

Synth esis

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Sy

nthesis is the creation of a complex whole from disparate elements. It also means attitudes, motivations and traits integrated into a composite personality. Taking inspiration from this, the 2012 report's theme celebrates the many individuals who together create the Group companies and all the other stakeholders who, collectively, play their unique roles to form the AECI complex.

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is report, for the financial year ended 31 December 2012, is AECI's second integrated report to stakeholders, prepared 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 continue to be an evolutionary and developmental process.

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. Significant work was done in 2012 to enhance and develop further AECI's overall risk framework. Accordingly, as was the case in 2011, 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 2012; King III; International Financial Reporting Standards ("IFRS"); the South African Institute of Chartered Accountants ("SAICA") Financial Reporting Guides as issued by the Accounting Practices Committee; the Carbon Disclosure Project ("CDP") and the Water Disclosure Project ("WDP"); 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. A list of principal subsidiaries and joint ventures is provided in notes 35 and 34 on pages 208 to 210 of this report as well as in the operational review on pages 54 to 77. The report relates to the financial reporting period 1 January 2012 to 31 December 2012.

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 the Group and for reporting their opinion on these statements to stakeholders. Furthermore, the external auditors must determine whether the annual financial statements are in accordance with the Companies Act, IFRS, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee 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. See page 108 in the Social and Ethics Committee's 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 2011's integrated report. There is a continuing emphasis on providing more detailed information on the Company's strategic direction and sustainability initiatives.

STAKEHOLDER ENGAGEMENT

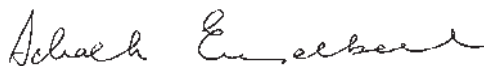
The AECI Group has a broad spectrum of stakeholders. These include employees, investors and financiers, shareholders, customers, suppliers, technology and joint venture partners, local and national government structures, other regulatory and industry bodies, the communities in which the Group operates, special interest groups and the media. Details on the Group's interaction with this spectrum of stakeholders are presented commencing on page 10.

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 Group Company Secretary, AECI Limited, Private Bag X21, Gallo Manor, 2052; or emailed to 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.

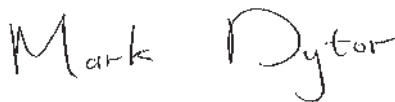
The Board approved the release of the 2012 integrated report on 15 March 2013.



Schalk Engelbrecht
Chairman



Graham Edwards
Out-going Chief Executive



Mark Dytor
In-coming Chief Executive

Woodmead, Sandton
15 March 2013

RISK MANAGEMENT

AECI's focus is on the proactive identification, assessment and management of risk attributable to the nature of our business, as we cannot eliminate risk completely. Effective risk management is regarded as pivotal to the achievement of strategic goals in a sustainable manner. The proper understanding and management of risk enhances certainty and security for employees, customers and other stakeholders. We are better informed, more decisive and the quality of and confidence in decision making is improved.

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 is primarily responsible for establishing, updating and maintaining the Group risk framework based on internationally recognised standards, providing guidance, supporting and coordinating the identification and documentation of risk areas Group-wide and implementing the risk management system.

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 based on AECI's risk capacity, risk appetite and risk limits, it is reported to and reviewed by Senior management and the Executive Committee as part of the risk management escalation process. This enables the prioritisation of risk management activities within the Group.

In conducting its annual review of the effectiveness of risk management, the Board considers the key findings from the ongoing monitoring and reporting process 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. 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 Head Office 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. With this process, together with the enhanced risk management software currently being implemented, AECI ensures that the 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 risk analysis is depicted on a 5 x 5 risk rating scale consisting of potential impact and estimated probability. The potential impacts are minor, moderate, serious, major or severe and are in turn linked to a qualitative and quantitative residual risk value. The estimated probability is based on the following:

- › almost certain = monthly basis;
- › likely = once in one year;
- › possible = once in three years;
- › unlikely = once in five years;
- › rare = more than five years.

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.

PROGRESS IN 2012

In 2012, AECI's already well-developed and comprehensive risk management framework was further refined and entrenched across our businesses and support functions. As was the case in 2011 the output of these efforts was used, inter alia, to determine material issues for inclusion and discussion in this integrated report.

Two key aspects in the risk management environment were the focus of attention in 2012:

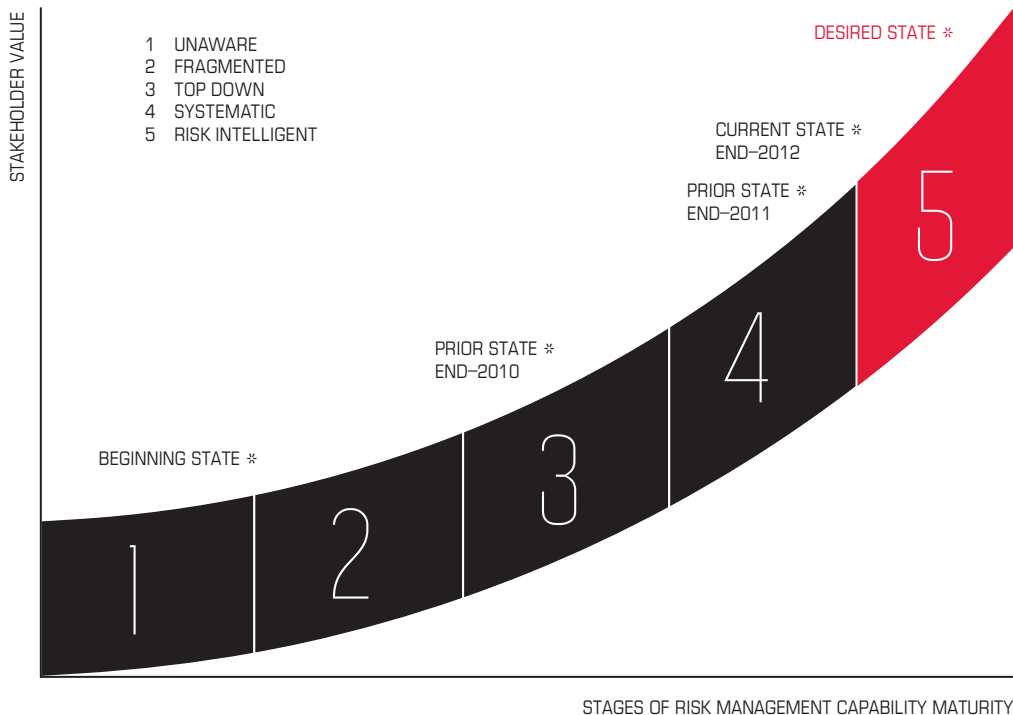
1. Embedding an improved risk culture across our organisation enabling employees, management and Executives, individually and collectively, in taking informed decisions. The risk culture will continue to be entrenched in 2013 and includes the following:
 - › distinct and consistent tone from the top and across all levels of management in respect of risk taking and mitigation;
 - › commitment to ethical principles;
 - › common, Group-wide acceptance of the importance of continual risk management;
 - › the transparent and timely flow of risk-related information top-down and bottom-up within the Group;
 - › encouragement of risk event reporting and active learning from mistakes and near misses;
 - › ensuring that risk management skills and knowledge are valued, encouraged and developed; and
 - › sufficient diversity of perspective, values and beliefs to ensure that the status quo is challenged consistently and rigorously.

2. Streamlining the risk management process whilst ensuring it remains effective and an integral part of the organisation's day-to-day business activities.

As we strive to reach our desired state of risk maturity, we identified the need to automate the risk management system. Under the guidance of the Group Risk Officer, a risk management system was selected and is being implemented Group-wide. The benefits expected include:

- › improved risk management process disciplines;
- › automation and streamlining of risk reporting requirements;
- › improved accuracy, consistency and efficiency in reporting;
- › increased transparency and visibility of the risk environment;
- › enhanced standardisation in reporting across all Group businesses and corporate functions;
- › automated contingency plans and escalation procedures; and
- › improved ownership of the risk management process.

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



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 appraises the Group companies' internal control and reports on this 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, independent external limited assurance is currently obtained on selected indicators as set out on page 108.

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 are 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 integrated report, management has again chosen to use the Company's risk management framework as a guide to materiality. From the risk identification process, nine main material issues have been determined. The table on the right 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
The management of safety, health and environmental issues in accordance with the Group's values.	Customers, employees, communities, regulators.	World-class technology; excellence, professionalism and good governance/compliance in all areas of business.
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.
Economic conditions and industry trends; these include potentially recessionary conditions, movements in foreign exchange rates and commodity prices, and changing trends in the mining and manufacturing sectors in different geographic regions.	Customers, shareholders, investors and financiers, business partners.	A cost base that is globally competitive and continually revised and improved.
Access to and retention of skilled resources.	Employees, business partners, regulators, shareholders, investors and financiers.	Excellence, professionalism and good governance/compliance in all areas of business.
Labour and political stability.	Customers, employees, suppliers, communities, investors and financiers.	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, shareholders, investors and financiers.	Excellence, professionalism and good governance/compliance in all areas of business.
Information Technology ("IT") network security.	Customers, suppliers, employees, regulators.	World-class technology; 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, product liability and excessive costs.	Customers, suppliers, technology partners, business partners, investors and financiers.	World-class technology; excellence, professionalism and good governance/compliance in all areas of business.
Compliance with legislation and standards.	Regulators, employees, communities, investors and financiers.	Excellence, professionalism and good governance/compliance in all areas of business.

STAKEHOLDER ENGAGEMENT: AECl'S MANAGEMENT APPROACH AND STATUS

The AECl Group comprises a broad spectrum of activities in several geographical areas. There are currently 17 businesses and joint ventures reporting to the Executive Committee and, via this Committee, to the AECl Board.

The spectrum of activities is matched by a range of stakeholders. These include employees, shareholders, investors and financiers, customers, suppliers, technology and joint venture partners, local and national government structures, industry bodies, the communities in which the Group operates, special interest groups and the media. Engagement with certain stakeholders is largely the domain of either AECl or of its businesses, with others being of interest at both levels. The graphic on the right summarises stakeholder groupings and information flows. The approach to engaging with diverse stakeholder groups and AECl's efforts in this regard are summarised here.

INTERACTION BETWEEN AECl AND ITS BUSINESSES

All of the material issues set out on page 9 are of relevance in this regard.

Two-way interaction between AECl and its businesses occurs on an ongoing basis, both formally and informally. Formal structures include operating business Board meetings, business reviews, Financial Review and Risk Committees and Executive Committee meetings. AECl's Executive Directors are in attendance at all these meetings (except where businesses are not based in South Africa) and Non-executive Directors chair the Financial Review and Risk Committees.

Other forums, such as cluster-specific conferences and management meetings, also provide opportunities for information sharing and relationship building.

STAKEHOLDERS WITH WHOM ENGAGEMENT IS MOSTLY VIA AECl

AECl: shareholders, investors and financiers, financial analysts

Of primary interest to this stakeholder group are the material issues relating to economic conditions and industry trends, political and labour stability, transformation in the workplace, and compliance with legislation and standards.

AECl communicates with these stakeholders by way of a number of processes. At all times, substance should prevail over form. Processes include announcements released on the JSE's Stock Exchange News Service ("SENS"), the dissemination of financial results and reports electronically and in print, Company presentations, business-specific site visits and meetings.

The Company's Chief Executive, Chief Financial Officer and members of the Executive Committee conduct timely presentations on the Group's performance and strategy to financial analysts, institutional investors and the media in South Africa. The Chief Executive also undertakes roadshows in Europe and the USA, aimed mostly at potential investors.

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

To ensure that shareholders without access to electronic communication are not prejudiced, AECl currently publishes and reports on details of its corporate actions and performance in at least one daily national English newspaper as required by the JSE.

The Chairman of the Board and the Chairmen of Board Committees meet formally with key institutional investors, usually biennially, without Executive Directors or any Senior management representatives being present.

AECl and the JSE

Compliance with relevant legislation and standards is key in this engagement.

As a listed entity, AECl is required to comply with the legal framework of the JSE Listings Requirements, the Companies Act and King III. Compliance is managed largely through the Company's Legal and Secretarial and Communications functions. Further liaison with the JSE, such as work related to the annual assessment for inclusion in the SRI Index, is undertaken as required.

STAKEHOLDERS WITH WHOM ENGAGEMENT IS VIA AECl AS WELL AS ITS BUSINESSES

The Group and its employees

Of major relevance to employees and their representative trade unions are the management of safety, health and environmental issues, skills training and development, transformation in the workplace, and legislation and standards applicable to their status as employees as well as those pertinent to the sustainability of the Company's business as a whole.

The same information that is shared with investors and other financially-based stakeholders is made available and often presented to employees Group-wide and to representative trade unions. This takes place via emails from the Chief Executive, presentations by him to Group management and similar interactions between Group management teams and the businesses for which they are responsible.

Across all businesses, Human Capital departments and specialists are primarily responsible for the Group's policies, procedures and practices in employment, benefits and related human resource matters.

The Group and trade unions

The AECI Group subscribes to the freedom of association principle and recognises the right of all employees to join a trade union of their choice. Representative trade unions therefore are recognised as one of the Group's stakeholders.

Formal recognition agreements exist with the Chemical, Energy, Paper, Printing, Wood and Allied Workers' Union ("CEPPWAWU"), the General Industries Workers Union of South Africa ("GIWUSA"), the National Employees Trade Union ("NETU"), Solidarity and the South African Chemical Workers' Union ("SACWU") at employment centres across the country.

These unions participate in various consultative and negotiation structures such as Management/Shop Stewards Consultative Forums, Employment Equity and Skills Development Steering Committees, Wellness Committees and Safety, Health and Environment Committees that deal with issues that affect employees' interests.

With the exception of Heartland, all Group businesses in South Africa are members of the National Bargaining Council for the Chemical Industry ("NBCCI"). Substantive collective agreements for the bargaining unit are negotiated on an annual basis with representative trade unions under the auspices of the NBCCI – Industrial Chemical Sector. Senior Industrial Relations Managers from the Group participate in this forum as employer representatives.

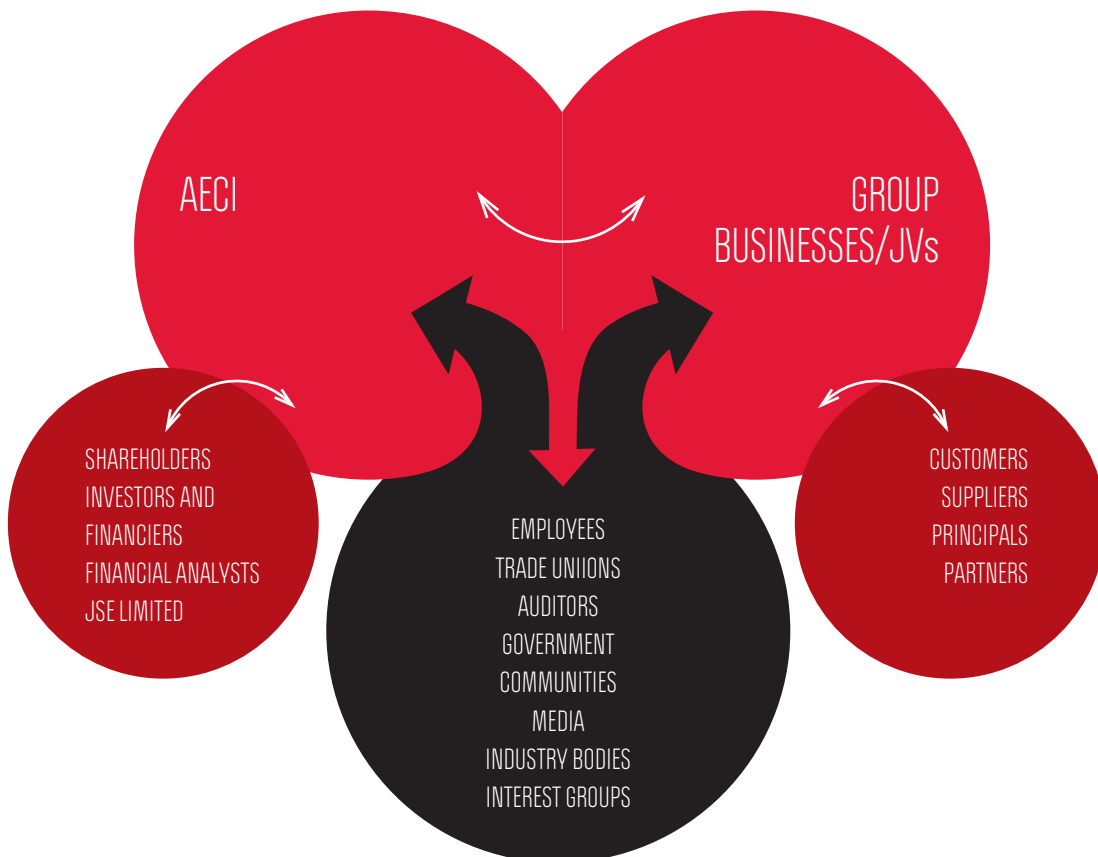
The Group and internal and external auditors

This engagement is driven by good governance requirements, including compliance with relevant legislation and standards.

The Directors are 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 auditing the annual financial statements of the Company and its subsidiaries and for reporting their opinion on these statements to shareholders. In addition, the external auditors are responsible for determining whether the annual financial statements meet the requirements of the Companies Act, IFRS and the JSE Listings Requirements. In 2012, the external auditors also carried out certain pre-agreed procedures pertaining to the Group's half-year results to 30 June.

The Directors must maintain adequate accounting records and they must ensure 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 appraises the Group companies' internal control and reports on this to the Audit Committee.

STAKEHOLDER ENGAGEMENT



The Group and government/authorities

Key material issues are the management of safety, health and environmental issues, skills training and development for employees, transformation in the workplace and compliance with legislation and standards as applicable to the Group.

Engagement with government regulatory structures is undertaken by AECI and its businesses directly and indirectly via industry forums, as deemed most effective and appropriate in any given circumstance. Direct engagement is usually site- or business-specific. Examples included interaction with the Department of Water Affairs at local and national level, and engagement with the Competition Commission regarding proposed Group acquisitions.

A key industry forum for regulatory engagement is the Chemical and Allied Industries' Association ("CAIA"). CAIA engages with both the South African government and various international agencies on a range of matters, predominantly in the areas of safety, health and the environment. Some of the interactions with the authorities are carried out under the auspices of Business Unity South Africa of which CAIA is a member. CAIA's engagements include the Department of Labour's working group on occupational health and safety, climate change matters, and the National Waste Act, No. 59 of 2008. AECI is represented on the Board of CAIA.

The Group and communities

The proper management of safety, health and environmental issues as well as compliance with all other applicable legislation and standards are of primary interest to the communities in which the Group operates.

AECI has had structures in place for engaging with its neighbouring communities for several years. In the mid-1990s, the Umbogintwini site was the first in the Group (and South Africa) to sign a formal charter with its neighbours. The charter sets out principles, responsibilities and procedures to serve as a framework for interaction between the parties.

Communities living within the footprint of influence of manufacturing and storage sites are most often concerned about the effects of site incidents and the management of these. Emergency preparedness and emergency response information, therefore, is shared with neighbours using channels such as the distribution of pamphlets, local newspaper articles and advertisements, and invitations to participate in site-based emergency exercises. The latter participation is via representatives mandated by communities to represent them in these matters.

Structures in place at AECI's largest operating sites include:

- › at Modderfontein, AEL Mining Services ("AEL") oversees the functioning of a Community Awareness and Emergency Response Committee ("CAER"). Heartland leads a forum focused on current and future land use issues; and

- › at Umbogintwini, CAER has been replaced by issue-specific stakeholder and community liaison forums that deal with inter alia water quality (including discharges to sea), air emissions and development plans. Although stakeholder engagements are generally managed by the Umbogintwini Industrial Association, Heartland provides assistance with logistical arrangements and, more importantly, through the site's Community Liaison Officer.

Other interactions include local corporate social investment projects in the areas of education, health, charitable contributions, and skills and enterprise development. Most often, contributions are not only in cash but also in the form of expertise and guidance.

The Group and the media

All material issues are of interest to the media in its role as a conduit for public information.

AECI's Communications function maintains regular contact with the media by disseminating relevant information of both a financial and non-financial nature. Group businesses also interact with the media regarding matters specific to their sites or businesses. Other than in instances where media comment/coverage relates to marketing or product news, businesses are required to keep the AECI Head Office informed of likely media coverage. This is particularly true in instances where potentially controversial or negative comment is expected, or when it is possible that coverage will impact on/refer to the Group as a whole.

Where businesses do not have the necessary resources to deal with media requests or enquiries on their own, AECI's Communications function provides guidance or responds on that business' behalf after having confirmed the content of the response with management.

For communications in any situation which can be defined as a crisis or potential crisis (operational, industrial action, legal issues etc.), the preparedness of each business for such an eventuality is confirmed by annual Letters of Assurance submitted by Managing Directors to the Chief Executive.

Depending on the type and scale of an emergency, AECI Head Office resources are made available to assist the affected site or business. The hierarchy for escalating notifications of crises, and subsequent progress reports, is clearly defined and has been communicated to all businesses.

The Group and industry bodies

In addition to its involvement in CAIA, as already summarised, AECI and its businesses are involved in a number of initiatives and associations pertinent to all or some of their business activities. In this way, issues relevant to every aspect of the sustainability of the Company or that of one or more of its businesses are addressed. Initiatives include:

- › longstanding membership of and involvement in SAFEX International, which aims to protect people and property against dangers and damage by sharing experiences in the global explosives industry; an AEL representative serves on the organisation's Board of Governors;

- › active membership of the Process Safety Forum for South Africa's chemical industry;
- › the Chemicals Handling and Environmental Forum is tasked with promoting the responsible handling of chemicals throughout their lifecycle by providing a forum for stakeholders to discuss critical issues pertaining to the handling, storage, transport and distribution of hazardous chemicals. The Forum comprises representatives of CAIA member companies, government departments, other allied industry associations and various industry experts. AECI is represented at this Forum;
- › Responsible Care™ is the global chemical industry's voluntary initiative for the continual improvement of performance in safety, health and environmental practices. It is a public commitment to responsible management and stewardship of products and services through their lifecycle. It is also the vehicle used by the industry in its pursuit of improved product stewardship.

Responsible Care™ was launched by the Canadian Chemical Producers' Association in 1984 and has since been adopted in 55 countries. CAIA is the custodian of Responsible Care™ in South Africa, with 145 South African businesses being signatories. The Responsible Care™ Standing Committee, currently chaired by an AECI Senior Manager, is responsible for guiding the programme.

AECI Limited is a signatory to Responsible Care™, as is AEL in South Africa. All companies in the specialty chemicals cluster which are based in South Africa are also signatories in their own right. In South Africa signatories have their compliance with the Management Practice Standards verified by independent third party auditors. The majority of signatory companies in the Group have been audited successfully against these standards;

- › participation in the CDP and the WDP. The CDP is a global initiative administered locally by the National Business Initiative, of which AECI is a member. The CDP is an international voluntary disclosure programme. Data on greenhouse gas emissions and climate change response actions by business are collated on behalf of global investors managing assets of US\$78 trillion in 2012. The WDP is a newer global programme, aimed at catalysing sustainable corporate water management;
- › Heartland is a member of the South African Property Owners Association ("SAPOA"), the Green Building Council of South Africa ("GBCSA") and the South African Council of Shopping Centres ("SACSC"). SAPOA is the official voice of the commercial property industry in South Africa and assists members in developing their businesses through inter alia education, information, technical committees and action on legislation. It partners with universities to offer professional property education courses. It has working relationships with government at all levels. The GBCSA draws its members from the property and construction industries and provides access to green building news, research and information regarding the Green Star SA rating. This rating uses tools to measure and reward environmental leadership in the property industry in an objective manner. The body also provides access to a network of green building advocates and practitioners.

The SACSC sets standards for and promotes the development of the shopping centre industry by creating communications opportunities, providing information and education, encouraging ethical and professional behaviour and safeguarding the interests of its members.

The Group and special interest groups

These stakeholders are often, but not always, aligned with communities in which the Group operates and issues of concern to them are similarly aligned. Although their engagement requirements often overlap with those of communities, their needs are recognised separately.

Wherever possible, such stakeholders are encouraged to participate in the Group's affairs via existing structures (liaison forums and the like). Where this is not possible separate arrangements are made to meet the needs of such stakeholders who, as a rule, are concerned mainly with matters broadly classified as being environmentally- and health-based. Arrangements include meetings, site/business visits and participation in/support of interest group initiatives such as conferences.

Examples of interest groups include the Modderfontein Conservation Society, the Wildlife and Environment Society of South Africa, and the South Durban Community Environmental Alliance.

STAKEHOLDERS WITH WHOM ENGAGEMENT IS MOSTLY VIA GROUP BUSINESSES

Group businesses and customers/suppliers

Customer service and engagement is at the heart of the daily business of AECI's wholly-owned subsidiaries and joint ventures. It is fundamental to the value add business model and, as such, it embraces the spectrum of business-related issues that could affect performance as well as addressing external considerations such as labour relations and socio-political stability.

Each business has a robust system in place to ensure that any changes in customers' needs are met quickly and efficiently. Equally, relationships with suppliers are monitored continually and modified as required. Terms of engagement with customers and suppliers are clearly defined and, where appropriate, Group-wide policies and procedures guide the businesses to ensure that customer- or supplier-related risks are properly understood and managed in line with AECI's risk appetite.

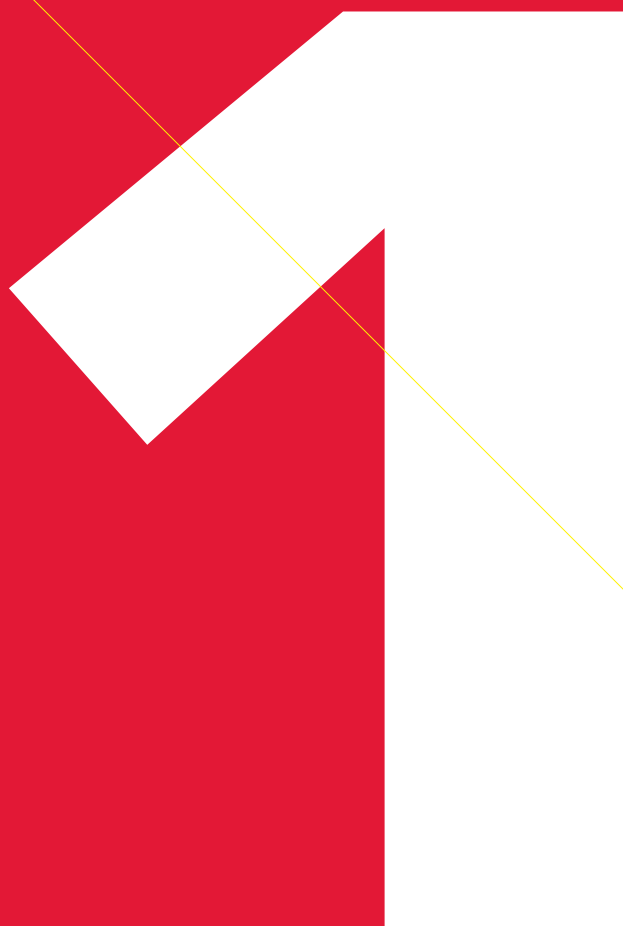
Group businesses and principals/partners

Technology and other agreements, as well as strategically advantageous partnerships, are one of the bases for the AECI Group's growth. Individual businesses engage with their principals and partners as a matter of course. Major changes, developments or opportunities are escalated to the AECI Executive Committee and then to the AECI Board, depending on the significance of the real or proposed change, development or opportunity.

This ensures that issues such as competitor and customer trends, economic conditions and industry trends, and the appropriateness of technologies, products and services are addressed.

AECI is pleased to
present its integrated
report for 2012.

The Group made
good progress on the
strategic, operational,
governance and other
fronts in the year
under review.





OVERVIEW AND STRATEGY

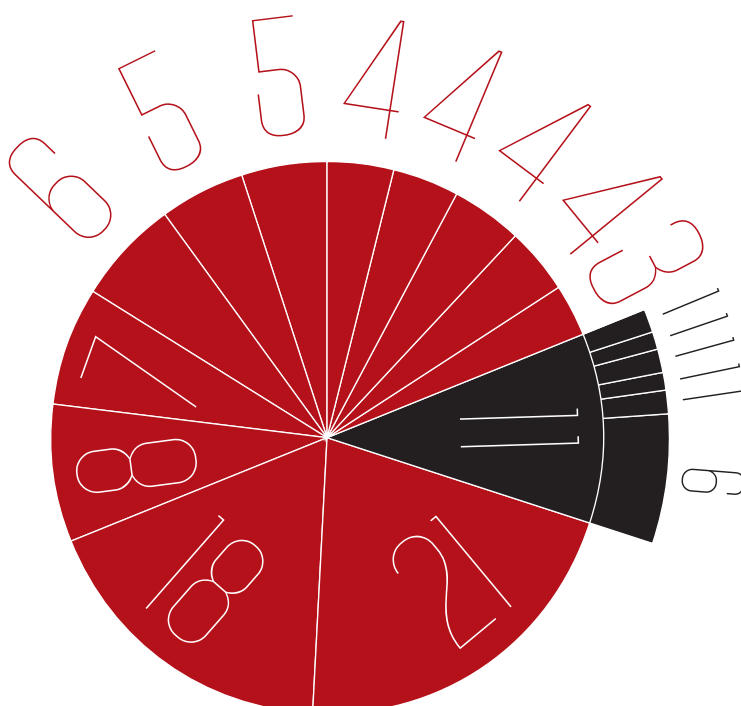
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2012 GROUP MINING REVENUE BY MINERAL MINED (%)



- 22 PLATINUM
- 19 COAL
- 15 COPPER, COBALT, CHROME AND NICKEL
- 15 GOLD
- 9 QUARRYING, CONSTRUCTION AND CIVIL
- 5 DIAMOND
- 4 IRON ORE
- 11 OTHER
- 1 PHOSPHATE
- 1 URANIUM
- 9 OTHER

2012 SPECIALTY CHEMICALS REVENUE BY MARKET SECTOR (%)

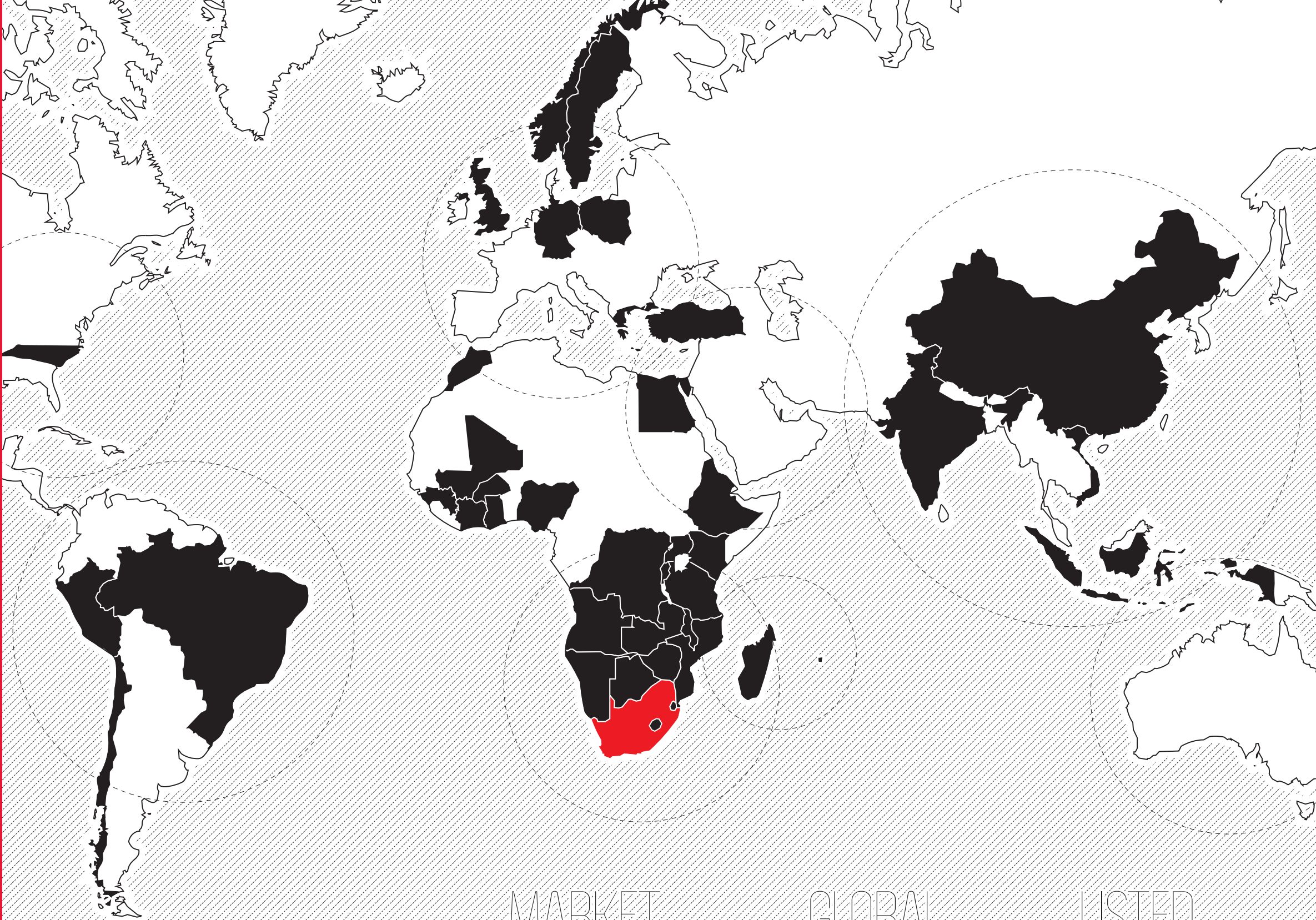


- 21 MINING
- 18 AGRICULTURE
- 8 FOOD AND BEVERAGE
- 7 PAPER AND PACKAGING
- 6 CHEMICAL INDUSTRY
- 5 DETERGENTS
- 5 EXPLOSIVES
- 4 OIL AND REFINING
- 4 TOILETRIES, COSMETICS AND PHARMACEUTICALS
- 4 COATINGS, INK AND ADHESIVES
- 4 PLASTICS AND RUBBER
- 3 AUTOMOTIVE
- 11 OTHER
- 1 APPLIANCES AND FURNITURE
- 1 CONSTRUCTION
- 1 STEEL AND METALS
- 1 ENGINEERING AND FOUNDRY
- 1 TEXTILES AND LEATHER
- 6 VARIOUS OTHER

AECI IS AN EXPLOSIVES AND SPECIALTY CHEMICALS GROUP DOMICILED IN SOUTH AFRICA. GROUP BUSINESSES SERVICE THE MINING AND MANUFACTURING SECTORS BOTH LOCALLY AND INTERNATIONALLY.

THE FOCUS FOR GROWTH IS ON AFRICA, SOUTH EAST ASIA AND SOUTH AMERICA. AECI'S BUSINESSES ARE CHARACTERISED BY APPLICATION KNOW-HOW AND SERVICE DELIVERY.

THEY OFTEN OPERATE IN NICHE MARKETS AND ARE SUPPORTED BY LEADING TECHNOLOGIES WHICH ARE DEVELOPED IN-HOUSE OR ARE SOURCED FROM INTERNATIONAL PARTNERS.



INTERNATIONAL FOOTPRINT AND GEOGRAPHIES OF INTEREST

MARKET
CAP

R10,2bn

GLOBAL
HEAD COUNT

6 895

LISTED
ON THE

JSE

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 and in key emerging markets around the world.

The broad spectrum of industries served is illustrated in the graphs on page 18.

The map on the preceding page 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 right.

GROWTH STRATEGY

Regional expansion will leverage the Group's already extensive footprint in Africa and other selected markets in developing countries will also be targeted for growth. South East Asia and Brazil are of particular interest.

AEL will commission three new plants in Africa in 2013. In addition, the investment in a nitric acid plant and an ammonium nitrate solution plant in Bontang, Indonesia, will provide in-country access to a secure source of ammonium nitrate. This will assist in sustaining AEL's growth trend in the region.

In the specialty chemicals cluster, regional growth is being pursued in Africa in key markets that include mining; the water oil, gas and energy sector; agriculture; food production and preservation; and the personal and home care sectors.

Businesses will expand their areas of influence by partnering with their customers as they grow and by maximising the benefits of leading technology. In this regard ImproChem's position subsequent to the acquisition of General Electric's ("GE") Chemical and Monitoring Solutions business in Africa was a noteworthy development in 2012.

Potential acquisitions in Brazil are being identified and they will be pursued in line with the Group's risk/reward appetite, as will opportunities in other geographies.

EXPLOSIVES

AEL is the leading developer, producer and supplier of commercial explosives, initiating systems and blasting services for the mining, quarrying and construction markets in Africa. In Indonesia, the company is the second largest supplier of explosives and services to the local mining industry. With its Head Office at Modderfontein in Johannesburg, South Africa, AEL has production facilities and offices throughout Africa and in selected international regions in South East Asia, South America and Europe.

SPECIALTY CHEMICALS

In the specialty chemicals cluster, 15 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 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.

SPECIALTY FIBRES

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

Previously a stand-alone segment, this business was included in the specialty chemicals cluster from January 2013.

PROPERTY

In addition to its core businesses the Group has a valuable land asset, the release of which is managed carefully. The 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 or sale over the longer term for residential, commercial and industrial end uses and for leasing purposes.

AECI'S MODEL



GROUP STRUCTURE



OUR VALUES

BOLD

INNOVATIVE

GOING GREEN

ENGAGED

RESPONSIBLE

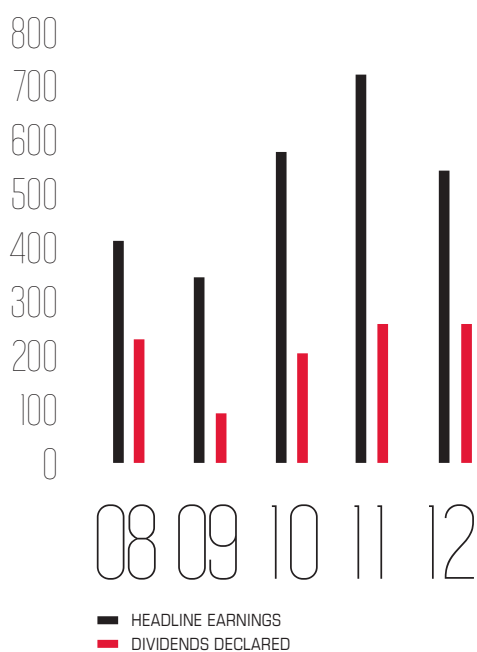
GROUP RESULTS AT A GLANCE

FOR THE YEAR ENDED 31 DECEMBER 2012

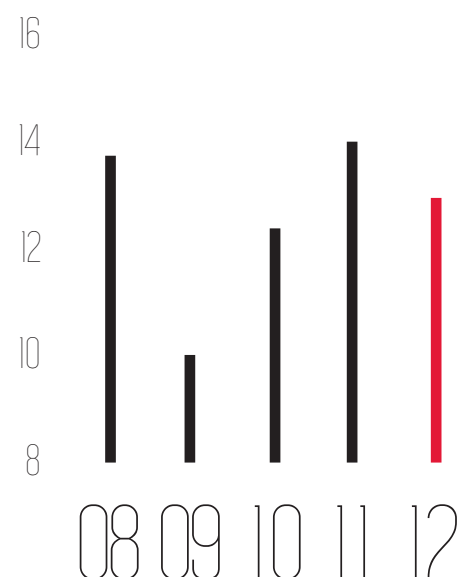
Overview and strategy
Group results at a glance

	2012	2011	% change
Revenue (R millions)	14 916	13 397	11
Profit from operations (R millions)	1 341	1 316	2
Headline earnings (R millions)	611	772	(21)
Net profit attributable to ordinary shareholders (R millions)	630	777	(19)
Headline earnings per ordinary share (cents)	547	720	(24)
Dividends declared per ordinary share (cents)	263	257	2
Market capitalisation at 31 December (R millions)	10 234	9 845	4
Profit from operations to revenue (%)	9,0	9,8	
Return on net assets (%)	16,7	18,1	
Return on invested capital (%)	12,9	14,0	
Net borrowings as a percentage of shareholders' interest (%)	32	36	

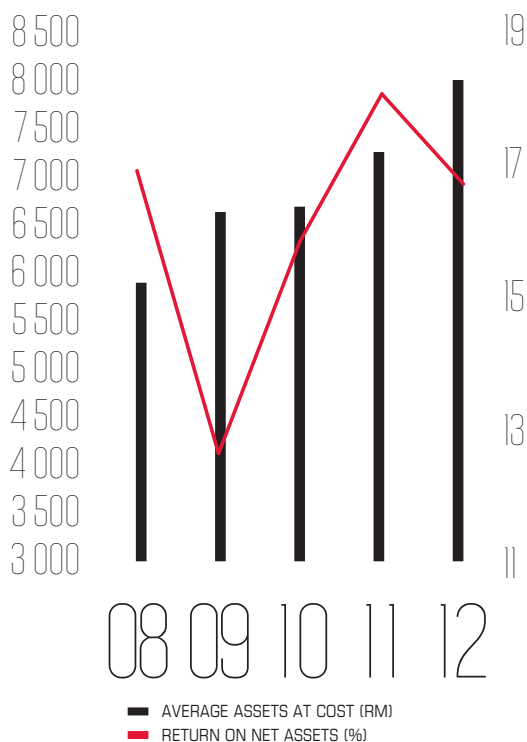
HEADLINE EARNINGS AND DIVIDENDS PER ORDINARY SHARE (CENTS)



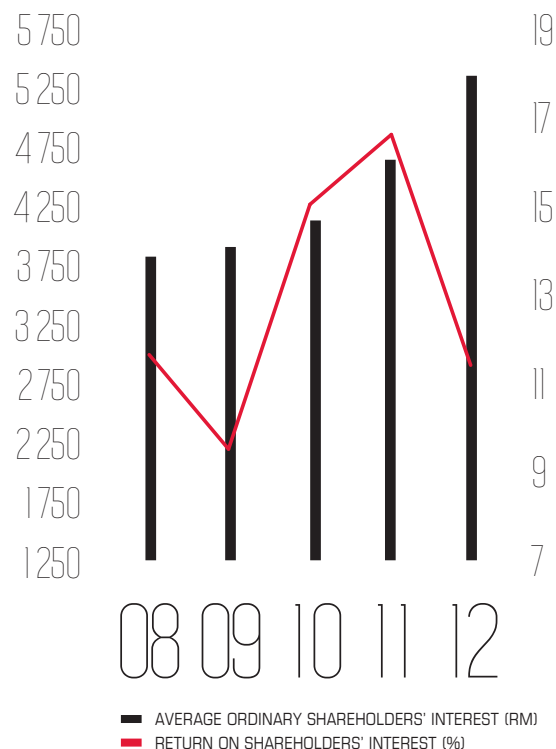
RETURN ON INVESTED CAPITAL (%)



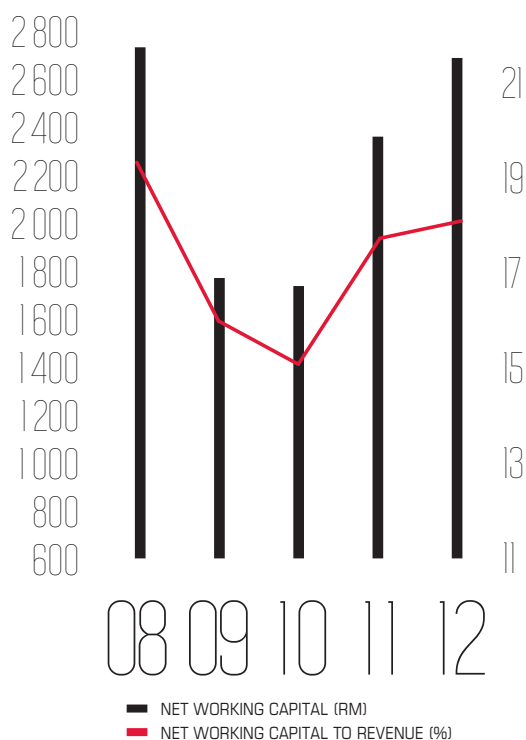
RETURN ON NET ASSETS



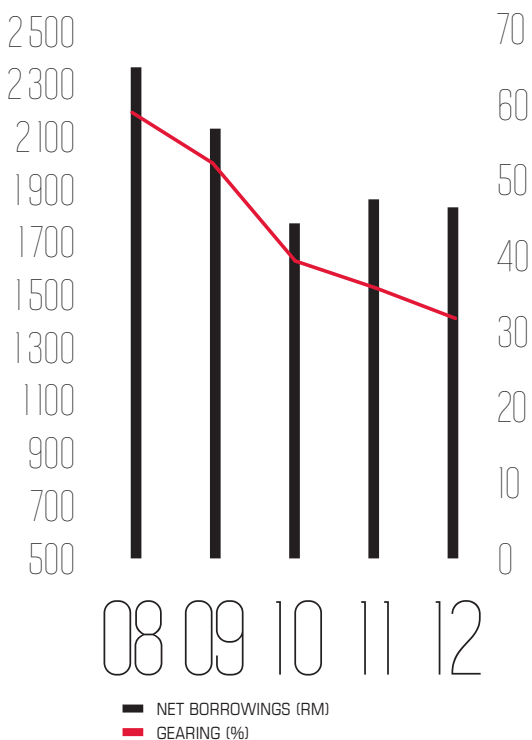
RETURN ON SHAREHOLDERS' INTEREST



NET WORKING CAPITAL TO REVENUE



BORROWINGS AND GEARING



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.

Overview and strategy
Group results at a glance

	2012 R millions	%	2011 R millions	%
Revenue	14 916	100	13 397	100
Purchased materials and services	10 803	72	9 296	69
Value added through operations	4 113	28	4 101	31
Other income	41	–	30	–
Total value added	4 154	28	4 131	31
Distributed to:				
Employees	2 435	59	2 390	58
Lenders	263	6	236	6
Shareholders	297	7	237	6
Direct taxes	345	8	306	7
Reinvested in the Group	814	20	962	23
	4 154	100	4 131	100

MONETARY EXCHANGES WITH THE STATE

The following monetary exchanges with the state took place during the year:

	2012	2011
Direct taxes	345	306
Employees' tax collected on behalf of the state	445	388
Property taxes paid to local authorities	12	29
Skills development levies paid to the South African Revenue Service ("SARS")	18	16
VAT collected on behalf of the state	113	134
Channelled through the Group	933	873

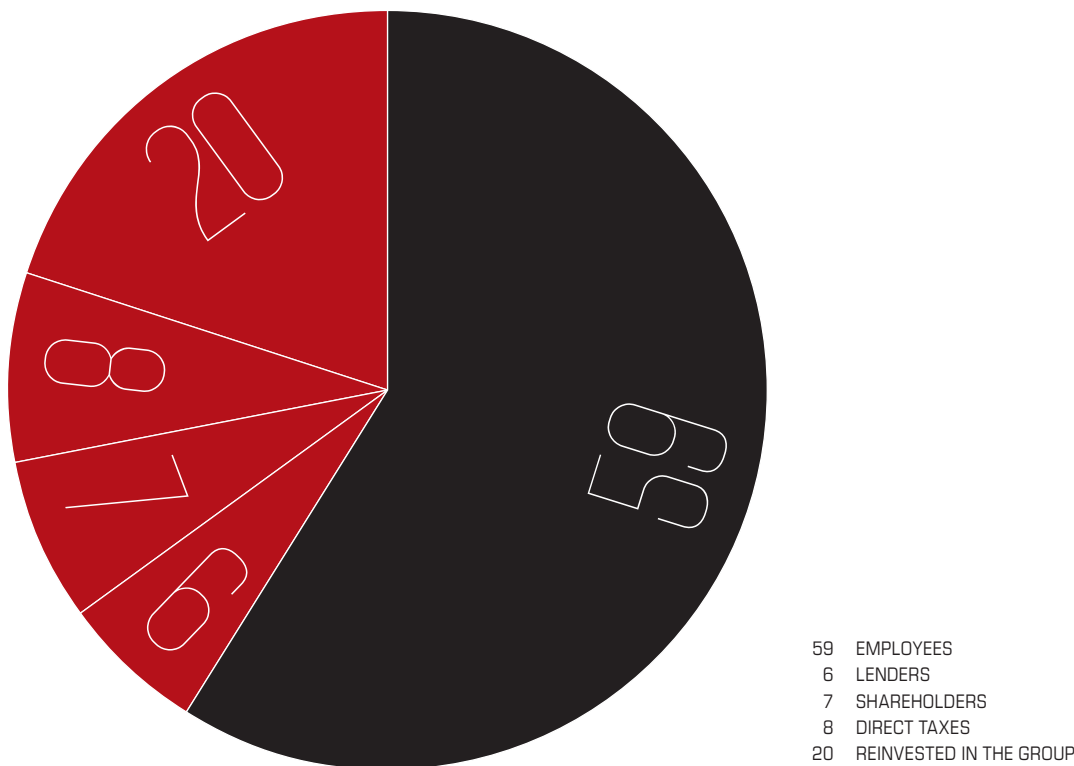
FOREIGN CURRENCIES

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

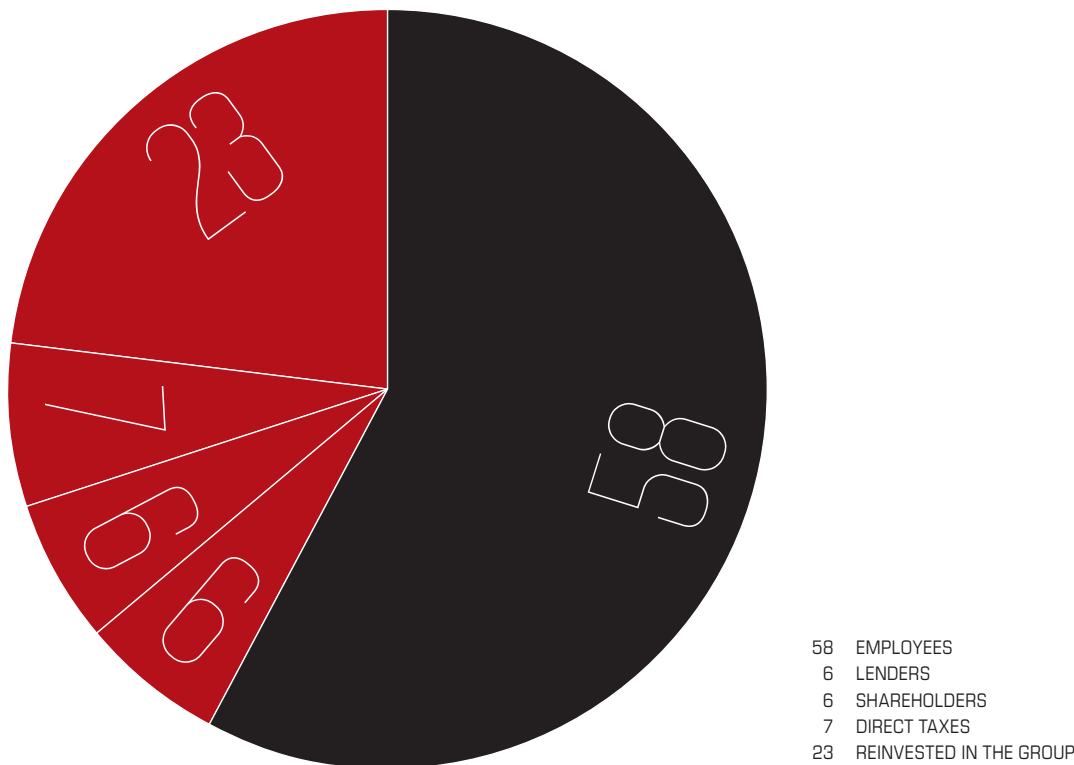
Rand	2012	2011
Euro	11,19	10,51
Japanese yen	0,10	0,10
Pound sterling	13,72	12,53
US dollar	8,49	8,15

DISTRIBUTION OF VALUE ADDED (%)

2012



2011





**Schalk
Engelbrecht (66)**
BSc, MBL

Schalk took up his position as AECI's Chairman in May 2012. He is Chairman of the Nominations Committee and a member of the Remuneration Committee. Schalk also serves on the Board of Imperial Holdings. He was AECI's Chief Executive from 2003 to 2008.

**Richard
Dunne (64)**
CA(SA)

Richard joined AECI's Board in 2007. He is Chairman of the Remuneration Committee, a member of the Audit, Nominations, Remuneration and Risk 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 American Platinum, the Standard Bank Group and Tiger Brands.

**Zellah
Fuphe (44)**
BSocialSc

Zellah joined the AECI Board in 2007 and is a member of the Social and Ethics Committee. She is currently an Executive at Dimension Data. Prior to this, she was Managing Executive of Plessey Broadband Investments and also served as Managing Director of Plessey South Africa for a number of years. Zellah is a member of 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 (69)**
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 and Audit Committees of Altron, Imperial Holdings and Woolworths.



Liziwe Mda (47)
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 production, process engineering and projects experience at SAPREF, Sasol Technology and Unilever SA. Liziwe is furthering her business skills by completing an MBA degree at the Wits Business School.



Allen Morgan (65)
BSc, BEng (Elect), Pr Eng

Allen joined the AECI Board in 2010. He is Chairman of the Risk Committee and a member of the Audit Committee as well as 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 directorships include Imalivest Assets, Kumba Iron Ore and BioTherm Energy.



Litha Nyhonyha (53)
CA(SA)

Appointed to the AECI Board in 2006, Litha is Chairman of the Social and Ethics Committee and a member of the Audit, Nominations and Remuneration Committees. He also chairs AEL's Financial Review and Risk Committee. Litha is Executive Chairman and a founding member of Regiments Capital, a Black-controlled and managed financial services group. He is also a Director of several listed and unlisted companies including Kumba Iron Ore and Sovereign Foods.



Rams Ramashia (55)
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. Rams is a practicing advocate of the High Court and a member of the Pretoria Society of Advocates.



Graham Edwards (58)*

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

Graham served as AECI's Chief Executive from 2008 until 28 February 2013. Prior to this he was Managing Director of AEL and he 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 will retire from the AECI Board on 28 February 2013.

Mark Dytor (51)*

Mark succeeded Graham Edwards as Chief Executive on 1 March 2013. He was appointed to AECI's Executive Committee in 2010 and to its Board in January 2013. Mark holds a portfolio of chairmanships at companies in AECI's specialty chemicals cluster and he has been leading the Company's strategic growth thrust in mining chemicals. 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.

Mark Kathan (42)*

CA(SA), AMP (Harvard)

Mark is AECI's Financial Director and Chief Financial Officer, which positions he took up in 2008. Prior to joining AECI, he held a senior finance position at Nampak and served on that company's Group Executive Committee. In addition to overall responsibility for the finance and treasury functions, Mark oversees the Group's Communications and Investor Relations, Legal and Secretariat, Internal Audit and IT services as well as its retirement funds. He also plays a leading role in AECI's Mergers and Acquisitions activities.



Anthony Diepenbroek (56)

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.

Edwin Ludick (48)

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 of four companies in the specialty chemicals cluster, most recently ChemSystems. He relinquished this position in 2012 to focus on opportunities for AECI's chemicals business in Brazil. He retained his portfolio of chairmanships of companies in the specialty chemicals cluster.

Khosi Matshitse (56)

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 2012. She is overseeing the transformation of the Group, assisting in the internationalisation of AECI's businesses and is also focusing on transforming Human Capital into a strategic service provider. Khosi 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 (45)

Schalk has a Higher National Diploma in Analytical Chemistry. He took up his position as Managing Director of AEL in April 2012, having served as Managing Director of Akulu Marchon prior to this. He joined ChemSystems in 1991, 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, serving also as Chairman of a number of specialty chemicals subsidiaries. He joined AECI's Executive Committee in 2010.

* Executive Director



Gary Cundill (45)

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.



Gugu Mthethwa (53)

BSc Eng (Chem), MBA

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



Fulvia Putero (50)

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 (49)

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

Nomini joined AECI in 2011 as Group Company Secretary. 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 (40)
CA(SA), CIA

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

Trevor Starke (44)
CA(SA)

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

Daryl Tarr (51)
Dip Elec Eng LC

Daryl is the Group's IT Manager with overall responsibility for managing IT operations. He joined AECL 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 (37)
CA(SA)

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

Louis van der Walt (58)
Bluris, LLB, CFP, Advocate of the High Court

Louis has been Manager of AECL's Retirement Funds since 1999. He joined AECL as a Legal Advisor in 1991, having worked in similar capacities elsewhere. Louis is a Certified Financial Planner.

De

ar Stakeholder

This is my first letter to you as Chairman of AECL. My seven months in this role have reiterated for me the many ways in which AECL lives by its guiding principle of Good Chemistry.

Good Chemistry underlies the high quality products and services we supply to our customers. It guides our approach to good corporate citizenship in our dealings with employees, communities, investors and our other stakeholders. It is evident in the way we implement the principles of good governance and integrate the concepts of sustainability into our strategy and businesses.

The theme of this, AECL's second integrated report is Synthesis: the creation of a whole from many disparate parts. This is a good metaphor for our Group, where different businesses engaged in the manufacture and distribution of chemicals and explosives, and the effective use thereof, are unified by our vision and values.

AECL's underlying businesses produced creditable results in an extremely challenging business environment, particularly in South Africa, and the benefits of our growth into markets beyond our borders began to emerge. Revenue rose by 11% to R14 916 million (2011: R13 397 million) and our profit from operations was R1 341 million, an improvement on the R1 316 million achieved in 2011. Cash generated by operations was R1 867 million (2011: R1 883 million).

OPERATIONAL STRATEGY

Our operational strategy is based on four pillars.

1. Value-added customer-centric services

AECL's business model is based on building long-term customer relationships and our products and services are designed to add value to the specific circumstances of our customers. We focus on innovation to ensure that we offer unique products that cement our relationships with our customers and help the long-term sustainability of their business and ours.

During 2012 we ran workshops to improve our interactions with customers and put in place new mechanisms to ensure that our business strategy remains focused on our customers. We also developed new ways of engaging with customers to better meet their needs.

2. Cost base competitiveness

Cost efficiency is an ongoing theme in AECL, with the goal of providing our customers with products and services of the highest quality at globally cost-competitive prices. Where there are appropriate benchmarks available, we measure our performance against international best practice.

We continually review whether we have the right businesses in our portfolio and objectively measure the competitiveness of each of them. We investigate ways in which businesses can be divisionalised, restructured or combined in the Group to enhance efficiencies further.

Schalk Engelbrecht
Chairman



During 2012, we restructured certain businesses in the specialty chemicals cluster and this directly supported profitability in the year. Details in this regard are given in the Chief Executive's report commencing on page 40 and in the operational review on page 54.

While the delay in realising the full cost saving benefits associated with the Initiating Systems Automated Plant ("ISAP") project has been frustrating, the ultimate benefits of the project in quality and cost efficiency gains are already clear.

3. World-class technology

We can only meet the expectations of our customers at a competitive price if we continually invest in technology and product development to ensure that we meet world-class quality and production standards. Our role as licencees or partners in many of our specialty chemicals businesses gives us exposure to the leading technology of our principals, such as access to the specialist formulations AECI gained as part of the GE Chemicals and Monitoring Solutions acquisition in the year. Our strategic acquisitions add further products and technologies to our portfolio, aligned with the Group's long-term aspirations.

The benefits of the R2 billion strategic capital expenditure programme we essentially completed in 2011 were evident during the year, particularly in the mining chemicals business.

4. Responsibility

AECI is committed to business excellence and a professional approach in everything we do. We believe that such good practice is good business.

During 2012 we continued to deepen the application of the principles contained in King III. We made further progress in implementing the requirements of the new Companies Act, including drafting a memorandum of incorporation for the Company. The latter was approved by our shareholders in February 2013. We held training sessions throughout the organisation to highlight the impacts and applications of the Companies Act, revised our Code of Ethics and Business Conduct and rolled out pertinent training.

Further information on our approach to corporate governance and activities during the year is contained in the corporate governance report commencing on page 78.

We continue to develop our human capital strategy and approach to ensure that we have the right skills base to support our growth plans and transformation imperatives. World-class quality and cost efficiency require a highly skilled and motivated workforce operating in a healthy and safe working environment.

We are extremely proud of our safety performance this year, which reflects the efforts the Group has dedicated to ensuring the safety of our people and the diligence of our employees in maintaining a safe workplace environment.

Other highlights included the centralisation of talent management under a talent management framework supported by Talent Boards, centralised Group recruitment, the finalisation of a more relevant recruitment policy and good progress in Employment Equity matters.

Our Broad-based Black Economic Empowerment ("B-BBEE") transactions approved in January not only represented a quantum shift in AECI's transformation journey but also aligned us more closely with the requirements of our customers. Individual businesses, too, made progress in improving their own B-BBEE scorecard ratings.

AECI carefully monitors and manages the Group's environmental footprint, in compliance with environmental laws and regulations, to ensure that we continue to be accepted as responsible neighbours by the communities in which we operate.

Our Green Gauge environmental programme sets ambitious targets to minimise our own consumption of resources, carbon footprint and waste generation. Details in this regard are included on page 88 of the Social and Ethics Committee's sustainability report.

