning. The process is a function of supply and demand and the cost of services. Heartland aims to plan the correct portions of land and to service them for sale on a just-in-time basis. In addition, compliance with the National Environmental Management Act, No. 107 of 1998, is a critical success factor in the conversion process. The challenge in 2009 was implementing rigid controls on a process that typically takes in excess of three years.

A Gate Review process was established to formalise decision making at key intervals in the land development process. This review includes adherence to a system that improves understanding of the quantum of capital exposure and its measurement. The greatest expenditure in township development is infrastructure installation. The Gate Review has enabled Heartland to adopt a more flexible yet disciplined planning regime. It has also allowed planning to proceed or be stopped at any key interval. In this way, the town planning approval process can be delayed for a period without incurring expenditure on infrastructure. Gate Reviews are conducted regularly and are now standard practice in the business.

CONTROLLING INFRASTRUCTURE DESIGN

Bulk infrastructure design includes identifying input costs and designing to local authority standards. Most often, the local authority provides bulk infrastructure services and receives bulk services contributions from developers as part of the granting of land use rights.

Since the objectives of local authorities and those of Heartland sometimes differ, and given the lack of capacity in some local authority structures, it has always been in Heartland's interest to install services and offset their cost against bulk service obligations. This gives the business an advantage in terms of the allocation and timing of expenditure.

The company has established a track record in terms of its ability to deliver bulk services consistently and to the standards required. Capital costs are managed aggressively to achieve maximum efficiencies in terms of land use rights received per rand of infrastructure spend.

Failure to meet project timelines is a major reason for capital over-runs. Although the business has succeeded in controlling services installation costs, it has been less successful in controlling timelines for project approvals by metropolitan authorities and obtaining timeous decisions on environmental approvals from provincial authorities. Fortunately, these delays did not result in financial loss, owing to prevailing market conditions, but could become a real risk in a more buoyant environment. To offset this risk Heartland is building up an inventory of zoned land which will be ready for sale when market conditions improve.

From the second quarter of 2010, continuous real time communication of Heartland's development intentions for its entire landholding will become available to all interested and affected parties via the Heartland website (www.heartland.co.za) and an exhibition centre at Modderfontein, Gauteng.

CONTROLLING THE TIMING OF REVENUE WITH INFRASTRUCTURE COST

The immediate benefit of having implemented a formal Gate Review process is that matching revenue from the sale of a portion of land with expenditure incurred in bringing it to a saleable state has become more predictable. It has also allowed land release to be planned further into the future without incurring excessive costs. The fact remains, however, that the sale of land is subject to the vagaries of the market and a small customer base. Accordingly, flexibility in planning will remain key.

REDEFINING THE PROPERTY STRATEGY

Research conducted by independent consultants in the year confirmed that unbundling Heartland in its current form and in current market conditions is not in the interests of AECI's shareholders. Typically, property companies concentrate primarily on revenue-producing assets and restrict their exposure to non-revenue producing land holdings. Only 20% of Heartland's assets consist of a revenue-producing property portfolio.

A cash purchaser is unlikely to be found and the criteria and implications of a non-cash transaction and the final price would be a critical issue.

Historically, Heartland's business plan focused primarily on township development and the systematic disposal of proclaimed and serviced parcels of undeveloped land to developers. This approach is fairly low risk but also yields low returns. Scope exists for the business to move further up the real estate value chain and to act as a developer for re-sale or for retention, or both, resulting in a business model more in line with that of development companies but with the advantage of already owning well located land, the holding cost of which is negligible.

Heartland has thus adopted a new vision as follows: to optimise the value of the property holdings surplus to AECI's operational requirements by selling land and by selectively investing in revenue-producing buildings in order to grow a portfolio of properties.

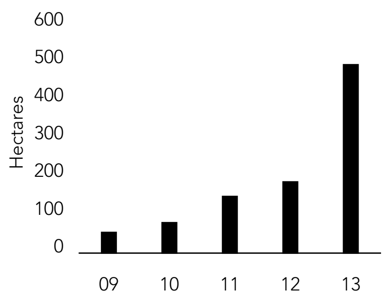
INVESTMENT IN TOP STRUCTURES

This will be done selectively to act as a catalyst for further land sales and should have the additional benefit of accelerating the rate of sales. At the same time, it will help to identify potential joint venture partners or merger opportunities with other portfolios to mutual advantage.

FILLING THE PIPELINE

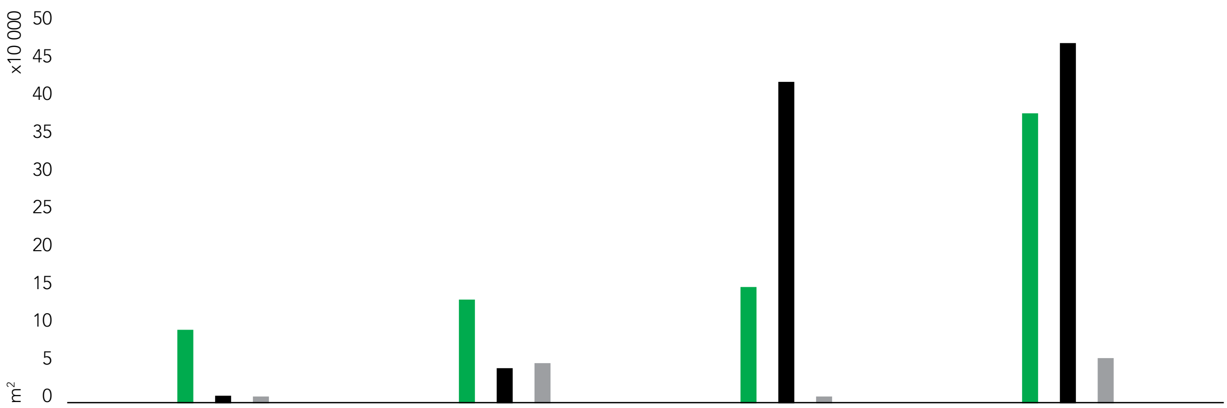
The table below indicates that a total of about 500 hectares of land will be made available for sale over the next few years, for residential, commercial and industrial uses.

Filling the pipeline (cumulative)



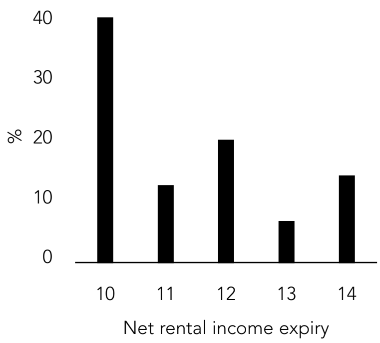
Prior to the economic crisis, Heartland sold all its available zoned serviced land and in 2009 it concentrated on strategic planning, or filling the pipeline of serviced and zoned land, in anticipation of the next property up cycle. In the year, 57 hectares of zoned land were prepared and made ready for sale.

Gross lettable area (GLA)



	Offices GLA	Industrial GLA	Land GLA	Total GLA
Gauteng	97 000	135 000	151 000	383 000
KZN	8 500	44 500	422 500	475 000
W Cape	6 500	50 000	1 500	58 000

5 year lease expiry profile (%)



Regional monthly net rental income: occupied GLA

Regional monthly net rental income: vacancy loss

MAINTAINING AND ENHANCING THE PORTFOLIO'S REVENUE STREAM

The leasing component of the portfolio is in the following geographical areas:

- Modderfontein, in Gauteng, where tenants are involved in a broad range of mixed use activities. Among the advantages of Modderfontein are the site's excellent access control owing to its status as an Industrial National Key Point, and a reliable power supply. Leasing activities at Potchefstroom, Heartland's fourth site and located in the North West, are managed by the Modderfontein office;
- Somerset West, in the Western Cape, is a site suitable for tenants requiring commercial and light industrial space;
- Umbogintwini, in KwaZulu-Natal. This site is characterised by users in heavy industry and, like Modderfontein, it is an Industrial National Key Point with appropriate access control. Also like Modderfontein, the supply of power has experienced minimal interruptions. Tenants benefit further from the on-site provision of steam, water, effluent management, rail services and bulk electricity.

Rental income is generated from three sectors: offices, industrial and land. Net income of R62 million was achieved in 2009.

The lease expiry profile shown above illustrates that the mean length of leases is three years and, with annual lease escalations of between 8% and 10%, indicates stable income for that period with the opportunity to increase rentals as the market improves.

The graph above illustrates the regional monthly net rental achieved from the portfolio. It also indicates the opportunity cost of the space not let at average achieved rentals. The bulk of this space could be classified as unlettable without capital expenditure on refurbishment. This expenditure would only be incurred for a specific tenant requirement.

The portfolio of revenue-producing properties incurred minimal capital expenditure in 2009 and focused on maintaining occupancy levels in difficult market conditions, with small tenants being challenged by liquidations and insolvencies.

The office vacancy is mainly B and C Grade space (the South African Property Owners Association's classification for C grade is buildings that are 20 to 30 years old but are well-located and are generally in good condition although the finishes do not meet modern standards). Of this, 6 000m^2 in Gauteng was let in January 2010. Almost all of the remaining balance would require substantial capital expenditure and structural alterations to render it lettable in current market conditions.

Vacancies in the industrial portfolio are due to two main reasons: firstly, an 11 000m^2 portion of warehousing at Potchefstroom is currently unlettable owing to adjacent demolition activities; and secondly, at Modderfontein, an additional 5 000m^2 of space has been brought into the portfolio.

VALUATION

As part of a strategy to identify a consistent value for the entire property holding managed by Heartland, a valuation of the UIC was commissioned in 2009. The Valuation Division of Old Mutual Investment Group Property Investments determined a valuation of R461 million for the portfolio of buildings, inclusive of leased and vacant land. This valuation is conservative since it is based on the mainly short-term leases in place.

In July 2008, the same division of Old Mutual valued that portion of surplus AECI Group-owned property located at Modderfontein and Somerset West at R2,5 billion. With the completion of the UIC valuation, the total value of land at Modderfontein, Somerset West and Umbogintwini is R2,9 billion.

Utilities and services such as steam, water, electricity and effluent treatment are provided and controlled by Heartland's facilities management activities at the UIC. This allows the site's manufacturing companies to focus on their core businesses.

OUTLOOK

The current business environment is characterised by onerous lending conditions, an oversupply of rental space and risk-averse capital financing models. While this environment prevails Heartland is concentrating on filling the pipeline of land available for sale to developers and maintaining net income from its investment activities through tenant retention and strict debtor control. In this manner Heartland will be well placed to take advantage of any upturn in the property cycle.

REVIEW OF OPERATIONS: SANS TECHNICAL FIBERS MANAGEMENT TEAM

[1] ZACH ZACHARIAS (50)

Zach is president of STF and has 29 years' experience in the fibers business. Previous roles have been in engineering project management, energy management, industrial engineering and international sales and marketing. Zach was business manager of the heavy denier fibre plants at SANS Fibres at Bellville before moving to the USA. In 2007, he joined the board of SANS Fibres as sales and marketing executive. Zach was chairman of the American Fiber Manufacturers Association in 2007. He has a BSc (Mech Eng) degree from the University of Cape Town.

[2] TIM COLE (48)

Tim is operation manager of the Stoneville facility. Tim has extensive manufacturing experience in roles such as corporate environmental affairs manager, fiber plant engineering manager and as a director of engineering services at Unifi, formerly a partner in STF. Tim also spent seven years working in the area of polymer products. He has a BSc (Chem Eng) degree from Purdue University and is a Professional Engineer.

1 2 3

3 KIM CRENSHAW (43)

Kim joined STF as chief financial officer in 2008, and has 23 years' experience in accounting in the primary manufacturing industry. Her qualifications include a BSc degree from the University of North Carolina and in terms of professional associations she is a Member of, among others, the American Institute of Certified Public Accountants.

4 JOHN NAGLE (60)

John is responsible for sales in North America and has a career of 39 years in the textile industry, starting as a dyehouse laboratory manager and then moving into the commercial arena as trade manager. John's responsibilities include ensuring that the demanding requirements of the North American technical fibers market are fully met, and introducing and implementing new developments.

5 SHARON SCHMID (47)

Sharon is STF's technology manager responsible for quality control and assurance as well as new process and product development. She joined the company in 2003 and her background is in nylon technical yarn production and polymer manufacture. Her qualifications include a BChE degree from the Georgia Institute of Technology and she has completed an MBA at the University of South Carolina.

4 5

REVIEW OF OPERATIONS: SANS TECHNICAL FIBERS

STF

SANS Technical Fibers (STF) is a North Carolina-based nylon fiber manufacturer which serves the North American market with specialty yarn solutions. Following the closure of SANS Fibres at Bellville, Cape Town, STF is expanding its business to supply selected global markets with its specific range of products. The fibers are used in automotive end uses, including under-the-hood applications, in end-use fabrics including specific types of parachutes as well as in a wide range of industrial applications. STF is the global leader in nylon 66 sewing threads and is the main supplier of yarn to the largest international sewing thread producers.

The business' manufacturing facility in Stoneville, North Carolina, was commissioned in 2002 initially to serve the North American Free Trade Agreement region. Following the Bellville shutdown, STF transitioned selected global customers to US production.

STF's strategy is to:

- maintain its position as the largest and most diverse global supplier of nylon 66 sewing threads, setting the global benchmark;
- continue to specialise its offerings to the automotive industry;
- produce nylon 66 products fulfilling specific North American market needs;
- constantly reduce the cost of manufacture to provide customers with an ever-improving value proposition;
- grow the business and innovate products to meet customers' future needs; and
- provide the best in industry service levels to customers.

BUSINESS ENVIRONMENT

The US recession's effect on the automotive industry was particularly severe as the unit sales rate almost halved at the start of 2009. All suppliers to automotive manufacturers saw a severe reduction in demand as car companies depleted the inventory pipeline. Other industrial sales dropped, albeit to a lesser degree. The "cash for clunkers" programme introduced later in the year coincided with the bottoming out of inventory cycles and local US business revived to some degree. Increased exports gained momentum in the second half-year and helped STF run at good capacity utilisation rates.

Polymer raw material costs continued to increase in line with oil price trends. Because of depressed demand there was a surplus in light denier nylon 66 capacity, especially in Asia. This, combined with very high inventory levels at customers, made margin recovery a challenge. Towards year-end, supply and demand moved partially to a more balanced position.

Through an expansion project currently underway, STF's capacity will increase by 30%.

STF will continue its innovative approach to providing products that meet customers' needs.

FINANCIAL PERFORMANCE

Compared to 2008, sales volumes were down 12% and revenue decreased by 25%, a creditable performance in the context of a depressed global market. STF increased its market share in these most unfavourable conditions. Overall, North American sales volumes declined by 20% with automotive and industrial markets faring worse than others. Increased exports in the second half of the year contributed positively. Revenue fell to US$27 million, compared to US$36 million in the prior year.

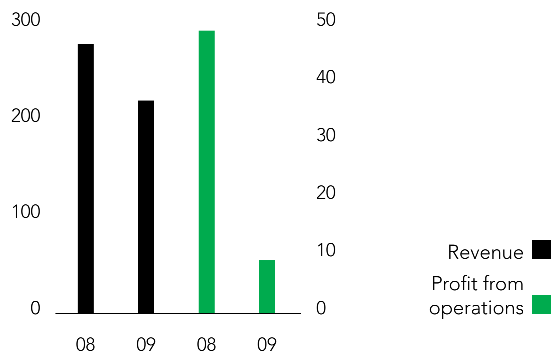
Working capital was managed aggressively to strengthen the balance sheet. Non-cash working capital as a ratio of revenue decreased from 24% in 2008 to 13%. Cash working capital increased to 26% of revenue at year-end, from 5% at the end of 2008.

Capital expenditure was contained at US$1,4 million, the majority of which was spent within the AECI Group and related to the transfer of plant and equipment from Bellville. It is expected that capital expenditure for 2010 will be about US$3 million, primarily for the installation and commissioning of new capacity.

REVIEW OF OPERATIONS

2009 saw depressed demand in the first third of the year followed by full plant rates in the final third. This presented challenges opposite labour, inventory and the control of manufacturing processes. The sharp escalations in raw material prices made it difficult for the business to pass on increases to customers in a depressed environment.

Financial performance: SANS Technical Fibers
(Rm)



NORTH AMERICA

Sales into automotive end uses declined markedly, but started recovering again at year-end. A slow deterioration has been noted in this sector over the past few years. However, a reversal of the trend is expected in 2010.

Other industrial end uses also reflected the slowing of the economy. Across all North American suppliers of technical nylon fibers, volumes declined by about 20% year-on-year.

INTERNATIONAL

STF continue to supply an extensive and diverse set of international customers in Asia, Europe and South America.

With the introduction of new polymer types at Stoneville, STF enhanced its offering into applications such as under-the-hood automotive products, sewing threads, and narrow and broad woven fabrics. Superior white, low shrink yarn for the shoe and leather manufacturing industries continues to be offered.

The company expects to grow its business in Asia and Europe from its current base as the new capacity expansion comes on line later in 2010. It is expected that more than 40% of sales will be to customers outside of North America by the end of 2010.

PROJECTS, PRODUCTS AND TECHNOLOGY

An expansion project currently underway will increase capacity by 30%. This expansion is extremely cost effective as it entailed moving modern machinery from SANS Fibres at Bellville and relocating it to an existing facility in the USA. Additional service and ancillary equipment is also being moved which will further enhance product quality and reduce manufacturing costs. US$3 million has been approved for this and project completion is expected in the fourth quarter of 2010.

The product range has been expanded to include heavier and lighter denier specialty nylon products. Capability now includes the manufacture of parachute yarns.

SAFETY, HEALTH AND ENVIRONMENT

On 1 October 2009, STF achieved 1 million employee hours worked with no lost-time injury or illness. As a result a "Million-Hour" safety award is expected from the North Carolina Department of Labor.

During the year, STF rolled out its new "Commitment to Environmental Sustainability". The programme focuses on reducing waste and inefficiencies. This includes fiber waste recycling, returnable packaging, and co-operative waste reduction work with customers.

OUTLOOK

STF is poised to benefit from the recovery in the global automotive business and from expansion of its export business. Indications are that excess capacity will wind down and, therefore, some tightness in the market is expected. Capacity utilisation should be high and this will be more conducive to margin recovery.

Margins suffered in 2009 as Asian suppliers were eager to gain sales volume at low prices. Asian manufacturers also cancelled some planned light denier expansions as the economic crisis took hold.

The shutdown of SANS Fibres at Bellville caused some shortage of supply but this was masked by the severe economic downturn as well as by the high inventory levels supplied to large customers before the plant's closure.

Business in North America is expected to recover in 2010 and 2011 as GDP growth resumes.

Automotive units should increase over the previous year but there will be an added benefit of no crisis pipeline destocking.

STF's capacity expansion will come on stream in the fourth quarter of 2010 and sales will ramp-up through 2011. Although there is evidence of a slow economic recovery, capacity utilisation in the fibers industry is not yet at levels recorded prior to the global crisis.

REVIEW OF OPERATIONS: CONCLUSION

Despite the turbulence in global markets and the severe effects of the economic crisis on financial markets, AECI emerged from 2009 with its strategy intact and with the strength of its balance sheet improved. Pleasing progress was made in implementing the Group's capital expenditure projects and, overall, AECI's businesses succeeded in retaining market share and margins through the crisis. This will provide a firm base for growth in the Group's activities in 2010.

AECI's vision remains to be the chemical and mining services supplier of choice for customers in its chosen markets. The Company aims to provide above average returns to its shareholders by:

- ensuring that it has a globally competitive cost base for all its operations;
- continuing to invest in world class technology;
- maintaining customers as the centre of focus and striving for truly excellent customer service; and
- providing and enabling appropriate governance frameworks for its businesses and ensuring that each business complies with Group standards. At the same time, entrepreneurial flair must be encouraged and enhanced. Accordingly, organisational structures that will enable this philosophy of "freedom in a framework" are being implemented.

The focus of the executive management team for 2010 will be to maintain the integrity of these strategic pillars, while building on the sound platform established in 2009. Specifically, the ramp-up of new plants will provide AECI with a globally competitive cost base and world class technology, as well as new opportunities for customer service excellence.

The capital investment projects, which were all mechanically complete by the end of 2009, are company-transforming initiatives for AEL and Senmin in particular and they will have a major impact on the Group as a whole.

Throughout 2010 management will continue to focus on cash management, particularly in regard to working capital. Although some improvement in trading conditions is expected in 2010, the Company will nonetheless be extremely careful with its expenditure and risk management since it is also expected that the business environment will remain volatile.

In summary, AECI is well positioned to benefit from any improvement in economic conditions in 2010, and from the ramp-up of its capital projects.

I would like to thank our customers, suppliers, shareholders and employees for supporting AECI in what was a very difficult year and look forward to improved results for the benefit of all our stakeholders in 2010.

Graham Edwards

Chief executive
Woodmead, Sandton

30 March 2010

4

AECI

MANAGEMENT WAS ASKED TO FOCUS ON APPLYING "COST LEADERSHIP PRINCIPLES" ACROSS THE BUSINESS. IT WAS NECESSARY TO RESTRUCTURE SOME AREAS OF THE GROUP'S BUSINESS AND, REGRETTABLY, THIS RESULTED IN SOME RETRENCHMENTS ALTHOUGH STAFF WERE REDEPLOYED INTO OTHER AREAS WHEREVER POSSIBLE. R51 MILLION WAS SPENT ON RESTRUCTURING IN THE YEAR.

CORPORATE CITIZENSHIP

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.

Companies, like private citizens, have rights and responsibilities, with the generation of wealth being only one measure of success. Stakeholders expect businesses to act as social, economic and environmental forces for good.

AECI's performance and projects in this regard are overseen by the Corporate Citizenship Committee on behalf of the Board, in terms of clear guidelines as defined in this committee's terms of reference.

EMPLOYMENT EQUITY AND BROAD-BASED BLACK ECONOMIC EMPOWERMENT (BBBEE)

EMPLOYMENT EQUITY: BACKGROUND AND STRATEGY

AECI is committed to transforming itself into a fully representative South African-based Group of companies and recognises that meeting the requirements of the Employment Equity Act, in terms of representative employment and human resource development, is a business imperative. Closely aligned to this is the achievement of acceptable Broad-Based Black Economic Empowerment ("BBBEE") scorecards.

Accordingly, AECI's employment equity and BBBEE targets have been stated as follows:

- all operations in South Africa must achieve contribution levels (excluding the ownership element) of level 8 by the end of 2009 (to be measured in the first half of 2010), with AEL Mining Services Limited (AEL) maintaining its current level 5 contribution status;
- all operations in South Africa must improve on this target by one level by the end of 2010; that is, level 7 for all operations except AEL which must achieve level 4;
- by mid-2011 AECI is planning to implement a BBBEE transaction along the lines of the transaction contemplated in 2008 and 2009 (more detail on this transaction is provided later in this report). Thus the objective, by mid-2011, is that all AECI Group companies will be at level 6 or better and the Group as a whole will be at level 6;
- in mid-2011 the Group will review its BBBEE performance against set targets and will set new targets for 2014 and beyond.

In the recent past some success in improving the representation of designated groups in AECI's employment profile has been achieved in parts of the Group. However, overall progress has been slow in terms of improving representation in skilled and more senior employment categories. Renewed efforts to accelerate improvements were formalised in 2009.

The Executive Committees of AECI, AEL, Chemical Services Limited (Chemserve) and Heartland have been tasked with implementing individual plans to achieve the above noted targets in their respective areas. Achievement of these targets will be formally measured as a Key Performance Indicator and the result will influence individual performance bonuses.

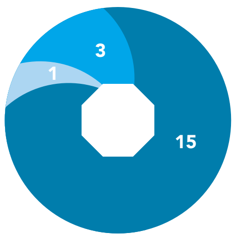
EMPLOYMENT EQUITY: STATISTICS

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

% = percentage of employees from designated groups per category.

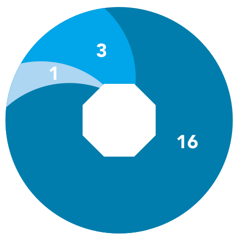
Figures in all the graphs refer to employee numbers.

Top management – 21%



2009

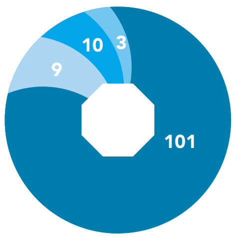
Top management – 20%



2008

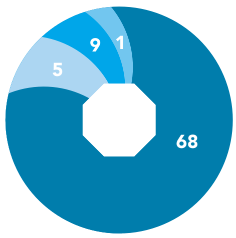
White males
White females
Black males
Black females

Senior management – 19%



2009

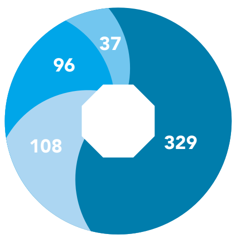
Senior management – 18%



2008

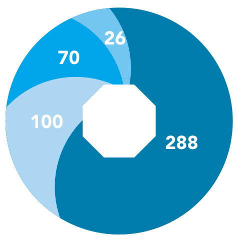
White males
White females
Black males
Black females

Middle management and professionals – 43%



2009

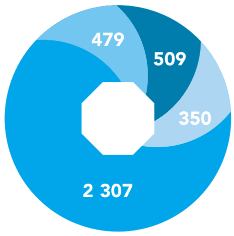
Middle management and professionals – 41%



2008

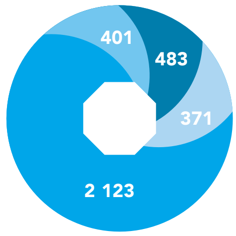
White males
White females
Black males
Black females

Skilled and semi-skilled – 87%



2009

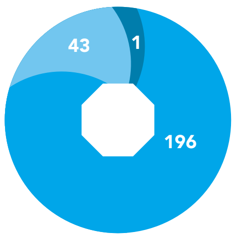
Skilled and semi-skilled – 86%



2008

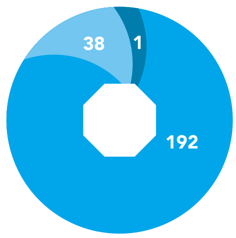
White males
White females
Black males
Black females

Unskilled – 99%



2009

Unskilled – 97%



2008

White males
White females
Black males
Black females

In the 2008 annual report, the percentage of designated employees in top management was stated as 28%. Therefore, the 21% stated for 2009 would appear to represent a year-on-year decline. However, a recount of the figures published for 2008 highlighted a misstatement in the original count. The 2008 figure for White males should have totalled 16 employees, which would reflect a 20% representation of designated employees in top management positions. Accordingly, the relevant graph has been corrected and restated.

