state of change

INTEGRATED REPORT 2011

AECI

good chemistry

CONTENTS

INTRODUCTION
About this Report

This Report, for the financial year ended 31 December 2011, is AECI's first Integrated Report to stakeholders, in accordance with the principles contained in the King Report on Governance for South Africa, 2009 ("King III"). The Company notes that its adoption of integrated reporting will be an evolutionary and developmental process and that it could take a number of years to implement in full.

The primary objective of integrated reporting is to demonstrate an organisation's ability to create and sustain value over the short, medium and long term. This Integrated Report aims to provide stakeholders with a greater understanding of the Group's strategy, overall sustainability, its operational performance, risks and opportunities, its prospects and its major impacts in economic, social and environmental terms.

Issues which are identified as being of material significance to stakeholders guide integrated reporting. For the AECI Group, this identification is complicated by the diverse nature of its businesses and hence its stakeholders. Significant work has been done to establish an overall risk framework for AECI. Accordingly, the Company has elected to use this framework to determine materiality for the purposes of the content and layout of this Integrated Report.

The methodology and framework for risk management were based on the Committee of Sponsoring Organisation of the Treadway Commission and enhanced with the adoption of ISO 31 000 for managing risks, and King III principles on the governance of risks.

Other than the risk management framework, the reporting principles applied in the preparation of this Report include: the Companies Act, No. 71 of 2008 ("the Companies Act"), in South Africa; the Listings Requirements of the JSE Limited ("JSE") and the requirements of the JSE's Socially Responsible Investment ("SRI") Index in 2011; King III; International Financial Reporting Standards ("IFRS"); the Carbon Disclosure Project ("CDP"); the international chemical industry's Responsible Care™ programme, as well as AECI's own internal reporting Standards.

SCOPE AND BOUNDARIES

The scope of this Report includes all of AECI's subsidiaries and joint ventures, in South Africa and in other countries, over which it has financial control. A list of principal subsidiaries and joint ventures is provided in notes 35 and 36 on pages 234 to 236 of this Report as well as in our Operational Review on pages 48 to 77.
The Report relates to the financial reporting period 1 January 2011 to 31 December 2011.

ASSURANCE AND COMPARABILITY

The Board of Directors ("the Board") is required in terms of the Companies Act and the JSE Listings Requirements 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 IFRS. The Company's external auditors are responsible for examining the Annual Financial Statements of the Company and its subsidiaries and for reporting their opinion on these Statements to shareholders. Furthermore, the external auditors must determine whether the Annual Financial Statements are in accordance with the Act, IFRS and the JSE Listings Requirements.

Any necessary restatements of financial information are identified and explained in the Annual Financial Statements.

External assurance obtained in the current year also included limited assurance on selected sustainability information. Environmental targets are provided for the first time and, therefore, no comparisons against targets for prior years were possible. See page 125 in the Sustainability Report.

The combined assurance approach will be enhanced further in future years to confirm the appropriate application of integrated reporting principles and the integrity of data contained in future Reports.

There are no material changes to the content of this Report compared to 2010's Annual Report, other than a greater emphasis on providing more detailed information on the Company's strategic direction and sustainability initiatives.

STAKEHOLDER ENGAGEMENT

The AECI Group has a broad spectrum of stakeholders. These include employees, shareholders, customers, suppliers, technology and joint venture partners, local and national government structures, other regulatory and industry bodies, the communities in which the Group operates, special interest groups and the media.

AECI's subsidiaries and joint ventures interact with their customers, suppliers, employees, trade unions, communities and interest groups, pertinent regulatory structures and the media on an ongoing basis in the ordinary course of business. Such interaction occurs in both formal and informal forums.

AECI Limited interacts with its shareholders, via announcements released on the JSE's Securities Exchange News Service ("SENS"), the dissemination of financial results electronically and in print, Company presentations, business-specific site visits and meetings. The same information is made available and often presented to employees Group-wide. Pertinent information is disseminated to the media.

Specific information on stakeholder engagement is provided in the Corporate Governance and Sustainability sections commencing on pages 78 and 100 of this Report, respectively.

The Company welcomes written comments and feedback from its stakeholders on this Integrated Report and on other general matters. These should be addressed to: The Company Secretary, AECI Limited, Private Bag X21, Gallo Manor, 2052; or email groupcommunication@aeci.co.za

APPROVAL OF THE INTEGRATED REPORT

The Board acknowledges its responsibility to ensure the integrity of the Integrated Report. The Directors confirm that they have collectively reviewed the content of the Integrated Report and believe it addresses material issues, as determined by using AECI's risk framework as a screening mechanism, and is a fair presentation of the integrated performance of the Group.

The Board approved the release of the 2011 Integrated Report on 30 March 2012.

Graham Edwards.

Fani Titi
Chairman

Graham Edwards
Chief Executive

Woodmead, Sandton
30 March 2012

RISK MANAGEMENT

In the year under review, the Group focused on entrenching its risk management process and refining it further.

The Board is responsible for the risk management process and is assisted in its responsibilities by the 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 Committee approves the risk strategy and the policies that are formulated and implemented by the Executive Committee and Senior Management. This system assists the Board in discharging its responsibility for ensuring that the wide range of risks associated with all of the Group's operations are managed effectively in support of the creation and preservation of stakeholder wealth and well-being. Full reviews of the risk control and disclosure processes are undertaken regularly.

The Group Risk Officer, reporting to the Company Secretary, is primarily responsible for establishing, updating and maintaining the risk framework, providing guidance, supporting and coordinating the identification and documentation of risk areas Group-wide and implementing the risk management system. Risks are ranked using an internationally recognised methodology.

The Internal Audit function plays a pivotal role in providing assurance to the Board on the effectiveness of the risk management process. Where shortcomings are identified, these are addressed as part of the continual improvement of the risk management process and assurance framework.

Where a risk is assessed as material, it is reported and reviewed by the Executive Committee and Senior Management as part of the risk management escalation process. This enables the prioritisation of risk management activities within the AECI Group.

The risk management system meets regulatory requirements. In conducting its annual review of the effectiveness of risk management, the Board considers the key findings from the ongoing monitoring and reporting process, management assertions and independent assurance reports.

The Board also takes into account material changes and trends in the risk profile and considers whether the control systems adequately support the Group's ability to achieve its strategic objectives. The Board receives assurance from regular internal audit reports and, where considered necessary, from other reports on risk and internal control throughout the Group.

PROCESS

AECI's risk management process comprises both bottom-up and top-down elements and follows a holistic approach in identifying, analysing, evaluating, treating, monitoring and reviewing risks. With this process, together with enhanced application software currently being installed, AECI ensures that management of risks is an integral part of its Corporate Governance system and that risk management is integrated into its day-to-day business activities.

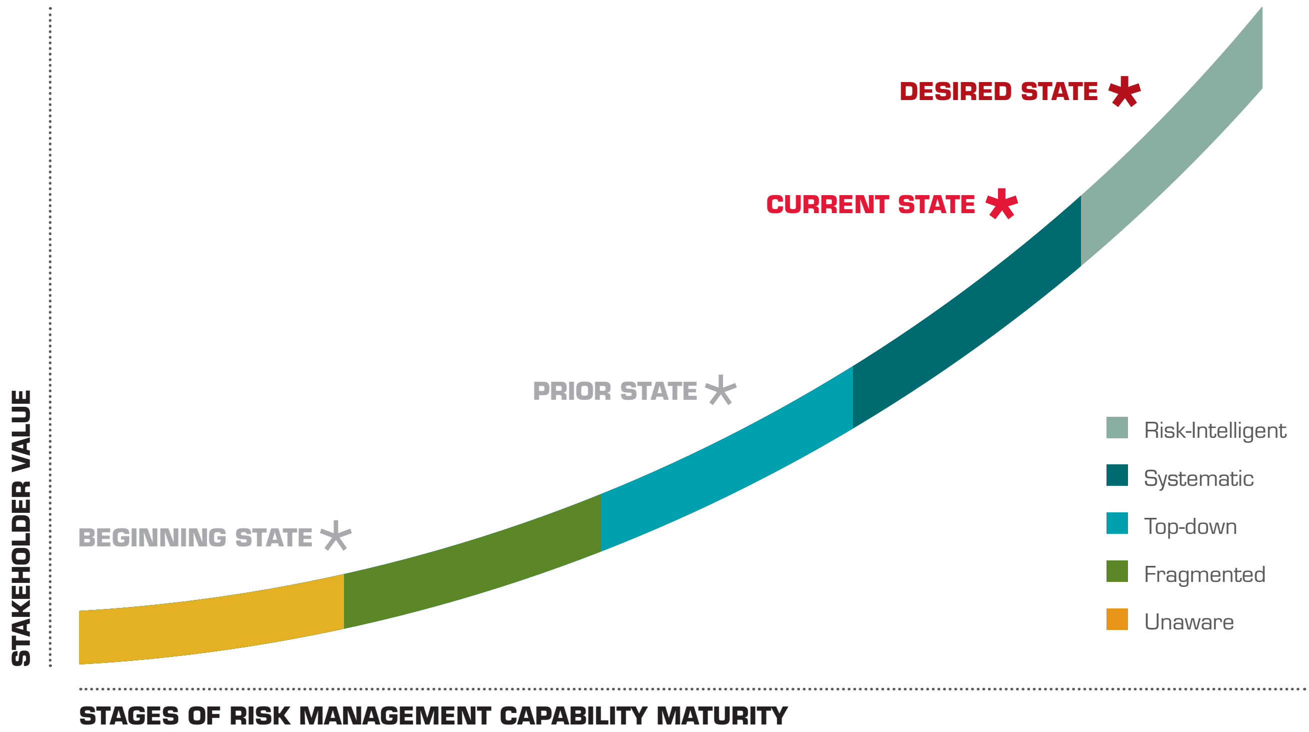
The potential impact and estimated probability of risks is based on a 5 x 5 risk rating scale. The impact comprises minor, moderate, serious, major and severe risks which are linked to a qualitative and quantitative residual risk value. Probability is based on the following time frame:

- monthly = almost certain;
- once in one year = likely;
- once in three years = possible;
- once in five years = unlikely; and
- > five years = rare.

The bottom-up identification and prioritisation process is supported by workshops with the management teams of the Group's businesses. The top-down element involves management at AECI Limited level. This ensures that potential risks are discussed at the top management level and are included in the subsequent reporting process, if found to be relevant.

The Board is satisfied as to the integrity of the ongoing process for identifying, evaluating and managing significant risks and that, where weaknesses are identified, these are addressed promptly within the Group and its operations.

AECI's progress to risk maturity is presented schematically below.



INTRODUCTION
Risk Measurement and Management

ASSURANCE

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 control and reports directly to the Audit Committee. The management of each operating business submits an annual Letter of Assurance to the Audit Committee of the Company affirming that the internal control in entities for which they have responsibility is adequate for their operations.

For sustainability reporting, limited assurance is currently obtained on selected indicators, as set out on page 125.

A combined assurance model in line with King III requirements is being enhanced to ensure that all risks identified are subjected to the appropriate level of control and assured by internal and external providers as appropriate.

MATERIALITY

One of the principles that underlie the process of preparing an Integrated Report is to determine which issues the Company's various stakeholders would wish to see reported; in other words, what are the material issues that should be included in a Report, and which issues are peripheral and therefore should be excluded. The diversity of businesses in the AECI Group and the corresponding diversity of stakeholders sometimes makes it difficult to determine which issues pass the test of materiality.

For the purposes of this first Integrated Report, management has chosen to use the Company's risk management framework as a guide to materiality. From the risk identification process, eight main material issues have been determined. The table on page 7 provides a short description of each of these, along with the primary stakeholders to whom the issue pertains. Each is then linked to relevant strategic pillars that support AECI's approach to managing these material issues.

The strategic pillars on which AECI bases its current business activities and future growth are summarised as follows:

- a cost base that is globally competitive and continually revised and improved;
- world-class technology;
- customer-centric, value-adding service that is unique or innovative; and
- excellence, professionalism and good governance/compliance in all areas of business.

MATERIAL ISSUES IDENTIFIED	PRIMARY STAKEHOLDERS	STRATEGIC PILLARS
Management of safety, health and environmental issues in accordance with espoused values.	Customers; Employees; Communities; Regulators.	World-class technology; Excellence, professionalism and good governance/compliance in all areas of business.
Economic conditions and industry trends; these include potentially recessionary conditions, movements in foreign exchange and commodity prices, and changing trends in the mining and manufacturing sectors in different geographic regions.	Customers; Investors and financiers; Business partners.	A cost base that is globally competitive and continually revised and improved.
The spectrum of competitors, and customer trends; these include both local and international players, and changing customer requirements in the areas of cost, quality, service and technology.	Customers; Technology partners; Business partners.	World-class technology; A cost base that is globally competitive and continually revised and improved; Customer-centric, value-adding service that is unique or innovative.
Security of supply of raw materials (especially ammonium nitrate from outside SA) and utilities, and availability of infrastructure, including pricing and reliability.	Suppliers; Technology partners; Business partners; Regulators.	World-class technology; A cost base that is globally competitive and continually revised and improved; Customer-centric, value-adding service that is unique or innovative.
Access to and retention of skilled resources.	Employees; Business partners; Regulators.	Excellence, professionalism and good governance/compliance in all areas of business.
Technology and production processes, particularly with respect to quality, reliability, and the avoidance of obsolescence and excessive costs.	Customers; Technology partners; Business partners.	World-class technology; A cost base that is globally competitive and continually improving; Excellence, professionalism and good governance/compliance in all areas of business.
Transformation to achieve the benefits of diversity and to grow sustainably.	Customers; Suppliers; Employees; Regulators.	Excellence, professionalism and good governance/compliance in all areas of business.
Compliance with legislation and standards.	Regulators; Communities; Employees.	Excellence, professionalism and good governance/compliance in all areas of business.

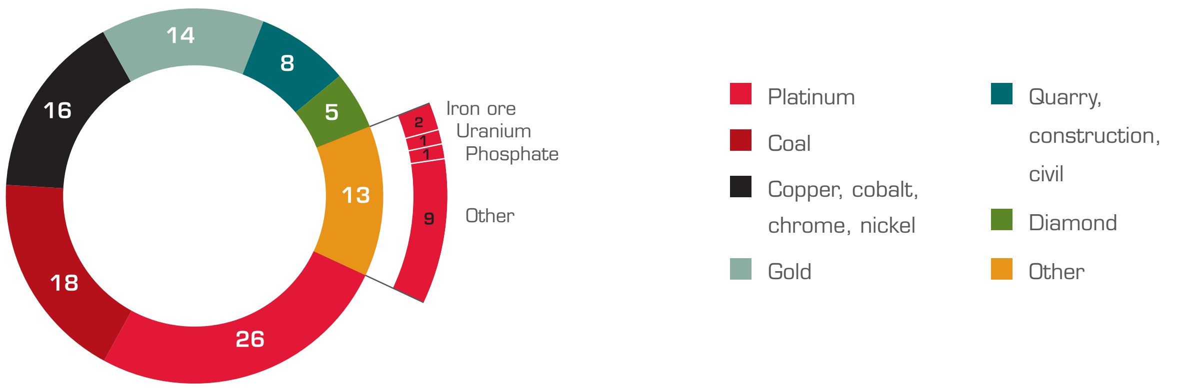
These issues, and their control, frame the context of this Integrated Report.

OVERVIEW AND STRATEGY
Company Profile

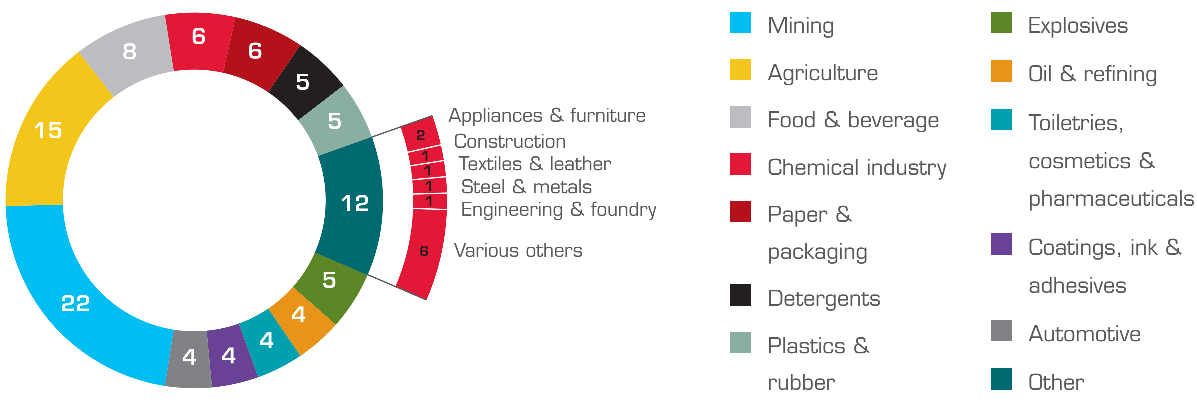
AECI is an explosives and specialty chemicals company domiciled in South Africa. Group businesses service the mining and manufacturing sectors both locally and internationally. The focus for growth is on Africa, South America and South East Asia. AECI's businesses are characterised by application know-how and service delivery. They often operate in niche markets and are supported by leading technology which is developed in-house or is sourced from international partners.