POSITIONED FOR GROWTH

The Group's focus for the last few years has been on managing our costs and investing in improving our production capacity. Our balance sheet has strengthened and we have made pleasing progress in optimising our cost base. The Group's strategic focus is now shifting to the realisation of our growth ambitions.

We continue to evaluate acquisition opportunities in South Africa, the rest of Africa, South East Asia and South America. We adopt a cautious approach and only proceed where there is a good strategic rationale, a strong cultural fit and the appropriate risk/reward balance.

AEL's extensive footprint in Africa provides a channel for other businesses to access these markets and we continue to leverage this advantage.

INDUSTRIAL RELATIONS

Strikes in the mining and transport sectors had a severe negative effect not only on AECI's performance in 2012 but on South Africa as a whole and the continued uncertainty prevailing in the labour relations arena is cause for concern. To quote Gill Marcus, Governor of the South African Reserve Bank: "While recognising that there are real issues that underlie the recent wave of wildcat strikes, the Bank is concerned about the conduct of some of the parties involved in the recent labour market instability and, in particular, the unacceptable levels of violence that have accompanied the strikes. It is critical that both employers and employees take constructive steps to address the fraught relations that appear to be prevalent in a number of areas.

"The costs (of the strikes) are not only the direct costs in terms of lost production, but also the possible increased costs of finance. In the context of a very weak global economy, where South Africa should strive to be a destination of choice and thereby grow the economy and achieve the pursued developmental and employment goals, the ability to attract investment and improve the country's ratings must be a clear objective." (November, 2012)

AECI has a long history of healthy and constructive labour relations and practices and we will continue to devote the necessary time and attention to maintaining these to the benefit of all our employees, the Group as a whole and other stakeholders.

DIRECTORATE

I succeeded Fani Titi as Chairman of the Board in May, when he retired. I thank him for his contribution to the Company's affairs over several years as well as his wise counsel.

Graham Edwards will retire as Chief Executive at the end of February. On behalf of the Board, I would like to acknowledge Graham's service to the Group during his 34-year career and thank him for his contribution to the Board since his appointment as an Executive Director in 2007 and Chief Executive in March 2008.

We are pleased to welcome Mark Dytter as the new Chief Executive and look forward to working with him to take AECI's growth strategy forward.

I would like to thank the Board for their dedication and support during the year. I would also like to thank the management team, employees, shareholders, business partners and other stakeholders for their on-going support of the Group.

OUTLOOK

Although we anticipate that the challenges facing the South African and global economies will take time to resolve, we believe that AECI is well positioned to take advantage of opportunities that emerge. The Group's growth strategy is supported by our recent investments in capital expansion as well as the products, technologies and distribution channels secured by our acquisitions. By maintaining our focus on the needs of our customers and managing our cost base effectively, we are confident we can continue to generate sustainable returns for all our stakeholders.



Schalk Engelbrecht
Chairman

Woodmead, Sandton
25 February 2013

The Group delivered
credible results in a
very difficult environment.
The focus now is on the
growth of its strategy.

2



STAKEHOLDER REPORTS

- 40** Chief Executive's report
- 48** Chief Financial Officer's report
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- 78** Corporate governance
- 88** Social and Ethics Committee's sustainability report
- 110** Remuneration report

AE

CI's underlying businesses delivered a creditable performance in a year that was characterised by unexpected events and a difficult trading environment.

The local mining and manufacturing industries, which represent the majority of our customer base, were already under severe pressure from depressed conditions both in South Africa and in the economies of our major developed trade partners. The series of increasingly violent strikes that affected our mining, transport and agricultural sectors exacerbated the situation.

In this context it was pleasing that we achieved revenue and profit growth and made good progress in implementing our strategy. The benefits of expanding and deepening our footprint in the rest of Africa and Asia, which offset lower growth in South Africa, were evident in this improvement.

The Group made acquisitions for R200 million and other investments for close to R100 million. While these new businesses did not contribute to earnings in 2012, they further entrench AECL in strategically significant products and growth markets and will contribute to results in future periods. We continue to evaluate further potential acquisitions.

Good progress was also made in the non-financial aspects of our business with the best-ever safety performance recorded, and the finalisation of our B-BBEE transactions in the first quarter of the year. A highlight was the opening to the public of a 275 hectare urban conservation reserve at Modderfontein.

The year was not without its disappointments. There were no meaningful property sales from Heartland and, while AEL's ISAP plant is showing impressive improvements in product quality and cost savings, realisation of the full cost efficiency benefits is only expected in 2013.

FINANCIAL RESULTS

Revenue increased by 11% to R14 916 million (2011: R13 397 million) and profit from operations increased by 2% to R1 341 million (2011: R1 315 million). The trading margin declined to 9,0% (2011: 9,8%).

Headline earnings declined by 20, 9% to R611 million (2011: R772 million). However, if earnings are adjusted for the non-cash IFRS 2 B-BBEE charge, it increased by 0,9%.

The Group generated R1 867 million in cash from its operations and the balance sheet remained strong even though working capital levels were still at relatively high levels due to investments in sales growth and increasing sales in some regions with longer supply chains.

Capital expenditure totalled R557 million (2011: R475 million). This was split between growth capital expenditure of R265 million, mostly at AEL, and sustenance capital expenditure of R292 million.

Graham Edwards
Out-going Chief Executive



2012 FOCUS AREAS

In last year's report we listed six focus areas we planned to address in 2012.

› Optimising our new plants

Good progress was made in optimising ISAP as well as Senmin's xanthates and polyacrylamide ("PAM") plants. Cost savings associated with the ISAP project are being realised more slowly than planned however. The hardening of the labour relations climate after the Marikana tragedy delayed our costs reduction programme in the conventional initiating systems plants. While we had forecast annualised cost savings of R100 million from ISAP we realised only R57 million of this in 2012 from natural staff attrition and plant improvements.

› Pursuing and acting on opportunities for expansion of the specialty chemicals cluster in South America

South America, and particularly Brazil, represents an attractive and complementary market for AECI and is an increasingly popular destination for our customers. Significant resources were dedicated to evaluating appropriate acquisitions although none of these were finalised in 2012.

After a detailed strategic review AECI sold its 50% interest in Resitec in Brazil to its joint venture partner, the MeadWestvaco Corporation. Although investment in Brazil remains part of AECI's strategy, the review concluded that Resitec's business model and positioning was unlikely to contribute meaningfully to AECI's strategic objectives in the region.

› Continuing AEL's expansion in markets outside of South Africa

During September 2012, AECI negotiated the acquisition of a 42,6% shareholding in an equity partnership with PT Black Bear Resources Indonesia ("BBRI") for US\$23 million. This three-phased investment, which is subject to certain conditions, will give AEL in-country access to a secure source of ammonium nitrate that will assist in sustaining the business' growth in the region. BBRI is currently erecting a 60 000 tonne per annum ammonium nitrate facility which is due to be commissioned by mid-2013. It is anticipated that the final phase of the acquisition will be completed by the first quarter of 2014, once the ammonium nitrate plant achieves name plate capacity.

Revenue growth in Indonesia was achieved in 2012, notwithstanding the negative effects of industrial action at a major open pit customer.

AEL is building new bulk emulsion explosives plants in Burkina Faso, the Democratic Republic of Congo and Egypt. These facilities will start up in 2013 and will contribute to earnings in the next 12 to 18 months. There is a healthy pipeline of projects in Africa and Asia, driven by supply requests from mining customers.

› Continuing to evaluate models to realise value from the property portfolio

We continue to evaluate ways of accelerating the realisation of value from our property portfolio for the benefit of our stakeholders. Significant progress was made in installing infrastructure at Modderfontein, and sales of land are expected in 2013.

› Improving the Group's safety performance

The Group reported a Total Recordable Incident Rate ("TRIR") of 0,53 (2011: 0,67) which represents our best achievement ever in safety. The TRIR measures the number of incidents per 200 000 hours worked. We are extremely pleased that the effort applied to improving safety at an operational level has produced such excellent results. Our aim remains no harm to anyone, ever.

› Pursuing environmental targets as set out in Green Gauge

The Green Gauge environmental programme is now well established and the Group showed good progress against its medium-term targets.

PERFORMANCE

Explosives

Revenue from AEL increased by 15% to R6 327 million (2011: R5 494 million) with disappointing South African underground narrow reef mining volumes offset by good growth in Africa and Asia. Profit from operations declined to R431 million from R510 million in 2011. Disappointingly, the trading margin decreased to 6,8% (2011: 9,3%), mainly due to supply chain disruptions and the mining strikes in the first and second half-years respectively. The target remains to improve this to above 10%.

AEL is well positioned to benefit from growth in the rest of Africa. International interest in the continent continues and mining is a focus area. Growth in 2012 was particularly strong in West Africa.

Overall working capital levels increased as our supply chain grew outside South Africa.

AEL spent R409 million on capital expenditure in 2012 (2011: R276 million) of which R205 million was invested in growth projects, mainly at customers' sites.

Specialty chemicals

The specialty chemicals cluster performed extremely well in difficult market conditions. Revenue rose by 11% to R8 397 million (2011: R7 558 million) on flat volumes. The benefits of tight cost control and on-going restructuring in the cluster were offset by higher volumes of traded products at lower margins. As a result, the trading margin softened to 11,2% (2011: 11,7%).

Akulu Marchon ("Akulu"), Chemical Initiatives ("CI"), Industrial Oleochemical Products ("IOP"), Lake International Technologies ("Lake") and Nulandis delivered excellent results. Senmin's performance, though negatively affected by the mining sector strikes, was solid. The 2011 acquisitions of Croxton Chemicals, Cobito and Qwemico Distributors made a positive contribution.

Where businesses no longer have the critical mass to operate independently, our strategy is to divisionalise them and integrate them into other businesses in the cluster. This consolidates support functions and reduces costs. During 2012, Chemiphos was divisionalised into CI and ChemSystems. Industrial Urethanes was divisionalised into Chemfit and Lake.

At the same time, if individual businesses in companies grow to a point where they have reached critical mass and it is concluded that their prospects would be enhanced by restructuring them as stand-alone entities, we do so. The establishment in January 2013 of Lake Chemicals and Lake Foods is the most recent example of this. Previously, they were the two divisions of Lake.

During the year AECI acquired GE's Chemical and Monitoring business in Africa. This further strengthens ImproChem's position as the supplier of choice for specialty water treatment and process chemicals and services in Africa and the Indian Ocean Islands.

AECI acquired 80% of Afoodable, expanding the range of specialty additives that Lake supplies into the food industry to include liquid marinades and sauces.

The acquisition of Cellulose Derivatives was approved by the Competition Tribunal, with conditions, late in the year. This business is a strategic addition to the mining chemicals portfolio.

Specialty fibres

The performance of SANS Technical Fibers ("STF") was affected by depressed global economic conditions and exports to Asia and Europe were disappointing. Good results were delivered by its industrial business, however, and sales to the automotive sector exceeded expectations as the US economy recovers somewhat with the help of government stimulus.

We are investing in world-leading nylon spinning equipment that will enhance STF's position in its existing markets and open up new opportunities in North America and in export markets. This new technology, with its significantly lower production costs and improved quality capabilities, will enhance competitiveness. In future, we will report STF as part of the specialty chemicals cluster.

Property

AECI's property portfolio comprises land and buildings no longer required by manufacturing operations and is managed by Heartland.

Heartland continues to face some challenges in securing timely approvals required in the process of making land available for sale. We are disappointed in the slow progress made in realising the value of our property assets. This is largely a function of the poor property market conditions currently prevailing in South Africa and the onerous administrative processes required for land development.

We revisited the valuation of our properties, using external valuers who confirmed the considerable worth of these assets. More details on this are given in Heartland's operational review on page 72.

Continued investment in preparing land for sale will stand us in good stead in the future. New business models and alternative approaches to accelerating value realisation continue to be investigated.

MATERIAL ISSUES

AECI's risk management process identifies the issues that are most material to us as a Company. These issues cover the spectrum of economic, environmental, social and governance challenges and opportunities. We see the broader integration of environmental, social and governance issues into our business as a critical part of demonstrating good corporate citizenship and helping to ensure the long-term sustainability of the Group.

The rest of this report addresses these issues in more detail, including how we manage them and our performance for the year.

Safety, health and environment

Many chemicals are potentially hazardous and their production may result in emissions that require careful control. As a good corporate citizen, AECI needs to make sure its employees and contractors work in a safe environment and that they are not exposed to substances that could damage their long-term health. We must carefully consider the communities in which we operate and our impact on the environment as a whole.

In line with our Good Chemistry philosophy, several of our products have environmental benefits. For example, our water treatment products and services assist our customers to maximise their use of this scarce resource in Africa. Another of our businesses supplies products for insulating materials that assist in reducing energy consumption.

Our operations continually look for ways to make our processes more efficient and environmentally friendly.

As part of our commitment to environmental conservation, AECI established the Modderfontein Reserve several years ago. In September 2012 the Reserve – a 275 hectare area set aside as private open space to promote recreation, conservation and education – was officially opened to the public. The Reserve will be managed by the Endangered Wildlife Trust as an urban park for the benefit of the public and future residents of the proposed developments.

AECI's Green Gauge environmental initiative lays out our environmental targets to 2020, with six key focus areas. The Social and Ethics Committee's sustainability report commencing on page 88 discusses the good progress we made against these targets during the year.

The Group was included in the JSE's SRI Index for the fourth year and we again participated in the CDP and WDP, both of which are global initiatives.

Economic conditions

RECESSIONARY TRENDS

International economic conditions affect our customers, especially those in the mining and manufacturing sectors, who together make up most of our client base. The developed world remains challenged by low levels of investment, poor employment levels in the face of austerity measures, bank recapitalisations and government stimuli which appear to be having limited effect.

Europe is South Africa's chief trading partner and the destination for many of the products manufactured by our customers. While conditions in the eurozone stay depressed they will continue to find any meaningful growth difficult.

The Chinese economy faces its own challenges and its fortunes affect mining production as the developing world is the destination for the greatest portion of mining products.

FOREIGN EXCHANGE

The exchange rate of the rand against the currencies of our major trading partners directly impacts the local manufacturing and mining sectors and, therefore, affects demand for our products. A weaker rand increases the cost of many of our input chemicals but tends to encourage exports. Although the rand stayed weaker against major currencies during 2012, the poor conditions in underlying market sectors meant that South African manufacturers had little opportunity to increase their output.

COMMODITY PRICES

Many of our major raw material costs are priced in line with the oil price. Brent Crude prices remained stable at a fairly high level, as did those for ammonia and base chemicals, despite weak global demand.

EXPOSURE TO TRENDS IN MINING AND MANUFACTURING

Manufacturing volumes in South Africa showed modest recovery for the full year but remain well below the levels of 2007 and 2008. This affects our specialty chemicals cluster directly, although our expansion into high-growth markets outside South Africa continues to drive revenue improvements.

Many large manufacturers operated on short time or care- and maintenance-shutdowns in 2012. Volumes dropped by 13% in the first nine months and capacity utilisation levels fell to 79%.

Mining production volumes drive demand in AEL. About half of this business' revenue is now generated outside South Africa. South African mining production, particularly narrow reef underground mining, was severely affected by repeated labour unrest and safety interventions. Average production fell by 7% from 2008's levels and by 15% from the highs of 2007. However open cast mining, in South Africa and elsewhere, exhibited strong growth.

Until manufacturing and mining production levels show meaningful and sustainable recoveries, demand in our South African customer base will continue to be pedestrian.

Customers

AECI's customer-centric approach helps us to operate in highly competitive markets and enables us to grow with our customers as they expand into other markets.

The major mining houses continued their procurement reviews. In many instances AECI's improved empowerment status as a result of our B-BBEE transactions, which aligns with the requirements of the Mining Charter, gave us a competitive advantage.

Suppliers

AECI depends on a reliable supply of key inputs which include ammonia, fuel and electricity, at a predictable price. We manage this risk by continually investigating additional raw material sources and enhancing our supplier contract management practices.

During the first half of 2012 we experienced supply constraints from a key ammonia supplier. To ensure customers' requirements were met, AEL imported ammonia and ammonium nitrate at an additional cost of R35 million. A planned shutdown of No. 11 Nitric Acid plant, at Modderfontein, caused further buy-ins at an additional cost of R15 million.

Technology

Given our close relationships with our customers, we run the risk that where technology or processes change we may no longer be able to meet their needs. Therefore, substantial investments are made in new technology development and product innovation. This ensures that our products remain competitive, of good quality and suited to our customers' needs, and that our plants remain reliable.

Compliance

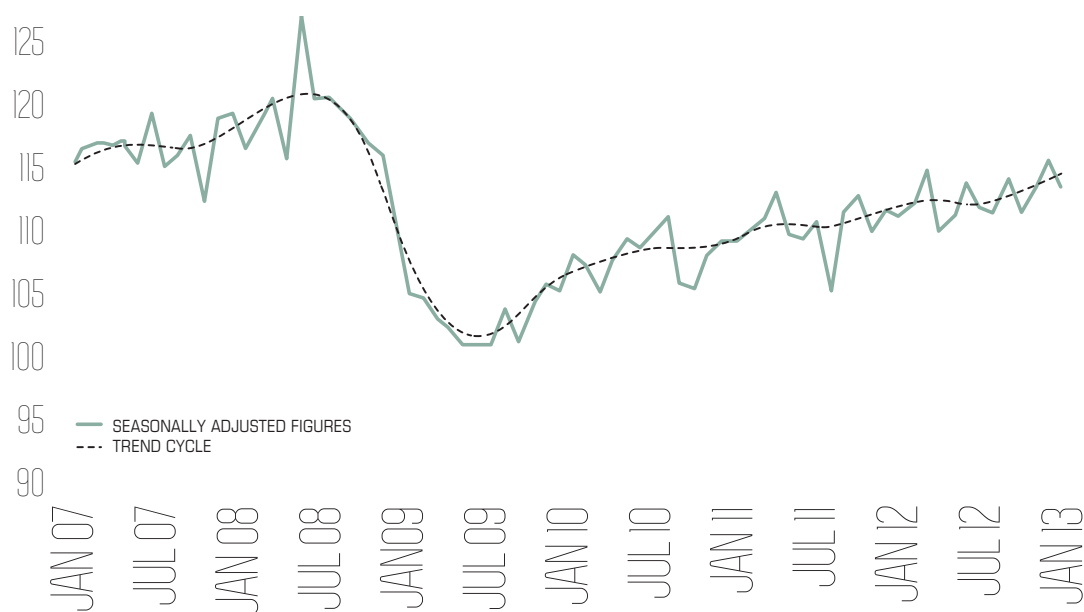
The Good Chemistry philosophy includes taking a highly ethical approach to doing business. This is exemplified in the way we integrate good corporate citizenship through our corporate governance practices. In 2012 we revised our Code of Ethics and Business Conduct. Employee training in this regard continued to underscore the Group's commitment to ethical business practices.

The chemicals and explosives businesses are tightly regulated – any areas of non-compliance can lead to reputational damage, fines and loss of our licence to operate. We continue to work with the Department of Water Affairs ("DWA") and are making good progress on addressing the issue of the new Water Use Licence for operations at our Modderfontein site.

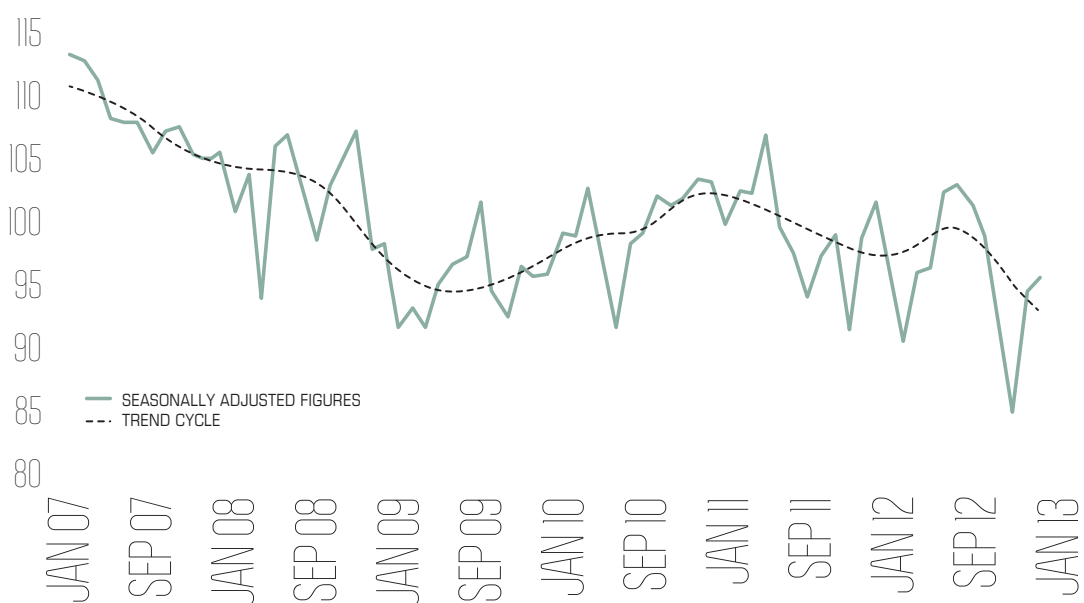
ZAR/US\$ EXCHANGE RATE



SA MANUFACTURING VOLUMES JANUARY 2007 – DECEMBER 2012



SA MINING VOLUMES JANUARY 2007 – DECEMBER 2012



Transformation

Our B-BBEE transactions were a milestone in the transformation of the Group and aligned our empowerment status with the Mining Charter. We conducted a full B-BBEE scorecard audit for Group businesses and the results are disclosed in the Social and Ethics Committee's sustainability report and the operational review commencing on page 54.

The Group formalised its approach to achieving its transformation, skills development and talent acquisition and management goals during the year. Our progress in Employment Equity continued with Black representation at Top Management level increasing to 29%.

Attracting and retaining the high quality operational and technical skills the Group needs to execute its strategy is critical to our long-term sustainability. New human resources policies continue to show benefits and investment in Group talent management and management development programmes are investments in our future.

The AECI Community Education and Development Trust, established as part of the B-BBEE transactions, is a holder of AECI ordinary shares. As such it has accrued dividends that, in 2013, will be distributed to appropriate projects that are focused on mathematics and science education and are aligned with our corporate social investment strategy.

OUTLOOK AND STRATEGIC FOCUS

While manufacturing in South Africa appears to be stabilising, the outlook for the South African underground mining industry remains unclear. We expect the economic recovery in Europe and the US to continue to be slow, but expect demand for explosives and mining chemicals to grow in the rest of Africa and Asia, and in South African open cast mining.

Our focus in 2013 will be:

- › to reduce costs and improve profitability;
- › to grow volumes in international mining markets;
- › to accelerate growth in local and international markets through acquisitions;
- › to capitalise on the base created by the acquisition of GE's Chemical and Monitoring Solutions business and to grow volumes of water treatment chemicals throughout the continent of Africa; and
- › to accelerate the rate of sale of land by Heartland.

ACKNOWLEDGEMENTS

As already announced, I am due to retire as Chief Executive at the end of February. It has been a privilege to lead AECI through some extremely interesting and challenging times over the last five years. I would like to thank the Group's management team and all of our employees for their support and commitment during this time.

I would also like to thank Fani Titi for the extremely valuable contribution that he made to the Board during his tenure as Chairman and Schalk Engelbrecht for the value he has brought to the role since his appointment in 2012. In addition I would like to pass on a vote of special thanks to Mark Kathan, our Chief Financial Officer, for his dedication and support over the many years that we have worked together.

AECI's governance and risk frameworks have been enhanced substantially in recent years and I wish to thank all my Board colleagues for their efforts and contributions in this regard.

I have worked with Mark Dytter for a long time. Everything I know about Mark tells me that he is the right person to take AECI into the next phase of its strategy. I wish him well in his role as Chief Executive.

Finally, I would like to thank the Group's shareholders, investors and financiers, business partners, suppliers, customers and other stakeholders for their on-going support of AECI.



Graham Edwards

Out-going Chief Executive

Woodmead, Sandton
25 February 2013

I succeeded Graham as Chief Executive of AECL on 1 March 2013. I wish to thank him for his leadership and guidance and wish him well in his retirement.

As already outlined by Chairman Schalk Engelbrecht in his letter to stakeholders, the Company is well positioned for the growth phase of its strategy. Key markets of interest for our specialty chemicals businesses are in Africa and in other emerging economies and include the mining chemicals, food additives, agriculture, personal and home care, as well as the water, oil, gas and energy sectors.

AEL already has an excellent position in Africa and Indonesia and new investments in these geographies will enhance this business' prospects. The Group will continue to leverage AEL's African footprint as it pursues growth organically and by acquisition, all the while maintaining an unwavering focus on excellence in meeting the expectations of our customers, suppliers, investors, employees and all other stakeholders in a responsible manner.

It is a privilege to lead AECL at this time and I am confident that we have the right people and structures in place to deliver a prosperous future.

Mark Dytor

Mark Dytor
In-coming Chief Executive

Woodmead, Sandton
15 March 2013



Th

is report is intended to provide a high level overview of the financial performance of the AECI Group for the year ended 31 December 2012. It should be read in conjunction with the consolidated annual financial statements.

FINANCIAL PERFORMANCE

Overview

The Group's underlying businesses delivered a creditable performance considering the extremely challenging operating environment that prevailed. In addition to pressure already caused by conditions in global trading, the Group's customers were also impacted by strikes in the mining and manufacturing sectors.

Profit from operations increased by 2% year-on-year. Headline earnings per share ("HEPS") decreased by 24%, largely as a result of the non-cash costs associated with the AECI Employees Share Trust ("EST") and the AECI Community Education and Development Trust ("CST") that were established as part of the Company's B-BBEE transactions concluded in the year. These costs were recognised in terms of IFRS 2.

The specialty chemicals segment grew its profit from operations. Reductions in the Group's long-term incentive provisions (due to lower earnings), a lower post-retirement medical aid provision, an improved result from the Group's captive insurance company and other central cost cut-backs helped to offset the decline in profit from operations of the other business segments.

Revenue for the year was R14 916 million, an 11% increase year-on-year while volumes were flat. Profit from operations increased to R1 341 million from R1 316 million in 2011. This includes a R30 million IFRS 2 cost for the EST. EBITDA improved by 6% to R1 848 million from R1 745 million in the prior year. The 2011 results benefited from the positive effects of a net translation gain of R77 million which did not recur in 2012 owing to the relative stability of the currency exchange rates. Costs were well controlled and margins maintained, with savings in operating costs enabling profitability to be preserved.

Profit after tax decreased by 24% to R638 million. Interest expense increased by R27 million with no capitalisation of interest into projects (2011: R17 million capitalised) and included a provision for interest on the outstanding property realisation company income tax cases of R18 million. The Group's effective tax rate was 35% mainly as a result of the IFRS 2 cost having no tax consequences and the payment of Secondary Tax on Companies ("STC") on the Group's final dividend for 2011. STC in South Africa was replaced by dividends tax with effect from 1 April 2012, whereby dividends will be taxed in the hands of shareholders when paid.

Mark Kathan
Chief Financial Officer



Post-retirement medical aid

The Group's post-retirement medical aid obligation is valued annually and adjusted in line with the revised valuation. There are a number of assumptions in valuing this long-term obligation and the charges are all recognised in the income statement. In 2011 a net increase of R87 million was recognised as the net discount rate used in the valuation was lowered from 1,75% to 1,25%. This rate was unchanged in 2012. The liability was at an equivalent level to that of 2011 as the interest and one-year service cost was offset by the contributions paid and an actuarial gain arising as a result of lower medical aid contribution increases for 2012 and larger numbers of member withdrawals and deaths than were expected. For more details on this obligation, see note 15 and note 30 of the annual financial statements.

IAS 19 is the standard which governs accounting for employee benefits. This standard was revised in 2011 and becomes effective from 1 January 2013. One of the changes in IAS 19 is that actuarial gains or losses determined in the annual valuation, including changes in any of the underlying assumptions, will be recognised in other comprehensive income. This change should result in less volatility in the income statement but will not be adopted by the Group before 1 January 2013. If this change had been applied in 2012, a net R76 million actuarial gain (2011: net R18 million actuarial gain) would have been excluded from profit before tax.

Employer surplus accounts

The Group has employer surplus accounts with the Group's defined-benefit retirement funds as described in note 5. The Group earns a proportionate share of the returns of these funds and utilises the surplus to fund contribution shortfalls calculated actuarially with reference to the benefits granted compared to the contributions received from the Group and its employees, without considering the assets and returns earned by the funds. A surplus apportionment was made in three of the funds to members and the Group in equal shares, resulting in the Group receiving further allocations of R49 million (2011: R49 million). Allocations are recognised as income and included in the income statement, where they are disclosed separately.

Earnings per share

As already outlined HEPS decreased by 24% to 547 cents and earnings per share ("EPS") decreased by 22% to 564 cents. HEPS and EPS were impacted by the IFRS 2 share-based payments in respect of the EST and CST transactions. The EST charge was R30 million or 27 cents per share, and the CST charge was R138 million or 123 cents per share. Had these charges been added back, HEPS would have decreased by 3% to 697 cents and EPS would have decreased marginally to 715 cents. EPS in 2012 included profits on the disposal of two businesses and on the disposal of the land and buildings previously occupied by Chemical Services Limited, as well as goodwill and PPE impairments. There were no similar non-recurring adjustments in 2011.

Financial position

The Group's non-current assets increased by 5% from 2011's levels primarily as a result of intangible assets and goodwill recognised in respect of acquisitions made during the year. The business of Duco Speciality Coatings ("Duco") and the investment in Resitec were disposed of in 2012 and the related assets and liabilities derecognised.

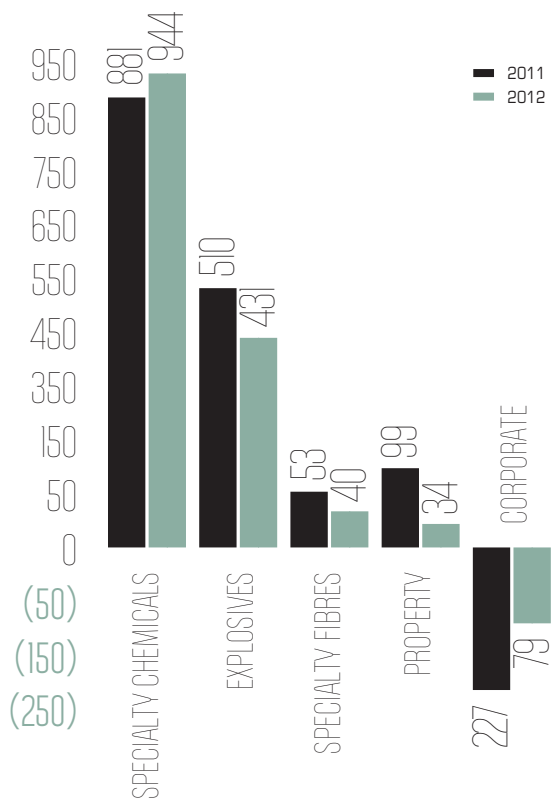
The Group's working capital increased by 14% with inventory being the main contributor. Accounts receivable and payable were at similar levels to those at the end of 2011. The measure we use is the percentage of net working capital to revenue and our target range is between 16% and 18%. In 2011 working capital was at 17,7% of revenue and it was 18,0% at the end of 2012, still within our target range. Inventory, which included an additional R67 million invested in property development, has increased over time as a result of the lengthening of the Group's supply chain as operations expand further into foreign territories.

Net debt, which includes long-term and short-term debt and cash, decreased by R26 million year-on-year and the Group's debt to equity percentage declined from 36% to 32%, further strengthening our financial position to fund future growth. We have repaid R567 million of term debt and in 2012 concluded an agreement for new floating rate debt of R250 million for a period of three years. Term debt represented 57% of the Group's borrowings at end-2012. All loan covenants were met in the year. Total debt is approximately R1 796 million below the existing facilities available to us.

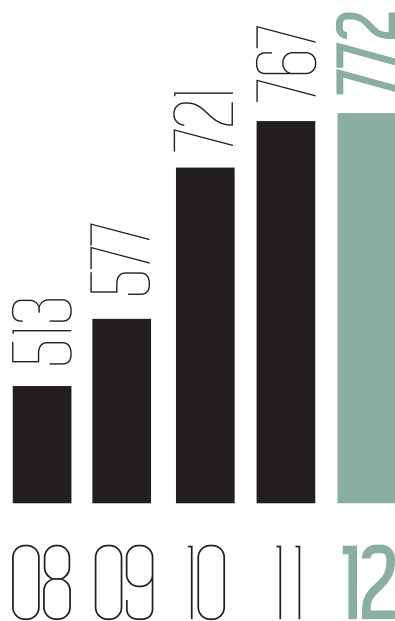
Cash flow

The Group's operations generated R1 867 million in cash in 2012. These funds were utilised to pay interest, tax and dividends, as well as financing the increase in working capital. Interest paid for the year was R245 million and was slightly lower than in 2011 with interest rates unchanged. Tax increased even though profit before tax decreased. The main reasons for this were the share-based payment cost, which has no tax base, and an increase in profits earned in countries with higher tax rates. Dividends paid increased by 25% to R297 million during the year with the final 2011 dividend incurring STC. The interim dividend took place under the revised dividend tax rules where shareholders rather than the Company are taxed on dividends. Cash flow from operating activities was R633 million for the year, an increase of 49% from the R425 million achieved in 2011. The additional cash flow was generated mainly from a lower increase in investment in working capital.

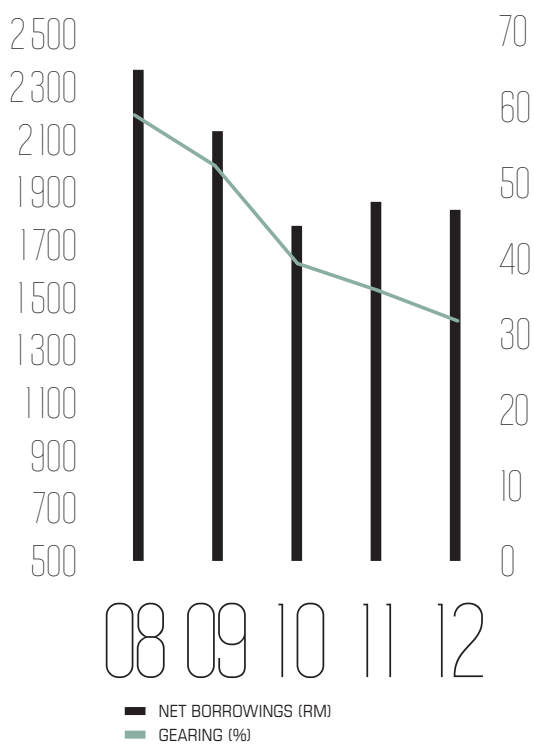
SEGMENT OPERATING PROFIT (RM)



NET DEFINED-BENEFIT OBLIGATION (RM)



BORROWINGS AND GEARING



Investments included R557 million for capital expenditure, with R265 million of expansion capital relating to new plant in the explosives segment, investment property and intangible assets, and R206 million for the acquisition of new businesses and subsidiaries. These investments were funded from cash generated by the operations and the proceeds received on the disposal of Duco and Resitec, which amounted to R120 million. The statements of cash flows and the associated notes to the statements of cash flows provide further details.

Business combinations

The Group concluded a number of business and subsidiary acquisitions during 2012 with a combined purchase price of R206 million. Details of the consideration, assets and liabilities of the acquisitions can be found in note 33. The Group also disposed of a business and a share in a joint venture, with combined proceeds of R120 million as already referred to.

We acquired GE's Chemical and Monitoring Solutions business in Africa and the Indian Ocean Islands for a consideration of R167 million. The acquisition, which was merged into ImproChem, included an exclusive distribution agreement and a technology licensing agreement that provide GE with continued involvement in the business and enable ImproChem to produce chemical products using GE formulations. A call option agreement was also concluded which gives GE the right to consider direct involvement in ImproChem in future. ImproChem acquired plant and equipment, inventory, employees and the right of use of GE's world-class technology, which was recognised as an intangible asset.

The Group acquired 80% of Afoodable and merged this business into Lake Foods. Afoodable manufactures and bottles liquid marinades and sauces. This enhances Lake Foods' range of products and provides entry into the meat sauces industry.

Senmin acquired the business of Cellulose Derivatives after conditional approval from the Competition Tribunal. The transaction had twice been prohibited by the Competition Commission. Senmin is the largest distributor of carboxymethyl cellulose ("CMC"), while Cellulose Derivatives is the only manufacturer in South Africa of technical grade CMC, used mainly for platinum extraction.

During September 2012, AECI negotiated the acquisition of a 42,6% shareholding in an equity partnership with BBRI for US\$23 million. This three-phased investment, which is subject to certain conditions, will give AEL in-country access to a secure source of ammonium nitrate that will assist in sustaining the business' growth in the region. BBRI is currently erecting a 60 000 tonne per annum ammonium nitrate facility which is due to be commissioned by mid-2013. It is anticipated that the final phase of the acquisition will be completed by the first quarter of 2014, once the ammonium nitrate plant achieves name plate capacity.

After a detailed strategic review AECI sold its 50% interest in Resitec in Brazil to its joint venture partner, the MeadWestvaco Corporation. Although investment in Brazil remains part of AECI's strategy, the review concluded that Resitec's business model and positioning was unlikely to contribute meaningfully to AECI's strategic objectives in the region. Net proceeds of R108 million were received on the disposal and a profit on the sale of the investment of R10 million was realised.

The coatings business of Duco was segmented into component parts which were sold to individual buyers. The business had been under pressure for some time and this method of disposal allowed the Group to recognise a profit on the combined disposal proceeds of R12 million. Duco continues to hold its packaging coatings business, which is performing well.

B-BBEE transactions

During 2012 the Group implemented two B-BBEE transactions, as disclosed in 2011. The first of these was for the purchase of the 25,1% interest held by Kagiso Tiso Holdings (RF) ("KTH") and the AEL Tiso Development Trust in AEL Holdco in exchange for shares in AECI. The fair value of the transaction was R392,9 million, being the market value of the 4 678 667 shares issued. AEL Holdco was already a subsidiary of AECI and as a result the transaction was accounted for as a change in the parent's ownership interest. The difference between the fair value and the carrying amount of the non-controlling interest was recognised directly in equity and attributed to AECI's shareholders in accordance with IAS 27.

With the second transaction an EST and a CST were established. The transactions are equity-settled share-based payments and have been accounted for in terms of IFRS 2.

The CST subscribed for 4 426 604 ordinary shares in the Company, with funding advanced by the Company to the CST to enable it to acquire the shares. The CST earns 60% of dividends declared on ordinary shares and will utilise the funds for projects focused on improving education in Black communities in areas where AECI operates or has an interest. The share-based payment of R138 million is not subject to any vesting conditions and has been recognised in the income statement, in full, for the year. The AECI ordinary shares held by the CST are not included in EPS or HEPS as they are contingently returnable in future and are excluded in terms of IAS 33. However, they are included in the diluted per share calculations. The CST will not be consolidated under the current IAS 27 nor under IFRS 10 for years ending after 2012, when that standard becomes effective for the Group.

The EST subscribed for 10 117 951 newly-created B ordinary shares which are a separate class of shares and are unlisted, redeemable, convertible shares of no par value. The shares carry the same voting rights as AECI ordinary shares and are subject to a separate dividend declaration from ordinary shares. The EST allocated 7 569 669 shares to eligible employees and the Company recognised a share-based payment cost of R30 million in 2012. The cost accrues over the seven year vesting period and the total expected share-based payment cost on the shares allocated is R143 million. Future eligible employees may also be allocated shares and this will result in the recognition of further share-based payment costs.

The EST is consolidated in the Group financial statements and, therefore, the shares are excluded from the number of shares for EPS or HEPS calculations. However, the effects are included in the corresponding dilution calculations.

The effects of these transactions are described in the statements of changes in equity, note 13 and note 20. The effects on EPS and HEPS are set out in note 25.

Defined-benefit pension funds

The Company is proposing to convert its defined-benefit pension funds to a defined-contribution fund. Proposals have been presented to the trustees of the defined-benefit funds outlining details of the proposed change, including the conversion and the equitable allocation of reserves and any surplus to the funds' stakeholders. The trustees have resolved to investigate and evaluate the proposals and any alternatives before responding. The interests of active members and pensioners of the funds are integral to the evaluation and until such time as the process is complete the current benefits and obligations in respect of the funds will remain in place.

The revised IAS 19 will also have an impact on the Group in terms of the recognition of costs associated with its defined-benefit pension funds. The Group's policy has been to recognise all related income and expenses in profit and loss immediately and the asset recognised has been limited (in terms of paragraph 58B of IAS 19) to the employer surplus accounts allocated to the Company. The income statement charge is the net effect of the current service cost, the interest cost, the expected return on plan assets, the move in the asset limitation and the actuarial gain or loss. The change will result in the asset limitation and actuarial gain or loss, which includes the difference between the expected and actual return on plan assets, being recognised in other comprehensive income. If this change had been applied in 2012, a net R319 million actuarial loss (2011: net R299 million actuarial loss) would have been excluded from profit before tax.

Dividends and dividends tax

The Company declared a final cash dividend of 185 cents per share on 25 February 2013, taking the total cash dividend for the 2012 year to 263 cents. The final cash dividend for 2011 was 179 cents with a total dividend for the year of 257 cents. The final dividend for 2012 will be paid on ordinary shares recorded in the books of the Company on 15 April 2013.

The final cash dividend for 2011 was subject to STC at a rate of 10% and was paid by the Company. The interim 2012 dividend was paid under the new dividends tax rules which required our regulated intermediary, Computershare Investor Services, to withhold tax of 15% and pay this to SARS with the net amount being paid to shareholders. If the shareholder qualified for an exemption and complied with the requirements, then no dividends tax would have been withheld and no tax would be due.

CONCLUSION

The financial position of the Company is sound after another challenging year. The AECI Group has positioned itself to facilitate the implementation of its strategies for future growth into new markets and geographies. 2012 was also a year in which the Company advanced the empowerment and transformation objectives which are fundamental to its growth strategy.

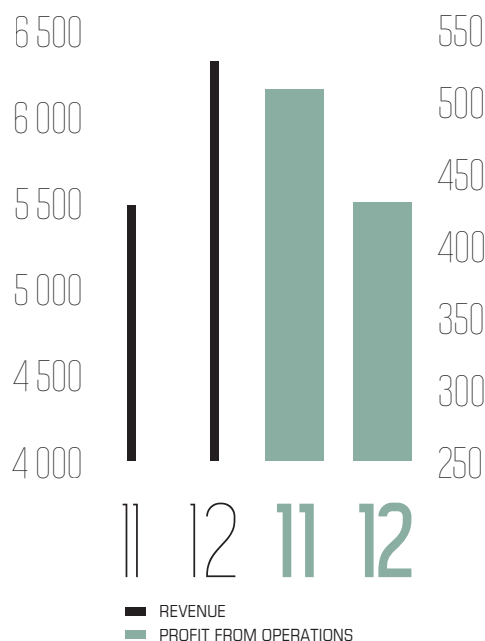


Mark Kathan
Chief Financial Officer

Woodmead, Sandton
15 March 2013

OPERATIONAL REVIEW

FINANCIAL PERFORMANCE (RM)



EXPLOSIVES

AEL Mining Services ("AEL")

MANAGING DIRECTOR

Schalk Venter

www.aelminingservices.com



AEL is the leading developer, producer and supplier of commercial explosives, initiating systems and blasting services for the mining, quarrying and construction markets in Africa. In Indonesia, the company is the second largest supplier of explosives and services to the local mining industry. With its Head Office at Modderfontein in Johannesburg, South Africa, AEL has production facilities and offices throughout Africa and in selected international regions in South East Asia, South America and Europe.

PERFORMANCE

There were good performances from the open cast mining sector in South Africa as well as from AEL's African business, which was boosted by new supply contracts. The international business also recorded growth, notwithstanding contractor strikes at key mines in Indonesia as well as severe rainfall that hampered mining there early in the year. Strikes in South Africa's mining industry had an adverse effect on revenue and profit from the underground narrow reef sector.

AEL's revenue increased by 15% to R6 327 million (2011: R5 494 million). Volumes improved by 5%. Profit from operations declined to R431 million from R510 million. Key contributors in this regard were additional costs associated with ammonia and ammonium nitrate buy-ins in the first quarter of the year, as well as the negative effects of the mining strikes in the second half of the year.

The trading profit margin was 6,8% compared to 9,3% in 2011. Average working capital as a ratio of revenue was 21% (2011: 18%).



EXECUTIVE TEAM

From left:

Liesel de Villiers
Wayne du Chenne
Rafael Fernandes
Piet Halliday
David Harding
Sepadi Mohlabeng
Trevor Roberts
Stuart Wade
Colin Wilson

SOUTH AFRICA

AEL commenced supplying a number of new contracts, despite the difficult local trading environment, and the benefits of this will be realised in 2013. It was pleasing that in acquiring new business the company diversified its South African portfolio, with the coal and iron ore sectors gaining more prominence.

AFRICA

Revenue and volume growth were recorded by the African business, especially in West Africa. AEL's main markets in Africa are the coal, copper, diamond, gold, iron ore and platinum sectors. The company's value proposition of mining safety, continuity of supply, rapid deployment and mining optimisation remains attractive and has contributed to sustained growth.

AEL invested in three additional bulk emulsion explosives manufacturing plants to improve its supply capacity. The plants are in Burkina Faso, the Democratic Republic of Congo and Egypt and these will be commissioned in 2013.

INTERNATIONAL

Four new contracts were signed in Indonesia – three in the coal sector and one in underground gold mining. Supply to these will commence in 2013.

Activities in Latin America and Europe were reviewed and re-focused on the supply of electronic initiating systems. This includes the establishment of more assembly plants in key territories.

STRATEGIC PROGRESS

ISAP

A total of 90 million detonators and 24 million automated shock tube assemblies were produced in the year. ISAP is technically complete and the technology has been proved. Owing to production and quality underperformance issues, however, the achievement of ramp-up targets was slower than desired and closure of conventional initiating systems plants was precluded. To address this, a focused intervention commenced to enhance efficiencies. Most of the work is expected to be completed in 2013. While cost savings of R57 million were achieved in the year, the full R100 million of annualised savings associated with ISAP and ramp-down of the conventional plants is expected to be achieved in 2013. The difficult industrial relations environment prevailing in South Africa added to the ramp-down challenge.

Other projects

At Modderfontein, a R64 million capital project commenced to improve the reliability and reduce down time of the nitric acid complex. There is also a focus on water and energy efficiencies in production processes. Additional capital was allocated to the improvement of product handling in storage, including an investment in storage capacity for nitric acid and ammonium nitrate solution.

A third bulk emulsion plant is being constructed at Modderfontein to ensure the uninterrupted supply of bulk explosives to the South African market.

Innovative solutions including centralised blasting, underground emulsions and blasting efficiency improvements remain key for AEL. Accordingly, the company launched its new bulk emulsion pumping system for underground applications and this innovation is being used by a number of customers to good effect.

BBRI

During September 2012, AEL negotiated the acquisition of a 42,6% shareholding in an equity partnership with BBRI for US\$23 million. This three-phased investment, which is subject to certain conditions, will give AEL in-country access to a secure source of ammonium nitrate that will assist in sustaining the business' growth in the region. BBRI is currently erecting a 60 000 tonne per annum ammonium nitrate facility which is due to be commissioned by mid-2013. It is anticipated that the final phase of the acquisition will be completed by the first quarter of 2014, once the ammonium nitrate plant achieves name plate capacity.

SUSTAINABILITY

AEL delivered an excellent safety performance, with the TRIR at a record level of 0,37 (0,38 in 2011). Continuous improvement processes were advanced and contributed to the enhanced quality and "first time right" delivery of products. Waste and resource reduction programmes at all sites also progressed.

At Modderfontein, significant progress was made with regard to compliance with the conditions of the Integrated Water Use Licence. Civil engineering work for projects that will result in a significant reduction in effluent volumes will be completed in 2013. Dialogue with the DWA is ongoing.

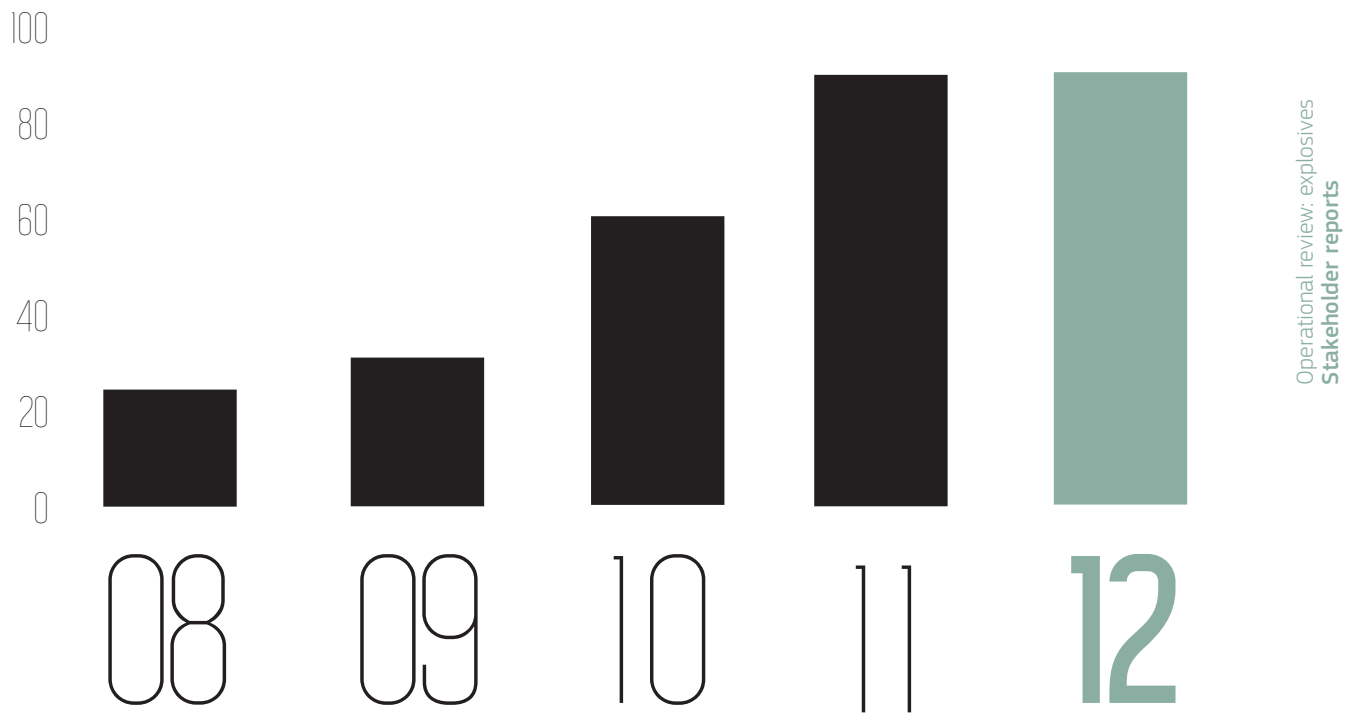
As in 2011, AEL was rated as a Level 4 B-BBEE Contributor.

OUTLOOK

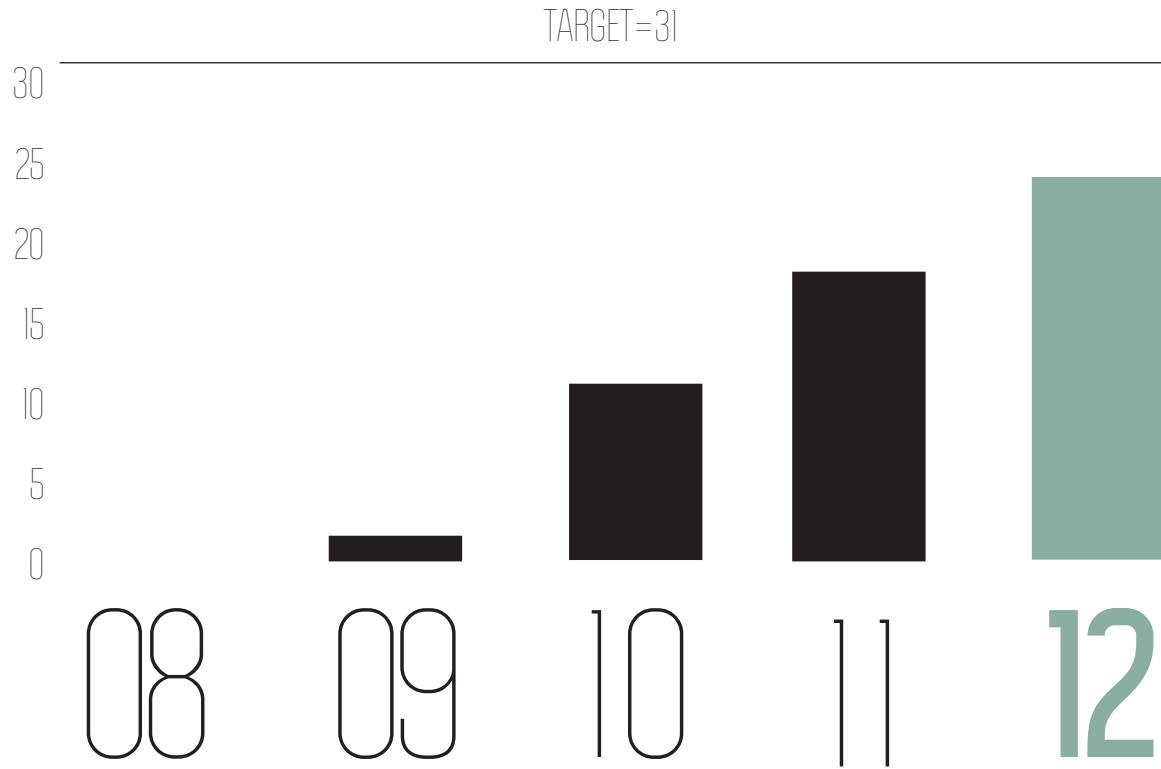
New supply contracts in South Africa, especially in the coal and iron ore sectors, the benefits of new sites established in Africa and business gained in Indonesia are expected to contribute to AEL's revenue and profitability in the coming year. Improvements in the efficiencies of business processes, the nitric acid plants and ISAP will have a positive impact on the cost base.

Uncertainty remains regarding industrial relations in the South African mining sector, restructuring by customers, the global supply position of ammonia and ammonium nitrate, and the rate of recovery in world economies. Growth in China is also expected to have a major effect on the performance of the mining industry worldwide, especially the copper and iron ore sectors.

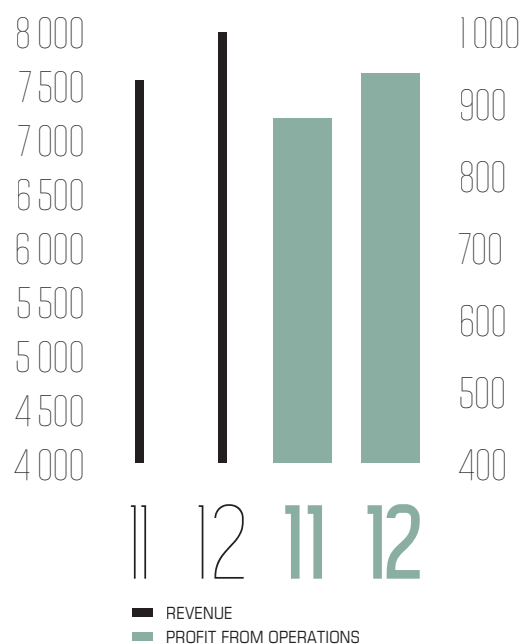
ISAP DETONATORS (MILLIONS)



ISAP AUTOMATIC ASSEMBLIES (MILLIONS)



FINANCIAL PERFORMANCE (RM)



SPECIALTY CHEMICALS

AECI's specialty chemicals cluster comprises 15 businesses, each focused on specific markets with common values of innovative customer service and bottom line delivery. Historically, the cluster has grown by acquisition and organic growth.

Each business in the cluster aspires to be the supplier of choice for customers in its markets, supported by the best technology available, a carefully designed service package and 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 AECL's businesses from competitors in terms of skills, competencies and value add for customers.

Growth and expansion in Africa are key objectives and the main market sectors being targeted in this regard are:

- › mining chemicals, with Senmin driving this strategic thrust;
- › water-, oil-, gas- and energy-related chemicals. ImproChem, with GE as a world-class technology partner, is leading the cluster in this regard;

- › specialty chemicals for agriculture. Nulandis is at the forefront of this;
- › food production and preservation. Lake Foods is growing and developing this market;
- › personal and home care chemicals, led by Akulu Marchon.

BUSINESS ENVIRONMENT

The specialty chemicals cluster delivered a highly commendable performance in difficult market conditions. The year was particularly difficult for South Africa's mining sector where activities were suspended or reduced due to strikes and safety interventions. In the manufacturing sector, some key customers operated on short time or care-and-maintenance-shutdowns. Local manufacturing volumes declined by 13% in the first nine months of 2012 and capacity utilisation dropped to 79%. Mining production volumes decreased by 7% from 2008's levels and by 15% from the peak highs of 2007.



EXECUTIVE MANAGEMENT TEAM

From left:

Mark Dytor
Graham Edwards
Mark Kathan
Edwin Ludick
Dean Murray

The weaker exchange rate had little effect on customers' output as export opportunities were curtailed by an adverse global economic climate, particularly in the eurozone.

The oil price remained firm and base chemical prices remained high despite indifferent global demand.

PERFORMANCE

Revenue rose by 11% to R8 397 million (2011: R7 558 million) on flat volumes. Profit from operations increased by 7% to R944 million (2011: R881 million). The benefits of tight cost control and on-going restructuring in the cluster were offset by higher volumes of traded products at lower margins. As a result, the trading margin softened to 11,2% (2011: 11,7%). Prices increased due to the weaker rand and strong global commodity prices. Average working capital as a ratio of revenue was 17% (2011: 16%).

Akulu, CI, IOP, Lake and Nulandis delivered excellent results. Senmin's performance, though negatively affected by the mining sector strikes, was solid. The 2011 acquisitions of Cobito, Croxton Chemicals and Qwemico Distributors made a positive contribution.

COSTS, MARGINS AND GROWTH

All businesses reduced their costs by controlling expenditure and by bottom-slicing to minimise resources allocated to less profitable products and markets. The focus on margin maintenance resulted in better purchasing, inventory management and pricing.

To reduce costs further some companies were divisionalised and integrated into other businesses in the cluster. The activities of Chemiphos were merged into CI and ChemSystems and those of Industrial Urethanes into Chemfit and Lake Chemicals.

Although the manufacturing environment made organic growth difficult, most companies in the cluster retained or improved market share by enhancing their service levels and entering new markets, particularly in Africa.

STRATEGIC PROGRESS

Substantial investments have been made in mining chemicals production capacity to supply local and international markets, and on infrastructure at mines to supply related services. Senmin in particular 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.

In 2012 AECL acquired GE's Chemical and Monitoring Solutions business in Africa. The acquisition has been merged with ImproChem, providing this company and its customers with world-class technology and equipment for the water treatment and oil, energy and gas industries. More detail is given in ImproChem's operational review.

AECL has identified the food additives sector as a strategic growth area. At the same time, the supply of mining-related products and services to customers in South Africa and other chosen markets remains fundamental to the Group's strategy.

In line with this, Lake has been restructured into two stand-alone businesses: Lake Chemicals and Lake Foods. The perlite business of Infigro Natural Technologies ("Infigro"), currently part of Chemisphere, will also be incorporated into Lake Foods.

A greater focus by the food and chemicals businesses on their own customers and brand and market identities, under the Lake banner, will enhance their ability to maximise growth opportunities. The restructuring of Infigro will allow the Chemisphere team to focus on its pulp and paper and leather treatment businesses.

Investment in Lake Foods is anticipated so as to build the Group's position in relevant markets. At the same time, Lake Chemicals is expected to maintain its performance momentum through the provision of value-adding and innovative solutions for customers requiring surfactants for emulsion explosives.

Attractive investment opportunities are emerging in Brazil and these will receive attention in 2013. Executive resources have been allocated to this strategic objective. After a detailed strategic review AECL sold its 50% interest in Resitec in Brazil to its joint venture partner, the MeadWestvaco Corporation. Although investment in Brazil remains part of AECL's strategy, the review concluded that Resitec's business model and positioning was unlikely to contribute meaningfully to AECL's strategic objectives in the region. Net proceeds of R108 million were received on the disposal and a profit on the sale of the investment of R10 million was realised.

Acquisitions for a total consideration of R206 million were concluded in the year and the benefits of these will be realised from 2013.

Akulu Marchon ("Akulu")**MANAGING DIRECTOR**

Glen Sullivan

www.akulu.co.za



Akulu supplies chemical raw materials and value-adding services to the cosmetics, toiletry and detergent industries in Southern Africa. Products include petroleum jelly and white mineral oils for the local ethnic skin and hair care markets, locally produced and imported specialty surfactants for home and personal care products, and chemical specialties for the personal care and cosmetic industries.

PERFORMANCE

The business delivered a very good performance in an environment where discretionary consumer spending was under pressure. Competition from imports was fierce and prices were difficult to manage as customers sought to reduce their costs. In this context, it was most pleasing that sustained efforts to improve manufacturing efficiencies yielded results for Akulu and, although margins were under pressure, market share was maintained.