There has been an increase in the number of designated employees across all categories. All AECI businesses have implemented formal programmes for the development and promotion of staff in designated groups. More detail on this is given below and in the BBBEE section of this report.

AEL

To achieve improved demographic representation, AEL has adopted a policy of mandatory employment equity appointments wherever there is a demographic imbalance and where external recruitment is required. All recent external senior management appointments have been Black, including three appointments in the last quarter of 2008.

In support of its policy, AEL has reviewed its succession planning and this has informed its Management Development Programme.

CHEMSERVE

In the Chemserve group, compliance with the Employment Equity Act continues to take place within the two-tier consultation process.

To redress the imbalance of demographic representation at senior management levels in subsidiary companies and within the group as a whole, Chemserve only recruits Black candidates into vacant positions of grade C lower (skilled band) and above except where a thorough and diligent search has not identified a suitable qualified Black candidate.

HEARTLAND

Recruitment statistics show that improvement has occurred in the demographic representation of skilled and middle management levels, whilst no change has been recorded at professionally qualified and senior management levels. Programmes and plans are in place to improve the situation over the medium- to long-term.

All three businesses submitted statutory Employment Equity plans and reports to the Department of Labour, as required by current legislation. Furthermore, all three maintain consultative processes for dealing with employment equity issues.

BBBEE

As indicated in the 2008 reporting period, investigations into a transaction to facilitate a Black ownership initiative in AECI's ordinary share capital had reached an advanced stage. It was contemplated that the transaction would be implemented in 2009, thus complementing the Group's other BBBEE strategies and programmes.

The transaction as contemplated comprised 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 manufacturing sites and operations of the AECI Group in South Africa.

The structure and terms of the transaction were approved by the AECI Board. Regrettably, its implementation in 2009 was precluded by the volatility of equity markets. A similar transaction, or another structure that provides the desired sustainable benefits to employees and shareholders, will be considered when market conditions are more conducive. It is currently envisaged that this will take place during 2011.

In the meantime AEL, Chemserve and Heartland will continue to manage progress in BBBEE and transformation at company level within the framework of targets set by the AECI Board. The approach is multi-faceted and, in addition to employment equity-related matters, will address issues such as skills development, preferential procurement and corporate social investment.

SKILLS DEVELOPMENT: LEARNERSHIPS AND TRAINING

AEL

A framework for implementing an AEL Management Development Programme has been approved in concept. This programme focuses on middle managers and is designed to strengthen AEL's leadership capability and capacity. It will be managed by an independent professional who will serve as programme co-ordinator from 2010.

To provide the technical skills required for AEL's plant automation initiatives, learnerships are in place for chemical operations and engineering. Furthermore, the company seeks to preserve employment by upgrading the skills of identified individuals employed in the older, non-automated plants.

Those undergoing training attend technical courses at the Ekurhuleni West College for theoretical input, which is followed by artisan development activities at AEL's Technical Training Centre, at Modderfontein. A total of 33 learners participated in the programme in 2009, 16 of whom were from the relevant Sectoral Education and Training Authority (SETA)-sponsored unemployed learner programme.

AEL met its engineering training target in the year, with nine learners qualifying at NQF level 4 in chemical engineering.

As part of the company's initiative to develop internal expertise, various in-house courses are offered on mining operations. A total of 162 employees attended mining-related courses, including the Basic Explosives Introductory Course, the Blasting Certificate Course, the Blasting Competency Programme, and courses in Blasting in Open Cast Mines/Quarries, Blasting Operations and Mining Engineering.

CHEMSERVE

The growth and advancement of employees remains at the core of Chemserve's human capital development strategy. Accordingly, training and development initiatives in 2009 focused on skills acquisition, talent retention and employment equity goals.

Some of the main interventions implemented, over and above skills-, safety-, health- and environment-related training, included:

- the Chemserve Management Development Programme, which is becoming an integral part of employee development. Currently, 141 employees participate in this programme. The plan is to have at least 10% of the total employee complement participating at any given time;
- 10 senior employees from various Chemserve subsidiaries successfully participated in the Nine Conversations in Leadership Programme, facilitated by a management consultant. The programme is aimed at consolidating and broadening leadership capacity within the group. An additional 20 senior employees will be nominated to participate in the programme in 2010;
- Chemserve continued to offer in-service training to 18 students from various universities of technology, primarily in the chemistry and chemical engineering disciplines;
- the group has entered into artisan and chemical operations learnership agreements with 35 learners, an increase of 10 from the previous reporting period;

- to control training and development costs, Chemserve has built a fully equipped Training Centre at its Chloorkop site. This facility is used by all of Chemserve's companies in South Africa;
- the Chemserve Technical Training Centre at Umbogintwini is fully operational and received provisional accreditation from the Chemical Industries Education and Training Authority (CHIETA). Training of both unemployed and employed learners for chemical operations at NQF level 2 has started. This centre is also utilised for other training courses initiated by Chemserve subsidiary companies in the KwaZulu-Natal region.

HEARTLAND

Whilst management development and generic skills training continued, Heartland's specific focus remained on apprentices and in-service trainees. The apprentice complement increased to 10, five fitters and five in electrical disciplines. This is in line with the requirements of the National Skills Development Strategy and those of the CHIETA, with partial funding having been procured from the latter's Discretionary Grant process.

LABOUR RELATIONS

AEL

2009 was a challenging year for AEL from a labour relations perspective. A variety of disputes arose, many of which were associated with the implementation of continuous shifts, which is an absolute necessity for operating sophisticated automated plant and equipment.

These disputes and concomitant industrial action and counter-action resulted in the need to fundamentally reconsider the company's relationships with recognised unions as the consultative structures in which such interactions are conducted. As a consequence, a higher level engagement between management and the unions, in the form of a workshop, is planned for the first quarter of 2010, the focus of which will be the implications of the automation of manufacturing operations and the restructuring of labour and management relationships.

CHEMSERVE

Substantive wage negotiations were conducted under the auspices of the National Bargaining Council for the Chemical Industry. A settlement agreement was reached between the employers and trade unions after a deadlock was declared resulting in two weeks of industrial action.

As a result of the poor economic climate that characterised 2009, Duco Speciality Coatings initiated an unavoidable restructuring process which led to the closure of the Struandale factory site, in Port Elizabeth, and the loss of 126 jobs.

HEARTLAND

Sound industrial relations practices resulted in a reduction in employee disciplinary issues and disputes in 2009. Employer/employee interaction remained stable, a characteristic of a mature relationship between the relevant parties.

Ongoing consultations on potential areas of conflict are dealt with in terms of a joint problem-solving model at all levels within the business.

SANS FIBRES (SANS)

As reported in 2008, SANS engaged in a process of consultations with the Southern African Clothing and Textile Workers Union (SACTWU), in terms of the Labour Relations Act, regarding the contemplated closure of the company's operations at Bellville in the Western Cape. These consultations were conducted under the auspices of, and facilitated by, a commissioner appointed by the Council for Conciliation, Mediation and Arbitration. The result of this process was mutual agreement with regard to the inevitability of the facility's closure as well as the process to be followed to minimise the adverse effects of retrenchments.

SANS made a variety of support services available to those affected, including workshops on coping with retrenchments, counselling, assistance in preparing CVs and improving interview skills, financial advice and the like. In addition, AECI made funds available for re-skilling affected employees who met the agreed criteria.

As agreed with the relevant union, operations at SANS ceased as planned on 31 March 2009.

CORPORATE SOCIAL INVESTMENT

AECI has engaged in corporate social investment (CSI) initiatives since the 1980s. The Company sees this as a business imperative which is an integral part of its responsibilities as a corporate citizen. To this end, the AECI Group's CSI programmes and donations aim to promote the improvement of the overall quality of life of neighbouring communities in areas where the Company operates.

Through its alignment with the Group's strategy and business objectives, particularly its commitment to improved employment equity and BBBEE performance, the programme is deliberate, focused and progressive, and is guided by a formal policy framework with its main objective being to mutually benefit the Group and its stakeholders, especially its employees.

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 previously disadvantaged employees, and of the disadvantaged communities in which it operates; and
- enhance the Company's image and reputation as a caring and responsible corporate citizen.

The CSI programme's focus is demonstrated by initiatives, such as those listed below, which were supported by direct investment of some R8 million by AECI and its businesses during the reporting period.

In many instances, the relationship between AECI and its companies on the one hand, and the NGO, project or programme supported on the other, is well established and long-standing. AECI believes that the development of such relationships maximises the long-term benefit of investments to the advantage of all parties.

AECI LIMITED

The company's CSI commitment is demonstrated by the following initiatives:

&Beyond Foundation

Income-generating activities go a long way towards empowering community members by improving their earning potential, thus enabling community members to support their families. Craft markets are one such income-generating activity which is supported by the &Beyond Foundation.

The rural community of Welverdiend, adjacent to the Kruger National Park in Mpumalanga, is still characterised by high levels of unemployment and poverty. Formal employment opportunities are limited and labour migration to urban centres is high, resulting in many split families and de facto women-headed households.

The development of a craft market in this area was seen as an important community-empowering initiative. As such, AECI supported the construction of the Bohlabela Craft Market which was completed in 2009. The physical structure has enabled the crafters of Welverdiend, who are skilled in beadwork, weaving and embroidery, to unite in a permanent venue after 20 years of working from the side of the road; the result has been increased turnover and improved sustainability.

Project Literacy

Support was again given to this non-profit organisation, which 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. Notably, in 2009 "Run Home to Read" reached a further 750 families in Gauteng and Limpopo. The impact of the intervention is evident in the confident young participants who are eager to learn and are passionate about reading, story-telling and finding answers to questions that fill their inquisitive growing minds.

The commitment to linking families to their local libraries continued to strengthen. All caregivers and children involved in the project have attended a library orientation session and joined their local libraries. The enrolment of some of the caregivers in ABET classes, as a result of being involved the project, has been an added benefit.

Project Literacy was awarded the Mail & Guardian's "Investing in the Future" award for 2009 in the Non-Profit Organisations category.

Sparrow Schools Educational Trust

In 2009 the Sparrow Schools Educational Trust (SSET) celebrated its 20th anniversary. Its work began in 1989, with weekly academic extra lessons for marginalised children. SSET's service delivery has since evolved to provide comprehensive interventions in the niche area of remedial and special needs education, using a vocational approach. The overriding objective remains to ensure that children and youth break through barriers to learning.

The Trust's success continues to be impressive. Learner achievements in 2009 were not limited to the classroom but also included achievements on the sports field and other extra-curricular activities: the school's choir was invited to sing for former president Nelson Mandela; three learners were awarded merits for entering an art competition, with one learner's work being exhibited and sold; a learner received national colours for taekwondo; all learners on the New Venture Creation learnership programme achieved NQF level 4; and a catering learner was accepted into the prestigious HTA School of Culinary Art, in Johannesburg, to further his studies.

Another highlight was the appointment of a new head of the SSET's Skills Department and the appointment of additional educators for the carpentry and welding workshops. The educators have met the SETA requirements of assessor and moderator training in motor mechanics, carpentry and welding.

Imbali

This NGO trains and equips unemployed persons in various skills such as sewing, garment making and beading so that they can become self-supporting.

In 2009 trained crafters from the disadvantaged community of Kylemore, in the Western Cape, earned about R100 000 from the sale of their products. Even better results are expected in 2010 following Imbali's establishment of a website, which will enhance both marketing and fundraising initiatives.

Forty four individuals who trained at Imbali have since found permanent employment.

Early childhood development (ECD)

The Ntataise Trust operates a network of training facilities for aspiring caregivers. AECI contributed towards the Basic Certificate in Early Childhood Development level 1 training programme that was completed by 52 previously untrained pre-school practitioners in several informal settlements and township areas in the Free State.

Practitioners were equipped with the basic skills necessary to run good quality ECD programmes, including making educational resources and implementing a daily learning programme. The training, which was verified by the relevant SETA in 2009, also emphasised the importance of including parents and caregivers in the pre-school environment.

Food and Trees for Africa

AECI sponsored a tree planting and distribution event held at the Pimville Community Centre in Soweto, Gauteng. The community was invited to collect trees that will add value to their homes. Ten community members were trained to become community-based educators. They assisted in distributing 300 trees, provided the community with environmental and climate change information, and monitored the trees after planting. It is most pleasing that, after six months, it was confirmed that the vast majority of trees were thriving and are contributing to the greening of the area.

Impilo Health in My Hands

This project, which was initiated by the Foundation of the University of KwaZulu-Natal, aims to increase access to appropriate health services by making it easier for people to get health-enabling information and by enhancing communication and collaboration between service providers through the use of mobile phone technology. The Impilo project thus packages health-enabling information and resources and delivers them via a mobile phone interface to any member of the community, 24 hours a day. This not-for-profit initiative is a world first.

Individuals can phone the service, anonymously and at no cost to themselves, for information on HIV/Aids. A directory has been developed to provide an inventory of all HIV/Aids-related services available in each province.

A pilot project, preceding full roll-out in 2010 and 2011, is being run in the Umkhanyakude District municipality, in the far north of KwaZulu-Natal adjacent to Mozambique and Swaziland. This community was identified by the Department of Health as a priority for health interventions since, in this district, a number of key health issues such as high rates of TB, HIV infection and infant mortality are prevalent. Poverty is a daily challenge with over 70% of families surviving on less than R800 per month, and birth registration rates are among the lowest in the country.

AEL

AEL, together with the TISO AEL Development Trust, a trust established by TISO Capital which is a shareholder in AEL, contributed R1 million to social investment in 2009. Main projects were:

Tembisa Schools

A substantial amount was again allocated to the support of eight schools, split equally between primary and high schools. Support concentrated on upgrading the standard of maths and science education, largely under the auspices of the Maths Centre – an NGO specialising in the teaching of maths in schools.

In 2009, the four high schools achieved a total of 156 matric distinctions. One of the schools produced 118 distinctions. This achievement is remarkable for a school in a traditionally disadvantaged area.

The sponsored schools recorded overall improvements of 11%, 12% and 23% in the pass rates for Grades 10, 11 and 12 respectively, which bodes well for both teachers and learners.

CIDA

Students pursuing degrees in Business Administration at CIDA City Campus also received funding from the Trust. Funds were made available for tuition expenses and for an allowance to subsidise travel and living costs.

Some former students have been absorbed into AEL's internship programme whilst others have become permanent company employees.

Internship programme

Seven qualified young people were placed into positions in AEL. The objective of the internship programme is to provide experience, thereby enhancing the employability of such individuals. Feedback from former internees bears testimony to the programme's success in opening up career opportunities and integrating young graduates into the work environment.

Nurturing the Orphans of Aids for Humanity (NOAH)

NOAH in Ivory Park continued to receive funding, primarily for the cost of groceries. Some of the grocery funds allocated were used to buy "e'pap", a pre-cooked cereal made from maize, soya and added nutrients. This highly nutritious meal supplement has brought about a great improvement in the health of children attending the centre.

Additional funds were also contributed towards a building fund. The first phase of building has been completed and three new classrooms are already in use.

Augmenting the initial donation by AEL of a bread oven in 2007, NOAH acquired electrical mixers and this has enabled more bread to be produced to the benefit of the children and the wider community.

Linked to the NOAH project is a vision screening initiative where children were tested so as to detect early problems that could impact on school performance. As a direct consequence of this intervention, 46 received much needed spectacles.

Other initiatives

AEL's Employee Assistance Resources (EAR) function continues to provide counselling and other support services, such as hospital and home visits, to employees who are ill. As a consequence of the difficult economic conditions in the year, a noticeable increase in requests for personal loans and advances on salaries was recorded by EAR.

Exit counselling remains in place for retrenched employees, with career re-skilling being made available through the company's Self Development Fund.

CHEMSERVE

Chemserve invested in community development projects, charitable organisations and educational institutions. Among the main investments were:

Adams Mission College

With the aim of contributing towards the improvement of science education resources in previously disadvantaged schools, a fully equipped laboratory and auditorium were built at Adams Mission College near Umbogintwini, south of Durban.

Educators' qualifications

Chemserve's support was instrumental in building a fully equipped science laboratory at Bokamoso Secondary School, in Tembisa, in 2007/2008. In 2009, Chemserve continued to deliver on its commitment to the school by providing funding to educators seeking to upgrade their physical science educators' qualifications.

Outreach

As in 2008, an outreach programme in Hoedspruit, Limpopo, was funded. The initiative is co-ordinated by Southern Cross School, a nature-based schooling system. The programme includes environmental education, maths, physical science, technology and computer literacy. It is targeted at educators from rural disadvantaged communities in the area.

Bursary scheme

Chemserve has introduced a bursary scheme for employees' dependants to study at tertiary level in a field of their choice.

HEARTLAND

Funds were made available to a number of organisations involved in general education, HIV/Aids education, environmental improvement projects and community development. At Modderfontein, Heartland played a significant role in providing major civil infrastructural changes at the Nobel Primary School.

Over and above this CSI spend, further funds were invested in enterprise development, mainly through the support of newly established small Black enterprises and in subsidising their rentals.

As is the case with the Group as a whole, Heartland's contributions reflect only direct financial support and do not include the often more valuable investment of time, guidance and expertise provided by company personnel.

EMPLOYEE WELL-BEING

The AECI Group remains committed to the welfare and wellbeing of its employees. To provide healthcare in a proactive and holistic manner, AECI employees across the Group have been encouraged to join the AECI Medical Aid Society. More than 90% of permanent employees and their dependants now have access to affordable medical aid cover. As part of their cover, members of the AECI Medical Aid Society are able to participate in the comprehensive Wellness programmes offered by the Medical Aid Society. The programmes are administered under the banner of Managed Care.

The Managed Care programmes offer a holistic approach that aims to promote health as well as treat existing diseases appropriately and cost-effectively whilst ensuring high quality interventions.

Disease-specific programmes available are Asthma Care, Cardio Care, Diabetic Care, the Cancer/Oncology Disease Management Programme and "Aid for AIDS". These programmes assist in the management of chronic illnesses by providing education, advice and support by trained nurses, and by supporting the doctor/patient relationship. Members registered on the programmes are better informed about their conditions and manage their illnesses better, thus leading to an improved quality of life.

Over and above these initiatives, each AECI business has an EAR function catering to its specific needs. Individual counselling is available for HIV/Aids infection, trauma, family-related matters, addiction, bereavement and stress-related issues in the workplace or at home.

HIV/AIDS

Regrettably, HIV/Aids continues to ravage communities worldwide and particularly in South Africa. As part of AECI's effort to support employees and their families in the management of this disease, a number of interventions have been implemented. The Group has undertaken to educate, counsel and assist its employees and their families to prevent the disease and, for those employees already infected, to provide them with the best care and quality of life possible.

Interventions continue to be concentrated in the following three main areas:

- prevention against infection, with training and awareness-raising being the main components. Seminars, newsletters, plays and quizzes are a few of the interventions employed. Condoms are supplied at no cost to employees;
- Voluntary Counselling and Testing (VCT) is available to all employees and provides an opportunity for one-on-one discussions, tailored to the needs of the individual; and
- treatment of HIV-positive employees which, in conjunction with the "Aid for AIDS" programme and the EAR function at each AECI company, provides support, counselling and lifestyle management for infected employees and their families.

For World Aids Day, employees participated in Wellness Walks which were held at Gillooly's Farm and at The Woodlands, in Gauteng, and at Umbogintwini in KwaZulu-Natal. The aim of the walks was to raise awareness and funds for two identified beneficiaries:

MOTHER OF PEACE IN AMANZIMTOTI, KWAZULU-NATAL

This non-profit organisation addresses the impact of the HIV/Aids pandemic on orphans and vulnerable children through family care units and a day-care centre. A training centre is also being established to offer training to HIV/Aids volunteers. Skills training will be offered in disciplines such as agriculture and construction. The centre will also accommodate organisations such as the Bobbi Bear Foundation and the I Care Christian School, both of which care for abused children.

TEMBISA CHILD WELFARE IN TEMBISA, GAUTENG

Sewing machines and overlockers were donated and a generator was provided for the baby centre in Phomolong. As a separate initiative, a blanket drive was held at individual Chemserve sites where 300 blankets were distributed to various beneficiaries chosen by the sites themselves.

CHAMPIONS OF WELLNESS PROGRAMME

This initiative, developed by Chemserve and extended to AECI's other businesses, further supports employees affected by HIV/Aids and has been extremely successful.

The Champions of Wellness are employees who volunteer to be trained to educate and assist their colleagues in understanding, preventing and managing chronic illnesses, with HIV/Aids being the main focus. These volunteers are required to follow a structured training programme before they can advise and assist colleagues and operate as Wellness Champions. In training, volunteers undergo a facilitated process to change the way they view HIV/Aids and individuals infected with the disease. The aim is to move from a viewpoint of illness to a viewpoint of wellness, understanding that HIV/Aids is not inherently different from other chronic but controllable conditions.

Once fully trained as Champions of Wellness, volunteers can continue their training to become Champions of Life. At this advanced stage, trainees are taught to set objectives, deal with sensitive issues and sustain a meaningful quality of life ("lead by example"). They also learn communication skills.

In the final Champion of Change phase of the initiative, volunteers are taught to act as agents to facilitate change in the way their colleagues and community members view HIV/Aids. At this point, the Champion becomes a mentor to fellow employees.

There are currently 74 trained Champions across the AECI Group.

BUSINESS-SPECIFIC INITIATIVES

AEL

In support of the imperative to "know your status" in combating HIV/Aids, AEL holds regular VCT interventions. The most recent of these coincided with commemorative events for World Aids Day held at Modderfontein.

It is pleasing that the Champions of Wellness Programme's acceptance continues to grow across all levels of employees within AEL.

CHEMSERVE

The Chemserve group provided primary health services and sustained its EAR efforts through occupational health centres. This is in addition to compulsory membership of AECI's subsidised comprehensive medical aid cover and a basic medical plan for lower income earners.

As in the rest of AECI, HIV/Aids initiatives have been incorporated into the broader Wellness programme. The first group of Champions of Wellness has now been trained as Champions of Change. A Wellness Steering Committee has been formed and meets once a quarter to discuss relevant issues and initiatives.

During 2009, a Wellness campaign was implemented throughout Chemserve. The initiative included health and HIV/Aids information sessions as well as blood pressure, cholesterol, blood sugar, body mass index and HIV tests. It was most encouraging that 71% of all employees participated in this important initiative, up from 56% in 2008.

HEARTLAND

Efforts to incentivise employees to become aware of their HIV status continued during the year. This was achieved through lucky draws for those employees who went for testing. 71% of employees at the Umbogintwini operation participated in a VCT programme which, regrettably, revealed a number of new HIV cases. HIV-positive employees are assisted via the "Aid for AIDS" programme.

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

30 March 2010

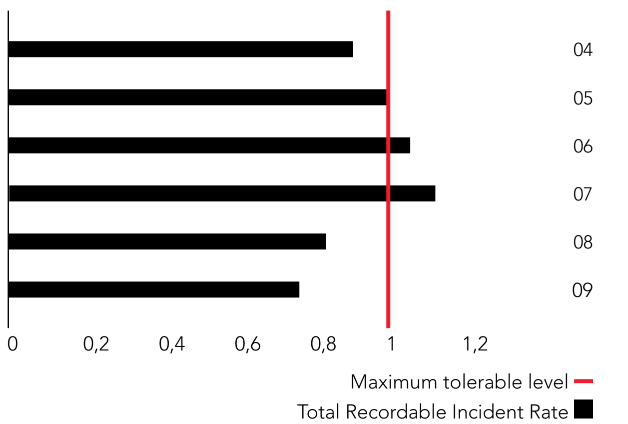
AECI's management of SHE-related issues is guided by a formal SHE policy, with performance being measured in the context of supporting SHE standards. The policy and standards, which are agreed to and approved by the Group chief executive, are reviewed periodically, and most recently in 2008, by the Corporate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

At the beginning of each year, the managing directors 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 as well as the intended corrective action.

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

HEALTH AND SAFETY PERFORMANCE

TRIR – AECI employees



Safety and occupational health performance is expressed as the Total Recordable Incident Rate (TRIR).

It is gratifying to report that in 2009 AECI achieved its lowest level of employee injuries and illnesses in recent years. The rate of 0,78 is a 7% reduction from the level recorded in the prior reporting period. Notably, almost across the whole Group, contractor incident rates are at significantly lower levels than in recent years.

Regrettably, a contractor fatality occurred during the year when demolition work was underway at Heartland's Potchefstroom site. The fatality was the result of a worker being struck on the back of the neck by a piece of steel plate.

