AECI®

good chemistry

INTEGRATED REPORT AND ANNUAL FINANCIAL STATEMENTS 2016

CONTENTS

ABOUT THIS REPORT

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 REPORT AIMS TO PROVIDE STAKEHOLDERS WITH A GREATER UNDERSTANDING OF THE STRATEGY, OVERALL SUSTAINABILITY, OPERATIONAL PERFORMANCE, RISKS AND OPPORTUNITIES, PROSPECTS AND MAJOR IMPACTS IN ECONOMIC, SOCIAL AND ENVIRONMENTAL TERMS OF AECI LTD ("THE COMPANY") AND ITS OPERATING BUSINESSES ("THE AECI GROUP" OR "THE GROUP").

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. Accordingly AECI's overall risk framework, which mirrors issues of interest and concern to the Company and its stakeholders, underpins the determination of materiality for the purposes of the content and layout of this integrated report.

The methodology and framework for risk management are based on the Committee of Sponsoring Organisation of the Treadway Commission and enhanced with the adoption of ISO 31000 for managing risks, and King III principles on the governance of risks.

Other than the risk management framework and feedback from stakeholder engagement, 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"); the King Report on Governance for South Africa ("King III"); the International Integrated Reporting Council's International Framework; International Financial Reporting Standards ("IFRS"); the South African Institute of Chartered Accountants ("SAICA") Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council; the Carbon Disclosure Project ("CDP") Climate Change and Water Programs; the international chemical industry's Responsible Care programme, as well as AECI's own internal reporting standards and its Memorandum of Incorporation ("MOI").

SCOPE AND BOUNDARIES

The scope of this report includes all of AECI's subsidiaries and joint ventures. A list of principal subsidiaries is provided in note 32 to the annual financial statements and information on joint ventures is in note 6. The report relates to the financial reporting period 1 January 2016 to 31 December 2016.

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 and the cash flows for that period, in conformity with IFRS. The external auditor is responsible for examining the financial statements of the Company and the Group and for expressing its opinion on these statements to shareholders. In addition, the external auditor must confirm whether the financial statements are in accordance with the Companies Act and IFRS.

Further progress has been made in aligning the information contained in this integrated report with the six capitals of the International Integrated Reporting Council's International Framework. A set of icons has been incorporated into the narrative to highlight where the information touches on the respective capitals. A key explaining these icons can be found on the inside front cover.

As in prior years, external assurance obtained in 2016 also included limited assurance on selected sustainability information which AECI believes is material in view of the nature of its businesses and the environment in which they operate.

The Group's Internal Audit function appraises Group companies' internal controls and submits its assessment of these to the Board on an annual basis. The management of each operating business also submits an annual self-assessment of internal controls (Internal Control Matrix) to the Audit Committee affirming that the systems of internal control, in entities for which they have responsibility, are adequate for their operations and are functioning effectively.

The combined assurance approach will continue to be assessed 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 2015's integrated report. The emphasis is on providing more detailed information on the Company's strategic direction and sustainability initiatives.

In 2014, AECI revised its strategy and developed five key strategic growth pillars, namely: Mining Solutions, Water Solutions, Agrochemicals, Food Additives and Ingredients, and Specialty Chemicals. These pillars are becoming the focus of the Company's integrated reporting. In future periods, the same pillars will also be applied in the segmental reporting of financial performance. They will replace the current reporting segments of Explosives, Specialty Chemicals and Property.

INVITATION TO STAKEHOLDERS

The AECI Group engages with a broad spectrum of stakeholders. These include employees, trade unions, shareholders and fund managers, financiers, customers, suppliers, technology and business partners, local and national government structures in countries where the Group operates, other regulatory and industry bodies, the communities in which the Group operates, special interest groups and the media.

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 Ltd, Private Bag X21, Gallo Manor, 2052, or e-mailed 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 individually and collectively they have reviewed the content of the integrated report and believe it addresses material issues, as determined by using AECI's Risk Management Framework as a screening mechanism, and is a fair presentation of the integrated performance of the Group.

The Board approved the release of the 2016 integrated report on 31 March 2017.

The Board approved the audited annual financial statements, for the year ended 31 December 2016, on 28 February 2017. There have been no material changes to the financial position of the Company or the Group since that date and the date of this report.

For and on behalf of the Board

Schalk Engelbrecht
Outgoing Chairman

Khotso Mokhele
Incoming Chairman

Mark Dytor
Chief Executive

Woodmead, Sandton
31 March 2017

PROFILE AND STRATEGY

AECI IS A SOUTH AFRICAN-BASED EXPLOSIVES AND SPECIALTY CHEMICALS COMPANY FOCUSED ON PROVIDING PRODUCTS AND SERVICES TO A BROAD SPECTRUM OF CUSTOMERS IN THE MINING, MANUFACTURING, AGRICULTURAL, FOOD AND BEVERAGE, AND GENERAL INDUSTRIAL SECTORS. IT HAS REGIONAL AND INTERNATIONAL BUSINESSES IN AFRICA, SOUTH EAST ASIA, THE USA AND AUSTRALIA.

15 GROUP BUSINESSES

6 630 EMPLOYEES

The focus is on domestic growth as well as ongoing expansion outside South Africa in the Group's chosen strategic areas of Mining Solutions, Water Solutions, Agrochemicals, and Food Additives and Ingredients. The proactive management of a portfolio of Specialty Chemicals businesses is the Group's fifth growth pillar.

Mining Solutions comprises AEL Mining Services ("AEL"), Senmin and Experse, Water Solutions is anchored in ImproChem and Agrochemicals in Nulandis. Lake Foods ("Lake") and Southern Canned Products ("SCP") constitute the Food Additives and Ingredients pillar.

BUSINESSES AND REVENUE BY PILLAR

1	2	3	4	5
MINING SOLUTIONS AEL SENMIN EXPERSE	**WATER SOLUTIONS** IMPROCHEM	**AGROCHEMICALS** NULANDIS	**FOOD ADDITIVES AND INGREDIENTS** LAKE FOODS SCP	**PORTFOLIO OF SPECIALTY CHEMICALS BUSINESSES**
R9,9bn	R1,4bn	R2,8bn	R1,1bn	R3,2bn

1

Mining Solutions is AECI's international business. The companies in this pillar have their own unrestricted intellectual property, enabling them to service customers worldwide. Between them they have close to 100 operations (including manufacturing plants, sales offices and distribution centres) in more than 20 countries, with a particularly extensive footprint in Africa. AEL has an established presence in Indonesia and Australia and both Senmin and Experse have also expanded their footprints into other countries.

2

In Water Solutions, ImproChem has an established footprint in Africa, where water remains a scarce resource. This presents opportunities in all sectors of industry in terms of the provision of recycling and usage minimisation solutions.

3

In Agrochemicals, Nulandis' NuWay philosophy recognises the momentum that bio agriculture is gaining globally, including in Africa where Nulandis' footprint was expanded through the acquisition of Farmers Organisation, in Malawi, in 2015. NuWay is a holistic, more environmentally friendly approach to the application of products for soil and plant health.

4

Market growth in the food and beverage sector continues to outpace GDP growth in South Africa and in other Southern African countries. Both Lake and SCP have strong relationships with their customers in the region and this will contribute to their ability to benefit from this trend.

5

A solid portfolio of Specialty Chemicals businesses remains core for AECI. These businesses serve a diverse range of customers, mainly in the local manufacturing sector. They are highly cash generative, to the benefit of the Group as a whole. Their service-driven, value-add business models remain relevant and they have the manufacturing capacity to take advantage of any upturn in local and export markets. The active management and enhancement of this portfolio ensures that synergies are maximised to boost overall efficiencies and that costs remain well controlled.

All land surplus to operational requirements and available for redevelopment in the short term has been sold. Acacia Real Estate, the Group's Property division, now focuses mainly on managing AECI's leasing portfolio and on the provision of services at the Umbogintwini Industrial Complex in KwaZulu-Natal.

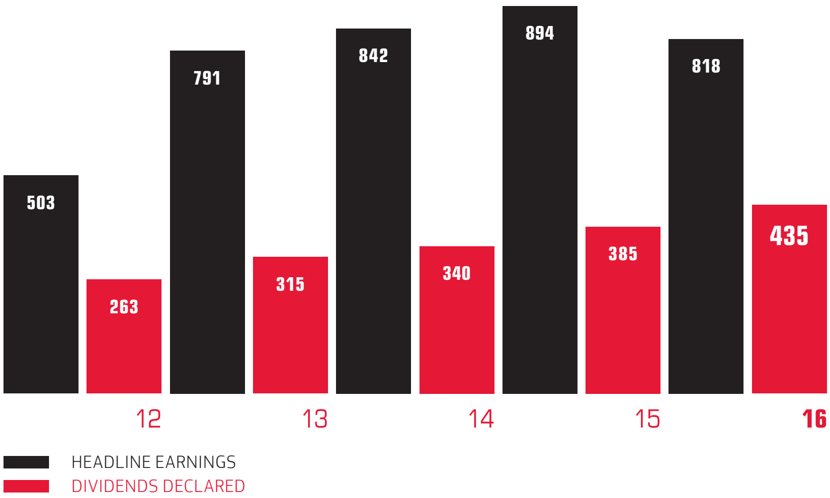
AECI WAS REGISTERED AS A COMPANY IN SOUTH AFRICA IN 1924 AND HAS BEEN LISTED ON THE JSE SINCE 1966.

GROUP RESULTS AT A GLANCE

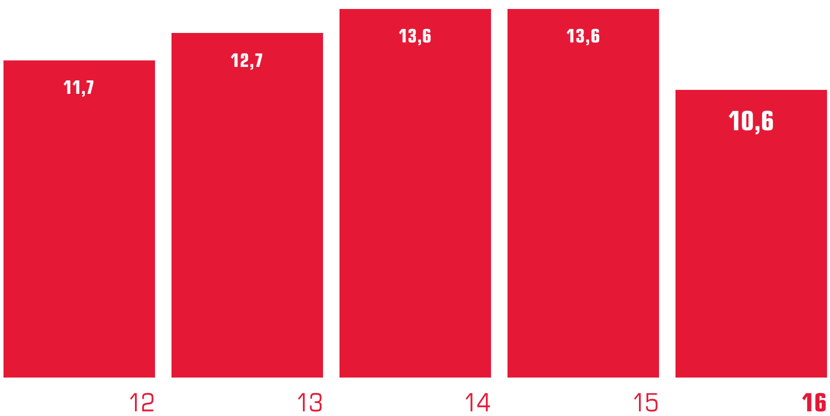
FOR THE YEAR ENDED 31 DECEMBER 2016

	2016	2015	% change
Revenue (R millions)	**18 596**	18 446	0,8
Profit from operations (R millions)	**1 335**	1 703	(21,6)
Headline earnings (R millions)	**864**	988	(12,6)
Net profit attributable to ordinary shareholders (R millions)	**777**	1 007	(22,8)
Headline earnings per ordinary share (cents)	**818**	894	(8,5)
Dividends declared per ordinary share (cents)	**435**	385	13,0
Market capitalisation at 31 December (R millions)	**12 317**	10 841	13,6
Profit from operations to revenue (%)	**7,2**	9,2	
Net working capital to revenue (%)	**12,7**	17,2	
Return on net assets (%)	**14,4**	18,1	
Return on invested capital (%)	**10,6**	13,6	
Return on shareholders' interest (%)	**9,7**	11,9	
Net borrowings as a percentage of shareholders' interest (%)	**3,3**	13,0	

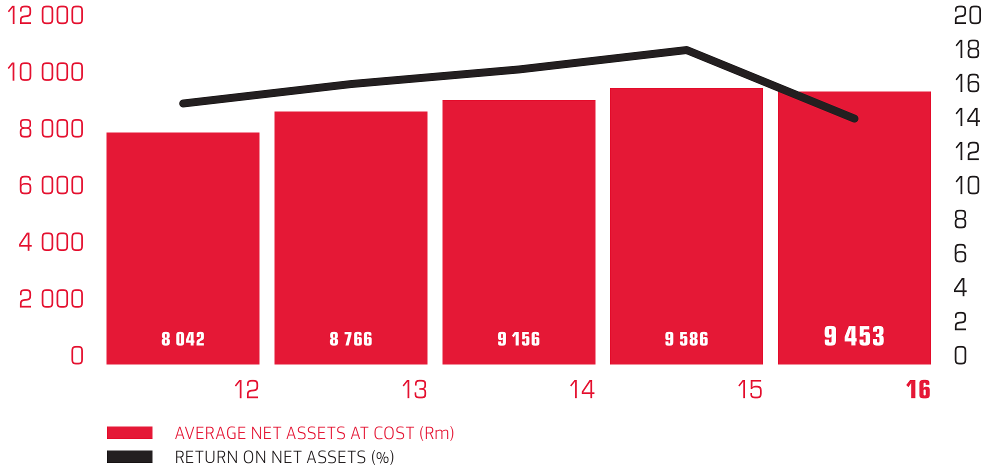
HEADLINE EARNINGS AND DIVIDENDS PER ORDINARY SHARE (CENTS)



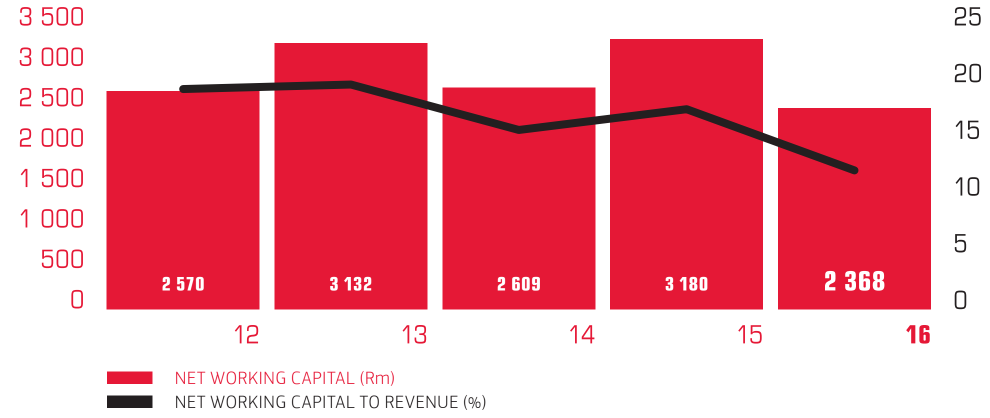
RETURN ON INVESTED CAPITAL (%)