SUSTAINABILITY

Regrettably, there were two recordable injuries in the year. Both were investigated thoroughly and learning points were applied. Akulu's TRIR for the year was 1,15 from 2,40 in 2011.

In environmental matters, Akulu received its effluent permit and air emission licence from the relevant authority for its Chlookop site in Gauteng. The fuel burning permit for the Mobeni site, in KwaZulu-Natal, was renewed.

Both sites retained their ISO 9001, ISO 14001 and OHSAS 18001 certifications. The company is a Responsible Care™ signatory.

Akulu improved its B-BBEE Contributor rating from Level 6 in 2011 to Level 4.

OUTLOOK

In the second half of the year, the company undertook a detailed review of its strategy. The resulting actions are expected to yield further improvements in customer interfaces and to position Akulu for enhanced results in 2013 and beyond. Business in Africa will be pursued, in line with AECI's strategic intent to become a leading supplier to the growing personal and home care sectors on the continent.

Chemfit**MANAGING DIRECTOR**

Ryan Harrison

www.chemfit.co.za



Chemfit supplies traded and blended specialty products to a broad range of industries in Southern Africa including animal feeds, water treatment, soil fumigation, petrochemical, detergents, lubricants, polymers and plastics.

PERFORMANCE

Chemfit's product diversification strategy assisted in limiting volume declines in an environment where customers faced difficult trading conditions and competition from imported finished goods increased. The poultry industry was particularly affected by the latter.

In 2011, Chemfit established a commercial relationship with BASF Care Chemicals to enhance its range for the personal and home care sectors. Sales increased steadily in 2012 as these new products gained recognition in the market. More growth is expected.

Instavet was also acquired in 2011 to service the livestock industry with medicated feed additives, diagnostic equipment and vaccines. Although this business was adversely affected by supply chain interruptions, it made good progress in broadening its customer offering and submitted a number of new products for registration.

SUSTAINABILITY

Chemfit has a small employee complement which results in a correspondingly low number of hours worked. Accordingly, one injury in 2012 yielded a TRIR of 2,71. No injuries occurred in 2011.

The company is ISO 9001 certified, a Responsible Care™ signatory and retained its Level 6 B-BBEE Contributor rating.

OUTLOOK

Further diversification of products in the animal health and nutrition division will continue in 2013. This business has a number of poultry customers in sub-Saharan Africa, where the sector is growing, and Chemfit will investigate supply chain options to maximise opportunities.

Diversification of the specialty chemical product offering and the focus on specialty solutions will also be sustained. In addition, there are a number of projects in the pipeline which Chemfit intends commercialising in the coming year.

The integration of Plastamid, formerly a division of Industrial Urethanes, will be completed in 2013.

Chemical Initiatives ("CI")

MANAGING DIRECTOR

Graham Sanders

www.cheminit.co.za



CI is Southern Africa's leader in sulphuric acid, sulphur-based chemicals and polyphosphoric acid. Products include alum sulphate, oleum, sulphur dioxide, molten sulphur, plant nutrient elemental sulphur, sulphur and alum tri-hydrate, as well as ammonia, anhydrous ammonia, nitric acid, alum hydroxide, silver nitrate and caustic soda solution. CI also has a range of "green chemicals" which have a lesser environmental impact than more established alternatives.

The broad spectrum of customers includes those in mineral beneficiation, refining, pigments, paper and pulp, water treatment, catalysts, nutrients, agriculture and food.

PERFORMANCE

CI delivered excellent results, predominantly attributable to its trading activities in the first half-year. For much of 2012, some products could be imported by customers at prices lower than CI's manufacturing costs and this resulted in lower than desired throughput at the company's production sites. However, strike action in South Africa in the last quarter resulted in shortages of traded products and enabled CI's plants to increase output rates and contribute to the full year performance.

There was also a solid contribution from the acid division integrated from Chemiphos and Ecologika™, CI's agriculture division, grew significantly.

Sulphur trading activity declined as the year progressed and overall volumes were disappointing. A number of new traders entered the African market and consumption was curtailed by regional difficulties.

SUSTAINABILITY

CI continued to fulfill its guarantees to contracted generators of by-product sulphur and sulphuric acid and to its customers who require a continuous and reliable supply of these products. The placement of large volumes of by-product acid in the market enabled the company to take a significant step towards meeting its 2012 environmental objectives.

New products and markets were developed by Ecologika™ and it is anticipated that the majority of CI's growth in 2013 will come from further diversification of products for the agriculture, thereby contributing to food security in Africa – one of the continent's most pressing requirements.

It was particularly pleasing that progress was made in turning around CI's safety performance, which had been below acceptable levels in the prior year. The company ended the year with a TRIR of 0,52 (3,49 in 2011).

CI is a signatory to Responsible Care™ and is ISO 9001, ISO 14001, OHSAS 18001 and Kosher certified. It is also accredited by the South African National Accreditation System ("SANAS"). SANAS is recognised by the South African government as the single national accreditation body that gives formal recognition that laboratories, certification bodies, inspection bodies, proficiency testing scheme providers and Good Laboratory Practice test facilities are competent to carry out specific tasks.

CI's B-BBEE Contributor rating improved to Level 4 from Level 6 in 2011.

OUTLOOK

CI has a number of growth projects in place, predominantly in the agricultural field, and it is also concentrating on further expansion into Africa's mining sector. These initiatives are intended to counterbalance the potential effects of lower sulphur prices expected for most of 2013 and limited growth in South Africa's manufacturing sector.

As strategic projects are rolled out, fixed cost management will remain a priority as will streamlining manufacturing processes while increasing throughput.

Chemisphere Technologies ("Chemisphere")

MANAGING DIRECTOR

Sean Perry (from March 2013)

www.chemisphere.co.za



Chemisphere Paper Technologies and Simitri Specialty Chemicals ("Simitri") supply chemical products and expertise to the pulp, paper, board and tissue, and the leather treatment industries respectively. Infigro Natural Technologies, Chemisphere's third division, was moved to the newly-formed Lake Foods in 2013.

PERFORMANCE

It was a difficult year for the business as South Africa's paper industry remained under pressure. On-going downsizing and mill and paper machine closures resulted in lower demand for products and value add services. Competition from imports remained intense and the impact was felt mostly in sales to the paper sector and in sales of filter aids to South Africa's wine industry. The latter had an adverse effect on Infigro, as did the continued introduction of alternative technologies by customers.

Simitri's results were hampered by pedestrian trading conditions in the industries it serves, particularly the automotive sector.

SUSTAINABILITY

Chemisphere's TRIR for the year was 1,66, compared to 2,03 in 2011. Its site at Olifantsfontein has ISO 14001 and OHSAS 18001 certifications and the company is a Responsible Care™ signatory.

Owing to significant restructuring in 2011, Chemisphere was not audited for B-BBEE rating purposes in the year under review.

OUTLOOK

As a result of the restructuring of Chemisphere, management's enhanced focus in 2013 will be on the paper and leather treatment businesses. This is expected to result in an improved performance provided market conditions do not deteriorate further.

ChemSystems

MANAGING DIRECTOR

Mike Peach

www.chemsystems.co.za



ChemSystems provides chemical products to a range of industries through six business units. Applied Solutions ("Applied") supplies resins and associated products to the foundry industry, Capital Polymer Additives ("Capital") produces heat stabilisers, plasticisers and additives for the PVC processing industry and the Silicones business supplies silicone products for among others the paper, sealant, adhesive and solar industries. Status Industrial Solutions ("Status") manufactures and distributes chemicals for lubrication, metal-working, offshore fluid management, specialised cleaning and degreasing, aerospace, non-destructive testing, fire protection and marine services. ChemSystems Metal Chemicals' ("CMC") products are used in a variety of processes including electroplating, wire drawing, phosphating and anodising. Constructichem provides additives and tailored chemical solutions for the construction and cementitious industries.

PERFORMANCE

The Constructichem and Status divisions delivered pleasing results notwithstanding adverse business conditions which resulted in a disappointing overall performance for the company. Status' sales of environmentally friendly degreasing fluids for the mining sector and those of enhanced products to improve precious metals recovery were above expectations. Silicones performed satisfactorily. Volume declines were particularly evident in the Applied, Capital and CMC divisions owing to the closure of key customer manufacturing facilities, shrinking market sectors and aggressive competitor activity. CMC will be restructured and rationalised in 2013 to improve the cost base and efficiencies.

SUSTAINABILITY

Regrettably, two injuries early in 2012 resulted in ChemSystems' TRIR deteriorating to 0,95 from 0,83 year-on-year. The lessons learnt from the incidents have been incorporated into improvement plans. The company maintained its ISO 9001 and ISO 14001 accreditations and successfully introduced OSHAS 18001. ChemSystems is a Responsible Care™ signatory.

The business improved its B-BBEE Contributor rating from Level 7 in 2011 to Level 4.

OUTLOOK

Applied, supported by world-class technology partner ASK Chemicals GmbH, is well positioned to capitalise on growth opportunities in the foundry industry. Status will launch well-defined lubrication strategies aimed at energy saving initiatives encouraged and subsidised by Eskom. Capital's product development programme aims to enhance the performance of its offering and Constructichem will continue to develop products and services for the reclamation of coal dust and other mineral fines.

Crest Chemicals ("Crest") (joint venture with Brenntag AG)

MANAGING DIRECTOR
Michiel Vijverberg



Crest represents several international manufacturers of specialty and commodity chemical products and distributes these to a large number of industries in Southern Africa. Its six divisions service the following key markets: food, paints and coatings, pharmaceuticals and personal care, mining and water treatment, surfactants, and general industry.

PERFORMANCE

Crest achieved growth and also improved its strategic position in 2012. This was pleasing given that most of the company's business is related directly to the performance of South Africa's manufacturing sector, where overall trading conditions posed challenges in the year. The benefits of the Croxton Chemicals acquisition in 2011 were realised, with the integration of this caustic soda import business also enhancing Crest's bulk distribution position for other products in its portfolio.

SUSTAINABILITY

The company's site in Prospecton, KwaZulu-Natal, has achieved a 4 Star rating by the National Occupational Safety Association ("NOSA"), and is ISO 9001 certified. The TRIR improved from 2011's level of 0,94 to 0,65.

Crest also improved its B-BBEE Contributor rating from Level 8 in 2011 to Level 5.

OUTLOOK

Growth by acquisition has been a feature of the business, with six additions in the last eight years. This strategy is set to continue in 2013 as new acquisition targets are sought to add to Crest's offering in specific markets and sustain the company's growth trend.

ImproChem

MANAGING DIRECTOR
Louis du Toit

www.improchem.co.za



ImproChem provides hydrocarbon process, chemical process, water treatment, water optimisation and total water management and hygiene and sanitation process solutions for the industrial and public sectors in sub-Saharan Africa including the Indian Ocean Islands. Customers are mainly in the mining, industrial production, municipal water treatment, food and beverage, and oil and refining sectors.

PERFORMANCE

ImproChem achieved strong revenue growth in certain markets even though investment in capital projects by customers remained subdued and cost reduction programmes and optimisation opportunities remained a priority for them. Strikes and other difficulties in the local gold and platinum mining industries put pressure on costs and margins and had a detrimental effect on overall performance.

ImproChem concentrated on adding value to customers through the provision of world-class services and technology. The acquisition of GE's Chemical and Monitoring Solutions business in Africa was the highlight in this regard. The geographies covered by the acquisition are Africa (excluding Algeria, Egypt, Libya, Morocco and Tunisia) and the Indian Ocean Islands of Madagascar, Mauritius, Reunion, Rodrigues and the Seychelles. ImproChem's footprint has been enhanced significantly as a result and the company is positioned to maximise growth and strategic development opportunities in African markets where strong growth is evident. The refining, mining, food and beverage, water treatment, and oil industries are the key targets.

AECL and GE also entered into an exclusive distribution agreement and a licensing arrangement that provide GE with continued direct involvement in the business.

Industrial Oleochemical Products ("IOP")

MANAGING DIRECTOR

Martin Godbolt

www.oleo.co.za



SUSTAINABILITY

It was most pleasing that ImproChem improved its year-on-year safety performance from a TRIR of 1,22 to 0,70. The company also improved its B-BBEE Contributor rating to Level 4 from Level 6 in 2011. Its site at Umbogintwini has ISO 9001, ISO 14001 and OHSAS 18001 certifications. ImproChem is a Responsible Care™ signatory.

Water usage optimisation and conservation challenges are pressing in Africa. ImproChem's expanded technologies and services assist customers in meeting their effluent and conservation targets. This sector has excellent growth potential which will be pursued in 2013 to the benefit of the company, its customers and the environment.

OUTLOOK

With its new products and technology, ImproChem's focus will shift from product development to market development in Africa in the target markets already outlined. The fuel additive market will also receive attention from ImproChem and Innospec Inc., its technology partner in this sector. The requirement for more sophisticated additives has increased in line with stricter fuel specifications by engine manufacturers and this presents further business opportunities.

ImproChem has adopted a geographically differentiated model for its operations in Africa. This allows it to build strong customer relationships as each region's activities are led by local personnel who tailor make solutions for their own markets.

IOP manufactures fatty acids using by-products from paper pulp and vegetable-based crops as raw materials. Tall oil rosin and gum rosin, as well as a selection of rosin derivatives, are produced for the manufacture of paper-size, adhesives, synthetic rubber and bitumen emulsifiers. In addition, IOP's extensive range of refined and modified vegetable oils and fatty acids are used in mining reagents, alkyd resin manufacture and other coating applications.

IOP also produces and distributes a range of packaging coating resins and inks under a licence and distribution agreement with Akzo Nobel. These products are sold throughout Southern Africa via PACSA, IOP's packaging coatings division.

PERFORMANCE

In an environment where margins came under pressure as a result of subdued activity in the manufacturing sector, higher raw material costs and increased competition, IOP succeeded in managing its operating costs and working capital tightly. This enabled the company to deliver a robust performance. Overall volumes were slightly higher than in 2011, thanks to good export sales by PACSA.

SUSTAINABILITY

Energy efficiencies played a major role in enabling the company's 2012 results. These efficiencies were achieved, in part, with the completion of a programme to convert its oil-fired boilers to cleaner and more cost-effective gas firing.

Regrettably, there were three safety-related incidents in the year and the TRIR deteriorated to 1,54 (2011: 0,49). After the causes of the incidents had been fully analysed, an action plan to address areas requiring improvement was formulated and implemented.

The company's site in Jacobs, KwaZulu-Natal, is ISO 9001, ISO 14001 and OHSAS 18001 certified. IOP is also a Responsible Care™ signatory. It achieved a Level 5 B-BBEE Contributor rating, an improvement from Level 6 in the prior year.

OUTLOOK

Modest growth in South Africa's manufacturing sector and a gradual recovery in mining activity are expected to continue to guide performance in 2013. IOP will maintain its focus on enhanced products and services for its customer base so as to remain optimally placed to take advantage of all growth opportunities.

Industrial Urethanes ("IU")

MANAGING DIRECTOR

Gavin Gerber
(to December 2012)



IU manufactures and supplies a range of polyurethane products, technologies, systems and solutions for customers in Southern Africa. Products are applied in the automotive, mining, white goods, construction, footwear, furniture and other industries. The Plastamid division provides customers with engineering polymers and technical compounds for the South African and selected export plastic conversion markets.

RESTRUCTURING

IU's local business environment changed significantly in recent years. Cost pressures and lower production volumes compromised the company's ability to operate as an independent entity. The entry of multinational suppliers into the South African market increased competition considerably.

As a consequence, IU's business model was re-evaluated and the company was divisionalised in the latter part of the year. The traditional IU business, including its Umbogintwini plant, was merged into Lake Chemicals and Plastamid was merged into Chemfit.

PERFORMANCE AND OUTLOOK

Elastomer volumes increased substantially in 2012, due to the development of IU's more environmentally friendly mercury-free range, and sales to the panel and furniture markets exceeded expectations. This was achieved notwithstanding the effects of product commoditisation which compounded the need to address the manufacturing cost base.

SUSTAINABILITY

In the coming year, the next phase of implementation of the Montreal Protocol will commence with usage of HCFC 141b (an ozone-depleting blowing agent) being limited to average levels recorded in 2009 and 2010. It is expected that HCFC 141b shortages and price increases will result, encouraging a change to more environmentally friendly blowing agents like methyl formate. This is promising for the restructured business' future.

The company had two recordable injuries in the year which, with the significantly lower number of hours worked owing to restructuring, resulted in a TRIR of 2,90 compared to 1,22 in 2011.

IU was not audited for B-BBEE scorecard purposes owing to its divisionalisation.

The site at Umbogintwini has ISO 9001 accreditation and the business is a Responsible Care™ signatory.

Lake International Technologies ("Lake")

MANAGING DIRECTOR

Dean Murray
(to January 2013)



www.lake.co.za

With effect from January 2013, the business was restructured into two stand-alone entities: Lake Chemicals and Lake Foods.

2012 OVERALL PERFORMANCE

Lake achieved excellent results thanks to the delivery of several projects, the diverse nature of its activities and the focus on exports. The acquisition of 80% of Afoodable's marinades and sauces business was a valuable addition to the portfolio.

Market conditions were challenging, with a subdued global trading environment and strikes in the South African mining, transport and agricultural sectors having adverse effects on performance. Delivery of products to South African customers presented challenges as did ensuring continuity in the supply of raw materials to Lake's manufacturing facility.

SUSTAINABILITY

Safety was a priority in 2012, after a disappointing performance in the prior year. A two-year campaign was launched to improve safety-related behaviours and was well accepted across the company. Lake's TRIR improved to 0,42 from 1,65 in 2011.

Lake's Natalspruit operation achieved a 5 Star rating from NOSA. The Umbogintwini site has certifications for ISO 9001, ISO 14001 and OHSAS 18001 and the company is a Responsible Care™ signatory.

A cost saving initiative at Umbogintwini yielded results in terms of reducing energy consumption and improving efficiencies, resulting in a positive impact on the company's environmental footprint.

Lake maintained its Level 5 B-BBEE Contributor rating.

Lake Chemicals

MANAGING DIRECTOR

Gavin Gerber
(from January 2013)



Lake Chemicals supplies surfactants to the explosives and fertilizer industries and chemical raw materials for a broad range of applications. Customers for the latter are in the coatings, plastics, refectories, construction and cleaning chemicals sectors, among others.

PERFORMANCE

The chemicals trading business recorded year-on-year growth as margins, product mix and working capital were well managed. The focus on introducing new products to market sectors serviced by this business delivered results.

For surfactants, there was significant growth in the fertilizer coatings business in South Africa and in South East Asia.

Volumes of Experse™ mining emulsifier increased in Southern Africa and inroads made in China and Europe were encouraging. Strikes in South Africa's mining sector tempered local growth.

The priority remains the development of improved emulsifiers which are more versatile and deliver cost savings and environmentally-related benefits.

OUTLOOK

Lake Chemicals will continue to invest in technology and research and development, and to expand its exports of mining and fertilizer surfactants. Africa, Eastern Europe and South East Asia are markets of interest where opportunities are promising.

Lake Foods

MANAGING DIRECTOR

Tracey Davies
(from January 2013)



Lake Foods represents leading international manufacturers and suppliers of specialty ingredients, offering products and services to the food industry. Customers are in the dairy, beverage, wine, meat, bakery, health and nutrition industries and products include bacterial cultures, enzymes, natural colourants, phosphates, stabilisers, emulsifiers and various other food additives.

PERFORMANCE

Growth in the health and nutrition business was noteworthy, notwithstanding aggressive competition in traded products and the resultant negative effect on prices, volumes and margins. The supply of value-added blends to the local poultry industry was the most affected by this.

The Cobito business achieved its Hazard Analysis and Critical Control Point ("HACCP") certification from the South African Bureau of Standards and this will assist the brine business going forward. HACCP is a management system that enables food processing and catering industries to introduce and maintain a cost-effective, on-going programme focused on food safety. It involves the systematic assessment of all the main steps involved in a food manufacturing operation and the identification of those steps that are critical to the safety of the product.

OUTLOOK

Individual sectors in South Africa's food market require customised skills, product mixes and services. Lake Foods will continue to concentrate on delivering these and on identifying potential investments to enhance them.

Investment in Afoodable's manufacturing capacity will enable organic growth and the pursuit of business in Africa.

A phased approach to African expansion has already delivered some pleasing results and bodes well for accelerating growth.

Nulandis

MANAGING DIRECTOR

Hugo Minnaar

www.nulandis.co.za



Nulandis is a prominent player in the field of agricultural chemicals and develops, manufactures and distributes specialised and generic products. It is the largest supplier of insecticides, fungicides, herbicides, adjuvants and plant nutritional products to the agrochemical industry in South Africa. It also has a strong presence in the rest of Africa and further afield.

PERFORMANCE

The company delivered pleasing results. There was good revenue growth and overall margins were maintained. Qwemico Distributors was acquired in 2011 and this business, together with the UAP Crop Care distribution division, was integrated into existing structures. The new Nulandis brand was launched in January 2012 to good effect.

The focus on business outside South Africa contributed to the company's good performance as did record sales of bulk nutrition products. Nulandis achieved its results in a stagnant South African agricultural market where conditions were volatile at times. Strikes in the agricultural and transport sectors challenged the management of supply chains and deliveries of products to customers. Competition intensified as several new multinational suppliers entered the market.

SUSTAINABILITY

The Nulandis Academy of Excellence was established in the year to enhance the product knowledge and service skills of employees, agents and farmworkers. Training programmes are tailor-made for each learner group and most of the company's agents were engaged in a first level sales course. Investments of time, expertise and financial resources were also made in supporting the development of farms and farming by previously disadvantaged South Africans. Agri Dwala, a project partner in the Overberg, Western Cape, received an industry award for its progress.

Regrettably, two recordable injuries resulted in a TRIR of 0,80 compared to one injury and a TRIR of 0,43 in the prior year.

The company has ISO 9001, ISO 14001 and OSHAS 18001 accreditations at its sites, depending on a each site's risk profile. It is a Responsible Care™ signatory and also a member of CropLife South Africa. The latter is an association representing the plant science industry, including the majority of responsible manufacturers and suppliers of crop protection products, and through its training and accreditation of members' sales personnel it strives to ensure that farmers and other end-users are always provided with a professional and efficient service.

Nulandis is a Level 5 B-BBEE Contributor, an improvement from Level 8 in 2011.

OUTLOOK

Various investment opportunities in Africa are being evaluated as the company seeks to accelerate its export growth. The emphasis on streamlining processes and procedures will continue as will training aimed at maximising the benefits of Nulandis' geographic footprint.

Senmin

MANAGING DIRECTOR

Theunis Botha

www.senmin.co.za



Senmin supplies a range of chemicals used in the beneficiation of minerals. Most of its products are utilised in the froth flotation and tailings treatment segments of the mining industry in Southern Africa and further afield. In addition, Senmin provides customers with value-adding expertise in the handling and dosage of its products.

PERFORMANCE

Demand for some of Senmin's products was buoyant notwithstanding the slow pace of recovery in the global economy and delays in new mining investments. Markets for xanthates, specialty collectors and PAM products and services were particularly strong.

Volumes of PAM increased as Senmin's plant ramped up as planned and the growth in export sales was pleasing. New contracts were secured in base metal markets in Africa and progress in South America was encouraging. This offset, in part, the decline in local platinum production and mining project delays in an extremely turbulent year for the industry. A number of platinum concentrator closures were announced.

Significant escalations in electricity and gas prices added to the pressure on Senmin's margins. Prices of guar splits, a key raw material for platinum concentrator depressants, remained at record levels and volumes declined as alternative products were introduced into the market.

Late in the year, the acquisition of Cellulose Derivatives was approved conditionally by the Competition Tribunal. This company manufactures technical grade carboxymethyl cellulose ("CMC") and was supplying most of its production output to Senmin. CMC can potentially also be used to substitute guar-based products in the mining sector. Other applications are in industrial and detergent markets. The acquisition is a strategic addition to Senmin's manufacturing capacity and capability.

Research and development activities were accelerated to ensure that Senmin continues to offer its customers the most innovative products and services available. BASF exited the PAM plant partnership and Senmin now supplies product directly to international markets, on a royalty basis.

SUSTAINABILITY

The production site in Sasolburg continued to be upgraded to globally acceptable standards in all areas of operation and improvement projects will continue in 2013. The site is ISO 9001 and ISO 14001 certified. It also has NOSA 5 Star accreditation. Senmin is a Responsible Care™ signatory.

The company achieved a TRIR of 0,40 compared to 0,43 in 2011. It is a Level 4 B-BBEE Contributor. It was rated a non-contributor in 2011.

OUTLOOK

Indications are that demand in Africa will continue to increase notwithstanding limited global investment in new mining projects. Growth is expected in the copper, iron ore and nickel sectors in particular. Senmin is well placed to capitalise on these opportunities since it has extended its footprint further to include Ghana and North Africa. It already has an established presence in Southern African countries that include Zambia and Zimbabwe and it is planning to increase its presence in the Democratic Republic of Congo.

The outlook for South Africa's platinum mining sector is subdued. It is expected that volume and cost pressures will continue and this, together with possible restructuring, may curtail growth opportunities in the medium term.

International marketing activity for value-adding reagent products and services will be accelerated in 2013.

Resinkem
(joint venture with
Georgia Pacific Resins LLC)
MANAGING DIRECTOR
Kameel Jugdeo
(from March 2013)



Resinkem manufactures and markets urea formaldehyde resins, formaldehyde solutions, urea, phenol and furan resins for the timber, pulp and paper, animal feeds and foundry industries.

PERFORMANCE

It was a disappointing year for the business. In an unfavourable economic environment which saw some customers curtailing or ceasing operations, volumes and margins declined. Strikes in the transport industry exacerbated the situation. Good cost control and working capital management assisted in offsetting some of these negative impacts.

SUSTAINABILITY

In 2011, the volume of effluent requiring treatment halved from the prior year. Further effluent reduction programmes were implemented to good effect in 2012.

Resinkem had two recordable injuries, with a TRIR of 3,03 (three injuries and 4,71 in 2011). The company has a small employee complement and consequently a relatively low number of hours are worked. Certain plant areas and processes have been identified as being in need of improvements which are expected to have a positive effect on safety performance in 2013.

Resinkem is a Responsible Care™ signatory and its site at Umbogintwini is ISO 9001 certified.

The company was rated a Level 5 B-BBEE Contributor, compared to Level 8 in the prior year.

OUTLOOK

Resinkem developed further its lower formaldehyde-emitting resins for the flat panel industry. This project, as well as others to diversify its product range and customer base, will continue in 2013.

Specialty Minerals SA
("SMSA")
(joint venture with
Specialty Minerals Inc.)

PLANT MANAGER
Avindra Boodhram



SMSA is a joint venture with Specialty Minerals Inc., a wholly-owned subsidiary of Minerals Technologies Inc. The latter, US-based company is a global leader in precipitated calcium carbonate technology. Accordingly, SMSA has access to the most up-to-date technology and technical services. The company's products are used as a value-adding filler material by Mondi in the manufacture of its copy grade paper.

Like other suppliers to the paper industry, SMSA had a difficult year owing to the prevailing environment in this sector in South Africa.

SUSTAINABILITY

The company sustained its excellent safety performance. As was the case in the prior year, there were no recordable injuries.

SMSA is ISO 9001 certified and is a Responsible Care™ signatory.

It improved its B-BBEE Contributor rating to Level 4 from Level 6 in 2011.

OUTLOOK FOR THE SPECIALTY CHEMICALS CLUSTER

There is a healthy pipeline of acquisition opportunities for the cluster and a number of transactions are expected in 2013.

The focus will be on growing in AECI's main strategic markets of interest by leveraging the Group's footprint in Africa and its position as a leading supplier to the South African mining and manufacturing sectors. Businesses in the cluster are well placed to maximise the opportunities available.

The capital programme which required considerable resources in the last five years is complete. Indications are that markets served by these investments are expanding and this will ensure that new plants are adequately loaded.

SANS Technical Fibers ("STF")

MANAGING DIRECTOR
Zach Zacharias



STF is a North Carolina based nylon yarn manufacturer which serves global specialty markets with nylon yarn solutions.

This business will be reported as part of the specialty chemicals cluster from 2013.

PERFORMANCE

STF delivered revenue of R339 million (2011: R333 million) and profit from operations was R40 million (2011: R53 million). Good results were delivered by STF's industrial business and sales to the North American automotive sector exceeded expectations as the US economy recovered somewhat with the help of government stimulus.

Other markets showed moderate or no improvement, as depressed global economic conditions persisted. Demand from Asia, Europe and South America was disappointing and STF's exports were below expectations. Asian suppliers, including new entrants into the market, reduced prices to limit volume losses, thereby putting margins under pressure.

It was pleasing that a long-term raw material contract was entered into, securing polymer supply at a competitive price.

SUSTAINABILITY

The company's TRIR deteriorated from last year's 1,15 to 1,25 although the longer-term trend remains positive. Efforts to reinforce the culture that each employee has a responsibility for safety management, together with an enhanced auditing programme, will continue and the target is a TRIR below 0,60 by the end of 2013.

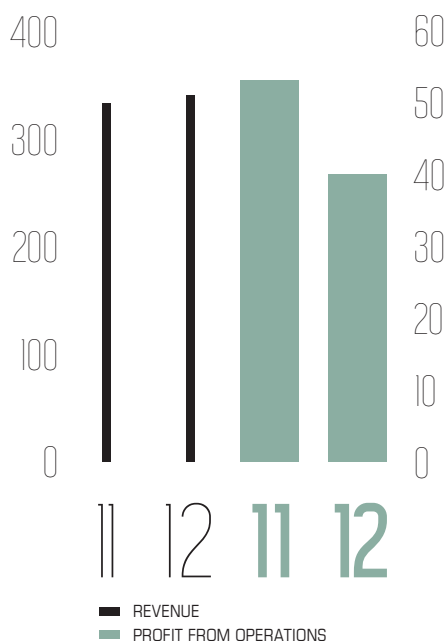
STF has ISO 9001 and OEKO-TEX™ Standard 100 certification. The latter is an independent testing and certification system for textile raw materials, intermediate and end products at all stages of production.

OUTLOOK

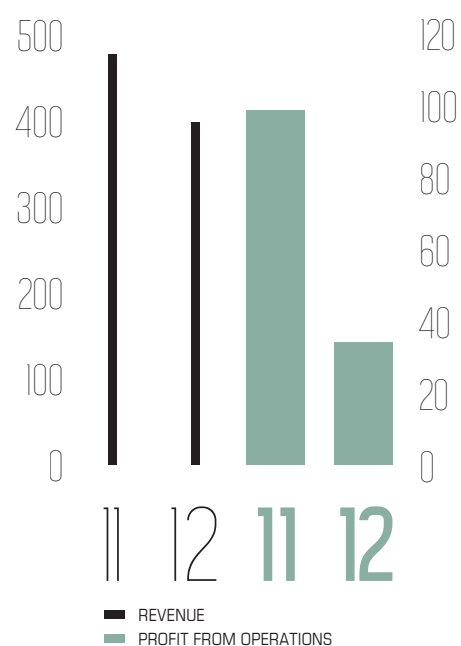
STF is investing US\$10 million in world-leading nylon spinning equipment that will enhance its position in existing markets and present new opportunities in North American and export markets. This single-stage technology, with its lower production costs and improved quality capabilities, will enhance the company's future competitiveness. It is expected that the project will be completed by end-2013.

The overall recovery of the North American economy should continue. Asian export markets appear to be rebounding and improved demand should also have a positive effect on margins. No significant improvement in European markets is expected.

FINANCIAL PERFORMANCE (RM)



FINANCIAL PERFORMANCE (RM)



PROPERTY

Heartland

MANAGING DIRECTOR
Anthony Diepenbroek

www.heartland.co.za



Heartland seeks to optimise the value of real estate holdings surplus to AECI's operational requirements by selling land and by selectively investing in revenue-producing buildings to act as a catalyst for sales. Heartland also has a portfolio of existing rental properties and manages the operations infrastructure at the Umbogintwini Industrial Complex ("UIC").

PERFORMANCE

Revenue for Heartland's combined activities was R400 million in 2012 (2011: R476 million) and trading profit declined to R34 million from R99 million in the prior year, R67 million was invested in infrastructure development (2011: R25 million) and R8 million was spent for environmental projects (2011: R14 million).

BUSINESS ENVIRONMENT

Demand for land was limited and favoured well-located warehousing and distribution space as well as specific residential development with access to infrastructure. Modderfontein has a potential advantage in the latter regard owing to its location, access to electricity and its ability to accommodate higher density development.

South Africa's financial institutions remained very selective on property investment, with increasing pressure on capital reserving and limited appetite for land and speculative developments.



MANAGEMENT TEAM

From left:

Reg Bhikum

Neil Hayes

Chantelle Mathomes

Leticia Potts

Mike Walsh

Peshy Zwane

PERFORMANCE

Heartland remained focused on filling the pipeline of zoned land.

Zoned land requires the installation of services in order to make it saleable.

In 2012, Heartland completed the installation of bulk and internal services for Longlake Extension 1. This was a pre-proclamation condition in order to sell and transfer the 30 hectares of land in Extension 1. Although the services installation was completed, proclamation was not achieved owing to outstanding rates clearances from the local authority. As a result, proclamation and sales are expected early in 2013. Construction of the M60 Marlboro Drive extension, which provides access to future phases of Longlake, was also completed.

Services installation on the first 28 hectares of Westlake, for mixed end uses, commenced and the sale of the first portion of five hectares was concluded.

The graph on the facing page indicates zoned and serviced land that will be available for sale during 2013 and 2014.

TOP STRUCTURE DEVELOPMENTS

Following the successful development of an investment property tenanted by DetNet, AECI's joint venture with Dyno Nobel in electronic detonators, a similar initiative will be undertaken for ImproChem, another Group company. Construction of a 5 300m² warehouse, office and laboratory complex is scheduled to commence in the first quarter of 2013 and this project will be the catalyst for infrastructure installation and township proclamation at Pinelands.

PROPERTY PORTFOLIO

Rental income is derived from office and industrial leases in Gauteng (Modderfontein), KwaZulu-Natal (UIC) and the Western Cape (Somerset West). There is additional income from leases on land which is not used by the Group but is not saleable in the medium term. These leases are defined as being "opportunistic". At the UIC, long-term land leases are in place with Group companies and other industrial/chemical operators who benefit from the site's zoning for heavy industry.

Modderfontein offers niche letting opportunities in older, well-located buildings.

Heartland continued to be challenged by competition from modern office accommodation in recognised nodes where space is available at reduced rentals, owing to difficult market conditions. This environment is not expected to change significantly in 2013.

Leasing activity for industrial buildings was satisfactory, particularly at the UIC, due to competitively priced rental space being made available for the small- to medium- warehouse market. In line with Heartland's strategy to invest selectively in catalyst and infill developments, existing industrial buildings will be upgraded in 2013 and new developments will be initiated to provide a more comprehensive range of industrial space.

Other strategic priorities remain infrastructure upgrades, sustainable tenant retention, improved cost-to-income ratios, and better space and cost efficiencies.

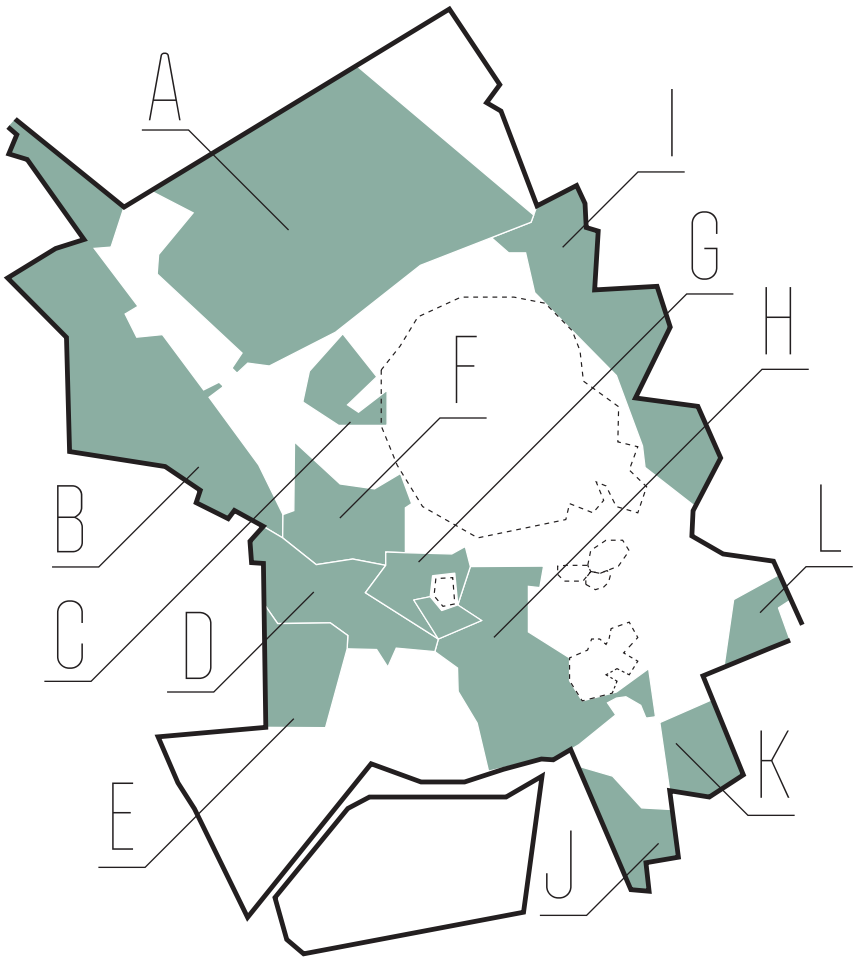
Portfolio statistics

Gross Lettable Area ("GLA"), excluding land	283 000m ²
Lettable land, excluding opportunistic lettings	502 000m ²
Opportunistic lettings on land to be developed	375 000m ²
Number of properties	626
Number of tenants	346

Portfolio performance

Annual net income	R84 million
Annual cost-to-income ratio	48%
Average annual tenant retention	67%
Annual income lost to lease terminations and not recovered by new leases	15%
Lease profile:	
– average office lease length	1 year
– average industrial lease length	1 – 2 years
– average annual rental escalation	8% – 10%

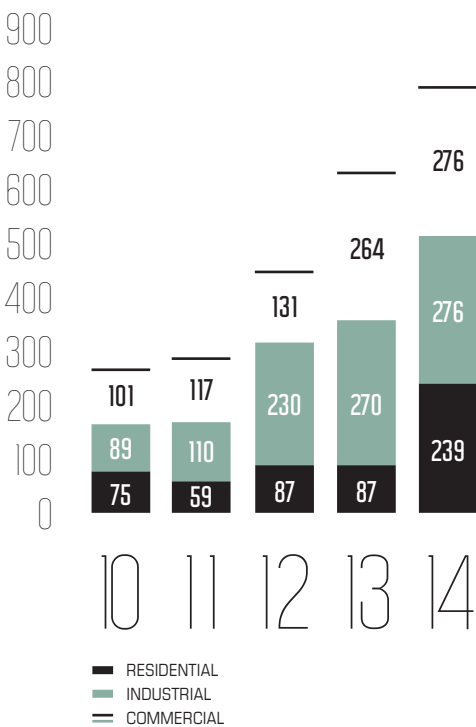
DEVELOPMENT FRAMEWORK: MODDERFONTEIN



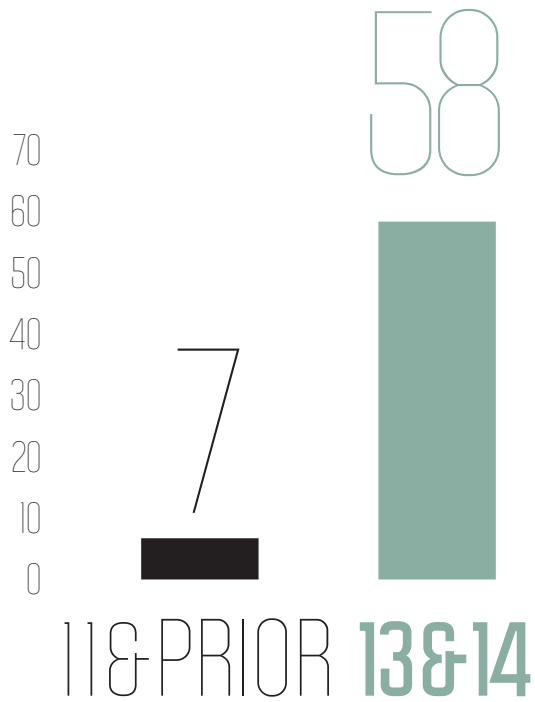
- A MODDERFONTEIN NORTH (632ha)
- B LONGLAKE (360ha)
- C MODDERFONTEIN CENTRAL (39ha)
- D TOWN CENTRE (113ha)
- E WESTLAKE (78ha)
- F TOWN CENTRE NORTH (103ha)
- G PINELANDS (61ha)
- H FOUNDERS HILL (206ha)
- I MODDERFONTEIN EAST (188ha)
- J FOUNDERS HILL 1 – 7 (50ha)
- K MODDERFONTEIN SOUTH (56ha)
- L MODDERFONTEIN SOUTH EAST (36ha)

Operational review: property
Stakeholder reports

PIPELINE OF ZONED LAND – CUMULATIVE
(UNSERVICED) (HECTARES)



SERVICED INFRASTRUCTURE (HECTARES)



OPERATION SERVICES

The third component of Heartland's activities, Operation Services supplies utilities and services at the UIC. Heartland's facilities management skills ensure that services required by large and smaller manufacturing customers are provided appropriately and professionally. Services include security, superheated steam, potable water, electricity, effluent handling and a comprehensive rail network.

The Complex's "licence to operate" as a good corporate citizen, and various utility distribution licences, demand the protection of assets in a responsible manner. A robust maintenance regime is needed to ensure reliable service delivery and the sustainability of operating customers.

The heavy industrial zoning of the site implies close public scrutiny of the conduct of operations and their environmental impacts in terms of liquid effluent, gaseous emissions, water usage and risk profiles. Accordingly a focus on safety, health and environmental issues is a priority at the Complex.

SUSTAINABILITY

All of the land available to Heartland for development is subject to an AECI land release protocol which ensures that there are no identified chemical remediation requirements. It should be recognised however that certain portions of land were previously used for manufacturing purposes and, accordingly, Heartland's offering in these areas is for brownfield development.

In preparing land for sale by inter alia installing bulk services, Heartland removes redundant services and structures as part of preparing former operational areas for re-use. Other areas were held as a buffer between the public and explosives operations. Some of these areas are in pristine condition and others have been restored to create open spaces and parks. The Modderfontein Reserve has been the largest such project and it was officially opened to the public in 2012.

The Reserve is a 275 hectare area which AECI has set aside as a private open space in order to promote recreation, conservation and education. Accessible to the public and future residents of the surrounding proposed developments, it is managed by the Endangered Wildlife Trust as an urban conservation project. AECI has also committed to the on-going maintenance of the Reserve until surrounding development allows it to become self-sufficient. About 35% of the Reserve area was potentially developable so this initiative is a substantial corporate social investment.

More detailed information is available on page 95 in the sustainability report.

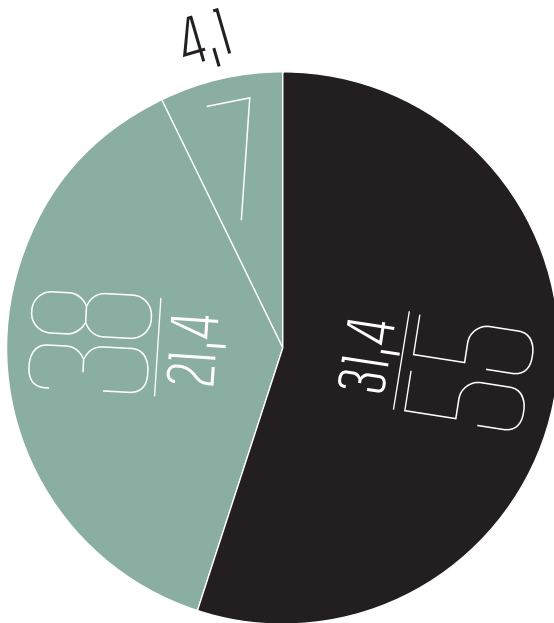
The re-establishment of the Modderfontein Sports Club in 2012 was another community-focused project managed by Heartland. The squash complex, clubhouse and restaurant were refurbished and new operational leases were entered into. The Club will be self-sustaining in future and it is being used by the community as a base for running clubs, action football and a training facility for Banyana Banyana, the national women's football team.

At the UIC the Umbogavango, Vumbuka and Mamba Valley Nature Reserves continue to operate well. The reserves occupy about 77 hectares of space, most of which served as part of the site's effluent disposal system for an extended period during the Complex's history dating back more than 100 years. As in the case of the Modderfontein Reserve the focus is on recreation, conservation and education for the benefit of local communities and special interest groups. A DVD summarising the establishment of Vumbuka was produced in 2012. Copies are available, on request, by emailing **groupcommunication@aeci.co.za**

Heartland's TRIR of 0.28 was unchanged year-on-year. Its UIC-based activities are Responsible Care™ signatories and have ISO 14001 and ISO 18001 certifications.

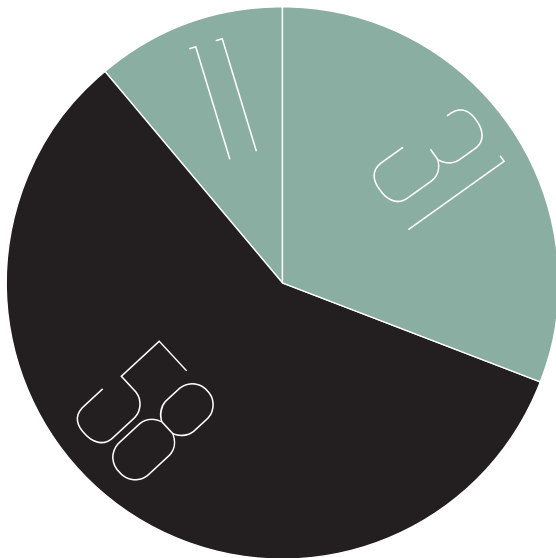
Heartland was rated as a Level 5 B-BBEE Contributor in 2012, compared to Level 7 in 2011.

NET RENTAL GENERATED FROM OCCUPIED GLA (RM)



55% GAUTENG
38% KWAZULU-NATAL
7% WESTERN CAPE

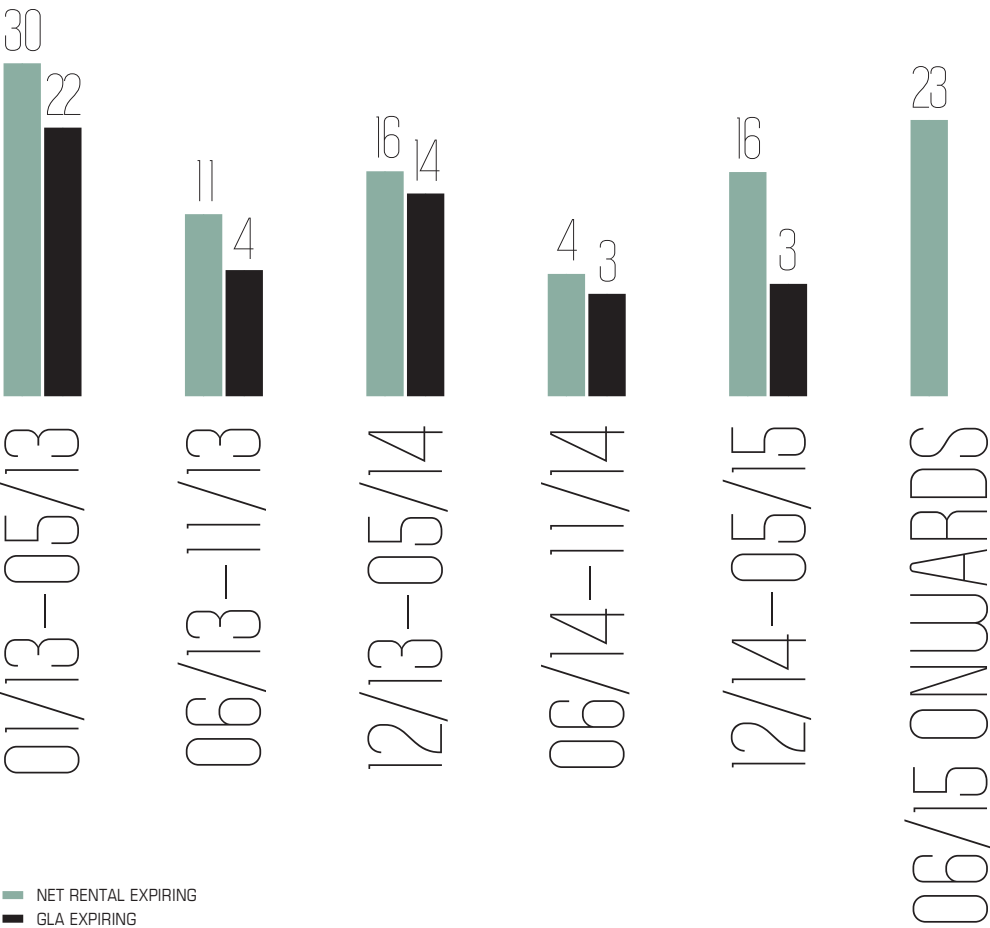
REGIONAL GLA (%)



31% GAUTENG
58% KWAZULU-NATAL
11% WESTERN CAPE

Operational review: property
Stakeholder reports

36-MONTH LEASE EXPIRY PROFILE: NET RENTALS AND GLA (%)



NET RENTAL EXPIRING
GLA EXPIRING

CORPORATE GOVERNANCE

ETHICAL LEADERSHIP AND GOOD CORPORATE GOVERNANCE

The AECI Board considers good corporate governance as being integral to delivering sustainable growth in the interests of all its stakeholders. To that effect, governance structures and processes are reviewed and adapted continually to accommodate internal developments and to reflect national and international best practices.

The Board is satisfied that in 2012 further progress was made towards substantial adherence to King III and that the Company was in compliance with the JSE Listings Requirements. The new memorandum of incorporation ("MOI"), aligned with the legal provisions of the new Companies Act, was approved by shareholders in February. This ensured compliance with the Companies Act.

The Board's approach to corporate governance is underpinned by AECI's values:

Bold

- we will tackle the difficult challenges in our businesses and will offer customers innovative technical and service solutions;

Innovative creation of value

- we are passionate about the innovative creation of value for our customers, our shareholders, our people and all other stakeholders;

Going Green

- we acknowledge that our operations have an impact on the environment and we are committed to the diligent management of our environmental footprint;

Engaged

- we believe in engaging fully with our people and are committed to a culture of honesty, transparency and growth;

Responsible

- as a responsible corporate citizen we embrace the concept of "people, planet and profit" and hold ourselves accountable to operate safely and ethically to meet the needs of all our stakeholders.

THE BOARD OF DIRECTORS

Structure

AECI has a unitary Board structure with eight Independent Non-executive and three Executive Directors, as at 25 February 2013. The Board operates in terms of a Board charter, a copy of which can be found via the website link www.aeci.co.za/gov_policy.asp. Graham Edwards retired from the Board as Chief Executive on 28 February 2013. Non-executive Directors are appointed on the basis of their skills and expertise appropriate to the strategic direction of the Company. Diversity, race and gender are taken into account when appointments are made and the Board, through its Nominations Committee, ensures that it has the right balance of skills, expertise and experience.

In May 2012, the Board appointed Schalk Engelbrecht as its new Chairman to succeed Fani Titi in that role. Mark Dytor was appointed to the Board in an Executive capacity with effect from 2 January 2013 and he succeeded Graham Edwards as Chief Executive on 1 March 2013.

Independence of Board members

The Nominations Committee is charged with continually assessing the independence of Directors and reporting on this to the full Board. In 2012, the Nominations Committee assessed and evaluated the independence of Messrs Engelbrecht and Leeming as the Board's longest-standing members. The Board was satisfied with their continued independent status based on demonstrable and visible criteria in their roles at Board and Committee level.

Rotation and tenure

Non-executive Directors may serve for up to nine years, subject to retirement and re-election by rotation. Extensions of this period may be granted under specific circumstances. In these cases a formal assessment and evaluation takes place. In terms of the new MOI, Executive Directors are also subject to retirement and re-election by rotation. One-third of the total number of Directors must retire by rotation at each Annual General Meeting.

Terms of employment of Directors

Executive Directors are employees of the Company and have standard terms and conditions of employment. They do not receive any special remuneration or other benefits for their additional duties as Directors. No Executive Director has an employment contract with a notice period longer than one month 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 Managers as underpinned by the remuneration philosophy of the Company. No Non-executive Director has an employment contract with the Company. Non-executive Directors' remuneration is arrived at after an annual benchmarking exercise performed by the Chief Executive and the approval by shareholders of the proposed fees.

Directors' management of conflict of interests

If Directors become aware that they have a direct or indirect interest in an existing or proposed transaction with any entity in the Group, they notify the Group Company Secretary who in turn alerts the Chairman of the Board. Furthermore, all Directors have an obligation to update any changes in these interests and this is done before or at each Board meeting. This process was adhered to in 2012 and no Directors recused themselves from any discussions as a result of personal conflict of interests. Any potential professional conflict of interests such as when another company of which a Non-executive Director is also a Director is discussed, is disclosed by the Director concerned and noted in the Board minutes.

Induction and on-going development of Directors

The Company's Directors have a broad range of expertise and experience in diverse industries including banking, chemicals, technical, accounting and strategic matters. Upon appointment, all new Directors are submitted to a Group-specific induction including a number of one-on-one meetings with Senior Managers and Managing Directors of subsidiaries. This is done with the specific intent of developing Directors' full appreciation and understanding of the complex nature of the Group's businesses.

BOARD MEETING DATES AND ATTENDANCE

DIRECTOR	20 FEB	20 MAR	28 MAY	19 JUN	24 JUL	05 OCT	26 NOV
RMW Dunne	✓	✓	✓	✓	✓	✓	✓
GN Edwards	✓	✓	✓	✓	✓	✓	✓
S Engelbrecht	✓	✓	✓**	✓*	✓*	✓*	✓*
Z Fuphe	A	✓	✓	✓	✓	✓	✓
KM Kathan	✓	✓	✓	✓	✓	✓	✓
MJ Leeming	✓	✓	✓	✓	✓	✓	✓
LL Mda	✓	A	✓	A	✓	✓	✓
AJ Morgan	✓	✓	✓	✓	✓	✓	✓
LM Nyhonyha	✓	✓	✓	✓	✓	A	✓
R Ramashia	✓	✓	✓	✓	✓	✓	✓
F Titi	✓*	✓***					

A Apologies.

* Chairman.

** Chairman from 28 May.

***Retired on 28 May.

Site visits are also organised where Directors have access to individual businesses and have the opportunity to engage directly with them. In the year under review the Board visited the UIC which is managed by Heartland and where a number of companies in the specialty chemicals cluster have manufacturing operations. The Board also visited AEL's ISAP plant at Modderfontein as part of its on-going assessment of that investment.

With regards to formal training the Group Company Secretary is charged with sourcing and organising relevant training for Board members, based largely on the specific needs of each Director. In 2012 a programme of relevant courses was circulated to Board members and several Directors availed themselves of training opportunities.

Board effectiveness

In line with the provisions of King III, the Board conducts an annual evaluation of itself and its Committees. Every third year this evaluation is conducted by outside service providers. In the intervening years the evaluation is an in-house process. The interval between the external and internal processes is intended to allow the Board sufficient time to consider, implement and follow up on specific recommendations.

In 2012 the evaluation was conducted in-house and the indicators for testing pertained inter alia to Board meetings, independence, Board and management interaction, remuneration, and Committee size and composition. The assessment confirmed the overall effectiveness of the Board and its Committees but indicated that specific focus should be given to:

- › succession planning for the Chairman and other Board members; and
- › Board composition, especially when seeking the nomination of potential members with international business expertise, in view of AECI's expansion strategy.

These issues and other minor aspects identified as requiring review are being addressed.

The next external evaluation is due in 2013.

Board relationships with 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 Managers 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 themselves or the Company after having advised the Chief Executive or Chairman.

Board meetings

The Board met seven times in the year, including one special meeting and one session to discuss the development of Company strategy. In addition, the Chief Executive and the Chief Financial Officer kept the Board up-to-date on specific and urgent matters that could not be deferred until the next formal Board meeting. In certain instances and on specific matters, regular reports were tabled to all Board members so as to keep them apprised of developments.

The Non-executive Board members also met without the Executive Directors in order to raise matters of interest and concern. The Chairman of the Board conveyed related discussions to the Executive Directors, as warranted.

The Chairman of the Board, assisted by the Chief Executive and the Group Company Secretary, is responsible for setting the agenda for each Board meeting after having received input from the Board. Board meetings are scheduled well in advance and the Group Company Secretary ensures that all Directors are provided with the information required well in advance to enable them to prepare for meetings and formulate their views on matters.

Board committees

The Board has established a number of Committees to assist it in fulfilling its duties and objectives. The role and responsibility of each Committee is set out in its formalised and Board-approved terms of reference. These terms are reviewed periodically and can be found via the website link www.aeci.co.za/gov_policy.asp.

The Audit Committee and the Social and Ethics Committee have additional responsibilities given them by virtue of the Companies Act.

The Board Committees usually meet before each Board meeting and the Chairmen table at the Board meeting a report of their Committees' proceedings. The minutes of each Committee meeting are included in the full Board information pack.

All Committees are satisfied that, in 2012, they carried out their responsibilities in compliance with their mandate and terms of reference.

AUDIT COMMITTEE

The Audit Committee is comprised of four Independent Non-executive Directors. The Audit Committee's statutory duties, as set out in the Companies Act, include inter alia considering the Company's annual and interim financial statements, its accounting policies as well as its mechanisms for safeguarding Company assets. The Committee met four times in the year.

Both the internal and external auditors have unrestricted access to the Chairman of the Committee and may meet privately with the Committee. The report of the Audit Committee is published on page 130.

The Chief Executive, the Chief Financial Officer and the external and internal auditors attend meetings of the Committee by invitation.

Some of the key issues discussed and reviewed in the year included: interim results and press announcements, reports from the Tip-offs Anonymous line, external audit reports, internal audit reports and the risk-based annual audit plans of the external and internal auditors.

Current members of the Committee are:

- › M Leeming (Chairman)
- › RMW Dunne
- › AJ Morgan
- › LM Nyhonyha

RISK COMMITTEE

The Risk Committee is comprised of four Independent Non-executive Directors, three Executive Directors and four Executive Committee members. Mr RMW Dunne was reappointed to the Risk Committee in 2012. The Risk Committee met four times in the year.

The Risk Committee's mandate includes reviewing and assessing risk and compliance management processes. Safety, health and environmental management are part of this. In 2012 the Committee reviewed the risk register, oversaw the embedding of the Group-wide risk management process, the establishment of IT and Business Continuity Management processes as well as the entrenchment of the integrated compliance management process across the Group.

Some of the key issues discussed and reviewed included an external risk scan, a strategic risk dashboard analysis, finalisation of a Business Continuity Management approach and strategy, a review of the risk management framework and of the Company's risk appetite and tolerance approach.

Current members of the Committee are:

- › AJ Morgan (Chairman)
- › JAA Diepenbroek*
- › RMW Dunne[∞]
- › MA Dytor[†]
- › GN Edwards[†] (retired on 28 February 2013)
- › KM Kathan[†]
- › EE Ludick*
- › MVK Matshitse*
- › LL Mda
- › R Ramashia
- › SM Venter*

* Member of the Executive Committee.

[∞] Appointed on 1 June 2012.

[†] Executive Director.

SOCIAL AND ETHICS COMMITTEE

The Social and Ethics Committee is comprised of five directors, (four of whom are Independent Non-executive Directors), the Chief Executive, the Human Capital Executive and the Group Technical and Safety, Health and Environment Manager. The Chief Financial Officer attends by invitation. The terms of reference of the Social and Ethics Committee were reviewed to bring them in line with the provisions of the Companies Act and were approved by the Board.

In 2012, the Committee maintained its focus on ensuring that AECL has a robust management process for issues pertaining to transformation, Employment Equity, safety, health, the environment, and ethics-related matters. The Committee met four times in 2012.

AUDIT COMMITTEE MEETING DATES AND ATTENDANCE

DIRECTOR	17 FEB	23 JUL	05 OCT	23 NOV
RMW Dunne	✓	✓	✓	✓
GN Edwards	✓*	✓*	✓*	✓*
KM Kathan	✓*	✓*	✓*	✓*
MJ Leeming (Chairman)	✓	✓	✓	✓
AJ Morgan	✓	✓	✓	✓
LM Nyhonyha	✓	✓	A	✓

A Apologies.

* By invitation.

RISK COMMITTEE MEETING DATES AND ATTENDANCE

MEMBER	16 FEB	21 MAY	20 JULY	23 NOV
JAA Diepenbroek	✓	✓	✓	✓
RMW Dunne			A*	✓
MA Dytar	✓	✓	✓	✓
GN Edwards	✓	✓	✓	✓
KM Kathan	✓	A	✓	✓
EE Ludick	✓	✓	✓	✓
MVK Matshitse			✓*	A
LL Mda	✓	✓	✓	✓
AJ Morgan (Chairman)	✓	✓	✓	✓
R Ramashia	✓	✓	✓	✓
SM Venter	✓	✓	✓	✓

A Apologies.