AECI benchmarks itself against an appropriate grouping of international companies, with "zero incidents" being the ultimate target. Given the need for continual improvement, AECI's Executive Committee has adjusted the maximum tolerable level for TRIR for 2010 down to 0,95 from 1,00 in prior years.

The benchmarked TRIR graph presented below has been compiled by an independent consultant from the latest information available from the various companies' websites at the time of writing. These companies were selected on the basis of their operations being similar to those of AECI's businesses. 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, which is the basis for AECI's own reporting.

Certain of the companies have modified their reporting criteria and some have restructured their business operations. It is not always possible, therefore, to compare rates meaningfully with those reported in previous years.

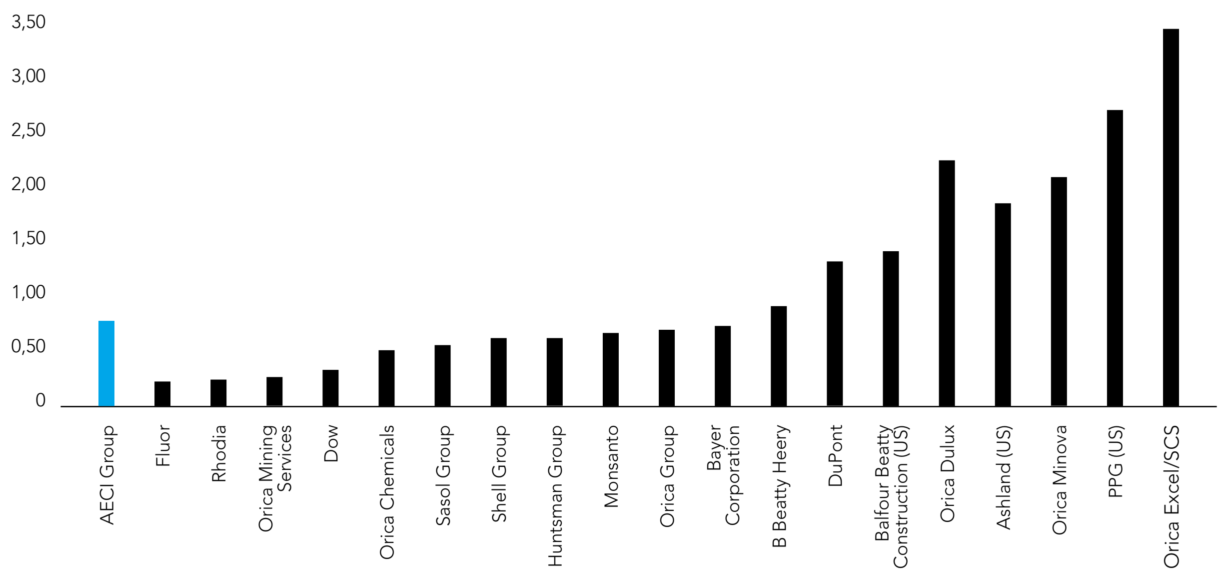
A noticeable trend is the increase in the number of companies which report incident rates for all workers (both employees and contractors). These include some of the better-performing companies. AECI will report on this basis from 2010.

TRIR PERFORMANCE BY AECI BUSINESS

	Employees	Contractors	Combined
AEL	0,58	0,85	0,61
Chemserve	0,96	0,85	0,92
Heartland	0,89	0,15	0,34
STF	5,10	0	5,10
AECI Group	**0,78**	**0,61**	**0,73**

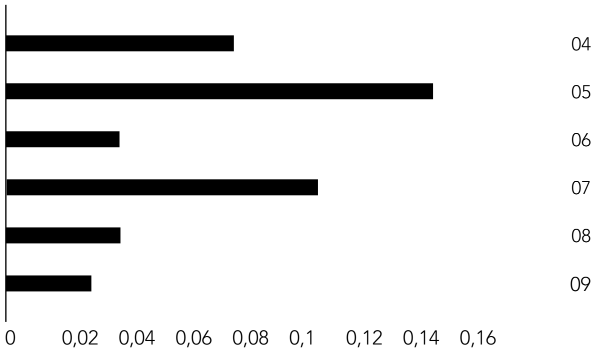
The employee TRIR for AEL Mining Services (AEL) has returned to 2007's levels of below 0,60, the company's maximum targeted limit, although incident rates for contractors remain slightly higher. Chemical Services (Chemserve) has continued its improving trend, with the employee rate falling from 1,0 to 0,96; the contractors' rate has fallen dramatically from the very high levels of 2008. Employee and contractor incident rates for Heartland are now well within acceptable limits, a significant improvement on the prior year. Incident rates at SANS Technical Fibers (STF), in the USA, are above acceptable limits. It should be noted, however, that the nature of the incidents was not serious, in the main. This notwithstanding, interventions planned for 2010 should result in an improvement.

Benchmarked TRIR



OCCUPATIONAL ILLNESSES

Occupational illness rate – AECI employees



The number of occupational illnesses reported in 2009 continued to decline. An employee at SANS Fibres, in Bellville, was diagnosed with asbestosis during his exit medical examination. A case of noise-induced hearing loss was reported at STF.

OTHER INCIDENTS OF SIGNIFICANCE

- a mobile manufacturing unit belonging to AEL overturned, resulting in the spillage of 3 tons of base emulsion and 300kg of ammonium nitrate prill;
- 1 000ℓ of oil leaked from a pipe in AEL's nitrates complex at Modderfontein into a stormwater system, and then into a dam within Modderfontein;
- nitric acid was spilled into the stormwater system while a tanker was being loaded at AEL's nitrates complex;
- 2,5 tons of ImproChem's chemical products were spilled on a national highway, leading to the temporary closure of the road, after a container on a truck split.

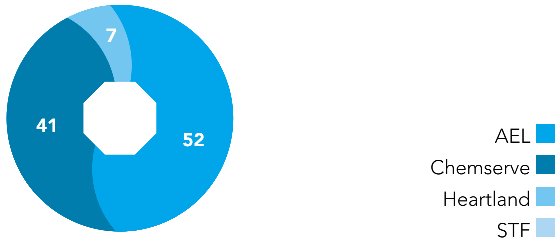
In all cases, clean-up was carried out successfully.

ENVIRONMENTAL PERFORMANCE

This section deals with current operations and excludes waste arising from land remediation activities. AEL's operations outside of Modderfontein are not included. STF is included for the first time in this report. Furthermore, Group figures include the performance of SANS Fibres, Bellville, for the first three months of 2009 before manufacturing operations ceased. However, in the graphs showing performance by business, the Bellville figures are excluded as the plant is no longer in operation.

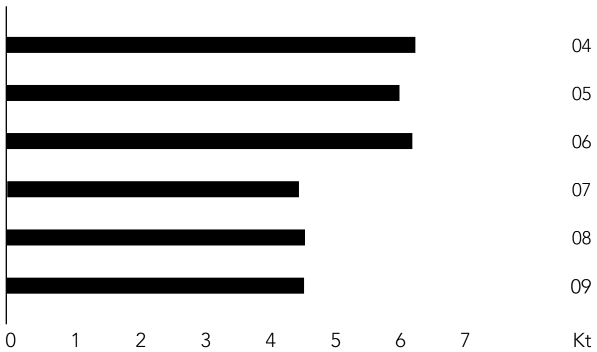
Water usage (million litres per year)

Water usage by business (%)

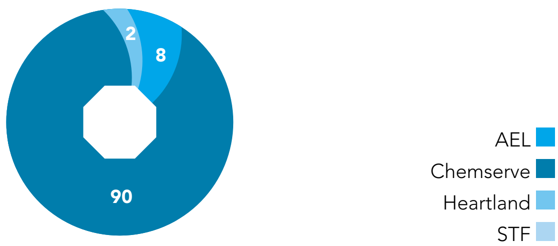


The Group's total water usage for 2009 decreased significantly, largely as a result of the closure of the Bellville plant. AEL's consumption fell by 16%, with most of this accounted for by lower production rates at the nitrates complex. STF's water usage accounted for less that 1% of the Group total.

Hazardous waste generated (thousand tons per year)



Hazardous waste arisings by business (%)



The volume of hazardous waste generated remained static year-on-year. With SANS Fibres at Bellville only having operated for the first quarter of the year, there was a commensurate reduction in waste generation from that site (excluding that resulting from demolition activities). However, AEL reported an increase in waste generation because emulsion waste arisings were included in the statistics for the first time. Chemserve, too, has seen a small increase in waste generation. STF's hazardous waste generation amounted to less than 1% of that generated by the Group.

GREENHOUSE GASES

The need to report greenhouse gas emissions is becoming increasingly evident globally and South Africa is no exception. In the past, AECI has provided data related to certain aspects of this, including electricity consumption and carbon dioxide (CO_2) emissions.

AECI took part in the Carbon Disclosure Project in 2009, which is being promoted in South Africa by the National Business Initiative.

During the reporting year, a decision was taken to develop a carbon footprint for the Group so as to provide a more meaningful summary of AECI's impact in this area. Due to the significance of nitrous oxide emissions at AEL's nitric acid plants they are included in the footprint calculation and, furthermore, are commented on separately.

The carbon footprint has been developed with the assistance of external consultants, making use of the 2006 International Panel on Climate Change Guidelines for National Greenhouse Gas Inventories and the Greenhouse Gas Protocol's Corporate Accounting and Reporting Standards, as developed by the World Resources Institute and the World Business Council for Sustainable Development.

The term carbon footprint is commonly used to describe the total amount of CO_2 and other greenhouse gas emissions for which an organisation is responsible. The footprint developed for AECI currently includes Scope 1 emissions (direct emissions from, for example, the consumption of fuels in stationary equipment) and Scope 2 emissions (indirect emissions, which arise from the generation of the electricity consumed by the Group). Data for Scope 3 emissions (indirect emissions related to product delivery and employee business travel) are not available at present.

The organisational boundaries for which this footprint has been determined are as follows:

- AEL's Modderfontein operations, together with the footprint associated with rock-on-floor contracts;
- all Chemserve operations;
- all Heartland operations;
- STF's operations.

AECI's carbon footprint, measured in tons of CO_2 equivalent, is shown in the table below:

	Scope 1	Scope 2	Total
AEL	216 000	71 000	287 000
Chemserve	15 500	80 700	96 200
Heartland	67 000	6 300	73 300
STF	500	19 400	19 900
AECI Group	**299 000**	**177 400**	**476 400**

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 and 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 emissions 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 reductions.

AEL has registered two CDM projects with the United Nations Framework Convention on Climate Change. 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.

During 2009, the secondary catalyst on No. 9 nitric acid plant achieved a reduction of 50,3% in nitrous oxide emissions, with a total of 163 tons emitted; that on No. 11 plant achieved a 70% reduction, with a total of 270 tons emitted. When converted to CO_2 equivalent, this amounts to 50 500 tons and 83 700 tons respectively.

The lower efficiency achieved on the No. 9 plant is as a result of it being an older, high pressure plant. It is notoriously difficult to achieve high levels of emission abatement through the use of secondary catalysts in high pressure plants. The No. 11 plant would normally have achieved a higher level of efficiency, but a cracked catalyst basket led to significant bypassing for a six week period, before operational considerations allowed the taking off line of the plant.

To place these reductions in perspective, the reduction in CO_2 equivalent emitted annually by AEL from these two plants is equivalent to the quantity of CO_2 emitted by 60 000 medium-sized cars travelling an average of 25 000km per annum.

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.

As explained in the operational review, the property business of AECI has been restructured. As a result, the execution of remediation activities is now managed by Heartland.

Spending on remediation and related environmental management activities in 2009 amounted to R13 million, significantly down on that of previous years. The reasons for this were two-fold. The bulk of AECI's environmental legacy remediation spend is now complete. Further, market conditions were such that little land was required to be released for sale, and thus remediation requirements were restricted since the timing of such activities is closely aligned to that of the sale of parcels of land. This low level of remediation spending is likely to continue in 2010.

Effluent precipitation and settling dams, after closure.

At end-2009, the environmental liability for the Group was estimated at R144 million for remediation and was fully provided for.

REMEDIATION CASE STUDY

A remediation project at the Umbogintwini Industrial Complex (UIC) was initiated in 1995 to address the contamination of land and groundwater resources due to historical activities associated with the manufacture, storage and distribution of chemicals, agrochemicals and fertilizers.

In 2009, the project's progress was recognised in the biodiversity category of the annual eThekwini Mayor's Award for Excellence. The motivation for the award focused on best practice remediation, conservation and education work to address legacy issues. In particular, the Vumbuka Reserve, a 27 hectare area in the north-west portion of the UIC was highlighted. This area was previously used for the disposal of liquid and semi-solid wastes generated from manufacturing activities at the UIC from the mid-1950s until 1998.

The Vumbuka Reserve includes:

- a series of effluent precipitation and settling dams;
- two disused, partially-lined mercury sludge dams; and
- the drums area, where drums originally containing chlorinated hydrocarbon wastes were buried.

The Vumbuka Reserve today.

STRATEGY

Remediation to address soil and groundwater impacts began in 1995 when the area was classified as a waste site to enable AECI to meet its legal and constitutional obligations to avoid nuisance and harm to others, to improve the environment and to comply with good governance requirements. In the process, a rehabilitation strategy for the Vumbuka Reserve evolved into the UIC's Environmental Management Plan.

The principles prioritised in formalising and implementing the strategy were:

- the protection of human health and the environment is paramount;
- commitment to the use of good science;
- the efficacy of scientific solutions must be demonstrated;
- AECI must balance its duty to shareholders with its duty to protect human health and the environment by utilising the best available techniques, not entailing excessive cost;
- a risk-based approach, founded on comprehensive risk assessments, must be followed;
- regular liaison with regulatory authorities must take place; and
- information must be shared with interested and affected parties, and they must be encouraged to participate in the problem-solving process.

The strategy has six technical elements together with community participation, the over-arching management element.

PROCESS

To prevent groundwater contamination, boreholes were sunk to abstract water from sludge in and around the settling and precipitation dams and adjacent to the site boundary with the neighbouring community. The idea was to create a hydraulic barrier to control the migration of the groundwater plume off-site. Water is treated prior to safe disposal to sea via a marine outfall. Dewatering of the sludge also served to reduce the head of pressure that was driving groundwater beyond the boundaries of the dams and the UIC. Agricultural drains were installed to capture seepage around the dams and in the neighbouring residential area of Ezimbokodweni.

Leaching is managed with standard engineering interventions such as drains, conduits and pipes and, where appropriate, surface profiling has been undertaken to promote run-off of excess precipitation and to ensure the appropriate drainage of clean stormwater.

In the drums area, additional boundary wells were installed to intercept and abstract groundwater to control its off-site migration. All arisings are captured and transferred to the UIC's effluent treatment plant prior to safe disposal to sea.

Avoiding the recharge of the dewatered dams by the infiltration of rain was always recognised as being key to the clean-up of Vumbuka. In evaluating options for capping the dams, the project developed what is arguably its most distinctive intervention. As it became apparent that vegetation was re-establishing itself unaided in the area, extensive work was undertaken to determine whether this natural process could be sustained and enhanced to benefit long-term clean-up. This led to the eventual choice of a vegetative, evapo-transpiration (ET) cover as the preferred option for the Reserve's dam area. The drums area was capped with a conventional, engineered cover.

The ET cap provides long-term, natural sustainability for remediating the dams area of Vumbuka since the microbial action associated with vegetation and its growth reduces maintenance and provides contaminant source reduction as roots grow deeper into the waste body.

RESULTS

Investigations undertaken by independent consultants show that waste in the former effluent dams can sustain a variety of plant and animal life and that waste below the root zone is being biodegraded into less hazardous substances. Indigenous plant life is flourishing in what was considered to be an extremely unfavourable environment, and is controlling infiltration whilst simultaneously aiding general clean-up of chemical contamination.

The ET cover has been approved by the Department of Water Affairs, subject to its effectiveness being monitored as part of the project's Environmental Management Plan into the future.

To reduce contamination at source in the drums area, augmented natural attenuation was the preferred remedial option. A bio-barrier was created to contain and, eventually, reduce pollutants in the source zone to acceptable levels. To create the bio-barrier nutrients and additional micro-organisms were introduced into the subsurface via injection wells in 2008 and early in 2009. The aim was to augment natural processes at work. Initial results are tentative but encouraging, indicating a good probability that by augmenting natural processes already underway, the time spans to effect clean-up can be shortened appreciably. The success of the work will continue to be monitored closely and it is hoped that the results of analyses to be carried out in 2010 will confirm the positive trend noted.

Throughout the project, a policy of transparency has been applied. During the evolution and implementation of the rehabilitation strategy, risks associated with historical chemical-related activities at Umbogintwini and resultant levels of contamination have always been made known to relevant parties. Progress is reported annually at stakeholder forum meetings and groundwater monitoring will be an agenda item at the UIC's quarterly Licence Advisory Forum meetings.

CONSERVATION AND EDUCATION

The Vumbuka Reserve has been transformed from a series of waste disposal dams into a conservation area with over 10 000 indigenous flora and increasingly diverse wildlife. When combined with the other already well established conservation areas at the UIC, namely Umbogavango and Mamba Valley, 77 hectares or 30% of the UIC's developed land is now a green belt. Some fencing at Umbogavango has been removed, creating a link with Vumbuka and allowing the free movement of wildlife, including the Cape Clawless Otter, between the various green belt areas. Umbogavango is characterised by coastal forest, secondary grassland and a herbaceous wetland. Vervet monkeys abound and Banded and Water Mongoose, Blue Duiker, and Spotted Genet are also seen. Over 200 bird species have been identified.

An alien vegetation eradication programme that began at Umbogavango in 2005 is being expanded to cover extensive new areas. A portion of the recreation area has been upgraded, with a section being paved to allow easy wheelchair access. Adjacent areas have also been re-grassed.

Two disused explosives magazines are within Umbogavango. One is being used to provide owl houses and perches, the other to establish a bat roost.

Thanks to the sponsorship of a number of site companies, the Umbogavango Resource Centre is made available to the Wildlife and Environment Society of South Africa for its environmental outreach programme.

Umbogavango, Mamba Valley and Vumbuka are open to visitors by appointment.

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, chaired by an executive director of AECI, is the custodian of Responsible Care* in South Africa. The Responsible Care* Standing Committee, currently chaired by an AECI senior manager, is responsible for guiding the programme. 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 fulfil 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*.

AECI, AEL and all the companies in Chemserve are signatories to Responsible Care*. In South Africa, signatories have their compliance with the management practice standards verified by third party auditors. The majority of signatory companies within the AECI Group have been audited successfully against these standards.

In the broader arena of broad-based corporate responsibility, it was most pleasing that AECI was included in the JSE Limited's Socially Responsible Investment Index for the first time in 2009.

LOOKING TO THE FUTURE

King III, which comes into effect in 2010, calls for the sustainability aspects of a company's annual report to be independently assured. Accordingly, KPMG Inc. was appointed to conduct an assessment of the completeness and verifiability of the data underlying the SHE section of this report, to enable management to prepare adequately for this requirement.

It is intended that this assurance will be in place for the 2010 report, so that an independent assurance provider will be able to provide assurance over both the accuracy and the completeness of the report.

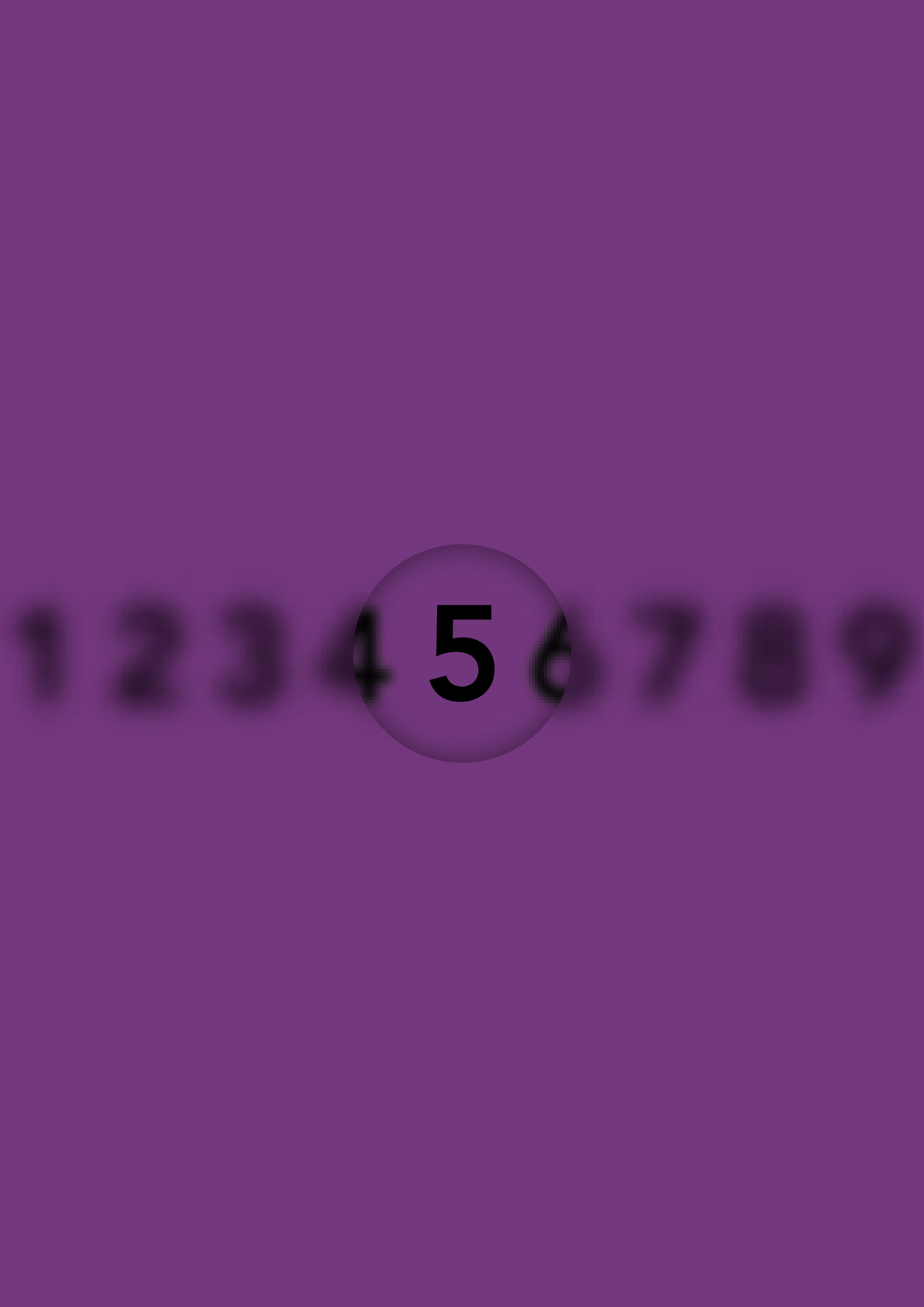
The AECI Group continues to face a number of challenges in the corporate citizenship arena. Nonetheless, it has been pleasing to be able to report that the improved SHE performance of 2008 continued through 2009. The Group is committed to sustaining this trajectory in 2010.

* Trademark

Gary Cundill

Group manager: technology and SHEQ
Woodmead, Sandton

30 March 2010


5

AECI

THE BOARD ASKED THAT AECI'S BUSINESSES "MAINTAIN MARKET SHARE AND MARGINS THROUGH CONTINUED EXCELLENT SERVICE". OVERALL, MARKET SHARE WAS AT LEAST MAINTAINED AND WAS INCREASED IN SOME INSTANCES. ALTHOUGH CHEMSERVE'S MARGINS WERE DEPRESSED IN THE FIRST SIX MONTHS, PERFORMANCE IN THE SECOND HALF WAS MORE IN LINE WITH THAT OF PREVIOUS YEARS. AEL ALSO IMPROVED ITS MARGINS AND GREW MARKET SHARE THANKS TO ITS INTERNATIONAL EXPANSION.

ANNUAL FINANCIAL STATEMENTS

CONTENTS

The following conversion guide is provided to facilitate the interpretation of this report.

Foreign currencies	**2009 (R)**	2008 (R)
At 31 December one foreign unit was worth approximately:		
Euro	**10,63**	13,20
Japanese yen	**0,08**	0,10
Pound sterling	**11,89**	13,58
Swiss franc	**7,16**	8,87
US dollar	**7,38**	9,37

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 statements of financial position at 31 December 2009, and the income statements, the statements of comprehensive income, the statements of changes in equity and statements of cash flow 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 104 to 171 and 98 to 101 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, No. 61 of 1973, as amended. 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 2009, 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, No. 61 of 1973, as amended.

KPMG Inc.
Registered auditor

Per N van Niekerk

Chartered Accountant (SA)
Registered auditor
Director
85 Empire Road, Parktown, 2193, Johannesburg

30 March 2010

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
Basis of reporting
Significant accounting policies
Statements of financial position
Income statements
Statements of comprehensive income
Statements of changes in equity
Statements of cash flow
Notes to the statements of cash flow
Notes to the financial statements

For and on behalf of the Board

Fani Titi

Chairman

Graham Edwards

Chief executive
Woodmead, Sandton

30 March 2010

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.

EA Rea

Acting Company secretary
Woodmead, Sandton

30 March 2010

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 2009.

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 in 2009 the Group invested a further R1 billion of the R2 billion strategic capital programme in capital projects to enhance its future growth in these areas.

By the end of 2009, all significant projects were mechanically complete. Commissioning had been concluded or was in progress. Although the projects relate mainly to the mining sector, capital was also 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 (explosives and mining services, provided by AEL Mining Services, and specialty chemicals provided by Chemical Services).

Chemical Services, which comprises 20 separate operations, also has a major site near Durban as well as a number of smaller sites country-wide. Its mining chemicals thrust is anchored in Senmin, which operates at Sasolburg in the Free State.