In the last five years the Group has invested R2 billion in a strategic capital investment programme to enhance its future growth in the mining and manufacturing areas, with particular emphasis on mining chemicals and initiating systems.

2011 GROUP REVENUE BY MINERAL MINED (%)



2011 SPECIALTY CHEMICALS REVENUE BY MARKET SECTOR (%)



At 31 December 2011, AECI's market capitalisation was **R9,8bn**

AECI has a total employee complement of **7 100**

The Company is listed on the **JSE**

EXPLOSIVES

AEL Mining Services ("AEL") is a developer, producer and supplier of commercial explosives, initiating systems and blasting services for the mining, quarrying and construction sectors in Africa and further afield, particularly Indonesia. The business has a presence in 23 countries. It is well established across the African continent, and in line with its international strategy, has moved successfully into South East Asia. AEL's technology and product positions in initiating systems and bulk explosives have enabled it to enter into mutually beneficial channel partnerships with leading regional explosives players in Europe and Latin America. AEL's largest site is at Modderfontein, Johannesburg, Gauteng.

SPECIALTY CHEMICALS

In the specialty chemicals cluster, 16 business units supply specialty chemical raw materials and related services for industrial use across a broad spectrum of customers in the manufacturing and mining sectors, mainly in South Africa and in Southern Africa. Sales, distribution, production and laboratory facilities are extensive. The cluster has major sites in Johannesburg and Durban, with a number of smaller operations country-wide.

AECI's mining chemicals thrust is anchored in Senmin, which operates in Sasolburg in the Free State.

PROPERTY

In addition to its core businesses the Group has a valuable land asset, the release of which is managed carefully. These property activities are overseen by Heartland. 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 rental properties.

The land holdings are significant and are located in prime locations near Johannesburg and Cape Town. More than 3 000 hectares of land are available for redevelopment over the longer term for residential, commercial and industrial end uses and for leasing purposes.

SPECIALTY FIBRES

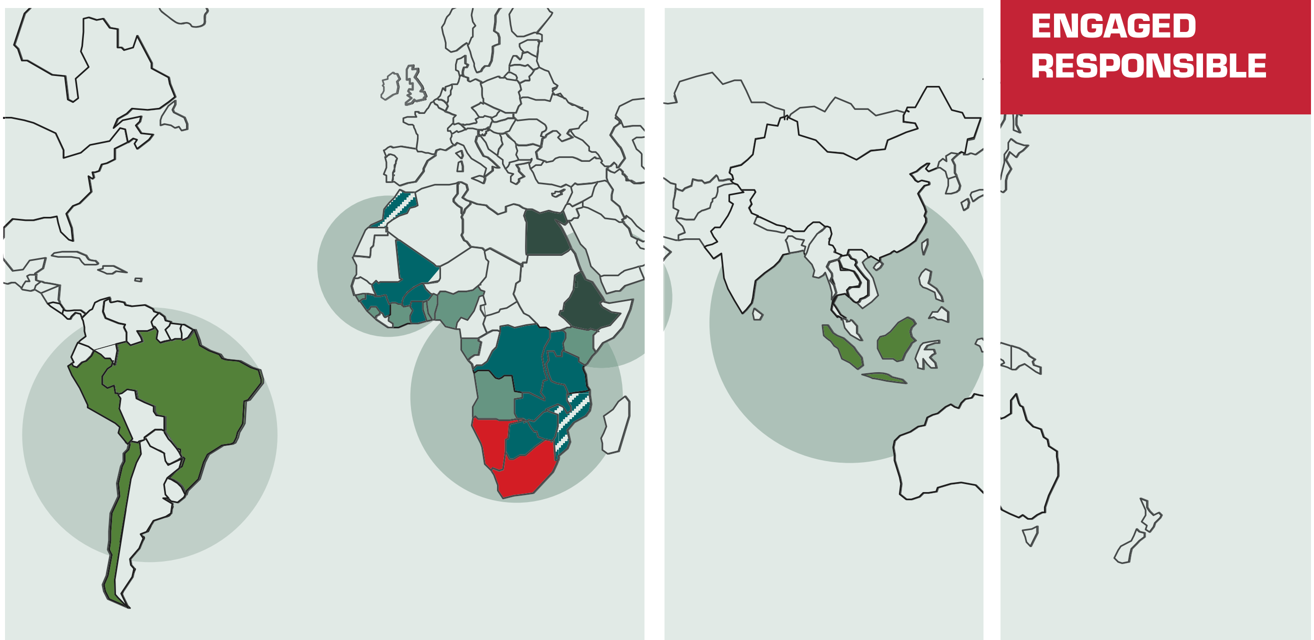
SANS Technical Fibers in the USA is the Group's fourth business. It manufactures and markets a range of high performance, specialty nylon industrial yarns for niche market applications in the USA, Asia and Europe.

OVERVIEW AND STRATEGY

Strategic Positioning of Operations and Activities

OUR VALUES:
BOLD
INNOVATIVE
GOING GREEN
ENGAGED
RESPONSIBLE

INTERNATIONAL FOOTPRINT AND AECI'S MODEL



LEGAL COMPLIANCE AND GOVERNANCE

FINANCIAL CONTROL AND RISK MANAGEMENT

GROUP VALUES AND ETHICS

SPACE FOR CREATIVE SELF-DETERMINATION BY GROUP OPERATING COMPANIES: "FREEDOM SUPPORTED BY A FRAMEWORK"

GROUP VALUES AND ETHICS

STRATEGIC DIRECTION AND REMIT

SAFETY, HEALTH AND ENVIRONMENT

VISION

AECI's vision is to be the supplier of choice for customers in its chosen markets. The Group aims to be Africa's leading supplier of explosives and mining services and specialty chemicals, mainly to the mining and manufacturing sectors across the continent and in key emerging markets around the world.

The broad spectrum of industries served is illustrated in the graphs on page 10.

The map (left) illustrates the Group's geographic reach and aspirations.

FRAMEWORK

The Company's vision is underpinned by four strategic pillars pertaining to a globally competitive cost base, world-class technology, value-adding customer-centric service, and excellence and professionalism in all areas of activity. Growth is achieved organically and via acquisitions. These pillars in turn reflect AECI's foundational principles of being **B**old and **I**nnovative in the creation of value, of **G**oing **G**reen and of being **E**ngaged and **R**esponsible.

The model in place for AECI is summarised as "Freedom supported by a Framework", with the framework established by the parent company complementing the businesses' pursuit of their own innovative product and service excellence. The model is represented schematically on the opposite page.

As detailed in the Chief Executive's Report commencing on page 30, restructuring and other initiatives to ensure the best possible cost base have been undertaken and the Group is now set for the next phase of its growth programme, namely that of regional expansion.

GROWTH STRATEGY

Regional expansion will leverage AEL's already extensive footprint in Africa, South East Asia and South America. AEL aims to expand further in these territories.

In the specialty chemicals cluster, regional growth is being pursued in Africa in key markets that include the mining chemicals, water, oil, gas and energy sectors. Businesses will expand their areas of influence by partnering their customers as they grow and by maximising the benefit of technology alliances. In this regard ImproChem's new distribution agreement with GE Betz is a noteworthy example which is discussed in more detail in the Operational Review.

The specialty chemicals cluster already has a joint venture business in Brazil. Further acquisitions that are in line with the Group's risk/reward appetite will be pursued in that and other geographies.

Early in 2012 AECI's Executive Committee was restructured to ensure that adequate resources are in place at the highest level to enable the achievement of the growth strategy. More detail is given in the Chief Executive's Report.