* Appointed to the Committee on 1 June.

SOCIAL AND ETHICS COMMITTEE MEETING DATES AND ATTENDANCE

MEMBER	08 FEB	02 APR	23 MAY	23 NOV
GJ Cundill	✓*	–	✓*	✓**
GN Edwards	✓	✓	✓	✓
Z Fuphe	✓	✓	✓	✓
KM Kathan	✓*	–	✓*	✓*
MJ Leeming	✓	✓	✓	✓
MVK Matshitse	✓*	✓*	✓*	✓**
LM Nyhonyha (Chairman)	✓	✓	✓	✓
R Ramashia	✓	✓	✓	✓

* By invitation.

** Appointed to the Committee on 1 June.

Some of the key issues discussed and reviewed in the year included the approach to and progress on finalising the Modderfontein Water Use Licence, Group transformation and Employment Equity policies and targets, the B-BBEE policy and progress, and progress on the roll-out of the updated Code of Ethics and Business Conduct. The Committee's full sustainability report is published from page 88 to page 109.

Current members of the Committee are:

- › LM Nyhonyha (Chairman)
- › GJ Cundill ∞
- › GN Edwards (retired on 28 February 2013)
- › Z Fuphe
- › MJ Leeming
- › MVK Matshitse *
- › R Ramashia

∞ *Group Technical and Safety, Health and Environment Manager.*

* *Human Capital Executive.*

REMUNERATION COMMITTEE

The Remuneration Committee is comprised of three Independent Non-executive Directors and its mandate is inter alia to ensure that the Company's remuneration policy and practices are aligned with Group strategy and that remuneration is dependent on the achievement of performance indicators. The Committee also ensures that Human Capital policies are in line with best practice and are adhered to.

The Chief Executive and the Chief Financial Officer attend by invitation when necessary to discuss the remuneration of Executive Directors and Senior Managers. The Committee met five times in 2012.

Some of the key issues addressed were Executive Directors' KPIs, finalisation of the new Long-term Incentive Plan for approval by shareholders, assessment of Executive and Senior Managers' performance, and a review of short-term incentives for individuals at these levels.

The Committee also gave attention to the proposal regarding the conversion of the Group's defined-benefit pension funds to a defined-contribution fund. See page 53 of the Chief Financial Officer's report in this regard.

Current members of the Committee are:

- › RMW Dunne (Chairman)
- › S Engelbrecht
- › LM Nyhonyha

NOMINATIONS COMMITTEE

The Nominations Committee is comprised of three Independent Non-executive Directors and is chaired by the Chairman of the Board. The Committee's mandate includes reviewing recommendations on enhancing the corporate governance framework, the composition and performance of the Board as well as its Committees and individual Directors, the appointment and re-appointment of Executive Directors, and succession planning for the Chairman and the Chief Executive.

The Committee met seven times in 2012.

The succession of the Chief Executive was a key agenda item. In this regard, rigorous and multi-faceted Board-approved criteria and processes were applied to determine the suitability of both internal and external candidates. The input of a third-party consultant was also sought. Other important agenda items were the assessment of the independence of long-serving Board members and capacitation of the Board as a whole.

Current Committee members are:

- › S Engelbrecht (Chairman)
- › RMW Dunne
- › LM Nyhonyha

EXECUTIVE COMMITTEE

The Board has delegated the day-to-day running of the Company to the Chief Executive who works with a group of Executives to assist him in this task. The Executive Committee is the highest executive decision-making structure in the Group and central to its role is the formulation and implementation of the Group's strategy and policy direction, and ensuring that all business activities are aligned in this respect.

Group businesses operate in a decentralised framework, defined internally as "freedom supported by a framework". The framework is established for the Group by the parent company and addresses policies, standards and processes in the areas of legal compliance and governance, financial control and risk management, strategic direction and remit, and safety, health and the environment. Within this framework, businesses pursue their individual innovative product and service excellence offering. Most Group businesses have their own Boards of Directors and management structures and decision-making is made in line with the provisions of the Group's delegation matrix. The latter is approved by AECI's Board.

Group Company Secretary

The Group Company Secretary oversees the portfolio of secretariat, legal services, risk and compliance management, and attends all Board and Committee meetings as secretary.

The Board as a whole and individual Directors have access to the Group Company Secretary who provides guidance on how they should discharge their duties and responsibilities in the best interests of the Group. In 2012, the Group Company Secretary also oversaw the induction and on-going training of Board members and assisted the Board and its Committees in formulating annual plans, agendas, minutes, and terms of reference as warranted.

In line with the JSE Listings Requirements the Board, through the Remuneration Committee and in consultation with both the Chief Executive and the Chief Financial Officer, undertook the annual performance appraisal of the Group Company Secretary. The assessment reviewed the performance of the incumbent, taking into account the quality of support and guidance provided to Board and management for the 2012 financial year. All the parties were satisfied with the quality of support as well as the competency and experience demonstrated by the incumbent. An abridged biography of the Group Company Secretary is published on page 30.

REMUNERATION COMMITTEE MEETING DATES AND ATTENDANCE

DIRECTOR	10 FEB	20 FEB	28 FEB	25 MAY	22 NOV
RMW Dunne (Chairman)	✓	✓	✓	✓	✓
GN Edwards	✓*	✓*	✓*	✓*	✓*
KM Kathan	–	✓*	✓*	–	✓*
S Engelbrecht	✓	✓	✓	✓	✓
LM Nyhonyha					✓**
F Titi	✓	✓	✓	✓***	

* By invitation.

** Appointed to the Committee on 1 June.

*** Retired on 28 May.

NOMINATIONS COMMITTEE MEETING DATES AND ATTENDANCE

DIRECTOR	10 FEB	25 MAY	12 JUL	23 JUL	7 AUG	18 OCT	22 NOV
RMW Dunne	✓	✓	✓	✓	✓	✓	✓
GN Edwards	✓*	✓*	✓*	✓*	✓*	✓*	✓*
S Engelbrecht	✓	✓	✓**	✓	✓	✓	✓
LM Nyhonyha			A***	A	A	✓	✓
F Titi (Chairman)	✓	✓****					

A Apologies.

* By invitation.

** Chairman from 1 June.

*** Appointed to the Committee on 1 June.

**** Retired on 28 May.

The Group Company Secretary is not a Director of the Company or any of its subsidiaries and accordingly maintains an arm's length relationship with the Board and its Directors.

Fulfillment of Board responsibilities

ACCOUNTABILITY AND INTERNAL CONTROL

The Directors are 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 auditing the annual financial statements of the Company and its subsidiaries and for reporting their opinion on these statements to shareholders. In addition, the external auditors are responsible for determining whether the annual financial statements meet the requirements of the Companies Act, IFRS and the JSE Listings Requirements. In 2012, the external auditors also carried out certain pre-agreed procedures pertaining to the Group's half-year results to 30 June.

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 financial reporting 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. 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 control and reports directly to the Audit Committee.

In addition, 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.

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

Integrated compliance

COMPLIANCE MANAGEMENT

Further progress was made in 2012 in establishing a compliance universe for the Group. This was achieved through the newly-established Group Compliance function which is responsible for the compliance management system, a function which is overseen by a newly-appointed Group Compliance Officer. The duly approved compliance framework document serves as a basis and informs the approach to the Group's compliance management.

The methodology for ensuring a structured compliance management system is:

- › scoping of the Group's compliance universe, listing all legislation and ranking its impacts;
- › monitoring compliance, including inter alia monitoring of the external environment for new and amended legislation, the drafting of policies and self-assessments;
- › training as required. In 2012, the main focus was the new Companies Act and training was provided in-house. Training relevant to the Competition Act also received attention and was conducted online;
- › compliance is reported to the Executive, Risk, and Social and Ethics Committees.

Each business has one or more Champion for Compliance to assist the Group Compliance Officer in implementing and monitoring processes and procedures.

ADHERENCE TO KING III

As indicated in its integrated report for 2011, the Company conducted a gap analysis on its adherence to King III. Progress was made in 2012 in adherence to those principles not fully applied by end-2011. Specific developments were:

- › Regarding the implementation of a governance framework between the Group and its subsidiaries
 - » AECI's focus in the year was on reviewing and refining the existing framework through engagement with all its businesses. Policies and processes that are best aligned with the Company's "freedom supported by a framework" business model were agreed. A formalised framework is being developed and will be implemented in 2013.
- › Regarding the governance of IT
 - » the framework for IT governance was formalised, with overall responsibility delegated by the Board to the Risk Committee, assisted by the Audit Committee where necessary. The Risk Committee's feedback is provided at Board meetings and any significant investments or expenditure related to IT are subject to Board approval. The Risk Committee, in turn, has delegated to management the responsibility for the implementation of the IT governance framework;
 - » the IT strategy was reviewed to align it more closely with the Company's strategic objectives and was fully integrated into the risk management process. The management team of each Group entity is responsible for the proper use and safeguarding of IT-related assets.

SUMMARY OF ADHERENCE TO KING III

PRINCIPLE	APPLIED	COMMENT
The Board should act as the focal point for and custodian of corporate governance	✓	In line with the Companies Act, AECI's corporate governance and processes are led by the Board supported by six Committees. Board and Committee details are included in this report, commencing on page 78.
The Board should appreciate that strategy, risk performance and sustainability are inseparable	✓	As outlined on page 6, AECI has chosen to use its risk management framework as a guide to determine the materiality of issues for inclusion in this report. Each of these issues is interpreted in the context of the strategic pillars on which the Company bases its current business activities and future growth. Details of these strategic pillars are also disclosed on page 8.
Directors act in the best interests of the Company	✓	AECI has a Conflicts of Interest policy which guides Directors in these matters. See page 78.
The Chairman of the Board is an Independent Non-executive Director	✓	All of AECI's Non-executive Directors are Independent. No Non-executive Director is an employee of the Company and no Executive Director has an employment contract with a notice period longer than one month.
The Board should provide effective leadership based on an ethical foundation	✓	In matters of ethical business conduct and corporate citizenship, the Board has delegated responsibilities to the Social and Ethics Committee. This Committee reports to the full Board at every meeting and to shareholders at the Annual General Meeting.
The Board should ensure that the Company is and is seen to be a responsible corporate citizen	✓	
The Board should ensure that the Company's ethics are managed effectively	✓	See page 87 – Ethical business conduct.
The Board should ensure that the Company has an effective and independent Audit Committee	✓	See page 80 – Audit Committee; and page 130 – Audit Committee's report to stakeholders.
The Board should be responsible for the governance of risk	✓	See page 80 – Risk Committee.
The Board should be responsible for IT governance	✓	See commentary on the facing page in this Adherence to King III section.
The Board should ensure that the Company complies with applicable laws and considers adherence to non-binding rules, codes and standards	✓	See facing page – Compliance management.
The Board should ensure that there is an effective, risk-based Internal Audit	✓	See the Audit Committee's report to stakeholders on page 130 – Execution of functions in respect of internal control and Internal Audit.
The Board should appreciate that stakeholders' perceptions affect the Company's reputation	✓	See page 10 – Stakeholder engagement.
The Board should ensure the integrity of the Company's integrated report	✓	See page 5 – Approval of integrated report.
The Board should report on the effectiveness of the Company's system of internal control	✓	See the Audit Committee's report to stakeholders on page 131 – Execution of functions in respect of internal control and Internal Audit.

PRINCIPLE	APPLIED	COMMENT
The Board and its Directors should act in the best interests of the Company	✓	AECI has a Conflicts of Interest policy which guides Directors in these matters. See page 78. All of AECI's Non-executive Directors are Independent. No Non-executive Director is an employee of the Company and no Executive Director has an employment contract with a notice period longer than one month.
The Board should consider business rescue proceedings or other turnaround mechanisms as soon as the Company is financially distressed, as defined in the Act	N/A	See Directors' report – Going concern statement on page 134. See also Business Continuity Management on page 80 with reference to the Risk Committee.
The Board should elect a Chairman of the Board who is an Independent Non-executive Director. The Chief Executive of the Company should not also fulfill the role of Chairman of the Board	✓	All of AECI's eight Non-executive Directors, including the Chairman, are Independent. See Independence of Board members on page 78. The Chief Executive is an Executive Director whose role is separate from that of the Chairman.
The Board should appoint the Chief Executive and establish a framework for the delegation of authority	✓	In terms of the Board charter, the appointment of the Chief Executive is the responsibility of the Board. For the delegation of authority see page 82 – Executive Committee.
The Board should comprise a balance of power, with a majority of Non-executive Directors. The majority of Non-executive Directors should be Independent	✓	See page 78 – Board structure.
Directors should be appointed through a formal process	✓	See page 82 – Nominations Committee.
The induction and on-going training and development of Directors should be conducted through formal processes	✓	See page 78 – Induction and on-going development of Directors.
The Board should be assisted by a competent, suitably qualified and experienced Group Company Secretary	✓	See page 82 – Group Company Secretary.
The evaluation of the Board, its Committees and individual Directors should be performed every year	✓	See page 79 – Board effectiveness.
The Board should delegate certain functions to well-structured Committees but without abdicating its own responsibilities	✓	See page 80 – Board Committees.
A governance framework should be agreed between the Group and its subsidiary Boards	Progressed in 2012	See commentary on page 84 in this Adherence to King III section.
Companies should remunerate Directors and Executives fairly and responsibly	✓	See remuneration report commencing on page 110.
Companies should disclose the remuneration of each individual Director and certain Senior Executives	✓	See note 31, commencing on pages 200.
A full King III gap analysis was published in AECI's integrated report for 2011 and can be viewed via the website link http://www.aeci.co.za/Financial/2011_annual_report/stake_corp.php		

Ethical business conduct

AECI does not engage in nor accept or condone engaging in any illegal acts in the conduct of its business. The policy is to actively pursue and encourage prosecution of perpetrators of fraudulent or other illegal activities should the Company become aware of any such acts. A zero tolerance approach has been adopted. The Group's revised Code of Ethics and Business Conduct ("the Code") outlines what is expected of all employees in matters of ethical business conduct. The Code was approved by the Board in 2011 and its roll-out continued in 2012, overseen by the Group Compliance function.

The Code has been communicated to employees through group training sessions and a summarised version of the Code was handed out to attendees. This document sets out the Code's values and key features and provides employees with an easy reference to these. The full Code is available electronically on the website via the link aeci.co.za/pdf/policy_documents/code_of_ethics_4.pdf.

The Champions for Compliance in each Group business were also appointed as Ethics Business Champions to promote awareness and to monitor adherence to the Code.

Also re-launched was the Tip-offs Anonymous line. This whistleblowing service is administered by Deloitte and guarantees the anonymity of callers who wish to report instances of known or suspected unethical behaviour. There was a marked year-on-year increase in the number of calls received. The matters reported related mostly to human resources issues. Each issue was thoroughly investigated by the Internal Audit function and reports on the outcomes were communicated to the Audit Committee and to all employees.

The Code was communicated to newly-appointed employees during induction sessions and it was translated into three other languages for employees outside of South Africa.

Dealing in securities

In accordance with the JSE Listings Requirements, AECI 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. Identified employees are advised to that effect. The Group 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. Share dealings by Directors and Officers of the Company are notified to the JSE for publication via SENS.

The Group has in place an information disclosure and communications policy designed to record AECI's procedures with regard to communicating with the media, the investment community, securities professionals and other stakeholders 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 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, Chief Financial Officer and members of the Executive Committee conduct timely presentations on the Group's performance and strategy to analysts, financiers, 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 other stakeholders are advised of such 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 Company publishes and reports on details of its corporate actions and performance, including its half- and full-year financial results, in print and electronic media as specified by the JSE Listings Requirements from time to time.

AECI's Communications function maintains regular contact with the media by disseminating relevant information.

The Chairman of the Board and the Chairmen of Board Committees met formally with key institutional investors in 2012 without Executive Directors or any Senior Managers being present.

All Non-executive Directors are invited to attend the Company's financial and business-specific presentations.

Corporate governance key focus areas for 2013

The following will receive attention in the coming year:

- › the implementation of a governance framework for the Group;
- › a review of AECI's delegation of authority to ensure that it continues to support the Group's decision-making matrix process;
- › the continued roll-out of the Code of Ethics and Business Conduct; and
- › the implementation of the integrated Business Continuity Management framework across all businesses.

SOCIAL AND ETHICS COMMITTEE'S SUSTAINABILITY REPORT

The AECl Board and its Social and Ethics Committee ("the Committee") present herewith their sustainability report on inter alia AECl's SHE and Human Capital policies and performance for the year ended 31 December 2012. The information provided in this report has been approved by the Board on the recommendation of the Committee.

SAFETY, HEALTH AND ENVIRONMENT ("SHE")

Policy

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

The AECl Executive Committee, guided by the Social and Ethics 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 AECl Executive Committee.

The goal is no harm to anyone, ever.



Graham Edwards
Out-going Chief Executive



Mark Dytor
In-coming Chief Executive

Woodmead, Sandton
15 March 2012

SHE MANAGEMENT

AECl's management of SHE-related issues is guided by this formal SHE policy, with performance being measured within a framework of supporting SHE standards. The policy and standards, which are agreed to and approved by the Chief Executive, are reviewed periodically by the Social and Ethics Committee on behalf of the Board to ensure that they remain appropriate for AECl's diverse businesses and the changing operating environment.

AECl comprises a broad spectrum of businesses, ranging from large manufacturing plants producing explosives and chemicals, to small operations on customer sites which provide application services as well as property leasing and development activities. Many of the Group's operational sites are outside of South Africa, sometimes in relatively underdeveloped countries. Consequently, SHE-related issues faced by the 17 businesses in the portfolio are diverse. It is inevitable therefore that a certain degree of generalisation occurs when commenting on such varied activities in a single report.

GREEN GAUGE

In 2011 AECl introduced Green Gauge, a framework of Group-wide environmental objectives and targets. The framework is based on six Key Focus Areas ("KFAs") and progress in each is summarised below.

KFAs 1 and 2: Resource and Energy Conservation

Resource efficiency assessments were conducted at 14 Group sites in South Africa during 2012, bringing the total number of sites assessed since the pilot programme began at the end of 2011 to 15.

ERM, a leading international sustainability consultancy, was commissioned by AECl to apply its proprietary methodology to identify opportunities for energy, water and waste savings. The primary focus was the identification of low- and no-cost savings entailing operational changes which are generally quick to implement. A full range of opportunities, including those requiring moderate to high investments, were also identified and documented for each site.

After technical verification of the opportunities identified, the sites engaged in a process to set reduction targets based on realistically achievable goals. Progress against these is being monitored by the AECl Executive Committee.

KFA 3: Chemical Substances Management

Prevention of adverse health effects and environmental impacts is the primary focus of this KFA. The Group aims to formalise a system that meets regulatory requirements while simultaneously enabling business growth. This approach is in line with good product stewardship, one of the Management Practice Standards of Responsible Care™.

The International Council of Chemical Associations ("ICCA") represents the global chemical industry. This association has made a commitment to the United Nations Strategic Approach to International Chemicals Management programme.

The programme, adopted in 2006, is a policy framework aimed at fostering the sound management of chemicals. To implement this framework, the ICCA developed the Global Product Strategy ("GPS"). The GPS consists of a range of regulations and voluntary initiatives, aimed at harmonising product safety assessments around the world. AECI has included this approach in its own chemical substances management programme. Businesses in the Group undertook the initial phase of the GPS process towards year-end and inventories of product safety information have been developed.

KFA 4: Remediation

The guiding principles underlying AECI's land remediation activities are to protect human health and the environment and to use good science, proven concepts and the best available cost-effective technologies. Stakeholder communication in the remediation process is vital and as such AECI cooperates with regulatory authorities and shares information with interested and affected parties on a regular basis.

Human health and environmental risk assessments are undertaken at appropriate stages of individual projects. These assessments influence subsequent activities. Largely due to lower than expected land sales, little remediation work was carried out during 2012. Extensive monitoring of environmental conditions throughout the Group continued, however.

Expenditure on remediation and related environmental management activities amounted to R8 million for the reporting period. At 31 December 2012, the Group's environmental liability for remediation was estimated at R155 million. This is considered by the Company to be adequate and has been fully provided for in the annual financial statements.

KFA 5: Capacity Building

While technical interventions and strategies are critical for the successful implementation of Green Gauge and the achievement of targets, it is imperative that these initiatives be supplemented by appropriate social awareness, education and communication campaigns across the Group and all employment levels. Accordingly, training and awareness sessions have been implemented using a Train-the-Trainer approach. SHE Practitioners were trained to conduct appropriate awareness sessions, for both technical and non-technical employees, in their own companies.

The focus in 2012 was on AECI's businesses in South Africa. In 2013, concerted efforts will be made to extend the programme to sites in other countries.

KFA 6: Management Aspects

To ensure that agreed targets for identified Green Gauge interventions and actions are met, accountability for their progressive implementation is required. To this end, AECI has ensured that responsibility in this regard is vested in appropriate Group management levels.

MANAGEMENT SYSTEMS AND STANDARDS

In addition to Green Gauge, in many cases it is also appropriate for businesses and/or individual sites to align their SHE management systems with an external standard against which third-party audits can be undertaken. The most commonly adopted such systems are:

- › OHSAS 18001 (an international health and safety management standard);
- › ISO 14001 (an international environmental management standard);
- › NOSA 5 Star (a South African SHE management system); and
- › Responsible Care™. This is the global chemical industry's voluntary initiative for the continual improvement of performance in safety, health and environmental practices. It is a public commitment to the responsible management and stewardship of products and services through their life cycle.
 - » Responsible Care™ was launched by the Canadian Chemicals Producers Association in 1984 and has since been adopted in 55 countries. The Chemical and Allied Industries' Association ("CAIA") is the custodian of Responsible Care™ in South Africa, with 145 South African businesses being signatories. The Responsible Care™ standing committee, currently chaired by an AECI Senior Manager, is responsible for guiding the programme.
 - » AECI is a signatory to Responsible Care™, as is AEL in South Africa. All South African-based businesses in the speciality chemicals cluster are also signatories in their own right. Local signatories have their compliance with the Management Practice Standards verified by independent third party auditors. The majority of signatory companies in the Group have been audited successfully against these Standards.
- › For most of its operations, AEL makes use of its in-house World Class system which is comprised of seven pillars – safety and health being one and the environment another. Operations are rated annually by auditors employed centrally by AEL. The intention is to have all AEL sites to which this system applies at a minimum standard of Half Gold.

The table commencing on page 90 provides details of SHE-related accreditations and, for AEL, the level of achievement by individual sites of World Class system standards.

AEL CERTIFICATIONS

SITE	LOCATION	WORLD CLASS AWARDS	ISO 14001 CERTIFIED
East London	South Africa	Half Gold	YES
Eland	South Africa	Half Gold	NO
Emalahleni	South Africa	Half Gold	YES
Kimberley	South Africa	Half Gold	YES
Klerksdorp	South Africa	Half Gold	YES
Limeacres	South Africa	Half Gold	YES
Mankwe	South Africa	Half Gold	YES
Modderfontein	South Africa	NO	YES
Mogalakwena	South Africa	NO	YES
Musina	South Africa	Silver	YES
Nelspruit	South Africa	Half Gold	YES
New Vaal	South Africa	Half Gold	YES
O'kiep	South Africa	Half Gold	NO
QS Northern Region	South Africa	Half Gold	YES
Sishen	South Africa	Half Gold	NO
Somerset West	South Africa	NO	YES
South Deep	South Africa	Half Gold	NO
Steelpoort	South Africa	NO	YES
Target 1	South Africa	Half Gold	No
Target 2	South Africa	Half Gold	NO
Thabazimbi	South Africa	Half Gold	YES
Voorspoed	South Africa	Half Gold	NO
Westville	South Africa	Half Gold	YES
Jwaneng	Botswana	Half Gold	YES
Letlekhane	Botswana	Half Gold	YES
Orapa	Botswana	Half Gold	YES
Essakane	Burkina Faso	Silver	NO
Inata	Burkina Faso	Silver	NO
Semafo	Burkina Faso	Silver	NO
Kolwezi	DRC	Silver	NO
Ruashi	DRC	Silver	NO
Tenke Fungurumme	DRC	Half Silver	NO
Sukari	Egypt	Half Gold	NO
Ayanfuri	Ghana	NO	NO
Bogoso	Ghana	NO	YES
Damang	Ghana	NO	YES
Obuasi	Ghana	NO	YES
Tarkwa	Ghana	NO	YES
Wassa	Ghana	NO	YES
Lefa	Guinea	Silver	NO
Siguir	Guinea	Silver	NO
Balikpapan Office	Indonesia	Half Gold	NO
Bengalon	Indonesia	Half Gold	NO
Gunung Bayan	Indonesia	Half Gold	NO
Jakarta Office	Indonesia	Silver	NO
Melak	Indonesia	Half Gold	NO

SITE	LOCATION	WORLD CLASS AWARDS	ISO 14001 CERTIFIED
MSI Separi	Indonesia	Silver	NO
Santam	Indonesia	Half Gold	NO
Sengata	Indonesia	Half Gold	NO
Syama	Mali	Silver	NO
Namibia	Namibia	Half Gold	NO
Eldington	Zimbabwe	NO	YES
Harare	Zimbabwe	NO	YES
Ngezi	Zimbabwe	Half Gold	YES
Sutton	Zimbabwe	NO	YES
Lumwana	Zambia	Half Gold	NO
Mufulira	Zambia	Half Gold	YES
UBS Mufilira	Zambia	Half Gold	YES
UBS Nkana	Zambia	Half Gold	YES

OTHER GROUP COMPANY CERTIFICATIONS

BUSINESS	SITE	LOCATION	ISO 14001 CERTIFIED	OHSAS 18001 CERTIFIED	NOSA CERTIFIED	RESPONSIBLE CARE™
Akulu	Chloorkop	South Africa	YES	YES	N/A	YES
Akulu	Mobenj	South Africa	YES	YES	N/A	YES
Chemfit	Chloorkop	South Africa	NO	NO	NO	YES
CI	Chamdor	South Africa	YES	YES	N/A	YES
CI	Umbogintwini	South Africa	YES	YES	N/A	YES
ChemSystems	Chloorkop	South Africa	YES	YES	N/A	YES
Crest	Cape Town	South Africa	NO	NO	NO	NO
Crest	Midrand	South Africa	NO	NO	NO	YES
Crest	Prospecton	South Africa	N/A	N/A	YES	NO
Heartland	Modderfontein	South Africa	N/A	N/A	N/A	N/A
Heartland	Somerset West	South Africa	N/A	N/A	N/A	N/A
Heartland	Umbogintwini	South Africa	YES	YES	N/A	YES
IOP	Jacobs	South Africa	YES	YES	N/A	YES
IU	Umbogintwini	South Africa	NO	NO	NO	YES
Chemisphere	Modderfontein	South Africa	NO	NO	NO	YES
Chemisphere	Olifantsfontein	South Africa	YES	YES	N/A	YES
Lake	Cape Town	South Africa	NO	NO	NO	NO
Lake	Natalspruit	South Africa	N/A	N/A	YES	YES
Lake	Umbogintwini	South Africa	YES	YES	N/A	YES
Nulandis	Lilienton	South Africa	YES	YES	N/A	YES
Nulandis	Modderfontein	South Africa	NO	YES	N/A	YES
Nulandis	Paarl	South Africa	YES	NO	NO	YES
Resinkem	Umbogintwini	South Africa	NO	NO	NO	YES
Senmin	Pretoria	South Africa	NO	NO	NO	NO
Senmin	Sasolburg	South Africa	YES	N/A	YES	YES
SMSA	Merebank	South Africa	NO	NO	NO	YES
STF	Stoneville	USA	NO	NO	NO	N/A

INVESTOR-RELATED INITIATIVES

AECI is involved with three sustainability-related initiatives aimed specifically at investors. These are the JSE SRI Index, the CDP and the WDP. The latter two are global programmes administered in South Africa by the National Business Initiative.

The JSE established the SRI index in 2004. Initially only the Top 40 companies were assessed automatically. The automatic assessment of mid-caps, including AECI, followed in 2009. With the addition of some small-caps, a total of 108 potential Index constituents were measured in 2012. The evaluation process considers companies' management systems as well as performance and disclosure in the areas of environment, society, governance and climate change.

In 2012, 76 companies were included in the Index. 90% of the Top 40 qualified while the success rate for mid-caps was 55%. AECI was included for the fourth successive year.

The CDP is an international voluntary disclosure programme. Data on greenhouse gas ("GHG") emissions and climate change response actions by business are collated on behalf of global investors who collectively manage assets of US\$78 trillion. In 2012, the JSE Top 100 companies were invited to submit data. 76 companies did so and AECI participated for the fourth consecutive year. The WDP is a newer global programme aimed at catalysing sustainable corporate water management. In 2012, the JSE Top 100 companies were invited to submit their data and AECI took part in this submission for the second time.

ENVIRONMENTAL PERFORMANCE

The sustainability key performance indicators that follow have been measured and reported using AECI's internal standards and guidelines which are available on request.

Water usage

It is becoming increasingly well-recognised that fresh water is a scarce resource. This is particularly the case in sub-Saharan Africa, where the majority of the Group's operations are based. AECI is committed to using water responsibly and to recycling it where this is practical. The resource efficiency assessments that form part of the Green Gauge programme are aimed at improving the Group's performance in this area.

Water consumption was 18% higher than that in 2011 (4 748 000m³*) and totalled 5 583 000 m³*. The primary reason for this increase was AEL's higher year-on-year usage, which is related largely to greater volumes of emulsion explosives produced owing to customer demand in Africa. In addition, AEL commissioned eight new operational sites in Africa and Indonesia.

Heartland recorded a 24% decrease in water consumption as a result of the implementation of a range of water conservation projects as well as reduced customer demand for steam.

Hazardous waste

It is pleasing to report that the quantity of hazardous waste generated by the Group's operations decreased by 20% year-on-year, falling to 4 753 tonnes* (2011: 5 920 tonnes*). The biggest contributor to this was AEL which achieved a 55% reduction in hazardous waste generation, largely due to:

- › rationalisation of the use of certain sulphuric acid storage tanks, which allowed for greater storage capacity of slower-moving sulphuric acid inventories and resulted in a significantly lower quantity of acid waste;
- › less tank de-sludging than in 2011;
- › fewer unscheduled shutdowns at ISAP;
- › improved emulsion quality, which reduced the need for cleaning mobile manufacturing units and storage silos; and
- › closure of production facilities at two sites.

Targets for waste reduction activities are now being set at site level as part of the Green Gauge programme.

Environmental incidents

It is also very pleasing to state that for the first time no* serious or major environmental incidents were reported in the Group during 2012. Six* serious incidents occurred in 2011. This improvement was attributable to a net reduction in incidents as a whole, as well as improved emergency response to mitigate any effects of incidents.

Environmental compliance

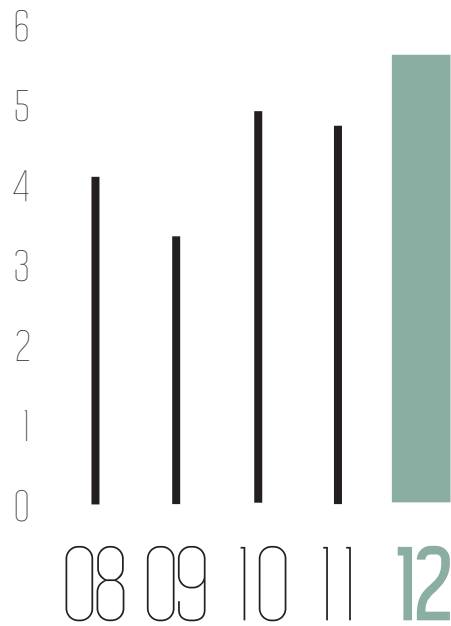
In 2011, the DWA issued a new Water Use Licence for the Group's operations at the Modderfontein site. This site had been operating for some years under a draft Water Use Licence. The new licence was issued with stringent conditions and the site was not immediately able to comply with all of these. During 2012, in full consultation and with the assistance of the DWA authorities, substantial progress was made on a suite of projects aimed at improving the site's level of compliance with the licence conditions and these efforts will continue in 2013 and beyond. The overall impact of these interventions is yielding the desired result toward achieving full compliance. Negotiations with the DWA on this aspect continues in a spirit of cooperation in a bid to resolve the situation in a mutually satisfactory manner.

Carbon footprint

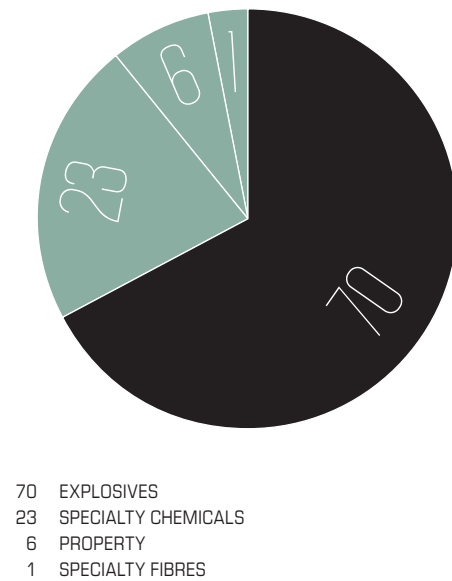
The term "carbon footprint" is used to describe the total quantity of carbon dioxide ("CO₂") and other GHG emissions for which an organisation is responsible. AECI's carbon footprint has been calculated using the 2006 Intergovernmental Panel on Climate Change Guidelines for National Greenhouse Gas Inventories 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.

* Indicates limited assurance. See page 108.

WATER USAGE (MILLION CUBIC METRES PER YEAR)

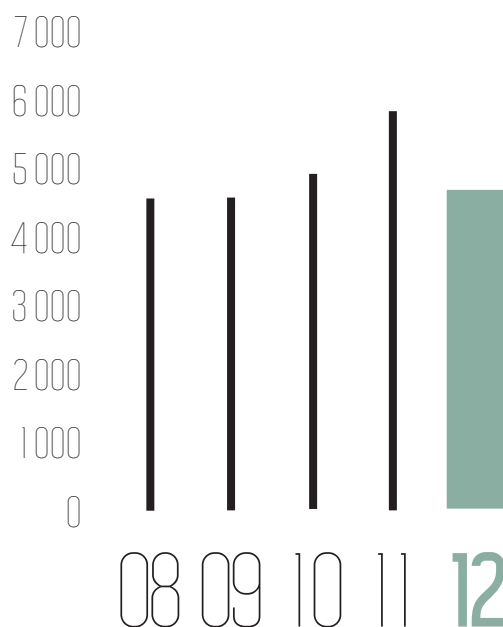


2012 WATER USE BY BUSINESS SEGMENT (%)

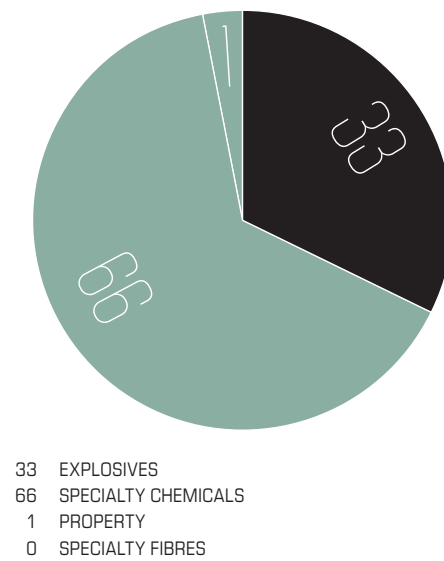


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HAZARDOUS WASTE GENERATION (TONNES PER YEAR)



2012 HAZARDOUS WASTE GENERATION BY BUSINESS SEGMENT (%)

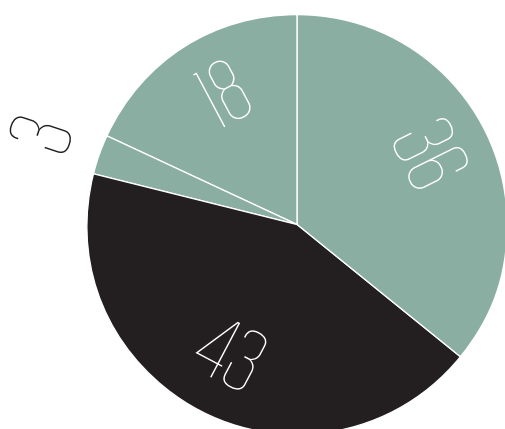


CARBON FOOTPRINT

Tonnes of CO ₂ equivalent	SCOPE 1			
	2009	2010	2011	2012
Explosives	216 000	219 310	201 499	188 610
Specialty chemicals	15 500	24 665	59,801	30 252
Property	67 000	65 941	68,075	62 685
Specialty fibres	500	976	534	341
AECI TOTAL	299 000	310 892*	329 909*	281 888*

Tonnes of CO ₂ equivalent	SCOPE 2			
	2009	2010	2011	2012
Explosives	71 000	77 768	76 622	76 277
Specialty chemicals	80 700	103 446	135 297	115 553
Property	6 300	10 050	8 315	6 863
Specialty fibres	19 400	25 041	27 335	25 672
AECI TOTAL	177 400	216 305*	247 569*	224 365*

2012 ELECTRICITY USAGE BY BUSINESS SEGMENT (%)



- 36 EXPLOSIVES
- 43 SPECIALTY CHEMICALS
- 3 PROPERTY
- 18 SPECIALTY FIBRES

In terms of the operating boundaries of the carbon footprint the following were included:

- › Scope 1 direct emissions – emissions from the consumption of fuel in mobile equipment; emissions from the consumption of fuel in stationary equipment; emissions released from processes occurring at operations; refrigerant usage in air conditioners and refrigeration equipment;
- › Scope 2 indirect emissions – emissions which arise from the generation of purchased electricity and purchased steam consumed by the Group.

In terms of organisational boundaries, the financial control approach was followed whereby all operations under the financial control of AECI were included in the carbon footprint boundary and 100% of emissions from their operations were accounted for.

The organisational boundaries for the footprint were determined as follows:

- › all significant AEL operations, together with the footprint associated with rock-on-ground contracts. AEL's international operations were also included. Although South African emissions factors relating to electricity generation were used throughout, there was no material impact on the resultant figures; the impact of process emissions from nitric acid production at Modderfontein was calculated from measured values using a factor of 310 for global warming potential for nitrous oxide ("N₂O"); emissions resulting from the burning of emulsion wastes have not been included due to reporting difficulties;
- › all specialty chemicals operations; South African emission factors were used for all calculations, as the impact on the reported emissions from Resitec's Brazilian operations was not material;
- › all Heartland operations, which are all in South Africa; and
- › the operations of STF in the USA in which case the emissions factor for Duke Power Utility (STF's electricity provider) was used due to its significant impact on the final result.

The total CO₂ emission equivalent for the Group (both direct and indirect) decreased to 506 253 tonnes* (2011: 577 478 tonnes*). This decrease is primarily attributable to the reduction in Scope 1 emissions from all business segments of the Company. Part of the reduction in the specialty chemicals segment arose from the correction of emissions from one of Resitec's facilities, which was accounted for twice in 2011.

The overwhelming majority of Scope 2 emissions reported above arose from electricity consumption. AECI used 215 401 MWh* of electricity in 2012 (2011: 211 048 MWh) and the usage by business segment can be seen in the graph to the left. AECI's total energy usage during 2012 was 2 659 107 GJ*.

* Indicates limited assurance. See page 108.

Emissions other than CO₂ can have a significant impact in terms of their 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. In these plants, nitrogen oxide gases are produced through the oxidation of ammonia on a platinum-rhodium metal catalyst gauze in the plants' ammonia burners. These gases are oxidised to form nitrogen dioxide, which in the final reaction is absorbed in water to form nitric acid.

Some of the ammonia is converted to N₂O in a side reaction which is usually released into the atmosphere as it has neither economic value nor is it toxic at typical emissions levels. However, it is a GHG with a global warming potential which is approximately 310 times that of CO₂.

To combat global warming, a number of countries have ratified the Kyoto Protocol, thereby committing to reduce their emissions of GHGs, or to engage in emissions trading to enable them to contribute towards the overall decrease in 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 GHGs. CERs can then be sold to those entities that are under an obligation to reduce these 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 were registered in November 2007 and February 2008 respectively. The projects involved the installation of secondary catalysts in the ammonia burners of the plants. This secondary catalyst decomposes the residual N₂O without affecting the production of nitric acid.

During 2012 the emissions reduction achieved on the No. 9 plant averaged 90%, with No. 11 achieving 80%. Total abatement from the No. 9 plant during 2012 was 76 763 tonnes of CO₂ equivalent (2011: 84 467 tonnes). Total abatement from the No. 11 plant was 255 685 tonnes of CO₂ equivalent (2011: 212 421 tonnes).

The outlook for CERs remains less than positive, with values expected to be depressed due partly to current global economic conditions having led to their over-supply. In addition, the original Kyoto Protocol has now expired and it remains unclear to what extent and in what form the CDM process will continue.

CASE STUDY – THE MODDERFONTEIN RESERVE: DEMONSTRATING SUSTAINABLE DEVELOPMENT

The Modderfontein Reserve was officially opened to the public in September 2012. It is Gauteng's biggest private open space and, in addition to protecting the indigenous flora and fauna in the area, the Reserve is an attractive open space within the urban fabric. It is available to visitors, on a controlled access basis.

The Reserve is part of AECL's 2 400 hectare Modderfontein landholding, which is managed by Heartland. It has always been AECL's intention to formalise the open land occupied by the Reserve and Heartland was assigned this task. Heartland, under the guidance of the Endangered Wildlife Trust ("EWT") and with the assistance of the Modderfontein Conservation Society ("MCS"), formalised the 275 hectare reserve by way of rezoning it to private open space. Such zoning was chosen as the best option for a number of reasons: it cannot be changed without adherence to rigorous administrative processes, including public participation, and it safeguards the area against encroachment by future urban development. Furthermore, since maintenance and conservation require substantial financial investment, proper management and access control prevent abuse of the facility and help to ensure that the space is safe for recreation and educational initiatives. The Reserve is fenced off and is patrolled by security guards 24 hours a day.

The EWT has entered into a collaborative agreement with Heartland to oversee the daily operation of the Reserve and to implement its strategy for the future. This includes the preparation and execution of a business plan to safeguard the Reserve's financial security going forward. The vision is for the Reserve to become a self-sustaining entity over time. In the interim AECL is carrying the financial obligations for limited capital expenditure and operating expenses.

The MCS is playing a vital role, having had an interest in the area for many years. The Society, which celebrated its 21st anniversary in 2012, was involved in the initial commissioning of studies to determine the best possible options for the land and organised various activities in the now formalised Reserve. A number of MCS members are assisting the EWT with conservation initiatives in the Reserve.



Fauna and flora studies are being conducted to record animal and plant species in the Reserve and a monitoring system is being implemented to allow the EWT team to record changes at fixed points throughout the area over time. Mammals on the site include small buck such as steenbok, as well as Black-backed jackals. A bat survey has been completed and monitoring studies are on-going. Fish Eagles and Long-crested Eagles are among the bird life there.

Heartland is mentoring two start-up companies as service providers across a range of activities, including maintenance and the provision of indigenous plants which are replacing the alien vegetation that is being removed systematically.

Part of the vision is that education programmes will form an important part of the activities at the Reserve. These are expected to include schools and other interest groups and university students will be offered the opportunity to use the Reserve for research and field work.

Admission fees are R30 per adult and R15 for children and pensioners. An annual fee option is available for those wanting regular access. Walking and cycling trails are in the process of being marked. Interested parties can view regular updates on the Modderfontein Reserve website www.modderfonteinreserve.co.za

The Modderfontein Conservation Society's web address is www.modderconserve.org

AECI and Heartland believe that a good foundation has been laid and that future work will continue to benefit the ecosystem while at the same time providing the public with safe access to a unique facility.

SAFETY AND HEALTH PERFORMANCE

Safety and health performance is expressed as the Total Recordable Incident Rate ("TRIR"). The TRIR measures the number of incidents per 200 000 hours worked. AECI reported statistics separately for employees and contractors until 2009. From 2010 the two statistics were combined to reflect the incident rate for all who work in whatever capacity at AECI's facilities. For information, the figures are still shown separately in the table on page 98, per business segment.

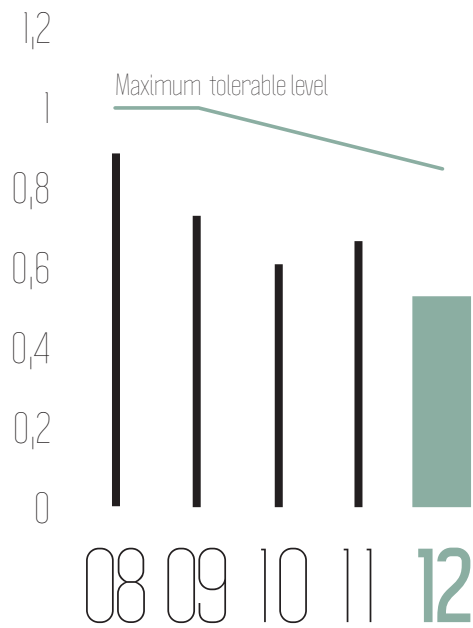
In 2012 AECI achieved its best ever safety and health performance with a year-end TRIR of 0,53* (2011: 0,67*). Even more importantly, the continually improving trend in incident rates which was interrupted in 2011 has been re-established.

The specialty chemicals cluster was the main contributor to the year-on-year improvement. In 2011 the cluster recorded a particularly high TRIR of 1,25 which reversed the improving trend of prior years. Targeted initiatives driven by Senior Managers resulted in a major turnaround which saw the cluster achieving a 35% reduction in the incident rate, and a TRIR of 0,80 at year-end.

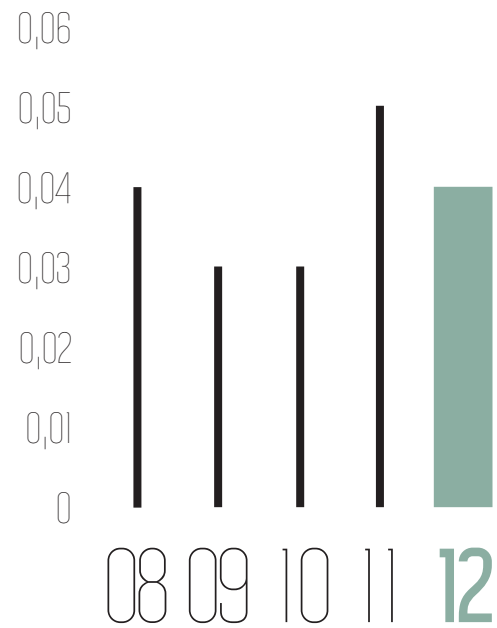
The number of occupational illnesses in the Group decreased to four in 2012 and the Group ended the year with an occupational illness rate of 0,04* (2011: 0,05*). These illness cases are included in the TRIR figures above. At AEL's Mankwe operations, in the North West, a case of an employee having high levels of lead in his blood due to occupational exposure was reported. After being withdrawn from the workplace, the employee's condition normalised and he resumed his duties. A case of noise-induced hearing loss was diagnosed at the same site. At AEL's Modderfontein operations an employee was diagnosed with carpal tunnel syndrome, probably related to the repetitive tasks that he was carrying out as part of his work.

* Indicates limited assurance. See page 108.

ALL WORKERS TRIR

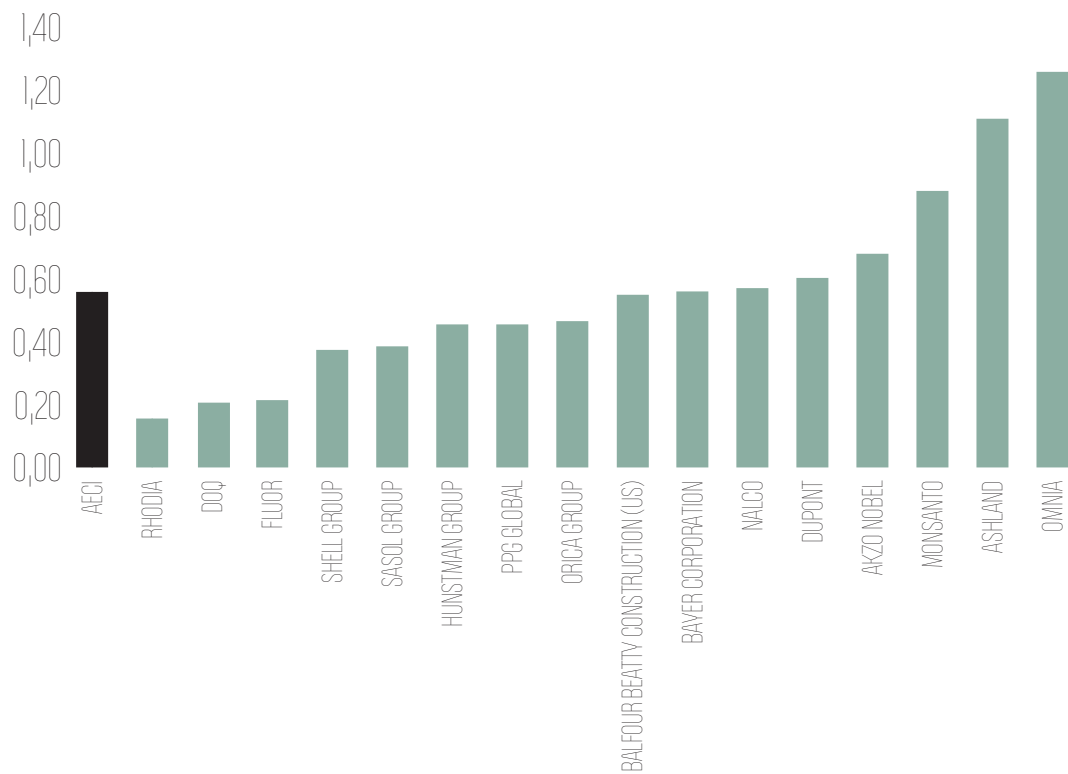


ALL WORKERS OCCUPATIONAL ILLNESS RATE



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BENCHMARKED TRIR



TRIR PERFORMANCE BY BUSINESS SEGMENT

	EMPLOYEES	CONTRACTORS	COMBINED
Explosives	0,31	0,64	0,37
Specialty chemicals	0,80	0,83	0,80
Property	0,49	0,19	0,28
Specialty fibres	1,25	0,00	1,25
AECI GROUP	0,51	0,60	0,53*

An employee at IOP's Jacobs site was diagnosed with an allergy-related skin irritation. In each case, a comprehensive investigation was carried out to determine what had led to the illness, and the necessary corrective actions were implemented to prevent a re-occurrence.

In 2012, a comprehensive review of AECI's occupational health standards and protocols was undertaken to ensure that they continue to conform with local and international legal requirements and good practice, and to ensure that they remain applicable to AECI's expanding operational footprint.

AECI benchmarks itself against an appropriate grouping of international companies with zero incidents remaining the ultimate target.

The benchmarked TRIR graph presented on page 97 has been compiled by an independent consultant from the latest publicly available information 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, the basis for AECI's own reporting.

The majority of these companies report their statistics for all workers and not only for employees, as AECI has done since 2010. However, unlike AECI some companies have not included occupational illnesses in their calculations. This may result in their TRIR statistics being marginally understated in the benchmark.

PROCESS SAFETY

Process Safety Management policy

The AECI Group's focus on zero harm is entrenched in the Company's SHE policy and standards. Process Safety Management ("PSM") is an integral feature of that focus.

AECI is committed to the prevention of, preparedness for, mitigation of and response to releases of chemicals and energy from its manufacturing and storage facilities that may impact on its employees, contractors, customers and surrounding communities.

The AECI Executive Committee, guided by the Group SHE Department, is responsible for the regular review of the Group's PSM policy, for the guidance of Group companies in its implementation, and for monitoring performance.

The PSM system is comprised of three broad dimensions: People, Plant and Systems, integrating 18 PSM elements.

Each Group company is required:

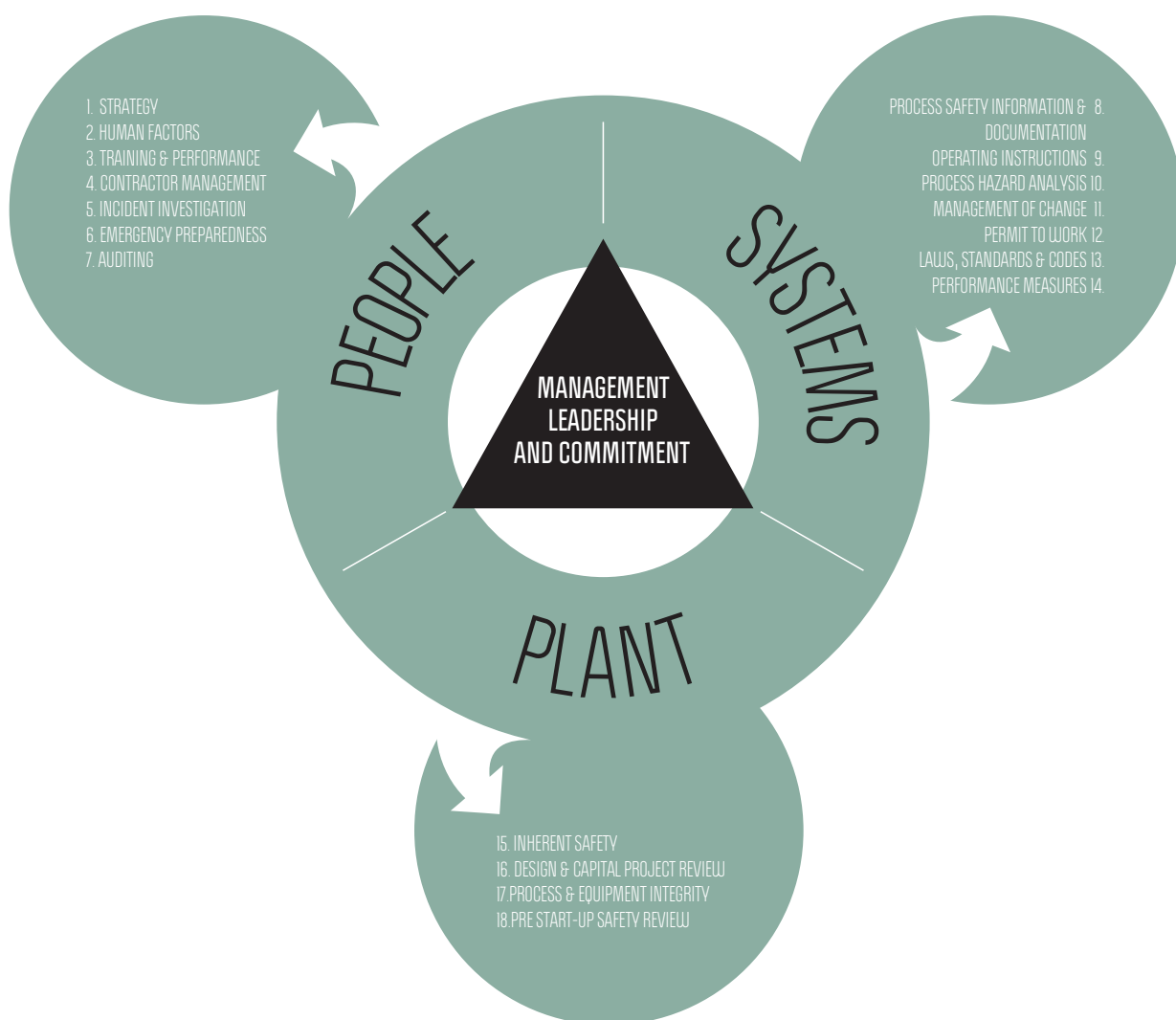
- › to adopt a PSM policy that meets the needs of its businesses;
- › to hold line management accountable for the implementation of the PSM policy;
- › to develop and maintain appropriate procedures to support the PSM policy;
- › to identify the Top 5 process safety risks;
- › to manage process safety risks in a manner that meets the legal requirements of the countries in which it operates as well as accepted international criteria;
- › to maintain a record of process safety information; and
- › to audit its performance against its policy, standards and procedures and to report this regularly to the AECI Executive Committee.

* Indicates limited assurance. See page 108.

The PSM implementation strategy is based on this policy. Each of the 18 key elements have a good practice guideline that aligns businesses with AECI's requirements in areas of process safety. Alignment is achieved through the roll-out of guidelines at each site, allowing a time frame for implementation which is followed by an internal audit and a period for resolving any shortcomings.

In 2012 attention was concentrated on the Contractor Management, Process Hazard Analysis, Management of Change and Permit to Work management systems. Incident Investigation, Emergency Preparedness, Process Safety Information and Data, and Operating and Maintenance Procedures will be the focus in the coming year.

PROCESS SAFETY MANAGEMENT



WELLNESS AND HIV/AIDS

One of the challenges facing South Africa is an unusually high disease burden among its population. The welfare and well-being of employees, as fundamentally important stakeholders, is a priority for the AECI Group. All permanent employees domiciled in South Africa are encouraged to join the AECI Medical Aid Society ("Society"). This Society offers an option for comprehensive cover as well as a more affordable option, the latter being fully subsidised for lower income earners.

In line with the Group's proactive and holistic approach to healthcare, a Wellness Steering Committee is in place. It is representative of management, employees and trade unions and has the responsibility of driving and monitoring wellness initiatives and related strategies across the Group. The aim is to move from an illness focus to one of general well-being, acknowledging that overall good health involves a multitude of facets, including lifestyle elements. Employee assistance programmes are in place and are accessible to the majority of the Group's workforce. These programmes provide counselling on a variety of issues ranging from financial guidance to help with post-traumatic stress.

To implement the Group's wellness programme, peer educators have been trained to become Champions of Wellness. These Champions are employees who volunteer to assist their colleagues in understanding, preventing and managing HIV/Aids and other chronic diseases. Advice on healthy lifestyles is another area of focus. Emphasis is also placed on helping needy people in the communities in which the Group operates.

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"). In the next phases of the initiative, namely Champions of Change and Champion Buddies, volunteers learn how to act as agents to facilitate change in the way their colleagues and community members view HIV/Aids.

During 2012 a new course was introduced into the wellness programme, covering training on policies and procedures relating to the management of chronically ill employees. A conference and planning workshop was held for the Champions and it was most pleasing that two key unions representing AECI employees became constructively involved.

HUMAN CAPITAL

In 2011, AECI recognised the need to transform its human resources function into a strategic service provider to support the Company's needs and aspirations in terms of business growth, internationalisation and transformation. It was acknowledged that a far greater emphasis was required on the attraction, development and retention of suitable human capital to support the realisation of these aspirations. Accordingly, the Board approved an Executive request to appoint a Human Capital Executive to the AECI Executive Committee. Ms Khosi Matshitse was appointed early in 2012. She is accountable for ensuring that AECI implements strategic programmes to transform the organisation and enhance the human resources function.

It was recognised that the need for resilience and adaptability in a transformational environment requires stronger change capability, hence the appointment of a senior person to lead and manage this portfolio.

In support of the implementation of the renewed transformation initiative and targets, additional senior positions in the Human Capital Department were created and experienced incumbents appointed to serve as:

- › Group Talent Acquisition Manager;
- › Group Organisational Development Manager; and
- › Group Compensation and Benefits Manager.

The Group's Employment Equity and Learning and Development resources were refocused and strengthened.

Employment Equity and B-BBEE

A number of Employment Equity initiatives were implemented in the year. Human Capital policies and procedures were reviewed and amended to align them with the Employment Equity Act, No. 55 of 1998 ("the Act") and Code of Good Practice.

The Chief Executive communicated the Group's transformation process and its revised Employment Equity targets to all employees in management occupational levels.

Monthly progress reports towards the achievement of these targets were provided to the Managing Director of each Group business to track developments and establish designated priority lists in terms of race and gender for each company.

Also implemented were the following:

- › all professional Human Capital Practitioners in the Group were trained on the Act;
- › Group company representatives and AECI Head Office Senior Managers were similarly trained;
- › Employment Equity awareness sessions were presented to employees in all Group businesses;
- › focus group interviews were conducted in all businesses to establish affirmative action barriers;
- › a process of nominating and electing Employment Equity Committees was conducted; and
- › the elected members of these Committees underwent training on the Act and their role in this context.

The AECl Executive Committee reviewed the affirmative action barriers identified during focus group interviews and proactive measures to address concerns were agreed with each Group business, as were implementation timelines.

The annual Employment Equity report was prepared for submission to the Department of Labour. Reports to the Director General of the Department of Labour were also submitted per business segment namely AEL, the specialty chemicals cluster (including AECl Head Office), Heartland and DetNet.

EMPLOYMENT EQUITY STATISTICS

Excluded from the percentages provided in the statistics represented graphically on pages 102 and 103 are personnel employed by Group manufacturing and business activities outside of South Africa. In line with the Act, included are temporary employees who have been employed for more than three months.

Some year-on-year improvement in the representation of designated group members was achieved as follows:

- › Top Management from 14% to 29%;
- › Senior Management from 26% to 28%; and
- › Middle Management/Professionals from 46% to 47%.

Initiatives identified to further enhance the representation of designated groups at all managerial and professional occupational levels in 2013 include:

- › embedding Talent Acquisition processes to achieve external recruitment targets for designated groups;
- › researching and implementing programmes to empower women and people with disabilities;
- › introducing Management Development Programmes at all management levels, in partnership with the Gordon Institute of Business Studies; and
- › researching an integrated employee value proposition to assist in attracting and retaining talent in the Group. Implementation of this is scheduled for 2014.