AEL Mining Services and Chemical Services have expanded their presence beyond South 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.

AEL Mining Services has a presence in 23 countries. It is well established across the African continent and, in line with the company's international strategy, business in its South East Asian hub made pleasing progress in 2009, particularly in Indonesia. In the year, the company's excellent technology and product position in initiating systems and bulk explosives enabled it to enter into mutually beneficial channel partnerships with leading regional explosives players in Europe and in South America.

Chemical Services has established a stable presence in Brazil and more acquisitions continue to be sought using the existing investment as a platform for growth. To an increasing degree, opportunities in other territories in Southern Africa and beyond are being explored.

In addition to its core businesses, the Group has a most valuable land asset, the release of which it manages carefully. The property activities are managed by Heartland and this company seeks to optimise the value of the property holdings surplus to AECI's operational requirements by selling land and by selectively investing in revenue-producing buildings in order to grow an existing portfolio of properties.

The land holdings are significant and are located in prime locations near Johannesburg and Cape Town. More than 2 000 hectares of excess land are available for redevelopment over the next 15 to 20 years for residential, commercial and industrial end uses and for leasing purposes.

SANS Technical Fibers, in the USA, is the Group's fourth business.

GROUP RESULTS

The activities and results of the Group have been reviewed on pages 30 to 91 of this annual report.

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 (JSE) and the Companies Act, No. 61 of 1973, as amended, are consistent with those applied at 31 December 2008 and at 30 June 2009.

INDEPENDENT AUDITORS

The independent auditors, KPMG Inc., will be recommended for re-appointment at the forthcoming annual general meeting. Mr N van Niekerk will be recommended for re-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 2009, was 119 135 869 (2008: 118 846 986).

288 883 ordinary shares were issued during the year. The shares were issued to shareholders who elected to receive scrip in terms of ordinary dividend No. 151 at par value.

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

Details of the share premium and the movements during the year are provided in note 12 on page 135 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 cash dividend of 62 cents per share was declared on 22 February 2010 and is payable on 19 April 2010.

Details of the dividends declared and paid on the Company's ordinary and preference shares during the 2009 financial year are set out in note 25 on page 145 to the annual financial statements.

DIRECTORATE AND SECRETARY

Details of the directorate and secretary of the Company, at the date of this report, are shown on pages 18 to 22 of this annual report.

In terms of Section 22.4 of the Company's articles of association, Ms Z Fuphe and Messrs MJ Leeming and F Titi retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Changes to the Board and Company secretary:

- Ms A Kennedy resigned as Company secretary with effect from 31 March 2009. Mr EA Rea was appointed Acting Company secretary with effect from 1 April 2009;
- Mr AC Parker resigned from the Board as an independent non-executive director with effect from 31 December 2009;
- Mr FPP Baker will retire as an executive director on the Board on 31 March 2010.

DIRECTORS' REPORT
(continued)

DIRECTORS' AND COMPANY SECRETARY'S INTERESTS IN SHARES

	Number of shares		Number of shares	
	2009 Direct	**2009 Indirect**	2008 Direct	2008 Indirect
Executive directors				
FPP Baker [1]	**2 500**	**–**	2 500	–
GN Edwards	**2 010**	**–**	2 000	–
	4 510	**–**	4 500	–
Non-executive directors				
S Engelbrecht	**46 629**	**600**	46 623	600
MJ Leeming	**2 500**	**7 000**	2 500	7 000
LC van Vught [2]			6 000	5 500
	49 129	**7 600**	55 123	13 100
	53 639	**7 600**	59 623	13 100

1 Retiring on 31 March 2010.
2 Retired on 31 December 2008.

At 31 December 2009, the directors and their associates (as defined in terms of the JSE Listings Requirements) had direct and indirect beneficial interests in the share capital of the Company as set out in the table above. There have been no changes in the above interests between the end of the financial year and the date of this report.

In addition to the above, certain directors have been allocated share options as detailed in note 31 to the financial statements.

MAJOR SHAREHOLDERS

Details of the interests of shareholders who are directly or indirectly beneficially interested in 3% or more of the Company's capital, are included on pages 12 to 17 of this annual report.

SUBSIDIARIES AND JOINT VENTURES

Details of each trading subsidiary and joint venture are set out in note 35 on pages 170 and 171 and in note 34 on page 169 of this annual report, respectively.

The aggregate net profits and losses, after tax, of subsidiaries and joint ventures attributable to the Company for 2009 were as follows:

Profits: R554 million (2008: R579 million).
Losses: R207 million (2008: R237 million).

SPECIAL RESOLUTION

The Company passed the following special resolution at the annual general meeting held on 25 May 2009:

- to grant the directors the general authority to buy back a maximum of 5% 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 2009.

MAJOR CAPITAL EXPENDITURE

The Group made total additions to its property, plant and equipment of R1 150 million (2008: R1 005 million) in the past financial year.

LITIGATION STATEMENT

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 on pages 18 to 20 of 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 2009, 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 notes 30 and 31 on pages 157 to 166 of this annual report.

AUDIT AND RISK COMMITTEE'S REPORT

IN TERMS OF SECTION 270A(1)(F) OF THE COMPANIES ACT, NO. 61 OF 1973, AS AMENDED ("THE ACT")

The Audit and Risk Committee comprised the following independent non-executive directors during the 2009 financial year and at the date of this report:

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

The Audit and Risk Committee reports that it has adopted appropriate formal terms of reference as its Audit and Risk Committee mandate, and has regulated its affairs in compliance with this mandate, and has discharged all of the responsibilities set out therein.

The Audit and Risk Committee considered the matters set out in Section 270A(5) of the Act, as amended by the Corporate Laws Amendment Act, and is satisfied with the independence and objectivity of KPMG Inc. as external auditors and Mr N van Niekerk as the designated auditor. The Audit and Risk Committee further determined the fees to be paid to KPMG Inc. and its terms of engagement and pre-approved any proposed contract with KPMG Inc. for the provision of non-audit services to the Company.

As required by the JSE Listings Requirement 3.84(h), the Audit and Risk Committee has satisfied itself that the chief financial officer has the appropriate expertise and experience.

The Audit and Risk Committee is satisfied that there was no material breakdown in the internal accounting controls during the financial year. This is based on the information and explanations given by management and the Group internal audit function as well as discussions with the independent external auditors on the results of their audits.

The Audit and Risk Committee has evaluated the financial statements of AECI Limited and the Group for the year ended 31 December 2009 and, based on the information provided to the Audit and Risk Committee, considers that the Group complies, in all material respects, with the requirements of the Act and International Financial Reporting Standards.

MJ Leeming

Chairman
Audit and Risk Committee

30 March 2010

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% for the chief executive and between 40% and 50% for executive directors and the leaders of operating businesses. Outperformance of financial targets yields a higher percentage bonus. Bonuses are uncapped at present but this will be reviewed in 2010. 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 30 and 31 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 dependent on individual attendance at meetings. Full details are set out in note 30.

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 30 to the financial statements.

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

BASIS OF REPORTING

REPORTING ENTITY

AECI Limited ("the Company") is a public company domiciled in South Africa. The address of the Company's registered office is AECI Place, 24 The Woodlands, Woodlands Drive, Woodmead, Sandton. The consolidated financial statements of the Company as at and for the year ended 31 December 2009 comprise the Company and its subsidiaries (together referred to as "the Group" and individually as "Group entities") and the Group's interest in associates and jointly-controlled entities. The Group is involved primarily in the manufacture and distribution of explosives, mainly to the mining sector; chemicals to the mining and manufacturing sectors; as well as the realisation of property surplus to the Group's operational requirements.

BASIS OF PREPARATION

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, No. 61 of 1973, as amended.

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:

- 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.

- 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 becomes mandatory for the Group's 2010 consolidated financial statements, are not expected to have a significant impact on the consolidated financial statements.

- IAS 39 – amendments relating to eligible hedged items (effective for annual periods commencing on or after 1 July 2009).

  Amendments to IAS 39 clarify how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations.

The amendments to IAS 39, which becomes mandatory for the Group's 2010 consolidated financial statements, are not expected to have a significant impact on the consolidated financial statements.

- IFRIC 17 – distributions of non-cash assets to owners (effective for annual periods commencing on or after 1 July 2009).

  This interpretation provides guidance in respect of distributions of non-cash assets to owners acting in their capacity as owners. Distributions within the scope of IFRIC 17 are measured at the fair value of the assets to be distributed. Any gain or loss on settlement of the liability for the dividend payable is recognised in profit or loss.

  The scope of IFRS 5 was expanded to include distributions of non-cash assets to owners. IFRIC 17, 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 5 – amendments relating to non-current assets held for sale and discontinued operations (effective for annual periods commencing on or after 1 July 2009).

  The amendments specify that:

  – if an entity is committed to a plan to sell a subsidiary, then it would classify all of that subsidiary's assets and liabilities as held for sale when the held for sale criteria are met; this applies regardless of the entity retaining an interest (other than control) in the subsidiary; and

  – disclosures for discontinued operations are required by the parent when a subsidiary meets the definition of a discontinued operation.

  The revised IFRS 5, 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 2 – amendments that clairfy the scope of share-based payments (effective for annual periods commencing on or after 1 July 2009).

  The amendments clarify business combinations that are outside the scope of IFRS 2. Business combinations among entities under common control and the contribution of a business upon the formation of a joint venture will not be accounted for under IFRS 2. The revised IFRS 2, which becomes mandatory for the Group's 2010 consolidated financial statements, is not expected to have a significant impact on the consolidated financial statements.

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, the Pension Fund employer surplus and liabilities and 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.

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.

BASIS OF REPORTING

(continued)

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 14 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 or when the end use is determined.

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 costs and rates of increase in compensation costs. The net present value of current estimates for post-retirement medical aid benefits has been discounted to its present value at 10,0% per annum (2008: 7,9%) being the estimated investment return assuming the liability is fully funded. Medical cost inflation of 7,8% per annum has been assumed (2008: 5,8%). See note 31 to the financial statements.

RESTATEMENT OF COMPARATIVES

The Group has made enhancements to the disclosure in the 2009 annual financial statements. This has resulted in expanded disclosure of certain Group and Company comparative information. The changes affect the 2008 disclosures and do not affect the opening statement of financial position for that year.

There is no effect on the face of the income statement, the statement of changes in equity or the statement of financial position of the Group. The statement of cash flows has changed to provide more detailed disclosure relating to the earnings-based incentive scheme provision disclosed in note 14. The increase in the provision is disclosed under non-cash adjustments to cash generated by operations and cash paid against the provision is disclosed on the face of the statement of cash flows as expenditure relating to non-current provisions. The cash flows were previously disclosed in changes in working capital.

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.

The Group applies revised IAS 1, presentation of financial statements, which became effective as of 1 January 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so to comply with the revised standard. Since the change in the accounting policy only impacts presentation aspects, there is no impact on earnings per share.

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. Non-controlling 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% 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 to or has made payments on behalf of the investee.

SIGNIFICANT ACCOUNTING POLICIES
(continued)

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 the statement of cash flow 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 measured 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 recognised in respect of temporary differences between the carrying values of assets and liabilities for accounting purposes and their corresponding values for tax purposes. Deferred tax is also recognised on tax losses. No deferred tax is recognised 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 possible 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 reporting date.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are measured 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 available for use. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

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 operational requirements, is included at deemed cost on transition to IFRS. The deemed cost is 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 recognised in other comprehensive income as a separate reserve.

When such land is eventually sold to third parties, the proportion of the reserve relating to that land is transferred to distributable reserves. Investment properties comprising properties surplus to the Group's operational requirements, and leased to third parties, are measured 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.

SIGNIFICANT ACCOUNTING POLICIES

(continued)

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 other comprehensive income 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 other comprehensive income.

NON-FINANCIAL ASSETS

The carrying amounts of the Group's non-financial assets other than inventories and deferred tax assets are reviewed at each reporting 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 and intermediates comprises raw and packing materials, manufacturing costs, depreciation and an appropriate allocation of production overheads. Costs may include transfers from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases.

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 valued 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 reporting 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 reporting date against changed circumstances, legislation and technology.

REVENUE

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

SIGNIFICANT ACCOUNTING POLICIES

(continued)

Revenue in respect of property transactions is recognised when it is highly probable that the significant risks and rewards of ownership have transferred to the buyer, 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 an irrevocable guarantee from an acceptable bank in favour of the Group, 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 reporting 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 recognised in the income statement. 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 reporting date;
- income, expenditure and cash flow items at the weighted average rate of exchange during the accounting period;
- differences arising on translation are recognised in other comprehensive income 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 recognised in 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 in other comprehensive income in the foreign currency translation reserve.

FINANCIAL INSTRUMENTS

Financial instruments are initially recognised 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 in respect of derivative and non-derivative financial instruments.

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 realise the asset and settle the liability simultaneously, the relevant financial assets and liabilities are offset.

NON-DERIVATIVE FINANCIAL INSTRUMENTS

Non-derivative financial instruments comprise investments in equity securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

The Group recognises loans and receivables on the date that they are originated. All other financial assets are recognised on the date on which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Investments

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

Unlisted investments classified as available-for-sale financial assets are measured at fair value. Changes in fair value are reflected in other comprehensive income 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 other comprehensive income is transferred to the income statement.

Accounts receivable

Accounts receivable are measured at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents

Cash and cash equivalents are measured at amortised cost.

Other financial assets

Other financial assets are measured at fair value plus transaction costs with changes in fair value being included in the income statement.

Financial liabilities

Financial liabilities, including borrowings and accounts payable, are measured at amortised cost using the effective interest rate method.

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.

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.

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 in other comprehensive income 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 other comprehensive income are transferred to the income statement in the same period in which the asset or liability affects the income statement.

SIGNIFICANT ACCOUNTING POLICIES

(continued)

If the hedge of a forecast transaction subsequently results in the recognition of an asset or liability, the associated gains or losses recognised in other comprehensive income 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 other comprehensive income 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

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 estimated useful life of the asset. Lease payments are allocated using the effective interest method to determine the lease finance cost, which is charged against income 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 up to the reporting date.

Accruals are 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 the 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.

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 Group has a legally enforceable right thereto. To the extent that there is uncertainty as to 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

The Group has granted share options to certain employees under a share option scheme. In respect of options granted prior to 7 November 2002, no costs are recognised in the income statement other than costs incurred in administering the scheme. In respect of options granted after 7 November 2002, the fair value of the options is measured at grant date and is 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 initially measured at the grant date using the binomial option pricing model and is recognised in the income statement over the vesting period with a corresponding increase in liabilities. The liability is remeasured at each reporting 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 and detailed plan to terminate employment before the normal retirement age.

SIGNIFICANT ACCOUNTING POLICIES

(continued)

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 other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting 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. Scrip dividends are recognised, when declared, in share capital and retained earnings in the statement of changes in equity, and are measured at the par value of the shares issued. 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.

SEGMENT REPORTING

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. The operating results of all segments are reviewed monthly by the Group's executive committee to make decisions about resources to be allocated to the segment and to assess its performance.

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

The Group reports on its segments based on the nature of the products or services offered, as follows:

- AEL Mining Services, comprising mainly the manufacture of explosives and initiating systems used by the mining industry;
- Chemical Services, comprising niche-orientated small- to medium-sized businesses marketing specialty chemicals to a broad range of industries;
- Heartland, comprising mainly the realisation of surplus land and property assets of the Group; and
- SANS Technical Fibers in the USA, comprising mainly the manufacture of nylon yarns used for industrial purposes.

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

STATEMENTS OF FINANCIAL POSITION

AT 31 DECEMBER 2009

		Group		Company	
R millions	Note	**2009**	2008	**2009**	2008
ASSETS					
Non-current assets		**5 360**	4 510	**6 648**	6 004
Property, plant and equipment	1	**3 260**	2 431	**368**	329
Investment property	2	**430**	422	**73**	67
Goodwill	3	**1 063**	1 013	**905**	923
Pension Fund employer surplus accounts	4	**236**	213	**236**	213
Investment in subsidiaries	5			**4 863**	4 230
Other investments	6	**13**	98	**59**	41
Deferred tax	7	**344**	333	**144**	201
Non-current loan receivables	8	**14**	–	**–**	–
Current assets		**4 668**	6 441	**1 282**	2 866
Inventories	9	**1 827**	2 795	**607**	1 193
Accounts receivable	10	**2 159**	3 188	**657**	1 592
Assets classified as held for sale	11	**14**	14	**14**	14
Cash and cash equivalents		**668**	444	**4**	67
Total assets		**10 028**	10 951	**7 930**	8 870
EQUITY AND LIABILITIES					
Ordinary capital and reserves		**3 937**	3 852	**3 168**	3 149
Share capital and share premium	12	**215**	215	**333**	333
Reserves		**251**	427	**224**	267
Retained earnings		**3 471**	3 210	**2 611**	2 549
Preference share capital	12	**6**	6	**6**	6
Shareholders' equity		**3 943**	3 858	**3 174**	3 155
Non-controlling interest		**115**	111		
Total equity		**4 058**	3 969	**3 174**	3 155
Non-current liabilities		**2 564**	2 385	**2 582**	2 763
Deferred tax	7	**85**	61	**–**	–
Loans from subsidiaries	5			**514**	826
Non-current borrowings	13	**1 731**	1 745	**1 489**	1 477
Non-current provisions	14	**748**	579	**579**	460
Current liabilities		**3 406**	4 597	**2 174**	2 952
Accounts payable	15	**2 208**	3 225	**995**	1 676
Current borrowings	16	**1 080**	1 058	**1 148**	1 142
Tax payable		**118**	314	**31**	134
Total liabilities		**5 970**	6 982	**4 756**	5 715
Total equity and liabilities		**10 028**	10 951	**7 930**	8 870

INCOME STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

		Group		Company	
R millions	Note	**2009**	2008	**2009**	2008
CONTINUING OPERATIONS					
Revenue	17	**10 709**	12 876	**3 685**	5 601
Net operating costs	18	**(9 942)**	(11 841)	**(3 566)**	(5 350)
Profit from operations		**767**	1 035	**119**	251
Net income/(loss) from Pension Fund employer surplus accounts	4	**23**	(13)	**23**	(13)
Net income/(loss) from plan assets for post-retirement medical aid liabilities	14	**11**	(57)	**7**	(46)
		801	965	**149**	192
Fair value adjustments – interest		**4**	(16)	**2**	(16)
Interest expense	19	**(243)**	(233)	**(349)**	(246)
Interest received	20	**21**	28	**369**	328
Investment income	21	**9**	12	**145**	238
Share of (loss)/profit of associate companies	6	**(2)**	1		
		590	757	**316**	496
Impairment of goodwill	3	**(18)**	(42)	**(18)**	(27)
Impairment of property, plant and equipment	1	**(16)**	(4)	**(4)**	–
Reversal of impairment of property, plant and equipment	1	**7**	–	**–**	–
Reversal of impairment of investments	5	**–**	–	**29**	–
Profit before tax		**563**	711	**323**	469
Income tax expense	22	**(176)**	(238)	**(69)**	(80)
Profit from continuing operations		**387**	473	**254**	389
DISCONTINUED OPERATIONS					
Profit/(loss) from discontinued operations, net of tax	23	**53**	(94)	**(5)**	(116)
Profit for the year		**440**	379	**249**	273
Attributable to:					
Ordinary shareholders		**421**	385	**247**	271
Preference shareholders		**2**	2	**2**	2
Non-controlling interest		**17**	(8)		
		440	379	**249**	273
Per ordinary share (cents)					
– Basic earnings	24	**393**	358		
– Diluted basic earnings	24	**392**	356		
– Headline earnings	24	**346**	412		
– Diluted headline earnings	24	**344**	410		
Continuing operations					
– Basic earnings	24	**344**	445		
– Diluted basic earnings	24	**343**	443		
– Ordinary dividends paid	25	**169**	231		
– Ordinary dividends declared after the reporting date	25	**62**	141		

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2009

	Group		Company	
R millions	**2009**	2008	**2009**	2008
Profit for the year	**440**	379	**249**	273
Other comprehensive income before tax:	**(205)**	187	**(61)**	77
Foreign currency loan translation differences	**(82)**	125	**(67)**	84
Foreign operation translation differences	**(114)**	54	**–**	–
Cash flow hedge fair value adjustments	**(9)**	8	**6**	(7)
Recognition of share-based payments	**–**	*	**–**	*
Tax effects on other comprehensive income:	**30**	(35)	**18**	(22)
Foreign currency loan translation differences	**27**	(33)	**18**	(24)
Cash flow hedge fair value adjustments	**3**	(2)	*****	2
Total comprehensive income for the year	**265**	531	**206**	328
Total comprehensive income attributable to:				
Ordinary shareholders	**250**	529	**204**	326
Preference shareholders	**2**	2	**2**	2
Non-controlling interest	**13**	–	**–**	–
	265	531	**206**	328

* Nominal amount.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2009

R millions	Ordinary share capital	Share premium	**Total ordinary capital**
Group			
Balance at 1 January 2008	110	343	**453**
Total comprehensive income for the year:			
Profit for the year			
Foreign currency loan translation differences			
Deferred tax on foreign currency loan translation differences			
Transfers to retained earnings			
Foreign operation translation differences			
Cash flow hedge fair value adjustments			
Deferred tax on fair value adjustments			
Recognition of share-based payments			
Transactions with owners:	(3)	(235)	**(238)**
Business combinations			
Dividends paid (see note 25)			
Shares repurchased during the year	(3)	(235)	**(238)**
Balance at 31 December 2008	**107**	**108**	**215**
Total comprehensive income for the year:			
Profit for the year			
Foreign currency loan translation differences			
Deferred tax on foreign currency loan translation differences			
Transfers to retained earnings			
Foreign operation translation differences			
Cash flow hedge fair value adjustments			
Deferred tax on fair value adjustments			
Transactions with owners:	*		*****
Dividends paid (see note 25)	*		*****
Business combinations			
Balance at 31 December 2009	**107**	**108**	**215**

* Nominal amount.

	Property revaluation reserve	Foreign currency translation reserve	Other reserves	**Total reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Preference share capital**	**Total equity**
	243	15	13	**271**	**3 064**	**3 788**	**135**	**6**	**3 929**
	(9)	138	6	**135**	**394**	**529**		**2**	**531**
					385	**385**	**(8)**	**2**	**379**
		125		**125**		**125**			**125**
		(33)		**(33)**		**(33)**			**(33)**
	(9)			**(9)**	**9**				
		46		**46**		**46**	**8**		**54**
			8	**8**		**8**			**8**
			(2)	**(2)**		**(2)**			**(2)**
			*	*****		*****			*****
	6	15		**21**	**(248)**	**(465)**	**(24)**	**(2)**	**(491)**
	6	15		**21**		**21**	**(24)**		**(3)**
					(248)	**(248)**		**(2)**	**(250)**
						(238)			**(238)**
	240	**168**	**19**	**427**	**3 210**	**3 852**	**111**	**6**	**3 969**
	(3)	(165)	(8)	**(176)**	**426**	**250**	**13**	**2**	**265**
					421	**421**	**17**	**2**	**440**
		(82)		**(82)**		**(82)**			**(82)**
		27		**27**		**27**			**27**
	(3)		(2)	**(5)**	**5**				
		(110)		**(110)**		**(110)**	**(4)**		**(114)**
			(9)	**(9)**		**(9)**			**(9)**
			3	**3**		**3**			**3**
					(165)	**(165)**	**(9)**	**(2)**	**(176)**
					(165)	**(165)**		**(2)**	**(167)**
							(9)		**(9)**
	237	**3**	**11**	**251**	**3 471**	**3 937**	**115**	**6**	**4 058**

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2009 (continued)

R millions	Ordinary share capital	Share premium	**Total ordinary capital**
Company			
Balance at 1 January 2008	121	342	**463**
Total comprehensive income for the year:			
Profit for the year			
Foreign currency loan translation differences			
Deferred tax on foreign currency loan translation differences			
Transfers to retained earnings			
Cash flow hedge fair value adjustments			
Deferred tax on fair value adjustments			
Recognition of share-based payments			
Transactions with owners:	(2)	(128)	**(130)**
Dividends paid (see note 25)			
Shares repurchased during the year	(2)	(128)	**(130)**
Balance at 31 December 2008	**119**	**214**	**333**
Total comprehensive income for the year:			
Profit for the year			
Foreign currency loan translation differences			
Deferred tax on foreign currency loan translation differences			
Cash flow hedge fair value adjustments			
Deferred tax on fair value adjustments			
Transactions with owners:	*		*
Dividends paid (see note 25)	*		*
Balance at 31 December 2009	**119**	**214**	**333**

* 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 the revaluation of property arose on the revaluation of all Group property on a date prior to the transition to IFRS and is used as deemed cost in accordance with IFRS1. The surplus is released to retained earnings as and when the related investment property is disposed of.

Other reserves
Included in reserves is a revaluation reserve for cash flow hedges, an equity-settled share-based payment reserve and the statutory reserve required for the Group's captive insurance subsidiary company.