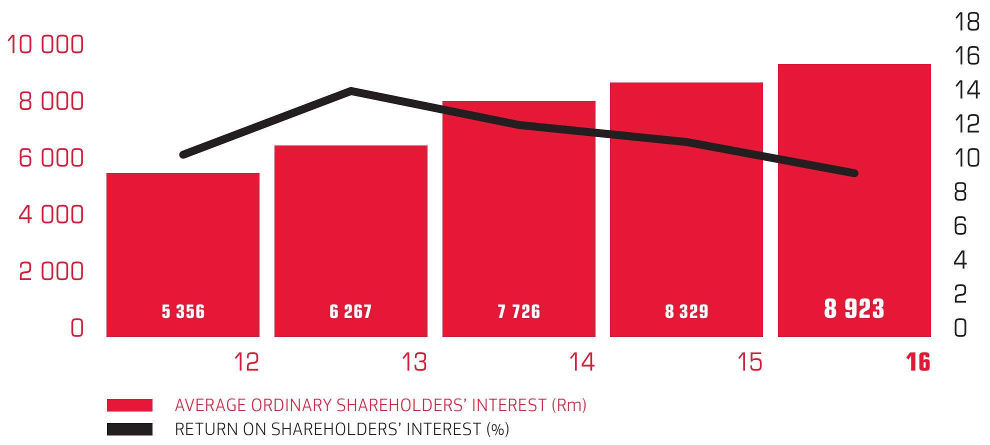
RETURN ON NET ASSETS



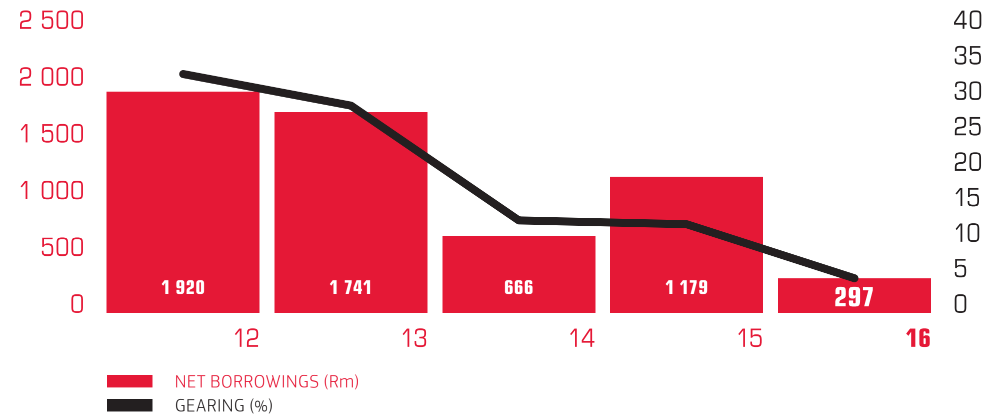
NET WORKING CAPITAL TO REVENUE



RETURN ON SHAREHOLDERS' INTEREST



BORROWINGS AND GEARING



SIX CAPITALS HIGHLIGHTS

INTELLECTUAL CAPITAL

Group-wide
INNOVATION
drive initiated to accelerate growth

THREE
new Independent Non-executive Directors appointed to replace those retiring

53
bursaries granted for a total investment of R2,4m

THREE
Executives and Senior Managers enrolled on and completed the GIBS Global Executive Development Programme

HUMAN CAPITAL

63%
of wealth generated distributed to employees

26% INCREASE
in Group financial assistance through the Employee Study Assistance Scheme

R2,9m
invested in employee training

5 579
AECI Employees Share Trust ("EST") beneficiaries

GOOD PROGRESS
made in implementing a new performance management system

MANUFACTURED CAPITAL

Geographic footprint
ENHANCED
further

Profit from operations of Explosives
+7,4%
to R449m

Profit from operations of Specialty Chemicals
+8,3%
to R1,2bn

R1,9bn
generated in cash from operations

FINANCIAL CAPITAL

R18,6bn
revenue

R1,3bn
profit from operations

3%
gearing at year-end

Established a
CENTRALISED
Strategic Sourcing function

435cps
total ordinary dividends declared in the year

NATURAL CAPITAL

16 588
tonnes of waste recycled

5,3%
reduction in hazardous waste generated

8,5%
reduction in water consumption

Formal
CONCLUSION
of Somerset West remediation programme

IMPROVED
"B" performance band achieved in CDP Climate Change Program

SOCIAL AND RELATIONSHIP CAPITAL

TRIR of
0,45

R21m
invested in socio-economic development ("SED") initiatives

128 000
SED beneficiaries impacted

Dividend of
35cps
to be paid in 2017 to EST beneficiaries

STRATEGIC ISSUES AND ASSOCIATED RISKS

THE AECI BOARD RECOGNISES THAT RISK MANAGEMENT IS AN INTEGRAL PART OF THE GROUP STRATEGY-SETTING PROCESS AND THAT IT HAS OVERALL ACCOUNTABILITY FOR THE MANAGEMENT OF RISK. THESE PRINCIPLES ARE EMBODIED IN AECI'S RISK PHILOSOPHY WHICH RECOGNISES THAT MANAGING RISK IS FUNDAMENTAL TO GENERATING SUSTAINABLE SHAREHOLDER VALUE AND ENHANCING THE INTERESTS OF ALL STAKEHOLDERS. RISK MANAGEMENT IS INTEGRATED INTO THE GROUP'S CULTURE AND IS DRIVEN BY THE BOARD'S MANDATE, LEADERSHIP AND COMMITMENT.

Risks are classified as being preventable, strategic or external. On the basis of internal risk assessment processes and the outcomes of feedback from stakeholders, the key strategic uncertainties that could have a direct impact on AECI's ability to deliver its business strategy and growth objectives have been identified. These uncertainties and associated key controls are set out below.

TOP GROUP-WIDE RISKS

RISK TYPE	RISK DESCRIPTION	KEY CONTROLS
PREVENTABLE	Safety, health and environmental issues. These are managed in accordance with the Group's values, policies and standards. Safety, health and environmental issues are always the highest priority in a Group dominated by explosives and specialty chemicals businesses — from raw material handling to production, to the transport of products, their application and safe disposal at the end of their life cycle.	1. Comprehensive safety, health and environmental management systems are in place in all businesses. 2. Effective incident reporting, emergency management and business resumption management. 3. Promotion of a culture of excellence and compliance in accordance with AECI's values and world-class standards.
PREVENTABLE	Credit risk for major and medium-sized customers, leading to a material decline in the sustainability of these customers' businesses and the potential loss of Group revenue/market share.	1. Credit management policy. 2. Key account management strategies.
PREVENTABLE	The attraction and retention of skilled and diverse resources. AECI's people are key if it is to deliver future growth in line with its stated strategy. The attraction and retention of high performers, sometimes in countries and in disciplines where skills are scarce, is important. Acquiring certain skills in line with AECI employee diversity requirements has proven to be a challenge in some areas.	1. Succession planning and talent mapping. 2. Promoting and entrenching the Group's position as the employer of choice through inter alia training and development, remuneration and long-term incentives that reward excellence. 3. "Back to base" strategy to give employees from other countries South African experience to learn the AECI way of conducting business.
STRATEGIC	The threat of new products/market disruptors. This includes the substitution of minerals, products and technology affecting both AECI and its customers.	1. Focus on and delivery of AECI's innovation initiatives to accelerate growth through inter alia diversification, increased market penetration and technology investments. 2. Focus on R&D. 3. Gathering and interpretation of market intelligence. 4. Involvement in key influencing industry forums.

ROLES, RESPONSIBILITIES AND REPORTING

The AECI Executive Committee is committed to the effective and efficient implementation of the risk management plan. The Risk Management function has a duty to report on risk-related issues to the Board and the AECI Executive Committee timeously and accurately so that such risks can be mitigated and properly managed. Reporting includes the following:

- suggested and agreed corrective action, risk responses/action plans, and timelines to mitigate risks;
- highlighting upward/downward movements in trending changes per quarter, and the reasons for these;
- highlighting any loss events for each quarter;
- the status of compliance with the Risk Management Framework in AECI as a whole and in its individual businesses;
- updates on key risk management projects;
- scans of the external environment for risk-related issues that may have an impact on the business.

More information on risk management is on the pages that follow.

RISK TYPE	RISK DESCRIPTION	KEY CONTROLS
STRATEGIC	Local and international competitor activity in countries and markets where AECI operates, with a negative impact on the Group's growth strategy.	1. Continue to offer existing and potential customers value-adding product and service solutions backed by world-class technology and a globally competitive cost base. 2. Maintain an unwavering customer-centric focus. 3. Demonstrate a sustained commitment to innovative product and service solutions.
EXTERNAL	Political, economic and regulatory uncertainty, leading to difficulties in establishing or maintaining businesses and product lines in AECI's chosen markets. Recent challenges included shortages of hard currency in some of the countries in which the Group operates and socio-political unrest in others.	1. Ongoing country risk monitoring. 2. Application of financial risk management policies and practices Group-wide. 3. Targeted geographic diversification strategy.
EXTERNAL	Major supply disruption from a key supplier in the Group value chain. This includes the potential sustained and frequent disruption of water, gas, ammonia and electricity supply for AECI's operations and those of its customers.	1. Supply contingency agreements and plans. 2. Business Continuity Management plans of key suppliers.
EXTERNAL	Extreme and unpredictable weather events and failure of climate change mitigation and adaptation. Effects of this were felt through the harsh drought conditions experienced in South Africa and other Southern African countries for most of 2016 and the opposite effect of destructive flooding after very high rainfall in Central Africa. These phenomena had a negative effect on AECI's mining, water treatment and agrochemicals businesses.	1. Geographic diversification of businesses. 2. Technology developments, e.g. water recycling. 3. Ongoing monitoring of/adaptation to predicted weather patterns in regions where the Group has presence.
EXTERNAL	Global commodity price and currency fluctuations, in countries where AECI operates, leading to increased operational costs and a decrease in absolute contribution and margins.	1. Implement detailed policy (hedging process) on exposure to foreign exchange rates. 2. Transfer cost to customers (pricing). 3. Monitor key commodity prices. 4. Drive the diversification strategy with regard to regions and customers.

RISK MANAGEMENT

BY UNDERSTANDING AND PROPERLY MANAGING RISKS, AECI PROVIDES GREATER CERTAINTY AND SECURITY FOR ITS EMPLOYEES, CUSTOMERS, SUPPLIERS AND STAKEHOLDERS. THE COMPANY IS BETTER INFORMED, MORE DECISIVE AND CAN MOVE WITH GREATER CONFIDENCE TOWARDS THE ACHIEVEMENT OF ITS GOALS.

The close alliance between risk management and strategic decision-making increases the probability that AECI will not only be able to minimise its downside risks but also to capitalise on its opportunities. This is enhanced by maintaining an appropriate balance between risk and reward in the business.

Risk can never be fully eliminated. For this reason, management has designed and implemented a process to identify, assess, manage, monitor and report on the significant risks faced by individual Group companies and by AECI as a whole. This involves the assessment of the broader environment in which the Group operates and includes monitoring of the Group's internal and external context. The latter includes political and economic landscapes, and conditions in industry and labour and financial markets. The work involves analysing media articles, research materials, industry benchmarking studies and economic outlook reports. This also serves to identify future risks and opportunities in a timely manner.

Underpinning all activities are the Group Risk Management policy and the Group Enterprise Risk Management Framework ("the Framework"), based on the principles of the International Guideline on Risk Management (ISO 31000) and King III. AECI's risk management process is supported by a software application that is in place Group-wide.

LEVEL OF RISK MATURITY

AECI's maturity level, as determined through an assessment based on the adopted Risk Intelligence Maturity Model, remains on the border between "semi-integrated and change driven" and "intelligent, integrated and optimised". The characteristics of the various states of maturity are detailed in the top graphic on the facing page.

To reach the desired risk maturity level, more focus is being placed on:

› further entrenching the risk culture across all entities in the Group;

› improving accountability and responsibility for risk management;

› further integration of risk management into strategy development and implementation;

› incorporating and maturing the identification and management of upside risk (opportunity risk management) in line with King III and ultimately King IV; and

› revision of the Group's risk appetite and tolerance thresholds in line with the financial and risk Delegation of Authority.

THE ROAD AHEAD — EMBEDDING A RISK-INTELLIGENT AND RESILIENT ORGANISATION

The establishment of the context of risk management is the foundation of its good management and is vital to successful implementation of the risk management process. Important considerations when determining context are illustrated in the bottom graphic on page 15.

Given the Group's challenging and rapidly evolving external environment, contextual analysis is crucial for the provision of proactive and informed risk information that supports timely decision-making and leads to effective strategy execution. Scanning the external environment involves a multi-dimensional assessment of key elements that shape and are shaped by the Group's actions, also as illustrated in the bottom graphic on the facing page.

The concept of resilience was introduced into the AECI's Framework in 2016. Resilience is a strategic objective that helps an organisation prosper. It boosts the ability to be more adaptive, competitive, agile and robust. Resilience refers to the preparedness for disruption to the status quo. It provides the framework for understanding how value is created and establishes the relationship between the delivery of value and dependencies or vulnerabilities that could affect it.

A Business Continuity and Operational Resilience project to improve the Group's understanding of its operational risk exposures, identify potential single points of failure, and develop and implement appropriate risk responses was initiated in 2016 and will be developed further during 2017 and beyond.

AECI'S RISK INTELLIGENCE MATURITY MODEL

STAGES OF RISK MANAGEMENT MATURITY

INITIAL	INFORMAL	STANDARDISED AND GOVERNANCE-DRIVEN	SEMI-INTEGRATED AND CHANGE-DRIVEN	INTELLIGENT, INTEGRATED AND OPTIMISED
› AD HOC/CHAOTIC › NO FORMAL RISK MANAGEMENT ("RM") STRATEGY › NO USE OF STANDARDS, TOOLS AND TECHNIQUES	› RM PREDOMINANTLY "RISK SPECIFIC" › LIMITED FOCUS ON INTEGRATION › RISK VIEWED SOLELY AS AN EVENT WITH A NEGATIVE CONSEQUENCE › AWARE OF TECHNIQUES WITHOUT THE FORMAL APPLICATION OF STANDARDS › NO DIFFERENTIATION BETWEEN "RISKS" AND "HAZARDS"	› REPORTING FOCUS › COMMON FRAMEWORK, PROGRAMME STATEMENT AND POLICY › HIGH LEVEL RISK ASSESSMENTS › MANAGEMENT OF ALL RISK TYPES IS NOT APPROACHED UNIFORMLY › RISK VIEWED LARGELY AS AN EVENT WITH A NEGATIVE CONSEQUENCE › USE OF STANDARDS	› CHANGE MANAGEMENT APPROACH TO RM › COORDINATED RM ACROSS BUSINESSES AND ACTIVITIES › ALL TYPES OF RISKS ARE MANAGED THROUGH A UNIFORM SYSTEM › RISK IS VIEWED AS UNCERTAINTY AND LINKED TO OBJECTIVES › DRIVEN BY PERFORMANCE-BASED STANDARDS	› ENTERPRISE-WIDE APPROACH TO RM › RM DRIVES PROACTIVE AND INFORMED DECISION-MAKING › COMPANY AND RM PROCESSES ARE FULLY INTEGRATED › RM IS EMBEDDED IN CULTURE › RM IS A STRATEGIC ADVANTAGE › SOUND UNDERSTANDING OF STANDARDS AND USE OF TOOLS AND TECHNIQUES

AECI ENTERPRISE RISK MANAGEMENT FRAMEWORK

INTERNAL CONTEXT SETTING

This is the internal environment in which the entity seeks to achieve its objectives:

› GOVERNANCE
› STRUCTURE
› CULTURE
› CAPABILITY
› POLICIES, PROCEDURES, IT SYSTEMS ETC.