BROAD-BASED BLACK ECONOMIC EMPOWERMENT ("B-BBEE")

AECl supports the South African government's B-BBEE initiatives and recognises the importance of these in achieving a sustainable economic and political environment in South Africa through meaningful participation by Black people in the mainstream economy. AECl is committed to the implementation and success of broad-based empowerment throughout the Group and several years ago implemented a number of initiatives relating to Employment Equity, skills development, preferential procurement, enterprise development and corporate social investment including the initial empowerment of AEL, which introduced a Black strategic equity partner in 2004.

AECl's customers in the mining sector are increasingly making it a condition of their procurement from the Group that it has at least a 26% effective B-BBEE ownership. The B-BBEE transactions implemented in 2012 ensure that AECl exceeds the B-BBEE ownership target being set for it by the customers who generate most of its business revenue.

Furthermore, the B-BBEE transactions advance AECl's empowerment objective of increasing Black participation in the Group through the transfer of long-term economic benefits of its success to a broad spread of Black South Africans and to communities in which the AECl Group operates or has an interest.

The inclusion of employees spreads a significant portion of the benefits of the B-BBEE transactions among AECl's permanent employees. The sustainability and growth prospects of AECl are expected to be enhanced by:

- › improving the Group's ability to attract, incentivise and retain Black employees and managers;
- › aligning the interests of employees and AECl shareholders; and
- › recognising and rewarding employees who have enabled the success of the Group.

The inclusion in the B-BBEE transactions of Black communities in areas where AECl operates or has an interest is aimed at uplifting and developing skills pertinent to AECl's businesses, and to South Africa as a whole, in those communities. Mathematics and science education will be a particular focus.

AECl's B-BBEE transactions were approved by shareholders in January 2012. In terms of these transactions, AECl facilitated the subscription by an Employees Share Trust ("EST") and the AECl Community Education and Development Trust ("CST") for an effective 11,5% of its enlarged share capital. The EST holds 8% and the CST 3,5%. About 3 900 employees are beneficiaries of the EST with 73% being Black, 13% of whom being Black women. Eligible employees are all permanent employees of AECl companies in South Africa who are not participants in other Group long-term incentive schemes, and Black managers.

At least 85% of the economic benefit accruing to the CST will benefit Black people and at least 30% of this will benefit Black women. The CST will complement AECl's existing initiatives to uplift and develop skills pertinent to its businesses, the development of South Africa as whole and Black communities where the Group operates or has an interest.

Late in 2011 AECl also acquired the 25,1% shareholding in AEL formerly held by a consortium led by Kagiso Tiso Holdings Proprietary Limited (RF) ("KTH"), in exchange for new ordinary shares in AECl equivalent to 3,7% of AECl's enlarged share capital.

Circulars and announcements relating to the B-BBEE transactions are available via the link http://www.aeci.co.za/cl_bbbbee_transactions.asp

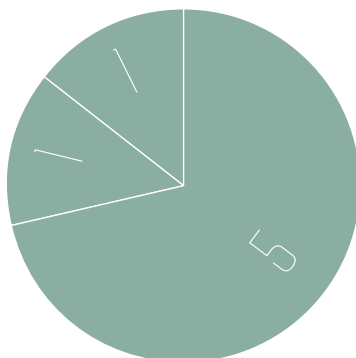
EMPLOYMENT EQUITY STATISTICS

Representation by occupational level, race and gender for employees of AECI's South African operations in comparison to the employee complement in 2011 and 2012.

31 DECEMBER 2012

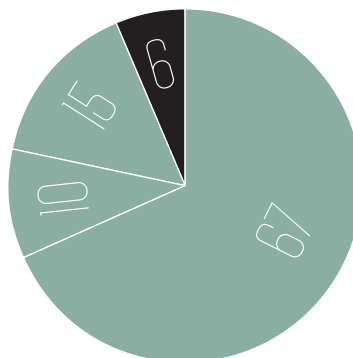
TOP MANAGEMENT: 29%*

5 WHITE MALES
0 WHITE FEMALES
1 BLACK MALES
1 BLACK FEMALES



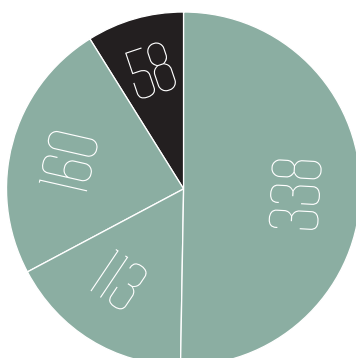
SENIOR MANAGEMENT: 28%*

67 WHITE MALES
10 WHITE FEMALES
15 BLACK MALES
6 BLACK FEMALES



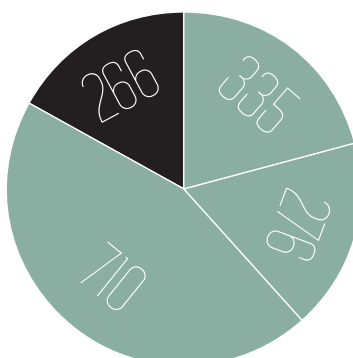
MIDDLE MANAGEMENT AND PROFESSIONALS: 47%*

338 WHITE MALES
113 WHITE FEMALES
160 BLACK MALES
58 BLACK FEMALES



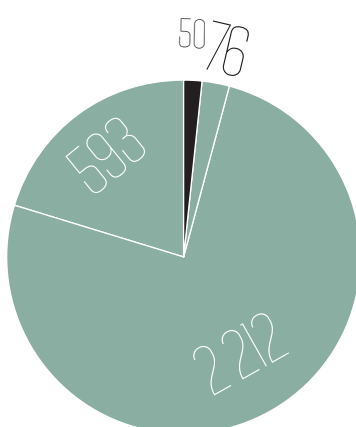
JUNIOR MANAGEMENT AND SKILLED: 77%*

335 WHITE MALES
276 WHITE FEMALES
710 BLACK MALES
266 BLACK FEMALES



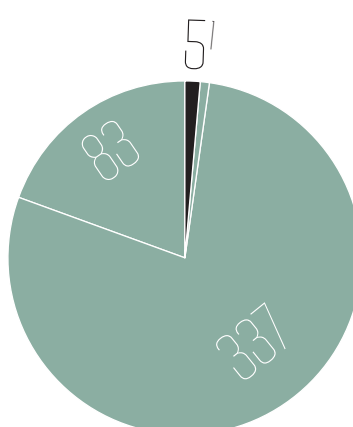
SEMI-SKILLED: 98%*

50 WHITE MALES
76 WHITE FEMALES
2 212 BLACK MALES
593 BLACK FEMALES



UNSKILLED: 97%*

5 WHITE MALES
1 WHITE FEMALES
337 BLACK MALES
83 BLACK FEMALES

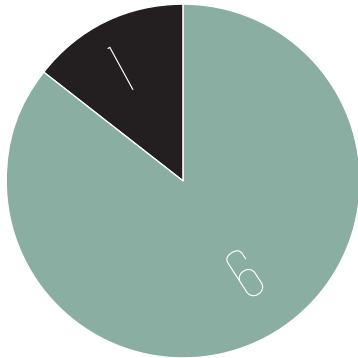


* Indicates limited assurance. See page 108.

31 DECEMBER 2011

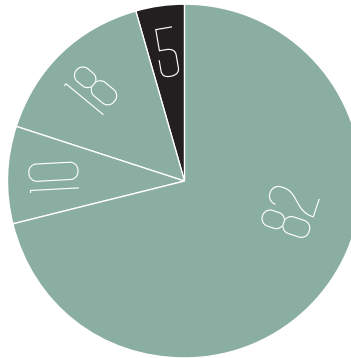
TOP MANAGEMENT: 14%*

6 WHITE MALES
0 WHITE FEMALES
1 BLACK MALES
0 BLACK FEMALES



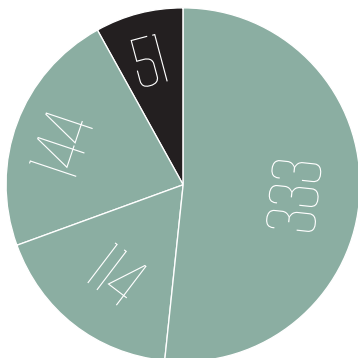
SENIOR MANAGEMENT: 26%*

82 WHITE MALES
10 WHITE FEMALES
18 BLACK MALES
5 BLACK FEMALES



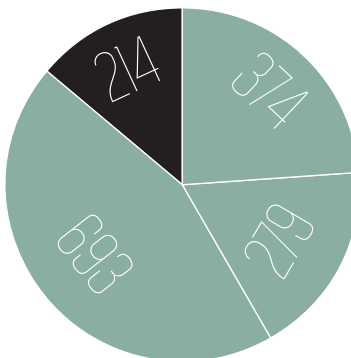
MIDDLE MANAGEMENT AND PROFESSIONALS: 46%*

333 WHITE MALES
114 WHITE FEMALES
144 BLACK MALES
51 BLACK FEMALES



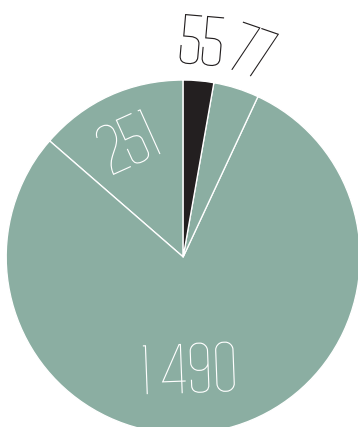
JUNIOR MANAGEMENT AND SKILLED: 74%*

374 WHITE MALES
279 WHITE FEMALES
693 BLACK MALES
214 BLACK FEMALES



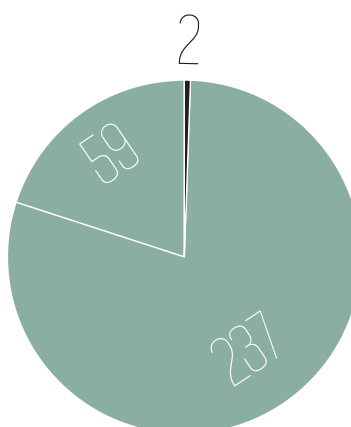
SEMI-SKILLED: 96%*

55 WHITE MALES
77 WHITE FEMALES
1 490 BLACK MALES
251 BLACK FEMALES



UNSKILLED: 99%*

2 WHITE MALES
0 WHITE FEMALES
237 BLACK MALES
59 BLACK FEMALES



* Indicates limited assurance. See page 108.

Following the full implementation of the transactions, AECI's Black equity ownership was calculated at 26,92% in terms of the Department of Trade and Industry's B-BBEE Codes of Good Practice. With this in place, the target in 2012 for all Group companies in South Africa was to achieve Level 4 B-BBEE Contributor ratings. Of the 17 companies audited, 10 achieved Level 4, six achieved Level 5 and two were not audited owing to business restructuring. Ratings per business are disclosed in the operational review commencing on page 54 of this report.

Talent acquisition

The Talent Acquisition Department was established to streamline talent attraction processes and to enhance selection methodologies by:

- › assisting with the process of attracting and selecting highly talented individuals;
- › identifying and creating talent pools that are aligned with the needs of current and future Group strategies; and
- › integrating and on-boarding new employees effectively into the Group and its culture.

On-boarding and induction

On-boarding is the integrated process whereby new employees acquire the necessary knowledge, skills and behaviours to become effective in their work environment.

A revised Group induction programme was launched, with employees who joined the Group country-wide in 2012 being invited to an event hosted by the Chief Executive. Attendees met AECI's leadership and were given insight into the Group's businesses and their growth aspirations. Two induction sessions are planned for 2013.

Bursaries

The Group continues to offer bursaries based on academic merit, with an emphasis on candidates from designated groups. Some graduating bursars have been offered permanent employment in the Group. The hosting of students for internships and vacation work continues.

Also in place is the Employee Dependents Bursary Scheme which assists deserving eligible candidates to pursue tertiary education studies.

Learning and development

This function focuses on the design of programmes that ensure the timely availability of the Group's required human resource competencies. Building skills and behaviours that promote a culture of continual learning, leadership and diversity remains an imperative for achieving the Group's strategic goals and objectives, including Employment Equity targets.

Learning and development is part of the Group's employee value proposition drive and demonstrates commitment to the on-going growth and engagement of employees. In line with this, the implementation of banded learning and development programmes commenced in 2012. This allows employees to participate in training appropriate to their levels of work and, on successful completion, they are enabled to continue their development by attending more advanced programmes.

AECI remains committed to strengthening its relationship with the Chemical Industries Sector Education and Training Authority ("CHIETA"). A variety of engagements took place in 2012 to determine how AECI can contribute to increasing the number of learnerships and apprenticeships in the industry. AECI representatives again participated in CHIETA structures; the Company has representation on the Speciality and Surface Coatings Chamber and the Explosives Chamber. Functional experts also represented the Group on the CHIETA's Standards Generating Body and the National Artisan Training Committee.

The consolidation of learning and development initiatives across the Group progressed in the year under review. A workshop, where future strategy and objectives were outlined, was held for Skills Development Facilitators. One of the objectives was to realign AECI's learning and development strategies with the Employment Equity Act and the Skills Development Act, No. 97 of 1998.

Accordingly, Group businesses focused on the initiatives that follow.

BURSARY SCHEME

FUND ALLOCATION 2012	NO. OF HOLDERS	INVESTMENT
External	28	R790 000
Employee dependents	31	R1 551 000
TOTAL	59	R2 341 000

EXPLOSIVES

- › AEL developed a two-tier approach to enabling the competencies required for its hi-tech operations. In 2013, First and Second Line Managers at the ISAP plant will participate in a Leadership and Management Competence Programme intended to uplift managerial and supervisory skills to an acceptable base level for functional performance. The programme will also be rolled out to other AECI Group companies;
- › engineering training continued and 89 learners were engaged in trade learnerships or apprenticeships;
- › 48 unemployed learners and 53 employed learners participated in the Chemical Operations Learnership programmes, from National Qualifications Framework ("NQF") Levels 1 to 4;
- › in line with AEL's employee development policy, 21 employees participated in Rock Breaker Skills Programmes; and
- › other generic and non-generic training programmes were attended by 1 350 employees.

SPECIALTY CHEMICALS

- › 28 senior sales professionals continued their participation in the Rainmakers Sales Management Academy Programme. These professionals cascade their new skills to the next level of sales personnel and there is every expectation that this will contribute to AECI's achievement of revenue and profit growth;
- › the existing Management Development Programme will be replaced by a three-tiered customised management development ladder in 2013. Nine graduates from the Class of 2007 were honoured at a ceremony in 2012 and other current learners will complete their outstanding modules in the first half of 2013;
- › the technical training centre at the UIC, in KwaZulu-Natal, continued to function well and it was pleasing that 12 of the 15 previously unemployed learners from the 2012 intake were permanently employed by companies at that site. The centre maintained its registration with the Department of Higher Education and Training as a private Further Education and Training College. Going forward, the Group will apply for re-accreditation of the facility from the appropriate Quality Council for Trade and Occupations; and
- › a similar technical training facility was established at the Group's Cloorkop site, in Gauteng, and 26 learners underwent their theoretical training for the Chemical Operations Framework NQF Level 2 qualification.

PROPERTY

- › Heartland provided training for eight apprentices in the mechanical and electrical trades;
- › two students were offered in-service training to complete the requirements for their internships as Analytical Chemists;
- › 10 learners from local high schools were given work experience opportunities;
- › 69 employees attended other skills training across various disciplines; and
- › generic and non-generic training programmes were attended by 130 employees.

Organisational Development

This Department concentrates on the formulation and implementation of strategies, systems and processes to ensure that AECI's employee complement is optimally placed to assist in delivering the Group's future growth.

The main initiatives of 2012 are outlined below.

TALENT MANAGEMENT

A holistic, tailored and focused talent management approach was developed. It includes the essential elements of a benchmark talent management value chain and connects all facets of the Human Capital function, it has been aligned with AECI's strategic goals and it is focused on supporting the objectives of Group businesses.

Management development

A three-tiered management development ladder was created to cater for disparate stages of career growth and assist in the continual development of employees. This methodology facilitates the identification of potential new managers and the promotion of existing incumbents, enhances the baseline skills of managers and assists in succession planning and career management. It is customised to meet the Group's specific current and future needs, using global best practices and standards as a basis.

The new Management Development Programmes will launch during 2013.

Employee retention

AECI recognises that its employees are its greatest asset. It is imperative, therefore, that the Company retains valuable employees and also attracts the best skills available in the market.

Understanding why employees leave is the first step in building an effective retention strategy. An exit survey tool was developed in 2012 to provide information in this regard. This is an anonymous online survey and some of the parameters measured include employees' expectations of their employer, and the extent to which they seek alternative employment or are recruited by other companies. The next step is designing action plans to address any relevant areas of dissatisfaction identified.

In support of the anonymous online tool, a face-to-face exit interview questionnaire and process were also developed.

In the coming year, the Organisational Development function will continue to develop and formalise strategies that support the effective implementation and achievement of its objectives across all levels of the workforce. Performance Management will receive additional attention.

Trade union and employee participation

AECI recognises the right of all employees to join a trade union of their choice. Representative trade unions are acknowledged as one of the Group's key stakeholders. Formal recognition agreements exist with CEPWAWU, GIWUSA, NETU, SACWU and Solidarity at employment centres across the country. These unions participate in various consultative and negotiation structures such as Management/Shop Stewards Consultative Forums, Safety, Health and Environment Committees and Wellness Committees to deal with issues that affect employees' interests.

With the exception of Heartland, all AECI Group businesses in South Africa are members of the National Bargaining Council for the Chemical Industry ("NBCCI"). Substantive collective agreements for the bargaining unit are negotiated on an annual basis with representative trade unions under the auspices of the NBCCI – Industrial Chemical Sector. Senior Industrial Relations Managers from the Group participate in this forum as employer representatives.

During the 2012 negotiations a dispute was declared by all unions. Notwithstanding the challenges presented by the allocated negotiation period being exceeded, annual wage increases were settled without any industrial action. The substantive agreement applies to all employees in the Bargaining unit in South Africa.

Regrettably, on-going restructuring in some Group businesses led to some unavoidable retrenchments. These processes were concluded in a spirit of cooperation between the Group and trade unions as was the on-boarding of employees in the businesses acquired in the year.

AEL's Consultative Forum was re-established and the consultation process regarding restructuring of the business has commenced. Temporary employees with more than five years' service with the company were permanently employed from January 2012.

Community investment and development

The AECI Group's community development initiatives are directed primarily towards addressing the prevailing skills shortages in South Africa, with a particular emphasis on mathematics and science. A number of communities are also supported with humanitarian interventions.

A total of R7 million was invested in large donations in the year, including the second tranche of the Group's five-year, R15 million commitment to the AECI Chemistry Laboratory at the University of the Witwatersrand. Smaller donations amounted to an additional R200 000.

EDUCATION

SETH (Science, Engineering, Technology, and Health) Academy

This Academy, based in Potchefstroom in the North West, aims to identify future engineers, scientists and health professionals throughout South Africa. Its dedicated Grades 8 to 12 programme is focused on providing excellent mathematics, science, and technical tuition in an integrated learning environment. Tuition is offered in the afternoons at the North-West University by lecturers and includes tutorials, practical lessons, visits and projects. Morning school activities are under the tutelage of Ferdinand Postma, the partner school in Potchefstroom.

For the 2013 academic year, AECI is sponsoring 10 learners who require financial support. Seven of them are Black, two are white females and one is a white male. These learners will also receive AECI bursaries when they commence their tertiary education.

Primestars Maths and Science Matric Revision

In 2012, AECI participated in Educ8. Pioneered by Primestars Marketing, this project uses Ster-Kinekor cinema outlets nationally as screening venues for Grade 12 mathematics and science revision programmes. It is aimed mainly at disadvantaged youth and has proved to be efficient, popular and rewarding for learners and sponsors alike.

AECI's participation in 2012 allowed the inclusion in the project of 1 500 additional learners in Polokwane, Limpopo.



AECI Chemistry Laboratory, University of the Witwatersrand Science Stadium

2012 was a successful year for the AECI Chemistry Laboratory. Training was provided for 2 055 students from the Faculties of Health Sciences, Engineering (Aeronautical, Mechanical, Industrial and Electrical), Science and Biomedical Engineering and Chemical Engineering. The laboratory was officially opened on 7 June during the launch of the Wits Science Stadium by Deputy Minister of Higher Education and Training, Professor Hlengiwe Mkhize.

2013 will see a similar number of students moving through the laboratory.

The Faculty of Science is hoping to use the Science Stadium facilities to host 1 000 matric learners for a Maths and Science Winter School. The Science Stadium will also host an international conference early in 2014 to celebrate the UNESCO, United Nations International Year of Crystallography.

HUMANITARIAN SUPPORT

SANCA Western Cape Services

SANCA provides specialised and fully-accredited substance abuse prevention as well as out-patient treatment services, by a multi-disciplinary team, to communities in the Western Cape. Services and their impacts are on three levels, from proactive awareness programmes highlighting the devastating effects of substance abuse through to care for those who are already victims of such abuse.

In 2012, SANCA assisted almost 2 000 patients individually and presented more than 40 000 educational and life skills sessions as part of its prevention programmes.

The Teddy Bear Clinic

The Teddy Bear Clinic for Abused Children is a human rights organisation providing essential services at no charge to children who suffer abuse, violence and exploitation. Access to justice and care for these children follows a multi-disciplinary approach that includes legal support, medical intervention and psycho-social care.

Through quality intervention, strong coordination with child protection partners and effective advocacy, the needs of traumatised and victimised children are addressed holistically and in a protective environment.

Community Provision and Social Services project ("Compass")

Compass is an emergency baby and child rescue NGO. It cares for 102 babies and children, aged between birth and 17 years, who have been abused or abandoned, or are terminally ill, impoverished or from disadvantaged backgrounds. Compass provides these children with food and shelter and a nurturing environment that encourages their empowerment and upliftment.

On behalf of the Social and Ethics Committee

Litha Nyhonyha
Chairman

Woodmead, Sandton
15 March 2013

INDEPENDENT ASSURANCE REPORT ON SELECTED SUSTAINABILITY INFORMATION

To the Directors of AECl Limited

We have undertaken a limited assurance engagement on selected sustainability information, as described below and presented in the Social and Ethics Committee's sustainability report included in the 2012 integrated report to stakeholders of AECl Limited ("AECl") for the year ended 31 December 2012 ("the report").

Independence and expertise

We have complied with the International Federation of Accountants' Code of Ethics for Professional Accountants, which includes comprehensive independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Our engagement was conducted by a multidisciplinary team of health, safety, environmental and assurance specialists with extensive experience in sustainability reporting.

Subject matter and related assurance

We are required to provide limited assurance on the following key performance indicators prepared in accordance with AECl's internally developed guidelines and marked with a * on the relevant pages in the report:

- › Environmental indicators – total water usage (page 92); hazardous waste generation (page 92); total electricity usage (page 94); total energy usage (page 94); carbon footprint – scope 1, scope 2 and total of scope 1 and 2 (page 94); number of environmental incidents (total major and serious) (page 92).
- › Health and safety indicators – total recordable incident rate (employees and contractors combined) (page 96); occupational illness rate (employees and contractors combined) (page 96).
- › Employment Equity indicators (expressed as the total number of people for each category) – Black males, Black females, white males, and white females per category of Top Management, Senior Management, Middle Management and Professionals, Junior Management, Skilled, Semi-skilled and Unskilled (page 102).

Directors' responsibilities

The Directors are responsible for the selection, preparation and presentation of the sustainability information, the identification of stakeholders and stakeholder requirements, material issues, for commitments with respect to sustainability performance, and establishing and maintaining appropriate performance management and internal control systems from which the reported information is derived, and for such internal control as the Directors determine is necessary to enable the preparation of the report that is free from material misstatement, whether due to fraud or error.

The Directors are also responsible for the selection and application of the criteria to the selected sustainability information based on AECl's internally developed reporting guidelines, available on request from AECl.

Our responsibility

Our responsibility is to express a limited assurance conclusion on the selected sustainability information based on our work performed. We conducted our engagement in accordance with the International Standard on Assurance Engagements 3000, Assurance Engagements other than the Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board. That Standard requires that we plan and perform our engagement to obtain limited assurance about whether the selected sustainability information is free from material misstatement.

Our procedures and the extent of our procedures depend on our judgement, including the risks of material misstatement of the selected sustainability information. In making our risk assessments, we considered internal control relevant to AECl's preparation of the report. In a limited assurance engagement, the evidence-gathering procedures are less than where reasonable assurance is expressed. We believe the evidence we have obtained is sufficient and appropriate to provide a basis for our limited assurance conclusion.

Summary of work performed

Our work included the following evidence-gathering procedures:

- › interviewing management to obtain an understanding of the internal control environment, risk assessment process and information systems relevant to the sustainability reporting process;
- › inspecting supporting documentation and performing analytical procedures;
- › evaluating whether the selected sustainability information presented in the report is consistent with our overall knowledge and experience of sustainability management and performance at AECL.

Conclusion

Based on our work performed, nothing has come to our attention that causes us to believe that the selected sustainability information set out above for the year ended 31 December 2012 is not prepared, in all material respects, in accordance with AECL's internally developed reporting guidelines.

Comparability

The report includes the provision of limited assurance on total electricity usage and total energy usage. We were previously not required to provide assurance on these key performance indicators.

Other matter

The maintenance and integrity of AECL's website is the responsibility of AECL's management. Our procedures did not involve consideration of these matters and, accordingly, we accept no responsibility for any changes to either the information in the report or our independent assurance report that may have occurred since the initial date of presentation on the AECL website.

Limitation of liability

Our work has been undertaken to enable us to express a limited assurance conclusion on the selected sustainability information to the Directors of AECL in accordance with the terms of our engagement, and for no other purpose. We do not accept or assume liability to any party other than AECL for our work, for this report, or for the conclusion we have reached.

KPMG Services Proprietary Limited



Per PD Naidoo
Director

Johannesburg, 1 Albany Road
Parktown, South Africa, 2193
15 March 2013

REMUNERATION REPORT

The AECI Board and its Remuneration Committee ("the Committee") present herewith their remuneration report setting out information applicable to the Company's remuneration policy, Executive remuneration – both fixed and variable – and Directors' fees. The information provided in this report has been approved by the Board on the recommendation of the Committee.

AECI's Executive remuneration policy continues to be driven by performance and it rewards Executives for value add that results in targeted growth and shareholder returns. For this purpose financial performance measures and Executives' scorecards determine the extent of rewards provided to Executives and Managers.

AECI has taken a balanced approach with regard to remuneration ensuring that employees are incentivised to achieve both the short- and long-term strategic objectives of the Company. Short-term performance is measured against net operating profit before tax and headline earnings per share ("HEPS") and the achievement of key financial and non-financial indicators. Long-term incentives are linked to HEPS and total shareholder returns against a comparator group.

In alignment with the remuneration guidelines of King III, and in compliance with the Companies Act, the issues covered by this remuneration report are:

- › a summary of the Company's remuneration policy, philosophy and strategy;
- › the Remuneration Committee and its role;
- › key remuneration decisions taken during the 2012 financial year;
- › guaranteed remuneration;
- › reward strategy – pay mix;
- › short-term incentives ("STIs");
- › long-term (share-based) incentives ("LTIs");
- › Executive Committee members' service contracts; and
- › Non-executive Directors' compensation.

REMUNERATION POLICY, PHILOSOPHY AND STRATEGY

The AECI remuneration philosophy is to establish fair and equitable reward levels that will attract and retain high calibre Executive Directors, Executive Committee members, Senior Managers and key talent and which will motivate them to develop and implement the Company's business strategy.

The primary intention of the reward strategy is to enhance shareholder value through focus on, and support of, AECI's overall strategic goals. Its objectives are to enable the business to recruit highly competent and qualified individuals and to retain high performers.

AECI has an integrated approach to its reward strategy, encompassing a balanced design in which all components are aligned to the strategic direction and business-specific value drivers of the Company and fully integrated into other management processes. In this context, AECI is committed to maintaining pay levels on a total cost to employer basis that reflect an individual's worth to the Company, a Performance Management system that serves both to differentiate individual and/or team performance and incentives that recognise and reward, where appropriate, both operational performance and strategic performance in a volatile business environment.

The guaranteed package comprises base pay, allowances, retirement and medical aid benefits and 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 aid funds are maintained at market-competitive levels.

STIs are designed to motivate and reward the attainment of short-term objectives for Executive Directors, Executive Committee members and Senior Managers, while LTIs are designed to incentivise the generation of long-term shareholder value.

THE COMMITTEE AND ITS ROLE

Composition

The Committee comprises at least three Non-executive Directors all of whom are Independent. Meetings of the Committee are held at least twice a year and additional meetings are held when deemed necessary. The Group Company Secretary attends all meetings as secretary. The Chief Executive and Chief Financial Officer are invited to attend to discuss the remuneration of Executive Directors and Senior Managers. 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
- › LM Nyhonyha (appointed to the Committee on 1 June)
- › F Titi (retired on 28 May)

The Committee adheres to King III and the Board considers its composition to be appropriate in terms of the necessary blend of knowledge, skills and experience of its members.

Responsibilities

The responsibilities of the Committee are in accordance with its charter/terms of reference set by the Board and include:

- › upholding, reviewing and amending, if appropriate, the Company's remuneration philosophy and policy with particular reference to the remuneration of Executive Directors and Senior Managers;
- › ensuring that Executive Directors and Senior Managers are fairly rewarded for their individual contributions to the Company's overall performance, having regard to the interests of stakeholders and the financial condition of the Group;
- › approving remuneration packages designed to attract, retain and motivate high-performing Executive Directors and Senior Managers, including but not limited to basic salary, performance-based short- and long-term (and share-based) incentives, pensions and other benefits;
- › establishing appropriate criteria to measure the performance of Executive Directors and Senior Managers;
- › recommending appropriate levels of remuneration to be paid to the members of the Board of Directors; and
- › reviewing the effectiveness and approving the operation of the Company's share-based and other incentive schemes.

Key remuneration decisions taken in respect of the 2012 financial year

The Committee discussed the following matters and took some key decisions:

- › the finalisation of the design of a new long-term incentive plan ("LTIP"), containing an earnings growth unit element and a performance share element, and its successful motivation to, and approval by, shareholders at the May 2012 Annual General Meeting;
- › approval of allocation principles under the LTIP and, in accordance with policy, of earnings growth units and awards of performance shares;
- › initiated a review of the current pension schemes' defined-benefit liabilities with a view to converting to defined-contribution schemes;
- › approval of the targets and weighting of the performance measures of the STI plan;
- › approval of Executive salary increases;
- › approval of the STI payments;
- › review and approval of the Company's remuneration report and policy; and
- › review and recommendation to shareholders of Non-executive Directors' fees.

Attendance

The Committee met five times during the year. Details of meeting dates and attendance are set out on page 83.

REMUNERATION REVIEW

Guaranteed remuneration

AECI is committed to establishing an integrated pay line with pay levels throughout the Group that ensure that it is able to remain competitive, while managing costs.

AECI currently compares itself to the general market as represented in surveys published annually, but also looks to compare itself to appropriate sectoral surveys where such exist. Market surveys are used as a basis for establishing market remuneration information for most positions, including Executives and Senior Managers. Benefits such as travel allowances and contributions to retirement and medical funds are maintained at market-competitive levels.

The guaranteed remuneration packages for Executive Directors, Executive Committee members and Senior Managers are benchmarked against the market median of similar sized companies and industry.

Each role has been evaluated using Deloitte's Executive Evaluation System (Exceval™). Over and above the role size and complexity, Exceval™ takes the following into consideration:

- › skills and knowledge;
- › conceptual abilities;
- › interpersonal skills;
- › job impact;
- › problem-solving abilities; and
- › decisions and resource control.

The Committee reviewed guaranteed packages for Executive Directors, Executive Committee members and Senior Managers, as recommended by the Chief Executive, taking into consideration market data as provided by the results of Exceval™, individuals' experience and current levels of performance.

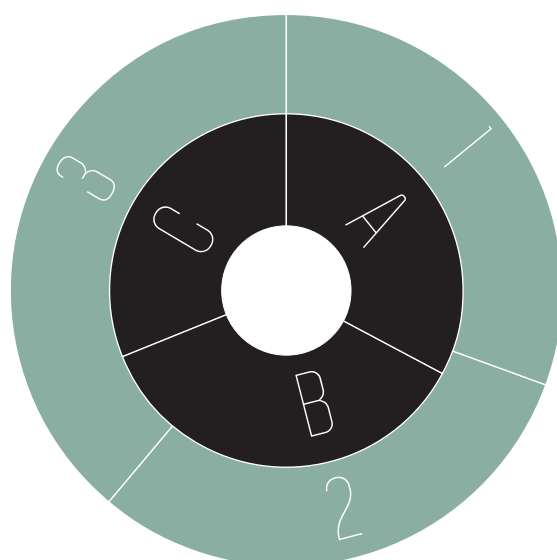
The Committee approved that the target range of the guaranteed package should be between 95% and 105% of the market median. Progressive annual adjustments will be made for incumbents below this target range over the next two years, taking into consideration their performance levels.

To ensure that the component elements of guaranteed packages are aligned across the Group, fringe benefits and allowances such as medical aid subsidies and car allowance structures have been standardised for the Executive Committee and for Senior Managers.

Details of the basic salary and guaranteed packages (basic salary plus benefits) paid to each of the Executive Directors and Prescribed Officers in 2012 are set out on in note 31.

King III recommends that the remuneration of the top three earners who are not Directors should be disclosed. This recommendation has in effect been incorporated into the Companies Act with the Prescribed Officers' disclosure. The latter has been included in note 31. For this reason no further disclosure has been necessary.

ON-TARGET REWARD: CHIEF EXECUTIVE VS SENIOR EXECUTIVE



CHIEF EXECUTIVE
SENIOR EXECUTIVE

1 AND A GUARANTEED PACKAGE
2 AND B TARGET REWARD STI
3 AND C TARGET REWARD LTI

The increases in the guaranteed packages, which will be applicable with effect from 1 January 2013, were in the range of 3% to 8% for Executives, except where there had been changes in responsibilities. The remainder of employees in South Africa generally received average increases in line with this, but slightly higher increases on average were awarded at the lower levels.

Reward strategy – pay mix

AECI has moved towards a pay mix policy that supports the philosophy that the performance-based pay of Senior Executives should form a greater portion of their expected total compensation than guaranteed pay and, furthermore, that within the performance-based pay of most Senior Executives the orientation should be towards rewarding long-term sustainable performance (through long-term and/or share-based incentives), more so than operational performance (through annual cash incentives).

The mix of fixed and variable pay is thus designed to meet AECI's operational needs and strategic objectives, based on targets that are stretching, verifiable and relevant. An AECI standard has been adopted for the Group, while recognising that the different nature of its major businesses requires a differentiated approach between them and other subsidiary companies.

The pay mix proportionality of the Chief Executive and of a Senior Executive is shown in the schematic on the left. The term "target reward" used in the schematic is defined as the present value of the future reward outcome of an offer, given the targeted future performance of the Company and/or its share price. It should not be confused with the term "fair value" which is used when establishing the accounting cost for reflection in a company's financial statements. Neither should it be confused with the term "face value" which is used to define the current value of the underlying unit or share at the time of an allocation/award.

It should be borne in mind however that both on-target reward from annual cash incentives and the target reward from long-term (share-based) incentives will vary in practice from the norms depicted as a result of individual and Company performance and the impact of external factors.

STIs

The STI scheme is offered to all Executives (including Executive Directors) and all levels of management. It has two separate components which are measured independently. There are various incentive schemes in place in AECI, tailor-made to specific parts of the Group and its businesses. They incentivise various categories of staff and are reviewed regularly to ensure they remain appropriate.

Financial component (profit performance-based element)

For Executive Committee members and Senior Managers, the profit element accounts for 75% of the on-target bonus and is determined by actual Company/business entity financial performance relative to predetermined targets. This element is a structured incentive where an incentive pool is created, having both a funding methodology and an allocation methodology.

The predominant scheme for Executives and Senior Managers operating at Group level and, with minor variations in AEL and Heartland, consists of a weighted scorecard of Group and/or business and personal components.

The Company/business financial rating is determined by actual financial performance relative to predetermined targets for trading profit or net profit before tax or HEPS. In Heartland, due to the nature of its business model and the longer-term nature of the property development and realisation cycle, the financial measure is replaced to some extent by an assessment of project progress.

For HEPS, a three year "crawling peg" methodology is used in which thresholds, targets and doubling points are set from the "base year" for three years ahead, based on targeted growth in relation to inflation plus Gross Domestic Product ("GDP") applied to the preceding "base year" performance. The doubling point is set at inflation plus GDP plus 9%. After the third year, the "base year" performance is reset prior to the next three year cycle. The "base year" for the current STI cycle is 2009. The "base year" for the new three year cycle commencing in 2013 will be 2012.

The base year uses the previous year's performance as a starting point and is adjusted for windfall profits or unusual losses and any other adjustments that the Committee may deem necessary to arrive at a fair starting point.

Three-year bonus parameters are set by the Executive Committee for approval by the Remuneration Committee, taking into account growth factors based on South Africa's Consumer Price Index ("CPI") and growth in the country's GDP.

Personal KPI/company non-financial component (formulaic element)

The formulaic element will account for 25% of the on-target bonus and will be based solely on the results of individuals' scorecards. It is measured on the achievement of personal targets and is not dependent on the Group/business entity financial performance.

Bonus parameters

The Group has developed a bonus model for each business entity based on the above principles.

Businesses which grow their earnings substantially above CPI and GDP rates could earn multiple bonus factors. The bonus curve is designed so that significant bonus payments are made only to businesses that exceed their EVA targets.

STIs are calculated as a percentage of annual basic salary and capped at 150% of guaranteed package. In exceptional cases, the Committee has the authority to extend the bonus cap to 250% of guaranteed package. This will only occur if there has been exceptional growth in profits and if the EVA and trading profit-sharing targets have been met by the business entity concerned.

The on-target bonus percentage for the Chief Executive and Executive Committee members is 50% of basic salary and is between 33% and 50% of basic salary for Senior Managers.

The Committee has the full discretion to adjust bonuses and/or amend the rules of the scheme as it deems fit, taking into account the balance between fair reward for the individual and stakeholders' interests.

Annual bonus payments made to Executive Directors and Prescribed Officers are disclosed in note 31.

In this context, over the past three years, to 31 December 2012:

- › Group operating profit increased by 20,5% to R1 341 million;
- › For the purposes of bonus awards, the Committee makes adjustments to the published HEPS number to ensure that bonuses are paid on the Group's underlying performance. In 2012 the Committee reversed the effects of the IFRS 2 charges relating to the B-BBEE transactions and made other minor adjustments, resulting in the HEPS value for bonus calculation purposes being determined as 696 cents per share.

This is an increase of 46% compared to the equivalent HEPS value for 2009, being the base year for the three-year bonus cycle. This compares favourably with CPI and GDP over the period.

The Group's performance, analysed by segments, is disclosed in note 32 on page 206.

Long-term (share-based) incentives

Executives and Senior Managers in the past participated in a vanilla "share option scheme" approved by shareholders in 2001. An "earnings per share-based scheme" was introduced in 2003.

This scheme supplemented the option scheme and linked long-term Executive reward more directly to the actual financial performance of the Company.

In 2005 a cash-settled "benefit unit scheme", which emulated the performance of share options was adopted essentially to replace the "share option scheme" and to run in parallel with the "earnings per share-based scheme".

Equal offers have been made in both schemes and participants are able to exercise 33% of the units in both schemes on the third, fourth and fifth anniversaries of their offer. All units need to be exercised within a 10 year period from the date of offer or they will lapse.

The AECI 2012 Long-term Incentive Plan ("LTIP") was approved by shareholders at the Annual General Meeting in May and allocations of earnings growth units and awards of performance shares were approved in November 2012. Awards were offered to Executives and Senior Managers in February 2013 in respect of the 2012 allocation.

AECI 2012 LTIP

The purpose of the 2012 LTIP is to attract, retain, motivate and reward Executives and Senior Managers who are able to influence the performance of AECI and its subsidiaries on a basis which aligns their interests with those of the Company's stakeholders. Executives and selected Senior Managers of the Company and its subsidiaries will be offered annually a weighted combination of:

- › allocations of earnings growth units; and
- › awards of performance shares.

Offers will be governed by AECI's reward strategy (pay mix) in which inter alia the "target reward" of long-term incentivisation is set for defined categories of Executives and Senior Managers.

It is envisaged that the combined, weighted implementation of the two long-term incentive elements will allow AECI to remain competitive in long-term incentives, reward long-term sustainable Company performance, act as a retention tool and ensure that Executives share a significant level of personal risk with the Company's stakeholders. As previously, some 280 Executives and Managers have participated in the LTI. Approximately 342 784 performance shares have been allocated at 7 918 cents and 15 067 761 number of earnings' growth units have been allocated at 721 cents.

Earnings growth unit element

The earnings growth unit element is similar in architecture to AECI's previous earnings per share-based incentive scheme but is documented more thoroughly to address the provisions of the scheme under conditions of termination, adjustment, change of control and the like, on which the previous scheme documentation was silent.

Annual allocations of earnings growth units will be made to Executives and selected Managers. They will be available to be settled in equal thirds on no earlier than the third, fourth and fifth anniversaries but need not be exercised until the seventh anniversary, at which time they must be exercised or they will lapse.

On settlement, the value accruing to participants will be their share of the full appreciation in AECI's HEPS, adjusted as deemed appropriate by the Committee.

A performance underpin may, at the discretion of the Board, be stipulated which will take the form of a minimum Company financial performance that must be achieved prior to vesting, notwithstanding the passage of time, and which must be met by at least the seventh anniversary or all units will lapse.

Earnings growth units will continue to offer a form of earnings growth/appreciation-linked long-term incentive, as in the past, but now at a reduced level in terms of targeted reward, the balance being made by the performance share element.

Performance share element

Annual conditional awards of performance shares will be made to Executives. Performance shares will vest on the third anniversary of their award to the extent that the Company has met specified performance criteria over the intervening period. Essentially the value per share that vests is the full value of the share (there is no strike price), but the number of shares that will vest will depend on whether the Company's performance over the intervening three-year period has been on target, or an under- or an over-performance against the target/s set at the award date.

The Board will dictate the performance criteria for each award. However, for the 2012 award and until further notice for subsequent awards, the methodology of vesting will target the Company's comparative Total Shareholder Return ("TSR") in relation to a peer group of 18 companies.

As such, the Company's TSR is compared to a peer group of companies, selected not because they are direct competitors of AECI but because they represent a portfolio of companies:

- › of similar size to AECI in terms of market capitalisation;
- › they are similarly impacted, both negatively and positively, by external factors; and
- › they represent essentially a balanced portfolio of alternative investments to an investment in AECI.

Constituents of the comparator group (on page 115) are ranked by market capitalisation at the time the research was conducted.

If AECI's TSR over the three year period places it in:

- › fourteenth position or worse, then all performance shares awarded will lapse;
- › ninth position, the targeted number (one third of the maximum number) of performance shares awarded will vest;
- › fourth position or better, then the full maximum number (three times the targeted number) of performance shares awarded will vest; and
- › between any of the above points, then a pro rated number of performance shares will vest.

The performance curve (on the facing page) illustrates the above relationships.

The performance share element aligns the interests of stakeholders and Executives closely by rewarding superior shareholder returns and financial performance in the future. Because annual awards are made, each award requiring the resetting of the performance criteria, it is only with the continued and sustained outperformance by the Company that significant reward accrues to participants.

As such, it is envisaged that the awards of performance shares will feature at all Executive and Senior Management levels, but will feature more strongly the higher the participants' grade in the Group.

EXECUTIVE COMMITTEE MEMBERS' SERVICE CONTRACTS

None of the Executive Directors have extended employment contracts or special termination benefits and there are no restraints of trade in place. Service contracts of Executive Directors and members of the Executive Committee are in accordance with AECI's standard terms and conditions of employment and their notice period is 30 days.

NON-EXECUTIVE DIRECTORS' REMUNERATION

Terms of appointment

Non-executive Directors' remuneration is arrived at after an annual benchmarking exercise performed by the Chief Executive and the approval by shareholders at the Annual General Meeting of the proposed compensation. In arriving at the proposed compensation, cognizance is taken of market norms and practices, as well as the additional responsibilities placed on Board members by new legislation and corporate governance principles.

Non-executive Directors do not have service contracts. 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 plus meeting attendance fees. Hourly fees are also paid to Non-executive Directors for any ad hoc work that may be required of them.

The Group pays for all travel and accommodation expenses incurred by Directors to attend Board and Committee meetings and visits to Company businesses. No Non-executive Director has an employment contract with the Company.

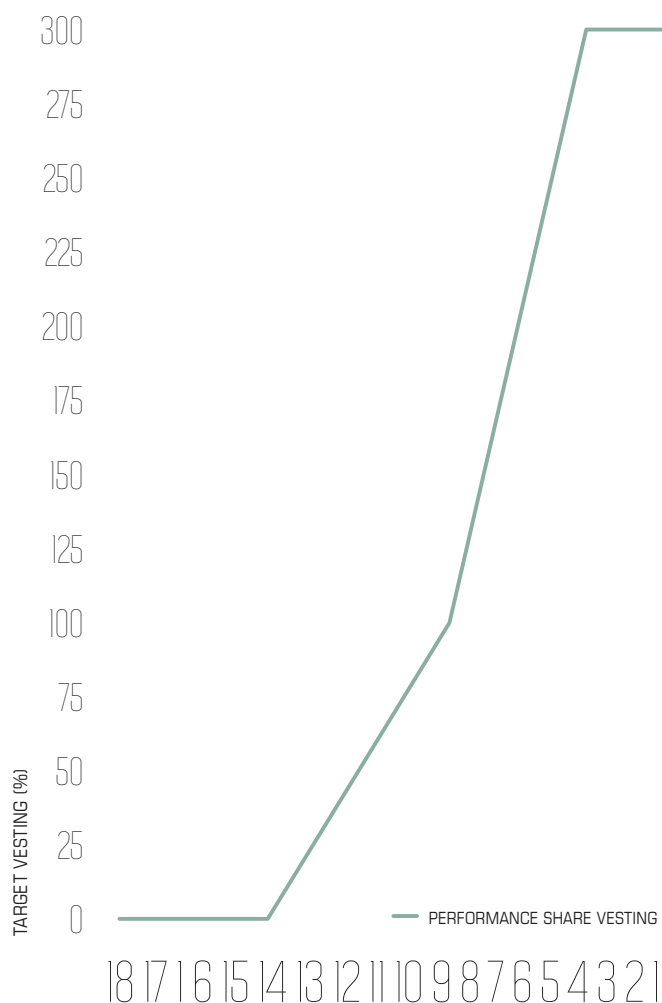
Details of the remuneration paid to Non-executive Directors in 2012 are given in note 31.

Proposed increase in Non-executive Directors' fees

At the Annual General Meeting of shareholders scheduled for 27 May 2013, shareholders will be asked to pass special resolutions to take effect from 1 June 2013, approving the proposed changes in Non-executive Directors' fees as set out in the Notice of Annual General Meeting commencing on page 211.

	COMPARATOR GROUP
1	Barloworld
2	Nampak
3	Aveng
4	Sappi
5	Reunert
6	Illovo
7	Pioneer
8	JD Group
9	Tongaat Hulett
10	Grindrod
11	Altech
12	Omnia
13	Rainbow
14	Astral
15	PPC
16	Northam Platinum
17	Metorex
18	Afrox

VESTING VS POSITIONING WITH REGARD TO COMPARATOR GROUP



In terms of the Companies Act and JSE Listings Requirements, the Directors are obliged to prepare annual financial statements for the Company and the Group.

In line with good governance, they are assisted in this task by the external and internal auditors.

3

The annual financial statements were published on 15 March 2013 and are for the year ended 31 December 2012. The financial statements have been audited as required by the Companies Act and their preparation was supervised by the Chief Financial Officer, Mr KM Kathan CA(SA), AMP (Harvard).

3

ANNUAL FINANCIAL STATEMENTS

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IBC	Administration

SHAREHOLDER ANALYSIS

1. ANALYSIS OF REGISTERED ORDINARY SHAREHOLDERS AND COMPANY SCHEMES

Source: JP Morgan

REGISTERED SHAREHOLDER SPREAD

In accordance with the JSE Listings Requirements, the following table confirms that the spread of registered shareholders of ordinary shares as detailed in the integrated report and accounts dated 28 December 2012 was:

REGISTERED SHAREHOLDER SPREAD				
Shareholder spread	Number of holders	% of total shareholders	Number of shares	% of issued capital
1 – 1 000 shares	2 170	58,80	724 366	0,56
1 001 – 10 000 shares	990	26,82	3 206 713	2,50
10 001 – 100 000 shares	384	10,40	12 512 883	9,76
100 001 – 1 000 000 shares	123	3,33	37 730 357	29,42
1 000 001 shares and above	24	0,65	74 066 821	57,76
TOTAL	3 691	100,00	128 241 140	100,00

PUBLIC AND NON-PUBLIC SHAREHOLDINGS

Within the shareholder base, we were able to confirm the split between public shareholdings and Directors/company-related schemes as being:

PUBLIC AND NON-PUBLIC SHAREHOLDINGS				
Shareholder spread	Number of holders	% of total shareholders	Number of shares	% of issued capital
Non-public shareholders	5	0,14	11 898 438	9,28
– Treasury shares	2	0,06	11 884 699	9,27
– Own holdings ¹	3	0,08	13 739	0,01
Public shareholders	3 686	99,86	116 342 702	90,72
TOTAL	3 691	100,00	128 241 140	100,00

¹ Excludes 3 015 ordinary shares in which MA Dytor has a direct beneficial interest. Mr Dytor was appointed as an Executive Director of the Company on 2 January 2013.

Excludes the 10 117 951 unlisted non-public B ordinary shares issued and held by the AECI Employee Share Trust.

2. SUBSTANTIAL INVESTMENT MANAGEMENT AND BENEFICIAL INTERESTS

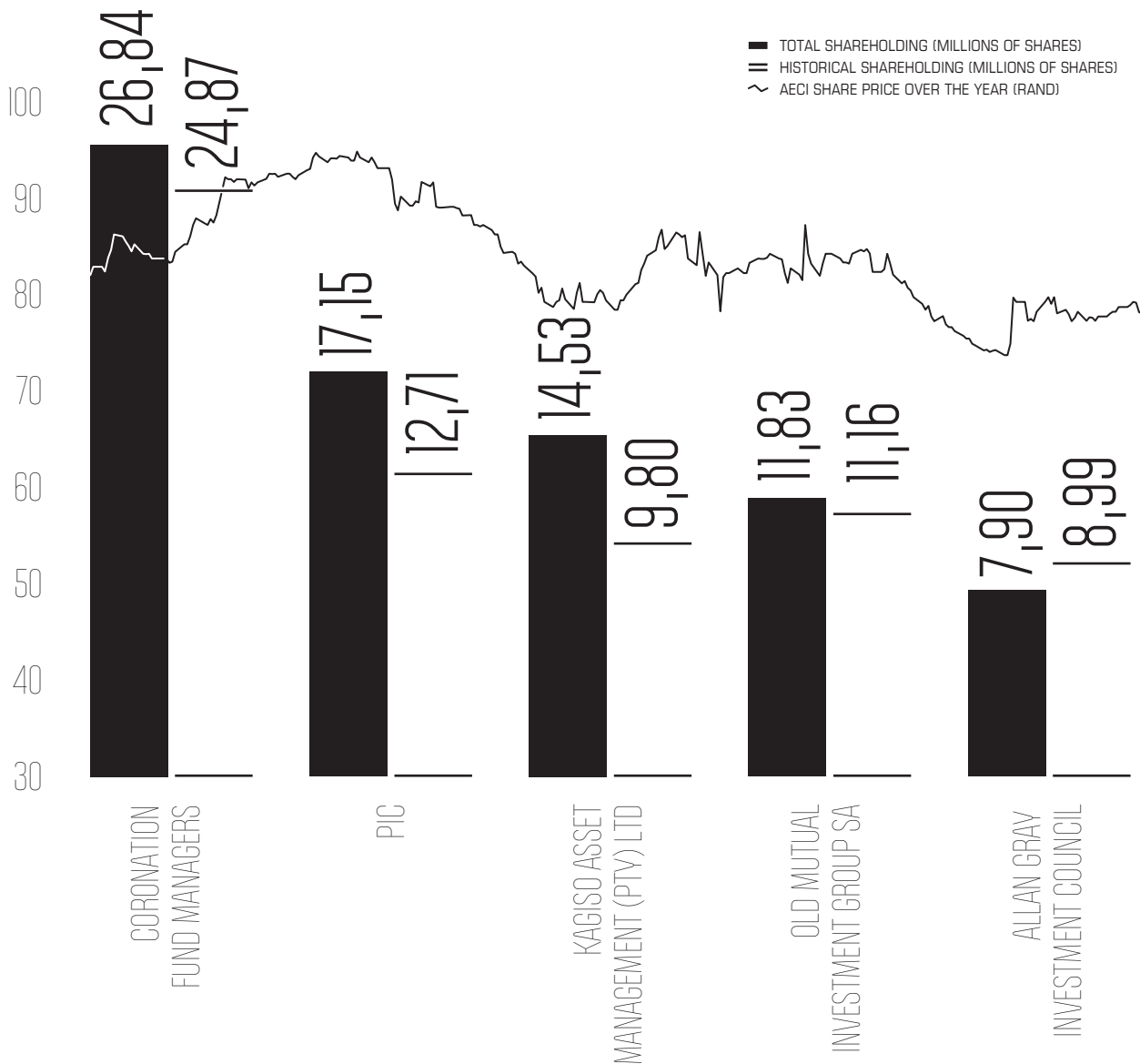
SUBSTANTIAL INVESTMENT MANAGEMENT AND BENEFICIAL INTERESTS ABOVE 3%

Through regular analysis of STRATE registered holdings, and pursuant to the provisions of section 56 of the Companies Act, the following shareholders held directly and indirectly equal to or in excess of 3% of the ordinary issued share capital as at 28 December 2012:

INVESTMENT MANAGEMENT SHAREHOLDINGS, EXCLUDING TREASURY SHARES		
Investment manager	Total shareholding (number of shares)	% of issued capital
Coronation Fund Managers	26 841 589	23,07
PIC	17 146 192	14,73
Kagiso Asset Management (Pty) Ltd	14 530 124	12,49
Old Mutual Investment Group SA	11 828 721	10,17
Allan Gray Investment Council	7 902 457	6,79
TOTAL	78 249 083	67,25

Shareholder analysis
Annual financial statements

INVESTMENT MANAGEMENT SHAREHOLDING POSITIONS ABOVE 3% WITH 12-MONTH CHANGE

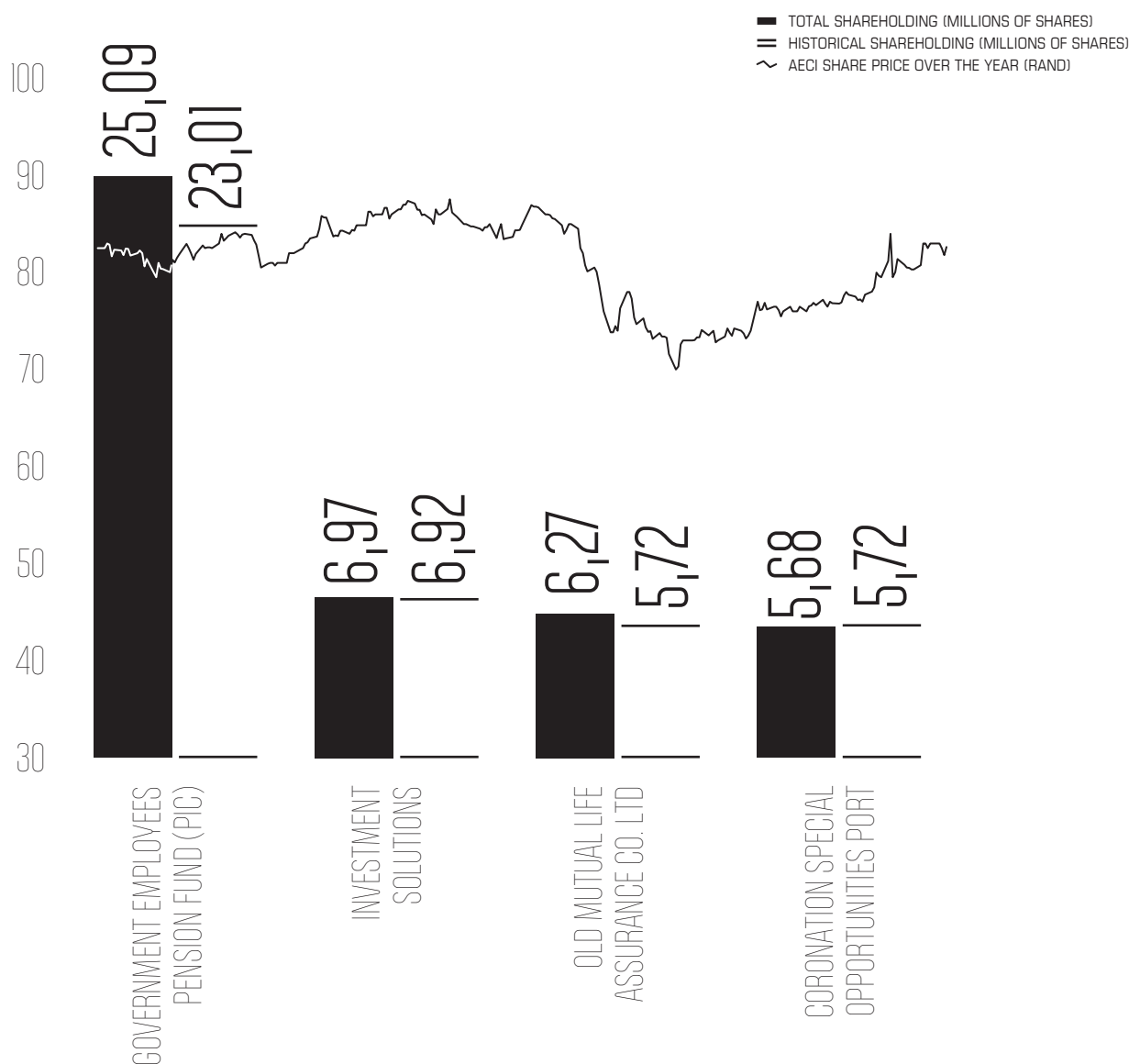


2. SUBSTANTIAL INVESTMENT MANAGEMENT AND BENEFICIAL INTERESTS (CONTINUED)

BENEFICIAL SHAREHOLDINGS, EXCLUDING TREASURY SHARES

Beneficial shareholdings	Total shareholding (number of shares)	% of issued capital
Government Employees Pension Fund (PIC)	25 088 301	21,56
Investment Solutions	6 969 337	5,99
Old Mutual Life Assurance Company Ltd	6 269 859	5,39
Coronation Special Opportunities Port	5 676 717	4,88
TOTAL	44 004 214	37,82

BENEFICIAL SHAREHOLDING POSITIONS ABOVE 3% WITH 12-MONTH CHANGE



2. SUBSTANTIAL INVESTMENT MANAGEMENT AND BENEFICIAL INTERESTS (CONTINUED)

PREVIOUSLY DISCLOSED HOLDINGS

INVESTMENT MANAGERS NOW HOLDING BELOW 3%			
Investment manager	Total shareholding (number of shares)	% of issued capital	Previous
Element Investment Management	1 819 165	1,56	3,82
Sanlam Investment Management	2 480 682	2,13	3,69
TOTAL	4 299 847	3,69	7,51

3. GEOGRAPHIC SPLIT OF SHAREHOLDERS

GEOGRAPHIC SPLIT OF PUBLIC AND NON-PUBLIC HOLDINGS		
Region	Total shareholding (number of shares)	% of issued capital
South Africa	115 898 535	90,38
United States of America	6 057 832	4,72
United Kingdom	867 684	0,68
Rest of Europe	3 531 992	2,75
Rest of the world ¹	1 885 097	1,47
TOTAL	128 241 140	100,00

¹ Represents all shareholdings except those in the above regions.