Risk management **FRAMEWORK** in place

IMPROVED rating in the CARBON DISCLOSURE PROJECT ("CDP")

R7m invested directly in **CSI**

B-BBEE TRANSACTIONS concluded early in 2012

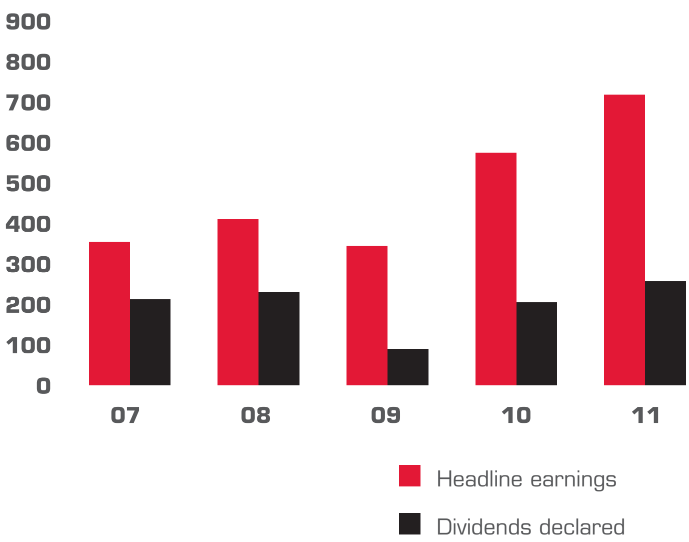
Included in JSE's **SRI INDEX** for the third consecutive year

The need for ENVIRONMENTAL targets addressed with the launch of **GREEN GAUGE**

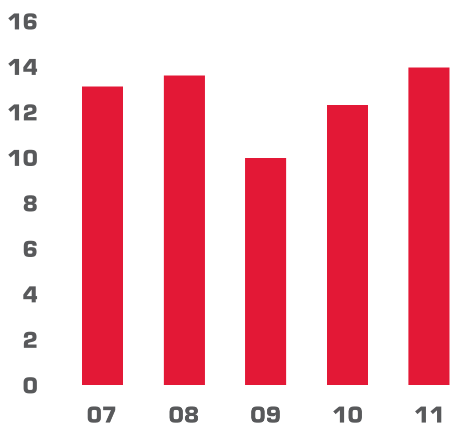
FOR THE YEAR ENDED 31 DECEMBER 2011

	2011	2010	% change
Revenue (R millions)	**13 397**	11 569	16
Profit from operations (R millions)	**1 316**	1 062	24
Headline earnings (R millions)	**772**	619	25
Net profit attributable to ordinary shareholders (R millions)	**777**	600	30
Headline earnings per ordinary share (cents)	**720**	577	25
Dividends declared per ordinary share (cents)	**257**	205	25
Market capitalisation at 31 December (R millions)	**9 845**	9 829	–
Profit from operations to revenue (%)	**9,8**	9,2	
Return on net assets (%)	**18,1**	15,9	
Return on invested capital (%)	**14,0**	12,4	
Net borrowings as a percentage of shareholders' interest (%)	**36**	40	

HEADLINE EARNINGS AND DIVIDENDS PER ORDINARY SHARE (CENTS)

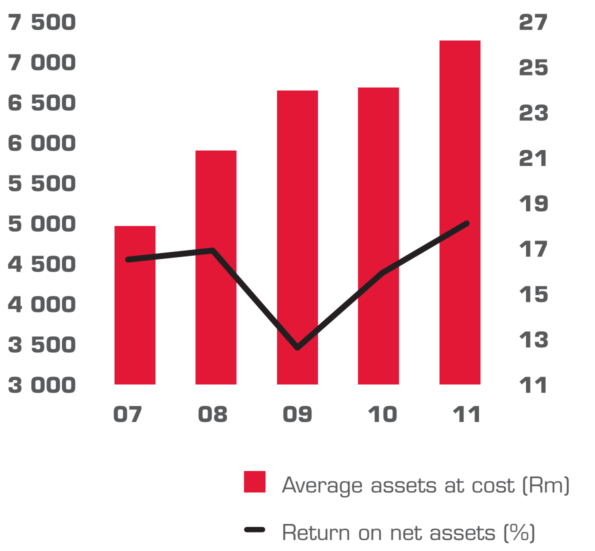


RETURN ON INVESTED CAPITAL (%)

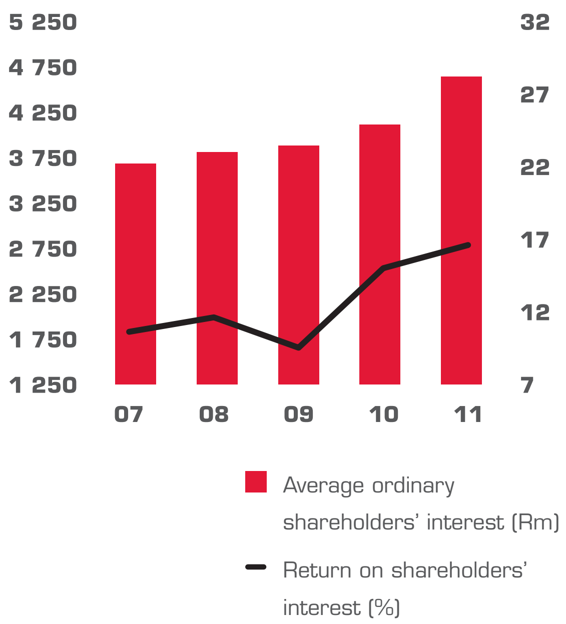


OVERVIEW AND STRATEGY
Group Results at a Glance

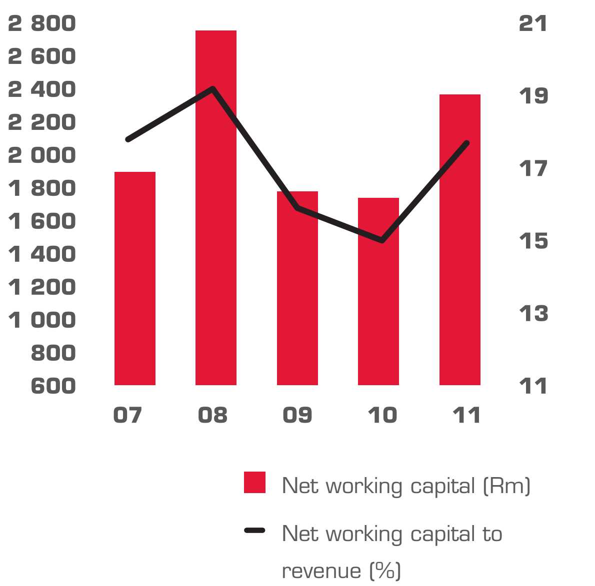
RETURN ON NET ASSETS



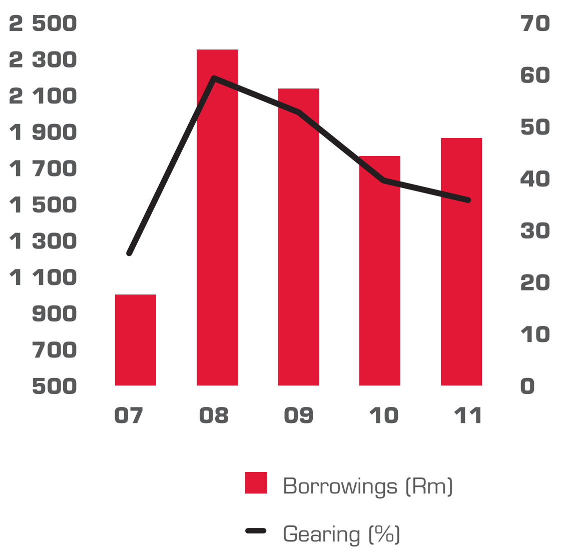
RETURN ON SHAREHOLDERS' INTEREST



NET WORKING CAPITAL TO REVENUE



BORROWINGS AND GEARING



Value added is the difference between revenue received from sales and the cost of raw materials and 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.