EXTERNAL CONTEXT SETTING

This is the external environment in which the entity seeks to achieve its objectives:

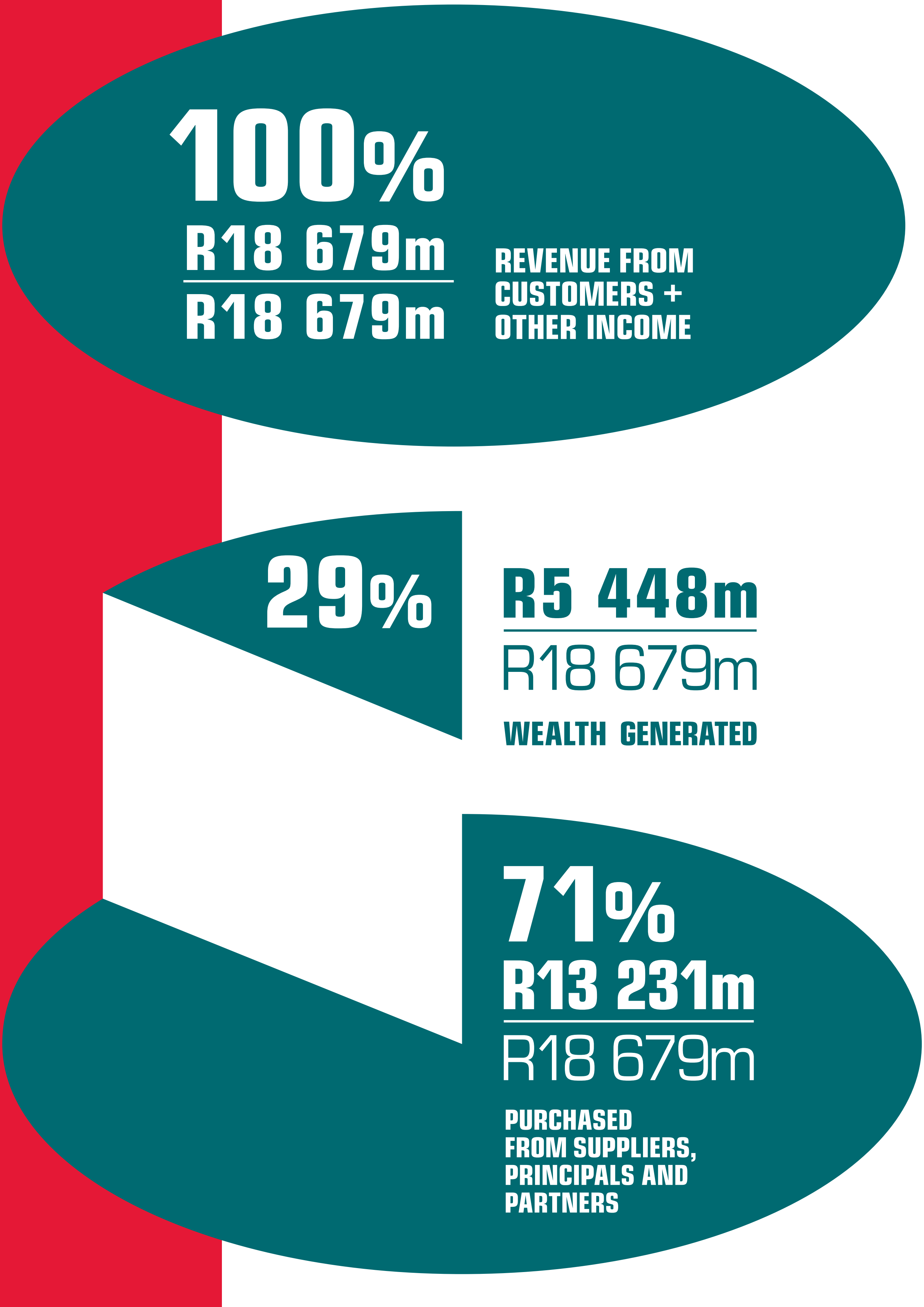
› POLITICAL
› ECONOMIC
› SOCIAL
› TECHNOLOGICAL
› LEGAL
› ENVIRONMENTAL

RISK MANAGEMENT CONTEXT SETTING

Here the approach and boundaries are defined and applied to the risk assessment at hand:

› SCOPE AND BOUNDARIES
› DEFINE RISK CRITERIA
› RISK ASSESSMENT METHODOLOGY

WEALTH GENERATED AND DISTRIBUTED TO STAKEHOLDERS



STAKEHOLDERS	DISTRIBUTION OF WEALTH GENERATED		VALUE CREATED
EMPLOYEES	63% R3 404m	R5 448m	SALARIES, WAGES AND OTHER BENEFITS
FINANCIERS	5% R270m	R5 448m	INTEREST EXPENSE
SHAREHOLDERS INCL. EST AND CEDT	8% R433m	R5 448m	DIVIDENDS PAID OR DECLARED
GOVERNMENT	6% R336m	R5 448m	DIRECT TAX EXPENSE

18% R1 003m

R5 448m

WEALTH RETAINED AND REINVESTED IN THE GROUP

NON-EXECUTIVE DIRECTORS

Schalk Engelbrecht
(70) BSc, MBL

Schalk retired as Chairman on 28 February 2017. He had served in this position since 2012.

Khotso Mokhele
(61) BSc (Agriculture), MSc (Food Science), PhD (Microbiology)

Khotso joined the AECI Board in 2016 and took up his position as Chairman on 1 March 2017. He is a member of the Risk Committee and, in line with King III, will also be a member of the Remuneration Committee and Chairman of the Nominations Committee going forward. Khotso is Special Advisor to the Minister of Science and Technology, Chancellor of the University of the Free State, Chairman of Tiger Brands, Lead Independent Non-executive Director at Afrox and a Non-executive Director of Hans Merensky Holdings.

Graham Dempster
(61) BCom, CA(SA)

Graham was appointed to AECI's Board in 2016. He is a member of the Audit, Remuneration and Nominations Committees. Graham is a Non-executive Director of listed companies Imperial Holdings and Telkom. He was previously an Executive Director of the Nedbank Group/ Nedbank Limited and the Chief Operating Officer of Nedbank Group.

Richard Dunne
(68) CA(SA)

Richard joined AECI's Board in 2007. He is Chairman of the Audit and Remuneration Committees, a member of the Nominations and Risk Committees and chairs the Financial Review and Risk Committee ("FRRC") of AECI's Specialty Chemicals cluster. Richard is a member of the Boards and Audit Committees of Anglo American Platinum and the Standard Bank Group.

Zellah Fuphe
(48) BSocialSc

Zellah joined the AECI Board in 2007 and chairs the Social and Ethics Committee. She is an Executive and a Board member at Dimension Data. She was previously an Executive at Plessey where she served as Managing Executive of Plessey Broadband Investments and 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 (now Phembani) and the Unisa School of Business Leadership.

Godfrey Gomwe
(61) BAcc, MBL, CA(Z), CD(SA)

Godfrey joined the AECI Board in 2015 and he is a member of the Audit, Remuneration and Nominations Committees. Godfrey has extensive experience as an Executive in the metals and mining industries. At the time of his early retirement in 2014, he was Chief Executive of Anglo American Thermal Coal and was also responsible for Anglo American's manganese interests in the joint venture with BHP Billiton.

Moses Kgosana
(57) BCompt Hons, CA(SA)

Moses joined the AECI Board in 2016 and is a member of the Audit Committee. He has 34 years of accounting, audit and advisory experience. He is the past Chief Executive Officer of KPMG and currently manages his own investment company. He is a member of the Institute of Directors and also serves on the Boards of inter alia Alexander Forbes, Famous Brands, Imperial Holdings, Massmart Holdings and Transaction Capital.

Liziwe Mda
(51) MSc (Chem Eng), MBA

Liziwe joined AECI's Board in 2011 and is a member of the Risk Committee. She is head of strategy at a large company in the oil and gas sector in Africa. Prior to taking up this position, Liziwe was Refinery Operations Manager at Shell and BP Southern Africa Petroleum Refineries ("SAPREF") in Durban. She has extensive experience in manufacturing, projects, risk management, business improvement and strategy gained during her career at SAPREF, Sasol Technology and Unilever SA.

Allen Morgan
(69) BSc, BEng (Elect), Pr Eng, CD(SA)

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

Rams Ramashia
(59) BIuris, LLB, LLM

Rams joined the AECI Board in 2010 and serves on the Social and Ethics, Risk, Nominations and Remuneration Committees. He is a member of the Board of Anglo American South Africa where he serves as a member of its Risk and Audit Committee and chairs the Social and Ethics Committee. He is Non-executive Chairman of Rand Refinery and also chairs that company's Nomination and Remuneration Committee. 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 practising advocate of the High Court and a member of the Council of the Pretoria Society of Advocates.

EXECUTIVE COMMITTEE

Mark Dytor*

(55)

Mark assumed his role as AECI's Chief Executive in 2013. He was appointed to AECI's Executive Committee in 2010 and to its Board in January 2013. 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*

(46) 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 AECI's Corporate Communications and Investor Relations, Legal and Secretariat, Internal Audit and IT functions as well as its Retirement Funds. He also plays a leading role in M&A activities.

* Executive Director

Edwin Ludick

(52) BCom (Hons)

Edwin is Managing Director of AEL. He joined Chemserve as a Human Resources Manager in 1991, was appointed to its Executive Committee in 2008 and to its Board in January 2010. Edwin joined AECI's Executive Committee later in 2010. He has served as Managing Director at four companies in the Specialty Chemicals cluster and as Chairman of a number of others.

Khosi Matshitse

(60) 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 oversees the transformation of the Group, assists in the internationalisation of AECI's businesses and has progressed the transformation of the Human Capital function 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.

SENIOR MANAGERS

Gary Cundill
(50) 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, explosives and steel industries. Prior to joining the Group in 2001, he held positions in technical development and project and operations management.

Gugu Mthethwa
(57) BSc Eng (Chem), MBA

Gugu is Group M&A 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
(54) 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 as a Junior Press Officer in 1986.

Nomini Rapoo
(53) 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 a spectrum of disciplines including risk and compliance management, internal audit, legal services and corporate governance.

Trevor Roberts
(40) BSc Eng (Industrial), BSc Hons (Tech Management), MBA

Trevor is Head of AECI's Group Strategic Sourcing department, established in 2016. Prior to this, he was a member of AEL's Executive Committee with responsibility for the supply chain, sourcing, marketing and strategic capital projects. Trevor joined the Group in 1999.

Iwan Schutte
(45) 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 AECI in 2004.

Trevor Starke
(48) CA(SA)

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

Toni Serra
(54)

Toni is AECI's Chief Information Officer with overall responsibility for managing IT operations, including the formulation and implementation of the Group's IT strategy. He has extensive experience in the IT field, including that gained in his role as Chief Information Officer at Nampak.

Graham Thompson
(41) CA(SA)

Graham is Group Financial Manager with overall responsibility for the Group's finance and tax functions. He joined AECI in 2005 as Group Accountant.

CHAIRMAN'S LETTER TO STAKEHOLDERS

DEAR STAKEHOLDERS

I WRITE TO YOU IN MY CAPACITY AS CHAIRMAN FOR THE LAST TIME. I RETIRED FROM THE BOARD ON 28 FEBRUARY 2017 AFTER A 37-YEAR ASSOCIATION WITH AECI AND THE GROUP, INCLUDING FIVE YEARS AS CHAIRMAN. I HAVE BEEN PRIVILEGED TO SEE THE COMPANY CHANGE AND GROW AND TO ENGAGE WITH YOU, OUR STAKEHOLDERS, OVER THIS LONG PERIOD.

It gives me great pleasure to report that AECI and its people once again delivered commendable results in 2016, to the benefit of our shareholders, our employees and the communities in which they live, our customers and suppliers, and the economies of the countries in which we operate.

The year's performance, and the key internal and external factors that affected it, are set out in detail in the Chief Executive's report, the Chief Financial Officer's reports, and other commentary included in this integrated report. I wish to share with you some salient points from the perspective of the Board of Directors.

SAFETY

The Group operates in the explosives and specialty chemicals industries, both of which by their very nature require that health and safety be the primary focus of management and all employees at all times. AECI measures its health and safety performance using the Total Recordable Incident Rate ("TRIR") as its primary indicator. The TRIR measures the number of incidents per 200 000 hours worked.

The TRIR for 2016 was 0,45. In 2015, the TRIR was at an all-time low of 0,35 although, tragically, this performance was marred by two fatalities. The aspiration remains zero harm to employees and contractors and management is always focused on improvements.

GOVERNANCE

CHANGES TO THE BOARD

A number of changes to the Board were announced during the year. Graham Dempster was appointed with effect from 31 January, Khotso Mokhele with effect from 1 March and Moses Kgosana with effect from 1 September 2016. All three of them serve as Independent Non-executive Directors and Khotso succeeded me as Chairman on 1 March 2017.

Litha Nyhonyha resigned on 31 December 2016 and Richard Dunne will leave the Board at the Annual General Meeting of the Company's shareholders scheduled for 29 May 2017. We thank both these Independent Non-executive Directors for their valuable contributions to the affairs of the Company and the Board over many years.

DIRECTORS' DEVELOPMENT

All the newly appointed Directors have undergone a Group-specific induction programme, which included a number of one-on-one meetings with Executives, Senior Managers and the Managing Directors of subsidiaries. In addition, they visited key operational sites at Modderfontein, Chloorkop, Sasolburg, Umbogintwini and in the Western Cape to enhance their understanding of the Group's diverse businesses.

Furthermore, their induction process covered all key documentation that is the foundation of the Company's governance framework (including but not limited to the JSE Listings Requirements, King III and King IV, the MOI and the Code of Ethics and Business Conduct).

Schalk Engelbrecht
OUTGOING CHAIRMAN

BOARD AND COMMITTEE PERFORMANCE EVALUATION

Focus on building strong and responsive governance structures was sustained. The Board undertook its annual review of the effectiveness of the Board as a whole and of its Committees. An external consultant was engaged to support this process, under my guidance and that of the Group Company Secretary.

The outcomes of this evaluation will receive attention in 2017, as required, and will assist in ensuring that there is continual improvement in the way the Group is governed and managed. The high level results of the evaluation process are disclosed on page 86 in the Governance report.

AFRICAN COMPLIANCE PROJECT UPDATE

The Group is developing a compliance universe detailing all legislative imperatives in each of the other African countries of operation. A phased approach has been adopted and it is currently anticipated that the project will be completed in 2020. As a first step, the evaluation of the compliance universe in the Democratic Republic of Congo was undertaken and an assessment to determine the Group's compliance position is underway.

REGULATORY INTERACTION

The investigation process initiated in 2014 by the Competition Commission of South Africa ("the Commission"), on allegations of collusion with a competitor by Akulu Marchon, is in the process of being settled with the Commission.

On 14 December 2015 the Department of Environmental Affairs ("DEA"), accompanied by representatives from the City of Johannesburg, conducted a search and seizure operation at AEL Modderfontein. Management cooperated fully with the DEA and submitted a response to the DEA's allegations, relating to AEL's compliance with certain conditions of its current emissions licence. The matter is in the process of being finalised with the authorities.

The outcomes of these matters are not expected to have a material effect on either the operations of the Group or on the results as presented.

A summary of the Group's key interactions with regulators during 2016 is published on page 89 in the Governance report.

RISK MANAGEMENT

Risk management is an integral part of the Group strategy-setting process and, assisted by the Risk Committee, the Board has overall accountability for the management of risk. Underpinning all activities is the Risk Management policy and the Risk Management Framework, based on the principles of the International Guideline on Risk Management (ISO 31000) and King III. AECI's risk management process is supported by a software application that is in place Group-wide.

The concept of resilience was introduced into the Risk Management Framework in 2016. A Business Continuity and Operational Resilience project to improve the Group's understanding of its operational risk exposures, identify potential single points of failure, and develop and implement appropriate risk responses will be developed further in future years.

HUMAN CAPITAL

AECI's people are its greatest asset and their development and advancement is pursued not only for the Group's benefit but also for their own personal growth.

Learning and training are key components of AECI's Employee Value Proposition, building skills and behaviours that promote a culture of continuous learning, leadership and diversity. The core focus of the Learning and Development functions remains on allowing employees to grow and advance their careers in the Group.

In 2016 the Group increased financial assistance for employees, through the Employee Study Assistance Scheme, by 27% compared to an increase of 22% in the prior year. Master's in Business Administration, Bachelor of Arts Psychology in Human Resources, Bachelor of Science, Bachelor of Accounting Science Degrees, and National Diplomas in Electrical Engineering, Analytical Chemistry, Safety Management and Operations Management were courses of study pursued.

The fourth intake of participants, across all levels on the AECI Management Development Ladder, participated in the Group's partnership with the Gordon Institute of Business Science ("GIBS") programme in 2016. The sustained success of the programme was illustrated by the need to present the Foundational programme for two groups of employees for the first time since inception. Over four years, 413 employees have benefited, with 77% of them being from designated groups. Three Executives and Senior Managers were enrolled on the GIBS Global Executive Development Programme, and they completed the course with excellent results.

Good progress was made in AECI's Performance Improvement intervention. Performance processes were implemented, a supporting management policy and governance framework were designed, Group-wide management upskilling continued and understanding regarding the quality of KPIs and their alignment with business strategy improved.

Progress was also made in improving the under-representation of designated groups in terms of the Group's Employment Equity Plan. The results of numerous development programmes and initiatives established to drive and enhance levels of representation by designated groups contributed in this regard. A summary of the numerical targets and progress against these can be found on page 59 in the Human Capital report.