Property revaluation reserve	Foreign currency translation reserve	Other reserves	**Total reserves**	**Retained earnings**	**Total**	**Preference share capital**	**Total equity**
242	(31)	3	214	2 551	3 228	6	3 234
(1)	60	(6)	53	273	326	2	328
				271	271	2	273
	84		84		84		84
	(24)		(24)		(24)		(24)
(1)		(1)	(2)	2			
		(7)	(7)		(7)		(7)
		2	2		2		2
		*	*		*		*
				(275)	(405)	(2)	(407)
				(275)	(275)	(2)	(277)
					(130)		(130)
241	29	(3)	267	2 549	3 149	6	3 155
	(49)	6	(43)	247	204	2	206
				247	247	2	249
	(67)		(67)		(67)		(67)
	18		18		18		18
		6	6		6		6
		*	*		*		*
				(185)	(185)	(2)	(187)
				(185)	(185)	(2)	(187)
241	(20)	3	224	2 611	3 168	6	3 174

STATEMENTS OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER 2009

			Group		Company	
R millions		Note	**2009**	2008	**2009**	2008
Cash generated by operations		i	**1 137**	1 690	**227**	676
Dividends received			**12**	12	**145**	238
Interest paid			**(349)**	(276)	**(363)**	(251)
Interest received			**22**	30	**372**	344
Income tax paid		ii	**(333)**	(232)	**(110)**	(90)
Changes in working capital		iii	**1 161**	(978)	**1 000**	(521)
Expenditure relating to non-current provisions			**(93)**	(114)	**(59)**	(99)
Expenditure relating to retrenchments and restructuring			**(105)**	(103)	**(105)**	(103)
Cash available from operating activities			**1 452**	29	**1 107**	194
Dividends paid		25	**(167)**	(250)	**(187)**	(277)
Cash flows from operating activities			**1 285**	(221)	**920**	(83)
Cash flows from investing activities			**(981)**	(1 002)	**(1 000)**	(1 207)
Net replacement of property, plant and equipment to maintain operations			**(20)**	(279)	**(53)**	(121)
Replacement of property, plant and equipment			**(187)**	(361)	**(80)**	(132)
Proceeds from disposal of property, plant and equipment			**167**	82	**27**	11
Investments to expand operations			**(1 055)**	(747)	**(947)**	(1 086)
Acquisition of	– property, plant and equipment		**(963)**	(644)	**(17)**	(39)
	– investments		**(6)**	(25)	**–**	–
	– subsidiaries	iv	**(53)**	(64)	**–**	–
	– businesses	iv	**(33)**	(14)	**–**	–
Loans with subsidiaries and joint ventures					**(930)**	(1 047)
Proceeds from disposal of investments and businesses			**94**	24	**–**	–
Proceeds from disposal of	– subsidiaries	iv	**–**	10	**–**	–
	– listed investments		**94**	14	**–**	–
Net cash generated/(utilised)			**304**	(1 223)	**(80)**	(1 290)
Cash flows from financing activities			**(6)**	1 136	**18**	1 337
Non-current borrowings	– raised		**188**	1 620	**180**	1 613
	– repaid		**(109)**	(307)	**(74)**	(260)
Current borrowings	– raised		**306**	462	**289**	515
	– repaid		**(377)**	(401)	**(377)**	(401)
Non-current loan receivables			**(14)**	–	**–**	–
Shares repurchased			**–**	(238)	**–**	(130)
Increase/(decrease) in cash and cash equivalents			**298**	(87)	**(62)**	47
Cash and cash equivalents at the beginning of the year			**444**	428	**67**	20
Translation (loss)/gain on cash and cash equivalents			**(74)**	90	**(1)**	–
Classified as held for sale			**–**	13	**–**	–
Cash and cash equivalents at the end of the year			**668**	444	**4**	67

NOTES TO THE STATEMENTS OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER 2009

		Group		Company	
	R millions	**2009**	2008	**2009**	2008
i.	**CASH GENERATED BY OPERATIONS**				
	Profit from continuing operations	**767**	1 035	**119**	251
	Profit from discontinued operations	**66**	(49)	**13**	(90)
	Profit from operations	**833**	986	**132**	161
	Adjusted for non-cash movements:				
	Closure costs	**16**	204	**16**	204
	Depreciation and amortisation	**267**	216	**49**	50
	Impairments of loans to subsidiaries	**–**	–	**–**	33
	Non-current provisions	**118**	299	**55**	232
	Surplus on disposal of property, plant and equipment	**(88)**	(38)	**(25)**	(4)
	Surplus on disposal of listed investments	**(34)**	(10)	**–**	–
	Change in fair value of investments	**25**	33	**–**	–
		1 137	1 690	**227**	676
ii.	**INCOME TAX PAID**				
	Owing at the beginning of the year	**(314)**	(175)	**(134)**	(109)
	Current charge for the year	**(145)**	(371)	**(7)**	(115)
	Translation differences	**8**	–	**–**	–
	Owing at the end of the year	**118**	314	**31**	134
		(333)	(232)	**(110)**	(90)
iii.	**CHANGES IN WORKING CAPITAL**				
	Decrease/(increase) in inventories	**968**	(1 215)	**586**	(518)
	Decrease/(increase) in accounts receivable	**1 029**	(1 164)	**935**	(674)
	(Decrease)/increase in accounts payable	**(773)**	1 068	**(462)**	447
		1 224	(1 311)	**1 059**	(745)
	Translation differences	**(72)**	17	**(59)**	(22)
	Classified from held for sale	**–**	314	**–**	263
	Business combinations	**9**	2	**–**	(17)
		1 161	(978)	**1 000**	(521)
iv.	**BUSINESS COMBINATIONS**				
	Property, plant and equipment	**1**	(17)	**–**	–
	Working capital	**9**	2	**–**	(17)
	Non-controlling interest	**9**	24	**–**	–
	Reserves	**–**	(15)	**–**	–
	Net loss on disposal of investments and businesses	**–**	17	**–**	17
	Goodwill	**67**	57	**–**	–
	Net cash outflow	**86**	68	**–**	–
	Proceeds from disposal of other businesses and subsidiaries	**–**	(10)	**–**	–
	Acquisition of businesses and subsidiaries (see note 33)	**86**	78	**–**	–
	Net consideration paid to acquire subsidiaries	**53**	64	**–**	–
	Consideration paid to acquire businesses	**33**	14	**–**	–
		86	68	**–**	–

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

R millions	Property	Plant and equipment	Furniture and fittings	Computer equipment	Motor vehicles	Under construction	**Total**
1. PROPERTY, PLANT AND EQUIPMENT							
Group							
2009							
Cost	**528**	**3 093**	**89**	**196**	**232**	**1 083**	**5 221**
At the beginning of the year	**507**	**3 137**	**85**	**183**	**187**	**1 063**	**5 162**
Additions	**75**	**451**	**9**	**37**	**32**	**543**	**1 147**
Additions through business combinations	**–**	**1**	*****	*****	*****	**–**	**1**
Finance charges capitalised	**–**	**33**	**–**	**–**	**–**	**72**	**105**
Disposals	**(45)**	**(981)**	**(2)**	**(21)**	**(8)**	**–**	**(1 057)**
Transfers and other	*****	**547**	*****	**(2)**	**33**	**(585)**	**(7)**
Translation differences	**(9)**	**(95)**	**(3)**	**(1)**	**(12)**	**(10)**	**(130)**
***Less*: accumulated depreciation and impairment**	**161**	**1 483**	**60**	**133**	**124**	**–**	**1 961**
At the beginning of the year	**167**	**2 261**	**55**	**135**	**113**	**–**	**2 731**
Disposals	**(24)**	**(925)**	**(1)**	**(21)**	**(7)**	**–**	**(978)**
Transfers and other	**1**	*****	*****	*****	**(1)**	**–**	*****
Additions through business combinations	**–**	*****	*****	*****	*****	**–**	*****
Translation differences	**(4)**	**(48)**	**(3)**	**(4)**	**(7)**	**–**	**(66)**
Impairment reversals during the year	**–**	**(7)**	**–**	**–**	**–**	**–**	**(7)**
Impairment during the year	**–**	**16**	**–**	**–**	**–**	**–**	**16**
Depreciation for the year	**21**	**186**	**9**	**23**	**26**		**265**
Carrying amount	**367**	**1 610**	**29**	**63**	**108**	**1 083**	**3 260**
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	633	999
Additions through business combinations	–	–	1	1	2	–	4
Finance charges capitalised	–	–	–	–	–	38	38
Transfer from assets held for sale	47	1 178	2	19	*	6	1 252
Disposals	(10)	(117)	(2)	(6)	(6)	–	(141)
Transfers and other	*	77	–	5	1	(83)	–
Disposals through business combinations	(2)	(29)	(2)	(2)	*	–	(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	(4)	(80)	–	(1)	(4)	(6)	(95)
Transfers and other	–	3	(3)	–	–	–	–
Additions through business combinations	–	*	*	1	1	–	2
Transfer from assets held for sale	20	1 117	*	19	–	6	1 162
Disposals through business combinations	(4)	(7)	*	*	*	*	(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

* 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							
2009							
Cost	**38**	**651**	**25**	**38**	**19**	**22**	**793**
At the beginning of the year	**35**	**1 496**	**23**	**42**	**18**	**84**	**1 698**
Additions	**10**	**59**	**2**	**14**	**2**	**8**	**95**
Finance charges capitalised	**–**	**–**	**–**	**–**	**–**	**4**	**4**
Disposals	**(1)**	**(978)**	*****	**(18)**	**(1)**	**–**	**(998)**
Transfers and other	**(6)**	**74**	*****	*****	**–**	**(74)**	**(6)**
***Less*: accumulated depreciation and impairment**	**8**	**367**	**16**	**20**	**14**	**–**	**425**
At the beginning of the year	**8**	**1 299**	**15**	**34**	**13**	**–**	**1 369**
Disposals	**(1)**	**(976)**	*****	**(17)**	**(1)**	**–**	**(995)**
Transfers and other	*****	*****	*****	*****	**–**	**–**	**–**
Impairment during the year	**–**	**4**	**–**	**–**	**–**	**–**	**4**
Depreciation for the year	**1**	**40**	**1**	**3**	**2**	**–**	**47**
Carrying amount	**30**	**284**	**9**	**18**	**5**	**22**	**368**
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	60	164
Finance charges capitalised	–	–	–	–	–	3	3
Transfer from assets held for sale	1	978	–	19	–	6	1 004
Disposals	–	(60)	*	(3)	(1)	(6)	(70)
Transfers and other	–	4	(4)	*	–	6	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	*	(53)	*	(3)	*	–	(56)
Transfers and other	–	9	(3)	*	*	(6)	–
Transfer from assets held for sale	1	972	–	19	*	6	998
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

* Nominal amount.

Impairment losses

The Group closed the remaining South African businesses of SANS Fibres during 2009. The majority of the plant has been dismantled and disposed of. Certain plant was moved to SANS Technical Fibers in the USA during the year and will be brought into use in 2010. The impairment losses on such plant amounting to R7 million was reversed.

In 2008, impairment losses on the property, plant and equipment of SANS Fibres' businesses of R39 million was recognised in the income statement and classified as discontinued operations (see note 23). The impairment losses related to the nylon light decitex industrial nylon and polyethylene terephthalate polymer businesses and was based on the assets' fair value less the costs of dismantling the plants.

Other impairments of plant and equipment of R16 million (2008: R4 million) were recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

1. PROPERTY, PLANT AND EQUIPMENT (continued)

Additional information

	Group		Company	
R millions	**2009**	2008	**2009**	2008
Insured value of property, plant and equipment	**9 330**	8 101	**1 750**	3 188
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

Cost	**487**	477	**131**	123
At the beginning of the year	**477**	464	**123**	116
Additions	**4**	7	**2**	7
Disposals	*****	–	*****	–
Transfers and other	**6**	6	**6**	–
***Less*: accumulated depreciation**	**57**	55	**58**	56
At the beginning of the year	**55**	53	**56**	54
Depreciation for the year	**2**	2	**2**	2
Carrying amount	**430**	422	**73**	67
Fair value	**2 898**	2 964	**872**	228

* Nominal amount.

The Valuation Division of Old Mutual Investment Group Property Investments compiled an independent valuation of the surplus Group-owned property in 2008 and 2009 to assist management in determining the fair value of the investment property. 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.

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 people in the property industry including other valuers, brokers, managers and investors.

2. INVESTMENT PROPERTY (continued)

R millions	Group 2009	Group 2008	Company 2009	Company 2008
Amounts recognised in the income statement				
Rental and service income from investment property	**244**	210	**263**	215
Direct operating expenses	**(120)**	(112)	**(120)**	(112)

The Company leases property, offices and industrial sites to external customers as well as to its subsidiary companies under operating leases. The lease periods are between 3 and 5 years, with most leases having a 3 year term, with annual escalations between 8% and 10%. The GLA of the office and industrial sites is approximately 342 000m² (2008: 326 000m²). Revenue from the investment property also includes amounts related to the provision of steam, water, effluent management, rail services and bulk electricity, mainly at the Umbogintwini site.

3. GOODWILL

R millions	Group 2009	Group 2008	Company 2009	Company 2008
Cost	**1 159**	1 091	**977**	977
At the beginning of the year	**1 091**	1 022	**977**	977
Additions through business combinations	**67**	60	**–**	–
Translation differences	**1**	12	**–**	–
Disposals	**–**	(3)	**–**	–
***Less*: accumulated impairment losses**	**96**	78	**72**	54
At the beginning of the year	**78**	36	**54**	27
Impairment charge for the year	**18**	42	**18**	27
Carrying amount	**1 063**	1 013	**905**	923
Goodwill is allocated to groups of cash-generating units based on Group business segments as follows:				
AEL Mining Services	**273**	273	**–**	–
Chemical Services	**790**	740	**905**	923
Carrying amount	**1 063**	1 013	**905**	923

The goodwill arose on the acquisition of subsidiaries and businesses by the Group. The goodwill in the Chemical Services segment is allocated to individual business units. During the year, three business units experienced severe reductions in their trading volumes. This resulted in the impairment of a portion 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;
- a discount rate of 14% 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

		Group		Company	
	R millions	**2009**	2008	**2009**	2008
4.	**PENSION FUND EMPLOYER SURPLUS ACCOUNTS**				
	AECI Pension Fund				
	At the beginning of the year	**213**	226	**213**	226
	Net income/(loss) for the year	**14**	(13)	**14**	(13)
	Apportionment of surplus during the year	**100**	–	**100**	–
	Utilised during the year				
	– Transferred to the AECI Supplementary Pension Fund	**(90)**	–	**(90)**	–
	– Settlement of contribution shortfalls	**(22)**	–	**(22)**	–
	Pro rata share of investment returns/(losses) earned by the AECI Pension Fund	**26**	(13)	**26**	(13)
	At the end of the year	**227**	213	**227**	213
	AECI Supplementary Pension Fund				
	At the beginning of the year	**–**	–	**–**	–
	Net income for the year	**9**	–	**9**	–
	Transferred from the AECI Pension Fund	**90**	–	**90**	–
	Utilised during the year				
	– Settlement of shortfall on reserves of the fund	**(81)**	–	**(81)**	–
	At the end of the year	**9**	–	**9**	–
	Total Pension Fund employer surplus accounts	**236**	213	**236**	213

Employer surplus accounts, belonging to the Company, in the AECI Pension Fund and the AECI Supplementary Pension Fund are recognised as assets (see note 31). The employer surplus account in the AECI Pension Fund was allocated a pro rata share of the investment returns on the AECI Pension Fund's invested assets up to 1 November 2009. At this time, a portion of the employer surplus account was invested specifically in the AECI Pension Fund's property portfolio and the remainder is held in cash. The returns earned from this date are net rental income and cash interest only, eliminating the Company's exposure to equities that make up a significant part of the AECI Pension Fund's investments. The pro rata share of the profit or loss is recognised in the income statement.

The trustees of the AECI Pension Fund resolved, on 25 November 2009, to apportion R200 million of the surplus in the Fund equally to the employer surplus account and to an employee surplus account. The employer-elected trustees of the AECI Pension Fund resolved to transfer R90 million of the surplus to an employer surplus account in the AECI Supplementary Pension Fund, which was to be utilised to fund the deficit in that Fund, as valued by the Fund's independent actuaries, and to establish solvency reserves to the full extent determined by the actuaries. The Company is the sponsor of both Funds and the transfer will ensure that contributing members and pensioners of both Funds are afforded the same measure of security of their retirement benefits by providing the same level of solvency margin. A certificate of approval for the transfer was granted by the Registrar of Pension Funds after the reporting date.

R millions	Group 2009	Group 2008	Company 2009	Company 2008
5. INVESTMENT IN SUBSIDIARIES				
(see note 35)				
Unlisted shares			**919**	920
– At cost			**971**	976
– *Less*: impairment losses			**(52)**	(56)
Loans to subsidiaries			**3 944**	3 310
– Amounts owing			**4 055**	3 450
– *Less*: impairment losses			**(111)**	(140)
Investment in subsidiaries			**4 863**	4 230
Loans from subsidiaries			**(514)**	(826)
Net investment in subsidiaries			**4 349**	3 404

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 18).

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 as a result of the related loan being recovered during the year (see note 18).

%	Group 2009	Group 2008	Company 2009	Company 2008
6. OTHER INVESTMENTS				
Associate companies				
Effective holding				
Dussek Campbell (Pty) Limited	**49,0**	49,0	**–**	–
agVantage (Pty) Limited	**17,5**	25,1	**–**	–
Mining Explosives Limited	**49,0**	–	**–**	–

On 23 March 2009, agVantage (Pty) Limited issued shares as a rights issue, in which the Group participated. The effective holding increased to 31,3% at a cost of R2 million. On 1 July 2009, agVantage issued further shares as a rights issue. The Group did not participate in the second rights issue and the effective holding was diluted to 17,5%. The Group has significant influence as the actual holding is 35% (2008: 50%) but the investment is held by a joint venture company in which the Group has a 50% interest.

R millions	Group 2009	Group 2008	Company 2009	Company 2008
Summarised financial information				
Total assets	**59**	74	**–**	–
Total liabilities	**(24)**	(46)	**–**	–
Revenue	**85**	144	**–**	–
(Loss)/profit for the year	**(7)**	2	**–**	–

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

		Group		Company	
	R millions	**2009**	2008	**2009**	2008
6.	**OTHER INVESTMENTS (continued)**				
	Associate companies (continued)				
	Unlisted shares at fair value	**10**	5	**–**	–
	Loans	**(4)**	(5)	**–**	–
	Post-acquisition retained earnings	*****	5	**–**	–
	Balance at the beginning of the year	**5**	4		
	Dividend received	**(3)**	–		
	Current year's share of (losses)/profits of associate companies	**(2)**	1		
	Total investment in associate companies	**6**	5	**–**	–
	Joint ventures (see note 34)			**53**	35
	Unlisted shares at cost			**28**	28
	Loans to joint ventures			**25**	7
	Investments at fair value through profit and loss				
	Listed investments at market value	**–**	82	**–**	–
	Available-for-sale investments				
	Unlisted investments at fair value	**7**	11	**6**	6
	Shares	**2**	5	**–**	–
	Loans	**5**	6	**6**	6
	Total other investments	**7**	93	**59**	41
	Total investments	**13**	98	**59**	41
7.	**DEFERRED TAX**				
	At the beginning of the year	**(272)**	(165)	**(201)**	(173)
	Recognised in the income statement				
	– normal activities	**43**	(149)	**75**	(57)
	– change in tax rate	**–**	7	**–**	7
	Recognised directly in other comprehensive income				
	– foreign currency loan translation	**(27)**	33	**(18)**	24
	– fair value adjustments	**(3)**	2	*****	(2)
	At the end of the year	**(259)**	(272)	**(144)**	(201)
	Analysis by major temporary differences:				
	Property, plant and equipment	**190**	85	**42**	13
	Provisions	**(311)**	(336)	**(238)**	(284)
	Share options hedge premium	**(3)**	(5)	**(2)**	(4)
	Pension Fund employer surplus accounts	**66**	60	**66**	60
	Deferred foreign exchange differences	**(6)**	21	**(10)**	10
	Computed tax losses	**(204)**	(115)	**(3)**	–
	Fair value adjustments	**(2)**	18	**(1)**	(2)
	Other	**11**	–	**2**	6
		(259)	(272)	**(144)**	(201)
	Comprising:				
	Deferred tax assets	**(344)**	(333)	**(144)**	(201)
	Deferred tax liabilities	**85**	61	**–**	–
		(259)	(272)	**(144)**	(201)

* Nominal amount.

R millions	Group 2009	Group 2008	Company 2009	Company 2008
8. LOAN RECEIVABLES				
Gross investment in finance leases	**23**	–	**–**	–
Unearned finance income	**(4)**	–	**–**	–
Present value of minimum lease payments	**19**	–	**–**	–
Current portion included in accounts receivable (see note 10)	**(5)**	–	**–**	–
At the end of the year	**14**	–	**–**	–
Gross investment in finance leases		–	**–**	–
– within 1 year	**7**	–	**–**	–
– from 2 to 5 years	**16**	–	**–**	–
– later than 5 years	**–**	–	**–**	–
	23	–	**–**	–
Present value of minimum lease payments		–	**–**	–
– within 1 year	**5**	–	**–**	–
– from 2 to 5 years	**14**	–	**–**	–
– later than 5 years	**–**	–	**–**	–
	19	–	**–**	–

Loan receivables consist of finance leases where the Group is the lessor. The finance leases are in respect of plant and equipment constructed on customer sites and the terms of the leases are between two and five years. All leasing arrangements were undertaken in 2009 for the first time.

R millions	Group 2009	Group 2008	Company 2009	Company 2008
9. INVENTORIES				
Raw and packing materials	**634**	1 113	**178**	459
In progress	**101**	364	**3**	96
Finished goods and merchandise	**825**	1 174	**414**	627
Spares and stores	**42**	34	**12**	11
Property developments	**225**	110	**–**	–
	1 827	2 795	**607**	1 193
Inventories included above stated at fair value less costs to sell	*****	285	*****	117

* Nominal amount.

Property developments have a development cycle which is longer than normal cycles of other items of inventory and are not expected to be realised within 12 months of the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

		Group		Company	
	R millions	**2009**	2008	**2009**	2008
10.	**ACCOUNTS RECEIVABLE**				
	Trade	**1 694**	2 855	**544**	1 461
	Pre-payments	**104**	55	**9**	15
	Other	**356**	278	**49**	77
	Subsidiaries and joint ventures			**55**	39
		2 154	3 188	**657**	1 592
	Current portion of loan receivables	**5**	–	**–**	–
		2 159	3 188	**657**	1 592
	Trade receivables are exposed to credit risk as described in note 28.				
	The maximum exposure to credit risk for trade receivables at 31 December, by geographic region was:				
	South Africa	**1 207**	1 816	**485**	869
	Rest of Africa	**256**	413	**24**	125
	North America	**35**	38	**–**	2
	South America	**20**	51	**–**	27
	Asia	**134**	103	**13**	27
	Australia	**4**	11	**2**	7
	Rest of Europe	**24**	50	**9**	35
	United Kingdom	**14**	373	**11**	369
		1 694	2 855	**544**	1 461
	The ageing of gross trade receivables at 31 December was:				
	Not past due	**1 286**	2 104	**413**	1 251
	Past due 0 to 30 days	**244**	498	**93**	192
	Past due 30 to 90 days	**117**	141	**22**	16
	Past due more than 90 days	**161**	188	**92**	44
		1 808	2 931	**620**	1 503
	The ageing of impairments of trade receivables at 31 December was:				
	Not past due	**(1)**	(16)	**–**	(13)
	Past due 0 to 30 days	**(4)**	(2)	**(3)**	(2)
	Past due 30 to 90 days	**(5)**	(21)	**(2)**	(2)
	Past due more than 90 days	**(104)**	(37)	**(71)**	(25)
		(114)	(76)	**(76)**	(42)
	Net trade receivables	**1 694**	2 855	**544**	1 461
	Impairment of trade receivables				
	At the beginning of the year	**(76)**	(45)	**(42)**	(30)
	Additional impairments recognised during the year	**(76)**	(47)	**(60)**	(27)
	Impairments reversed during the year	**24**	14	**17**	13
	Impairments applied to trade receivables deemed irrecoverable	**14**	2	**9**	2
	At the end of the year	**(114)**	(76)	**(76)**	(42)
	Carrying amount of balances where terms have been renegotiated	*****	7	*****	7

* Nominal amount.

Impairments of trade receivables are recognised with reference to the ageing of trade receivables that are past due date, payments received after the reporting date, payment history of the specific customer and the length of the relationship with that customer, as well as objective evidence relating to the economic environment, the credit status of the customer and the market in which the customer operates.

11. ASSETS 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.

	Group		Company	
R millions	**2009**	2008	**2009**	2008
Available-for-sale investments	**14**	14	**14**	14

	2009	2008	Group		Company	
	Number of shares		**2009 R millions**	2008 R millions	**2009 R millions**	2008 R millions
12. SHARE CAPITAL AND SHARE PREMIUM						
Ordinary shares						
Authorised						
Shares of R1 each	**180 000 000**	180 000 000	**180**	180	**180**	180
Issued						
At the beginning of the year						
Group	**106 962 287**	110 431 458	**107**	110		
Company	**118 846 986**	120 742 578			**119**	121
Repurchased during the year						
Group	**–**	(3 469 171)	**–**	(3)		
Company	**–**	(1 895 592)			**–**	(2)
Issued during the year [1]						
Group	**288 883**	–	*****	–		
Company	**288 883**	–			*****	–
At the end of the year						
Group	**107 251 170**	106 962 287	**107**	107		
Company	**119 135 869**	118 846 986			**119**	119
Share premium less share issue expenses			**108**	108	**214**	214
At the beginning of the year			**108**	343	**214**	342
Shares repurchased			**–**	(235)	**–**	(128)
			215	215	**333**	333
Treasury shares held by a subsidiary company	**11 884 699**	11 884 699	**12**	12		
Preference shares						
Authorised and issued						
5,5% cumulative shares of R2 each	**3 000 000**	3 000 000	**6**	6	**6**	6

* Nominal amount.