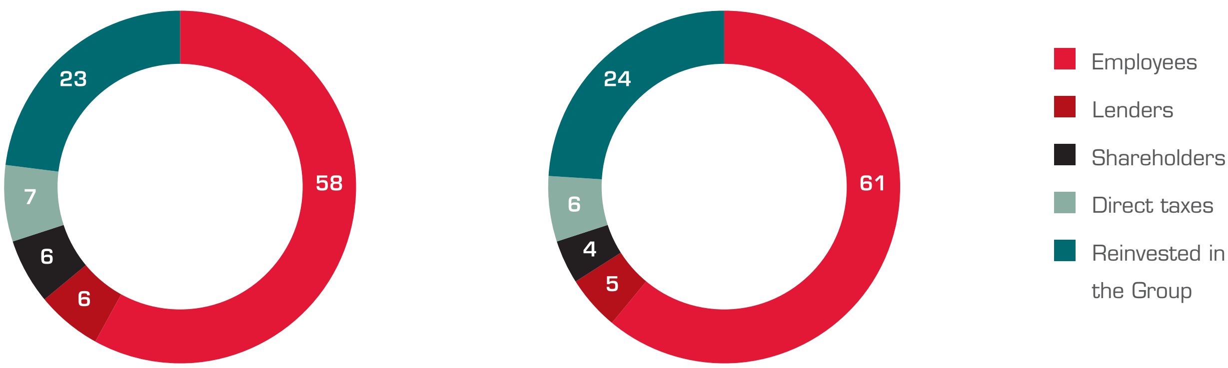
R millions	**2011**	**%**	2010	%
Revenue	**13 397**	**100**	11 569	100
Purchased materials and services	**9 296**	**69**	7 951	69
Value added through operations	**4 101**	**31**	3 618	31
Other income	**30**	**–**	25	–
Total value added	**4 131**	**31**	3 643	31
Distributed to:				
Employees	**2 390**	**58**	2 224	61
Lenders	**236**	**6**	175	5
Shareholders	**237**	**6**	146	4
Direct taxes	**306**	**7**	233	6
Reinvested in the Group	**962**	**23**	865	24
	4 131	**100**	3 643	100

MONETARY EXCHANGES WITH THE STATE

R millions	**2011**	2010
The following monetary exchanges with the state took place during the year:		
Direct taxes	**306**	233
Employees' tax collected on behalf of the state	**388**	371
Property taxes paid to local authorities	**29**	22
Skills development levies paid to the South African Revenue Service ("SARS")	**16**	11
VAT collected on behalf of the state	**134**	223
Channelled through the Group	**873**	860

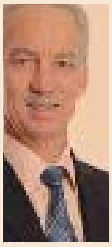
DISTRIBUTION OF VALUE ADDED (%)

2011 **2010**



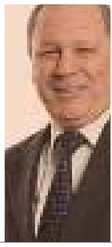
BOARD

Fani Titi
Chairman
Non-Executive Director



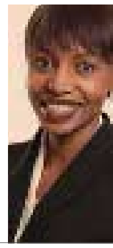
Graham Edwards
Chief Executive
Executive Director

Mark Kathan
Chief Financial Officer
Executive Director



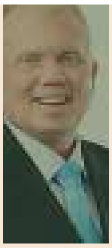
Richard Dunne
Non-Executive Director

Schalk Engelbrecht
Non-Executive Director

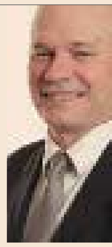


Zellah Fuphe
Non-Executive Director

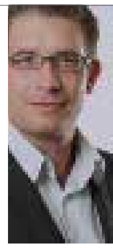
EXCO



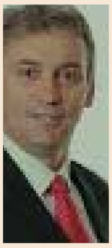
Mark Dytor
Chemicals Executive



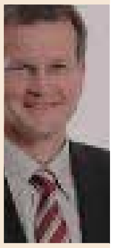
Anthony Diepenbroek
Managing Director
Heartland



Ryan Harrison
Managing Director
Chemfit

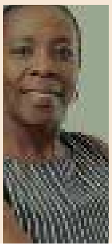


Edwin Ludick
Chemicals Executive

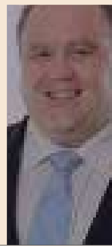


Tobie Louw
Managing Director
AEL Mining Services

Louis du Toit
Managing Director
ImproChem



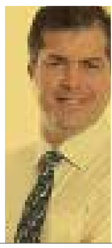
Khosi Matshitse
Human Capital Executive



Schalk Venter
Chemicals Executive and Managing Director
Akulu Marchon

Bernardo Mello
Managing Director
Resitec

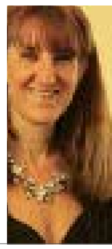
SENIOR MANAGERS



Gary Cundill
Group Technical and Safety, Health and Environment Manager

John Mahlase
Group Human Resources Manager

Gugu Mthethwa
Senior Mergers and Acquisitions Manager



Fulvia Putero
Corporate Communications and Investor Relations Manager

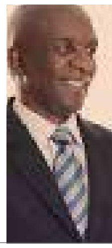
Nomini Rapoo
Company Secretary

Mike Leeming
Non-Executive Director

Liziwe Mda
Non-Executive Director

Allen Morgan
Non-Executive Director

Litha Nyhonyha
Non-Executive Director

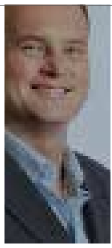


Rams Ramashia
Non-Executive Director

BUSINESS LEADERS

Graham Sanders
Managing Director
Chemical Initiatives

Jaco Engelbrecht
Managing Director
Chemisphere Technologies

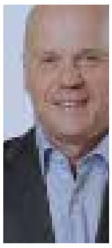


Mike Peach
Managing Director
ChemSystems

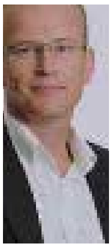
Michiel Vijverberg
Managing Director
Crest Chemicals

Llewellyn Mulder
Managing Director
Duco Speciality Coatings

Martin Godbolt
Managing Director
Industrial Oleochemical Products



Gavin Gerber
Managing Director
Industrial Urethanes

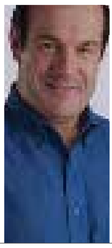


Dean Murray
Managing Director
Lake International Technologies

Hugo Minnaar
Managing Director
Nulandis

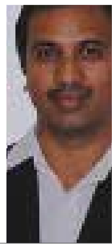
Bruce McDonald
Managing Director
Resinkem

Zach Zacharias
Managing Director
SANS Technical Fibers



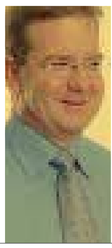
Theunis Botha
Managing Director
Senmin

Avindra Boodhram
Production Manager
Specialty Minerals SA



Iwan Schutte
Group Internal Audit Manager

Trevor Starke
Group Treasurer



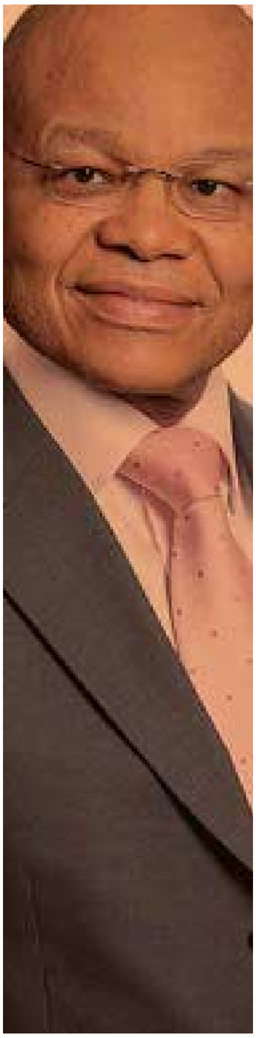
Daryl Tarr
Group IT Manager

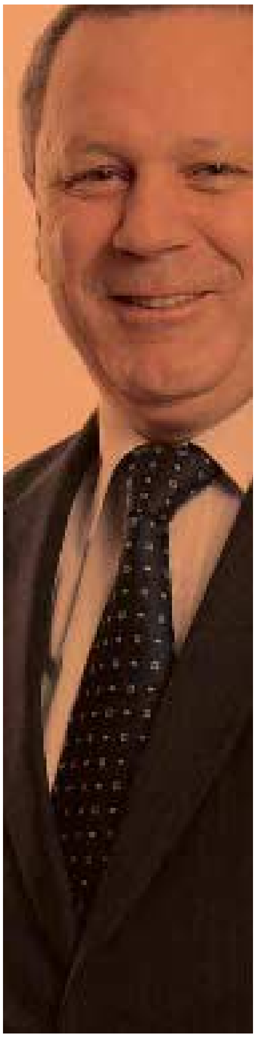
Graham Thompson
Group Financial Manager

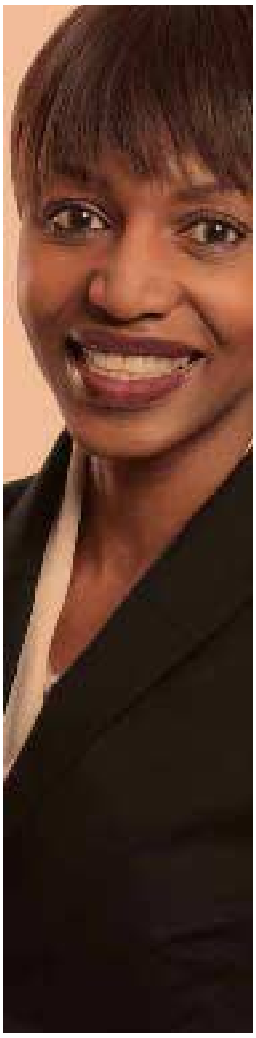
Louis van der Walt
Retirement Funds Manager