GEOGRAPHIC SPLIT OF BENEFICIAL SHAREHOLDERS		
Region	Total shareholding (number of shares)	% of issued capital
South Africa	115 898 535	90,38
United States of America	6 057 832	4,72
United Kingdom	867 684	0,68
Rest of Europe	3 531 992	2,75
Rest of the world ¹	1 885 097	1,47
TOTAL	128 241 140	100,00

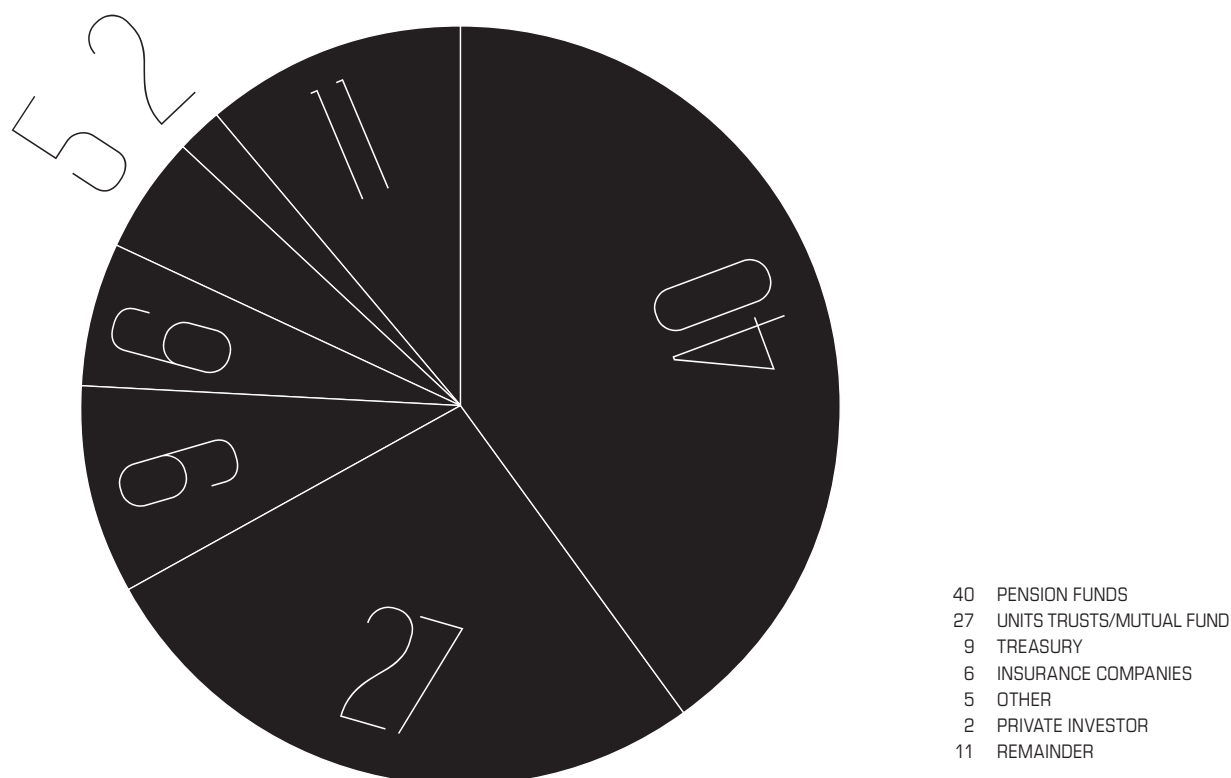
¹ Represents all shareholdings except those in the above regions.

4. SHAREHOLDER CATEGORIES

An analysis of beneficial shareholdings, supported by the section 56 enquiry process, confirmed the following beneficial ordinary shareholder types:

BENEFICIAL SHAREHOLDER CATEGORIES		
Category	Total shareholding (number of shares)	% of issued capital
Pension funds	51 698 118	40,31
Unit trusts/mutual fund	34 076 101	26,57
Treasury	11 884 699	9,27
Insurance companies	7 919 997	6,18
Other	5 929 097	4,62
Private investor	2 660 380	2,07
Sovereign wealth	1 743 299	1,36
Exchange-traded fund	709 802	0,55
University	324 526	0,25
Investment trust	108 001	0,08
Hedge fund	68 761	0,05
Charity	28 466	0,02
Remainder	11 089 893	8,67
TOTAL	128 241 140	100,00

BENEFICIAL SHAREHOLDERS SPLIT BY CATEGORY (%)¹

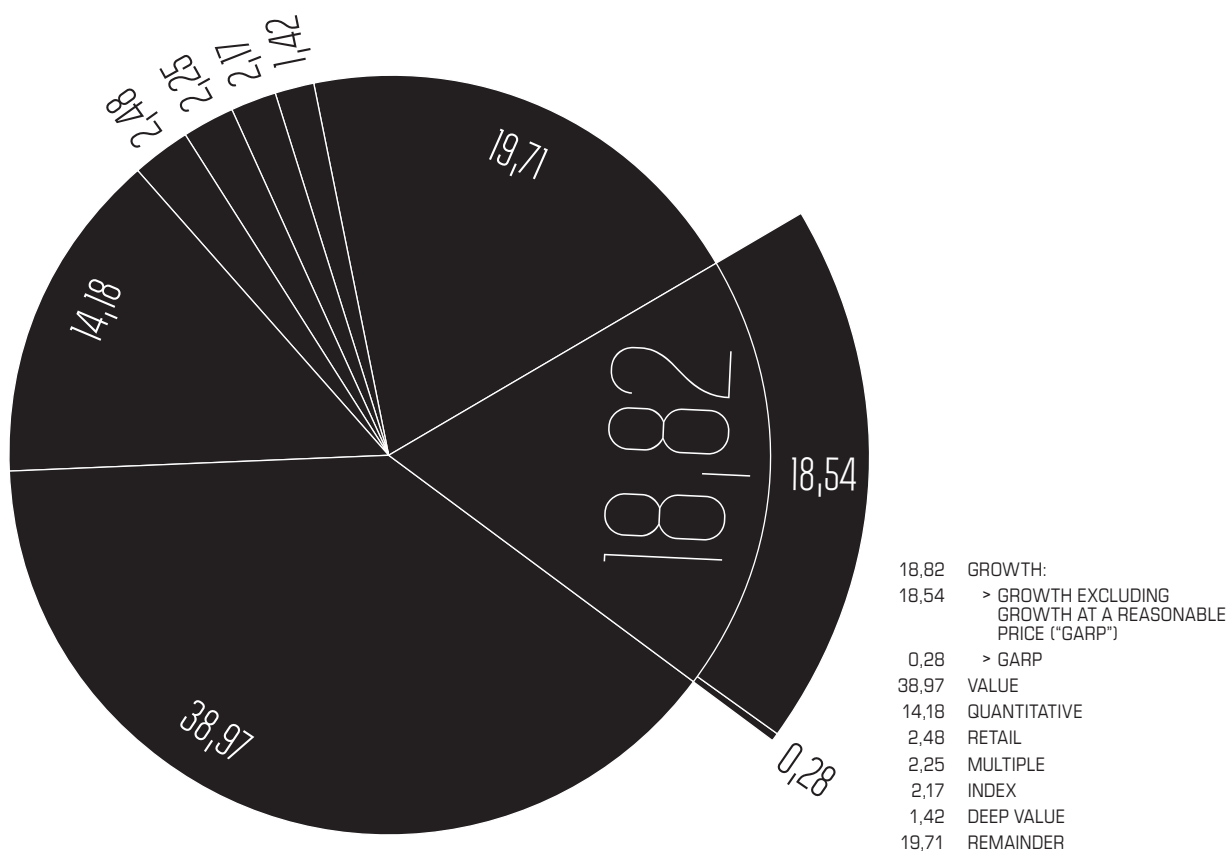


¹ Includes categories above 2% only.

5. ANALYSIS OF INVESTMENT STYLES

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

ANALYSIS OF INVESTMENT STYLES (%)¹



¹ Includes categories above 1% only.

FINANCIAL CALENDAR 2013

Annual financial statements Financial calendar

2012 FINAL ORDINARY DIVIDEND NO. 158

Declaration date	25 February
Last date to trade cum dividend	5 April
Ex dividend trade	8 April
Record date	12 April
Payment date	15 April

5,5% PREFERENCE SHARES DIVIDEND NO. 150

Declaration date	17 May
Last day to trade cum dividend	31 May
Ex dividend trade	3 June
Record date	7 June
Payment date	14 June

89TH ANNUAL GENERAL MEETING

27 May

2013 INTERIM ORDINARY DIVIDEND NO. 159

Declaration date	23 July
Last date to trade cum dividend	30 August
Ex dividend trade	2 September
Record date	6 September
Payment date	9 September

2013 INTERIM FINANCIAL RESULTS RELEASED

24 July

5,5% PREFERENCE SHARES DIVIDEND NO. 151

Declaration date	15 November
Last day to trade cum dividend	29 November
Ex dividend trade	2 December
Record date	6 December
Payment date	13 December

FINANCIAL YEAR-END

31 December

2013 FINANCIAL RESULTS RELEASED

February 2014

2013 INTEGRATED REPORT POSTED

March 2014

HISTORICAL REVIEWS

ABRIDGED FINANCIAL STATEMENTS

R millions	2012	2011	2010	2009	2008
INCOME STATEMENTS¹					
Revenue	14 916	13 397	11 569	11 178	14 340
Local	10 389	9 538	8 458	8 449	10 347
Foreign	4 527	3 859	3 111	2 729	3 993
Profit from operations	1 341	1 316	1 062	833	986
Net financing costs	222	207	152	218	222
Tax	345	306	233	188	226
Profit attributable to ordinary shareholders	630	777	600	421	385
Headline earnings	611	772	619	370	443
STATEMENTS OF FINANCIAL POSITION					
Total shareholders' interest	5 769	5 214	4 468	4 058	3 969
Deferred tax (net)	(202)	(228)	(235)	(259)	(272)
Net interest-bearing debt	1 841	1 867	1 769	2 143	2 359
Capital employed	7 408	6 853	6 002	5 942	6 056
Represented by:					
Non-current assets excluding deferred tax assets	5 880	5 617	5 311	5 016	4 177
Net current assets, excluding cash, less non-current provisions	1 528	1 236	691	926	1 879
Employment of capital	7 408	6 853	6 002	5 942	6 056
STATEMENTS OF CASH FLOWS					
Cash generated by operations ²	1 354	1 338	1 200	497	1 224
Changes in working capital	(326)	(598)	–	1 153	(978)
Expenditure relating to non-current provisions and restructuring	(98)	(78)	(70)	(198)	(217)
Net investments to maintain operations ³	(236)	(260)	(212)	(20)	(279)
	694	402	918	1 432	(250)
Dividends paid	(297)	(237)	(146)	(167)	(250)
	397	165	772	1 265	(500)
Investment to expand operations ³	(529)	(355)	(404)	(1 055)	(747)
Proceeds from disposal of businesses, investments and joint venture	120	–	35	94	24
Net cash (utilised)/generated	(12)	(190)	403	304	(1 223)
Depreciation charges	475	395	332	267	216
COMMITMENTS					
Capital expenditure authorised	225	360	88	737	978
Future rentals on property, plant and equipment leased	178	173	196	185	317
	403	533	284	922	1 295

1 Includes the results of discontinued operations.

2 Profit from operations plus depreciation and amortisation of property, plant and equipment, investment property and intangible assets 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
Annual financial statements

RATIOS AND EMPLOYEE DETAILS

Annual financial statements
Historical reviews

	2012	2011	2010	2009	2008
PROFITABILITY AND ASSET MANAGEMENT					
Profit from operations to revenue (%)	9,0	9,8	9,2	7,5	6,9
Trading cash flow to revenue (%)	12,2	12,8	12,0	9,8	8,4
Return on average net assets (%) ¹	16,7	18,1	15,9	12,6	16,9
Return on invested capital (%) ²	12,9	14,0	12,4	10,0	13,6
Return on average ordinary shareholders' interest (%) ³	11,4	16,6	15,0	9,5	11,6
Net working capital to revenue (%) ⁴	18,0	17,7	15,0	15,9	19,2
Inventory cover (days) ⁵	72	79	67	67	85
Average credit extended to customers (days) ⁵	58	61	53	55	73
LIQUIDITY					
Cash interest cover ⁶	8,2	7,7	5,6	3,5	4,7
Interest-bearing debt to cash generated by operations	1,0	1,0	1,1	1,9	1,4
Gearing (%) ⁷	31,9	35,8	39,6	52,8	59,4
Current assets to current liabilities	1,4	1,4	1,3	1,4	1,4
EMPLOYEES					
Number of employees at year-end ⁸	6 895	7 141	6 821	6 459	6 474
Employee remuneration (R millions)	2 435	2 390	2 224	1 923	1 804
Value added per rand of employee remuneration (rand)	1,71	1,73	1,64	1,59	1,68

1 Profit from operations plus investment income related to average property, plant, equipment, investment property, intangible assets, goodwill, investments, loans receivable, 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, intangible assets, 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 accounts and return on plan assets from post-retirement medical aid liabilities less closure costs less CST share-based payments plus depreciation and dividends received to net finance costs paid.

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

8 Includes proportional share of joint venture employees.

ORDINARY SHARE STATISTICS

	2012	2011	2010	2009	2008
MARKET PRICE (CENTS PER SHARE)					
High	9 980	9 000	8 544	6 698	7 999
Low	7 276	6 599	5 755	4 005	4 250
31 December	7 980	8 264	8 250	6 200	5 099
Earnings yield (%)	6,9	8,7	7,0	5,6	8,1
Dividend yield (%)*	3,3	3,1	2,5	1,5	4,5
Dividend cover*	2,1	2,8	2,8	3,8	1,8
In issue (millions)	128,2	119,1	119,1	119,1	118,8
Value traded (R millions)	3 231	3 651	2 753	1 992	3 665
Volume traded (millions)	38,8	45,5	40,2	37,9	58,7
Volume traded (%)	30,3	38,2	33,7	31,8	49,4
Market capitalisation (R millions)	10 234	9 845	9 829	7 386	6 060

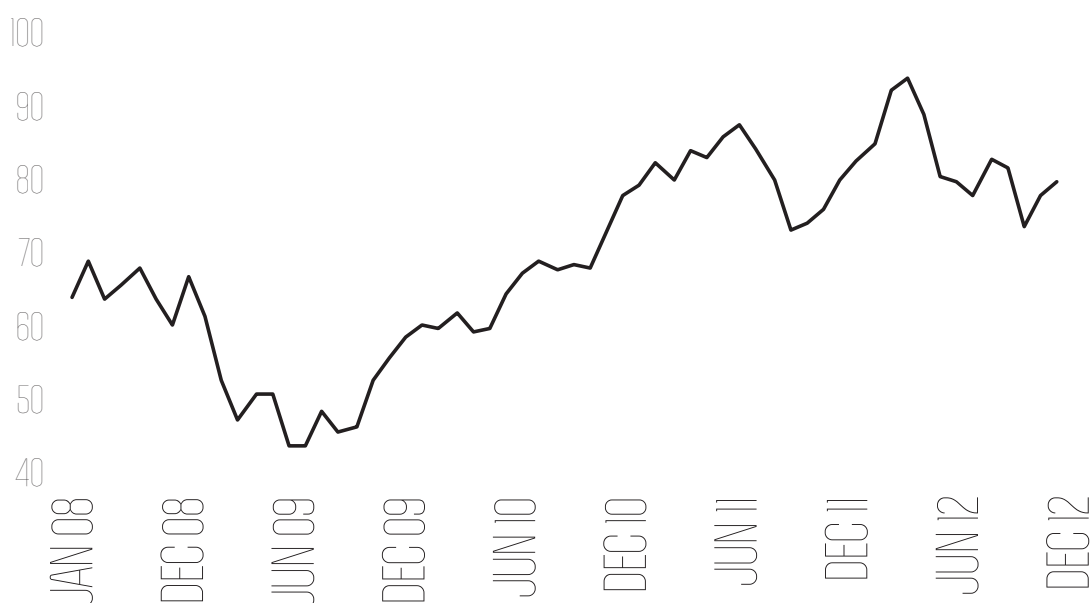
Historical reviews
Annual financial statements

ORDINARY SHARE PERFORMANCE

	2012	2011	2010	2009	2008
Cents per share					
Headline earnings	547	720	577	346	412
Dividends declared*	263	257	205	90	231
Net asset value	4 912	4 660	4 022	3 671	3 601

* 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)



AUDIT COMMITTEE'S REPORT TO STAKEHOLDERS

This report is provided by the Audit Committee ("the Committee") appointed in respect of the 2012 financial year of AECI Limited. This report incorporates the requirements of section 94(7)f of the Companies Act, the King III principles and other regulatory requirements. The Committee's operation is guided by a detailed charter that is informed by the Companies Act and King III and was approved by the Board.

MEMBERSHIP

The Committee was nominated by the Board in respect of the 2012 financial year and its members were confirmed by shareholders at the Annual General Meeting held on 28 May 2012. Shareholders will be requested to confirm the appointment of the members of the Audit Committee for the 2013 financial year at the Annual General Meeting scheduled for 27 May 2013.

The four meetings held in the year were attended by all members except for the meeting held on 5 October, when one member tendered his apologies. Full details of the meeting dates and attendance are set out on page 81. The Committee comprises solely Independent Non-executive Directors.

The current members are:

- › MJ Leeming (Chairman)
- › RMW Dunne
- › AJ Morgan
- › LM Nyhonyha

Abridged biographies of these Directors are published on pages 26 and 27. Mr Leeming has served on the Audit Committee since 2002, Mr Nyhonyha since 2007, Mr Dunne since 2008 and Mr Morgan since 2010.

PURPOSE

The purpose of the Committee is to:

- › assist the Board in overseeing the quality and integrity of the Company's integrated reporting process, including the financial statements and sustainability reporting, and announcements in respect of the financial results, thereby enhancing the credibility of financial reporting and providing a channel for communication between the Board, internal and external auditors and management;
- › ensure that an effective control environment in the AECI Group is maintained by supporting the Board in the discharge of its duties relating to the safeguarding of assets, the operation of adequate systems and controls, risk management and the integrity of financial statements and reporting;
- › provide the Financial Director, external auditors and the Head of Internal Audit with unrestricted access to the Committee and its Chairman as is required in relation to any matter falling within the remit of the Committee;
- › meet with the external auditors, Senior Managers and Executive Directors as the Committee may elect;

- › meet at least once a year with the Head of Internal Audit and members of his team without the external auditors, other Executive Board members or the Company's Financial Director being present;
- › review and recommend to the Company's Board, for approval, the Company's interim financial results for the half-year ended 30 June 2012;
- › review and recommend to the Company's Board, for approval, the Company's audited financial statements for the financial year ended 31 December 2011;
- › oversee the activities of, and ensure coordination between, the activities of the internal and external auditors;
- › perform duties that are assigned to it by the Act and as governed by other legislative requirements, including the statutory Audit Committee functions required for subsidiary companies;
- › receive and deal with any complaints concerning accounting practices, Internal Audit or the content and audit of its financial statements or related matters;
- › conduct annual reviews of the Committee's work and terms of reference and make recommendations to the Board to ensure that the Committee operates at maximum effectiveness; and
- › assess the performance and effectiveness of the Committee and its members on a regular basis.

EXECUTION OF FUNCTIONS

The Committee has executed its duties and responsibilities during the financial year in accordance with its terms of reference as they relate to the Group's accounting, internal auditing, internal control, and integrated reporting practices.

During the year under review:

- › In respect of the external auditor and the external audit, the Committee among other matters:
 - » nominated KPMG Inc. and Mr N van Niekerk as the external auditor and designated auditor respectively to shareholders for appointment as auditor for the financial year ended 31 December 2012, and ensured that the appointment complied with all applicable legal and regulatory requirements for the appointment of an auditor. The Committee confirms that the auditor and the designated auditor are accredited by the JSE;
 - » approved the external audit engagement letter, the plan and the budgeted audit fees payable to the external auditor;
 - » reviewed the audit, evaluated the effectiveness of the auditor and its independence and evaluated the external auditor's internal quality control procedures;
 - » obtained an annual written statement from the auditor that its independence was not impaired;
 - » obtained assurance that no member of the external audit team was hired by the Company or its subsidiaries during the year;
 - » obtained assurances from the external auditor that adequate accounting records were being maintained by the Company and its subsidiaries;

- » implemented a policy setting out the categories of non-audit services that the external auditor may and may not provide, split between permitted, permissible and prohibited services;
 - » approved all non-audit services with KPMG Inc.;
 - » considered whether any Reportable Irregularities were identified and reported by the external auditor in terms of the Auditing Profession Act, No. 26 of 2005, and determined that there were none; and
 - » nominated the external auditor and the designated independent auditor for each subsidiary company.
- › In respect of the financial statements, the Committee among other matters:
- » confirmed the going concern as the basis of preparation of the interim and annual financial statements;
 - » reviewed compliance with the financial conditions of loan covenants and determined that the capital of the Company was adequate;
 - » examined and reviewed the interim and annual financial statements, as well as all financial information disclosed to stakeholders prior to submission to and approval by the Board;
 - » ensured that the annual financial statements fairly present the financial position of the Company and of the Group as at the end of the financial year and the results of operations and cash flows for the financial year and considered the basis on which the Company and the Group was determined to be a going concern;
 - » considered accounting treatments, significant unusual transactions and accounting judgements;
 - » considered the appropriateness of the accounting policies adopted and changes thereto;
 - » reviewed the external auditor's audit report;
 - » reviewed the representation letter relating to the Group financial statements which was signed by management;
 - » considered any problems identified and reviewed any significant legal and tax matters that could have a material impact on the financial statements; and
 - » met separately with management, the external auditor and Internal Audit.
- › In respect of internal control and Internal Audit, including forensic audit, the Committee among other matters:
- » reviewed and approved the Internal Audit charter and annual audit plan and evaluated the independence, effectiveness and performance of the Internal Audit Department and compliance with its charter;
 - » considered the reports of the internal auditor and external auditor on the Group's systems of internal control including financial controls, business risk management and maintenance of effective internal control systems;
 - » received assurance that proper and adequate accounting records were maintained and that the systems safeguarded the assets against unauthorised use or disposal thereof;
 - » reviewed significant issues raised by the internal and forensic audit processes and the adequacy of corrective action in response to significant internal and forensic audit findings; and
 - » based on the above, the Committee formed the opinion that there were no material breakdowns in internal control, including financial controls, business risk management and the maintenance of effective material control systems.
- › In respect of risk management and IT, the Committee, insofar as relevant to its functions:
- » reviewed the Group's policies on risk assessment and risk management, including fraud risks and IT risks as they pertain to financial reporting and the going concern assessment, and found them to be sound; and
 - » considered and reviewed the findings and recommendations of the Risk Committee.
- › In respect of sustainability issues the Committee has:
- » overseen the process of sustainability reporting and considered the findings and recommendations of the Risk and the Social and Ethics Committees; and
 - » met with KPMG Services (Pty) Ltd and Company senior management to consider KPMG Inc., findings on limited assurance, as well as to make appropriate enquiries from management and has, through this process, received the necessary assurances that material disclosures are reliable and do not conflict with the financial information.

- › In respect of legal and regulatory requirements to the extent that these may have an impact on the financial statements, the Committee:
 - » reviewed with management legal matters that could have a material impact on the Group;
 - » reviewed with the Company's internal counsel the adequacy and effectiveness of the Group's procedures, including its risk management framework, to ensure compliance with legal and regulatory responsibilities;
 - » monitored complaints received via the Group's whistleblowing service, including complaints or concerns regarding accounting matters, Internal Audit, internal accounting controls, contents of the financial statements, potential violations of the law and questionable accounting or auditing matters; and
 - » considered reports provided by management, Internal Audit and the external auditor regarding compliance with legal and regulatory requirements.
- › In respect of the coordination of assurance activities, the Committee reviewed the plans and work outputs of the external and internal auditors and concluded that these were adequate to address all significant financial risks facing the business.
- › Considered the appropriateness of the experience and expertise of the Chief Financial Officer and Financial Director and his finance team and concluded that these were appropriate.

INDEPENDENCE OF THE EXTERNAL AUDITOR

The Committee is satisfied that KPMG Inc. is independent of the Group after taking the following factors into account:

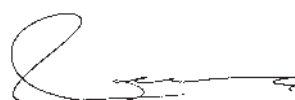
- › representations made by KPMG Inc. to the Committee;
- › the auditor does not, except as external auditor or in rendering permitted non-audit services, receive any remuneration or other benefits from the Company;
- › the auditor's independence was not impaired by any consultancy, advisory or other work undertaken by the auditor;
- › the auditor's independence was not prejudiced as a result of any previous appointment as auditor; and
- › the criteria specified for independence by the Independent Regulatory Board for Auditors and international regulatory bodies.

INTEGRATED REPORT

Following the review by the Committee of the annual financial statements of AECI Limited for the year ended 31 December 2012, the Committee is of the view that in all material respects they comply with the relevant provisions of the Companies Act and IFRS and fairly present the consolidated and separate financial position at that date and the results of operations and cash flows for the year then ended. The Committee has also satisfied itself of the integrity of the remainder of the integrated report.

Having achieved its objectives, the Committee has recommended the integrated report for the year ended 31 December 2012 for approval to the AECI Board. The Board has subsequently approved the report, which will be open for discussion at the forthcoming Annual General Meeting.

On behalf of the Audit Committee

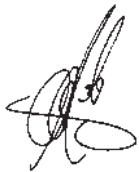


Mike Leeming
Chairman

Woodmead, Sandton
15 March 2013

DECLARATION BY THE GROUP 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, and that all such returns are, to the best of my knowledge and belief, true, correct and up-to-date.



Nomini Rapoo
Group Company Secretary

Woodmead, Sandton
15 March 2013

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 2012.

NATURE OF BUSINESS

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.

At 31 December 2012, AECI's market capitalisation was R10,2 billion.

AECI has a total employee complement of 6 895 and is listed on the JSE.

Explosives

AEL Mining Services ("AEL") is the leading developer, producer and supplier of commercial explosives, initiating systems and blasting services for the mining, quarrying and construction markets in Africa. In Indonesia, the company is the second largest supplier of explosives and services to the local mining industry. With its Head Office at Modderfontein in Johannesburg, South Africa, AEL has production facilities and offices throughout Africa, and in selected international regions in South East Asia, South America and Europe.

Specialty chemicals

In the specialty chemicals cluster, 15 business units supply specialty chemical raw materials and related services for industrial use across a broad spectrum of customers in the manufacturing and mining industries, mainly in Southern Africa. In addition to expansion of its mining chemicals business, the cluster is pursuing growth in the food, personal and home care, agricultural, water, oil, gas and energy sectors.

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.

Specialty fibres

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

Previously a stand-alone segment, this business was included in the specialty chemicals cluster from January 2013.

Property

In addition to its core businesses the Group has a valuable land asset, the release of which is managed carefully. The 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.

GROUP RESULTS

The activities and results of the Group are covered on pages 40 to 109.

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 memorandum of incorporation, the Company has unlimited borrowing powers.

INDEPENDENT AUDITORS

The independent auditors, KPMG Inc., will be recommended for reappointment at the forthcoming Annual General Meeting. Ms ML Watson will be recommended as the individual designated auditor who will undertake the audit of the Company for the financial year ending 31 December 2013. Mr N van Niekerk, who undertook the audit for the financial year ended 31 December 2012, steps down by rotation. All non-audit services provided by KPMG Inc. are tabled at and approved by the Audit Committee.

DIRECTORS' AND GROUP COMPANY SECRETARY'S INTERESTS IN SHARES

	NUMBER OF SHARES		NUMBER OF SHARES	
	2012 Direct	2012 Indirect	2011 Direct	2011 Indirect
EXECUTIVE DIRECTOR				
GN Edwards	2 010	–	2 010	–
	2 010	–	2 010	–
NON-EXECUTIVE DIRECTORS				
S Engelbrecht	6 629	600	46 629	600
MJ Leeming	2 500	2 000	2 500	2 000
	9 129	2 600	49 129	2 600
	11 139	2 600	51 139	2 600

SHARE CAPITAL AND SHARE PREMIUM

The issued ordinary share capital of the Company, at 31 December 2012, was 128 241 140 listed ordinary shares of R1 each (2011: 119 135 869) and 10 117 951 unlisted redeemable convertible B ordinary shares of no par value. 4 678 666 ordinary shares were issued in respect of the KTH transaction approved by shareholders on 24 November 2011. Approval was obtained from shareholders on 25 January 2012 to allot and issue 4 426 604 ordinary shares to the AECI Community Education and Development Trust and 10 117 951 unlisted redeemable convertible B ordinary shares to the AECI Employees Share Trust. Also in issue are 3 000 000 5,5% cumulative preference shares of R2 each (2011: 3 000 000 shares).

Details of the share premium and the movements during the year are provided in note 13 to the financial statements on page 171.

STRATE

The dematerialisation of the Company's issued shares commenced in July 2001. Shares still in paper form are no longer good for delivery and will need 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 (0) 861 100 950 in South Africa or +44 (0) 870 889 3176 in the United Kingdom.

DIVIDENDS TO ORDINARY AND PREFERENCE SHAREHOLDERS

A final cash dividend of 185 cents per share was declared on 25 February 2013 and is payable on 15 April 2013.

Details of the dividends declared and paid on the Company's ordinary and preference shares during the 2012 financial year are set out in note 26.

DIRECTORATE AND SECRETARY

Details of the Directorate and Secretary of the Company, as at the date of this report, are shown on pages 26 to 30.

In terms of the Company's memorandum of incorporation Ms Z Fuphe, Mr MJ Leeming and Mr LM Nyhonyha retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Also in terms of the Company's memorandum of incorporation, the appointment of Mr MA Dytor will be confirmed at the forthcoming Annual General Meeting.

CHANGES TO THE BOARD

- › Mr F Titi retired as Chairman of the Board on 28 May 2012;
- › Mr S Engelbrecht succeeded Mr Titi as Chairman on 28 May 2012;
- › Mr MA Dytor was appointed as an Executive Director with effect from 2 January 2013.

DIRECTORS' AND GROUP COMPANY SECRETARY'S INTERESTS IN SHARES

At 31 December 2012, 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. The indirect beneficial interests of Messrs Engelbrecht and Leeming related to the interests of their respective spouses and were unchanged year-on-year and as at the date of this report. The Directors' interests do not include 3 015 shares in which Mr MA Dytor has a direct beneficial interest. Mr Dytor was appointed as an Executive Director on 2 January 2013.

Certain Directors have been allocated share options as detailed in note 31 commencing on page 200.

MAJOR SHAREHOLDERS

Details of the interests of shareholders who are directly or indirectly beneficially interested in 3% or more of the Company's share capital are included in the shareholder analysis commencing on pages 120 to 125.

SUBSIDIARIES AND JOINT VENTURES

Details of each trading subsidiary and joint venture are set out in notes 35 and 34 respectively. The aggregate net profits and losses, after tax, of subsidiaries and joint ventures attributable to the Company for 2012 were as follows:

Profits: R813 million (2011: R882 million).

Losses: R268 million (2011: R130 million).

SPECIAL RESOLUTIONS

The Company passed the following special resolutions at the General Meeting held on 25 January 2012 for the purposes of approving its B-BBEE transactions:

1. to increase the authorised share capital of the Company by the creation of 10 117 951 AECl B ordinary shares;
2. to amend the memorandum of incorporation of the Company to include the terms of the AECl B ordinary shares authorised;
3. to amend the articles of association (part of the Company's memorandum of incorporation) by deleting those provisions which prohibit the provision of financial assistance by the Company;
4. to sanction the giving of any financial assistance by the Company for the purpose of or in connection with the subscription by the AECl Community Education and Development Trust ("CST") for AECl ordinary shares or the AECl Employees Share Trust ("EST") for AECl B ordinary shares;
5. to obtain the specific authority required in terms of rule 5.69 of the JSE Listings Requirements and the articles of association to repurchase or acquire AECl ordinary shares from the CST; and
6. to obtain the approval by shareholders for the issue of AECl B ordinary shares to the EST and AECl ordinary shares to the CST in terms of section 41 of the Companies Act and the JSE Listings Requirements.

The Company passed the following special resolutions at the Annual General Meeting held on 28 May 2012:

1. to approve the fees and remuneration payable by the Company to its Directors;
2. to grant the Directors a general authority to repurchase the Company's issued shares; and
3. to grant the Directors the authority to cause the Company to provide financial assistance to any company or other legal entity which is related or inter-related to the Company.

No special resolutions were passed by its subsidiary companies.

MATERIAL CHANGES

There have been no material changes in the financial or trading position of the Company and its subsidiaries since 31 December 2012.

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 Group's financial position.

COMPLIANCE

In 2011, the 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 and the site was not immediately able to comply with all of these. During 2012, in full consultation and with the assistance of the DWA, substantial progress was made on a suite of projects aimed at improving the site's level of compliance with the licence conditions and these efforts will continue in 2013 and beyond. The overall impact of these interventions is yielding the desired result towards achieving full compliance. Negotiations with the DWA on this aspect continues in a spirit of cooperation in a bid to resolve the situation in a mutually satisfactory manner.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors whose names appear on pages 26 to 28 of this integrated 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 preparation 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 2012, no contracts were entered into in which Directors or Prescribed Officers of the Company had an interest and which significantly affected the business of the Group. The Directors and Prescribed Officers had no interests in any third party or company responsible for managing any of the business activities of the Group.

REMUNERATION AND EMPLOYEE INCENTIVE PARTICIPATION SCHEMES

Full details regarding Directors' and Prescribed Officers' remuneration and the Group's long-term incentive schemes are disclosed in note 31 to the financial statements.

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 2012, and the income statements, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, as set out on pages 138 to 210.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Company's Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and the requirements of the Companies Act of South Africa, and for such internal control as the Directors determined as necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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, these financial statements present fairly, in all material respects, the consolidated and separate financial position of AECI Limited at 31 December 2012, 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 the requirements of the Companies Act of South Africa.

OTHER REPORTS REQUIRED BY THE COMPANIES ACT

As part of the audit of the Group annual financial statements and the annual financial statements of AECI Limited for the year ended 31 December 2012, we have read the Directors' report, the Audit Committee's report and the Group Company Secretary's certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and do not express an opinion on these reports.

KPMG Inc.



Per N van Niekerk

Chartered Accountant (SA), Registered Auditor
Director

85 Empire Road, Parktown, 2193, Johannesburg
15 March 2013

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 the First Floor, 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 2012 comprise the Company and its subsidiaries (together referred to as "the Group" and individually as "Group entities" or "business entities") and the Group's interest in associates and jointly-controlled entities. The Group is involved primarily in the manufacture and distribution of commercial explosives, mainly to the mining sector; specialty chemicals for the mining and manufacturing sectors; specialty fibres, mainly for industrial purposes; 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"), the SAICA Financial Reporting Guides issued by the Accounting Practices Committee, the JSE Listings Requirements and in accordance with the requirements of the Companies Act.

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 and will be applied in the reporting period in which they become effective:

- › **IFRS 9** – relating to the recognition and measurement of financial instruments (effective for annual periods commencing on or after 1 January 2015 and is to be applied retrospectively).

IFRS 9 is a new standard which will replace IAS 39. Due to the phased approach adopted to replacing IAS 39, components of both IFRS 9 and IAS 39 would have to be applied without a full understanding of the entire revised standard and its implications. As a result, an assessment of the impact of IFRS 9 on the consolidated financial statements has not been determined. This assessment will be performed when all three phases have been completed or better clarity on the application of IFRS 9 is presented.

- › **IFRS 10** – relating to consolidated financial statements (effective for annual periods commencing on or after 1 January 2013 and is to be applied retrospectively).

IFRS 10 is a new standard which will replace IAS 27 and SIC-12. The standard identifies the concept of control as the determining factor for inclusion in consolidated financial statements and provides additional guidance on determining control in cases where this is difficult to assess. IFRS 10, which will become mandatory for the Group's 2013 consolidated financial statements, is not expected to have a significant impact on the consolidated financial statements, subject to the determination of the impact of IFRS 11.

- › **IFRS 11** – relating to joint arrangements (effective for annual periods commencing on or after 1 January 2013 and is to be applied retrospectively).

IFRS 11 is a new standard which will replace IAS 31 – Interests in Joint Ventures. The standard focuses on the rights and obligations of the arrangement, rather than legal form; amends the definition of joint control; specifies two types of joint arrangements, as well as defining the requirements for each type; and the methods for accounting for each type of joint arrangement. The key amendments relate to the definition of joint control; the two types of arrangements; the accounting treatment of each type of arrangement; and the concept of proportional consolidation has been removed. The impact of IFRS 11 in the Group could result in a 4% reduction in revenue and no impact on headline earnings based on the financial information for the year ended 31 December 2012. IFRS 11 will become mandatory for the Group's 2013 consolidated financial statements.

- › **IFRS 12** – relating to the disclosure of interests in other entities (effective for annual periods commencing on or after 1 January 2013).

IFRS 12 is a new standard addressing the disclosure requirements of all forms of interests in other entities including subsidiaries, joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. The standard relates to disclosures to enable users to evaluate the nature of, and risks associated with, an entity's interests in other entities; and the effects of those interests on the entity's financial position, financial performance and cash flows. IFRS 12, which will become mandatory for the Group's 2013 consolidated financial statements, is not expected to have a significant impact on the consolidated financial statements but will require more disclosure in respect of these interests.

- › **IFRS 13** – relating to guidance for fair value measurement and disclosure requirements (effective for annual periods commencing on or after 1 January 2013 and is to be applied prospectively).

IFRS 13 is a new standard which defines fair value, establishes a single framework for measuring fair value and requires disclosure related to fair value. IFRS 13, which will become mandatory for the Group's 2013 consolidated financial statements, is not expected to have a significant impact on the consolidated financial statements but will require expanded disclosure in respect of fair value determination.

- › **IAS 19** – relating to employee benefits (effective for annual periods commencing on or after 1 January 2013 and is to be applied retrospectively).

The amendments to IAS 19 introduce changes to accounting for current and future obligations resulting from defined-benefit plans and amended disclosure requirements. The accounting changes relate to the recognition of re-measurements in other comprehensive income and not in the income statement and the recognition of a net interest income or expense, which is based on the discount rate used for a plan, instead of recognising interest cost on the liabilities and expected return on plan assets.

Re-measurements include actuarial gains and losses, both from experience and changes in underlying assumptions, and the difference between the interest cost and expected return on plan assets and the net interest income or expense recognised in the income statement. The presentation of the post-retirement benefit cost has been addressed with a requirement to separate the components of the post-retirement benefit cost into an employment component, included in operating costs, a financing component recognised in finance costs and a re-measurement component recognised in other comprehensive income. Disclosures will also be expanded to include information on the characteristics of and risks associated with defined-benefit plans, identification and explanation of the effects on the financial statements and how defined-benefit plans affect the amount, timing and uncertainty of future cash flows.

The amendments to IAS 19 will become mandatory for the Group's 2013 consolidated financial statements and the full extent of the impact has not yet been determined. The presentation of the post-retirement benefit cost in separate components would have impacted the income statement by decreasing the profit from operations by R23 million (2011: increase of R62 million), increasing the interest income by R265 million (2011: R255 million) and recognising an actuarial loss in other comprehensive income of R242 million (2011: R317 million).

- › **IAS 27** – relating to separate financial statements (effective for annual periods commencing on or after 1 January 2013).

The amendments to IAS 27 remove all the requirements relating to consolidated financial statements which are now dealt with in IFRS 10 and certain consequential amendments resulting from IFRS.

The amendments to IAS 27 relating to separate financial statements are not expected to have a significant impact on the Group's results or the Company's financial statements, and will become mandatory for the Company's 2013 financial statements.

- › **IAS 28** – relating to investments in associates and joint ventures (effective for annual periods commencing on or after 1 January 2013).

The amendments to IAS 28 relate to the incorporation of joint ventures into the standard. The fundamental principles of equity accounting have not changed. The amendments will become mandatory for the Group's 2013 consolidated financial statements and are 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 available-for-sale financial assets, derivative instruments, the Pension Fund employer surplus accounts and liabilities which are measured at fair value. Equity settled share-based payments are measured at fair value at grant date.

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. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which estimates are revised and in any future periods affected.

The accounting policies which have been identified as involving particularly complex or subjective judgements or assessments are 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 and inflation 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 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 15 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, investment property and intangible assets are depreciated or amortised over their estimated useful lives 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 lifecycles 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.

SIGNIFICANT ACCOUNTING POLICIES

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 8,5% per annum (2011: 9,25%) being the estimated investment return assuming the liability is fully funded. Medical cost inflation of 7,2% per annum has been assumed (2011: 7,9%). See note 30 to the financial statements.

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. Unless specifically stated otherwise, the Company also applies all Group accounting policies.

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, including those acquired or disposed of during the year, are included from the dates control commenced and up to the dates control ceased. Inter-group 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.

The non-controlling interest, which represents the present ownership interests and would entitle shareholders to a proportionate share of the entity in the event of liquidation, is measured at the non-controlling interest's proportion of the fair values of the assets and liabilities recognised. Subsequent profits or losses, and each component of comprehensive income, are attributed to non-controlling interests even if it results in the non-controlling interest having a deficit balance. All other components of non-controlling interest are measured at their acquisition date fair values, unless another IFRS requires a specific measurement basis.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as owners.

Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. No adjustments are made to goodwill and no gain or loss is recognised in profit or loss.

On loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit and loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, that retained interest is accounted for as an equity-accounted investee or as an available-for-sale asset depending on the level of influence retained.

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. Inter-group transactions and balances between Group entities are eliminated on proportionate consolidation to the extent of the Group's interest in the joint venture.

On loss of joint control, the Group derecognises its proportionate share of the assets and liabilities of the joint venture and any related components of equity. Any surplus or disposal arising from loss of control is recognised in profit and loss.

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.

Investments in subsidiaries, associates and joint ventures

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

BUSINESS COMBINATIONS AND GOODWILL

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Goodwill is not amortised. Goodwill of associates is included in the carrying amount of the relevant associate. Goodwill is reviewed for impairment at least annually. Cash-generating units represent the business operations from which the goodwill was originally generated. On disposal of a subsidiary, associate or joint venture, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group measures goodwill at the acquisition date as:

- › the fair value of the consideration transferred; plus
- › the recognised amount of any non-controlling interests in the acquiree; plus
- › if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- › the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

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, a bargain purchase gain, is recognised in the income statement immediately.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in the income statement.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for in equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in the income statement.

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 the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

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

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

Deferred tax is measured at rates that have been enacted or substantively enacted at the reporting date.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is 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:

Property

› land	unlimited
› buildings	5 to 56 years

Plant and equipment

› 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 measured 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 in 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 the 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.

Transfers to and from investment property are made when there is evidence of a change of use. Transfers are measured at the carrying amount immediately prior to transfer and no changes to the carrying amount are made unless the change in use results in an indication of impairment.

INTANGIBLE ASSETS

Intangible assets are measured at cost less accumulated amortisation and impairment losses. Intangible assets are recognised if it is probable that future economic benefits will flow to the entity from the intangible assets and the costs of the intangible assets can be measured reliably. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the income statement as incurred.

Intangible assets with finite useful lives are amortised on a straight-line basis over their estimated useful lives. The amortisation methods and estimated remaining useful lives are reviewed at least annually.

Intangible assets with indefinite useful lives are not amortised but are tested at each reporting date for impairment. The assessment that the estimated useful lives of these assets are indefinite is reviewed at least annually.

The estimated useful lives are as follows:

› Technical and licensing agreements	10 years
› Patents and trademarks	20 years
› Supply chain relationships	Indefinite
› Other	3 to 10 years

Intangible assets are derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in the income statement when the asset is derecognised.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination, and recognised separately from goodwill, are recognised initially at their fair value at the acquisition date. Subsequently, these intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

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 on-going basis and are capitalised if they can be measured reliably, the product or process is technically and commercially feasible, it is probable that the asset will generate future economic benefits and the Group intends to and has sufficient resources to complete development and to use or sell the asset. 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.

NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

Management classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Property, plant and equipment and intangible assets are not depreciated or amortised once they have been classified as held for sale.

Management classifies a component of the group as a discontinued operation if it:

- › represents a separate major line of business or geographical area of operation; or
- › is part of a single coordinated plan to dispose of a separate major line of business or withdraw from operations in a geographical area.

A non-current asset (or disposal group) classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell. When the carrying value of the assets and liabilities and the results of operations become immaterial to the Group, they are no longer shown separately as discontinued operations and are included in continuing operations.

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, and employee benefits, 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 re-measurement are recognised in the income statement. Gains are not recognised in excess of any cumulative impairment losses.

IMPAIRMENT

Financial assets

A financial asset, not carried at fair value through profit or loss, 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 loss events occurred after initial recognition of the asset and 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 the income statement. Any cumulative loss in respect of an available-for-sale financial asset previously recognised in other comprehensive income is transferred to the income statement.

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 the income statement. 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 measured at cost using the first-in first-out method or the weighted average cost method, depending on the nature or use of the inventories to businesses in the Group.

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 are measured using the weighted average cost method.

Property developments include the cost of properties transferred from investment property 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.

SHARE CAPITAL

Share capital consists of ordinary shares and convertible redeemable B ordinary shares and are classified as equity. Issued ordinary shares are measured at the fair value of the proceeds received less any directly attributable issue costs. An amount equal to the par value of the shares issued is presented as share capital. The amount by which the fair value exceeds par value is presented as share premium. The fair value is presented in full as share capital for no par value shares.

PREFERENCE SHARES

Preference shares are measured at historic cost, are cumulative and are classified as equity. Dividends paid are disclosed in the statement of changes in equity.

TREASURY SHARES

Treasury shares are Company shares held by a subsidiary and by the Employee Share Trust and are excluded from the shares recognised as Group equity.

EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share

Diluted earnings per share are calculated by dividing the net profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue, adjusted for the dilutive effect of the contingently returnable ordinary shares issued to the Community and Education Development Trust and the potential shares issued to the Employee Share Trust and the outstanding options under the Group's share option scheme.

REVENUE

Revenue is measured at the fair value of the consideration received or receivable, being invoiced sales of goods and services to customers, net of returns, trade discounts, rebates and value added tax; rental income from investment properties; and sales of land that is surplus to the Group's operational requirements.

Revenue in respect of goods and the related 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.

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 substantively finalised.

FOREIGN CURRENCIES

Foreign currency translations

Transactions in foreign currencies are translated into the functional currencies of each entity in 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 of the transactions.

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 in 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;
- › equity at historical rates;
- › differences arising on translation are recognised in other comprehensive income and presented in the foreign currency translation reserve in non-distributable reserves;
- › when a foreign operation is disposed of in full, the relevant amount in the foreign currency translation reserve is recognised in the income statement;
- › when the Group disposes only part of its interest in a subsidiary that includes a foreign operation, while retaining control, the relevant portion of the cumulative foreign currency translation reserve is recognised in non-controlling interest; 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 recognised at fair value initially. Directly attributable transaction costs are included in the amount recognised only when changes in fair value are not subsequently recognised in the income statement. 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 financial 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 financial liabilities are offset.

Non-derivative financial instruments

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

The Group recognises loans and receivables on the date that they are originated. All other financial instruments 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.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

INVESTMENTS

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

Cash is measured at amortised cost.

LOANS TO SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

Loans by the Company to subsidiaries, joint ventures and associates are measured at amortised cost using the effective interest method, less any impairment losses.

FINANCIAL LIABILITIES

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

If the hedge of a forecast transaction subsequently results in the recognition of a non-financial 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 AND FINANCE INCOME

Interest income is recognised in the income statement as it accrues and is measured using the effective interest method. 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.

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 or the lease term, if shorter. 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.

Amounts receivable under finance leases, where the Group is the lessor, are recognised in the statement of financial position as a loan receivable at the amount of the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment in the finance lease. Profit or loss on manufactured assets under finance leases is recognised in the income statement when the finance lease is recognised.

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 calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on suitable corporate bonds that have maturity dates approximating the terms of the Group's obligations and are denominated in rand as the benefits are expected to be paid in rand. Actuarial valuations are conducted annually and interim adjustments to those valuations are made at the reporting date. The calculation is performed by a qualified actuary using the projected unit credit method.

When the calculation results in a benefit to the Group, the recognised asset is limited to the total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities. When the benefits of the plan are improved, the portion of the increased benefit related to past service by employees is recognised in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

To the extent that there is uncertainty as to entitlement to a surplus, the Group does not recognise that surplus as an asset to the extent that it exceeds the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Group recognises all actuarial gains and losses arising from entitlements to a surplus and all subsequent actuarial gains and losses in the income statement in the period in which they occur.

If there is a deficit, the Group recognises a liability for the deficit and all subsequent actuarial gains and losses in the income statement in the period in which they occur.

The Group recognises gains and losses on the curtailment or settlement of a defined-benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, change in the present value of defined-benefit obligations and any related actuarial gains and losses and past service costs that had not previously been recognised.

Defined-benefit post-retirement medical aid benefits

The Group provides defined-benefit post-retirement healthcare benefits to certain of its retirees. The Group's net obligation is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted. The discount rate is the yield at the reporting date on suitable corporate bonds that have maturity dates approximating the terms of the Group's obligations and are denominated in rand as the benefits are expected to be paid in rand. Actuarial valuations are conducted annually by a qualified actuary and the calculation is performed using 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 measured initially 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. If the benefits are payable more than 12 months after the reporting date, they are discounted to their present value.

SHARE-BASED PAYMENTS

The Group has equity-settled and cash-settled share-based compensation plans and an equity-settled share-based payment to the CST.

CASH-SETTLED SHARE-BASED SCHEME (BENEFIT UNITS)

The cash-settled scheme allows senior Group employees the right to participate in the performance of AECI's ordinary share price, in return for services rendered, through the payment of cash incentives which are based on the market price of AECI ordinary shares. These share appreciation rights are recognised as a liability at fair value at each reporting date, in the statement of financial position, until the date of settlement. The fair value of these rights is determined at each reporting date and the unrecognised cost is amortised in the income statement as employee costs over the period that the employees provide services to the Group.

EQUITY-SETTLED SHARE-BASED SCHEME

The equity-settled share-based scheme awards certain employees B ordinary shares which will be converted to ordinary shares after a lock-in period based on a pre-determined award formula. Such equity-settled share-based payments are measured at fair value at the date of the grant. The fair value determined at the grant of the equity-settled share-based payments is charged as an employee cost, with a corresponding increase in equity, on a straight-line basis over the period that the employee becomes unconditionally entitled to the shares, based on management's estimation of the shares that will vest and adjusted for effects of non-market-based vesting conditions.

AECI COMMUNITY EDUCATION AND DEVELOPMENT TRUST ("CST")

The CST established as part of the B-BBEE transactions, is focused on improving mathematics and science education and developing Black communities in areas where the Group operates or has an interest. The Company issued ordinary shares to the trust and it will use the economic benefits of those shares to allocate to projects aimed at education and development. The transaction is an equity-settled share-based payment and was measured at fair value on the date of the grant. The fair value was charged to the income statement in full, with a corresponding increase in retained income, as there are no vesting conditions.

INCOME TAX

Income tax comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively 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.

A dividends tax became effective on 1 April 2012 and this tax is levied on non-exempt shareholders. As this tax is levied on the shareholders and not on the Company, it is not included in the tax expense recognised in profit or loss or in comprehensive income.

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:

- › explosives, comprising mainly the manufacture of commercial explosives and initiating systems for use by the mining industry;
- › specialty chemicals, comprising niche-orientated small- to medium-sized businesses manufacturing and marketing specialty chemicals to a broad range of industries;
- › property, comprising mainly the realisation of the surplus land and property assets of the Group; and
- › specialty fibres, 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 2012

		GROUP		COMPANY	
R millions	Note	2012	2011	2012	2011
ASSETS					
NON-CURRENT ASSETS		6 314	6 024	4 018	4 293
Property, plant and equipment	1	3 733	3 721	419	423
Investment property	2	445	436	87	75
Intangible assets	3	214	77	4	5
Goodwill	4	1 124	1 078	909	918
Pension fund employer surplus accounts	5	267	259	267	259
Investment in subsidiaries	6			1 860	1 524
Loans to subsidiaries	6			278	900
Other investments	7	86	22	38	34
Deferred tax	8	434	407	156	155
Loans receivable	9	11	24	–	–
CURRENT ASSETS		6 752	6 433	6 337	5 920
Inventories	10	2 867	2 584	909	877
Accounts receivable	11	2 737	2 772	902	1 050
Assets classified as held for sale	12	–	16	–	–
Loans to joint ventures	7			12	11
Loans to subsidiaries	6			4 422	3 960
Cash		1 148	1 061	92	22
TOTAL ASSETS		13 066	12 457	10 355	10 213
EQUITY AND LIABILITIES					
ORDINARY CAPITAL AND RESERVES		5 715	4 998	3 648	3 303
Share capital and share premium	13	612	215	730	333
Reserves		406	344	276	239
Retained earnings		4 697	4 439	2 642	2 731
PREFERENCE SHARE CAPITAL	13	6	6	6	6
SHAREHOLDERS' EQUITY		5 721	5 004	3 654	3 309
NON-CONTROLLING INTEREST		48	210		
TOTAL EQUITY		5 769	5 214	3 654	3 309
NON-CURRENT LIABILITIES		2 488	2 702	2 448	2 741
Deferred tax	8	232	179	–	–
Loans from subsidiaries	6			429	459
Non-current borrowings	14	1 251	1 507	1 250	1 506
Non-current provisions	15	1 005	1 016	769	776
CURRENT LIABILITIES		4 809	4 541	4 253	4 163
Accounts payable	16	2 912	2 987	1 244	1 352
Current borrowings	17	1 738	1 421	2 024	1 464
Loans from joint ventures	7			37	31
Loans from subsidiaries	6			890	1 274
Tax payable		159	133	58	42
TOTAL LIABILITIES		7 297	7 243	6 701	6 904
TOTAL EQUITY AND LIABILITIES		13 066	12 457	10 355	10 213

Statements of financial position
Annual financial statements

INCOME STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Annual financial statements
Income statements

R millions	Note	GROUP		COMPANY	
		2012	2011	2012	2011
REVENUE	18	14 916	13 397	4 866	4 341
Net operating costs	19	(13 575)	(12 081)	(4 486)	(4 059)
PROFIT FROM OPERATIONS		1 341	1 316	380	282
CST share-based payment	20	(138)	–	(138)	–
Net income from pension fund employer surplus accounts	5	8	29	8	29
Net (loss)/income from plan assets for post-retirement medical aid liabilities	15	(6)	5	(22)	2
		1 205	1 350	228	313
Fair value adjustments – interest		1	2	1	(1)
Interest expense	21	(263)	(236)	(310)	(257)
Interest received	22	40	27	302	279
Investment income	23	–	–	–	113
Share of profit of associate companies	7	*	1		
PROFIT BEFORE TAX		983	1 144	221	447
Tax expense	24	(345)	(306)	(113)	(112)
PROFIT FOR THE YEAR		638	838	108	335
ATTRIBUTABLE TO:					
Ordinary shareholders		630	777	106	333
Preference shareholders		2	2	2	2
Non-controlling interest		6	59		
		638	838	108	335
PER ORDINARY SHARE (CENTS)					
– Basic earnings	25	564	724		
– Diluted basic earnings	25	537	723		
– Headline earnings	25	547	720		
– Diluted headline earnings	25	521	719		
– Ordinary dividends paid	26	257	213		
– Ordinary dividends declared after the reporting date	26	185	179		

* Nominal amount.

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

	GROUP		COMPANY	
R millions	2012	2011	2012	2011
PROFIT FOR THE YEAR	638	838	108	335
OTHER COMPREHENSIVE INCOME BEFORE TAX:	46	207	*	*
Foreign currency loan translation differences	17	32	—	—
Foreign operations translation differences	29	175	—	—
Cash flow hedge fair value adjustments	*	*	*	*
TAX EFFECTS ON OTHER COMPREHENSIVE INCOME:	(5)	(25)	*	*
Foreign currency loan translation differences	(5)	(25)	—	—
Cash flow hedge fair value adjustments	*	*	*	*
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	679	1 020	108	335
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Ordinary shareholders	672	954	106	333
Preference shareholders	2	2	2	2
Non-controlling interest	5	64		
	679	1 020	108	335

* Nominal amount.

Statements of comprehensive income
Annual financial statements

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

Annual financial statements
Statements of changes in equity

R millions	Ordinary share capital	Share premium	Total ordinary capital	Property revaluation surplus	Foreign currency translation reserve
GROUP					
Balance at 1 January 2011	107	108	215	237	(81)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR					182
Cash flow hedge fair value adjustments					
Deferred tax on fair value adjustments					
Foreign currency loan translation differences					32
Deferred tax on foreign currency loan translation differences					(25)
Foreign operations translation differences					175
Profit for the year					
TRANSACTIONS WITH OWNERS					
Acquisition of non-controlling interest					
Business combinations					
Dividends paid					
Transfers to retained earnings					
BALANCE AT 31 DECEMBER 2011	107	108	215	237	101
TOTAL COMPREHENSIVE INCOME FOR THE YEAR					42
Cash flow hedge fair value adjustments					
Deferred tax on fair value adjustments					
Foreign currency loan translation differences					18
Deferred tax on foreign currency loan translation differences					(5)
Foreign operations translation differences					29
Profit for the year					
TRANSACTIONS WITH OWNERS	9	388	397		
Acquisition of non-controlling interest					
Business combinations					
Dividends paid					
Share-based payment reserve					
Shares issued	9	388	397		
Transfers between reserves					
Transfers to retained earnings					
BALANCE AT 31 DECEMBER 2012	116	496	612	237	143

* Nominal amount..

Share-based payment reserve	Other reserves	Total other reserves	Retained earnings	Total	Non- controlling interest	Preference share capital	Total equity
	8	164	3 935	4 314	148	6	4 468
	(5)	177	777	954	64	2	1 020
	*	*		*			*
	*	*		*			*
	(3)	29		29			29
		(25)		(25)			(25)
	(2)	173		173	5		178
			777	777	59	2	838
	3	3	(273)	(270)	(2)	(2)	(274)
			(42)	(42)	(7)		(49)
					12		12
			(228)	(228)	(7)	(2)	(237)
	3	3	(3)	–			–
–	6	344	4 439	4 998	210	6	5 214
	(1)	41	630	671	6	2	679
	*	*		*			*
	*	*		*			*
	(1)	17		17			17
		(5)		(5)			(5)
		29		29			29
			630	630	6	2	638
30	(9)	21	(372)	46	(168)	(2)	(124)
			(221)	(221)	(172)		(393)
					1		1
			(294)	(294)	(1)	(2)	(297)
30		30	138	168			168
				397			397
	(4)	(4)		(4)	4		–
	(5)	(5)	5	–			–
30	(4)	406	4 697	5 715	48	6	5 769

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

Annual financial statements
Statements of changes in equity

R millions	Ordinary share capital	Share premium	Total ordinary capital	Property revaluation surplus
COMPANY				
Balance at 1 January 2011	119	214	333	241
TOTAL COMPREHENSIVE INCOME FOR THE YEAR				
Cash flow hedge fair value adjustments				
Deferred tax on fair value adjustments				
Profit for the year				
TRANSACTIONS WITH OWNERS				
Dividends paid				
Transfers to retained earnings				
BALANCE AT 31 DECEMBER 2011	119	214	333	241
TOTAL COMPREHENSIVE INCOME FOR THE YEAR				
Cash flow hedge fair value adjustments				
Deferred tax on fair value adjustments				
Profit for the year				
TRANSACTIONS WITH OWNERS	9	388	397	
Dividends paid				
Share-based payment reserve				
Shares issued	9	388	397	
BALANCE AT 31 DECEMBER 2012	128	602	730	241

* Nominal amount.

FOREIGN CURRENT 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 IFRS 1. The surplus is released to retained earnings as and when the related investment property is disposed of.

OTHER RESERVES

Included in other reserves is a revaluation reserve for cash flow hedges and the statutory reserve required for the Group's captive insurance subsidiary company.

SHARE-BASED PAYMENT RESERVE

The share-based payment reserves comprises the accumulated share-based payments over the vesting periods of the underlying instruments. Once all the instruments have vested, the reserve will be released to retained earnings.