1 Issued in terms of scrip dividend (see note 25).

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%. In 2009 the return was 18% (2008: 20,3%).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

R millions	Weighted closing interest rate %	Group 2009	Group 2008	Company 2009	Company 2008
13. NON-CURRENT BORROWINGS					
Unsecured					
Local					
Loans					
2008/2013	10,46	**1 430**	1 500	**1 430**	1 500
2009/2011	11,00	**3**	–	**–**	–
2009/2010	9,00	**100**	–	**100**	–
Foreign					
Loans – US dollar	2,24	**129**	52	**129**	52
Loans – other currencies	7,51	**8**	12	**–**	–
Secured					
Local					
Loans – other[1]	17,39	**10**	16	**1**	2
Foreign					
Loans – other[1]	10,80	**1**	–	**–**	–
		1 681	1 580	**1 660**	1 554
Non-controlling shareholder loan to subsidiary					
2004/2012[2]	9,13	**255**	277		
		1 936	1 857	**1 660**	1 554
Current portion (see note 16)		**(205)**	(112)	**(171)**	(77)
		1 731	1 745	**1 489**	1 477

1 Secured in terms of capitalised finance lease agreements over plant and equipment having a net book value of R1 million (2008: R1 million) and mortgages over property having a net book value of R21 million (2008: R17 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				
	2010	198	7	205
	2011	589	37	626
	2012	547	92	639
	2013	465	1	466
		1 799	137	1 936
Company				
	2010	171	–	171
	2011	559	37	596
	2012	336	92	428
	2013	465	–	465
		1 531	129	1 660

R millions	Group 2009	Group 2008	Company 2009	Company 2008
14. NON-CURRENT PROVISIONS				
Environmental remediation				
At the beginning of the year	**146**	141	**141**	138
Expenditure incurred during the year	**(11)**	(71)	**(11)**	(71)
Liability for property acquired during the year	**5**	–	**–**	–
Charged to net operating costs during the year				
– Additional provision made	**4**	76	**(3)**	74
	144	146	**127**	141
Current portion included in accounts payable (see note 15)	**–**	(80)	**–**	(80)
At the end of the year	**144**	66	**127**	61
Earnings-based incentive schemes				
At the beginning of the year	**101**	44	**67**	32
Expenditure incurred during the year	**(53)**	(9)	**(25)**	(4)
Charged to net operating costs during the year				
– Additional provision made	**26**	67	**15**	40
– Reversal of provision	**(21)**	(1)	**(21)**	(1)
	53	101	**36**	67
Current portion included in accounts payable (see note 15)	**(26)**	(101)	**(17)**	(67)
At the end of the year	**27**	–	**19**	–
Post-retirement medical aid benefits				
At the beginning of the year	**513**	333	**399**	258
Benefits paid during the year	**(29)**	(34)	**(23)**	(24)
Charged to net operating costs during the year	**104**	157	**64**	119
– Current service cost	**5**	5	**2**	3
– Interest cost	**69**	69	**53**	53
– Additional provision made	**30**	83	**9**	63
Net (income)/loss from plan assets for post-retirement medical aid liabilities	**(11)**	57	**(7)**	46
At the end of the year	**577**	513	**433**	399
Made up as follows:				
Actuarial valuation of obligations (see note 31)	**994**	919	**753**	712
Plan assets to meet post-retirement medical aid contribution liability	**(417)**	(406)	**(320)**	(313)
At the beginning of the year	**(406)**	(463)	**(313)**	(359)
Pro rata share of investment return earned by the AECI Pension Fund	**(49)**	25	**(39)**	19
Benefits paid during the year	**38**	32	**32**	27
	577	513	**433**	399
Total non-current provisions	**748**	579	**579**	460

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

14. NON-CURRENT PROVISIONS (continued)

Environmental remediation

The environmental remediation provision is based on the Group's environmental policy, the intended use of the land and obligations in terms of legislation to remediate land. The expenditure is expected to be incurred as and when the Group is legally required to do so depending on end use. When detailed characterisation of the land is performed, the provision may need to be adjusted.

Earnings-based incentive schemes

The earnings-based incentive scheme provision represents the present value of obligations to employees who have been granted units in terms of the incentive scheme (see note 31). The amount paid depends on employees meeting the vesting period and the earnings of the Group during the life of the units.

Post-retirement medical aid benefits

Details of the nature of the post-retirement medical aid benefits provision are contained in note 31. 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 31.

		Group		Company	
	R millions	**2009**	2008	**2009**	2008
15.	**ACCOUNTS PAYABLE**				
	Trade	**1 460**	1 994	**634**	1 004
	Non-trade	**641**	880	**249**	337
	Subsidiaries and joint ventures			**14**	18
		2 101	2 874	**897**	1 359
	Closure costs	**81**	170	**81**	170
	Current portion of non-current provisions (see note 14)	**26**	181	**17**	147
		2 208	3 225	**995**	1 676
16.	**CURRENT BORROWINGS**				
	Current portion of non-current borrowings (see note 13)	**205**	112	**171**	77
	Unsecured interest-bearing short-term borrowings	**875**	946	**977**	1 065
		1 080	1 058	**1 148**	1 142
17.	**REVENUE**				
	Sale of goods and related services	**11 024**	13 961	**3 576**	6 529
	Leasing and related services of investment property	**244**	210	**263**	215
	Sale of surplus land	**(90)**	169	**11**	–
	Sales to subsidiary companies			**304**	321
		11 178	14 340	**4 154**	7 065
	Continuing operations	**10 709**	12 876	**3 685**	5 601
	Local	**8 189**	9 470	**3 166**	4 142
	Foreign	**2 520**	3 406	**215**	1 138
	Sales to subsidiary companies			**304**	321
	Discontinued operations	**469**	1 464	**469**	1 464
	Local	**260**	877	**260**	877
	Foreign	**209**	587	**209**	587
	Sales to subsidiary companies				
		11 178	14 340	**4 154**	7 065

R millions	Group 2009	Group 2008	Company 2009	Company 2008
18. NET OPERATING COSTS				
Cost of sales	**8 004**	10 813	**3 177**	5 608
Selling and distribution expenses	**1 012**	1 157	**541**	576
Closure costs and related impairments	**16**	204	**16**	204
Administrative expenses	**1 313**	1 180	**288**	516
Net operating costs	**10 345**	13 354	**4 022**	6 904
Continuing operations	**9 942**	11 841	**3 566**	5 350
Discontinued operations – closure costs and related impairments	**16**	204	**16**	204
Discontinued operations	**387**	1 309	**440**	1 350
Net operating costs have been arrived at after taking into account:				
Auditors' remuneration	**15**	17	**5**	6
– Audit fees	**14**	16	**5**	6
– Other services	**1**	1	*****	*
Auditors' remuneration	**15**	17	**5**	6
– Continuing operations	**15**	16	**5**	5
– Discontinued operations	*****	1	*****	1
Change in fair value of listed investments classified as at fair value through profit and loss – continuing operations	**25**	33	**–**	–
Depreciation and amortisation	**267**	216	**49**	50
– Property, plant and equipment	**265**	214	**47**	48
– Investment property	**2**	2	**2**	2
Depreciation and amortisation	**267**	216	**49**	50
– Continuing operations	**267**	211	**49**	45
– Discontinued operations	**–**	5	**–**	5
Foreign exchange gains	**(400)**	(333)	**(296)**	(140)
– Realised	**(342)**	(179)	**(241)**	(32)
– Unrealised	**(58)**	(154)	**(55)**	(108)
Foreign exchange gains	**(400)**	(333)	**(296)**	(140)
– Continuing operations	**(373)**	(265)	**(269)**	(72)
– Discontinued operations	**(27)**	(68)	**(27)**	(68)
Foreign exchange losses	**451**	301	**323**	162
– Realised	**347**	225	**245**	117
– Unrealised	**104**	76	**78**	45
Foreign exchange losses	**451**	301	**323**	162
– Continuing operations	**423**	247	**295**	108
– Discontinued operations	**28**	54	**28**	54

* Nominal amount.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

		Group		Company	
	R millions	**2009**	2008	**2009**	2008
18.	**NET OPERATING COSTS (continued)**				
	Inventory	**139**	147	**64**	136
	– Losses and write-downs	**144**	166	**66**	139
	– Reversal of losses and write-downs	**(5)**	(19)	**(2)**	(3)
	Inventory losses and write-downs and reversals	**139**	147	**64**	136
	– Continuing operations	**135**	145	**60**	132
	– Discontinued operations	**4**	2	**4**	4
	Investments and loans to subsidiary companies – continuing operations			**(29)**	33
	– Impairments			**–**	33
	– Reversal of impairments			**(29)**	–
	Increase/(decrease) in non-current provisions – continuing operations	**113**	299	**55**	232
	– Environmental remediation	**4**	76	**(3)**	74
	– Earnings-based incentive scheme	**5**	66	**(6)**	39
	– Post-retirement medical aid benefits	**104**	157	**64**	119
	Operating lease costs	**100**	70	**22**	20
	– Continuing operations	**97**	61	**19**	11
	– Discontinued operations	**3**	9	**3**	9
	Research and development expenditure – continuing operations	**12**	13	**7**	10
	Surplus on disposal of listed investments – continuing operations	**(34)**	(10)	**–**	–
	Surplus on disposal of property, plant and equipment	**(88)**	(38)	**(25)**	(4)
	– Property	**(59)**	(28)	**–**	–
	– Plant and equipment	**(29)**	(10)	**(25)**	(4)
	(Surplus)/loss on disposal of property, plant and equipment	**(88)**	(38)	**(25)**	(4)
	– Continuing operations	**(9)**	(2)	*****	4
	– Discontinued operations	**(79)**	(36)	**(25)**	(8)
	Total salaries and other staff costs	**1 923**	1 804	**495**	577
	Salaries and other staff costs	**1 839**	1 681	**472**	514
	Company contributions to retirement funds	**84**	123	**23**	63
	Total salaries and other staff costs	**1 923**	1 804	**495**	577
	– Continuing operations	**1 873**	1 651	**445**	424
	– Discontinued operations	**50**	153	**50**	153

* Nominal amount.

	R millions	Group 2009	Group 2008	Company 2009	Company 2008
19.	**INTEREST EXPENSE**				
	Interest paid	**(349)**	(276)	**(363)**	(251)
	Non-current borrowings	**(208)**	(93)	**(174)**	(49)
	Current borrowings	**(141)**	(183)	**(133)**	(178)
	Subsidiary companies			**(56)**	(24)
	Interest capitalised	**105**	40	**4**	3
		(244)	(236)	**(359)**	(248)
	Continuing operations	**(243)**	(233)	**(349)**	(246)
	Discontinued operations	**(1)**	(3)	**(10)**	(2)
20.	**INTEREST RECEIVED**				
	Subsidiary companies and joint ventures			**363**	327
	Loans and receivables	**22**	30	**9**	17
		22	30	**372**	344
	Continuing operations	**21**	28	**369**	328
	Discontinued operations	**1**	2	**3**	16
21.	**INVESTMENT INCOME**				
	Dividends from investments	**9**	12	**7**	5
	– Listed	**2**	7	**–**	–
	– Unlisted	**7**	5	**7**	5
	Dividends from unlisted South African subsidiaries			**138**	233
		9	12	**145**	238
	Continuing operations	**9**	12	**145**	238
	Discontinued operations	**–**	–	**–**	–
	Aggregate income from subsidiaries and joint ventures				
	Dividends			**138**	233
	Net interest received			**307**	303
	Secretarial and administrative fees			**15**	15
				460	551

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

		Group		Company	
	R millions	**2009**	2008	**2009**	2008
22.	**INCOME TAX EXPENSE**				
	Current tax	**(161)**	(423)	**(8)**	(163)
	South African and foreign normal tax	**(142)**	(398)	*****	(153)
	Foreign withholding taxes	**(2)**	(1)	*****	
	Secondary tax on companies	**(17)**	(24)	**(8)**	(10)
	Deferred tax	**(43)**	192	**(51)**	99
		(204)	(231)	**(59)**	(64)
	Adjustment for prior years	**16**	5	**(21)**	–
	South African normal tax	**16**	52	**1**	48
	Deferred tax	*****	(47)	**(22)**	(48)
		(188)	(226)	**(80)**	(64)
	Continuing operations	**(176)**	(238)	**(69)**	(80)
	Discontinued operations	**(12)**	12	**(11)**	16
	Analysis of deferred tax charge by major temporary differences:				
	Property, plant and equipment	**(106)**	14	**(29)**	(4)
	Provisions	**(25)**	137	**(46)**	95
	Share options hedge premium	**(2)**	(3)	**(1)**	(3)
	Pension Fund employer surplus accounts	**(6)**	6	**(6)**	6
	Deferred foreign exchange differences	**(2)**	–	**3**	–
	Computed tax losses	**89**	29	**3**	–
	Fair value adjustments	**20**	(2)	**(1)**	2
	Change in rate	**–**	7	**–**	7
	Other	**(11)**	4	**26**	(4)
		(43)	192	**(51)**	99
	Prior year adjustment	*****	(47)	**(22)**	(48)
		(43)	145	**(73)**	51
	Computed tax losses				
	Utilised to reduce deferred tax or create deferred tax assets	**738**	415	**11**	–
	Losses on which no deferred tax assets were raised because of uncertainty regarding their utilisation	**181**	148	**–**	–
		919	563	**11**	–
		%	%	**%**	%
	Reconciliation of tax rate computed in relation to profit before tax				
	Effective rate	**29,9**	37,4	**24,3**	19,1
	Capital and non-taxable receipts	**6,2**	3,2	**14,0**	20,3
	Non-deductible expenses	**(3,5)**	(9,0)	**(0,8)**	(6,4)
	Secondary tax on companies	**(2,7)**	(4,0)	**(2,4)**	(2,9)
	Adjustment for prior years	**2,6**	0,8	**(6,4)**	(0,1)
	Capital gains	**(1,7)**	(0,7)	**(0,7)**	(0,2)
	Tax rate change	**–**	(1,1)	**–**	(1,8)
	Other	**(2,8)**	1,4	**–**	–
	South African standard rate	**28,0**	28,0	**28,0**	28,0

* Nominal amount.

23. DISCONTINUED OPERATIONS

The South African businesses of SANS Fibres at Bellville have been closed. Manufacturing activities ceased at the end of March 2009 and the remaining working capital was recovered by the end of the year. The plant on the site has been or is in the process of being dismantled and sold, either as operating plant or as scrap. A portion of the Bellville site has also been disposed of, with proceeds of R55 million being recognised during the year. Closure costs in respect of the businesses amounting to R16 million (2008: R204 million) have been charged to the income statement.

The loss on disposal of discontinued operations in 2008 represents 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	
R millions	**2009**	2008	**2009**	2008
Results of discontinued operations				
Revenue	**469**	1 464	**469**	1 464
Net operating costs	**(387)**	(1 309)	**(440)**	(1 350)
	82	155	**29**	114
Closure costs and related impairments	**(16)**	(204)	**(16)**	(204)
Profit from operations	**66**	(49)	**13**	(90)
Interest expense	**(1)**	(3)	**(10)**	(2)
Interest received	*****	2	**3**	16
Impairment of discontinued plant and equipment	**–**	(39)	**–**	(39)
Net loss on disposals of investments and businesses	**–**	(17)	**–**	(17)
Profit/(loss) before tax	**65**	(106)	**6**	(132)
Tax	**(12)**	12	**(11)**	16
Profit/(loss) for the year	**53**	(94)	**(5)**	(116)
Cash flows from/(utilised by) discontinued operations				
Net cash from operating activities	**112**	(63)	**168**	(64)
Net cash from investing activities	**80**	65	**25**	66
Net cash from financing activities	**(4)**	4	**(4)**	4
	188	6	**189**	6
Effect of the disposals of investments and businesses				
Accounts payable	**–**	17	**–**	17
Loss on disposal	**–**	(17)	**–**	(17)
Consideration received in cash	**–**	–	**–**	–

* Nominal amount.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

		Group	
	R millions	**2009**	2008
24.	**EARNINGS PER SHARE**		
	Headline earnings are derived from:		
	Profit attributable to ordinary shareholders	**421**	385
	Continuing operations		
	Impairment of goodwill	**18**	42
	Impairment of property, plant and equipment	**16**	4
	Reversal of impairment of property, plant and equipment	**(7)**	-
	Surplus on disposal of property, plant and equipment	**(9)**	(2)
	Tax effects of the above items	**(2)**	(1)
	Discontinued operations		
	Impairment of property, plant and equipment	**–**	39
	Surplus on disposal of businesses	**–**	17
	Surplus on disposal of property, plant and equipment	**(79)**	(36)
	Tax effects of the above items	**12**	(5)
	Headline earnings	**370**	443

	Group	
	2009	2008
Earnings per ordinary share (cents)		
Attributable	**393**	358
– Continuing operations	**344**	445
– Discontinued operations	**49**	(87)
Headline	**346**	412
– Continuing operations	**359**	485
– Discontinued operations	**(13)**	(73)
Weighted average number of ordinary shares in issue	**118 915 843**	119 453 853
Deduct treasury shares held	**11 884 699**	11 884 699
	107 031 144	107 569 154

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 107 031 144, net of treasury shares (2008: 107 569 154).

	Group	
	2009	2008
Diluted earnings per ordinary share (cents)		
Attributable	**392**	356
– Continuing operations	**343**	443
– Discontinued operations	**49**	(87)
Headline	**344**	410
– Continuing operations	**357**	483
– Discontinued operations	**(13)**	(73)

At 31 December 2009 there were 630 800 (2008: 793 100) 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 107 414 535 (2008: 108 118 964).

The average share price of AECI Limited since the beginning of the financial year, used in the determination of potentially dilutive ordinary shares, is R52,06 (2008: R62,37) compared to an average exercise price on the outstanding options of R20,42 (2008: R19,13).

	Group 2009	Group 2008
24. EARNINGS PER SHARE (continued)		
Reconciliation of the weighted average number of ordinary shares for diluted earnings per share:		
Weighted average number of ordinary shares	**107 031 144**	107 569 154
Number of options available for future exercise	**630 800**	793 100
Number of shares that would be issued at fair value	**(247 409)**	(243 290)
Weighted average number of ordinary shares for diluted earnings per share	**107 414 535**	108 118 964

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.

R millions	Group 2009	Group 2008	Company 2009	Company 2008
25. DIVIDENDS				
Ordinary				
Final for the previous year: No. 150 of 141 cents (2008: 141 cents) paid 20 April 2009	**151**	152	**168**	167
Interim for the current year: No. 151 of 28 cents (2008: 90 cents) paid 5 October 2009	**14**	96	**17**	108
Total ordinary dividends paid: 169 cents (2008: 231 cents)	**165**	248	**185**	275
Preference				
Nos. 142 and 143 paid 15 June 2009 and 15 December 2009 respectively	**2**	2	**2**	2
	167	250	**187**	277
Dividend No. 151 was declared as a scrip dividend with a cash dividend alternative. 288 883 shares were issued (see note 12) and the remaining shareholders elected to receive the cash alternative.				
Proposed final cash dividend No. 152 for the year ended 31 December 2009 of 62 cents (2008: 141 cents) per share payable on 19 April 2010	**66**	151	**74**	168
Secondary tax on companies thereon	**7**	15	**8**	17
26. CONTINGENT LIABILITIES				
Disputes with the SA Revenue Service in respect of various tax matters				
– Property realisation companies	**83**	78	**–**	–
– Other	**–**	4	**–**	–
	83	82	**–**	–

Assessments were issued by the SA Revenue Service in respect of four subsidiary companies for various years of assessment between 1995 and 2002. The companies objected to the assessments, the objections were disallowed and appeals were made to the Tax Court. Judgement was handed down in favour of the Group on 28 October 2009 in one of the cases but the SA Revenue Service has lodged an appeal in the Supreme Court of Appeal. No date has been set for the hearing of the appeal nor for the hearing of the remaining cases.

The contingent liability represents the assessed liabilities and computed interest up to the reporting date. There is no clear indication of the likely timing of the cases.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

		Group		Company	
	R millions	**2009**	2008	**2009**	2008
27.	**COMMITMENTS**				
	Capital commitments authorised	**737**	978	**32**	65
	Contracted for	**71**	550	**8**	22
	Not contracted for	**666**	428	**24**	43
	The expenditure will be financed from funds on hand and internally generated, supplemented by borrowings against facilities available to the Group.				
	All capital commitments relate to additions of property, plant and equipment, mostly relating to the expansion of operations.				
	The above includes the Group's share of the capital commitments of joint ventures.				
	Future rentals on property, plant and equipment leased	**185**	317	**38**	101
	Payable within one year	**84**	144	**17**	64
	Payable between 1 and 5 years	**91**	171	**20**	37
	Payable thereafter	**10**	2	**1**	-
	The Group's leasing arrangements relate primarily to property and vehicles and the lease periods range from 3 to 6 years. Certain of the properties have renewal options either at the option of the lessee or of the Group.				
	Guarantees*	**73**	34	**205**	220
	Performance guarantees	**47**	14	**202**	210
	Other guarantees	**26**	20	**3**	10
		995	1 329	**275**	386

* Performance guarantees relate primarily to property development and are granted to local government authorities in terms of agreements for bulk infrastructure services. The Company guarantees include the loan guarantee as described in note 13. Other guarantees relate primarily to service contracts with the most significant guarantees relating to Eskom in terms of electricity supply agreements.

28. 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. 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, 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 in 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 Audit and Risk Committee. The Audit and Risk 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.

Categories of financial instruments and fair values

	Carrying amount		**Fair value**	
R millions	**2009**	2008	**2009**	2008
Group				
Financial assets				
Available-for-sale financial assets [1]	**16**	19	**16**	19
– Unlisted investments	**2**	5	**2**	5
– Unlisted investments classified as held for sale	**14**	14	**14**	14
Financial assets at fair value through profit and loss	**7**	88	**7**	88
– Listed investment classified as held for trading	**–**	82	**–**	82
– Forward exchange contracts	**7**	6	**7**	6
Loans and receivables	**2 839**	3 632	**2 839**	3 632
– Accounts receivable	**2 147**	3 182	**2 147**	3 182
– Cash and cash equivalents	**668**	444	**668**	444
– Finance lease receivables	**19**	–	**19**	–
– Loans relating to unlisted investments	**5**	6	**5**	6
	2 862	3 739	**2 862**	3 739
Financial liabilities				
– Loans from associate companies	**(4)**	(5)	**(4)**	(5)
– Accounts payable	**(1 991)**	(2 668)	**(1 991)**	(2 668)
– Forward exchange contracts	**(23)**	(17)	**(23)**	(17)
– Interest rate swap agreements	**(6)**	(19)	**(6)**	(19)
– Borrowings	**(2 811)**	(2 803)	**(2 811)**	(2 803)
	(4 835)	(5 512)	**(4 835)**	(5 512)

* Nominal amount.

1 Items are classified as available-for-sale when they are not classified in another category or when specifically designated as such.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

Categories of financial instruments and fair values (continued)

R millions	Carrying amount 2009	Carrying amount 2008	Fair value 2009	Fair value 2008
Company				
Financial assets				
Available-for-sale financial assets [1]	**14**	14	**14**	14
– Unlisted investments classified as held for sale	**14**	14	**14**	14
Financial assets at fair value through profit and loss				
– Forward exchange contracts	**3**	2	**3**	2
Loans and receivables	**664**	1 663	**664**	1 663
– Accounts receivable	**654**	1 590	**654**	1 590
– Cash and cash equivalents	**4**	67	**4**	67
– Loans relating to unlisted investments	**6**	6	**6**	6
	681	1 679	**681**	1 679
Financial liabilities				
– Accounts payable	**(795)**	(1 168)	**(795)**	(1 168)
– Forward exchange contracts	**(15)**	(2)	**(15)**	(2)
– Interest rate swap agreements	**(6)**	(19)	**(6)**	(19)
– Borrowings	**(2 637)**	(2 619)	**(2 637)**	(2 619)
	(3 453)	(3 808)	**(3 453)**	(3 808)

1 Items are classified as available-for-sale when they are not classified in another category or when specifically designated as such.

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.

Fair value measurements can be classified into three levels based on the observability and significance of the inputs used in making the measurement.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair values are all measured using inputs as described in Level 2.

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.

28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(a) Currency risk (continued)

Hedge accounting

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 rand value of the hedged items, based on contract rates at 31 December 2009 for the Group was R250 million (2008: R194 million). The loss on the hedging instruments for the year for the Group was R1 million (2008: profit of R15 million) and was recognised in the income statement.

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 rand value of the forward exchange contracts, based on the contract rates, at 31 December 2009 was R11 million (2008: R169 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 rand value of the forward exchange contracts, based on the contract rates, at 31 December 2009 was R17 million (2008: R88 million).

The cash flows relating to the hedging instruments will occur in 2010 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 other comprehensive income for the year in respect of the cash flow hedges for the Group was a debit of R9 million (2008: credit of R14 million).

Transactions in foreign currencies

		Foreign amount		Rand amount#	
	Foreign currency	**2009 millions**	2008 millions	**2009 R millions**	2008 R millions
Group					
Forward exchange contracts at 31 December 2009, relating to specific items in the statements of financial position					
Accounts receivable				**59**	122
	Euro	*****	1	**2**	12
	Pound sterling	**–**	*	**–**	3
	US dollar	**7**	11	**57**	107
Accounts payable				**366**	368
	Euro	**7**	7	**78**	92
	Japanese yen	**100**	6	**8**	1
	Pound sterling	**3**	2	**35**	32
	Swiss franc	**1**	*	**4**	2
	US dollar	**31**	25	**241**	241
Non-current borrowings				*****	1
	US dollar	*****	*	*****	1
Forward exchange contracts at 31 December 2009, not relating to specific items in the statements of financial position but which were entered into to cover firm import and export commitments not yet due					
Imports				**158**	273
	Euro	**3**	9	**29**	115
	Pound sterling	**1**	3	**10**	36
	Swiss franc	**–**	3	**–**	27
	US dollar	**16**	10	**119**	95
Exports				**171**	42
	US dollar	**23**	4	**171**	42

* Nominal amount.