B-BBEE

A consultancy has been appointed to provide specialist advisory and consultancy services relevant to the Broad-Based Black Economic Empowerment Amended Codes of Good Practice. Each element of the scorecard has been reviewed, with emphasis on priority elements (namely Ownership, Skills Development, and Enterprise and Supplier Development) to facilitate compliance and achieve transformation objectives. Commentary on key initiatives in this important area is presented on page 62.

DIVIDENDS

On 27 February 2017 the Board declared a final gross cash dividend of 300 cents per ordinary share, an increase of 15% from 2015's 260 cents per share, bringing the total ordinary dividend for the 2016 financial year to 435 cents, 13% higher than the prior year's 385 cents. A South African dividend withholding tax of 20% will be applicable to the final dividend, resulting in a final net dividend of 240 cents per share payable on 10 April 2017.

OUTLOOK

It appears that conditions in the local and global environment are showing some level of recovery. Thanks to its strategy and the abilities of its people, I am confident that AECI is well positioned to maximise the benefit of opportunities that this will present, thereby continuing its growth journey for the benefit of all stakeholders.

ACKNOWLEDGEMENTS

I wish to record my thanks to all our stakeholders including my fellow Board members, AECI's management, it employees and customers for their support not only in the 2016 financial year but throughout my career in the Group, including my tenure as Chairman.

I am certain that Khotso Mokhele will enjoy the same level of support from all of you in the years ahead and I wish him every success.

Schalk Engelbrecht
Outgoing Chairman

Khotso Mokhele
Incoming Chairman

Woodmead, Sandton
31 March 2017

CHIEF EXECUTIVE'S REPORT TO STAKEHOLDERS

AECI DELIVERED A VERY GOOD UNDERLYING FINANCIAL PERFORMANCE IN 2016, WITH PLEASING IMPROVEMENTS IN BOTH OF THE GROUP'S OPERATING SEGMENTS — EXPLOSIVES AND SPECIALTY CHEMICALS. COMMENDABLY, THIS RESULT WAS ACHIEVED IN AN ENVIRONMENT WHERE DIFFICULT CONDITIONS PREVAILED BOTH GLOBALLY AND LOCALLY.

Although the global resources sector showed some recovery and overall commodity prices increased in the latter part of the year, volatility persisted and the longer-term sustainability of improved conditions in the sector remain uncertain. The South African manufacturing sector grew by only 0,8% year-on-year and the drought conditions that persisted in a number of Southern African countries for most of 2016 added to the challenge.

SAFETY

The aspiration for AECI and all of its people remains zero harm to employees and contractors. The Total Recordable Injury Rate ("TRIR") was 0,45 in 2016. It was disappointing that this was behind the 0,35 achieved last year and management remains focused on improvements.

More information on safety, health and environmental matters is published in the relevant report commencing on page 72.

PERFORMANCE

A highlight was the Group's excellent cash generation, thanks to another successive year of prudent control of working capital and the containment of capital expenditure in line with depreciation and amortisation. This was achieved without compromising investment in safety- and risk management-related items, which are not negotiable. An improved performance from AEL, the contributions of acquisitions made in recent years and good volume growth at Senmin also benefited the overall results.

Revenue grew by 1% to R18 596 million, of which 35% was generated outside South Africa. This is in line with the strategy of growing the proportion of earnings in hard currency over time. A weaker average ZAR/US dollar exchange rate assisted to an extent but revenue was adversely affected by the lower oil price and hence lower prices for commodity chemicals such as ammonia and acrylonitrile.

Although reported headline earnings per share ("HEPS") declined by 9% to 818 cents, underlying HEPS improved by 29% to 920 cents. The underlying performance was calculated by excluding the R449 million positive effect of land sales in 2015 and the negative effects of impairments (R59 million more in 2016 than in 2015) as well as the costs associated with the de-risking of AECI's post-retirement medical aid obligations. These items are explained in more detail in the Chief Financial Officer's report commencing on page 36. Similarly, the underlying trading margin improved to 8,4% of revenue from 7,8% in the prior year.

The total cash dividend for the year was 435 cents per share, a 13% year-on-year increase. More information in this regard is also provided in the Chief Financial Officer's report as are details on our intention to restructure our future reporting to align it with our growth strategy.

Results reported by current business segment are published from page 42.

PROFIT FROM OPERATIONS OF CORE BUSINESSES IMPROVED

EXPLOSIVES +7,4% TO R449m

SPECIALTY CHEMICALS +8,3% TO R1,2bn

CASH GENERATED BY OPERATIONS

+52% TO R1,9bn

GROUP REVENUE

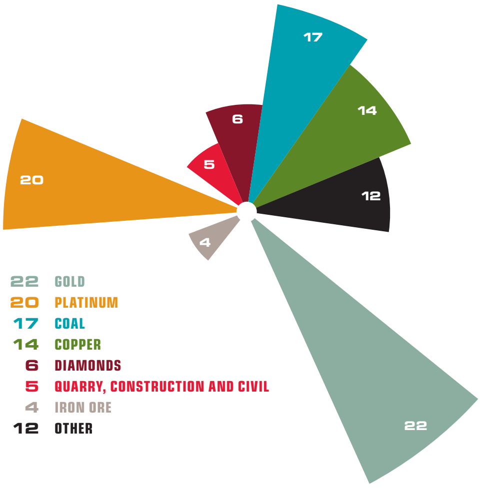
R18,6bn

SAFETY PERFORMANCE

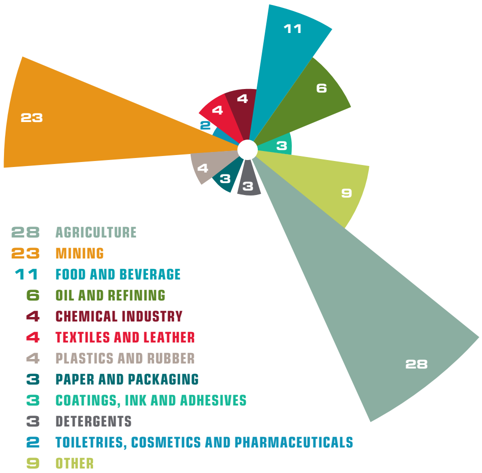
TRIR OF 0,45

Mark Dytor
CHIEF EXECUTIVE

GROUP MINING REVENUE BY MINERAL MINED (%)



SPECIALTY CHEMICALS REVENUE BY MARKET SECTOR (%)



STRATEGIC CONTEXT

AECI has focused on geographic and portfolio diversification in recent years so as to expand its footprint, enhance its product and service offering and counter the effects of external factors such as a low domestic GDP growth and foreign currency fluctuations. Through its five strategic growth pillars, which are outlined on page 7, the Group now services customers who operate businesses in more than 20 countries across the mining, water treatment, agricultural, food and beverage, and the diverse manufacturing sectors.

Diversification has enabled a more resilient earnings base and the benefits are most evident in AEL, where US dollar-based earnings accounted for 59% of that company's revenue in the year. This was thanks, in part, to the effects of a weaker average South African rand but also the benefits of customer multiplicity. The Group's mining customers are across a broad spectrum in terms of the minerals mined (as illustrated in the schematic on page 32), the nature of mining activities and countries of operation.

MINING SOLUTIONS

Revenue was R9,9 billion. AEL, Senmin and Experse comprise this pillar.

After being under severe and prolonged pressure, prices of major commodities rallied late in the year. Between January and December, for example, the price of coal shipped from Richards Bay increased by 65%. In the same period, iron ore prices rose by 47%. Copper prices also recovered and the gold price remained robust. The platinum price, instead, remained relatively low. Although there was little evidence of an acceleration in mining production by year-end, notwithstanding the price recoveries, the outlook for the global industry is more positive than it was a year ago. This bodes well not only for AEL, which operates in many African countries as well as in Indonesia and Australia, but also for Senmin and Experse. They, too, have expanded their geographic reach.

Senmin supplies extraction chemicals for the gold, platinum and copper mining sectors. In 2016, this business grew its volumes and profitability on the back of exports. To ensure that market demand will be met into the future, Senmin has commenced a R90 million expansion of its solid xanthates plant in Sasolburg. This project, scheduled to come on line in early 2018, will increase the plant's production capacity by 4 000 tonnes per annum of xanthates in both powder and pelletised form. The latter is often preferred by export customers owing to the ease of handling.

WATER SOLUTIONS

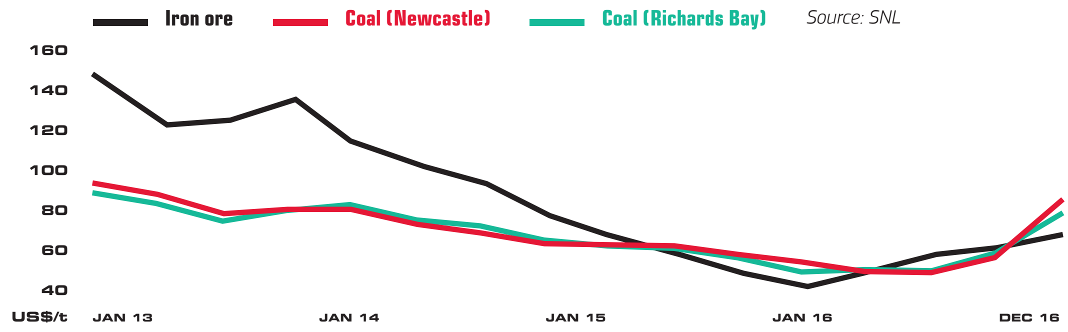
ImproChem's revenue increased to R1,4 billion notwithstanding the effects of the drought in Southern Africa. The Mining and Public Water businesses in South Africa and the rest of Africa grew and benefits from the integration of manufacturing sites were realised.

The company has an extensive footprint on the continent, where access to water of the right quality remains a challenge. Its range of products and services are applied to provide water, waste water and process water solutions for customers across the spectrum of industries.

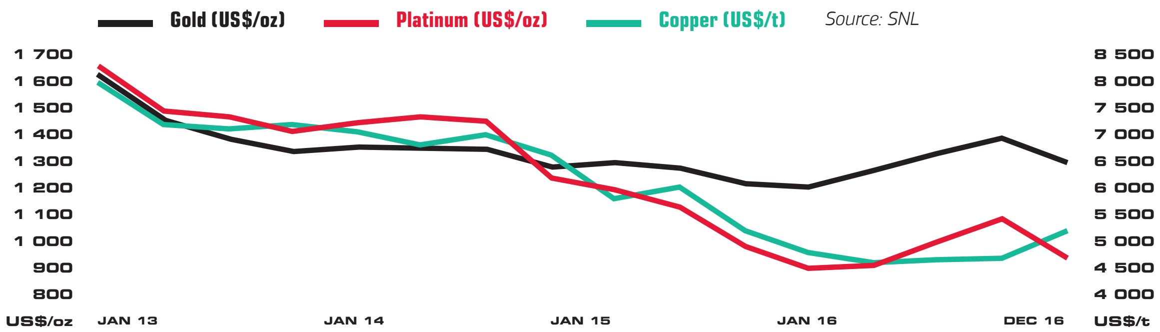
AGROCHEMICALS

This strategic pillar is anchored in Nulandis and revenue grew to R2,8 billion notwithstanding the effects of the drought which persisted for most of the year. Although rainfall patterns in Southern Africa appear to have normalised in many regions, the situation in the Western Cape, in particular, remains critical. Contributions from Farmers Organisation, in Malawi, and Biocult, in Cape Town, assisted

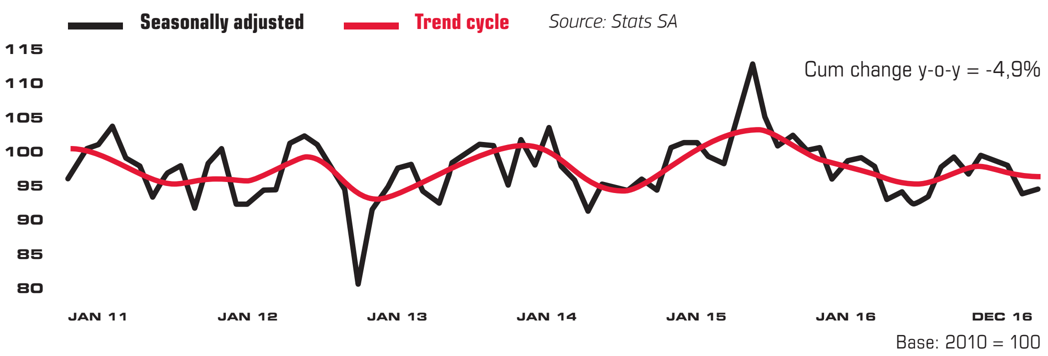
HISTORICAL PRICE PERFORMANCE — COAL AND IRON ORE (US$)



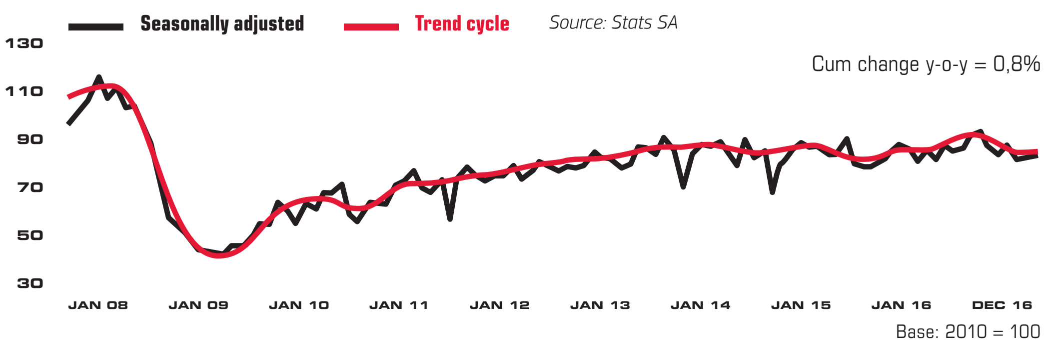
HISTORICAL PRICE PERFORMANCE — GOLD, PLATINUM AND COPPER



SA MINING VOLUMES



SA MANUFACTURING VOLUMES



Nulandis' 2016 performance. Both these businesses were acquired in 2015.

Nulandis has rolled out its NuWay model to enhance its alignment with the growing global trend towards bio agriculture — holistic, more environmentally friendly approach to soil and plant health. A R25 million capacity expansion is underway at Modderfontein. R6 million was invested in Biocult, which focuses on soil bio-stimulants, and further investments are under consideration.

FOOD ADDITIVES AND INGREDIENTS

Lake Foods ("Lake") and Southern Canned Products ("SCP"), which was acquired in 2015, constitute this pillar. SCP is a manufacturer and distributor of juice-based products and ingredients, based in Cape Town. The inclusion of SCP's results for the full 2016 year enabled revenue in this pillar to increase to R1,1 billion even though this business was negatively impacted by low demand from its large beverage customers.

Lake is the exclusive representative for leading international manufacturers and suppliers of specialty ingredients and commodities, offering products and services to the dairy, beverage, wine, meat, bakery, health and nutrition industries. This company's performance was curtailed by adverse conditions in South Africa's poultry industry.

PORTFOLIO OF SPECIALTY CHEMICALS BUSINESSES

The businesses in this pillar accounted for R3,2 billion of the Group's revenue. These businesses service customers in the general manufacturing sector, mainly in South Africa and in other Southern African countries. Most businesses in the pillar improved their profitability in 2016 and remained highly cash generative. This was most pleasing in an environment of low GDP growth and manufacturing output growth in South Africa of only 0,8%.

The diverse customer base contributes to AECI's resilience and complements its other strategic growth areas. This customer diversity is illustrated in the schematic on page 32, which shows the Group's revenue split by market sector for the Specialty Chemicals reporting segment as a whole.