Share-based payment reserve	Other reserves	Total other reserves	Retained earnings	Total	Preference share capital	Total equity
	(1)	240	2 650	3 223	6	3 229
	*	*	333	333	2	335
	*	*		*		*
			333	333	2	335
	1	1	(255)	(254)	(2)	(256)
			(254)	(254)	(2)	(256)
	1	1	(1)	–		–
	*	241	2 728	3 302	6	3 308
	*	*	106	106	2	108
	*	*		*		*
			106	106	2	108
30	*	30	(187)	240	(2)	238
			(325)	(325)	(2)	(327)
30		30	138	168		168
				397		397
30	*	271	2 647	3 648	6	3 654

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012

Annual financial statements
Statements of cash flows

R millions	Note	GROUP		COMPANY	
		2012	2011	2012	2010
CASH GENERATED BY OPERATIONS	i	1 867	1 883	476	401
Dividends received		–	–	–	113
Interest paid		(245)	(253)	(310)	(257)
Interest received		40	27	302	279
Tax paid	ii	(308)	(319)	(98)	(103)
Changes in working capital	iii	(326)	(598)	44	(234)
Expenditure relating to non-current provisions		(98)	(78)	(71)	(57)
CASH AVAILABLE FROM OPERATING ACTIVITIES		930	662	343	142
Dividends paid	iv	(297)	(237)	(327)	(256)
CASH FLOWS FROM OPERATING ACTIVITIES		633	425	16	(114)
CASH FLOWS FROM INVESTING ACTIVITIES		(645)	(615)	(250)	(366)
Net replacement to maintain operations		(236)	(260)	(59)	(75)
Replacement of					
– property, plant and equipment		(278)	(273)	(47)	(66)
– investment property		(14)	(12)	(14)	(4)
– intangible assets		–	(8)	–	(6)
Proceeds from disposal of property, plant and equipment and assets classified as held for sale		56	33	2	1
Investments to expand operations		(529)	(355)	(191)	(291)
Acquisition of					
– property, plant and equipment		(262)	(182)	(20)	(9)
– intangible assets		(3)	–	(1)	–
– investments		(16)	–	–	–
– subsidiaries	v	(13)	(36)	–	(46)
– businesses	v	(193)	(88)	–	–
– non-controlling interest		–	(49)	–	–
Loans with					
– other investments		(42)	–	–	–
– subsidiaries and joint ventures				(170)	(236)
Proceeds from disposal of investments and businesses		120	–	–	–
– joint venture	vi	108	–	–	–
– businesses	vii	12	–	–	–
NET CASH UTILISED BEFORE FINANCING ACTIVITIES		(12)	(190)	(234)	(480)
CASH FLOWS FROM FINANCING ACTIVITIES		75	424	304	500
Non-current borrowings					
– raised		–	1 000	–	1 000
– repaid		(256)	(626)	(256)	(414)
Current borrowings					
– raised		1 056	261	1 086	122
– repaid		(739)	(208)	(526)	(208)
Loans receivable					
– raised		–	(3)	–	–
– received		14	–	–	–
INCREASE IN CASH		63	234	70	20
Cash at the beginning of the year		1 061	732	22	3
Translation gain/(loss) on cash		24	95	–	(1)
CASH AT THE END OF THE YEAR		1 148	1 061	92	22

NOTES TO THE STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012

	GROUP		COMPANY	
R millions	2012	2011	2012	2011
i. CASH GENERATED BY OPERATIONS				
Profit from operations	1 341	1 316	369	233
Adjusted for non-cash movements:				
Closure costs	(6)	(23)	(6)	(23)
Depreciation and amortisation	475	395	69	58
EST share-based payment	30	–	9	–
Impairment of goodwill	9	–	9	–
Impairment of property, plant and equipment	3	–	3	–
Non-current provisions	48	201	22	159
Reversal of impairment of investments	–	–	–	(26)
(Surplus)/loss on disposal of property, plant and equipment	(18)	(7)	1	2
Surplus on disposal of joint venture	(10)	–	–	–
(Surplus)/loss on derecognition of businesses and subsidiary companies disposed of	(5)	1	*	(2)
	1 867	1 883	476	401
ii. TAX PAID				
Owing at the beginning of the year	(133)	(102)	(42)	(37)
Current charge for the year	(359)	(350)	(114)	(108)
Business combinations	(4)	–	–	–
Translation differences and other	29	–	–	–
Owing at the end of the year	159	133	58	42
	(308)	(319)	(98)	(103)
iii. CHANGES IN WORKING CAPITAL				
Increase in inventories	(283)	(692)	(32)	(316)
Decrease/(increase) in accounts receivable	35	(752)	148	(397)
(Decrease)/increase in accounts payable	(42)	786	(88)	427
	(290)	(658)	28	(286)
Translation differences and other	(20)	47	16	51
Business combinations	18	13	–	1
Disposal of joint venture	(30)	–	–	–
Disposals of businesses	(4)	–	–	–
	(326)	(598)	44	(234)
iv. DIVIDENDS PAID				
Paid during the year (see note 26)	296	230	327	256
Paid to minority shareholders	1	7	–	–
	297	237	327	256

Notes to the statements of cash flows
Annual financial statements

NOTES TO THE STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012

Annual financial statements
Notes to the statements of cash flows

R millions	GROUP		COMPANY	
	2012	2011	2012	2011
v. BUSINESS COMBINATIONS				
Property, plant and equipment	9	48	–	9
Intangible assets	145	62	–	–
Working capital	18	13	–	1
Cash	–	4	–	–
Deferred and current tax	(39)	(26)	–	–
Non-controlling interest	(1)	(12)	–	–
Goodwill	74	42	–	36
Less: contingency payment outstanding	–	(7)	–	–
Net cash outflow	206	124	–	46
Acquisition of businesses and subsidiaries (see note 33)	206	124	–	46
Net consideration paid to acquire subsidiaries	13	36	–	46
Consideration paid to acquire businesses	193	88	–	–
vi. DISPOSAL OF JOINT VENTURE				
Property, plant and equipment	(65)	–	–	–
Goodwill	(18)	–	–	–
Working capital	(30)	–	–	–
Equity	15	–	–	–
Surplus on disposal of joint venture (see note 19)	(10)	–	–	–
Net cash inflow	(108)	–	–	–
vii. DISPOSALS OF BUSINESSES				
Property, plant and equipment	(3)	–	–	–
Working capital	(4)	–	–	–
Surplus on disposals of businesses (see note 19)	(5)	–	–	–
Net cash inflow	(12)	–	–	–

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

1. PROPERTY, PLANT AND EQUIPMENT

R millions	Property	Plant and equipment	Furniture and fittings	Computer equipment	Motor vehicles	Under construction	Total
GROUP							
2012							
COST	946	4 674	109	274	382	232	6 617
At the beginning of the year	836	4 491	108	241	332	223	6 231
Additions	63	57	12	48	47	313	540
Additions through business combinations	*	9	*	*	2	–	11
Disposals	(10)	(45)	(11)	(15)	(12)	(2)	(95)
Disposals of businesses	*	(8)	*	(5)	*	–	(13)
Disposal of joint venture	(5)	(84)	–	(2)	(1)	–	(92)
Transfers	59	233	*	6	5	(303)	–
Translation differences	3	21	*	1	9	1	35
LESS: ACCUMULATED DEPRECIATION AND IMPAIRMENT	276	2 134	67	179	228		2 884
At the beginning of the year	234	1 855	68	169	184		2 510
Additions through business combinations	*	1	*	*	1		2
Disposals	(6)	(33)	(11)	(14)	(10)		(74)
Disposals of businesses	*	(5)	*	(5)	*		(10)
Disposal of joint venture	(2)	(23)	–	(1)	(1)		(27)
Transfers	6	(6)	*	*	–		–
Translation differences	1	13	*	1	4		19
Impairment during the year	–	3	–	–	–		3
Depreciation for the year	43	329	10	29	50		461
CARRYING AMOUNT	670	2 540	42	95	154	232	3 733
2011							
COST	836	4 491	108	241	332	223	6 231
At the beginning of the year	585	3 429	92	211	268	1 096	5 681
Additions	74	184	9	27	43	118	455
Additions through business combinations	1	57	*	*	1	–	59
Borrowing costs capitalised	–	–	–	–	–	17	17
Disposals	(7)	(55)	(4)	(9)	(16)	(12)	(103)
Transferred to assets classified as held for sale	(20)	–	–	–	–	–	(20)
Transferred to intangible assets	–	(10)	–	–	–	–	(10)
Transfers	195	781	8	7	9	(1 000)	–
Translation differences	8	105	3	5	27	4	152
LESS: ACCUMULATED DEPRECIATION AND IMPAIRMENT	234	1 855	68	169	184		2 510
At the beginning of the year	173	1 588	64	148	144		2 117
Additions through business combinations	1	10	*	*	*		11
Disposals	(1)	(47)	(4)	(9)	(15)		(76)
Transferred to assets classified as held for sale	(4)	–	–	–	–		(4)
Transferred to intangible assets	–	(2)	–	–	–		(2)
Transfers	27	(26)	(3)	2	–		–
Translation differences	5	52	2	3	11		73
Depreciation for the year	33	280	9	25	44		391
CARRYING AMOUNT	602	2 636	40	72	148	223	3 721

* Nominal amount.

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1. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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R millions	Property	Plant and equipment	Furniture and fittings	Computer equipment	Motor vehicles	Under construction	Total
COMPANY							
2012							
COST	56	741	35	56	25	24	937
At the beginning of the year	52	704	35	48	23	19	881
Additions	2	27	1	11	3	23	67
Disposals	*	(6)	(1)	(3)	(1)	–	(11)
Transfers	2	16	–	*	–	(18)	–
LESS: ACCUMULATED DEPRECIATION AND IMPAIRMENT	14	438	19	29	18		518
At the beginning of the year	10	389	17	26	16		458
Disposals	*	(3)	(1)	(3)	(1)		(8)
Transfers	–	*	*	–	–		–
Impairment during the year	–	3	–	–	–		3
Depreciation for the year	4	49	3	6	3		65
CARRYING AMOUNT	42	303	16	27	7	24	419
2011							
COST	52	704	35	48	23	19	881
At the beginning of the year	44	683	25	40	20	22	834
Additions	1	24	2	10	5	33	75
Additions through business combinations	–	9	*	*	–	–	9
Disposals	–	(32)	(1)	(2)	(2)	–	(37)
Transfers	7	20	9	*	–	(36)	–
LESS: ACCUMULATED DEPRECIATION AND IMPAIRMENT	10	389	17	26	16		458
At the beginning of the year	10	371	18	22	15		436
Disposals	–	(30)	(1)	(1)	(1)		(33)
Transferred to intangible assets	–	(1)	–	–	–		(1)
Transfers	(2)	4	(2)	*	–		–
Depreciation for the year	2	45	2	5	2		56
CARRYING AMOUNT	42	315	18	22	7	19	423

* Nominal amount.

ADDITIONAL INFORMATION

	GROUP		COMPANY	
R millions	2012	2011	2012	2011
Insured value of property, plant and equipment	15 618	14 802	2 412	2 626

Industrial Urethanes ceased manufacture of one of its product lines during the year and all the related plant and equipment, which had a carrying amount of R3 million, was fully impaired.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

2. INVESTMENT PROPERTY

	GROUP		COMPANY	
R millions	2012	2011	2012	2011
COST	515	503	151	137
At the beginning of the year	503	504	137	133
Additions	14	12	14	4
Transferred to property development	(2)	(13)	–	–
LESS: ACCUMULATED DEPRECIATION	70	67	64	62
At the beginning of the year	67	64	62	60
Depreciation for the year	3	3	2	2
CARRYING AMOUNT	445	436	87	75

ADDITIONAL INFORMATION

	GROUP		COMPANY	
R millions	2012	2011	2012	2011
Fair value	2 982	2 898	1 184	872
Rental and service income from investment property	347	348	272	278
Direct operating expenses – relating to rental and service income	(152)	(151)	(152)	(151)

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 three and five years, with most leases having a three-year term, with annual rental escalations between 8% and 10%. The Gross Lettable Area ("GLA") of the office and industrial sites is approximately 283 000m² (2011: 283 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 Industrial Complex.

Standard Bank Property Group, CS Massel and Associates and Norman Griffiths and Associates compiled independent valuations of the surplus Group-owned property at Modderfontein and Somerset West in 2012 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 optimal 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 optimal 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 sale 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 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 rental 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

3. INTANGIBLE ASSETS

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R millions	Patents and trademarks	Supply chain relationship	Technical and licensing agreement	Other	Total
GROUP					
2012					
COST	15	61	138	14	228
At the beginning of the year	12	61		7	80
Additions	3	–	–	–	3
Additions through business combinations	–	–	138	7	145
Translation differences	*	–	–	*	*
LESS: ACCUMULATED AMORTISATION AND IMPAIRMENT	5	–	7	2	14
At the beginning of the year	3	–		–	3
Amortisation for the year	2	–	7	2	11
Translation differences	*	–	–	*	*
CARRYING AMOUNT	10	61	131	12	214
2011					
COST	12	61		7	80
At the beginning of the year	–	–		–	–
Additions	2	–		6	8
Additions through business combinations	–	61		1	62
Transferred from property, plant and equipment	10	–		–	10
Translation differences	*	–		*	*
LESS: ACCUMULATED AMORTISATION AND IMPAIRMENT	3	–		–	3
At the beginning of the year	–	–		–	–
Transferred from property, plant and equipment	2	–		–	2
Amortisation for the year	1	–		*	1
Translation differences	*	–		–	*
CARRYING AMOUNT	9	61		7	77

* Nominal amount.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

3. INTANGIBLE ASSETS (CONTINUED)

R millions	Patents and trademarks	Other	Total
COMPANY			
2012			
COST	1	6	7
At the beginning of the year	–	6	6
Additions	1	–	1
LESS: ACCUMULATED AMORTISATION AND IMPAIRMENT	1	2	3
At the beginning of the year	–	1	1
Amortisation for the year	1	1	2
CARRYING AMOUNT	–	4	4
2011			
COST		6	6
At the beginning of the year		–	–
Additions		6	6
LESS: ACCUMULATED AMORTISATION AND IMPAIRMENT		1	1
At the beginning of the year		–	–
Transferred from property, plant and equipment		1	1
Amortisation for the year		*	*
CARRYING AMOUNT		5	5

* Nominal amount.

The technical and licensing agreement arose during the current year as a result of the acquisition of GE's Chemical and Monitoring Business Solutions business in Africa.

USEFUL LIFE AND IMPAIRMENT

The Group carries an amount of R61 million as a supply chain relationship intangible asset from the acquisitions of Croxton Chemicals and Protank. The supply chain relationship useful life has been deemed to be indefinite as there is no foreseeable limit to the period over which the relationship is expected to generate net cash inflows for the business and that the value of this asset would not be consumed over time.

It is tested for impairment annually by comparing the carrying amount with its recoverable amount. The recoverable amount has been determined using value-in-use. The value-in-use was calculated using the profit before tax of the Protank and Croxton Chemicals businesses for 2012 as a basis for the cash flow projections, with a growth rate of 10% applied over a period of three years. A discount rate of 16,5% was used, this being the weighted average cost of capital for those specific businesses. The fair value of the businesses was calculated at R109 million. A reasonably possible change in the assumptions used to calculate the value-in-use is not likely to cause the carrying amount of the intangible asset to exceed the recoverable amount.

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4. GOODWILL

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	GROUP		COMPANY	
R millions	2012	2011	2012	2011
COST	1 257	1 202	1 013	1 013
At the beginning of the year	1 202	1 159	1 013	977
Additions through business combinations	74	42	–	36
Disposal of joint venture	(18)	–	–	–
Translation differences	(1)	1	–	–
LESS: ACCUMULATED IMPAIRMENT LOSSES	133	124	104	95
At the beginning of the year	124	124	95	95
Impairment charge for the year	9	–	9	–
CARRYING AMOUNT	1 124	1 078	909	918
Goodwill is allocated to cash-generating units based on the Group business segments as follows:				
Explosives	273	273	–	–
Specialty chemicals	851	805	909	918
CARRYING AMOUNT	1 124	1 078	909	918

The goodwill arose on the acquisition of businesses and subsidiaries by the Group. The goodwill within the specialty chemicals segment is allocated to individual 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 for a period of at least five years; and
- › a discount rate of 12,6% (2011: 13,0%) 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.

IMPAIRMENTS DURING THE YEAR

Impairments were recognised during the year for the business lines previously acquired from Orlik and T&C Chemicals. The value-in-use of these cash-generating units was lower than their carrying amount with the results that the goodwill in respect of these cash-generating units was impaired.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

5. PENSION FUND EMPLOYER SURPLUS ACCOUNTS

	GROUP		COMPANY	
R millions	2012	2011	2012	2011
AECI PENSION FUND				
Surplus at the beginning of the year	239	216	239	216
Surplus net income for the year	1	23	1	23
Surplus apportionment of surplus during the year	46	43	46	43
Surplus settlement of contribution shortfalls	(67)	(47)	(67)	(47)
Surplus pro rata share of investment returns earned	22	27	22	27
Surplus at the end of the year	240	239	240	239
AECI SUPPLEMENTARY PENSION FUND				
Surplus at the beginning of the year	15	14	15	14
Surplus net income for the year	4	1	4	1
Surplus at the end of the year	19	15	19	15
AECI EMPLOYEES PENSION FUND				
Surplus at the beginning of the year	5	–	5	–
Surplus net income for the year	3	5	3	5
Surplus apportionment of surplus during the year	3	6	3	6
Surplus settlement of contribution shortfalls	*	(1)	*	(1)
Surplus at the end of the year	8	5	8	5
TOTAL PENSION FUND EMPLOYER SURPLUS ACCOUNTS	267	259	267	259

Employer surplus accounts belonging to the Company in the AECI Pension Fund, the AECI Supplementary Pension Fund and the AECI Employees Pension Fund are recognised as assets (see note 30). During the year, a surplus apportionment was granted by the AECI Pension Fund and the AECI Employees Pension Fund. The employer surplus account in the AECI Pension Fund is invested specifically in the AECI Pension Fund's property portfolio and in cash with returns earned from net rental income, revaluation of the property and cash interest. The employer surplus accounts in the other funds earn a pro rata share of the investment returns on the assets of those funds. The profit or loss is recognised in the income statement.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

6. INVESTMENT IN SUBSIDIARIES AND LOANS WITH GROUP COMPANIES

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R millions	COMPANY	
	2012	2011
Unlisted shares (see note 35)	1 362	936
– At cost	1 412	986
– Less: impairment losses	(50)	(50)
Non-current loans to subsidiaries	498	588
– Amounts owing	505	595
– Less: impairment losses	(7)	(7)
Investment in subsidiaries	1 860	1 524
Non-current loans from subsidiaries	(429)	(459)
NET INVESTMENT IN SUBSIDIARIES	1 431	1 065
Interest-bearing non-current loans to subsidiaries	278	900
– Amounts owing	330	946
– Less: impairment losses	(52)	(46)
Interest-bearing current loans to subsidiaries	4 422	3 960
LOANS TO GROUP COMPANIES	4 700	4 860
Interest-bearing non-current loans from subsidiaries	–	–
Interest-bearing current loans from subsidiaries	(890)	(1 274)
LOANS FROM GROUP COMPANIES	(890)	(1 274)
NET LOANS WITH SUBSIDIARIES (SEE NOTE 35)	3 879	3 715

All significant 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 19).

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 19).

Loans bear interest at market-related variable rates, are unsecured and have no fixed terms of repayment.

Operating companies are funded through the central Treasury of the Company and such loans are classified as current. Other loans provided by the Company are not expected to be repaid within 12 months and are classified as non-current. The loans with non-operating companies are considered as part of the net investment in the companies.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

7. OTHER INVESTMENTS

ASSOCIATE COMPANIES

	GROUP		COMPANY	
Effective holding (%)	2012	2011	2012	2011
agVantage (Pty) Ltd	17,5	17,5	–	–
Mining Explosives Ltd	49,0	49,0	–	–

The Group has significant influence in agVantage (Pty) Ltd. Although the actual holding is 35%, the investment is held by a joint venture company in which the Group has a 50% interest.

	GROUP		COMPANY	
R millions	2012	2011	2012	2011
SUMMARISED FINANCIAL INFORMATION				
Total assets	85	76	–	–
Total liabilities	(26)	(20)	–	–
Revenue	127	49	–	–
(Loss)/profit for the year	(1)	3	–	–
CARRYING AMOUNT				
Unlisted shares at cost	10	10	–	–
Loans	–	3	–	–
Post-acquisition retained income	4	–	–	–
Balance at the beginning of the year	–	(4)		
Translation difference	4	3		
Current year's share of profit of associate companies	*	1		
TOTAL INVESTMENT IN ASSOCIATE COMPANIES	14	13	–	–

JOINT VENTURES (SEE NOTE 34)

Unlisted shares at amortised cost

INVESTMENTS

Equity instruments	2	2	–	–
Unlisted shares at amortised cost	2	2	–	–
Loans and receivables	70	7	10	6
Loan to the CST (see note 20)	4	–	4	–
Loan to BBRI ¹	42	–	–	–
Other	24	7	6	6
TOTAL OTHER INVESTMENTS	86	22	10	6
Interest-bearing current loans to joint ventures			12	11
Interest-bearing current loans from joint ventures			(37)	(31)
NET LOANS WITH JOINT VENTURES			(25)	(20)

1 The loan to BBRI forms part of a three phase investment which will ultimately result in the acquisition of a 42,6% equity holding. See page 52.

* Nominal amount.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

8. DEFERRED TAX

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	GROUP		COMPANY	
R millions	2012	2011	2012	2011
At the beginning of the year	(228)	(235)	(155)	(158)
Recognised in the income statement				
– normal activities	(14)	(44)	(1)	3
Recognised in Other Comprehensive Income				
– foreign currency loan translation	5	25	–	–
– fair value adjustments	*	*	*	*
Business combinations	35	26	*	–
At the end of the year	(202)	(228)	(156)	(155)
Analysis by major temporary differences:				
Property, plant and equipment	535	462	63	62
Provisions	(438)	(474)	(302)	(318)
Share options hedge premium	*	*	*	*
Pension fund employer surplus accounts	75	72	75	72
Deferred foreign exchange differences	17	30	1	17
Computed tax losses	(421)	(347)	–	–
Fair value adjustments	*	*	–	–
Other	30	29	7	12
	(202)	(228)	(156)	(155)
Comprising:				
Deferred tax assets	(434)	(407)	(156)	(155)
Deferred tax liabilities	232	179	–	–
	(202)	(228)	(156)	(155)

Deferred tax assets of R421 million are dependent on future taxable profits in the subsidiaries where these losses have occurred. The profitability has been assessed for the foreseeable future and it is probable that future taxable profits will enable utilisation of the deferred tax assets.

9. LOANS RECEIVABLE

	GROUP		COMPANY	
R millions	2012	2011	2012	2011
Gross investment in finance leases	20	32	–	–
Unearned finance income	(1)	(3)	–	–
Present value of minimum lease payments	19	29	–	–
Current portion included in accounts receivable (see note 11)	(8)	(5)	–	–
At the end of the year	11	24	–	–
Gross investment in finance leases receivable				
– within 1 year	8	5	–	–
– from 2 to 5 years	12	24	–	–
– later than 5 years	–	3	–	–
	20	32	–	–
Present value of minimum lease payments receivable				
– within 1 year	8	5	–	–
– from 2 to 5 years	11	22	–	–
– later than 5 years	–	2	–	–
	19	29	–	–

* Nominal amount.

Loans receivable 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 eight years.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

10. INVENTORIES

	GROUP		COMPANY	
R millions	2012	2011	2012	2011
Raw and packing materials	840	710	258	194
In progress	8	14	2	10
Finished goods and merchandise	1 418	1 446	546	599
Spares and other	286	166	103	74
Property developments	315	248	–	–
	2 867	2 584	909	877

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.

11. ACCOUNTS RECEIVABLE

	GROUP		COMPANY	
R millions	2012	2011	2012	2011
Trade	2 380	2 252	742	831
Pre-payments	146	170	22	13
Other	203	345	64	103
Subsidiaries and joint ventures			74	103
	2 729	2 767	902	1 050
Current portion of loans receivable (see note 9)	8	5	–	–
	2 737	2 772	902	1 050

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	1 611	1 670	690	790
Rest of Africa	404	338	44	35
North America	34	5	–	–
South America	23	37	*	3
Asia	240	187	3	1
Australia	5	6	–	2
Europe	14	8	5	*
United Kingdom	49	1	*	*
	2 380	2 252	742	831

The ageing of gross trade receivables at 31 December was:

Not past due	1 880	1 830	655	709
Past due 0 to 30 days	327	260	61	104
Past due 30 to 90 days	100	162	17	31
Past due more than 90 days	123	51	30	8
Gross trade receivables	2 430	2 303	763	852

The ageing of impairments of trade receivables at 31 December was:

Not past due	(2)	*	(1)	*
Past due 0 to 30 days	(1)	(2)	*	(2)
Past due 30 to 90 days	(2)	(19)	(1)	(19)
Past due more than 90 days	(45)	(30)	(19)	*
Total impairments	(50)	(51)	(21)	(21)
NET TRADE RECEIVABLES	2 380	2 252	742	831

* Nominal amount.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

11. ACCOUNTS RECEIVABLE (CONTINUED)

	GROUP		COMPANY	
R millions	2012	2011	2012	2011
IMPAIRMENT OF TRADE RECEIVABLES				
At the beginning of the year	(51)	(89)	(21)	(47)
Additional impairments recognised during the year	(14)	(17)	(3)	(12)
Impairments reversed during the year	18	28	5	8
Impairments applied to trade receivables deemed irrecoverable	(3)	27	(2)	30
At the end of the year	(50)	(51)	(21)	(21)

Impairments of trade receivables are recognised with reference to the ageing of trade receivables that are past due, payments received after the reporting date, the 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.

12. ASSETS CLASSIFIED AS HELD FOR SALE

In 2011, the Group entered into an agreement to sell Portion 3 of Erf 5509 in Bryanston, Gauteng. There were a number of conditions precedent which had to be met before the disposal could be finalised and the asset derecognised. All conditions precedent were met during 2012 and the sale was concluded and payment of the purchase price, of R40 million, was received. A surplus on disposal of R24 million was recognised in the income statement in profit from operations.

	GROUP		COMPANY	
R millions	2012	2011	2012	2011
Land – cost	–	4	–	–
Buildings – cost	–	16	–	–
Buildings – accumulated depreciation	–	(4)	–	–
Carrying amount	–	16	–	–

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

13. SHARE CAPITAL AND SHARE PREMIUM

	NUMBER OF SHARES		GROUP		COMPANY	
	2012	2011	2012 R millions	2011 R millions	2012 R millions	2011 R millions
ORDINARY SHARES						
Authorised						
Ordinary shares of R1 each	180 000 000	180 000 000	180	180	180	180
B ordinary shares of no par value	10 117 951					
Listed ordinary shares						
At the beginning of the year						
Group	107 251 170	107 251 170	107	107		
Company	119 135 869	119 135 869			119	119
Issued during the year						
Group	9 105 271	–	9	–		
Company	9 105 271	–			9	–
At the end of the year						
Group	116 356 441	107 251 170	116	107		
Company	128 241 140	119 135 869			128	119
Unlisted redeemable convertible B ordinary shares						
At the beginning of the year						
Company	–					
Issued during the period for EST transaction						
Company	10 117 951					
At the end of the year						
Company	10 117 951					
Share premium less share issue expenses			496	108	602	214
At the beginning of the year			108	108	214	214
Shares issued during the year			388	–	388	–
Total at the end of the year						
Group	116 356 441		612	215		
Company	138 359 091				730	333
No par value treasury shares held by consolidated trust	10 117 951					
Par value treasury shares held by a subsidiary						
Company	11 884 699	11 884 699	12	12		
Total treasury shares at the end of the year						
Group	11 884 699	11 884 699				
Company	22 002 650	11 884 699				
PREFERENCE SHARES						
Authorised and issued						
5,5% cumulative shares of R2 each	3 000 000	3 000 000	6	6	6	6

In terms of the Company's memorandum of incorporation 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).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

13. SHARE CAPITAL AND SHARE PREMIUM (CONTINUED)

ISSUED SHARES

The Kagiso Tiso Holdings Proprietary Limited (RF) ("KTH") transaction took effect on 18 January 2012 and involved the purchase by AECl of the 25,1% interest held in AEL Holdco Limited by a KTH-led consortium in exchange for 4,678,667 ordinary shares in AECl. The transaction is recognised as a change in ownership interest in terms of IAS 27, and the carrying amounts of controlling and non-controlling interests have been adjusted. The transaction has been measured at the fair value of the consideration paid and is based on the closing price of R83,98 of the Company's shares on 17 January 2012. The shares issued have been recognised in equity, with R5 million being allocated to share capital and R388 million being allocated to share premium. The non-controlling interest has been reduced by the carrying amount of R172 million, with the balance of R221 million recognised directly to retained earnings.

The 3,5% AECl Community Education and Development trust ('CST') transaction became effective on 13 February 2012. The CST subscribed for 4,426,604 ordinary shares at par value in the Company. The shares vested immediately and a share based payment expense of R138 million was recognised in full in the income statement (see note 20).

The 8% AECl Employee Share Trust ('EST') transaction took effect on 9 February 2012, with the EST subscribing for 10,117,951 unlisted B ordinary shares of the Company. Employees of the Group were allocated 7 569 669 of these shares with a grant date of 30 April 2012. The total cost is estimated at R140 million of which R30 million was recognised in the income statement during the year ended 31 December 2012. The remainder of the expense will be recognised in future periods over the respective vesting periods (see note 20).

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. Return on capital is defined as profit from operations plus investment income related to average property, plant and equipment, investment property, intangible assets, goodwill, investments, inventories and accounts receivable less accounts payable.

14. NON-CURRENT BORROWINGS

		GROUP		COMPANY	
R millions	Weighted closing interest rate%	2012	2011	2012	2011
UNSECURED					
LOCAL					
Loans:					
2008/2013	9,68	465	801	465	801
2011/2014	6,83	1 000	1 000	1 000	1 000
2012/2015	6,78	250		250	
FOREIGN					
Loans – US dollar		–	190	–	190
Loans - other currencies		–	41	–	41
SECURED					
FOREIGN					
Loans – other ¹	9,30	1	2	–	–
		1 716	2 034	1 715	2 032
MINORITY SHAREHOLDER LOAN TO SUBSIDIARY					
2004/2012 ²		–	212	–	
		1 716	2 246	1 715	2 032
Current portion (see note 17)		(465)	(739)	(465)	(526)
		1 251	1 507	1 250	1 506

1 Secured in terms of capitalised finance lease agreements over plant and equipment having a net book value of R1 million (2011: R1 million).

2 Equity loan from empowerment consortium to AEL Holdco. Interest and capital repayments of the loan were guaranteed by the Company. The loan was repaid during the current year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

14. NON-CURRENT BORROWINGS (CONTINUED)

SUMMARY OF REPAYMENTS

R millions	Year	Local	Foreign	Total
GROUP				
	2013	465	–	465
	2014	1 125	1	1 126
	2015	125	–	125
		1 715	1	1 716
COMPANY				
	2013	465	–	465
	2014	1 125	–	1 125
	2015	125	–	125
		1 715	–	1 715

15. NON-CURRENT PROVISIONS

	GROUP		COMPANY	
R millions	2012	2011	2012	2011
ENVIRONMENTAL REMEDIATION				
At the beginning of the year	171	164	147	141
Expenditure incurred during the year	(8)	(9)	(7)	(8)
Charged to net operating costs during the year				
– Additional provision made	6	16	5	14
– Reversal of provision	(14)	–	(14)	–
At the end of the year	155	171	131	147
EARNINGS-BASED INCENTIVE SCHEMES				
At the beginning of the year	151	90	128	67
Paid during the year	(46)	(32)	(33)	(19)
Charged to net operating costs during the year				
– Additional provision made	20	93	21	80
	125	151	116	128
Current portion included in accounts payable (see note 16)	(60)	(89)	(53)	(69)
At the end of the year	65	62	63	59
CASH-SETTLED SHARE-BASED INCENTIVE SCHEME				
At the beginning of the year	44	40	44	40
Paid during the year	(9)	(1)	(9)	(1)
Charged to net operating costs during the year				
– Additional provision made	3	5	3	5
	38	44	38	44
Current portion included in accounts payable (see note 16)	(24)	(28)	(24)	(28)
At the end of the year	14	16	14	16

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

15. NON-CURRENT PROVISIONS

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	GROUP		COMPANY	
R millions	2012	2011	2012	2011
POST-RETIREMENT MEDICAL AID BENEFITS				
At the beginning of the year	767	721	554	525
Benefits paid during the year	(35)	(36)	(22)	(29)
Charged to net operating costs during the year	33	87	7	60
– Current service cost	6	6	2	2
– Interest cost	103	99	74	73
– Additional provision made	(76)	(18)	(69)	(15)
– Net loss/(income) from plan assets for post-retirement medical aid liabilities	6	(5)	22	(2)
At the end of the year	771	767	561	554
Made up as follows:				
Actuarial valuation of obligations (see note 30)	1 182	1 184	855	870
Plan assets to meet post-retirement medical aid contribution liabilities	(411)	(417)	(294)	(316)
At the beginning of the year	(417)	(412)	(316)	(314)
Pro rata share of investment return earned by the AECl Pension Fund	(41)	(50)	(21)	(38)
Benefits paid during the year	47	45	43	36
	771	767	561	554
TOTAL NON-CURRENT PROVISIONS	1 005	1 016	769	776

ENVIRONMENTAL REMEDIATION

The environmental remediation provision is based on the Group's environmental policy and obligations in terms of legislation to remediate land. The expenditure is expected to be incurred 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. The provision is based on the assumption that the end-use will be for industrial purposes.

EARNINGS-BASED AND CASH-SETTLED SHARE-BASED INCENTIVE SCHEMES

The earnings-based incentive scheme and cash-settled share-based incentive scheme provisions represent the present value of obligations to employees who have been granted units in terms of the incentive schemes (see note 30). The amount payable depends on employees meeting the vesting conditions pertaining to period of employment as well as the earnings of the Group or Company share price 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 30. The costs will be incurred over the lifetime of all eligible employees and will vary depending on expected lives, changes to salary inflation, healthcare costs and discount rates. Assumptions used to determine the provision are also detailed in note 30.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

16. ACCOUNTS PAYABLE

	GROUP		COMPANY	
R millions	2012	2011	2012	2011
Trade	2 008	1 923	887	936
Non-trade	820	907	262	275
Closure costs	–	40	–	40
Subsidiaries and joint ventures			18	4
	2 828	2 870	1 167	1 255
Current portion of non-current provisions (see note 15)	84	117	77	97
	2 912	2 987	1 244	1 352

17. CURRENT BORROWINGS

	GROUP		COMPANY	
R millions	2012	2011	2012	2011
Current portion of non-current borrowings (see note 14)	465	739	465	526
Unsecured interest-bearing short-term borrowings	1 273	682	1 559	938
	1 738	1 421	2 024	1 464

The unsecured interest-bearing short-term borrowings are local borrowings which are repayable on demand and bear interest at rate between 5,40% and 5,65%.

18. REVENUE

	GROUP		COMPANY	
R millions	2012	2011	2012	2011
Sale of goods and related services	14 516	12 920	4 127	3 648
Leasing and related services	347	348	272	278
Sale of surplus land	53	129	–	–
Sales to subsidiary companies			435	387
Leasing and related services to subsidiary companies			32	28
	14 916	13 397	4 866	4 341
Local	10 389	9 538	4 208	3 788
Foreign	4 527	3 859	191	138
Subsidiary companies			467	415
	14 916	13 397	4 866	4 341

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

19. NET OPERATING COSTS

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	GROUP		COMPANY	
R millions	2012	2011	2012	2011
Cost of sales	10 255	8 928	3 873	3 418
Selling and distribution expenses	1 223	1 126	389	304
Administrative expenses	2 097	2 027	224	337
Net operating costs	13 575	12 081	4 486	4 059
Net operating costs have been arrived at after taking into account:				
Auditors' remuneration	21	18	8	5
– Audit fees	18	16	7	4
– Other services	3	2	1	1
Depreciation and amortisation	475	395	69	58
– Property, plant and equipment	461	391	65	56
– Investment property	3	3	2	2
– Intangible assets	11	1	2	–
Foreign exchange gains	(123)	(224)	(15)	(17)
– Realised	(97)	(117)	(14)	–
– Unrealised	(26)	(107)	(1)	(17)
Foreign exchange losses	122	147	13	10
– Realised	92	91	–	10
– Unrealised	30	56	13	–
Impairment of goodwill	9	–	9	–
Impairment of property, plant and equipment	3	–	3	–
Inventory	(4)	71	6	1
– Losses and write-downs	3	79	7	6
– Reversal of losses and write-downs	(7)	(8)	(1)	(5)
Reversal of impairments of investments and loans with subsidiary companies			–	(26)
Increase/(decrease) in non-current provisions	48	201	22	159
– Environmental remediation	(8)	16	(9)	14
– Earnings-based incentive scheme	20	93	21	80
– Cash-settled share-based incentive scheme	3	5	3	5
– Post-retirement medical aid benefits	33	87	7	60
Operating lease costs	95	90	22	28
Research and development expenditure	53	42	*	*
(Surplus)/loss on derecognition of businesses and subsidiary companies disposed of	(5)	1	*	(2)
Surplus on disposal of joint venture	(10)	–	–	–
(Surplus)/loss on disposal of property, plant and equipment	(18)	(7)	1	2
– Property	(24)	(8)	*	–
– Plant and equipment	6	1	1	2
Total salaries and other staff costs	2 465	2 390	645	588
Salaries and other staff costs	2 300	2 275	612	581
Company contributions to retirement funds	135	115	24	7
EST share-based payment	30	–	9	–

* Nominal amount.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

20. SHARE-BASED PAYMENTS

AECI COMMUNITY EDUCATION AND DEVELOPMENT TRUST ("CST")

	GROUP		COMPANY	
R millions	2012	2011	2012	2011
Equity-settled share-based payment for CST transaction	138	–	138	–

On 13 February 2012, the Company advanced R4 426 604 to the CST to enable it to subscribe and pay for 4 426 604 ordinary shares, at R1,00 par value, in the Company. The CST will hold these shares for a 10-year period. During the term, the CST will be entitled to receive all distributions in specie and capitalisation shares and 60% of any other distributions in respect of the shares but will not be entitled to participate in any rights offer.

At the end of the 10-year period, a portion of the shares will be repurchased and cancelled by the Company for no consideration with the remaining shares being retained by the CST on a perpetual basis, with equal rights to the other AECI listed ordinary shares. These shares, therefore are contingently returnable and as a result are excluded from the number of shares used to calculate EPS and HEPS.

The number shares to be retained by the CST after such repurchase will be the number of AECI ordinary shares determined in accordance with the following CST distribution formula:

$$A = B \times [(1 - (C - E + F)) \div D]$$

A is the number of AECI ordinary shares to be retained by the CST, provided that fractions arising will be rounded to the nearest whole number

B is 4 426 604

C is R75,82 being the issue price, increased by the rate of 85% of the prime rate compounded monthly in arrears during the CST term

D is the volume weighted average price ("VWAP") of an AECI ordinary share for the higher of the 30 or 60 trading days ending at the close of trading on the CST termination date

E is an amount equal to the distributions which would have been paid to the CST in respect of an AECI ordinary share held had the CST not elected to receive only 60% of such distributions

F is an amount equal to the dividends and any other payments and distributions which have been paid to the CST up to the termination date

A share-based payment expense was recognised as an equity-settled share-based payment and the transaction was recognised by reference to the fair value of the equity instruments granted. There are no vesting conditions attached to the shares and a share-based payment expense was recognised in full in the income statement with a corresponding recognition directly in retained earnings. The share-based payment is calculated by multiplying the 4 426 604 shares by the fair value per instrument of R31,19. The effect on the Group's financial position is limited to the effects on current profit and loss, as the transaction does not alter the Group's net asset value.

The fair value of the equity instruments was determined using a Monte Carlo option pricing approach to simulate the future share price of the Company's listed shares over the period of the transaction. The approach involves a large number of simulations of the price calculated at the end of the term, discounted to present value using a risk-free rate. The present value of all simulations is averaged to determine the fair value of the equity instrument.

The inputs for the model, based on market conditions at grant date, and fair value determined were as follows:

Market price of the Company's listed shares at grant date	R87,25
Issue price ¹	R75,82
Risk-free interest rates	South African rand zero swaps curve
Prime rates	South African rand prime curve
Dividend yield	based on forecast dividends
Grant date	9 February 2012
Termination date	9 February 2022
Hurdle price ²	R195,13
Share price volatility ³	24,78% per annum
Vesting	vest immediately at grant date
Number of simulations	10 000
Fair value of equity instrument	R31,19

1 The issue price was calculated as the higher of the VWAP for the 30 or 60 trading days ended at the close of business on 7 October 2011, being the Friday prior to the signature date of the CST subscription agreement as determined by the rules.

2 The issue price increased by the rate of 85% of the prime rate compounded monthly in arrears over the 10-year term.

3 Volatility was measured using the daily historic volatility equally weighted over a period of 10 years being equivalent to the CST term.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

20. SHARE-BASED PAYMENTS (CONTINUED)

The CST is not controlled by the Group and is not consolidated in the Group. Control was assessed in terms of IAS 27 – Consolidated and separate financial statements and the guidance provided in SIC 12 Consolidation – Special Purpose Entities.

AECI EMPLOYEES SHARE TRUST ("EST")

	GROUP		COMPANY	
R millions	2012	2011	2012	2010
Equity-settled share-based payment for EST transaction	30	–	30	–
– Recognised in profit from operations	30	–	9	–
– Investment in subsidiaries and joint ventures	–	–	21	–

On 9 February 2012, the Company created and issued 10 117 951 redeemable convertible B ordinary shares of no par value. The EST subscribed for these shares for no cash consideration. The EST will hold the shares on behalf of its beneficiaries for a period of 10 years. The beneficiaries are permanent employees who do not participate in any of the Group's existing long-term incentive schemes and Black Managers, who were employed as at 9 February 2012 in the Group's South African operations and any other employees and Black Managers who are employed subsequently and granted allocations by the AECI Executive Committee.

An initial allocation of 7 569 669 shares was made. The number of shares for Black Managers was determined on the basis of annual basic salary divided by the issue price of R75,83. The number of shares for the remaining eligible employees was 1 022 AECI B ordinary shares per employee plus 102 AECI B ordinary shares for every year of completed service up to a maximum of 10 years, as indicated in the following table:

	Total number of shares to be allocated
NUMBER OF YEARS OF COMPLETED SERVICE	
Less than 1	1 022
1	1 124
2	1 226
3	1 328
4	1 430
5	1 532
6	1 634
7	1 736
8	1 838
9	1 940
10	2 042

The shares are unlisted, not transferable or saleable, have the same voting rights as AECI ordinary shares and any dividend declared on the B ordinary shares may not exceed the dividend declared on ordinary shares.

At the end of 10-year period, the shares allocated to beneficiaries will be distributed in accordance with the EST distribution formula. These entitlement shares will then be converted to AECI ordinary shares and the remainder of the B ordinary shares will be redeemed for no consideration. Any shares which have not been allocated to employees will be distributed to the CST.

The number of shares to be distributed and available for conversion to AECI ordinary shares will be determined in accordance with the EST distribution formula:

$$A = B \times \{[1 - (C - E + F + X)] \div D\}$$

A is the number of the vested AECI B ordinary shares to which an EST beneficiary is entitled, provided that fractions arising will be rounded to the nearest whole number. If A is zero or less than zero, there will be no distribution and the remaining vested shares not distributed will be redeemed for no consideration.

B is the total number of shares vested in beneficiaries at the termination date.

C is R75,82 being the issue price, increased by the rate of 85% of the prime rate compounded monthly in arrears during the EST term.

D is the VWAP of an AECI ordinary share for the higher of the 30 or 60 trading days ending at the close of trading on the EST termination date.

E is an amount equal to the distributions which would have been paid on the vested shares had they been AECI ordinary shares instead of AECI B ordinary shares and as though they had been held from 9 February 2012.

F is an amount equal to the dividends and any other payments and distributions which have actually been paid in respect of AECI B ordinary shares over the EST term.

X is an amount equal to the aggregate administration costs of the EST paid by the Group over the EST term divided by the total number of AECI B ordinary shares held by the EST.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

20. SHARE-BASED PAYMENTS (CONTINUED)

AECI EMPLOYEES SHARE TRUST ("EST") (CONTINUED)

A share-based payment expense is recognised as an equity-settled share-based payment in profit from operations, with a corresponding credit to a share-based payment reserve, and will be recognised over the vesting period of the shares with reference to the fair value of the equity instruments granted. The vesting period is based on a forfeiture profile as follows:

	(%)
PERCENTAGE OF B ORDINARY SHARES TO BE FORFEITED	
Less than 3 years	100
3 but less than 4 years	80
4 but less than 5 years	60
5 but less than 6 years	40
6 but less than 7 years	20
More than 7 years	–

The fair value of the equity instruments was determined using a Monte Carlo option pricing approach to simulate the future share price of the Company's listed shares over the period of the transaction. The approach involves a large number of simulations of the price calculated at the end of the term, discounted to present value using a risk-free rate. The present value of all simulations is averaged to determine the fair value of the equity instrument.

The inputs for the model, based on market conditions at grant date, and fair value determined were as follows:

Market price of the Company's listed shares at grant date	R88,89
Issue price ¹	R75,82
Risk-free interest rates	South African rand zero swaps curve
Prime rates	South African rand prime curve
Dividend yield	based on 10% of forecast dividends
Grant date	30 April 2012
Termination date	9 February 2022
Hurdle price ²	R216,26
Share price volatility ³	24,71% per annum
Vesting	7 years in accordance with the forfeiture above
Number of simulations	50 000
Fair value of equity instrument	R18,54

1 The issue price was calculated as the higher of the VWAP for the 30 or 60 trading days ended at the close of business on 7 October 2011, being the Friday prior to the signature date of the EST subscription agreement as determined by the rules.

2 The issue price increased by the rate of 85% of the prime rate compounded monthly in arrears over the 10-year term.

3 Volatility was measured using the daily historic volatility equally weighted over a period of 10 years, being equivalent to the EST term.

	Number of shares
EST SHARE ALLOCATION	
Number of shares issued to the EST	10 117 951
Number of shares allocated to beneficiaries during the year	(7 569 669)
Number of shares forfeited during the year	255 557
Unallocated pool shares as at 31 December 2012	2 803 839

The EST is consolidated in the Group, in line with the guidance provided in SIC 12 Consolidation – Special Purpose Entities, and consolidation is likely to continue after IFRS 10 becomes effective. The B ordinary shares were treated as treasury shares. Any dividends received by the EST will be eliminated together with the dividend paid by the Company in the Group results.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

21. INTEREST EXPENSE

	GROUP		COMPANY	
R millions	2012	2011	2012	2011
Interest paid	(263)	(253)	(310)	(257)
Non-current borrowings	(157)	(104)	(156)	(104)
Current borrowings	(88)	(149)	(86)	(115)
Other	(18)	–	–	–
Subsidiary companies and joint ventures			(68)	(38)
Interest capitalised	–	17	–	–
	(263)	(236)	(310)	(257)

22. INTEREST RECEIVED

	GROUP		COMPANY	
R millions	2012	2011	2012	2011
Subsidiary companies and joint ventures			281	265
Loans and receivables	40	27	21	14
	40	27	302	279

23. INVESTMENT INCOME

	GROUP		COMPANY	
R millions	2012	2011	2012	2011
Dividends from unlisted South African subsidiaries			–	113
			–	113
Aggregate income from subsidiaries and joint ventures				
Dividends			–	113
Net interest received			213	227
Secretarial and administrative fees			69	20
			282	360

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

24. TAX EXPENSE

	GROUP		COMPANY	
R millions	2012	2011	2012	2011
Current tax	(354)	(345)	(112)	(114)
South African and foreign normal tax	(329)	(311)	(90)	(94)
Foreign withholding taxes	(3)	(11)	–	–
Secondary tax on companies	(22)	(23)	(22)	(20)
Deferred tax	(9)	(9)	(21)	1
	(363)	(354)	(133)	(113)
Adjustment for prior years	18	48	20	1
South African normal tax	(5)	(5)	(2)	6
Deferred tax	23	53	22	(5)
	(345)	(306)	(113)	(112)
Analysis of deferred tax charge by major temporary differences:				
Property, plant and equipment	(33)	(78)	(2)	(4)
Provisions	(42)	30	(18)	32
Share options hedge premium	*	(1)	–	(1)
Pension fund employer surplus accounts	(2)	(8)	(2)	(8)
Deferred foreign exchange differences	(1)	(8)	*	(5)
Computed tax losses	66	65	–	–
Fair value adjustments	(2)	1	–	–
Other	5	(10)	4	1
	(9)	(9)	(18)	15
Adjustment for prior years	23	53	22	(5)
	14	44	4	10
Computed tax losses				
Utilised to reduce deferred tax or create deferred tax assets	1 504	1 240	–	–
Losses on which no deferred tax assets were raised because of uncertainty regarding their utilisation	13	26	–	–
	1 517	1 266	–	–
	GROUP		COMPANY	
%	2012	2011	2012	2011
Reconciliation of tax rate computed in relation to profit before tax				
Effective rate	35,1	26,8	52,4	24,6
Capital and non-taxable receipts	1,5	3,3	0,6	8,4
Non-deductible expenses	(8,6)	(3,4)	(24,2)	(0,2)
Secondary tax on companies	(2,6)	(2,0)	(10,4)	(5,0)
Adjustment for prior years	1,8	4,2	9,6	0,3
Capital gains	(0,3)	(0,6)	–	–
Other	1,1	(0,3)	*	(0,1)
South African standard rate	28,0	28,0	28,0	28,0

* Nominal amount.

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25. EARNINGS PER SHARE

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	GROUP	
R millions	2012	2011
HEADLINE EARNINGS ARE DERIVED FROM:		
Profit attributable to ordinary shareholders	630	777
Impairment of goodwill ¹	9	–
Impairment of property, plant and equipment – net	2	–
Impairment of property, plant and equipment – gross	3	–
Tax effects of impairments of property, plant and equipment	(1)	–
Surplus on disposal of property, plant and equipment – net	(15)	(4)
Surplus on disposal of property, plant and equipment – gross	(18)	(7)
Tax effects of surplus on disposal of property, plant and equipment	3	3
Surplus on derecognition of businesses and subsidiary companies disposed of ¹	(5)	(1)
Surplus on disposal of joint venture ¹	(10)	–
HEADLINE EARNINGS	611	772

1 These re-measurements have a nominal tax effect. The re-measurements have no non-controlling interest effect.

	GROUP	
	2012	2011
EARNINGS PER ORDINARY SHARE (CENTS)		
Basic	564	724
Headline	547	720
Weighted average number of ordinary shares in issue	132 633 480	119 135 869
Deduct weighted number of treasury shares held	20 921 554	11 884 699
	111 711 926	107 251 170

Basic 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 111 711 926, net of treasury shares (2011: 107 251 170).

	GROUP	
	2012	2011
DILUTED EARNINGS PER ORDINARY SHARE (CENTS)		
Basic	537	723
Headline	521	719

At 31 December 2012 there were 110 740 (2011: 236 680) options outstanding under the employees' share option scheme and 6 098 247 shares issued to the CST and EST. 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 117 221 689 (2011: 107 418 320).

The average share price of AECI since the beginning of the financial year, used in the determination of potentially dilutive ordinary shares, is R84,15 (2011: R80,33) compared with an average exercise price on the outstanding options of R23,60 (2011: R23,60).

	GROUP	
	2012	2011
RECONCILIATION OF THE WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES FOR DILUTED EARNINGS PER SHARE:		
Weighted average number of ordinary shares	111 711 926	107 251 170
Dilutive adjustment for potential ordinary shares	5 430 079	–
Dilutive adjustment for share options under the AECI share option scheme	79 684	167 150
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES FOR DILUTED EARNINGS PER SHARE	117 221 689	107 418 320

The diluted earnings per ordinary share have been disclosed 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

26. DIVIDENDS

	GROUP		COMPANY	
R millions	2012	2011	2012	2011
ORDINARY				
Final for the previous year: No. 156 of 179 cents (2011: 179 cents) paid 16 April 2012	205	145	226	161
Interim for the current year: No. 157 of 78 cents (2011: 78 cents) paid 10 September 2012	89	83	99	93
Total ordinary dividends paid 257 cents (2011: 213 cents)	294	228	325	254
PREFERENCE				
Nos. 148 and 149 paid 15 June 2012 and 14 December 2012 respectively	2	2	2	2
	296	230	327	256
Proposed final dividend No. 158 for the year ended 31 December 2012 of 185 cents (2011: 179 cents) per share payable on 15 April 2013	212	205	234	226
Secondary tax on companies thereon	–	21	–	23

The proposed final dividend is subject to withholding tax in the hands of the shareholders.

27. COMMITMENTS

	GROUP		COMPANY	
R millions	2012	2011	2012	2011
Capital commitments authorised	225	360	23	12
Contracted for	73	116	17	6
Not contracted for	152	244	6	6
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 capital commitments of joint ventures.				
Future rentals on property, plant and equipment leased	178	173	10	11
Payable within one year	58	43	4	4
Payable between 1 and 5 years	103	112	6	7
Payable thereafter	17	18	*	*
The Group's leasing arrangements relate primarily to property and vehicles and the lease periods range from three to six years. Certain of the properties have renewal options either at the option of the lessor or the Group.				

* Nominal amount.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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 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. The Group is not exposed to equity price 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 them. Further quantitative disclosures are included with other relevant notes as indicated.

The Board of Directors is responsible for the risk management activities in the Group. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Internal Audit function undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Risk Committee. The 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

R millions	CARRYING AMOUNT		FAIR VALUE	
	2012	2011	2012	2011
GROUP				
FINANCIAL ASSETS				
Available-for-sale financial assets ¹	2	2	2	2
– Unlisted investments	2	2	2	2
Financial assets at fair value through profit and loss	8	22	8	22
– Forward exchange contracts	8	22	8	22
Loans and receivables	3 808	3 675	3 808	3 675
– Accounts receivable	2 575	2 575	2 575	2 575
– Cash	1 148	1 061	1 148	1 061
– Loans receivable	19	29	19	29
– Loans relating to unlisted investments	66	7	66	7
– Loans to associate companies	–	3	–	3
	3 818	3 699	3 818	3 699
FINANCIAL LIABILITIES				
– Accounts payable	(2 815)	(2 822)	(2 815)	(2 822)
– Borrowings	(2 989)	(2 928)	(2 989)	(2 928)
– Forward exchange contracts	(13)	(8)	(13)	(8)
	(5 817)	(5 758)	(5 817)	(5 758)

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 2012

28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

	CARRYING AMOUNT		FAIR VALUE	
R millions	2012	2011	2012	2011
CATEGORIES OF FINANCIAL INSTRUMENTS AND FAIR VALUES (CONTINUED)				
COMPANY				
FINANCIAL ASSETS				
Financial assets at fair value through profit and loss	1	17	1	17
– Forward exchange contracts	1	17	1	17
Loans and receivables	978	1 065	978	1 065
– Accounts receivable	880	1 037	880	1 037
– Cash	92	22	92	22
– Loans relating to unlisted investments	6	6	6	6
	979	1 082	979	1 082
FINANCIAL LIABILITIES				
– Accounts payable	(1 159)	(1 212)	(1 159)	(1 212)
– Borrowings	(3 274)	(2 970)	(3 274)	(2 970)
– Forward exchange contracts	(8)	(3)	(8)	(3)
	(4 441)	(4 185)	(4 441)	(4 185)

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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 in 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 disclosed are all measured using inputs as described in Level 2.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

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 euro, Japanese yen, pound sterling and US dollar. 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.

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 euro, Japanese yen, pound sterling and US dollars.

The rand value of the hedged items, based on the contract rates, at 31 December 2012 for the Group was R564 million (2011: R75 million).

The profit on the hedging instruments for the year for the Group was R5 million (2011: R14 million) and was recognised in the income statement.

Cash flow hedges

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 2012 was R71 million (2011: minimal).

The cash flows relating to the hedging instruments will occur in 2013 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 cash flow hedges for the Group was minimal (2011: minimal).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

(A) CURRENCY RISK (CONTINUED)

Transactions in foreign currencies

		FOREIGN AMOUNT		RAND AMOUNT	
Millions	Foreign currency	2012	2011	2012	2011
GROUP					
Forward exchange contracts at 31 December, relating to specific items in the Statements of Financial Position					
Accounts receivable				329	31
	Euro	*	–	–	–
	Japanese yen	27	–	3	–
	Pound sterling	*	–	1	–
	US dollar	37	4	325	31
Accounts payable				494	335
	Euro	8	4	96	50
	Japanese yen	–	32	–	4
	Pound sterling	*	1	6	15
	US dollar	45	34	392	266
Borrowings				–	146
	US dollar	–	18	–	146
Forward exchange contracts at 31 December, 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				39	89
	Euro	–	4	–	40
	Japanese yen	–	112	–	12
	Pound sterling	–	*	–	–
	US dollar	5	4	39	37
Exports				299	293
	US dollar	34	36	299	293
COMPANY					
Forward exchange contracts at 31 December, relating to specific items in the Statements of Financial Position					
Accounts receivable				34	16
	Euro	–	–	–	–
	Japanese yen	–	–	–	–
	Pound sterling	*	–	1	–
	US dollar	4	2	33	16
Accounts payable				327	258
	Euro	6	3	68	35
	Pound sterling	*	–	–	–
	Swiss franc	–	–	1	–
	US dollar	30	29	258	223
Borrowings				–	146
	US dollar	–	18	–	146
Forward exchange contracts at 31 December, 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				18	53
	Euro	–	3	–	29
	US dollar	2	3	18	24
Exports				20	–
	US dollar	2	–	20	–

* Nominal amount..

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

EXPOSURE TO CURRENCY RISK

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

Millions	2012				2011			
	Euro	Pound sterling	US dollar	Other	Euro	Pound sterling	US dollar	Other
Cash	15	2	481	41	14	2	85	20
Trade receivables	5	–	141	71	8	*	354	36
Other receivables	*	*	2	23	*	*	1	*
Loans receivable	–	–	7	–	–	–	–	18
Interest-bearing liabilities	(1)	–	(152)	–	–	–	(191)	(41)
Trade payables	(86)	(11)	(455)	(37)	(64)	(22)	(419)	(35)
Other payables	(4)	–	(2)	(11)	–	–	–	–
Gross exposure	(71)	(9)	22	87	(42)	(20)	(170)	(2)
Forward exchange contracts	96	5	(193)	–	90	15	125	16
Net exposure	25	(4)	(171)	87	48	(5)	(45)	14

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

Millions	2012				2011			
	Euro	Pound sterling	US dollar	Other	Euro	Pound sterling	US dollar	Other
Cash	1	–	4	–	(2)	*	4	*
Trade receivables	*	–	21	8	6	–	27	9
Loans to subsidiaries	–	–	–	–	–	–	260	–
Interest-bearing liabilities	–	–	–	–	–	–	(191)	(41)
Trade payables	(54)	(1)	(191)	(4)	(35)	(1)	(286)	*
Loans from subsidiaries	–	–	–	–	–	–	(40)	–
Gross exposure	(53)	(1)	(166)	4	(31)	(1)	(226)	(32)
Forward exchange contracts	68	*	223	1	64	–	377	–
Net exposure	15	(1)	57	5	33	(1)	151	(32)

* Nominal amount.

The following significant exchange rates applied during the year:

R millions	CLOSING RATE		AVERAGE RATE	
	2012	2011	2012	2011
Euro	11,19	10,51	10,54	10,08
Japanese yen	0,10	0,10	0,10	0,09
Pound sterling	13,72	12,53	12,99	11,61
US dollar	8,49	8,15	8,20	7,25

SENSITIVITY ANALYSIS

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

R millions	GROUP		COMPANY	
	2012	2011	2012	2011
Equity	(3)	(1)	(6)	(15)
Profit for the year before tax	(3)	(1)	(6)	(15)

* Nominal amount.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

(B) INTEREST RATE RISK

The Group borrows extensively in both local and offshore markets to minimise its borrowing costs in rand terms.

Exposure to interest rate risk on borrowings and receivables is managed on a proactive basis. Depending on market conditions, the Group makes appropriate use of forward rate agreements, interest rate swaps and interest rate caps and floors to generate the desired interest rate profile and to manage exposure to interest rate fluctuations. No target levels of exposure are maintained.

The interest rate risk profile of financial liabilities at 31 December was:

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	TOTAL		FLOATING RATE FINANCIAL LIABILITIES		FIXED RATE FINANCIAL LIABILITIES	
Millions	2012	2011	2012	2011	2012	2011
GROUP						
Rand						
– Current	465	548	100	212	365	336
– Non-current	1 250	1 465	1 250	1 100	–	365
Other						
– Current	–	191	–	190	–	1
– Non-current	1	42	1	41	–	1
TOTAL	1 716	2 246	1 351	1 543	365	703
COMPANY						
Rand						
– Current	465	336	100	–	365	336
– Non-current	1 250	1 465	1 250	1 100	–	365
Other						
– Current	–	190	–	190	–	–
– Non-current	–	41	–	41	–	–
TOTAL	1 715	2 032	1 350	1 331	365	701
	FIXED RATE FINANCIAL LIABILITIES (millions)		WEIGHTED AVERAGE INTEREST RATE (%)		WEIGHTED AVERAGE PERIOD FOR WHICH RATE IS FIXED (months)	
	2012	2011	2012	2011	2012	2011
GROUP						
Rand						
– Current	365	336	10,4	10,4	10,4	12,0
– Non-current	–	365	–	10,4	–	24,0
Other						
– Current	–	1	–	10,7	–	12,0
– Non-current	–	1	–	10,7	–	24,0
TOTAL	365	703	10,4	10,4	10,4	18,3
COMPANY						
Rand						
– Current	365	336	10,4	10,4	10,4	12,0
– Non-current	–	365	–	10,4	–	24,0
TOTAL	365	701	10,4	10,4	10,4	18,3

SENSITIVITY ANALYSIS

Based on the Group exposure to interest rate risk, a 100 basis point increase in interest rates at 31 December would have had no effect on profit and loss or equity.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

(C) 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.