OVERVIEW AND STRATEGY

Non-Executive Directors







Fani Titi (49)

BSc (Hons), MA, MBA

Fani joined AECI's Board in 2005 and assumed its Chairmanship in 2007. He will retire from this position and the Board at the Annual General Meeting to be held in May 2012. Fani is Chairman of the Nominations Committee and a member of the Remuneration Committee. He is Non-Executive Joint Chairman of Investec Limited and Investec plc, Non-Executive Chairman of Investec Bank, a Non-Executive Director of Investec Asset Management and a Director of the Tsiya Group, a private equity firm.

Richard Dunne (63)

CA(SA)

Richard joined AECI's Board in 2007. He is Chairman of the Remuneration Committee, a member of the Audit and Nominations Committees and chairs the Financial Review and Risk Committee of AECI's specialty chemicals cluster. Richard is a member of the Boards and Audit Committees of Anglo Platinum, the Standard Bank Group and Tiger Brands.

Schalk Engelbrecht (65)

BSc, MBL

Schalk is a member of the Nominations and Remuneration Committees. He is AECI's Chairman designate and will succeed Fani Titi in May 2012. He also serves on the Board of Imperial Holdings.

Zellah Fuphe (43)

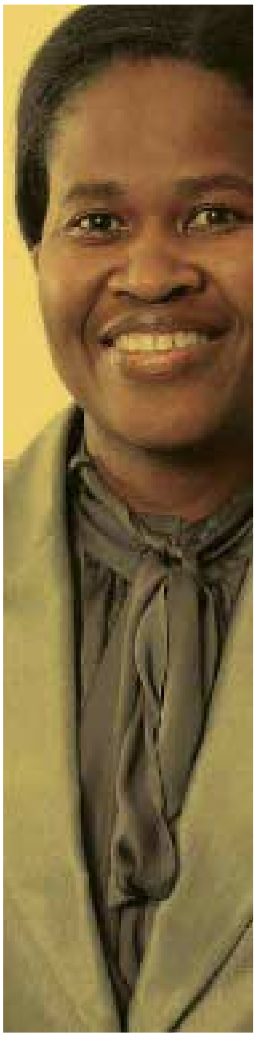
BSocialSc

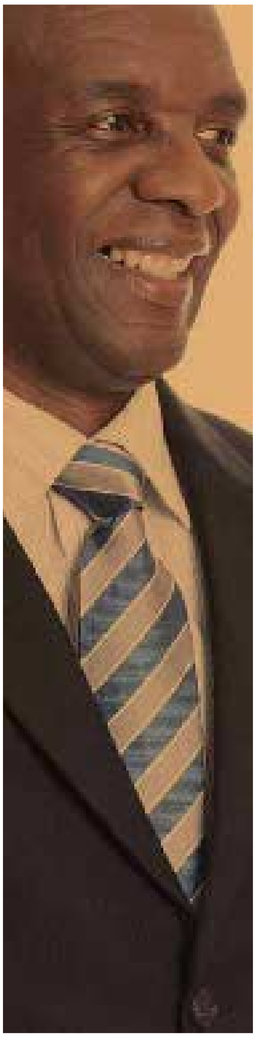
Zellah joined the AECI Board in 2007 and is a member of the Social and Ethics Committee. A graduate of the University of Cape Town, Zellah was until September 2011 Managing Director of Plessey South Africa. She was then appointed Managing Executive of Plessey Broadband Investments. She also serves on the Engen Board. Previously she served on the Boards of Afric Oil (Chair), Worldwide Coal Carolina (Chair), the Oceana Group, Worldwide African Investment Holdings and the Unisa School of Business Leadership.

Mike Leeming (68)

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 Social and Ethics Committee and Chairman of Heartland's Financial Review and Risk 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 on the Boards of Altron, Imperial Holdings, Real Africa and Woolworths.






Liziwe Mda (46)
MSc (Chem Eng)

Liziwe joined AECI's Board in 2011 and is a member of the Risk Committee. She has extensive experience as Refinery Operations Manager at SAPREF's petrochemical refinery in Durban. Prior to assuming her current responsibilities, she obtained extensive production, process engineering and projects experience at SAPREF, Sasol Technology and Unilever SA. She is furthering her business skills by pursuing an MBA degree at the Wits Business School.

Allen Morgan (64)
BSc, BEng (Elect), Pr Eng

Allen joined the AECI Board in 2010. He is Chairman of the Risk Committee, a member of the Audit Committee and of the AEL Financial Review and Risk Committee. Allen spent his working life at Eskom and served as that company's Chief Executive from 1994 until his retirement in 2000. Other current directorships include Imalivest Assets, Kumba Iron Ore and BioTherm Energy.

Litha Nyhonyha (52)
CA(SA)

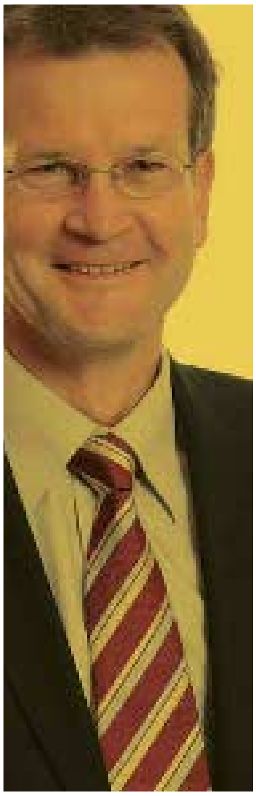
Appointed to the AECI Board in 2006, Litha is Chairman of the Social and Ethics Committee, a member of the Audit Committee and Chairman of the Financial Review and Risk Committee of AEL. He is Executive Chairman and a founding member of Regiments Capital, a Black-controlled and managed financial services group. He is also a Director of Plessey Telecommunications, Regiments Securities, Sovereign Foods and Worldwide African Investment Holdings.

Rams Ramashia (54)
Bluris, LLB, LLM

Rams joined the AECI Board in 2010 and serves on its Social and Ethics and Risk Committees. He is Non-Executive Chairman of Rand Refinery Limited. Rams is past Chairman of BP Southern Africa, SAPREF and the South African Petroleum Industry Association. Between 2000 and 2004 he was Director General of the national Department of Labour and government Chief Negotiator at the National Economic Development and Labour Council.

OVERVIEW AND STRATEGY

Executive Committee



Graham Edwards (57)*

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

Graham is AECI's Chief Executive, which position he took up in 2008. Prior to this he was Managing Director of 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.

Mark Kathan (41)*

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 Nampak, a packaging company, where he held a senior finance position and was a member of that company's Group Executive Committee. He has experience in a broad spectrum of finance and business disciplines in South Africa and the rest of Africa.

Anthony Diepenbroek (55)

BSc (Civil Eng), MBA, Pr Eng

Anthony joined the Group as Managing Director of Heartland, and an AECI Executive Committee member, in 2008. His extensive experience in property- and development-related fields includes construction and project management; sales and marketing; infrastructure and facilities planning and the management of property portfolios, assets and investment funds. Anthony has served as Managing Director of iProp (formerly Rand Mines Properties) and iFour Properties.