PROPERTY

In 2014 and 2015, the Group disposed of bulk land holdings that were surplus to its operational requirements. No further bulk land is available for redevelopment in the short term. Accordingly, the remaining property activities are the leasing of buildings at Modderfontein, in Gauteng, and at Umbogintwini, in KwaZulu-Natal, as well as the provision of services at the Umbogintwini Industrial Complex. As the prior year's financial results included the bulk sale of the Somerset West site, revenue from the Property segment declined to R398 million from R922 million in 2015. Profit from operations was pleasing at R87 million.

ACQUISITIONS

AECI's aim is to expand its business both organically and through the acquisition of businesses in South Africa and internationally. While the three acquisitions finalised in 2015 contributed positively to the year's performance, it was disappointing that no further transactions were concluded in the year under review notwithstanding significant efforts in this regard. Opportunities will continue to be pursued in the coming year.

STRATEGIC VALUE GROWTH INITIATIVES

COLLABORATION AND STRATEGIC SOURCING

The diversity that exists in the Group's businesses represents a strategic advantage in that individual businesses can collaborate to supply customers with a synergistic basket of products and services. The best developed example of this is the Mine-to-Metal model. As outlined in last year's integrated report, this model combines the blasting and explosives expertise of AEL with Senmin's mining chemicals, and ImproChem's water treatment capabilities.

Cost savings for the Group as a whole can also be achieved through strategic sourcing, including the negotiation of contracts with suppliers via a centralised Strategic Sourcing function which was established in 2016. The initial objective is to realise annualised savings of R100 million.

INNOVATION

A Group-wide innovation drive was initiated in 2016 to add another component to the delivery of AECI's growth aspirations. Innovation projects will be designed to improve the overall quality of earnings, while accelerating growth by further enhancing AECI's existing business and potentially by diversifying the portfolio further. Identified growth themes will assist in increasing market penetration.

"The BIGGER Idea," an ideation platform, was launched to support the innovation project, as was the opening of AECI.GO – the "Business of Tomorrow" growth office. The ideation platform provides an online system for employees to submit and share ideas using their PCs and mobile devices. Campaigns are being designed around five potential key themes, namely: Health, Exponential Chemistry, Green, Market Expansion, and Integrated Solutions.

OUTLOOK

Better global GDP growth is forecast for 2017, the US dollar is expected to remain strong and it is not anticipated that oil prices will return to the low levels seen in the early part of 2016. This should have a positive effect on commodity chemical prices. Commodity prices in general appear to be on an upward trend — an encouraging signal for activity in the mining sector. In South Africa, some improvement in overall economic activity from 2016's low base is also expected.

A more positive environment will benefit AECI's businesses in South Africa, the rest of Africa and internationally. Cash management will remain a focus area, as will the pursuit of accelerated growth through acquisitions and the realisation of benefits from the strategic value growth initiatives embarked on in the last two years.

ACKNOWLEDGEMENTS

My sincere thanks are due to the Board, the Group's management teams and our valued employees for their steadfast determination, their hard work and their passion. Their collective efforts enabled the delivery of pleasing results in a difficult year. Thanks are also due to the Group's many business partners, customers, suppliers and other stakeholders. Their unwavering support is appreciated.

In July 2016, Litha Nyhonyha, Schalk Engelbrecht and Richard Dunne announced their plans to retire from their positions as Independent Non-executive Directors of the Company. Litha left us on 31 December 2016, Schalk retired as Chairman of the Company and the Board on 28 February 2017 and Richard will retire on 29 May 2017. My Board colleagues and I are highly appreciative of their wisdom and significant contributions to the Group over many years. Also as announced in July, on 1 September 2016 we welcomed Moses Kgosana to the Board as a new Independent Non-executive Director.

Khotso Mokhele succeeded Schalk as Chairman on 1 March 2017 and we look forward to working with Khotso in his new role.

Mark Dytor
Chief Executive

Woodmead, Sandton
31 March 2017

CHIEF FINANCIAL OFFICER'S REPORT TO STAKEHOLDERS

THIS REPORT IS INTENDED TO PROVIDE A HIGH LEVEL OVERVIEW OF THE FINANCIAL PERFORMANCE OF THE AECI GROUP FOR THE YEAR ENDED 31 DECEMBER 2016.

FINANCIAL PERFORMANCE

The performance of AECI's core operating segments was commendable, given the trading environment that prevailed in the year.

The Group's revenue grew by 1% with 35% of total revenue generated outside South Africa. The result in 2015 was enhanced by sales of land in Somerset West totalling R554 million. Excluding these property sales, revenue in 2016 increased by 4%. Volumes grew marginally and certain selling prices declined as a result of depressed commodity chemical prices.

AECI reported a 22% decrease in profit from operations to R1 335 million and EBITDA of R1 961 million (excluding equity-accounted earnings), a 14% year-on-year decline. These ratios were affected by:

- the non-recurrence of land sales, with the final parcels of land available for sale at Somerset West and Modderfontein having been disposed of or transferred in 2015. In addition, the former Akulu Marchon site in Mobeni, Durban, was also sold in the prior year;
- the effects of the de-risking of the defined-benefit obligations for past and current employees, which impacted results in both 2015 and 2016;
- the accounting gain on the purchase of Resinkem; and
- impairments of property, plant and equipment.

Taking these adjustments into account, the Group's underlying performance showed a pleasing improvement, as demonstrated in the analysis below.

The underlying EBITDA increased by 8,4% to R2 192 million (excluding equity-accounted earnings).

EARNINGS PER SHARE

Headline earnings per share ("HEPS") decreased by 9% to 818 cents and basic earnings per share declined by 19% to 735 cents. The effect of the land sales in 2015 was the main reason for the decreases. The underlying HEPS was 920 cents — a 29% increase over the 2015's comparable result, while underlying EPS was 837 cents, an increase of 14% on the underlying EPS of 732 cents earned in the prior year.

DIVIDENDS

The Board declared a final ordinary cash dividend of 300 cents for the 2016 financial year. This was 15% up on 2015's 260 cents and brought the total dividend for the year to 435 cents (385 cents in 2015). In his budget speech on 22 February 2017, South Africa's Minister of Finance, Pravin Gordhan, announced that dividends withholding tax was to be increased, effective immediately, to 20% from 15%. In the case of those shareholders who are not eligible for exemption or a reduction of the withholding tax, AECI's final dividend payment will be subject to the new rate.

A dividend of 35 cents per share was also declared on the unlisted B ordinary shares granted to employees in their capacity as beneficiaries of the AECI Employees Share Trust. This dividend will be paid in 2017.

UNDERLYING PERFORMANCE

R millions	2016	2015	% change
Reported profit from operations	**1 335**	1 703	(22)
Land sales	**—**	(449)	
Defined-benefit settlement costs	**149**	178	
Gain on purchase of Resinkem	**—**	(23)	
Impairments	**82**	23	
	1 566	1 432	9

Mark Kathan
CHIEF FINANCIAL OFFICER

SHARE REPURCHASE

AECI completed a share repurchase programme in terms of the general authority to do so approved by shareholders at the 2015 AGM of the Company. AECI repurchased 5 969 845 shares, or 4,66% of its issued share capital in 2015 at a cost of R563 million. The Company continued repurchasing shares to reach its authorised limit of 5% of the issued capital in 2016, with a further 442 212 shares acquired at a cost of R39 million. The 969 845 shares acquired in December 2015 and the further shares acquired in 2016 were cancelled and delisted by the JSE.

FINANCIAL POSITION AND CASH FLOW

The Group generated R1 918 million from its operating activities, an increase of 52% over 2015. This was an excellent achievement and was principally the result of good working capital management by all Group businesses and by AEL in particular. At year-end, the Group's net working capital to revenue ratio was 12,7% from the 17,2% in December 2015. This was all the more pleasing given that cash generation last year included significant property disposals. Performance measures to optimise working capital remain in place to drive further optimisation in 2017 and to maintain working capital at current levels wherever possible.

R502 million was invested in capital projects (2015: R583 million) — once again contained to below the Group's depreciation and amortisation charge, without compromising safety- or compliance-related expenditure. R183 million was for expansion projects, with R50 million of this amount spent by AEL on assets at customers sites to support and service new business. 2017 will see a R90 million investment in expanding Senmin's xanthates production capacity by 4 000 tonnes per year to ensure that future local and export market demand can be met.

It was disappointing that the Group did not achieve more in terms of its overall acquisitions ambitions during 2016 even though a number of opportunities were investigated. Towards the end of the year, however, the sale of an initial 51% of Southern Canned Products' Olive Pride business to Clover SA (Pty) Ltd was concluded. At the time of writing, indications were that the transaction should take effect from 1 April 2017.

The related assets of R60 million were classified as held for sale at the end of 2016.

Non-current provisions and the employer surplus accounts ("ESAs") both decreased considerably as a result of the further settlements of AECI's defined-benefit obligations.

Net debt, which includes long-term and, especially, short-term debt and cash, decreased substantially year-on-year. The Group's debt to equity ratio, or gearing, was 3% at 31 December 2016 (13% in December 2015). The reduction was as a direct result of the exceptionally good cash generation in the year. Furthermore, the payment of a special ordinary dividend, and share repurchases to the same extent as in 2015, were not repeated.

The Group's operations generated cash flows of R2 328 million, 10,7% lower than in 2015. Interest paid was at a similar level year-on-year despite the reduction in net debt. This was mainly the result of the timing of the reduction and the prior year's distribution between debt and cash. Tax paid was higher despite the lower profit before tax principally due to the lower capital gains tax rates that affected a large portion of the 2015 taxable income. The cash generated in working capital improved by a very pleasing R703 million, notwithstanding the effect of a R172 million accrual for the defined-benefit obligations settlement. Because no special dividend was paid, total dividends paid in 2016 decreased by 48%.

R1 250 million of the Group's term debt was repaid and additional term debt of R1 100 million was secured. Total debt reduced by R1 510 million. At year-end, the Group had no short-term debt. All loan covenants were met and AECI's external credit rating from a South African credit rating agency remained at a long-term "A" rating with a "stable" outlook.

TAX

Profit after tax for the year declined by 21% in line with the decrease in profit from operations and due to a higher interest cost. This was partly offset by a lower effective tax rate. The interest cost was higher due to the rise in interest rates and the share repurchase programme concluded during the year. Dividend proceeds from the Group's African subsidiaries were received in South Africa, mostly during the second half of 2016. The cash was utilised to settle short-term borrowings before year-end. This decreased the interest cost and should also result in a diminished cost in 2017.

The effective tax rate was 29%, compared to 31% in the prior year, owing mostly to changes in the profitability of businesses in African countries where tax rates differs from those in South Africa. Profits in the Central African region represented a smaller proportion of Group profits in 2016 while improvements were seen in jurisdictions with lower tax rates, such as Mauritius and Ghana. Dividends withholding taxes were also lower year-on-year.

CORPORATE COSTS

Corporate costs were impacted significantly by the R149 million loss (2014: R178 million loss) recognised on the settlement of defined-benefit obligations, as well as the additional liability accounted for long-term incentives as the share price and the adjusted HEPS improved. The settlement of defined-benefit obligations reduced year-on-year and the further positive effects of this will be evident in future periods.

Also contributing to higher overall corporate costs were investments in centralised projects that will add value to the Group as a whole. Examples include the establishment of a Strategic Sourcing department, roll-out of a new performance management system and the launch of an innovation drive intended to contribute to the Group's accelerated growth. These projects are expected to deliver value in the foreseeable future.

INPUT VAT REFUNDS IN INDONESIA

The doubtful debts provision raised in 2015 (R57 million) in respect of the long cycles for input VAT refunds in Indonesia was still in place as AEL's explosives licensee in Indonesia applied for tax amnesty in terms of a programme offered by the Indonesian Tax Office. The licensee's amnesty application was with reference to all tax assets and liabilities for financial years up to and including 2015. As a result, the VAT refund due to the licensee will not be recovered from the Indonesian Tax Office. AECI is pursuing alternatives for recovery with the licensee. Good progress has been made in submitting VAT returns on the licensee's behalf for the 2016 financial year to recover the credit due to AECI.

DEFINED-BENEFIT OBLIGATIONS

Details regarding the items below are contained in note 29 to the annual financial statements.

PENSION FUNDS

During the year, further settlement payments and section 14 transfers for deferred pensioners and pensioners of the AECI Pension Fund ("APF") and the AECI Supplementary Pension Fund were made. These settlements and transfers did not have any impact on the Group as the settlement accounting was recognised in 2015. Twenty-four pensioner members and one deferred pensioner member of the APF still need to be traced, transferred or paid before consideration can be given to finally distributing any remaining surplus to stakeholders and formally closing these funds.

AECI has begun the conversion of the remaining two defined-benefit funds in the Group, with offers being made in October 2016. The offers were made in terms of agreements reached with the Trustees of the AECI Employees Pension Fund ("AEPF") and the Dulux Employees Pension Fund ("DEPF") to implement changes to restructure these funds. The agreements were entered into to ensure that all stakeholders were treated equitably, and that the reasonable benefit expectations of all members were met in the process.

Restructuring processes are expected to take some time due to, inter alia, the diverse locations of the pensioner members concerned. In the AEPF, 53% of the pensioner members and all seven remaining active members have already responded to their offers, confirming acceptance thereof. In the DEPF, 76% of the members have accepted their offers.

POST-RETIREMENT MEDICAL AID ("PRMA")

In September 2014, AECI made an offer to retired employees entitled to a PRMA subsidy to replace this subsidy with an annuity, purchased from Momentum, in an amount equivalent to the current subsidy increased by 25% and guaranteed for life.

In 2016, the Company made a second offer to those pensioners who had previously rejected the offer or who AECI had not been able to reach. By year-end, 390 more pensioners (of a total 920) had accepted the second offer which was made on the same basis as the original offer and implemented as though they had accepted it at the same date as the original group of pensioners.

The requisite annuities were purchased, in cash, in January 2017 for those pensioners who were not former members of the APF. Implementation for the other pensioners will be accomplished through a section 14 transfer from the APF to the MMI Group Ltd. The section 14 application was submitted in February 2017 and will be implemented once approval has been obtained. Based on the approval of the prior application it is expected that this application will also be approved. Consequently, the settlement of these obligations was recognised at 31 December 2016 with an accrual raised for the cost of settlement.

As reported last year, AECI also made a voluntary alternative benefit offer to active employees entitled to a PRMA subsidy. The offer comprised a lump sum allocation to the member's pension/provident fund, funded from the ESA in the relevant fund. AECI considered the alternative benefit offer to be exceptionally good. The amount allocated exceeded the carrying amount of the liability by R125 million as it settled the future service liability over and above the carrying amount.

There were 550 active employees entitled to this benefit and the offers were accepted by 459 of them. The remaining employees were either excluded from the offer, did not respond to it or opted to retain their current entitlement. The alternative benefit offer and settlement of the future entitlement has substantially de-risked AECI for the future. The liability in respect of these members had reduced to R18 million at 31 December 2016.

PERFORMANCE SHARES ("PS")

In 2016, a further tranche of PS allocated in terms of the 2012 Long-term Incentive Plan ("LTIP") vested. The number of shares that vested was determined based on AECI's comparative total shareholder returns in relation to a peer group of companies, measured from 1 June 2013 to 1 June 2016. AECI achieved ninth position in the comparator group, resulting in all the allocated shares vesting. The PS vested on 28 June 2016 for all eligible Executives and Senior Managers in the Group. A transaction was entered into in June, for R22 million, with a third party intermediary to enable the Company to settle its obligations for this vesting, in terms of the LTIP rules. These shares were purchased in the market by the intermediary, in line with AECI's strategy of settling its obligations in this way rather than through the issue of new, potentially dilutive shares.

Further details on the PS are described in the Remuneration report commencing on page 97 and in note 29.

FINANCIAL MANAGEMENT

During 2016, AECI made progress in terms of its cost savings objectives by establishing a Group Strategic Sourcing department, as already indicated. This team has been tasked with investigating savings opportunities and negotiating contracts that leverage the benefits of economies of scale in a Group of AECI's size, across all common areas of procurement. The team made pleasing progress in the year and the Group will see the benefits of its work in 2017 and beyond.