Rand amount calculated with reference to the rate per the underlying forward exchange contracts.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(a) Currency risk (continued)
Transactions in foreign currencies

	Foreign currency	Foreign amount 2009 millions	Foreign amount 2008 millions	Rand amount# 2009 R millions	Rand amount# 2008 R millions
Company					
Forward exchange contracts at 31 December 2009, relating to specific items in the statements of financial position					
Accounts receivable				**41**	122
	Euro	**–**	1	**–**	12
	Pound sterling	**–**	*	**–**	3
	US dollar	**5**	11	**41**	107
Accounts payable				**240**	292
	Euro	**5**	6	**52**	83
	Pound sterling	*****	*	**1**	1
	Swiss franc	**–**	*	**–**	2
	US dollar	**24**	21	**187**	206
Non-current borrowings				*****	*
	US dollar	*****	*	*****	*
Forward exchange contracts at 31 December 2009, not relating to specific items in the statements of financial position but which were entered into to cover firm import and export commitments not yet due					
Imports				**88**	23
	Euro	**2**	1	**20**	8
	US dollar	**9**	2	**68**	15
Exports				**1**	–
	US dollar	*****	–	**1**	–

* Nominal amount.

Rand amount calculated with reference to the rate per the underlying forward exchange contracts.

28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

Exposure to currency risk

The Group's exposure to foreign currency risk at 31 December was:

	2009				2008			
R millions	**Euro**	**Pound sterling**	**US dollar**	**Other**	Euro	Pound sterling	US dollar	Other
Cash and cash equivalents	**3**	**2**	**255**	**95**	2	3	(1)	–
Trade receivables	**10**	**1**	**395**	**20**	30	7	631	21
Other receivables	**–**	**–**	**12**	**–**	–	–	5	4
Finance lease receivables	**–**	**–**	**17**	**–**	–	–	–	–
Interest-bearing liabilities	**–**	**–**	**(136)**	**(1)**	–	–	(47)	–
Trade payables	**(92)**	**(31)**	**(362)**	**(17)**	(131)	(38)	(422)	(19)
Other payables	**–**	**–**	**–**	**–**	–	–	(13)	(1)
Gross exposure	**(79)**	**(28)**	**181**	**97**	(99)	(28)	153	5
Forward exchange contracts	**105**	**45**	**132**	**12**	195	65	188	30
Net exposure	**26**	**17**	**313**	**109**	96	37	341	35

The Company's exposure to foreign currency risk at 31 December was:

	2009				2008			
R millions	**Euro**	**Pound sterling**	**US dollar**	**Other**	Euro	Pound sterling	US dollar	Other
Cash and cash equivalents	*****	*****	**3**	*****	1	1	(33)	–
Trade receivables	*****	**–**	**39**	**–**	17	2	544	1
Other receivables	**–**	**–**	**–**	**–**	–	–	4	–
Loans to subsidiaries	**–**	**–**	**167**	**–**	–	–	194	–
Interest-bearing liabilities	**–**	**–**	**(129)**	**–**	–	–	(47)	–
Trade payables	**(53)**	**(2)**	**(219)**	**–**	(89)	(3)	(344)	(2)
Other payables	**–**	**–**	**–**	**–**	–	–	(3)	–
Loans from subsidiaries	**–**	**–**	**(2)**	**–**	–	–	(2)	–
Gross exposure	**(53)**	**(2)**	**(141)**	**–**	(71)	–	313	(1)
Forward exchange contracts	**72**	**1**	**213**	**–**	79	(2)	114	2
Net exposure	**19**	**(1)**	**72**	**–**	8	(2)	427	1

* Nominal amount.

The following significant exchange rates applied during the year:

	Closing rate		**Average rate**	
Rand	**2009**	2008	**2009**	2008
Euro	**10,63**	13,20	**11,48**	12,01
Japanese yen	**0,08**	0,10	**0,09**	0,08
Pound sterling	**11,89**	13,58	**12,93**	15,06
Swiss franc	**7,16**	8,87	**7,63**	7,52
US dollar	**7,38**	9,37	**8,27**	8,21

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

Sensitivity analysis

Based on the Group's net exposure to currency risk, a 10% strengthening of the rand at 31 December would have (decreased)/increased other comprehensive income and profit by the amounts shown below, assuming all other variables remained constant:

	Group		Company	
R millions	**2009**	2008	**2009**	2008
Other comprehensive income	**(46)**	(26)	**(17)**	(2)
Profit for the year before tax	**2**	(16)	**2**	(24)

(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 at 31 December 2009 was:

	Total		Floating rate financial liabilities		Fixed rate financial liabilities	
R millions	**2009**	2008	**2009**	2008	**2009**	2008
Group						
Rand						
– Current	**1 073**	1 045	**998**	1 041	**75**	4
– Non-current	**1 601**	1 695	**337**	1 686	**1 264**	9
Foreign denominated						
– Current	**7**	13	**–**	5	**7**	8
– Non-current	**130**	50	**129**	47	**1**	3
Total	**2 811**	2 803	**1 464**	2 779	**1 347**	24
Company						
Rand						
– Current	**1 148**	1 137	**1 078**	1 137	**70**	–
– Non-current	**1 360**	1 430	**100**	1 430	**1 260**	–
Foreign denominated						
– Current	**–**	5	**–**	5	**–**	–
– Non-current	**129**	47	**129**	47	**–**	–
Total	**2 637**	2 619	**1 307**	2 619	**1 330**	–

28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(b) Interest rate risk (continued)

	Fixed rate financial liabilities		**Weighted average interest rate**		**Weighted average period for which rate is fixed**	
	2009 R millions	2008 R millions	**2009 %**	2008 %	**2009 months**	2008 months
Group						
Rand						
– Current	**75**	4	**10,4**	14,1	**12,0**	12,0
– Non-current	**1 264**	9	**10,6**	14,1	**40,6**	20,0
Foreign denominated						
– Current	**7**	8	**7,3**	7,3	**18,4**	11
– Non-current	**1**	3	**12,0**	7,0	**3,0**	16
Total	**1 347**	24	**10,6**	10,8	**42,7**	26,7
Company						
Rand						
– Current	**70**	–	**10,1**	–	**12,0**	–
– Non-current	**1 260**	–	**10,6**	–	**40,8**	–
Total	**1 330**	–	**10,6**		**43,0**	

The fair value adjustments on interest rate swap contracts were a loss of R6 million in 2009 and a gain of R6 million in 2008.

Sensitivity analysis

Based on the Group's exposure to interest rate risk, a change in the interest rates at 31 December would only have affected the profit for the year as a result of the measurement of the interest rate swap agreements of the Group at that date. A 100 basis point increase in the interest rates at 31 December would have increased profit by R1,4 million.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(i) The maturity profile of financial liabilities at 31 December was:

R millions	Carrying amount	Contractual cash flows	Within 1 year	1 to 2 years	2 to 5 years	More than 5 years
Group						
2009						
Financial liabilities						
Secured non-current borrowings	**11**	**11**	**6**	**5**	**–**	**–**
Unsecured non-current borrowings	**1 925**	**1 925**	**199**	**621**	**1 105**	*****
Unsecured short-term borrowings	**875**	**875**	**875**	**–**	**–**	**–**
Interest on non-current borrowings [1]	**34**	**586**	**182**	**161**	**243**	**–**
Loans by associate companies	**4**	**4**	**4**	**–**	**–**	**–**
Trade payables and closure costs	**1 541**	**1 541**	**1 541**	**–**	**–**	**–**
Other payables	**578**	**578**	**578**	**–**	**–**	**–**
Derivative financial liabilities						
Forward exchange contracts						
– Inflows	**(7)**	**(171)**	**(171)**	**–**	**–**	**–**
– Outflows	**23**	**158**	**158**	**–**	**–**	**–**
Interest rate swap agreements	**6**	**6**	**6**	**–**	**–**	**–**
Total financial liabilities	**4 990**	**5 513**	**3 378**	**787**	**1 348**	**–**
Percentage profile (%)		**100**	**61**	**14**	**25**	**–**
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	–	–	–
Trade payables and closure costs	2 164	2 164	2 164	–	–	–
Other payables	810	810	810	–	–	–
Derivative financial liabilities						
Forward exchange contracts						
– Inflows	(6)	(42)	(42)	–	–	–
– Outflows	17	273	273	–	–	–
Interest rate swap agreements	19	19	19	–	–	–
Total financial liabilities	5 852	7 159	4 544	355	2 260	–
Percentage profile (%)		100	63	5	32	–

* Nominal amount.

1 Interest is based on the closing rate at 31 December and the repayment dates of the borrowings.

28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

Liquidity risks (continued)

R millions	Carrying amount	Contractual cash flows	Within 1 year	1 to 2 years	2 to 5 years	More than 5 years
Company						
2009						
Financial liabilities						
Secured non-current borrowings	**1**	**1**	**1**	**–**	**–**	**–**
Unsecured non-current borrowings	**1 659**	**1 659**	**170**	**596**	**893**	**–**
Unsecured short-term borrowings	**977**	**977**	**977**	**–**	**–**	**–**
Interest on non-current borrowings [1]	**34**	**547**	**156**	**148**	**243**	**–**
Trade payables and closure costs	**715**	**715**	**715**	**–**	**–**	**–**
Other payables	**208**	**208**	**208**	**–**	**–**	**–**
Derivative financial liabilities						
Forward exchange contracts						
– Inflows	**(3)**	**(1)**	**(1)**	**–**	**–**	**–**
– Outflows	**15**	**88**	**88**	**–**	**–**	**–**
Interest rate swap agreements	**6**	**6**	**6**	**–**	**–**	**–**
Total financial liabilities	**3 612**	**4 200**	**2 320**	**744**	**1 136**	**–**
Percentage profile (%)		**100**	**55**	**18**	**27**	**–**
2008						
Financial liabilities						
Secured non-current borrowings	2	2	2	–	–	–
Unsecured non-current borrowings	1 552	1 552	75	70	1 407	
Unsecured short-term borrowings	1 065	1 065	1 065	–	–	–
Interest on non-current borrowings [1]	40	1 015	222	221	572	–
Trade payables and closure costs	1 174	1 174	1 174	–	–	–
Other payables	296	296	296	–	–	–
Derivative financial liabilities						
Forward exchange contracts						
– Outflows	*	23	23	–	–	–
Interest rate swap agreements	19	19	19	–	–	–
Total financial liabilities	4 148	5 146	2 876	291	1 979	–
Percentage profile (%)		100	56	6	38	–

* Nominal amount.

1 Interest is based on the closing rate at 31 December and the repayment dates of the borrowings.

(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 in 2009.

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 10.

At the reporting date, the maximum exposure to credit risk is represented by the carrying amount of each financial asset on the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

29. RELATED PARTY INFORMATION

The subsidiaries of the Group are identified in note 35, joint ventures in note 34 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 R3 million (2008: nil) and loans from associate companies amounted to R4 million (2008: R5 million) (see note 6).

Transactions with directors are disclosed in notes 30 and 31.

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	
R millions	**2009**	2008
Sales by the Company to		
– Subsidiaries	**304**	321
Sales to the Company by		
– Subsidiaries	**62**	36
Dividends received by the Company from		
– Subsidiaries	**138**	233
Interest received by the Company from		
– Subsidiaries	**361**	326
– Joint ventures	**2**	1
Interest paid by the Company to		
– Subsidiaries	**54**	24
– Joint ventures	**2**	1
Rental of premises to the Company by		
– AECI Pension Fund	**4**	4
– Subsidiaries	**20**	17
Commission and administration fees paid by the Company to		
– Subsidiaries	**40**	61
Fees received by the Company from		
– Subsidiaries	**15**	15
– Joint ventures	*****	1
Company contributions to pension and provident funds		
– AECI Pension Fund	**35**	55
– AECI Supplementary Pension Fund	**2**	2
– AECI Employees Provident Fund	**10**	35
Outstanding balances with related parties of the Company at 31 December were as follows:		
Amounts owing to the Company by		
– Subsidiaries	**4 055**	3 450
– Joint ventures	**25**	7
Amounts owing by the Company to		
– Subsidiaries	**514**	709

* Nominal amount.

30. DIRECTORS' EMOLUMENTS AND INTERESTS

Executive directors

R thousands	FPP Baker	GN Edwards[1]	S Engelbrecht[2]	KM Kathan[3]	RA Williams[4]	**Total**
2009						
Basic salary	**2 137**	**2 553**		**2 117**		**6 807**
Bonus and performance-related payments [5]	**–**	**–**		**750**		**750**
Expense allowances, medical aid and insurance contributions	**502**	**407**		**382**		**1 291**
Retirement fund contributions	**508**	**334**		**249**		**1 091**
Share options exercised	**–**	**–**		**–**		**–**
Earnings-based incentive scheme payments	**2 998**	**–**		**–**		**2 998**
Benefit unit payments	**–**	**–**		**–**		**–**
Aggregate emoluments	**6 145**	**3 294**		**3 498**		**12 937**
Aggregate emoluments paid by subsidiaries	**(6 145)**	**–**		**–**		**(6 145)**
Aggregate emoluments paid by the Company	**–**	**3 294**		**3 498**		**6 792**
2008						
Basic salary	1 860	2 124	663	672	1 344	6 663
Bonus and performance-related payments [5]	3 936	1 475	282	462	858	7 013
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	6 558	4 221	1 768	1 324	2 568	16 439
Aggregate emoluments paid by subsidiaries	(6 558)	–	–	–	–	(6 558)
Aggregate emoluments paid by the Company	–	4 221	1 768	1 324	2 568	9 881

1 GN Edwards was appointed on 1 March 2008.

2 S Engelbrecht retired as an executive director and chief executive on 1 March 2008. He was appointed a non-executive director on 1 April 2008.

3 KM Kathan was appointed as financial director and chief financial officer on 1 September 2008.

4 RA Williams resigned on 31 August 2008.

5 Bonus and performance-related amounts are in respect of current year performance but are paid in the following year. The amount accrued for FPP Baker in 2008 was R4 168 000. He will retire on 31 March 2010.

6 Share options issued to directors are set out in note 31. In 2008, after retirement as an executive director and chief executive, 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.

7 There were no pensions paid by the Company to directors or past directors of the Company.

8 No compensation was paid to any director or past director for loss of office.

9 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 2009

30. DIRECTORS' EMOLUMENTS AND INTERESTS (continued)

Non-executive directors

R thousands	Directors' fees	Chairman/ committee fees	**2009 Total**	2008 Total
RMW Dunne	165	205	**370**	295
S Engelbrecht (appointed on 1 April 2008)	165	45	**210**	113
Z Fuphe	165	45	**210**	176
MJ Leeming	165	238	**403**	360
LM Nyhonyha	165	205	**370**	335
AC Parker (resigned on 31 December 2009)	165	45	**210**	205
F Titi	165	505	**670**	600
LC van Vught (retired on 31 December 2008)				244
	1 155	1 288	**2 443**	2 328

Aggregate emoluments R thousands	**2009 Total**	2008 Total
Executive directors	**12 937**	16 439
Non-executive directors	**2 443**	2 328
	15 380	18 767

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 2009 were as follows:

	Number of shares			
	2009 Direct	**2009 Indirect**	2008 Direct	2008 Indirect
Executive directors				
FPP Baker (retiring on 31 March 2010)	**2 500**	**–**	2 500	–
GN Edwards	**2 010**	**–**	2 000	–
	4 510	**–**	4 500	–
Non-executive directors				
S Engelbrecht	**46 629**	**600**	46 623	600
MJ Leeming	**2 500**	**7 000**	2 500	7 000
LC van Vught (retired on 31 December 2008)			6 000	5 500
	49 129	**7 600**	55 123	13 100
	53 639	**7 600**	59 623	13 100

Certain directors have outstanding share options as detailed in note 31.

There have been no changes to the directors' beneficial holdings between the reporting date and the date of this report.

31. 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 2009 the following funds were in existence:

	Date of last statutory valuation
Defined-benefit funds	
– AECI Pension Fund	1 March 2009
– 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% of earnings, with the employer's contribution being 9%.

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 2009 were as follows:

	Group	
%	**2009**	2008
Discount rate	**10,00**	7,90
Expected return on plan assets	**10,00**	7,90
Future price inflation	**5,70**	3,50
Future salary increases	**7,20**	5,00
Future pension increases	**5,10**	3,15

The total cost recognised in the income statement of R42 million (2008: R37 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	
R millions	**2009**	2008
Current service cost	**65**	70
Interest cost	**488**	549
Expected return on plan assets	**(761)**	(946)
Net actuarial loss in the year	**227**	417
Recognised in the income statement in respect of defined-benefit funds	**19**	90
Actual return on plan assets	**1 170**	(436)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

31. EMPLOYEE BENEFITS (continued)

Retirement benefits (continued)

Based on interim valuations by the funds' actuaries, the funded status of the defined-benefit funds at 31 December 2009 was as follows:

	Group	
R millions	**2009**	2008
Fair value of plan assets	**10 565**	9 880
At the beginning of the year	**9 880**	10 758
Expected return on plan assets	**761**	946
Net actuarial gain/(loss)	**409**	(1 382)
Employer contributions	**62**	57
Employee contributions	**36**	33
Benefits paid	**(583)**	(532)
Present actuarial value of defined-benefit obligations	**6 766**	6 390
At the beginning of the year	**6 390**	6 274
Current service cost	**65**	70
Interest cost	**488**	549
Employee contributions	**36**	33
Benefits paid	**(583)**	(532)
Net actuarial gain/(loss)	**370**	(4)
	3 799	3 490
Less: Pension Fund employer surplus accounts	**236**	213
Surplus of plan assets over defined-benefit obligations	**3 563**	3 277
Included in the fair value of plan assets are:		
307 438 AECI Limited ordinary shares (2008: 165 458)	**19**	8
60% share of The Woodlands office park	**930**	761
AECI Limited occupies Building 24, being approximately 2,3% of The Woodlands		
The fair value is determined annually at the fund's reporting date		

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;
- 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		
R millions	**2009**	2008	2007	2006	2005
Fair value of plan assets	**10 565**	9 880	10 758	9 651	7 558
Present actuarial value of defined-benefit obligations	**(6 766)**	(6 390)	(6 274)	(5 901)	(4 965)
	3 799	3 490	4 484	3 750	2 593
Less: Pension Fund employer surplus accounts	**236**	213	226	196	–
Surplus of plan assets over defined-benefit obligations	**3 563**	3 277	4 258	3 554	2 593

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	
	2009 %	2008 %
Annual increase in healthcare costs	**7,8**	5,8
Discount rate	**10,0**	7,9

31. EMPLOYEE BENEFITS (continued)

Post-retirement medical aid benefits (continued)

Based on interim valuations by the funds' actuaries, the funded status of the defined-benefit funds at 31 December 2009 was as follows:

	Group		Company	
R millions	**2009**	2008	**2009**	2008
Present actuarial value of defined-benefit obligations	**994**	919	**753**	712
At the beginning of the year	**919**	797	**712**	616
Current service cost	**5**	5	**2**	3
Interest cost	**69**	69	**53**	53
Liabilities extinguished on settlements	**(67)**	(66)	**(55)**	(51)
Net actuarial loss	**68**	114	**41**	91

Sensitivity analysis

An increase of 1% and a decrease of 1% in the assumed medical cost trend rates would have affected the obligation as follows:

	Group		Company	
R millions	**1% increase**	**1% decrease**	**1% increase**	**1% decrease**
Current service cost	**–**	**–**	**–**	**–**
Interest cost	**–**	**–**	**–**	**–**
Increase/(decrease) in carrying amount of post-retirement medical aid obligation	**123**	**(101)**	**93**	**(77)**

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% of the shares
After 3 years – up to 40% of the shares
After 4 years – up to 60% of the shares
After 5 years – up to 100% 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 be forfeited.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

31. EMPLOYEE BENEFITS (continued)

Share option scheme (continued)

Details of outstanding share options at 31 December 2009 were:

		Number of shares			
Expiry date	**Exercise price (Rand)**	**Granted**	**Exercised**	**Lapsed or forfeited**	**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	35 000		–
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	200 000		–
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	1 163 000	–	297 000
May 2013	23,60	413 900	100 100	–	313 800
		7 564 900	**6 638 100**	**296 000**	**630 800**

Movements in the number of share options held by employees were as follows:

	Number of options	
	2009	2008
Outstanding at the beginning of the year	**793 100**	1 179 880
Lapsed or forfeited during the year	**–**	(30 000)
Exercised during the year		
– Exercised against share options hedge[1]	**(162 300)**	(356 780)
Outstanding at the end of the year	**630 800**	793 100
Details of share options exercised during the year		
Expiry date	**2009–2013**	2008–2013
Weighted average exercise price per share (rand)	**14,14**	7,37

	Group	
	2009 R millions	2008 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.

31. EMPLOYEE BENEFITS (continued)

Share option scheme (continued)

Included in outstanding share options are the following options granted to directors:

		Number of shares			
	Exercise price (Rand)	**Granted**	**Exercised**	**Lapsed or forfeited**	**Outstanding**
FPP Baker [1]	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

1 Retiring on 31 March 2010.

Movements in the number of share options held by directors were as follows:

	Number of options	
	2009	2008
Outstanding at the beginning of the year	**115 600**	205 600
Exercised during the year		
– Exercised against share options hedge[1]	**–**	(90 000)
Outstanding at the end of the year	**115 600**	115 600

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 2009 were:

			Number of units			
Expiry date	**Date granted**	**Issue price (Rand)**	**Granted**	**Exercised**	**Lapsed or forfeited**	**Outstanding**
February 2015	March 2005	41,00	332 200	29 320	–	302 880
July 2016	August 2006	56,00	221 085	3 650	–	217 435
February 2017	March 2007	70,90	199 725	–	–	199 725
July 2017	August 2007	80,45	29 200	–	29 200	–
February 2018	March 2008	67,25	184 550	–	–	184 550
February 2019	March 2009	43,42	382 650	–	–	382 650
			1 349 410	**32 970**	**29 200**	**1 287 240**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

31. EMPLOYEE BENEFITS (continued)

Cash-settled share-based scheme (benefit units) (continued)

	Group		Company	
R millions	**2009**	2008	**2009**	2008
Cash-settled share-based payment transactions recognised in the income statement	**(13)**	(8)	**(13)**	(8)
Total carrying amount of cash-settled share-based transaction liabilities	**21**	8	**21**	21

Included in outstanding benefit units were the following units granted to directors:

			Number of units			
	Date granted	**Issue price (Rand)**	**Granted**	**Exercised**	**Lapsed or forfeited**	**Outstanding**
FPP Baker [1]	March 2005	41,00	10 300	–	–	10 300
FPP Baker	August 2006	56,00	6 700	–	–	6 700
FPP Baker	March 2007	70,90	5 750	–	–	5 750
FPP Baker	March 2008	67,25	6 550	–	–	6 550
FPP Baker	March 2009	43,42	12 950	–	–	12 950
GN Edwards	March 2005	41,00	10 300	–	–	10 300
GN Edwards	August 2006	56,00	6 700	–	–	6 700
GN Edwards	March 2007	70,90	5 750	–	–	5 750
GN Edwards	March 2008	67,25	26 000	–	–	26 000
GN Edwards	March 2009	43,42	41 300	–	–	41 300
S Engelbrecht	March 2005	41,00	57 000	–	–	57 000
S Engelbrecht	August 2006	56,00	28 125	–	–	28 125
S Engelbrecht	March 2007	70,90	26 200	–	–	26 200
KM Kathan	March 2009	43,42	59 700	–	–	59 700
			303 325	**–**	**–**	**303 325**

1 Retiring on 31 March 2010.

Earnings-based incentive schemes (EBIS units)

AECI Limited offers EBIS 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 benefit on realisation of an EBIS unit is calculated on an earnings number, similar to headline earnings per share of the Group, as published at every reporting date of the Group after deducting the issue price of that unit.

Participants are entitled to exercise their units as follows:

After 2 years – up to 20% of the units
After 3 years – up to 40% of the units
After 4 years – up to 60% of the units
After 5 years – up to 100% of the units

If a unit is not exercised within 10 years from the date such unit 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 units 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 units not yet exercised will be forfeited.

The EBIS units were issued for the first time in 2003.