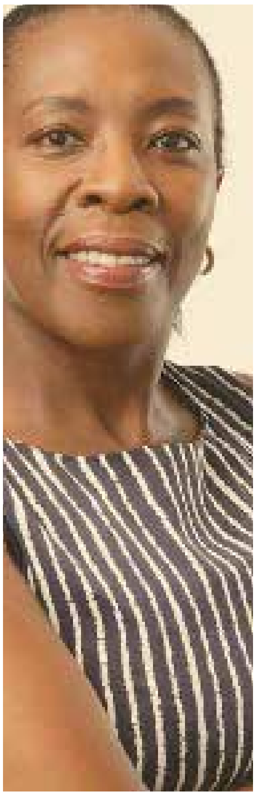
Mark Dytor (50)

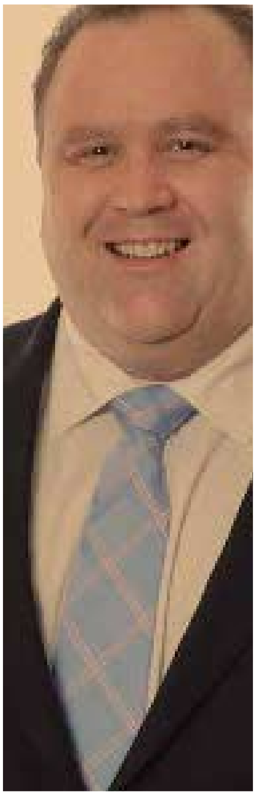
Mark was appointed to AECI's Executive Committee in 2010. Having joined Chemical Services Limited ("Chemserve") as a sales representative in 1984, and after managing two Chemserve companies, Mark was appointed to Chemserve's Executive Committee in 1998 and subsequently to its Board. In addition to a portfolio of Chairmanships at companies in AECI's specialty chemicals cluster, he is leading AECI's strategic growth thrust in mining chemicals. Mark is also a Non-Executive Director of AEL.

Tobie Louw (48)

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 Technologies. In 2005 he was appointed to Chemserve's Executive Committee and became Managing Director of ChemSystems. He joined Chemserve's Board in 2007. Tobie will relinquish his current position at AEL in April 2012 to focus on AECI's strategic international growth thrust in its explosives business.





* Executive Director

Edwin Ludick (47)

BCom (Hons)

Edwin joined Chemserve as a Human Resources Manager in 1991, was appointed to its Executive Committee in 2008 and to its Board in January 2010. He joined AECI's Executive Committee in 2010. Edwin has served as Managing Director at four companies in the specialty chemicals cluster, most recently at ChemSystems. He relinquished this position in January 2012 to focus on the growth of AECI's chemicals business in Brazil. He will retain his portfolio of Chairmanships of companies in the specialty chemicals cluster.

Khosi Matshitse (55)

BA (English Literature), MA (African Literature and Art of Teaching), Certificate in Strategic Human Resources, Senior Leadership Development Programme Certificate

Khosi joined AECI as Human Capital Executive and a member of the Executive Committee in January 2012. She will oversee the Transformation of the Group, assist in the ongoing internationalisation of AECI businesses and will also focus on transforming Human Capital into a strategic service provider. She has worked as a consultant in the Organisation Design and Development and Change disciplines and has held senior Human Capital positions at other companies.

Schalk Venter (44)

Schalk has a Higher National Diploma in Analytical Chemistry. He joined ChemSystems 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. Schalk was appointed to the Chemserve Executive Committee in 2005 and to its Board in 2007. He joined AECI's Executive Committee in 2010. He is currently Managing Director of Akulu Marchon and Chairman of a number of companies in the specialty chemicals cluster. In April 2012 he will assume the role of Managing Director of AEL.

OVERVIEW AND STRATEGY
Senior Managers

Gary Cundill (44)

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

Gary is Group Technical and Safety, Health and Environment Manager. 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.

John Mahlase (51)

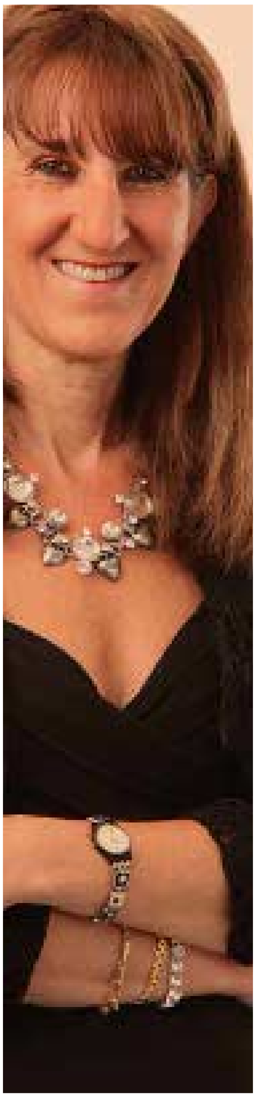
BAdmin (Hons)

John is the AECI Group's Human Resources Manager. Prior to assuming this portfolio, he was Human Resources Manager at Chemserve, which company he joined as a Human Resources Consultant in 1997. John has an Honours degree in industrial psychology and an Advanced Diploma in labour law.

Gugu Mthethwa (52)

BSc Eng (Chem), MBA

Gugu joined AECI in 2011 as Senior Mergers and Acquisitions Manager. Her work experience includes various roles in the chemical processing and pulp manufacturing industries, as well as investment banking.



Fulvia Putero (49)

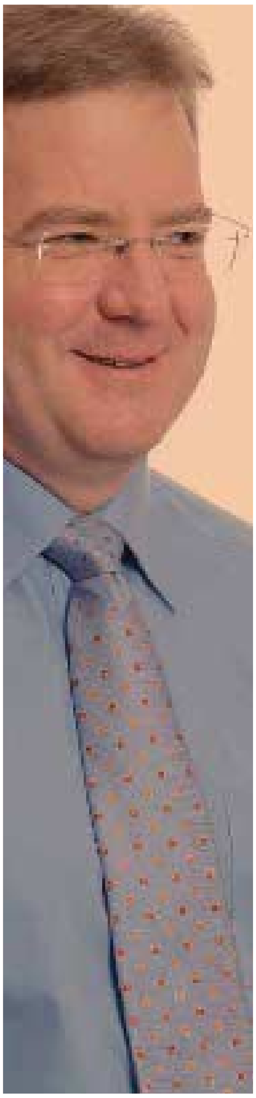
MA (Translation)

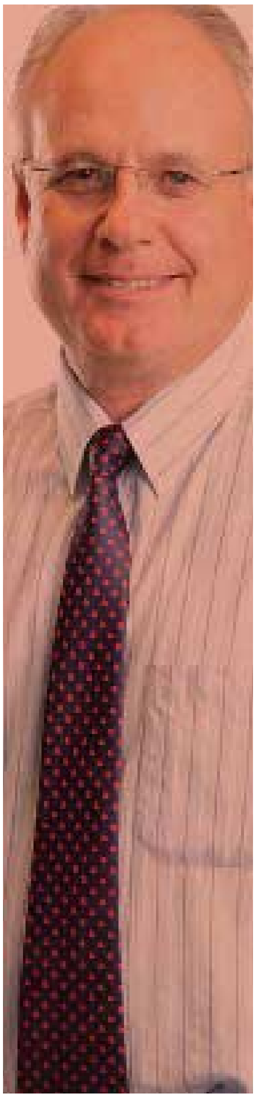
Fulvia is AECI's Corporate Communications and Investor Relations Manager. A graduate of the University of the Witwatersrand, she joined the Group's Publicity Department in 1986.

Nomini Rapoo (47)

BCom (Law), UED, LLB, Admitted Attorney of the High Court, Certificate in Corporate Governance

Nomini joined AECI as Company Secretary in 2011. In addition to her commercial and legal degrees, she has qualifications and extensive experience across of broad spectrum of disciplines including risk and compliance management, internal audit, legal services and corporate governance functions.

Iwan Schutte (39)
CA(SA), CIA

Iwan is Group Internal Audit Manager. Prior to being appointed to this position he was Divisional Internal Audit Manager responsible for the specialty chemicals cluster. He joined AECI in 2004.

Trevor Starke (43)
CA(SA)

Trevor is Group Treasurer with overall responsibility for treasury functions, corporate centre accounting, payroll and office management. He joined AECI in 1997 and worked in Group Accounting before joining the Treasury in 1999.

Daryl Tarr (50)
Dip Elec Eng LC

Daryl is the Group's IT Manager with overall responsibility for managing IT operations. He joined AECI Industrial Chemicals in 1989 and then moved to Nitrogen Products as Distribution Manager. After implementing SAP at Kynoch Fertilizer he ultimately transferred to AEL as IT Manager. He took up his current position in 2011.

Graham Thompson (36)
CA(SA)

Graham is AECI's Group Financial Manager with overall responsibility for the Group's finance and tax functions. He joined AECI in 2005 as Group Accountant, having previously worked as an Audit Manager in an auditing firm.