The Tax Risk Management Committee and the Foreign Investment Committee established in 2015 continued to add value to the understanding and management of risk, especially as it relates to AECI's international operations. Resources in this regard were enhanced further through the recruitment of an expert in international tax. This is particularly relevant in relation to the diverse and complex tax-related matters in other African countries where the Group operates.

Progress was also made in rolling out AEL's Financial Shared Service Centre ("FSSC"), which will see transactional finance activity across all countries in which AEL operates centralised in one location. To date, businesses in eight countries have transitioned to the FSSC and another seven will transition in the first half of 2017. This initiative will improve transactional efficiencies, cash management and the overall internal control environment.

CHANGES TO SEGMENTAL REPORTING IN FUTURE

In 2014, AECI revised its strategy and developed five key growth pillars, which are becoming the focus of its integrated reporting. Progress has been made in realigning the Group's businesses in terms of these pillars and the process of altering internal reporting to reflect this realignment has commenced. In future, management reporting will be structured by pillar and the same restructuring will apply to reporting in the annual financial statements.

CONCLUSION

We were most satisfied with the underlying performance achieved by AECI in what many have described as one of the most difficult years for business. The Group's financial position is very strong and the Company is well positioned for the pursuit of its future growth ambitions. It was also gratifying that additional settlements of the defined-benefit obligations were executed successfully, and this has de-risked the Group further.

ACKNOWLEDGEMENTS

I would like to express my thanks to the Audit Committee, the Group's Reporting, Tax, Governance, Legal, Internal Audit, IT, Treasury, Investor Relations and Retirement Funds teams in all the businesses and countries in which we operate. Their diligence and professional oversight of the Group's finances, internal controls and related matters is appreciated by me, my Executive Committee colleagues and the Board.

Special thanks are due to Litha Nyhonyha and Richard Dunne. Litha left the Board at the end of 2016. In addition to his service on other Board Committees, he was a member of the Audit Committee and Chairman of AEL's Financial Review and Risk Committee for several years. I thank him for his support and input.

Richard will retire from the Board at the end of May 2017. As a member of a number of Board Committees over a long period and as Chairman of the Audit Committee, in particular, his interest and guidance have been invaluable to me and to AECI.

Mark Kathan

Mark Kathan
Chief Financial Officer

Woodmead, Sandton
31 March 2017

MANUFACTURED CAPITAL REPORT

THANKS TO EXCELLENT WORKING CAPITAL MANAGEMENT, THE BENEFITS OF THE ASSET BASE, TECHNICAL EXPERTISE AND A COMPREHENSIVE PRODUCT AND SERVICE OFFERING FOR CUSTOMERS IN DIVERSE INDUSTRIES IN MORE THAN 20 COUNTRIES, AECI'S CORE BUSINESSES IMPROVED THEIR YEAR-ON-YEAR PROFIT FROM OPERATIONS. THIS WAS ACHIEVED IN A TRADING ENVIRONMENT THAT REMAINED CHALLENGING AND CHARACTERISED BY SUBDUED ECONOMIC GROWTH.

The commentary that follows summarises the Group's 2016 performance by current reporting segment. As already indicated, this reporting structure will be aligned with the Group's strategic pillars in future periods.

EXPLOSIVES

AEL is a leading developer, producer and supplier of commercial explosives, initiating systems and blasting services for mining, quarrying and construction markets in Africa and Asia Pacific. It is also the largest supplier of explosives technology and initiating systems in Africa. AEL has 58 plants and 34 sites in more than 20 countries.

The company's business model starts with R&D to develop technology and products that enhance customers' operations since downstream costs are reduced through mining optimisation and the efficient application of blast energy.

In 2016, there was a pleasing improvement in AEL's performance in a difficult mining environment. Profit from operations increased by 7,4% to R449 million even though revenue declined by 3,2% to R7 974 million.

The revenue decrease was due mainly to the sharp decline in ammonia prices in the second half of the year and the strengthening of the rand against the US dollar in the same period. Approximately 60% of AEL's revenue is US dollar-based.

AEL's cash management was exceptional, with very pleasing inventory reductions especially in businesses in the rest of Africa. Net working capital reduced by more than R400 million. More than R1 billion in cash was repatriated successfully. Capital expenditure, which was controlled to below the depreciation charge, was R257 million. R50 million of this was for investments at customer sites to support growth and to service new business.

REVENUE (Rm)

2016 **7 974**

2015 **8 236**

PROFIT FROM OPERATIONS (Rm)

2016 **449**

2015 **418**

TOP: EXECUTIVE TEAM

FROM LEFT:
Edwin Ludick, Thinus Bierman, Wayne Du Chenne, Paul Eager, Rafael Fernandes, Denvor Govender, Thabo Nkoane, Colin Wilson

Assets deployed in the local coal mining sector were impaired as a consequence of disappointing results in that business. The net cost of AEL's impairments for the year was R54 million. Excluding these impairments, profit from operations would have increased by 15,1% to R503 million and the operating profit margin would have been 6,3%. The reported operating margin was 5,6%.

Overall explosives volumes were flat. Those in South Africa improved by 1,1%. This growth, in an environment where overall mining production contracted by 4,9%, was largely due to two new contracts gained in the iron ore and uranium surface mining sectors, the supply of which commenced mid-year. These contracts are with customers in South Africa and Namibia, respectively. A large contract in the platinum mining sector was rolled over for another five years. Generally, customers continued to restructure their mining plans and reduce waste mining, resulting in the mining of high grade ores.

Volumes of initiating systems, which are supplied to the underground mining market, declined by 5,1%. This was due to the loss of sales to one mine and several protracted safety-related section 54 stoppages at customer sites. Furthermore, customers ceased operations at loss-making mines, with the platinum sector being the most affected. Gold mining activity remained robust.

In the rest of Africa, overall volumes were 2,9% lower year-on-year. Volumes in the Democratic Republic of Congo were negatively impacted by unusually high rainfall which curtailed output early in the year. In the second half-year, most copper miners in Central Africa reduced their production rates as a consequence of the lower copper price and some mines were put under care and maintenance. Business in the region remains highly competitive.

There was an increase in demand from the gold mining sectors in West and East Africa. AEL was awarded four new tenders, three in West Africa and one in East Africa. These will make a positive contribution by the end of 2017. The four contracts all meet the AECI Group's return hurdle rates and represent additional annual revenue of US$25 million for AEL. One contract was lost in Egypt in the fourth quarter.

The profitability of AEL's International businesses, mainly in Australia and Indonesia, improved although margins were still under sustained pressure.

There was good volume growth in Australia and the contractual arrangement with the major customer has been extended for a further three years.

In Indonesia, volumes sold to the largest customer stabilised and AEL's supply contract has been extended. With increases in thermal coal prices, volumes are expected to increase in 2017. The BBRI ammonium nitrate solution manufacturing plant ran well, albeit at a 55% utilisation rate. AEL has a 42,6% minority ownership stake in BBRI.

SPECIALTY CHEMICALS

The Group's Specialty Chemicals cluster comprises 13 businesses, including two joint ventures. The businesses are focused on specific markets with common values of value-adding and customer-centric service. They supply specialty chemical raw materials and related services for use across a broad spectrum of customers in the manufacturing, agricultural, food and beverage, and general industrial sectors in Southern Africa, and the international mining industry.

The segment maintained its established growth trend, with revenue increasing by 9,1% to R10 785 million. Profit from operations improved by 8,3% to R1 214 million. The increase in revenue was driven by higher prices as a result of the weaker average rand exchange rate against the US dollar and the benefits of the acquisitions finalised in 2015. Overall volumes declined by 1,6% — a consequence of the severe drought conditions that prevailed in Southern Africa and the decline of South Africa's poultry industry. The goodwill relating to the poultry business was impaired by R28 million. The overall operating margin remained at a pleasing 11,3%.

Senmin, the mining chemicals business, achieved excellent results. Volumes grew by 7,5% and profit from operations increased by 10,5% on the back of exports.

Robust performances, with improvements in excess of 20%, were delivered by Chemical Initiatives, ChemSystems, ImproChem, Nulandis and SANS Technical Fibers.

The results of ImproChem, AECI's water treatment business, were challenged by the protracted drought in Southern Africa. However, these effects were offset by savings from the integration of manufacturing sites and growth in the public water and mining markets in the rest of Africa.

Nulandis' agrochemicals business was also impacted by drought conditions, which still persist in the Western Cape, but benefited from the acquisition of Farmers Organisation and Biocult in 2015.

REVENUE (Rm)

2016	**10 785**
2015	**9 886**

PROFIT FROM OPERATIONS (Rm)

2016	**1 214**
2015	**1 121**

TOP: EXECUTIVE TEAM
FROM LEFT:
Mark Dytor, Louis du Toit, Mark Kathan, Dean Mulqueeny, Dean Murray

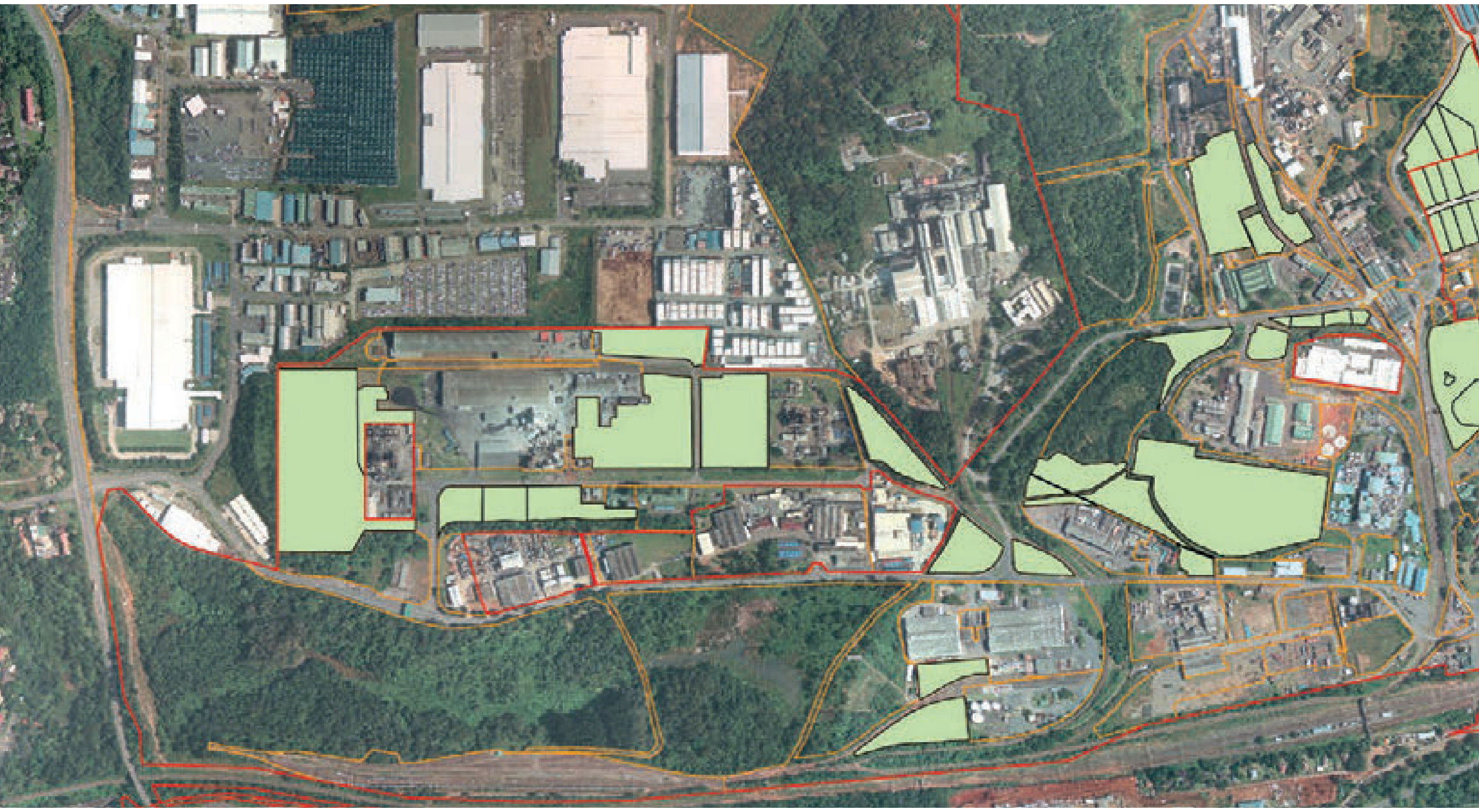
Lake Foods' performance was curtailed by adverse trading conditions in the poultry industry and that of Southern Canned Products ("SCP") was negatively impacted by low demand from its large beverage customers. The sale of an initial 51% of the Olive Pride business to Clover SA (Pty) Ltd was approved unconditionally by the Competition Commission of South Africa by year-end and the transaction will take effect in 2017. It is anticipated that the partnership with Clover will enhance the potential for increased sales of SCP's juice-based products.

The Specialty Chemicals segment remained highly cash generative and controlled working capital very well during the year. Capital expenditure for the segment was R179 million. Of this amount, R127 million was for expansion purposes. During 2017, R90 million will be invested to expand Senmin's xanthates production capacity by 4 000 tonnes a year. These products are used in the extraction of gold, platinum and copper. The project is expected to come on line early in 2018.

PROPERTY

All bulk land surplus to AECI's operational requirements and available for redevelopment in the short term was disposed of in the prior two financial years.

Acacia Real Estate ("Acacia") now focuses on the management of the Group's property assets. This involves mainly leasing activities as well as the provision of utilities and other services.



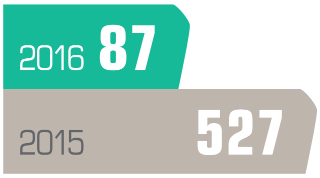
Services and utilities are provided at the multi-user Umbogintwini Industrial Complex ("UIC"), south of Durban. Here Acacia supplies its manufacturing customers with inter alia the centralised generation and distribution of steam, security services, potable water, electricity, effluent handling and a comprehensive rail network.

Results in the Property segment in the prior year included the bulk sale of the Somerset West site. As such, revenue declined to R398 million while profit from operations was R87 million. This pleasing profit performance reflected the benefits of a lower cost base, the extension of the management contract at Modderfontein, on behalf of Shanghai Zendai, and good efficiencies in the Umbogintwini services business.

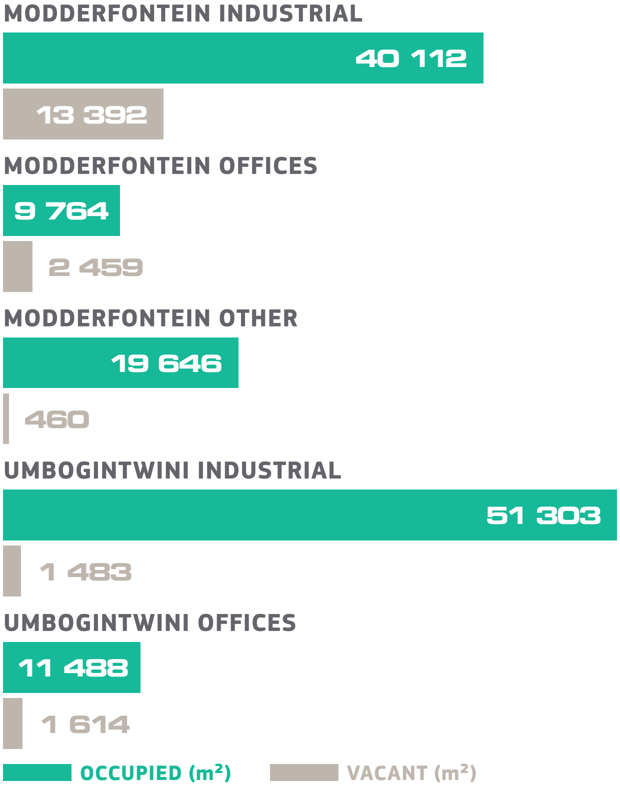
Occupancy rates for leased buildings remained high overall, with those at Umbogintwini being particularly resilient. See details in the graphs on the facing page.