(i) MATURITY PROFILE OF FINANCIAL LIABILITIES AT 31 DECEMBER

R millions	Carrying amount	Contractual cash flows	Within 1 year	1 to 2 years	2 to 5 years	More than 5 years
GROUP						
2012						
FINANCIAL LIABILITIES						
Secured non-current borrowings	1	1	1	–	–	–
Unsecured non-current borrowings	1 715	1 715	464	1 126	125	–
Unsecured current borrowings	1 273	1 273	1 273	–	–	–
Interest on non-current borrowings ¹	18	214	132	82	–	–
Trade payables and closure costs	2 008	2 008	2 008	–	–	–
Other payables	789	789	789	–	–	–
DERIVATIVE FINANCIAL LIABILITIES						
Forward exchange contracts						
– inflows	(8)	(299)	(299)	–	–	–
– outflows	13	39	39	–	–	–
Total financial liabilities	5 809	5 740	4 407	1 208	125	–
Percentage profile (%)		100	77	21	2	–
2011						
FINANCIAL LIABILITIES						
Secured non-current borrowings	2	2	1	1	–	–
Unsecured non-current borrowings	2 244	2 244	738	506	1 000	–
Unsecured current borrowings	682	682	682	–	–	–
Interest on non-current borrowings ¹	25	394	169	138	87	–
Trade payables and closure costs	1 963	1 963	1 963	–	–	–
Other payables	874	874	874	–	–	–
DERIVATIVE FINANCIAL LIABILITIES						
Forward exchange contracts						
– inflows	(22)	(293)	(293)	–	–	–
– outflows	8	89	89	–	–	–
Total financial liabilities	5 776	5 955	4 223	645	1 087	–
Percentage profile (%)		100	71	11	18	–

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

(C) 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						
2012						
FINANCIAL LIABILITIES						
Unsecured non-current borrowings	1 715	1 715	465	1 125	125	–
Unsecured current borrowings	1 559	1 559	1 559	–	–	–
Interest on non-current borrowings ¹	18	213	131	82	–	–
Trade payables and closure costs	887	887	887	–	–	–
Other payables	254	254	254	–	–	–
DERIVATIVE FINANCIAL LIABILITIES						
Forward exchange contracts						
– inflows	(1)	20	20	–	–	–
– outflows	8	18	18	–	–	–
Total financial liabilities	4 440	4 666	3 334	1 207	125	–
Percentage profile (%)		100	71	26	3	–
2011						
FINANCIAL LIABILITIES						
Unsecured non-current borrowings	2 032	2 032	526	506	1 000	–
Unsecured current borrowings	938	938	938	–	–	–
Interest on non-current borrowings ¹	25	386	161	138	87	–
Trade payables and closure costs	976	976	976	–	–	–
Other payables	251	251	251	–	–	–
DERIVATIVE FINANCIAL LIABILITIES						
Forward exchange contracts						
– inflows	–	–	–	–	–	–
– outflows	3	53	53	–	–	–
Total financial liabilities	4 225	4 636	2 905	644	1 087	–
Percentage profile (%)		100	63	14	23	–

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.

CREDIT RISKS

Credit risks arise on cash, investments and accounts receivable. The risk on cash is managed by investing with financially sound institutions only 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 11.

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

29. RELATED PARTY INFORMATION

The subsidiaries of the Group are identified in note 35, joint ventures in note 34 and associate companies in note 7.

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.

No dividends were received from associate companies (2011: nil) and no loans were given to associate companies (2011: R3 million) (see note 7).

Transactions with Directors are disclosed in note 31.

Transactions with related parties are made on terms equivalent to those that prevail in arm's length transactions.

R millions	COMPANY	
	2012	2011
THE TRANSACTIONS THAT TOOK PLACE WITH RELATED PARTIES OF THE COMPANY WERE AS FOLLOWS:		
Sales and leasing income by the Company to		
– Subsidiaries	467	415
Sales to the Company by		
– Subsidiaries	114	98
Dividends received by the Company from		
– Subsidiaries	–	113
Interest received by the Company from		
– Subsidiaries	280	263
– Joint ventures	1	2
Interest paid by the Company to		
– Subsidiaries	65	34
– Joint ventures	3	4
Rental of premises to the Company by		
– AECl Pension Fund	7	10
– Subsidiaries	13	13
Commission and administration fees paid by the Company to		
– Subsidiaries	56	43
Company contributions to pension and provident funds		
– AECl Pension Fund	18	16
– AECl Supplementary Pension Fund	3	2
– AECl Employees Provident Fund	11	9
OUTSTANDING BALANCES WITH RELATED PARTIES OF THE COMPANY AT 31 DECEMBER WERE AS FOLLOWS (SEE NOTE 6):		
Loan amounts owing to the Company by		
– Subsidiaries	5 198	5 448
– Joint ventures	12	11
Loan amounts owing by the Company to		
– Subsidiaries	1 319	1 733
– Joint ventures	37	31

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

29. RELATED PARTY INFORMATION (CONTINUED)

R millions	GROUP	
	2012	2011
Key management personnel compensation:		
– short-term employee benefits	32	32
– post-retirement benefits	2	2
– other long-term benefits	4	4
– termination benefits	1	–
	39	38

Key management personnel are the Directors, Prescribed Officers and Managing Directors or equivalent of operating businesses.

The key management personnel compensation above relates to the Managing Director or equivalent and excludes Directors' and Prescribed Officers' remuneration which is set out in note 31.

30. EMPLOYEE BENEFITS

RETIREMENT BENEFITS

The Group provides retirement benefits for all its permanent employees by means of a number of independent defined-benefit pension schemes and defined-contribution provident funds.

At 31 December 2012 the following funds were in existence:

	Date of last statutory valuation
Defined-benefit funds	
– AECl Pension Fund	1 March 2012
– AECl Employees Pension Fund	1 March 2012
– AECl Supplementary Pension Fund	1 March 2012
– Dulux Employees Pension Fund	1 March 2012
Defined-contribution funds	
– AECl 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% of earnings.

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 year using the projected unit credit method of valuation by independent firms of consulting actuaries, while for defined-contribution funds no statutory valuations are required.

Principal actuarial assumptions applied at 31 December in the valuations were as follows:

%	2012	2011
Discount rate	8,50	9,25
Expected return on plan assets	8,50	9,25
Future price inflation	5,75	5,90
Expected salary increases	7,25	7,40
Future pension increases	5,20	5,30

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

30. EMPLOYEE BENEFITS (CONTINUED)

RETIREMENT BENEFITS (CONTINUED)

The total cost recognised in the income statement of R55 million (2011: R45 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:

R millions	GROUP	
	2012	2011
Current service cost	(105)	(88)
Interest cost	(696)	(625)
Expected return on plan assets	1 064	979
Net actuarial loss in the year	(319)	(299)
Recognised in the income statement in respect of defined-benefit funds	(56)	(33)
Actual return on plan assets	2 194	1 127

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

R millions	GROUP	
	2012	2011
Fair value of plan assets	13 451	11 751
At the beginning of the year	11 751	11 132
Expected return on plan assets	1 064	979
Net actuarial gain	1 130	148
Employer contributions	64	62
Employee contributions	45	41
Benefits paid	(603)	(611)
Present actuarial value of defined-benefit obligations	(8 445)	(7 693)
At the beginning of the year	(7 693)	(7 143)
Current service cost	(105)	(88)
Interest cost	(696)	(625)
Employee contributions	(45)	(41)
Benefits paid	603	611
Net actuarial loss	(509)	(407)
	5 006	4 058
Less: Pension fund employer surplus accounts	(267)	(259)
Surplus of plan assets over defined-benefit obligations	4 739	3 799

INCLUDED IN THE FAIR VALUE OF PLAN ASSETS WERE:

261 373 AECI ordinary shares (2011: 279 158)	21	23
Share of The Woodlands Office Park	-	1 194

AECI occupies Buildings 23 and 24, being approximately 4,1%, of The Woodlands

During the current year, the 60% share in The Woodlands was disposed of.
The fair value is determined annually at the funds' reporting date.

The fair value of the funds' plan assets at 31 December 2012 was comprised of equity instruments (54%); bonds (25%); property (10%) and cash (11%).

The estimated employer contributions for the next financial year to the Group's defined-benefit funds is R68 million.

The surplus of assets over liabilities has not been recognised in the Group financial statements because:

- › a substantial portion thereof is required to meet the solvency reserves determined to be necessary by the funds' actuaries; and
- › the Company has no legal entitlement to the surplus, either during the life of the funds or on their dissolution, beyond the amount credited to the employer surplus accounts.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

30. EMPLOYEE BENEFITS (CONTINUED)

HISTORICAL INFORMATION ON RETIREMENT BENEFITS

	GROUP				
R millions	2012	2011	2010	2009	2008
Fair value of plan assets	13 451	11 751	11 132	10 565	9 880
Present actuarial value of defined-benefit obligations	(8 445)	(7 693)	(7 143)	(6 766)	(6 390)
	5 006	4 058	3 989	3 799	3 490
Less: pension fund employer surplus accounts	267	259	230	236	213
Surplus of plan assets over defined-benefit obligations	4 739	3 799	3 759	3 563	3 277

POST-RETIREMENT MEDICAL AID BENEFITS

The Group provides medical aid benefits for all its permanent employees domiciled in South Africa, 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	
%	2012	2011
Annual increase in healthcare costs	7,16	7,90
Discount rate	8,50	9,25

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

	GROUP		COMPANY	
R millions	2012	2011	2012	2011
Present actuarial value of defined-benefit obligations	1 182	1 184	855	870
At the beginning of the year	1 184	1 133	870	839
Current service cost	6	6	2	2
Interest cost	103	99	74	73
Liabilities extinguished on settlements	(82)	(81)	(65)	(65)
Net actuarial (gains)/loss	(29)	27	(26)	21

Estimated employer's contributions in respect of post-retirement medical aid benefits for the coming year: Group – R45 million; Company – R37 million.

HISTORICAL INFORMATION ON POST-RETIREMENT MEDICAL AID BENEFITS

	GROUP				
R millions	2012	2011	2010	2009	2008
Fair value of plan assets (see note 15)	411	417	412	417	406
Present actuarial value of defined-benefit obligations	(1 182)	(1 184)	(1 133)	(994)	(919)
Net liabilities	(771)	(767)	(721)	(577)	(513)

	COMPANY				
R millions	2012	2011	2010	2009	2008
Fair value of plan assets (see note 15)	294	316	314	320	313
Present actuarial value of defined-benefit obligations	(855)	(870)	(839)	(753)	(712)
Net liabilities	(561)	(554)	(525)	(433)	(399)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

30. EMPLOYEE BENEFITS (CONTINUED)

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:

R millions	GROUP		COMPANY	
	1% increase	1% decrease	1% increase	1% decrease
Current service cost	–	–	–	–
Interest cost	–	–	–	–
Increase/(decrease) in carrying amount of post-retirement medical aid obligation	95	(170)	66	(118)

SHARE OPTION SCHEME

AECI 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 significant 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 or one of its subsidiary companies for a reason approved by the Board of Directors, the participant shall nevertheless continue to have the same rights and obligations under the scheme in respect of the participant's options as if the participant had remained in the employ of the Company or subsidiary company.

In the event that the participant ceases to be an employee otherwise than as a result of death, retirement on pension or other reasons approved by the Board of Directors, any option not yet exercised will lapse.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

30. EMPLOYEE BENEFITS (CONTINUED)

SHARE OPTION SCHEME (CONTINUED)

Details of outstanding share options at 31 December 2012 were:

Expiry date	Exercise price (Rand)	NUMBER OF SHARES			
		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	7,5	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	1 431 000	29 000	–
May 2013	23,60	413 900	303 160	–	110 740
		7 564 900	7 109 160	345 000	110 740

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

	NUMBER OF OPTIONS	
	2012	2011
Outstanding at the beginning of the year	236 680	491 500
Lapsed or forfeited during the year	–	(29 000)
Exercised during the year		
– Exercised against share options hedge ¹	(125 940)	(225 820)
Outstanding at the end of the year	110 740	236 680
Details of share options exercised during the year		
Expiry date	2012 – 2013	2011 – 2013
Weighted average exercise price per share (rand)	23,60	18,41

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 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

30. EMPLOYEE BENEFITS (CONTINUED)

CASH-SETTLED SHARE-BASED SCHEME (BENEFIT UNITS) (CONTINUED)

Details of outstanding benefit units at 31 December 2012 were:

Expiry date	Date granted	Issue price (Rand)	NUMBER OF UNITS			
			Granted	Exercised	Lapsed or forfeited	Outstanding
February 2015	March 2005	41,00	332 200	207 070	38 710	86 420
July 2016	August 2006	56,00	221 085	66 946	32 748	121 391
February 2017	March 2007	70,90	199 725	41 125	32 375	126 225
July 2017	August 2007	80,45	29 200	–	29 200	–
February 2018	March 2008	67,25	184 550	9 195	41 440	133 915
February 2019	March 2009	43,42	382 650	18 628	28 400	335 622
February 2020	March 2010	59,80	399 316	960	3 480	394 876
February 2021	March 2011	83,82	447 640	–	7 160	440 480
			2 196 366	343 924	213 513	1 638 929

R millions	GROUP		COMPANY	
	2012	2011	2012	2011
Cash-settled share-based payment transactions recognised in the income statement	3	5	3	5
Total carrying amount of cash-settled share-based transaction liabilities (see note 15)	38	44	38	44
Total intrinsic value of vested cash-settled share-based transaction liabilities	13	18	13	18

EARNINGS-BASED INCENTIVE SCHEMES (EBIS UNITS)

AECI 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 significant 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:

For units issued from 2010

After 3 years – up to 33,3% of the units

After 4 years – up to 66,6% of the units

After 5 years – up to 100% of the units

For units issued prior to 2010

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 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 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 lapse.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

30. EMPLOYEE BENEFITS (CONTINUED)

EARNINGS-BASED INCENTIVE SCHEMES (EBIS UNITS) (CONTINUED)

Details of outstanding EBIS units at 31 December 2012 were:

Expiry date	Date granted	Issue price (Rand)	NUMBER OF UNITS			
			Granted	Exercised	Lapsed or forfeited	Outstanding
February 2013	March 2003	3,40	7 650 000	6 477 000	540 000	633 000
February 2015	March 2005	3,92	7 927 350	5 046 920	1 034 610	1 845 820
July 2016	August 2006	5,16	5 519 000	2 080 860	1 070 180	2 367 960
February 2017	March 2007	5,42	6 137 100	2 065 720	1 113 110	2 958 270
July 2017	August 2007	5,97	394 000	–	394 000	–
February 2018	March 2008	5,12	5 417 800	761 790	969 300	3 686 710
February 2019	March 2009	5,96	6 258 700	466 860	413 500	5 378 340
February 2020	March 2010	3,34	18 594 101	51 040	447 572	18 095 489
February 2021	March 2011	5,84	17 643 920	–	427 660	17 216 260
			75 541 971	16 950 190	6 409 932	52 181 849

Chemical Services Limited ("CSL") (now referred to as the Group's specialty chemicals cluster) offered EBIS units, without payment, to those employees of CSL or its subsidiary companies who the former CSL Board of Directors, in its absolute discretion, considered played a significant role in the management of CSL or its subsidiary companies and contributed 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 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 the Group or one of its subsidiary companies for a reason approved by the Board of Directors, the participant shall nevertheless continue to have rights under the scheme in respect of the participant's units as if the participant had remained in the employ of the Group.

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 lapse.

The EBIS units were issued for the first time in 2002 and for the last time in 2009.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

30. EMPLOYEE BENEFITS (CONTINUED)

EARNINGS-BASED INCENTIVE SCHEMES (EBIS UNITS) (CONTINUED)

Details of outstanding EBIS units at 31 December 2012 were:

Expiry date	Date granted	Issue price (Rand)	NUMBER OF UNITS			
			Granted	Exercised	Lapsed or forfeited	Outstanding
February 2012	March 2002	1,81	3 597 000	3 141 600	455 400	–
February 2013	March 2003	2,35	8 298 400	7 298 400	730 000	270 000
August 2013	September 2003	2,50	860 000	750 000	70 000	40 000
February 2015	March 2005	2,97	10 472 000	8 831 900	710 100	930 000
July 2016	August 2006	3,45	9 332 500	6 310 400	1 484 500	1 537 600
February 2017	March 2007	4,30	8 090 300	5 339 600	1 319 560	1 431 140
February 2018	March 2008	4,77	8 224 600	3 477 260	1 580 160	3 167 180
February 2019	March 2009	7,37	5 820 000	186 000	1 185 800	4 448 200
			54 694 800	35 335 160	7 535 520	11 824 120

	GROUP		COMPANY	
R millions	2012	2011	2012	2011
Total carrying amount of EBIS liabilities (see note 15)	125	151	116	128

31. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION AND INTERESTS

INTEREST OF DIRECTORS AND PRESCRIBED OFFICERS IN THE SHARE CAPITAL OF THE COMPANY

The aggregate beneficial holdings of the Directors and Prescribed Officers of the Company in the issued ordinary shares of the Company at 31 December were as follows:

	NUMBER OF SHARES			
	2012 Direct	2012 Indirect	2011 Direct	2011 Indirect
EXECUTIVE DIRECTORS				
GN Edwards	2 010	–	2 010	–
	2 010	–	2 010	–
NON-EXECUTIVE DIRECTORS				
S Engelbrecht	6 629	600	46 629	600
MJ Leeming	2 500	2 000	2 500	2 000
	9 129	2 600	49 129	2 600
	11 139	2 600	51 139	2 600

In 2012, S Engelbrecht sold 40 000 shares in which he had a direct beneficial interest, which generated proceeds of R3 677 200 before tax.

On 2 January 2013, MA Dytors was appointed as an Executive Director of the Company. He has a direct beneficial interest in 3 015 shares.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

31. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION AND INTERESTS (CONTINUED)

NON-EXECUTIVE DIRECTORS' REMUNERATION

R thousands	Directors' fees	Chairman/Committee fees	Attendance fees	2012 Total	2011 Total
RMW Dunne	172	337	224	733	627
S Engelbrecht (appointed Chairman on 28 May 2012)	480	123	157	760	370
Z Fuphe	172	47	82	301	283
MJ Leeming	172	276	149	597	500
LL Mda	172	47	75	294	150
AJ Morgan	172	243	149	564	447
LM Nyhonyha	172	279	149	600	471
R Ramashia	172	94	142	408	319
F Titi (retired on 28 May 2012)	275	45	64	384	842
	1 959	1 491	1 191	4 641	4 009

EXECUTIVE DIRECTORS' REMUNERATION

R thousands	GN Edwards	KM Kathan	Total
2012			
Basic salary	3 250	2 655	5 905
Bonus and performance-related payments ¹	3 124	2 591	5 715
Expense allowances, medical aid and insurance contributions	432	418	850
Retirement fund contributions	461	314	775
Earnings-based incentive scheme payments	985	–	985
Aggregate remuneration paid by the Company	8 252	5 978	14 230
2011			
Basic salary	3 002	2 472	5 474
Bonus and performance-related payments ¹	3 736	3 162	6 898
Expense allowances, medical aid and insurance contributions	430	409	839
Retirement fund contributions	410	283	693
Aggregate remuneration paid by the Company	7 578	6 326	13 904

1 Bonus and performance-related amounts are in respect of current year performance but are paid in the following year.

Notes to the financial statements
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

31. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION AND INTERESTS (CONTINUED)

PRESCRIBED OFFICERS' REMUNERATION¹

R thousands	JAA Diepenbroek	MA Dytor	TJ Louw ²	EE Ludick	MVK Matshitse ³	SM Venter	Total
2012							
Basic salary	2 036	2 282	1 242	1 775	1 859	2 016	11 210
Bonus and performance-related payments ⁴	980	2 219	–	1 727	1 836	1 823	8 585
Expense allowances, medical aid and insurance contributions	380	460	251	479	316	404	2 290
Leave pay and long service award	–	98	192	–	–	–	290
Retirement fund contributions	342	279	229	216	173	244	1 483
Earnings-based incentive scheme payments	–	668	2 873	481	–	581	4 603
Benefits pay-out on resignation ⁵	–	–	3 537	–	–	–	3 537
Aggregate remuneration	3 738	6 006	8 324	4 678	4 184	5 068	31 998
Aggregate remuneration paid by subsidiaries	(3 738)	–	(3 639)	(198)	–	(4 444)	(12 019)
Aggregate remuneration paid by the Company	–	6 006	4 685	4 480	4 184	624	19 979
2011							
Basic salary	1 903	2 093	2 087	1 614		1 751	9 448
Bonus and performance-related payments	1 837	2 644	1 881	1 100		1 149	8 611
Expense allowances, medical aid and insurance contributions	376	514	456	497		479	2 322
Leave pay	–	91	–	17			108
Retirement fund contributions	186	249	203	190		201	1 029
Earnings-based incentive scheme payments	–	906	–	762		949	2 617
Benefit unit payments	–	–	–			–	–
Aggregate remuneration	4 302	6 497	4 627	4 180		4 529	24 135
Aggregate remuneration paid by subsidiaries	(4 302)	(6 352)	(4 627)	(4 180)		–	(19 461)
Aggregate remuneration paid by the Company	–	145	–	–		4 529	4 674

AGGREGATE REMUNERATION

R thousands	2012 Total	2011 Total
Non-executive Directors	4 641	4 009
Executive Directors	14 230	13 904
Prescribed Officers	31 998	24 135
	50 869	42 048

1 Members of the AECI Executive Committee exercise general control over the management of the business and activities of the Company. There are no other persons who exercise such control over the business or a significant portion thereof. The Executive Committee members are the Company's Prescribed Officers.

2 TJ Louw resigned with effect from 31 July 2012.

3 MVK Matshitse joined AECI as Human Capital Executive and a member of the Executive Committee on 1 January 2012.

4 Bonus and performance-related amounts are in respect of current year performance but are paid in the following year.

5 Apart from the benefits paid to TJ Louw, no other compensation was paid to any Director, Prescribed Officer, past Directors or past Prescribed Officers for loss of office.

6 There were no pensions paid by the Company to any Directors, Prescribed Officers, past Directors or past Prescribed Officers of the Company.

7 There are no service contracts with any Directors or Prescribed Officers which have a notice period of longer than one month.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

31. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION AND INTERESTS (CONTINUED)

LONG-TERM INCENTIVE SCHEMES

Certain Directors and Prescribed Officers have outstanding share options and long-term incentive units under the long-term incentive schemes as described in note 30.

CASH-SETTLED SHARE-BASED SCHEME (BENEFIT UNITS)

Included in outstanding benefit units were the following units granted to Directors and Prescribed Officers:

	Date granted	Issue price (Rand)	NUMBER OF UNITS		
			Granted	Exercised	Outstanding
JAA Diepenbroek	March 2009	43,42	19 000	–	19 000
	March 2010	59,80	7 594	–	7 594
	March 2011	83,82	6 000	–	6 000
MA Dytor	March 2005	41,00	7 300	7 300	–
	August 2006	56,00	4 300	–	4 300
	March 2007	70,90	3 500	–	3 500
	March 2008	67,25	4 250	–	4 250
	March 2009	43,42	7 910	–	7 910
	March 2010	59,80	7 600	–	7 600
	March 2011	83,82	6 600	–	6 600
GN Edwards	March 2005	41,00	10 300	–	10 300
	August 2006	56,00	6 700	–	6 700
	March 2007	70,90	5 750	–	5 750
	March 2008	67,25	26 000	–	26 000
	March 2009	43,42	41 300	–	41 300
	March 2010	59,80	32 542	–	32 542
	March 2011	83,82	25 100	–	25 100
S Engelbrecht	March 2005	41,00	57 000	57 000	–
	August 2006	56,00	28 125	28 125	–
	March 2007	70,90	26 200	26 200	–
KM Kathan	March 2009	43,42	59 700	–	59 700
	March 2010	59,80	47 320	–	47 320
	March 2011	83,82	18 100	–	18 100
TJ Louw ¹	August 2006	56,00	2 950	2 950	–
	March 2007	70,90	2 500	2 500	–
	March 2008	67,25	5 100	3 060	2 040
	March 2009	43,42	9 500	3 800	5 700
	March 2010	59,80	8 560	–	8 560
	March 2011	83,82	6 500	–	6 500
EE Ludick	March 2010	59,80	5 800	–	5 800
	March 2011	83,82	5 100	–	5 100
SM Venter	August 2006	56,00	2 950	–	2 950
	March 2007	70,90	2 500	–	2 500
	March 2010	59,80	6 200	–	6 200
	March 2011	83,82	5 500	–	5 500
			521 351	130 935	390 416

¹ Resigned on 31 July 2012.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

31. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION AND INTERESTS (CONTINUED)

CASH-SETTLED SHARE-BASED SCHEME (BENEFIT UNITS) (CONTINUED)

Movements in the number of benefit units held by Directors and Prescribed Officers were as follows:

	NUMBER OF UNITS	
	2012	2011
Outstanding at the beginning of the year	514 051	441 151
Issued during the year	–	72 900
Exercised during the year	(123 635)	–
Outstanding at the end of the year	390 416	514 051

During the year, S Engelbrecht exercised 111 325 benefit units which generated a benefit of R4 505 718 before tax. TJ Louw exercised 12 310 benefit units which generated a benefit of R443 786 before tax.

None of the other Directors or Prescribed Officers exercised any benefit units in either the current or the prior year.

EARNINGS-BASED INCENTIVE SCHEMES (EBIS UNITS)

Included in outstanding EBIS units were the following units granted to Directors and Prescribed Officers:

	Date granted	Issue price (Rand)	NUMBER OF UNITS		
			Granted	Exercised	Outstanding
JAA Diepenbroek	March 2009	5,96	415 000	–	415 000
	March 2010	3,34	407 898	–	407 898
	March 2011	5,84	256 600	–	256 600
MA Dytar	March 2005	3,92	75 500	75 500	–
	August 2006	5,16	46 600	46 600	–
	March 2007	5,42	45 800	45 800	–
	March 2010	3,34	407 900	–	407 900
	March 2011	5,84	282 300	–	282 300
GN Edwards	March 2003	3,40	275 000	275 000	–
	March 2005	3,92	323 000	–	323 000
	August 2006	5,16	220 000	–	220 000
	March 2007	5,42	225 400	–	225 400
	March 2008	5,12	340 700	–	340 700
	March 2009	5,96	300 700	–	300 700
	March 2010	3,34	582 636	–	582 636
	March 2011	5,84	359 900	–	359 900
S Engelbrecht	March 2003	3,40	470 000	470 000	–
	March 2005	3,92	596 400	596 400	–
	August 2006	5,16	305 250	305 250	–
	March 2007	5,42	342 500	342 500	–
KM Kathan	March 2009	5,96	435 000	–	435 000
	March 2010	3,34	847 231	–	847 231
	March 2011	5,84	259 200	–	259 200
TJ Louw ¹	March 2008	5,12	200 300	120 180	80 120
	March 2009	5,96	207 500	83 000	124 500
	March 2010	3,34	459 768	–	459 768
	March 2011	5,84	281 400	–	281 400
EE Ludick	March 2010	3,34	308 900	–	308 900
	March 2011	5,84	217 600	–	217 600
SM Venter	March 2010	3,34	335 100	–	335 100
	March 2011	5,84	236 100	–	236 100
			10 067 183	2 360 230	7 706 953

¹ Resigned on 31 July 2012.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

31. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION AND INTERESTS (CONTINUED)

EARNINGS-BASED INCENTIVE SCHEMES (EBIS UNITS) (CONTINUED)

Movements in the number of EBIS units held by Directors and Prescribed Officers were as follows:

	NUMBER OF UNITS	
	2012	2011
Outstanding at the beginning of the year	9 991 683	8 174 083
Issued during the year	–	1 893 100
Exercised during the year	(2 284 730)	(75 500)
Outstanding at the end of the year	7 706 953	9 991 683

During the year, S Engelbrecht exercised 1 714 150 EBIS units which generated a benefit of R4 991 694 before tax. GN Edwards exercised 275 000 EBIS units which generated a benefit of R984 500 before tax. TJ Louw exercised 203 180 EBIS units which generated a benefit of R354 926 before tax. MA Dytors exercised 92 400 (2011: 75 500) EBIS units which generated a benefit of R177 512 (2011: R144 960) before tax.

Included in outstanding EBIS units were the following units granted to by a subsidiary to certain Prescribed Officers:

	Date granted	Issue price (Rand)	NUMBER OF UNITS		
			Granted	Exercised	Outstanding
MA Dytors	March 2005	2,97	190 000	190 000	–
	August 2006	3,45	130 000	130 000	–
	March 2007	4,30	120 000	120 000	–
	March 2008	4,77	180 000	108 000	72 000
	March 2009	7,37	135 000	–	135 000
TJ Louw ¹	March 2005	2,97	190 000	190 000	–
	August 2006	3,45	160 000	160 000	–
	March 2007	4,30	145 000	145 000	–
EE Ludick	March 2005	2,97	190 000	190 000	–
	August 2006	3,45	125 000	125 000	–
	March 2007	4,30	115 000	115 000	–
	March 2008	4,77	190 000	114 000	76 000
	March 2009	7,37	150 000	–	150 000
SM Venter	March 2005	2,97	190 000	190 000	–
	August 2006	3,45	160 000	160 000	–
	March 2007	4,30	145 000	145 000	–
	March 2008	4,77	190 000	114 000	76 000
	March 2009	7,37	150 000	–	150 000
			2 855 000	2 196 000	659 000

¹ Resigned on 31 July 2012.

Movements in the number of EBIS units held by Directors and Prescribed Officers were as follows:

	NUMBER OF UNITS	
	2012	2011
Outstanding at the beginning of the year	1 512 000	2 155 000
Reclassified EBIS units	72 000	–
Exercised during the year	(925 000)	(643 000)
Outstanding at the end of the year	659 000	1 512 000

During the year MA Dytors exercised 136 000 (2011: 222 000) EBIS units which generated R490 496 (2011: R761 432) before tax. TJ Louw exercised 495 000 EBIS units which generated a benefit of R2 074 670 before tax. EE Ludick exercised 134 000 (2011: 147 000) EBIS units which generated a benefit of R481 044 (2011: R761 732) before tax. SM Venter exercised 160 000 (2011: 274 000) EBIS units which generated a benefit of R581 500 (2011: R949 298) before tax.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

31. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION AND INTERESTS (CONTINUED)

SHARE OPTION SCHEME

Included in outstanding share options were the following options granted to Directors:

	Exercise price (Rand)	Granted	Exercised	NUMBER OF OPTIONS	
				Outstanding	Value (Rand)
GN Edwards	23,60	14 000	–	14 000	786 800
S Engelbrecht	4,50	50 000	50 000	–	–
	17,50	40 000	40 000	–	–
	23,60	67 600	67 600	–	–
		171 600	157 600	14 000	786 800

The value of the options is based on the closing price of R79,80 of AECI shares on 31 December 2012.

Movements in the number of share options held by Directors and Prescribed Officers were as follows:

	NUMBER OF OPTIONS	
	2012	2011
Outstanding at the beginning of the year	81 600	81 600
Changes in Directors during the year	(67 600)	–
Outstanding at the end of the year	14 000	81 600

On 5 March 2012, S Engelbrecht exercised 67 600 options which generated a benefit of R4 596 462 before tax.

32. OPERATING SEGMENTS

R millions	EXTERNAL REVENUE		INTER-SEGMENT REVENUE		TOTAL SEGMENT REVENUE	
	2012	2011	2012	2011	2012	2011
Explosives	6 253	5 448	74	46	6 327	5 494
Specialty chemicals	8 001	7 217	396	341	8 397	7 558
Property	324	402	76	74	400	476
Specialty fibres	338	330	1	3	339	333
Inter-segment	–	–	(547)	(464)	(547)	(464)
	14 916	13 397	–	–	14 916	13 397

R millions	PROFIT FROM OPERATIONS		DEPRECIATION AND AMORTISATION		IMPAIRMENTS	
	2012	2011	2012	2011	2012	2011
Explosives	431	510	259	224	–	–
Specialty chemicals	944	881	193	154	3	–
Property	34	99	5	5	–	–
Specialty fibres	40	53	11	10	–	–
Group services	(78)	(227)	7	2	–	–
EST share-based payment	(30)	–				
	1 341	1 316	475	395	3	–

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

32. OPERATING SEGMENTS (CONTINUED)

R millions	ASSETS		LIABILITIES		CAPITAL EXPENDITURE	
	2012	2011	2012	2011	2012	2011
Explosives	3 871	3 536	1 034	967	367	276
Specialty chemicals	6 107	5 952	1 637	1 904	161	150
Property	921	856	113	94	23	14
Specialty fibres	199	197	12	22	3	5
Group services	22	143	116	–	3	30
	11 120	10 684	2 912	2 987	557	475
						GROUP
						2012
						2011
ASSETS CONSISTS OF						
Property, plant and equipment					3 733	3 721
Investment property					445	436
Intangible assets					214	77
Goodwill					1 124	1 078
Inventory					2 867	2 584
Accounts receivable					2 737	2 772
Assets classified as held for sale					–	16
					11 120	10 684
LIABILITIES CONSISTS OF						
Accounts payable					2 912	2 987

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

33. BUSINESS COMBINATIONS

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			
Afoodable ¹	1 September 2012	80	13
BUSINESSES ACQUIRED			
General Electric (CMS business) ²	1 July 2012		167
Cellulose Derivatives ²	1 December 2012		26
			206

1 The profit after tax since the acquisition date was immaterial to the Group based on the acquisition date.

2 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.

GE's Chemical and Monitoring Solutions business in Africa and the Indian Ocean Islands was acquired. The acquisition was merged into ImproChem and included an exclusive distribution agreement and a technology licensing agreement that provide GE with continued involvement in the business and enable ImproChem to produce products using GE formulations. A call option agreement was concluded which gives GE the right to consider future direct involvement in ImproChem. ImproChem acquired plant and equipment, inventory, employees and the right of use of GE's technology.

The Group acquired 80% of Afoodable and merged this business into Lake Foods. Afoodable manufactures and bottles liquid marinades and sauces. This enhances Lake Foods' products range and provides entry into the meat sauces industry.

Senmin acquired the business of Cellulose Derivatives. Senmin is the largest distributor of carboxymethyl cellulose ("CMC"), while Cellulose Derivatives is South Africa's only manufacturer of technical grade CMC, used for platinum extraction. The acquisition is a strategic addition to Senmin's manufacturing capacity and capability.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

33. BUSINESS COMBINATIONS (CONTINUED)

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	9
Intangible assets	145
Working capital	18
Deferred and current tax	(39)
Net identifiable assets and liabilities	133
Non-controlling interest acquired	(1)
Goodwill on acquisition	74
Net cash outflow	206

34. INTERESTS IN JOINT VENTURES

	EFFECTIVE PERCENTAGE HELD BY AECI LIMITED	
	2012	2011
Crest Chemicals (Pty) Ltd	50	50
DetNet International Ltd ¹	50	50
DetNet South Africa (Pty) Ltd	50	50
Resinkem (Pty) Ltd	50	50
Resitec Industria Quimica Ltd ^{2†}	–	50
Specialty Minerals South Africa (Pty) Ltd	50	50
R millions	2012	2011
THE PROPORTIONATE AMOUNTS RELATING TO JOINT VENTURES WERE AS FOLLOWS:		
STATEMENTS OF FINANCIAL POSITION		
Property, plant, equipment and other non-current assets	166	237
Current assets	394	437
Total assets	560	674
Equity	308	324
Non-controlling interest	13	12
Non-current liabilities	94	124
Current liabilities	145	214
Total equity and liabilities	560	674
INCOME STATEMENTS		
Income	1 230	1 044
Expenses	(1 139)	(959)
Profit before tax	91	85
COMMITMENTS		
Capital expenditure authorised	18	2

1 Ireland.

2 Brazil.

† Resitec Industria Quimica Ltd was disposed of on 11 December 2012.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

35. PRINCIPAL SUBSIDIARIES

	ISSUED SHARE CAPITAL	EFFECTIVE SHAREHOLDING		INTEREST OF AECI LTD# SHARES		INTEREST OF AECI LTD# LOANS TO/(FROM)	
	2012 Number of shares	2012 %	2011 %	2012 R millions	2011 R millions	2012 R millions	2011 R millions
HOLDING COMPANIES							
Directly held							
AECI International (Ireland) Ltd	1	100	100	*	*	–	4
AECI Treasury Holdings (Pty) Ltd	100	100	100	*	*	227	258
Indirectly held							
African Explosives Holdings (Pty) Ltd	4 331 278	100	75	–	–	–	–
African Explosives International Ltd ¹	1 307	100	75	–	–	–	–
INSURANCE							
Directly held							
AECI Captive Insurance Company Ltd	810 000	100	100	11	11	(57)	(67)
EXPLOSIVES							
Directly held							
AEL Holdco Ltd	99 800 000	100	75	468	75	3 516	2 987
Indirectly held							
AEL Burkina SARL ²	100 000	100	75	–	–	–	–
AEL Chile	2	100	75	–	–	–	–
AEL DRC SPRL ³	10 000	100	75	–	–	–	–
AEL Mali SARL	8 659	100	75	–	–	–	–
AEL (Mauritius) Ltd	866	100	75	–	–	–	51
AEL Morocco	2 500	100	75	–	–	–	–
AEL Namibia (Pty) Ltd	100	100	75	–	–	–	–
AEL Zambia plc	25 508 250	80	60	–	–	–	–
AEL Mining Services Ltd ⁺⁺	100	100	75	–	–	–	–
African Explosives (Botswana) Ltd	3	100	75	–	–	–	–
African Explosives (Ghana) Ltd	1 000 000	100	75	–	–	–	–
African Explosives (Tanzania) Ltd	26	100	75	–	–	–	–
Pt AEL Indonesia	1 150	100	75	–	–	–	–
PROPERTY							
Heartland Leasing (Pty) Ltd	1 000	100	100	*	*	–	*
Heartland Properties (Pty) Ltd	1	100	100	*	*	682	646
Other property subsidiaries				21	21	(184)	(210)

Notes to the financial statements
Annual financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

35. PRINCIPAL SUBSIDIARIES (CONTINUED)

Annual financial statements
Notes to the financial statements

	ISSUED SHARE CAPITAL	EFFECTIVE SHAREHOLDING		INTEREST OF AECI LTD# SHARES		INTEREST OF AECI LTD# LOANS TO/(FROM)	
	2012 Number of shares	2012 %	2011 %	2012 R millions	2011 R millions	2012 R millions	2011 R millions
SPECIALTY CHEMICALS							
Directly held							
Chemical Services Ltd	83 127 950	100	100	818	818	(824)	(367)
Indirectly held							
Afoodable (Pty) Ltd	100	80	–	13	–	–	–
Akulu Marchon (Pty) Ltd*	410 000	100	100	–	–	–	–
Atlas Consolidated Industries (Pty) Ltd*	200	100	100	–	–	–	–
Chemfit (Pty) Ltd	4 000	100	100	–	–	5	4
Chemical Initiatives (Pty) Ltd*	1	100	100	–	–	–	–
Chemiphos SA (Pty) Ltd	170	100	100	–	–	–	9
Chemserve Systems (Pty) Ltd*	625 000	100	100	–	–	–	–
Cobito (Pty) Ltd	300	100	100	–	–	1	1
Duco Speciality Coatings (Pty) Ltd	100 000	100	100	–	–	99	106
Extractive Technologies (Pty) Ltd	100	100	77	–	–	–	–
ImproChem (Pty) Ltd	4 000	100	100	–	–	261	9
Industrial Oleochemical Products (Pty) Ltd*	4 001	100	100	–	–	–	–
Lake International Technologies (Pty) Ltd*	13 395	100	100	–	–	–	–
Nulandis (Pty) Ltd*	400	100	100	–	–	–	–
Plastamid (Pty) Ltd	128 500	100	100	–	–	10	92
Protank (Pty) Ltd	1 000	64	64	–	–	–	–
Senmin International (Pty) Ltd	8 008 500	100	100	–	–	9	22
Senmin SA (Pty) Ltd	50 000	100	100	–	–	–	–
Other specialty chemical subsidiaries					–	7	9
SPECIALTY FIBRES							
Directly held							
SANS Fibres (Pty) Ltd +	17 979 433	100	100	8	8	(94)	(40)
SANS Fibers Inc. ⁴	100	100	100	–	–	278	260
Indirectly held							
SANS Technical Fibers LLC ⁴		100	100	–	–	–	–
OTHER				23	3	(57)	(59)
				1 362	936	3 879	3 715

Cost less impairments.

+ Trading as an agent on behalf of AECI Ltd.

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

* 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. United Kingdom 2. Burkina Faso 3. Democratic Republic of Congo 4. United States of America.

NOTICE OF ANNUAL GENERAL MEETING

AECI Limited

Incorporated in the Republic of South Africa
(Registration Number 1924/002590/06)
JSE Share code: AFE
ISIN code: ZAE000000220
("AECI" or "the Company" or "the Group")

NOTICE OF MEETING

Notice is hereby given that the 89th Annual General Meeting of shareholders of the Company will be held on the Ground Floor, AECI Place, 24 The Woodlands, Woodlands Drive, Woodmead, Sandton on Monday, 27 May 2013 at 09h00.

PURPOSE OF MEETING

The purpose of this meeting is to:

- › present the Directors' report and the audited annual financial statements of the Company and the Group for the year ended 31 December 2012;
- › present the Audit Committee's report;
- › present the Social and Ethics Committee's sustainability report;
- › consider any matters raised by shareholders; and
- › consider and if deemed fit to pass, with or without modification, the resolutions set out below.

1. ORDINARY RESOLUTION NUMBER 1:

Adoption of annual financial statements

Resolved that the audited annual financial statements of the Company and Group for the year ended 31 December 2012 be received and adopted.

2. ORDINARY RESOLUTION NUMBER 2:

Reappointment of independent auditors

Resolved that, upon the recommendation of the current Audit Committee, KPMG Inc. be reappointed as the independent registered auditor of the Company and to note that Ms ML Watson, as the individual registered auditor, will undertake the audit during the financial year ending 31 December 2013.

3. ORDINARY RESOLUTIONS NUMBERS 3.1 TO 3.3:

Re-election of Directors

Resolved that the following Directors who are retiring in terms of the Company's memorandum of incorporation ("MOI") and who, being eligible, be re-elected:

- 3.1 Ms Z Fuphe
- 3.2 Mr MJ Leeming
- 3.3 Mr LM Nyhonyha

A brief curriculum vitae of each of the Directors standing for re-election is provided on pages 26 and 27 of the integrated report of which this Notice forms part.

4. ORDINARY RESOLUTION NUMBER 4

Appointment of Director

Resolved that Mr MA Dytor, who was appointed with effect from 2 January 2013, be appointed in terms of the MOI.

A brief curriculum vitae of Mr Dytor is provided on page 28 of the integrated report of which this Notice forms part.

5. ORDINARY RESOLUTIONS NUMBERS 5.1 TO 5.4:

Election of Audit Committee members

Resolved that the following Independent Non-executive Directors of the Company be appointed as members of the Audit Committee until the next Annual General Meeting:

- 5.1 Mr RMW Dunne
- 5.2 Mr MJ Leeming
- 5.3 Mr AJ Morgan
- 5.4 Mr LM Nyhonyha

A brief curriculum vitae of each of the Independent Non-executive Directors offering themselves for election as members of the Audit Committee is provided on pages 26 and 27 of the integrated report of which this Notice forms part.

6. ORDINARY RESOLUTION NUMBER 6:

Remuneration policy

Resolved to endorse, by way of a non-binding advisory vote, the Company's remuneration policy as set out in the integrated report of which this Notice forms part, as follows:

Remuneration of employees: pages 110 to 115.

Remuneration of Directors: page 115.

7. SPECIAL RESOLUTIONS NUMBERS 1.1 TO 1.10:

Directors' fees

Resolved that the annual fees payable by the Company to its Non-executive Directors, with effect from 1 June 2013, be approved as follows:

EXPLANATION

Section 66(9) of the Companies Act requires that a company may pay to its Directors, for their services as Directors, only in accordance with a special resolution approved by shareholders within the previous two years.

The reason for and effect of special resolutions numbers 1.1 to 1.10 is to grant the Company the authority to pay fees or remuneration to its Non-executive Directors for their services as Directors.

Each of the special resolutions numbers 1.1 to 1.10 will be considered by way of a separate vote.

	RAND PER ANNUM	
	Current	Proposed
BOARD		
1.1 Chairman	706 000	756 000
1.2 Non-executive Directors	176 500	188 800
AUDIT COMMITTEE		
1.3 Chairman	150 000	160 500
1.4 Members	75 000	80 300
OTHER BOARD COMMITTEES		
1.5 Chairman	97 100	103 900
1.6 Members	48 600	52 000
SUBSIDIARIES' FINANCIAL REVIEW AND RISK COMMITTEE ("FRRC")		
1.7 Chairman	97 100	103 900
1.8 Non-executive members	48 600	52 000
1.9 Meeting attendance fee	8 500	9 100
1.10 Hourly fee for ad hoc services	2 750	3 000

8. SPECIAL RESOLUTION NUMBER 2:

General authority to repurchase shares

Resolved 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 section 48(8) of the Companies Act, the Company's MOI and the JSE Listings Requirements provided that:

- › the number of ordinary shares acquired in aggregate in any one financial year shall not exceed 5% of the Company's issued ordinary share capital;
- › this general authority shall only be valid until the Company's next Annual General Meeting, provided that it shall not extend beyond 15 months from the date of adoption of this special resolution;
- › a resolution has been passed by the Board of Directors confirming that the Board has authorised the general repurchase, that the Company passed the solvency and liquidity test and that since the test was done there have been no material changes to the financial position of the Group;
- › repurchases may not be made at a price greater than 10% above the weighted average of the market value of the ordinary shares for the five business days immediately preceding the date on which the transaction is effected;
- › any such general repurchase is subject to exchange control regulations and approval at that point in time;
- › the repurchase of securities will be effected through the order book operated by the JSE's trading system and done without any prior understanding or arrangement between the Company and the counterparty (reported trades are prohibited);

- › at any point in time, a company may only appoint one agent to effect any repurchases on the company's behalf;
- › an announcement giving such details as may be required in terms of the JSE Listings Requirements be released when the Company or its subsidiaries have cumulatively repurchased 3% of the initial number of the relevant class of shares in issue as at the time this resolution is passed ("initial number") and for each 3% in aggregate of the initial number of that class acquired thereafter; and
- › the Company or its subsidiary may not repurchase securities during a prohibited period as defined in the JSE Listings Requirements unless they have in place a repurchase programme where the dates and quantities of securities to be traded during the relevant period are fixed (not subject to any variation) and full details of the programme have been disclosed in an announcement over the JSE's Stock Exchange News Services prior to the commencement of the prohibited period.

EXPLANATION

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.

The Company's Directors undertake that they will not effect any such repurchases while the general authority is valid, unless:

- (i) the Company and its subsidiaries (collectively "the Group") will be able, in the ordinary course of business, to pay its debts for a period of 12 months after the date of the general repurchase;
- (ii) the assets of the Company and the Group will exceed their liabilities for a period of 12 months after the date of the general repurchase. For this purpose, the assets and liabilities are recognised and measured in accordance with the accounting policies used in the Company's latest audited annual Group financial statements;

- (iii) the Company and the Group will have adequate share capital and reserves for ordinary business purposes for a period of 12 months after the date of the general repurchase;
- (iv) the working capital of the Company and the Group will be adequate for ordinary business purposes for a period of 12 months after the date of the general repurchase; and
- (v) upon entering the market to proceed with the repurchase, the Company's sponsor has confirmed the adequacy of the Company's working capital for the purposes of undertaking a repurchase of shares, in writing, to the JSE.

The reason for and effect of special resolution number 2 is to grant the Company a general authority to facilitate the acquisition of the Company's own shares, which general authority shall be valid until the earlier of the next Annual General Meeting of the Company or the variation or revocation of such general authority by special resolution by any subsequent General Meeting of the Company, provided that this general authority shall not extend beyond 15 months from the date of adoption of this special resolution.

Such general authority will provide the Directors with flexibility to effect a repurchase of the Company's shares, should it be in the interest of the Company to do so at any time while the general authority is in force.

9. SPECIAL RESOLUTION NUMBER 3:

Financial assistance to related or inter-related company

Resolved that, in terms of and subject to the provisions of section 45 of the Companies Act, the Directors of the Company be and they are hereby authorised and empowered to cause the Company to provide any direct or indirect financial assistance to any company or other legal entity which is related or inter-related to the Company.

EXPLANATION

On a regular basis, and in the ordinary course of business, the Company provides loan financing, guarantees and other support to the related and inter-related companies or legal entities in the Group.

Section 45(2) of the Companies Act empowers the Board of Directors ("the Board") of a company to provide direct or indirect financial assistance to a related or inter-related company or corporation. However, section 45(3) of the Companies Act provides that the Board of a company may only authorise any financial assistance contemplated in section 45(2) thereof pursuant to a special resolution of the shareholders of the company adopted within the previous two years.

The AECI Board undertakes that:

- (i) it will not adopt a resolution to authorise such financial assistance, unless it is satisfied that:

- › immediately after providing the financial assistance, the Company would satisfy the solvency and liquidity test as contemplated in the Companies Act; and
- › the terms under which the financial assistance is proposed to be given are fair and reasonable to the Company; and
- (ii) written notice of any such resolution by the Board shall be given to all shareholders of the Company and any trade union representing its employees:
 - › within 10 business days after the Board adopted the resolution, if the total value of the financial assistance contemplated in that resolution, together with any previous such resolution during the financial year, exceeds one-tenth of 1% of the Company's net worth at the time of the resolution; or
 - › within 30 business days after the end of the financial year, in any other case.

The reason for and effect of special resolution number 3 is to grant the Directors of the Company the authority to cause the Company to provide financial assistance to any company or other legal entity which is related or inter-related to the Company.

RECORD DATE

The Board has, in terms of section 59(1)(a) of the Companies Act, set the record date, for the purpose of determining which shareholders of the Company are entitled to receive Notice of the Annual General Meeting as being Friday, 19 April 2013 and has, in terms of section 59(1)(b) of the Companies Act, set the record date, for purposes of determining which shareholders of the Company are entitled to participate in and vote at the Annual General Meeting, as being Friday, 17 May 2013. Accordingly, the last day to trade in order to be registered in the register of shareholders of the Company and therefore eligible to participate in and vote at the Annual General Meeting is Friday, 10 May 2013.

APPROVALS REQUIRED FOR RESOLUTIONS

Ordinary resolutions numbers 1 to 6 contained in this Notice of Annual General Meeting require the approval by more than 50% of the votes exercised on the resolutions by shareholders present or represented by proxy at the Annual General Meeting, subject to the provisions of the Companies Act, the MOI of the Company and the JSE Listings Requirements.

Special resolutions numbers 1 to 3 contained in this Notice of Annual General Meeting require the approval by at least 75% of the votes exercised on the resolutions by shareholders present or represented by proxy at the Annual General Meeting, subject to the provisions of the Companies Act, the MOI of the Company and the JSE Listings Requirements.

GENERAL INFORMATION

The following additional information appears elsewhere in the integrated report of which this Notice forms part:

- (i) Directors and management of the Company (refer to the Non-executive Directors, Executive Committee and Senior Managers on pages 26 to 31);

- (ii) Major shareholders of the Company (refer to the shareholder analysis on pages 120 to 125);
- (iii) Directors' interest in the Company (refer to the Directors' report on page 135); and
- (iv) Share capital of the Company (refer to the Directors' report on page 135).

NO MATERIAL CHANGES TO REPORT

There has been no material change in the financial or trading position of the Company and its subsidiaries since the date of signature of the Independent Auditors' report and the date of this Notice.

LITIGATION STATEMENT

There are no legal or arbitration proceedings which may have, or have had, during the 12 month period preceding the date of this Notice, a material effect on the Group's financial position and the Company is not aware of any such pending or threatened proceedings.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors whose names appear on pages 26 to 28 in the integrated report of which this Notice forms part collectively and individually accept full responsibility for the accuracy of the information contained in these resolutions 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 these resolutions contain all information required by law and the JSE Listings Requirements.

VOTING AND PROXIES

Shareholders or their proxies may participate in the Annual General Meeting by way of a teleconference call and, if they wish to do so:

- › should make application by email to the Group Company Secretary (**nomini.rapoo@aeci.co.za**) by no later than 16h00 on Wednesday, 22 May 2013 in order for the Group Company Secretary to provide the shareholder or such shareholder's representative with details as to how to access the Annual General Meeting for telephonic participation;
- › will be required to provide reasonably satisfactory identification (which may take the form of a valid identity document, driver's licence or passport, for example);
- › the costs of enabling a shareholder to access the Annual General Meeting for telephonic participation will be borne by the shareholder so accessing the Annual General Meeting;
- › shareholders are advised that accessing the Annual General Meeting by way of telephonic participation will not entitle a shareholder to vote at the Annual General Meeting;
- › should a shareholder wish to vote at the Annual General Meeting, such shareholder may do so by attending and voting at the Annual General Meeting either in person or by proxy; and
- › the Company reserves the right to elect not to provide for telephonic or any other form of electronic participation at the Annual General Meeting in the event that it determines that it is not practical to do so.

Shareholders who have not dematerialised their shares or who have dematerialised their shares with "own name" registration are entitled to attend and vote at the Annual General Meeting and are entitled to appoint a proxy or proxies (for which purpose a form of proxy is included) to attend, speak and vote in their stead. The person so appointed need not be a shareholder of the Company.

Proxy forms must be forwarded to reach the Company's Transfer Secretaries, Computershare Investor Services (Pty) Ltd, Ground Floor, 70 Marshall Street, Johannesburg, 2001, or posted to the Transfer Secretaries at PO Box 61051, Marshalltown, 2107, to reach them no later than 09h00 on Thursday, 23 May 2013. Any forms of proxy not received by this time must be handed to the Chairman of the Annual General Meeting immediately prior to the Meeting.

Proxy forms must only be completed by shareholders who have not dematerialised their shares or who have dematerialised their shares with "own name" registration.

All resolutions shall be decided on a poll and every shareholder of the Company shall have one vote for every share held in the Company by such shareholder.

Shareholders who have dematerialised their shares, other than those shareholders who have dematerialised their shares with "own name" registration, must contact their Central Securities Depository Participant ("CSDP") or broker in the manner and time stipulated in their agreement:

- › to furnish their CSDP or broker with their voting instructions; and
- › in the event that they wish to attend the Meeting, to obtain the necessary authority to do so with a letter of representation in terms of the custody agreement. Such letter of representation must be lodged with the Company's Transfer Secretaries, Computershare Investor Services (Pty) Ltd, Ground Floor, 70 Marshall Street, Johannesburg, 2001, or posted to the Transfer Secretaries at PO Box 61051, Marshalltown, 2107, to reach them no later than 09h00 on Thursday, 23 May 2013.

Equity securities held by a share trust or scheme or unlisted securities will not have their votes taken into account at the Annual General Meeting for the purposes of resolutions proposed in terms of the JSE Listings Requirements.

All participants at the Annual General Meeting will be required to provide identification reasonably satisfactory to the Chairman of the Meeting (which may take the form of a valid identity document, driver's licence or passport, for example).

By order of the Board



Nomini Rapoo
Group Company Secretary

Woodmead, Sandton
15 March 2013

FORM OF PROXY

AECI Limited

Incorporated in the Republic of South Africa
(Registration Number 1924/002590/06)
JSE Share code: AFE
ISIN code: ZAE000000220
("the Company")

This proxy form relates to the 89th Annual General Meeting to be held on Monday, 27 May 2013 at 09h00 on the Ground Floor, AECI Place, 24 The Woodlands, Woodlands Drive, Woodmead, Sandton, for use by 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.

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 broker of their intention to attend the Annual General Meeting and request such nominee, CSDP or broker to issue them with the necessary authorisation to attend or provide such nominee, CSDP or broker with their voting instructions should they not wish to attend the Annual General Meeting in person but wish to be represented thereat.

I/We (Please print name/s in full) _____

of (address) _____

Telephone (work) _____ (home/cellular) _____

being the registered holder/s of _____ ordinary shares in the Company, do hereby appoint

1. _____

2. or failing him/her _____

3. 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, my/our proxy may vote as he/she thinks fit.

		NUMBER OF VOTES		
		For*	Against*	Abstain*
Ordinary resolution No. 1:	Adoption of annual financial statements			
Ordinary resolution No. 2:	Reappointment of independent auditor			
Ordinary resolution No. 3:	Re-election of Directors			
	3.1 Ms Z Fuphe			
	3.2 Mr MJ Leeming			
	3.3 Mr LM Nyhonyha			
Ordinary resolution No. 4:	Appointment of Director			
Ordinary resolution No. 5:	Election of Audit Committee members			
Ordinary resolution No. 6:	Remuneration policy			
Special resolution No. 1:	Directors' fees			
	1.1 Chairman			
	1.2 Board: Non-executive Directors			
	1.3 Audit Committee: Chairman			
	1.4 Audit Committee: members			
	1.5 Other Board Committees: Chairman			
	1.6 Other Board Committees: members			
	1.7 Subsidiaries' FRRC: Chairman			
	1.8 Subsidiaries' FRRC: Non-executive members			
	1.9 Meeting attendance fee			
	1.10 Ad hoc services fee			
Special resolution No. 2:	General authority to repurchase shares			
Special resolution No. 3:	Financial assistance to related or inter-related company			

Signed at _____ on this _____ day of _____ 2013

Signature _____

Assisted by (if applicable) _____

Please read the notes on the reverse side of this form of proxy.

1. A shareholder entitled to attend and vote at the Annual General Meeting may, at any time, appoint any individual, including an individual who is not a shareholder of the Company, as a proxy to, amongst other things, participate in, and speak and vote at the Annual General Meeting on behalf of the shareholder. Satisfactory identification must be presented by any person wishing to attend the Annual General Meeting, as set out in the Notice.
2. Every shareholder present in person or by proxy and entitled to vote at the Annual General Meeting of the Company shall, on a poll, be entitled to one vote in respect of each ordinary share held by her/him.
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 overleaf, with or without deleting "the Chairman of the Annual General Meeting", but any such deletion must be initialled by the shareholder. Should this space be left blank, the Chairman of the Annual General Meeting will exercise the proxy. The person whose name appears first on the proxy form and who is present at the Annual General Meeting will be entitled to act as proxy to the exclusion of those whose names follow.
4. A shareholder's voting instructions to the proxy must be indicated by the insertion of the number of votes exercisable by that shareholder in the appropriate spaces provided overleaf. Failure to do so shall be deemed to authorise the proxy to vote or to abstain from voting at the Annual General Meeting as he/she thinks fit in respect of all the shareholder's exercisable votes. A shareholder or his/her proxy is not obliged to use all the votes exercisable by his/her proxy but the total number of votes cast, or those in respect of which abstention is recorded, may not exceed the total number of votes exercisable by the shareholder or by his/her proxy.
5. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the Transfer Secretaries.
6. Forms of proxy must be lodged at, posted to or faxed to the Transfer Secretaries of the Company, Computershare Investor Services (Pty) Ltd, 70 Marshall Street, Johannesburg, 2001, PO Box 61051, Marshalltown, 2107, Fax +27 11 688 5238, to be received by them by no later than 09h00 on Thursday 23 May 2013. Any forms of proxy not received by this time must be handed to the Chairman of the Annual General Meeting immediately prior to the Annual General Meeting.
7. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by the Transfer Secretaries or waived by the Chairman of the Annual General Meeting.
8. 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.
9. Shareholders whose dematerialised shares are held in the name of a nominee and wish to attend the Annual General Meeting must contact their Central Securities Depository Participant ("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.
10. Shareholders who wish to attend and vote at the Annual General Meeting must ensure that their letters of authority from their CSDP or broker reach the Transfer Secretaries by no later than 09h00 on Thursday, 23 May 2013.
11. The completion and lodging of this form of proxy shall not preclude the relevant shareholder from attending the Annual General Meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such shareholder wish to do so.
12. The completion of any blank spaces overleaf need not be initialled. Any alterations or corrections to this form of proxy must be initialled by the signatory/ies.
13. The Chairman of the Annual General Meeting may reject or accept any form of proxy which is completed other than in accordance with these instructions provided that he is satisfied as to the manner in which a shareholder wishes to vote.
14. A proxy may delegate the proxy's authority to act on behalf of the shareholder to another person.
15. A proxy appointment is suspended at any time and to the extent that the shareholder chooses to act directly and in person in the exercise of any rights as a shareholder.
16. A proxy appointment must be in writing, dated and signed by the shareholder and remains valid only until the end of the meeting at which it was intended to be used, unless the proxy appointment is revoked in which case the proxy appointment will be cancelled with effect from such revocation.
17. The appointment of a proxy in terms of this form of proxy is revocable in terms of the provisions of section 58(4)(c) read with section 58(5) of the Companies Act and, accordingly, a shareholder may revoke the proxy appointment by cancelling it in writing, or making a later inconsistent appointment of a proxy, and delivering a copy of the revocation instrument to the proxy and to the Company.
18. The revocation of a proxy appointment constitutes a complete and final cancellation of the proxy's authority to act on behalf of the shareholder as of the later of the date stated in the revocation instrument, if any, or the date on which the revocation instrument is delivered in terms of 17 above.

ADMINISTRATION

GROUP COMPANY SECRETARY AND REGISTERED OFFICE

EN Rapoo
First Floor
AECI Place
24 The Woodlands
Woodlands Drive
Woodmead
Sandton
(no postal deliveries to this address)

POSTAL ADDRESS

Private Bag X21
Gallo Manor
2052
Telephone: +27 (0)11 806 8700
Telefax: +27 (0)11 806 8701
Email: groupcommunication@aeci.co.za

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) Ltd
70 Marshall Street, Johannesburg
PO Box 61051, Marshalltown, 2107 South Africa
and

Computershare Investor Services plc
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH, England

AUDITOR

KPMG Inc.

PRIMARY TRANSACTIONAL AND FUNDING BANKS

Absa Bank Ltd
First National Bank of Southern Africa Ltd
Nedbank Ltd
The Standard Bank of South Africa Ltd

SOUTH AFRICAN SPONSOR

Rand Merchant Bank
(A division of FirstRand Bank Limited)
1 Merchant Place
Corner Rivonia Road and Fredman Drive
Sandton