Louis van der Walt (57)
Bluris, LLB, CFP, Advocate of the High Court

Louis 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 a Certified Financial Planner.

Chairman's Letter to Stakeholders

Dear Stakeholder

I am pleased to report that the AECI Group delivered good results in a year when the external environment continued to present many challenges.

Revenue grew by 16% to R13 397 million (2010: R11 569 million) and the trading margin improved to 9,8% from 9,2% last year. We generated good operating cash flow and a return on invested capital of 14% for our stakeholders. Return on net assets improved to 18%.

AECI's guiding principle is "Good Chemistry" and we aim to apply this across all areas of our business. Good Chemistry is not only about providing high quality products and services to our customers; it is also about doing so in a way that is good for our employees, our communities, the environment at large and all other stakeholders.

Good Chemistry holds us to the principles of good governance, as outlined in King III. In this, our first Integrated Report, we have made a start on the journey towards the full presentation of non-financial sustainability issues in line with the guidance of the International Integrated Reporting Council's ("IIRC") discussion paper on integrated reporting and the integration of these with financial matters.

One of our key concerns is the safety of our employees and it is with deep regret that I report the death of an employee at our Brazilian joint venture facility this year. Our overall safety performance also slipped during the year and this is an area in which we remain committed to improvement.

OPERATIONAL STRATEGY

AECI's operational strategy comprises four interconnected pillars and I summarise below details of our progress in each of these areas.

1. VALUE-ADDED CUSTOMER-CENTRIC SERVICES

Our business model is centred on our partnerships with our customers. We build close, long-term relationships with them and we grow together in new markets and with new products by adding value to their businesses. The Good Chemistry descriptor in our logo summarises this. Innovation is the key and continues to serve us well. By focusing on unique offerings that add value to our customers, we cement relationships and ensure the long-term sustainability of their businesses and ours.

2. COST BASE COMPETITIVENESS

Our goal is to provide our customers with products and services of the highest quality at a globally cost-competitive price. We measure ourselves against international best practice where appropriate benchmarks are available. Cost efficiency is an ongoing process involving reviewing whether we have the right businesses in our portfolio, objectively measuring whether the business is competitive and identifying where businesses can be combined within the Group to enhance efficiencies further.

3. WORLD-CLASS TECHNOLOGY

To meet the expectations of our customers at a competitive price requires world-class technology. We continually invest in product development to ensure we maintain our technological edge.

The R2 billion strategic capital investment programme that began in 2007 is now complete and we are well placed to reap its rewards, particularly in mining chemicals.

In 2011 Senmin's polyacrylamide ("PAM") plant was ramped up successfully and progress on the xanthates plant was also made after new equipment was installed. Ramp-up of AEL's Initiating Systems Automation Plant ("ISAP") continued, albeit at a slower rate than anticipated. This meant that we were unable to realise all the cost savings from AEL that we had projected for the year. Although this was disappointing, we look forward to seeing the benefit of these increased efficiencies and cost savings in 2012 and beyond.

Our role as agents in many of our specialty chemicals businesses gives us exposure to the leading technology of our principals and acquisitions introduce new technologies into the Group.

4. RESPONSIBILITY

We believe that good practice across all aspects of our endeavours is good business.

We are committed to pursuing business excellence and a professional approach in all we do. During the year we dedicated resources to applying the principles of King III across the Group and made progress in implementing the requirements of the new Companies Act. We relaunched our whistle blowing service, revised our Code of Ethics, implemented a full risk function at Group level and appointed a Compliance Officer to monitor compliance across the Group. More detail regarding these matters is given in the Corporate Governance Report on page 78.

Chairman – Fani Titi

High corporate performance is a function of a motivated workforce operating in a healthy and safe working environment. In January 2012 we appointed Khosi Matshitse as Human Capital Executive on the AECI Executive Committee. She has been tasked with developing AECI's Human Resources function into a strategic service provider that will ensure that the right skills base is in place to support the Group's growth plans as well as delivering the Group's Transformation imperatives.

While the delay in finalising our Broad-based Black Economic Empowerment ("B-BBEE") transaction before year-end was unfortunate, we are pleased that the interests of all stakeholders have been balanced in the final arrangement approved by shareholders at the General Meeting held on 25 January 2012. More details are given in the Sustainability Report commencing on page 100. Some of our businesses also made progress in improving their own B-BBEE Contributor ratings, excluding the ownership component.

The chemical industry is widely regarded as having a high impact on the environment. It is the industry's duty to maintain ongoing efforts to minimise these impacts if it is to continue to be accepted as a responsible citizen by the communities in which it operates and other stakeholders. The AECI Group took a significant step forward in these matters in 2011 with the launch of our Green Gauge, which sets out measurable targets for environmental improvement and is discussed in some detail in the Sustainability Report.

The first phase of Green Gauge concentrates on resource efficiency assessments with water and energy consumption and waste generation at the forefront. Improvements in our performance have the potential to reduce the consumption of resources, reduce our carbon footprint and impact favourably on the cost base of our operations.

During 2011 the Department of Water Affairs ("DWA") issued a new Water Use Licence for the Group's operations at the Modderfontein site. This site had been operating for some years under a draft Water Use Licence. The new Licence was issued with stringent conditions which came into immediate effect upon issue. The site is not able to meet all of these conditions in the short term in line with the provisions of the Licence and negotiations continue with the DWA in a spirit of cooperation in a bid to resolve this situation in a mutually satisfactory manner, whilst efforts to bring the site into compliance are progressed.

POSITIONED FOR GROWTH

The challenges presented by the trading environment in the last few years have given us the opportunity to critically assess our operations and ensure that we manage our cost base appropriately. Our balance sheet has strengthened and much of the hard work in optimising our cost base is nearing completion. AECI is now shifting into a growth-focused phase. We continue to evaluate opportunities in South Africa, Africa and further afield and have committed Executive resources to identify international opportunities in the explosives and specialty chemicals sectors that fit our long-term sustainable growth aspirations. Other than Africa, the main focus is currently on South America and South East Asia.

We remain well placed to leverage AEL's extensive African footprint to provide channels for other businesses to market their products and services across the continent. The agreement announced late in 2011 to distribute GE Betz's water treatment solutions into Africa is a good example of this and we will look to identifying more such opportunities to add further value to our customers.

The ultimate goal of any acquisition is to generate sustainable profit growth for the benefit of our stakeholders. While we are confident that the skills and knowledge from our South African operations can add value to our international acquisitions, we are conscious that many companies have found it difficult to sustain profitable expansion in foreign markets. For this reason we investigate all opportunities thoroughly before we commit funding. As an example, last year we mentioned opportunities in consumer-related markets in African countries such as Nigeria. Further analysis showed that the nature of the market in Nigeria would not necessarily be an ideal fit for AECI's business model at this time or produce returns that would be acceptable when balanced against potential risks. Accordingly we did not pursue that opportunity further.

DIRECTORATE

Liziwe Mda joined the Board as a Non-Executive Director during the year and Nomini Rapoo was appointed as Company Secretary. We welcome them and look forward to their contribution to the Board.

OUTLOOK

As AECI moves into a growth phase, we believe that our investment in capital expansions and restructuring of our operations will stand us in good stead to continue to deliver sustainable growth and to thrive should market conditions improve. Furthermore, our focus on developing and retaining talent in the Group will enhance our ability to maximise the opportunities that result from our capital expansion programme.

As previously announced, I will step down as Chairman and leave the Board at the Annual General Meeting to be held in May 2012. I would like to thank AECI's Management and my colleagues on the Board not only for the dedication that produced 2011's good results, but also for their backing and counsel over my five years as Chairman and seven years as a Non-Executive Director.

During this time I am proud to have been a Board member as AECI underwent extensive change. Restructuring of the Group has already been mentioned we sanctioned and executed a R2 billion capital expenditure programme to position ourselves for growth in our chosen markets, expansion into other geographies commenced in earnest via AEL, risk and governance frameworks have been improved substantially and progress has been made in transforming AECI on several fronts, including the B-BBEE equity ownership transactions concluded in January 2012.

Schalk Engelbrecht will succeed me as Chairman. I wish him every success in his new role and know that I leave the Company in competent hands.

I would also like to thank the Group's shareholders, employees, business partners and other stakeholders for their support.

Fani Titi
Chairman

Woodmead, Sandton
30 March 2012