REVENUE (Rm)

PROFIT FROM OPERATIONS (Rm)



ACACIA LEASING PORTFOLIO GROSS LETTABLE AREA OF 151 722m²
(EXCLUDING LAND)



TOP: EXECUTIVES
FROM LEFT:
Neil Hayes,
Peshy Zwane

In 2015, AECI commissioned the preparation of a development master plan for the UIC to guide the optimal development of available land parcels for industrial use at this site. The plan was refined in 2016 and about 30 hectares of brownfields development opportunities have been identified, as demarcated in the picture above.

The intention is not to dispose of the identified land parcels but rather to make developments available on a long-term leasehold basis. Industrial development opportunities are in demand in the area and land rentals are attractive. One such 20-year land lease was concluded and others are under negotiation. Development of the site will also boost the services business.


31573

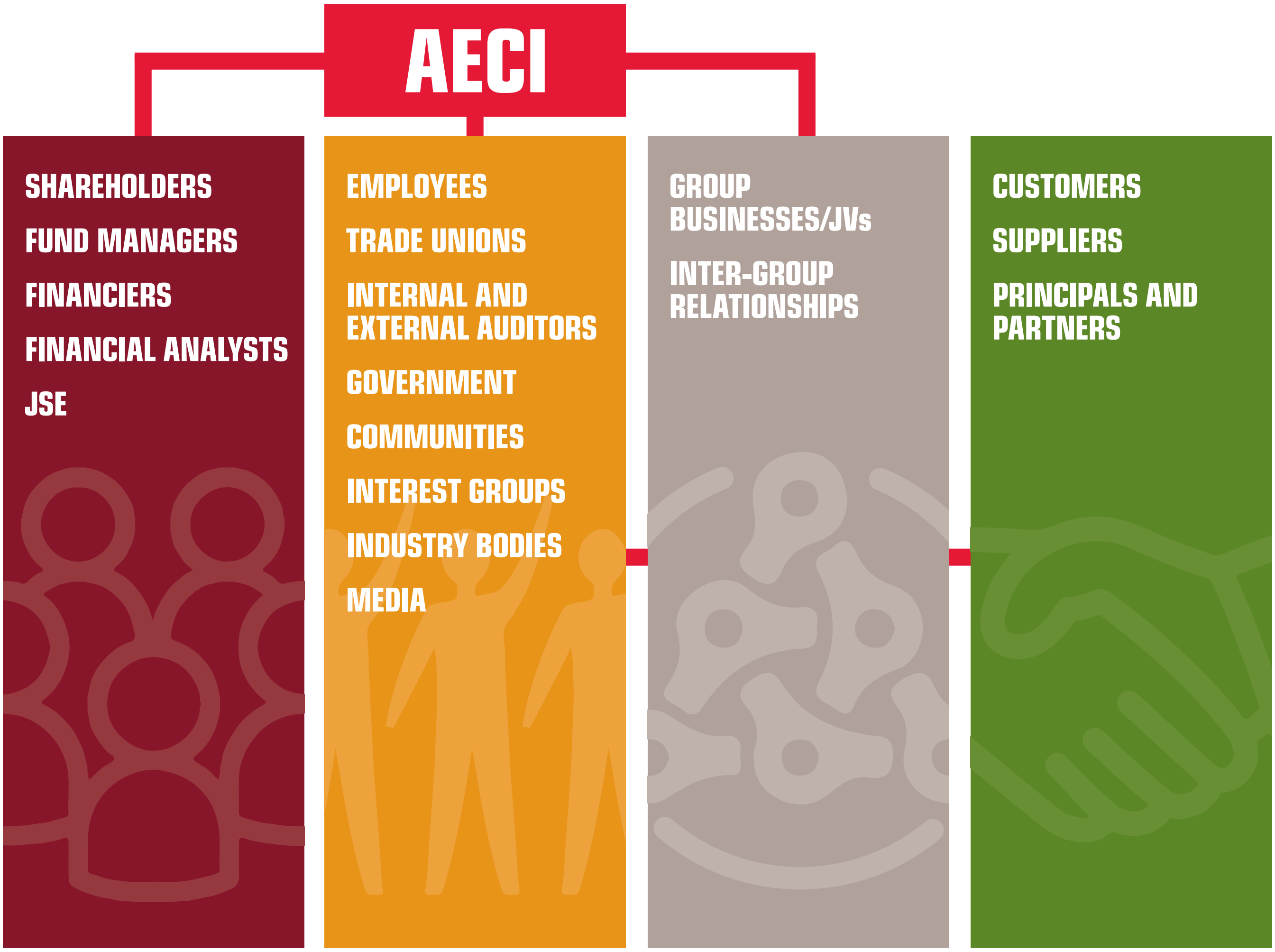
STAKEHOLDER ENGAGEMENT

THE AECI GROUP COMPRISES A BROAD SPECTRUM OF BUSINESSES IN SEVERAL COUNTRIES. THERE ARE CURRENTLY 15 OPERATING ENTITIES REPORTING TO THE AECI EXECUTIVE COMMITTEE ("EXECUTIVE COMMITTEE") AND, VIA THIS COMMITTEE, TO THE BOARD.

The spectrum of businesses is matched by a range of stakeholders — those persons or groups who can affect or be affected by the Group's activities. These include employees, trade unions, internal and external auditors, shareholders and fund managers, financiers, customers, suppliers, technology and business partners, local and national government structures in countries where the Group operates, industry bodies, the communities in which the Group operates, special interest groups and the media.

Engagements with certain stakeholders are largely the domain of either AECI or of its businesses, with others being of interest at both levels. The graphic below summarises stakeholder groupings and information flows. The approach to engaging with diverse stakeholder groups and AECI's efforts in this regard are summarised here.

ENGAGEMENT FLOWS



INTERACTION BETWEEN AECI AND ITS BUSINESSES

Two-way interaction between AECI 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 Committee ("FRRC") and Executive Committee meetings. AECI's Executive Directors are in attendance at most of these meetings (except where businesses are not based in South Africa) and Non-executive Directors chair the FRRCs.

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

The Group's strength is enhanced by sharing best practice and experience in all areas of activity. A culture of collaboration across businesses has been developed. The streamlining and harnessing of efficiencies, backed by a common drive for excellence, leads to better results for the businesses individually and for the Group as a collective.

STAKEHOLDERS WITH WHOM ENGAGEMENT IS MOSTLY VIA AECI

AECI AND SHAREHOLDERS AND FUND MANAGERS, FINANCIERS, AND FINANCIAL ANALYSTS

AECI communicates with these stakeholders by way of a number of processes, including announcements released on the JSE's Stock Exchange News Service ("SENS"), the dissemination of financial results and reports electronically and in print, results 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 institutional investors, financiers, financial analysts and the media in South Africa. The Executive Directors undertake roadshows in Europe and the USA, aimed mostly at potential investors. There are also regular one-on-one meetings with this group of stakeholders.

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, AECI currently publishes and reports on details of its corporate actions and financial performance in at least one daily national English newspaper as required by the JSE.

AECI AND THE JSE

As an entity listed in South Africa, AECI is required to comply with the legal framework of the JSE Listings Requirements, the Companies Act and King III. Alignment with King IV, which will apply in financial periods commencing on or after 1 April 2017, has commenced and will be progressed.

Compliance is managed largely through the Company's Legal and Secretariat and Corporate Communications functions. Interaction with the JSE is via Rand Merchant Bank (a division of FirstRand Bank Limited) as AECI's corporate sponsor in South Africa, when such sponsor input is required. Further liaison with the JSE, such as work related to assessments for inclusion in specific Indices, is undertaken directly.

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

THE GROUP AND ITS EMPLOYEES

The same information that is shared with investors and other financially-based stakeholders is made available to employees Group-wide. This takes place via newsletters and e-mails 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, and for the communication of these via established structures.

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. A list of unions with whom formal recognition agreements are in place is available on AECI's website. 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.

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, through compliance with relevant legislation and standards. This includes the limited assurance of selected non-financial indicators which AECI believes are material in view of the nature of its businesses and the environment in which they operate.

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 external auditor is responsible for auditing the financial statements of the Company and its subsidiaries and for expressing its opinion on these statements to shareholders. In addition, the external auditor is responsible for confirming whether the financial statements meet the requirements of the Companies Act and IFRS. In 2016, the external auditor was also engaged to carry out an Agreed Upon Procedures Review in respect of the interim financial results to 30 June.

The Directors must ensure that Group companies maintain adequate accounting records, and that an effective risk management process and internal controls are 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 Group's Internal Audit function appraises Group companies' internal controls and submits its assessment of these to the Board on an annual basis.

The management of each operating business also submits an annual self-assessment of internal control (Internal Control Matrix) to the Audit Committee affirming that the systems of internal control, in entities for which they have responsibility, are adequate for their operations and are functioning effectively. Internal Audit assesses the controls opposite this matrix and reports thereon to the Audit Committee.

THE GROUP AND GOVERNMENT/AUTHORITIES

AECI and its businesses are subject to the laws of the jurisdictions in which they operate. This means governments and regulators are able to have very significant impacts on the Group as a whole or on one or more of its businesses. As a consequence, the management of these impacts through engagement with relevant authorities is a business imperative.

Such engagement may range from advocacy initiatives associated with the development of legislation and standards, to cooperative work with those regulators who have the responsibility of governing the Group's activities through the application of these laws and standards. To facilitate engagement, AECI and/or its businesses may choose to develop relationships with relevant government and regulatory entities in a proactive manner.

KEY POINTS OF CONTACT FOR GOVERNMENT ENGAGEMENT

DEPARTMENT	LEVEL	ACCOUNTABILITY
PRESIDENCY	Minister	Chairman and Chief Executive, via CAIA and directly
LABOUR	National	Group Transformation Manager and Human Capital Executive
	Provincial	Group Transformation Manager and Human Capital Executive
	Chief Inspector Health and Safety	Group SHE Manager
WATER AND SANITATION	National – Director	Group SHE Manager, via CAIA
	Provincial	Group SHE Manager
	Municipality	Business Operations Managers
POLICE	Chief Inspector Explosives	AEL Safety Manager
SARS	Large Business Centre	Chief Financial Officer
	Commissioner	Group Financial Manager
TRADE AND INDUSTRY	National – Director-General	Chief Executive, via CAIA
ENVIRONMENT	National – Director-General	Chief Executive, directly and via CAIA
	National – Director	Group SHE Manager
	Provincial – various	Group SHE Manager
	Municipality	Business Operations Managers

All government engagement by AECI employees is subject to the Group's Code of Ethics and Business Conduct ("the Code") as approved by the AECI Board. The Code "is designed to provide clear guidelines for engaging with all stakeholders" and there is an explicit expectation that employees will have zero-tolerance to bribery and corruption. The statement that "AECI will not condone any violation of the law" is unequivocal. With respect to donations, the Code is clear that "no donations will be made to political parties and political candidates under any circumstances".

A second policy document of relevance is the Delegation of Authority Framework ("the Framework"), the revision of which was approved by the AECI Board in 2013 and which will be reviewed again in 2017.

This document notes that the AECI Board "is ultimately accountable and responsible for the performance and affairs of the AECI Group of Companies ... and derives its authority primarily from the (Company's) MOI as well as the general regulatory framework and common law". The Framework stipulates that Subsidiary Boards and Cluster Executive Committees have been set up to, inter alia, ensure "that the business entity is run in accordance with good corporate governance practices". The Framework is clear that "no delegation of authority may be exercised for any immoral or unlawful purposes". While naturally silent on the details of government engagement, the document clarifies governance roles and responsibilities in the Group.

AECI's engagement with government may take place at the level of national, provincial and local or municipal entities. It may also involve a range of regulatory bodies. The majority of AECI's government engagement activities take place in South Africa. However, the scope of this commentary includes those activities which take place in other jurisdictions in which AECI operates.

In South Africa, the points of contact set out in the table on page 53 are seen as priority areas for government engagement at present. This view is informed by AECI's risk registers. In most cases engagement is directly between Group personnel and the respective government official(s). In certain cases, though, it is deemed more effective and/or more practical for the engagement to take place under the auspices of industry forums. The main such association is the Chemical and Allied Industries' Association ("CAIA"), of which AECI is a founder member and on whose Board AECI is represented in the person of its Chief Executive.

In jurisdictions other than South Africa, it is not appropriate to tabulate such a set of priorities based on functional areas. These priorities differ from country to country based on the nature of AECI's operations, country-specific factors and the level of maturity of the business in each country.

Accountability for government engagement in these jurisdictions lies with the in-country Managing Director. The Managing Director must ascertain the priority areas of engagement and needs to form relationships with government officials and regulators accordingly.

Where appropriate, Managing Directors are encouraged to leverage existing relationships already established by their customers' businesses. Managing Directors may also call on diplomatic staff at South African embassies, including but not limited to Department of Trade and Industry representatives.

Under conditions of uncertainty, and in accordance with the Framework, issues can be escalated to Head Office functions or more senior Executives if required.

THE GROUP AND NEIGHBOURING COMMUNITIES

AECI has formal structures in place for engaging with its neighbouring communities. In the mid-1990s, the Umbogintwini Industrial Complex ("UIC") was the first site or business 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 potential 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 media 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 oversees the functioning of a Community Awareness and Emergency Response ("CAER") Committee; and
- at the UIC, the CAER Committee was 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, the AECI Group provides assistance with logistical arrangements and, more importantly, through the site's Community Liaison Officer.

Other interactions include local corporate socio-economic development projects in the areas of education, health, the environment, charitable contributions, and skills and enterprise development. Most often, contributions are not only in cash but also in the form of expertise and guidance. This is also true for a number of businesses beyond South Africa's borders.

Communities in which the Group operates or has an interest in South Africa are the intended principal beneficiaries of the AECI Community Education and Development Trust, established in 2012 as part of AECI's Broad-based Black Economic Empowerment transactions.

THE GROUP AND SPECIAL INTEREST GROUPS

These stakeholders are often, but not always, aligned with communities in which the Group operates.

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.

Examples of interest groups in South Africa include the Modderfontein Conservation Society and the Wildlife and Environment Society of South Africa.

THE GROUP AND THE MEDIA

All issues pertaining to the Group and its stakeholders are of potential interest to the media in its role as a conduit for public information.

AECI's Corporate Communications function maintains regular contact with the media by disseminating relevant information. 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 Corporate Communications function provides guidance or responds on that business' behalf after having confirmed the content of the response with management.

For communication 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 incidents, 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, AECI and its businesses participate in a number of initiatives and associations pertinent to all or some of their business activities. In this way, issues relevant to 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 the 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 more than 60 countries. CAIA is the custodian of Responsible Care in South Africa, with 161 South African businesses being signatories. AECI 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. Signatories have their compliance with the Management Practice Standards verified by independent assurance providers. The majority of signatory companies in the Group have been audited successfully against these standards;

- participation in the Carbon Disclosure Project ("CDP") Climate Change and the CDP Water Programs. 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$100 trillion in 2016. The CDP Water Program is a more recent global programme, aimed at catalysing sustainable corporate water management;
- the Group is well represented in legislative forums in structures of the Chemical Industries Education and Training Authority. Subject matter experts represent AECI at employer organisations including the National Association of Speciality Chemicals Employers Association, the National Institute of Explosives Technology and the National Artisan Training Committee. These relationships optimise the Group's ability to make contributions that are suitable and beneficial to the sectors in which it operates.

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 operating entities. It is fundamental to the value-add business model and, as such, it embraces the spectrum of business-related issues that could affect performance and also addresses external considerations such as labour relations and socio-political stability.