31. EMPLOYEE BENEFITS (continued)

Earnings-based incentive schemes (EBIS units) (continued)

Details of outstanding EBIS units at 31 December 2009 were:

			Number of units			
Expiry date	**Date granted**	**Issue price (Rand)**	**Granted**	**Exercised**	**Lapsed or forfeited**	**Outstanding**
February 2013	March 2003	3,40	7 650 000	3 370 000	148 500	4 131 500
February 2015	March 2005	3,92	7 927 350	1 321 460	–	6 605 890
July 2016	August 2006	5,16	5 519 000	75 500	–	5 443 500
February 2017	March 2007	5,42	6 137 100	42 280	–	6 094 820
July 2017	August 2007	5,97	394 000	–	394 000	–
February 2018	March 2008	5,12	5 417 800	–	–	5 417 800
February 2019	March 2009	5,96	6 258 700	–	–	6 258 700
			39 303 950	**4 809 240**	**542 500**	**33 952 210**

Included in outstanding EBIS units are the following units granted to directors:

			Number of units			
	Date granted	**Issue price (Rand)**	**Granted**	**Exercised**	**Lapsed or forfeited**	**Outstanding**
FPP Baker [1]	March 2005	3,92	107 800	–	–	107 800
FPP Baker	August 2006	5,16	72 700	–	–	72 700
FPP Baker	March 2007	5,42	75 100	–	–	75 100
GN Edwards	March 2003	3,40	275 000	–	–	275 000
GN Edwards	March 2005	3,92	323 000	–	–	323 000
GN Edwards	August 2006	5,16	220 000	–	–	220 000
GN Edwards	March 2007	5,42	225 400	–	–	225 400
GN Edwards	March 2008	5,12	340 700	–	–	340 700
GN Edwards	March 2009	5,96	300 700	–	–	300 700
S Engelbrecht	March 2003	3,40	470 000	–	–	470 000
S Engelbrecht	March 2005	3,92	596 400	–	–	596 400
S Engelbrecht	August 2006	5,16	305 250	–	–	305 250
S Engelbrecht	March 2007	5,42	342 500	–	–	342 500
KM Kathan	March 2009	5,96	435 000	–	–	435 000
			4 089 550	**–**	**–**	**4 089 550**

1 Retiring on 31 March 2010.

Chemical Services Limited (CSL) offers EBIS units, without payment, to those employees of CSL or its subsidiary companies who the CSL board of directors, in its absolute discretion, considers play a significant role in the management of CSL or its subsidiary companies and contribute to their growth and profitability.

The benefit on realisation of an EBIS unit is calculated based on an earnings number, similar to headline earnings per share of the CSL group, after deducting the issue price of that unit.

Participants are entitled to exercise their units as follows:

After 2 years – up to 20% of the units
After 3 years – up to 40% of the units
After 4 years – up to 60% of the units
After 5 years – up to 100% of the units

If a unit is not exercised within 10 years from the date such unit was granted, it will lapse.

If a participant retires on pension, or otherwise leaves the employ of CSL or one of its subsidiary companies for a reason approved by the CSL board of directors, the participant shall nevertheless continue to have rights and obligations under the scheme in respect of the participant's units as if the participant had remained in the employ of CSL 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 CSL board of directors, any units not yet exercised will be forfeited.

The EBIS units were issued for the first time in 2002.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

31. EMPLOYEE BENEFITS (continued)

Earnings-based incentive schemes (EBIS units) (continued)

Details of outstanding EBIS units at 31 December 2009 were:

			Number of units			
Expiry date	**Date granted**	**Issue price (Rand)**	**Granted**	**Exercised**	**Lapsed or forfeited**	**Outstanding**
February 2012	March 2002	1,81	3 597 000	2 919 400	422 400	255 200
February 2013	March 2003	2,35	8 298 400	6 880 400	730 000	688 000
August 2013	September 2003	2,50	860 000	750 000	70 000	40 000
February 2015	March 2005	2,97	10 472 000	5 627 700	692 100	4 152 200
July 2016	August 2006	3,45	9 332 500	2 232 400	952 400	6 147 700
February 2017	March 2007	4,30	8 090 300	1 345 840	669 810	6 074 650
February 2018	March 2008	4,77	8 224 600	312 200	575 400	7 337 000
February 2019	March 2009	7,37	5 820 000	–	165 000	5 655 000
			54 694 800	**20 067 940**	**4 277 110**	**30 349 750**

Included in outstanding EBIS units are the following units granted to directors:

			Number of units			
	Date granted	**Issue price (Rand)**	**Granted**	**Exercised**	**Lapsed or forfeited**	**Outstanding**
FPP Baker [1]	March 2003	2,35	400 000	400 000	–	–
FPP Baker	March 2005	2,97	275 000	165 000	–	110 000
FPP Baker	August 2006	3,45	185 000	37 000	–	148 000
FPP Baker	March 2007	4,30	190 000	38 000	–	152 000
FPP Baker	March 2008	4,77	280 000	–	–	280 000
FPP Baker	March 2009	7,37	230 000	–	–	230 000
			1 560 000	**640 000**	**–**	**920 000**

1 Retiring on 31 March 2010.

	Group		Company	
R millions	**2009**	2008	**2009**	2008
Total carrying amount of EBIS liabilities (see note 14)	**53**	101	**36**	67

32. OPERATING SEGMENTS

R millions	2009	2008	2009	2008	2009	2008
	External revenue		**Intersegment revenue**		**Total segment revenue**	
Continuing operations	**10 709**	12 876	**–**	–	**10 709**	12 876
AEL Mining Services	**4 023**	4 009	**47**	70	**4 070**	4 079
Chemical Services	**6 304**	8 199	**220**	235	**6 524**	8 434
Heartland	**160**	386	**51**	46	**211**	432
SANS Technical Fibers (USA)	**222**	282	**–**	–	**222**	282
Inter segment	**–**	–	**(318)**	(351)	**(318)**	(351)
Discontinued operation	**469**	1 464	**–**	–	**469**	1 464
SANS Fibres (Bellville)	**469**	1 464	**–**	–	**469**	1 464
	11 178	14 340	**–**	–	**11 178**	14 340
	Profit from operations		**Depreciation**		**Impairments/(reversals)**	
Continuing operations	**767**	1 035	**267**	211	**27**	4
AEL Mining Services	**298**	248	**142**	115	**–**	–
Chemical Services	**483**	851	**111**	93	**34**	4
Heartland	**33**	45	**4**	3	**–**	–
SANS Technical Fibers (USA)	**9**	49	**10**	–	**(7)**	–
Group services, development and intergroup	**(56)**	(158)	*****	*	**–**	–
Discontinued operation	**66**	(49)	**–**	5	**–**	39
SANS Fibres (Bellville)	**66**	(49)	**–**	5	**–**	39
	833	986	**267**	216	**27**	43
	Assets		**Liabilities**		**Capital expenditure**	
Continuing operations	**8 676**	9 335	**2 112**	2 827	**1 151**	969
AEL Mining Services	**2 797**	2 844	**610**	881	**407**	381
Chemical Services	**4 941**	5 575	**1 298**	1 583	**729**	565
Heartland	**724**	686	**55**	162	**9**	16
SANS Technical Fibers (USA)	**149**	203	**33**	19	**5**	6
Group services, development and intergroup	**65**	27	**116**	182	**1**	1
Discontinued operation	**63**	514	**96**	398	**–**	37
SANS Fibres (Bellville)	**63**	514	**96**	398	**–**	37
	8 739	9 849	**2 208**	3 225	**1 151**	1 006

* Nominal amount.

1 Assets in SANS Technical Fibers were not depreciated during 2008 as they were classified as held for sale until the reporting date.

2 Transactions between segments are at prices considered to be at arm's length.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

32. OPERATING SEGMENTS (continued)

R millions	2009	2008
Assets attributable to the segments:		
Property, plant and equipment	**3 260**	2 431
Investment property	**430**	422
Goodwill	**1 063**	1 013
Inventory	**1 827**	2 795
Accounts receivable	**2 159**	3 188
	8 739	9 849
Liabilities attributable to the segments:		
Accounts payable	**2 208**	3 225
	2 208	3 225

33. 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
Subsidiary acquired			
Cobito (Pty) Limited [1]	1 February 2009	80	**40**
ImproChem (Pty) Limited [2]	1 July 2009	25	**23**
Businesses acquired			
CH Chemicals (Pty) Limited [1]	1 June 2009		**33**
			96

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.

2 The Group purchased the non-controlling interest held by TISO Capital. The net profit recognised by the Group was not affected by the transaction.

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	**16**
Accounts receivable	**6**
Accounts payable	**(4)**
Net identifiable assets and liabilities	**19**
Non-controlling interest	**10**
Goodwill on acquisition	**67**
Consideration	**96**
Less: contingency payment outstanding	**(10)**
Net cash flow	**86**

34. INTERESTS IN JOINT VENTURES

	Effective % held by AECI Limited	
	2009	2008
Crest Chemicals (Pty) Limited	**50**	50
DetNet Detonadores Electronicos Limitada [1]	**50**	50
DetNet International Limited [2]	**50**	50
DetNet South Africa (Pty) Limited	**50**	50
Resinkem (Pty) Limited	**50**	50
Resitec Industria Quimica Limited [3]	**50**	50
Specialty Minerals South Africa (Pty) Limited	**50**	50

R millions	**2009**	2008
The proportionate amounts relating to joint ventures is as follows:		
Statements of financial position		
Property, plant, equipment and investments	**129**	56
Current assets	**330**	302
Total assets	**459**	358
Equity	**301**	146
Non-current borrowings	**36**	87
Current liabilities	**122**	125
Total equity and liabilities	**459**	358
Income statements		
Income	**818**	772
Expenses	**(754)**	(699)
Profit before tax	**64**	73
Impairments	**2**	–
Commitments		
Capital expenditure authorised	**6**	1

1 Chile
2 Ireland
3 Brazil

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

35. PRINCIPAL SUBSIDIARIES

	Issued share capital 2009 Number of shares	Effective shareholding 2009 %	2008 %	Interest of AECI Limited# Shares 2009 R millions	2008 R millions	Loans to/(from) 2009 R millions	2008 R millions
Holding companies							
Directly held							
AECI International (Ireland) Limited	**1**	**100**	100	*****	*	**–**	–
AECI Treasury Holdings (Pty) Limited	**100**	**100**	100	*****	*	**258**	258
Athena Paint Investment SA [1]	**230 000**	**100**	100	**1**	1	**(38)**	(39)
Capex (Pty) Limited	**1 000 000**	**100**	100	*****	*	*****	*
Indirectly held							
African Explosives Holdings (Pty) Limited	**43 311 779**	**75**	75	**–**	–	**–**	–
African Explosive International Limited [2]	**1 307**	**75**	75	**–**	–	**–**	–
Athena Investment Limited SA [1]	**24 243 800**	**75**	75	**–**	–	**–**	–
Insurance							
Directly held							
AECI Captive Insurance Company Limited	**810 000**	**100**	100	**11**	11	**(56)**	*
Mining services							
Directly held							
AEL Holdco Limited	**99 800 000**	**75**	75	**75**	75	**2 587**	2 143
Indirectly held							
AEL Burkina SARL [3]	**100 000**	**75**	75	**–**	–	**–**	–
AEL DRC SPRL [4]	**10 000**	**75**	75	**–**	–	**–**	–
AEL Mali SARL	**8 659**	**75**	75	**–**	–	**–**	–
AEL (Maritius) Limited	**866**	**75**	75	**–**	–	**92**	–
AEL Morocco	**2 500**	**100**	100	**–**	–	**–**	–
AEL Namibia (Pty) Limited	**100**	**100**	100	**–**	–	**–**	–
AEL Zambia plc	**25 508 250**	**60**	60	**–**	–	**–**	–
African Explosives Limited ++	**100**	**75**	75	**–**	–	**–**	–
African Explosives (Botswana) Limited	**3**	**75**	75	**–**	–	**–**	–
African Explosives (Ghana) Limited	**1 000 000**	**75**	75	**–**	–	**–**	–
African Explosives (Tanzania) Limited	**26**	**75**	75	**–**	–	**–**	–
Pt AEL Indonesia	**1 150 000**	**100**	96	**–**	–	**–**	–
Heartland							
Heartland Leasing (Pty) Limited	**1 000**	**100**	100	*****	*	*****	*
Heartland Properties (Pty) Limited	**100**	**100**	100	*****	*	**443**	325
Other property subsidiaries				**3**	3	**(95)**	(117)

35. PRINCIPAL SUBSIDIARIES (continued)

	Issued share capital	Effective shareholding		Interest of AECI Limited# Shares		Loans to/(from)	
	2009 Number of shares	**2009 %**	2008 %	**2009 R millions**	2008 R millions	**2009 R millions**	2008 R millions
Specialty chemicals							
Directly held							
Chemical Services Limited	**83 127 950**	**100**	100	**818**	818	**129**	(350)
Indirectly held							
Akulu Marchon (Pty) Limited +	**410 000**	**100**	100	**–**	–	**–**	–
Atlas Consolidated Industries (Pty) Limited +	**200**	**100**	100	**–**	–	**–**	–
Chemfit (Pty) Limited	**4 000**	**100**	100	**–**	–	**–**	–
Chemical Initiatives (Pty) Limited +	**1**	**100**	100	**–**	–	**–**	–
Chemiphos SA (Pty) Limited	**170**	**100**	100	**–**	–	**1**	75
Chemserve Perlite (Pty) Limited +	**800 000**	**100**	100	**–**	–	**–**	–
Chemserve Systems (Pty) Limited +	**625 000**	**100**	100	**–**	–	**–**	–
Cobito (Pty) Limited	**300**	**80**	–	**–**	–	**–**	–
Duco Speciality Coatings (Pty) Limited	**100 000**	**100**	100	**–**	–	**107**	107
ImproChem (Pty) Limited	**4 000**	**100**	75	**–**	–	**3**	8
Industrial Oleochemical Products (Pty) Limited +	**4 001**	**100**	100	**–**	–	**–**	–
Lake International Technologies (Pty) Limited +	**13 395**	**100**	100	**–**	–	**–**	–
Plaaskem (Pty) Limited +	**400**	**100**	100	**–**	–	**12**	4
Plastamid (Pty) Limited	**128 500**	**100**	100	**–**	–	**3**	2
SA Paper Chemicals (Pty) Limited +	**220 443**	**100**	100	**–**	–	**–**	–
Senmin International (Pty) Limited	**8 008 500**	**100**	100	**–**	–	**8**	9
Senmin SA (Pty) Limited	**50 000**	**100**	100	**–**	–	**–**	–
Simitri Specialty Chemicals (Pty) Limited	**100**	**100**	100	**–**	–	**–**	–
SANS							
Directly held							
SANS Fibres (Pty) Limited +	**17 979 433**	**100**	100	**8**	8	**(48)**	(46)
SANS Fibers Incorporated 5	**100**	**100**	100	**–**	–	**167**	194
Indirectly held							
SANS Technical Fibers LLC 5		**100**	100	**–**	–	**–**	–
Other				**3**	4	**(143)**	(89)
				919	920	**3 430**	2 484

Cost less impairments.

+ Trading as an agent on behalf of AECI Limited.

++ Trading as an agent on behalf of AEL Holdco Limited.

* Nominal amount.

All companies are incorporated in the Republic of South Africa except for those whose country of incorporation is indicated by their registered company name, and those annotated as follows: 1. Grand Duchy of Luxembourg 2. United Kingdom 3. Burkina Faso 4. Democratic Republic of Congo 5. United States of America.

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 86th annual general meeting of shareholders of AECI will be held on the ground floor, AECI Place, 24 The Woodlands, Woodlands Drive, Woodmead, Sandton on Monday, 24 May 2010 at 09:00 at which the resolutions set out below will be considered and, if deemed fit, passed with or without amendments:

1 ORDINARY RESOLUTION NUMBER 1: ADOPTION OF ANNUAL FINANCIAL STATEMENTS

Resolved as an ordinary resolution that the annual financial statements for the Company and the Group for the year ended 31 December 2009, including the directors' report and the auditors' report therein, be and are hereby received and confirmed.

2 ORDINARY RESOLUTION NUMBER 2: RE-APPOINTMENT OF INDEPENDENT AUDITORS

Resolved as an ordinary resolution that the directors be authorised 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 who will undertake the audit of the Company for the ensuing year.

3 ORDINARY RESOLUTION NUMBER 3: RE-ELECTION OF DIRECTORS

Resolved as on ordinary resolution that the following directors, who will retire by rotation in terms of the provisions of the articles of association of the Company and, being eligible, offer themselves for re-election, be and are hereby re-elected as directors of the Company:

3.1 Ms Z Fuphe

3.2 Mr MJ Leeming

3.3 Mr F Titi

An abbreviated curriculum vitae in respect of each director offering herself/himself for re-election is set out on pages 18 and 19 of this annual report.

4 ORDINARY RESOLUTION NUMBER 4: NON-EXECUTIVE DIRECTORS' FEES

Resolved as an ordinary resolution that the annual fees payable to the non-executive directors of the Company be increased by 8% from 1 January 2010, in line with the increase awarded to the chief executive of the Company following a benchmark survey on market median-related remuneration undertaken by Deloitte Human Capital in 2009:

4.1 the chairman of the Board from R670 000 to R723 600;

4.2 Audit Committee chairman's fee from R148 000 to R159 840;

4.3 Audit Committee member's fee from R70 000 to R75 600;

4.4 non-executive directors' fee from R165 000 to R178 200;

4.5 chairman of other Board Committees from R90 000 (in addition) to R97 200 (in addition);

4.6 members of other Board Committees from R45 000 (in addition) to R48 600 (in addition);

4.7 chairman of the financial review committees of AEL Mining Services, Chemical Services and Heartland from R45 000 (in addition) to R48 600 (in addition); and

4.8 remuneration for ad hoc services provided at an hourly fee of R2 500.

5 ORDINARY RESOLUTION NUMBER 5: AUTHORITY TO ISSUE SHARES FOR THE PURPOSE OF FUTURE CAPITALISATION AWARDS

Resolved that the authorised but unissued shares in the capital of the Company be and are hereby placed under the control of the directors of the Company to allot and issue, subject to the Company's memorandum and articles of association, Section 221 of the Companies Act, No. 61 of 1973, as amended ("the Companies Act"), and the Listings Requirements of the JSE Limited ("JSE"), to such person(s) and upon such terms and conditions as the directors may determine for the specific purpose of future capitalisation awards to be undertaken by the Company, provided that:

- the directors of the Company are not authorised to issue more shares than such number of shares as will be required to fulfil the terms of such capitalisation award; and
- this general authority shall expire at the next annual general meeting of the Company.

6 SPECIAL RESOLUTION NUMBER 1: GENERAL AUTHORITY TO REPURCHASE SHARES

Resolved, as a special resolution that the Company be and is hereby granted a general authority authorising the acquisition by the Company and/or its subsidiaries of shares issued by the Company, on such terms and conditions and in such amounts as the directors of the Company may from time to time deem fit, and in terms of Sections 85 to 89 of the Companies Act, the Company's articles of association and the JSE Listings Requirements 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 passing of this special resolution;
- this general authority shall lapse on the earlier of the date of the next annual general meeting of the Company or the date 15 (fifteen) months from the date of passing of this special resolution;
- 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 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 subsidiaries 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;
- 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 on SENS; and
- the Company may not enter the market to proceed with the repurchase of its ordinary shares until the Company's sponsor has confirmed the adequacy of the Company's working capital for the purpose of undertaking a repurchase of securities in writing to the JSE.

REASON FOR AND EFFECT OF THE SPECIAL RESOLUTION

The reason and effect of this special resolution is to authorise the Company and its subsidiaries, by way of a general authority, to acquire the Company's issued ordinary shares on the terms and conditions and in amounts to be determined by the directors of the Company, subject to certain statutory provisions and the Listings Requirements of the JSE.

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.

After considering the aggregate effect of the maximum repurchase, the directors of the Company are of the opinion that for a period of 12 (twelve) months following the date of the repurchase:

i. the Company and the Group will be able to pay their debt in the ordinary course of business;

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 the Group will exceed the liabilities of the Company and the Group;

iii. the share capital and reserves of the Company and the Group will be adequate for ordinary business purposes; and;

iv. the working capital of the Company and the Group will be adequate for ordinary business purposes.

DISCLOSURES IN TERMS OF PARAGRAPH 11.26 OF THE LISTINGS REQUIREMENTS OF THE JSE

The following additional information, some of which may appear elsewhere in the annual report of which this notice forms part, is provided in terms of the JSE Listings Requirements for purposes of special resolution number 1:

i. directors and management (refer to pages 18 to 22);

ii. major shareholders (refer to pages 12 to 17);

iii. directors' interest in securities (refer to page 100); and

iv. share capital of the Company (refer to page 99).

NO MATERIAL CHANGES TO REPORT

There have been no material changes in the financial or trading position of the Company and its subsidiaries since 31 December 2009.

LITIGATION STATEMENT

In terms of Section 11.26 of the JSE Listings Requirements, the Company is not party to any material litigation or arbitration proceedings nor are the directors, whose names are given on pages 18 to 20 of the annual report of which this notice forms part, 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 18 to 20 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.

VOTING AND PROXIES

On a show of hands every member present in person or represented in terms of Section 188 of the Companies Act shall have one vote and on a poll every member present in person or by proxy or so represented shall have one vote for every share held by such member.

A member 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 member. A proxy need not be a member 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, 20 May 2010.

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 taken into account at the annual general meeting for the purposes of the resolutions proposed in terms of the JSE Listings Requirements.

Please note that unlisted securities, if applicable, and shares held as treasury shares may also not vote.

By order of the Board

EA Rea

Acting Company secretary
Woodmead, Sandton

31 March 2010

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, 24 May 2010, 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.

I/We (name in block letters) ____________________

of (address in block letters) ____________________

Telephone (work) ____________________ (home/mobile) ____________________

being the registered owner/s of ____________________ ordinary shares in the Company hereby appoint

____________________ or failing him/her ____________________ or failing him/her, the chairman of the annual general meeting, as my/our proxy to act for me/us and on my/our behalf at the annual general meeting which will be held for the purpose of considering and, if deemed fit, passing, with or without modification, the ordinary and special resolutions to be proposed thereat and at any adjournment thereof; and to vote for and/or against the ordinary and special resolutions and/or abstain from voting in respect of the ordinary shares registered in my/our name(s), in accordance with the following instructions:

* Please indicate with an "X" in the appropriate spaces below how you wish your votes to be cast. Unless otherwise instructed, your proxy may vote as he/she thinks fit.

	Number of votes exercisable (one vote per share)		
	For*	Against*	Abstain*
1. Ordinary resolution number 1: annual financial statements			
2. Ordinary resolution number 2: re-appointment of auditors			
3. Ordinary resolution number 3: re-election of directors			
3.1 Ms Z Fuphe			
3.2 Mr MJ Leeming			
3.3 Mr F Titi			
4. Ordinary resolution number 4: non-executive directors' fees			
4.1 Chairman of the Board			
4.2 Audit Committee chairman			
4.3 Audit Committee members			
4.4 Non-executive directors			
4.5 Chairman of other Board committees			
4.6 Members of other Board committees			
4.7 Chairman of financial review committees			
4.8 Ad hoc services			
5. Ordinary resolution number 5: authority to issue shares for future capitalisation awards			
6. Special resolution number 1: general authority to repurchase shares			

Signed at ____________________ this day of ____________________ 2010

Signature/s ____________________

Assisted by (if applicable) ____________________

Please read the notes on the reverse side of this form of proxy.

NOTES TO THE FORM OF PROXY

1. On a poll, a shareholder is entitled to one vote for each share held.
2. Forms of proxy must be lodged at, posted to or faxed to Computershare Investor Services (Pty) Limited, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107 Fax +27 (11) 688 5238), or Computershare Investor Services PLC, (PO Box 82 The Pavilions, Bridgwater Road, Bristol BS 99 7NH, England +44 (0) 870 703 610) to reach the Company by no later than 09:00 on Thursday, 20 May 2010.
3. A shareholder may insert the name of a proxy or the names of two alternative proxies of the shareholder's choice in the space/s provided, with or without deleting the words "the chairman of the annual general meeting". Any such deletion must be individually initialled by the shareholder, failing which any deletion will not have been validly effected. The person present at the annual general meeting whose name appears first on the form of proxy and has not been deleted shall be entitled to act as proxy to the exclusion of the persons whose names follow.
4. Any alterations or corrections to the form of proxy have to be initialled by the relevant signatory/(ies).
5. Each shareholder is entitled to appoint one or more proxies (who need not be a member(s) of the Company) to attend, speak and vote (either on a poll or by show of hands) in place of that member at the annual general meeting.
6. Voting instructions for each of the resolutions must be completed by filling the number of votes (one per ordinary share) under the "For", "Against" or "Abstain" headings on the form of proxy. If no instructions are filled in on the form of proxy, the chairman of the annual general meeting, if the chairman is the authorised proxy, or any other proxy shall be authorised to vote for, against or abstain from voting as he/she deems fit.
7. A member or his/her proxy is entitled but not obliged to vote in respect of all the ordinary shares held by the member. The total number of votes for or against the ordinary and special resolutions and in respect of which any abstention is recorded may not exceed the total number of shares held by the member.
8. Documentary evidence establishing the authority of a person signing this form must be attached to this form of proxy unless previously recorded by the transfer secretaries of the Company or waived by the chairman of the annual general meeting.
9. This form of proxy is to be completed only by those shareholders who either still hold shares in a certificated form, or whose shares are recorded in their "own name" in electronic form in the sub-register.
10. Shareholders whose dematerialised shares are held in the name of a nominee and wish to attend the annual general meeting must contact their CSDP or broker who will furnish them with the necessary letter of authority to attend the annual general meeting. Alternatively, they have to instruct their CSDP or broker as to how they wish to vote. This has to be done in terms of the agreement between the shareholder and the CSDP or the broker.
11. Shareholders who wish to attend and vote at the meeting must ensure that their letters of authority from their CSDP or broker reach the transfer secretaries not later than 09:00 on Thursday, 20 May 2010.
12. The completion and lodging of this form of proxy does not preclude the relevant shareholder from attending the annual general meeting and speaking and voting in person to the exclusion of any proxy appointed by the shareholder.
13. The chairman of the annual general meeting may accept or reject any form of proxy which is completed and/or received other than in accordance with these instructions, provided that he shall not accept a proxy unless he is satisfied as to the manner in which a 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.

PRIMARY TRANSACTIONAL AND FUNDING BANKS

First National Bank of Southern Africa Limited
Nedbank 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 Triple Green Matt

www.aeci.co.za