Each Group 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 are 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 TECHNOLOGY AND BUSINESS PARTNERS

Long-term 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 Executive Committee and then to the 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.

SOCIAL AND ETHICS COMMITTEE'S REPORT TO STAKEHOLDERS

DEAR STAKEHOLDERS

THIS REPORT IS PROVIDED BY THE SOCIAL AND ETHICS COMMITTEE ("THE COMMITTEE") APPOINTED IN RESPECT OF THE 2016 FINANCIAL YEAR OF AECI LTD. THIS REPORT INCORPORATES THE REQUIREMENTS OF SECTION 43 OF THE REGULATIONS OF THE COMPANIES ACT.

MEMBERSHIP

The four meetings held in the year were attended by all members. Full details are available via the link **www.aeci.co.za/pdf/2016_board_meetings.pdf**.

The current members are:

- Z Fuphe (Chairman)
- GJ Cundill
- MA Dytor
- MVK Matshitse
- AJ Morgan
- R Ramashia

Abridged biographies of the members are published elsewhere in this integrated report. Ms Fuphe has served on the Committee since 2008, Adv Ramashia since 2010, Mr Cundill and Ms Matshitse since 2012, Mr Dytor since 2013, and Mr Morgan since 2014.

COMMITTEE OBJECTIVES

The Board of Directors has conferred upon the members of the Committee the following powers:

STATUTORY DUTIES

- To consider, recommend and monitor AECI's activities with regard to the following and report accordingly to the Board:
  - good corporate citizenship, specifically in relation to (i) the promotion of equality, (ii) the prevention of unfair discrimination and the reduction of corruption, and (iii) AECI's record of sponsorship, donations and charitable giving;
  - labour and employment matters: specifically in relation to AECI's standing on (i) the International Labour Organization's protocol on decent work and working conditions, and (ii) employee relations and contributions to the educational development of employees;
  - safety, health and the environment: specifically in relation to the impacts of the AECI Group's activities and those of its products and services;
  - social and economic development of defined communities: specifically in relation to (i) the 10 principles set out in the United Nations Global Compact, (ii) the Organisation for Economic Co-operation and Development's recommendations regarding corruption, (iii) the Employment Equity Act, No. 55 of 1998, (the "Employment Equity Act") in South Africa, and (iv) the Broad-Based Black Economic Empowerment Act, No. 53 of 2003, in South Africa; and
  - consumer relations: specifically in relation to advertising, public relations and compliance with consumer protection laws.
- To monitor and advance the implementation of policies and plans approved by the Board on matters as contemplated above.

NON-STATUTORY DUTIES

The Committee is further mandated as follows:

› to monitor to the best of its ability that AECI and its operating businesses adhere to the approved Code of Ethics and Business Conduct policy and guidelines;

› to provide guidance and advice on sustainability trends and issues relevant to the AECI Group as well as review and approve the Group's Sustainability policy from time to time. The Committee will be informed of the sustainability risks as recorded in the AECI Group risk register and provide related input to the Risk Committee, as appropriate. Further, the Committee will review Safety, Health and Environmental Incident reports; and

› to monitor to the best of its ability that AECI and its operating businesses have properly identified stakeholders, and understand their issues, and ensure that all stakeholders are treated in an equitable and fair manner. Details of identified stakeholders and the AECI Group's approach to engagement with them appear in the Stakeholder Engagement commentary commencing on page 50.

KEY ACTIVITIES IN THE YEAR UNDER REVIEW

THE COMMITTEE

› received and reviewed reports on AECI's management of safety, health and environmental issues;

› received and reviewed reports on AECI's progress on Employment Equity ("EE") in its South African operations. This included the evaluation and approval of the targets which management would submit to the South African Department of Labour;

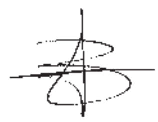
› received and reviewed reports relating to Broad-based Black Economic Empowerment, and the effect of amendments to the Codes of Good Practice in this regard on its South African operations;

› received and reviewed reports on ethics management across the Group, including the workings of the Tip-offs Anonymous whistle-blowing line;

› received and reviewed reports on AECI's talent management processes, including retention strategies, succession plans and reports on termination trends;

› received and reviewed reports on the AECI Employees Share Trust, including the review and approval of a proposal to pay a dividend to beneficiaries of this Trust in 2017; and

› received and reviewed reports on the AECI Community Education and Development Trust.



Zellah Fuphe
Chairman

Woodmead, Sandton
31 March 2017

HUMAN CAPITAL

THE HUMAN CAPITAL FUNCTION MADE FURTHER PROGRESS ON ITS JOURNEY TO CONSOLIDATE ITS POSITION AS A STRATEGICALLY-FOCUSED SERVICE IN SUPPORT OF THE GROUP'S GROWTH ASPIRATIONS. PRINCIPAL PROJECTS AND ACTIVITIES UNDERTAKEN IN 2016 ARE SUMMARISED HERE.

EMPLOYMENT EQUITY ("EE") AND TRANSFORMATION

The three-year EE Plan has run from September 2014 and its end date is August 2017. In line with this, EE reports for 2015/2016 were submitted timeously to the Department of Labour. AECI consolidates data from all its businesses into a single submission.

Numerical targets and progress towards achieving these in the Top, Senior and Middle Management and Professionals, and Junior Management and Skilled occupational levels by race and gender are summarised in the table below. The reporting period was 1 September 2015 to 30 August 2016.

It is pleasing that progress in improving the under-representation of designated groups was evident. The results of numerous development programmes and initiatives established to drive and enhance levels of representation by designated groups contributed in this regard.

EE STATISTICS

The graphics on pages 60 and 61 illustrate demographic representation at all occupational levels in the current and prior years.

PEOPLE WITH DISABILITIES

A Group-wide awareness campaign was rolled out during 2016. The key objectives were to:

- create a better understanding of the definition of disability and its scope;
- explain the concept of reasonable accommodation and to whom it applies;
- improve the management of disclosure and confidentiality; and
- conduct a survey on attitudes towards disability in the workplace.

The outcomes of this campaign resulted in the following, planned for 2017:

- review the results of the survey and prioritise interventions;
- formulate a policy, with emphasis on disclosure and confidentiality;
- encourage declarations by employees, for access to reasonable accommodation;
- train Managers on disability issues and the appropriate management thereof; and
- address any shortcomings in the physical environment to accommodate people with disabilities, as required.

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

AECI is committed to the sustainable implementation of B-BBEE. Compliance with the requirements set out in the Broad-Based Black Economic Empowerment Amended Codes of Good Practice (the "Amended Codes"), and processes in this regard, are driven and coordinated centrally. A plan has been rolled out that will see all Group businesses having the same B-BBEE certification date in future.

EE TARGETS AND PROGRESS

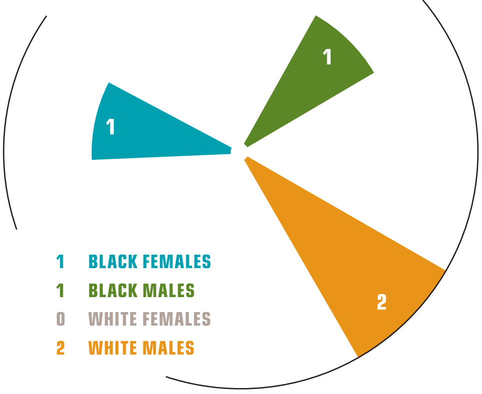
RACE	AFRICAN		COLOURED		INDIAN		WHITE		FOREIGN NATIONALS	
GENDER	M	F	M	F	M	F	M	F	M	F
TARGET (%)	28,9	12,2	3,5	2,7	7,2	4,1	25,6	12,8	1,5	0,5
ACHIEVED (%)	30,1	12,9	4,0	3,0	6,8	3,8	25,2	12,3	1,5	0,2

EMPLOYMENT EQUITY STATISTICS

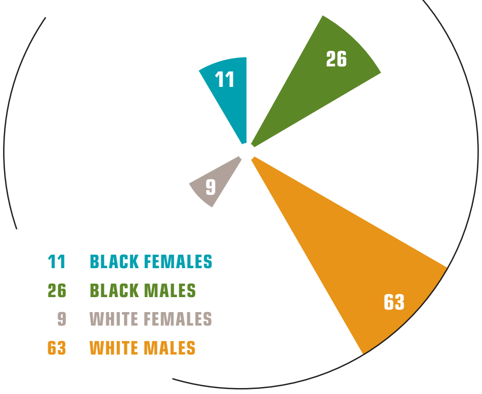
'16 *

The percentages accompanying the graphics below and on the following page indicate the combined representation by Black people and White females at each employment level in AECI's South African operations.

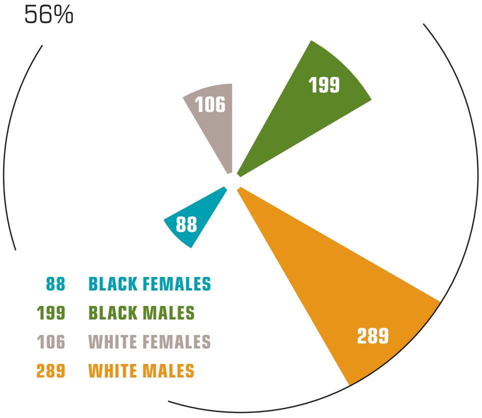
TOP MANAGEMENT 50%



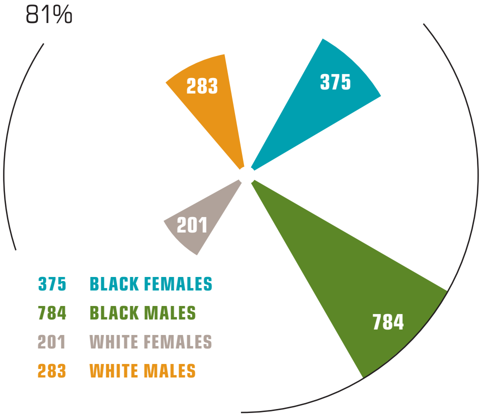
SENIOR MANAGEMENT 40%



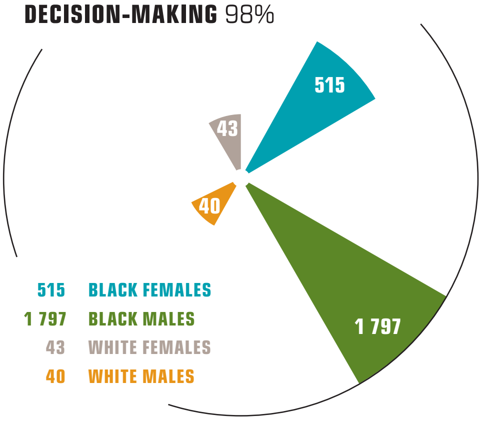
MIDDLE MANAGEMENT AND PROFESSIONALS 56%



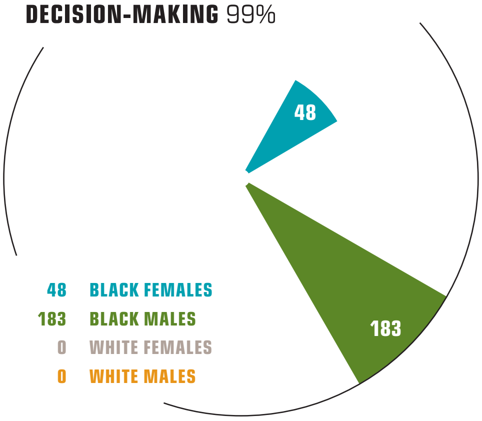
JUNIOR MANAGEMENT AND SKILLED 81%



SEMI-SKILLED AND DISCRETIONARY DECISION-MAKING 98%



UNSKILLED AND DEFINED DECISION-MAKING 99%

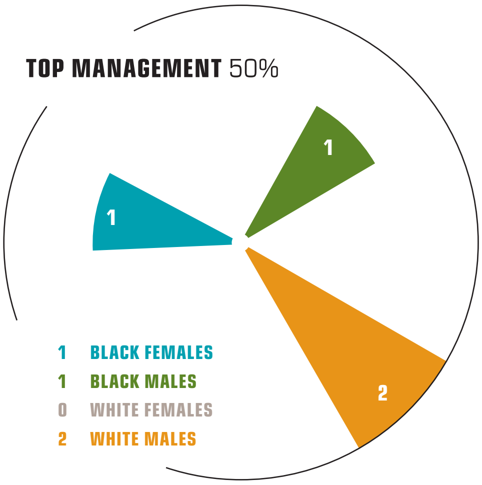


* *Indicates limited assurance. See page 80.*

EMPLOYMENT EQUITY STATISTICS

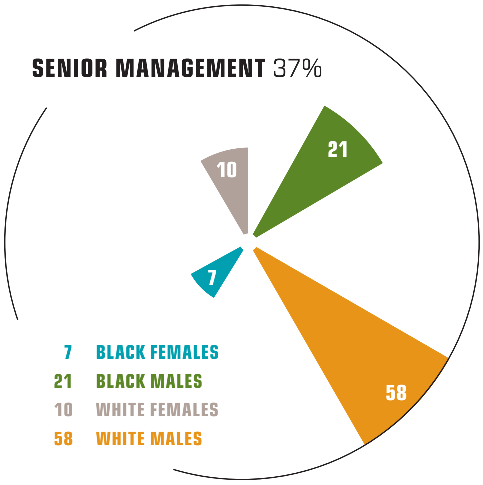
’15 *

TOP MANAGEMENT 50%



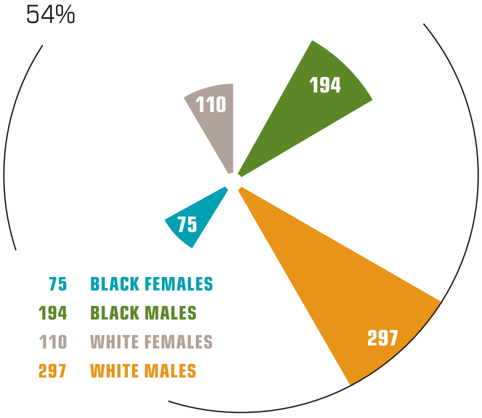
1 BLACK FEMALES
1 BLACK MALES
0 WHITE FEMALES
2 WHITE MALES

SENIOR MANAGEMENT 37%



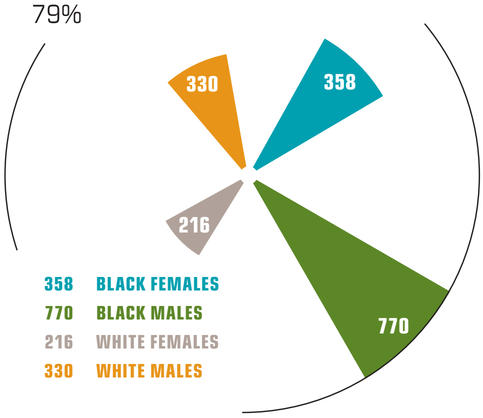
7 BLACK FEMALES
21 BLACK MALES
10 WHITE FEMALES
58 WHITE MALES

MIDDLE MANAGEMENT AND PROFESSIONALS 54%



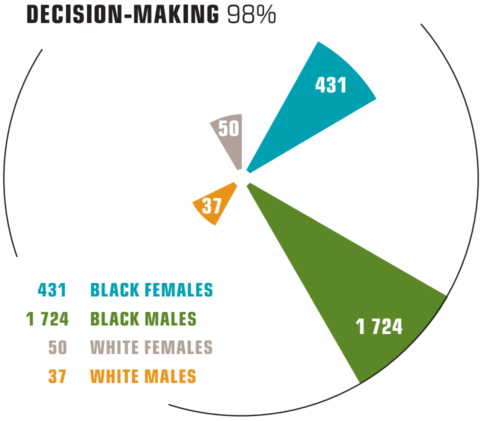
75 BLACK FEMALES
194 BLACK MALES
110 WHITE FEMALES
297 WHITE MALES

JUNIOR MANAGEMENT AND SKILLED 79%



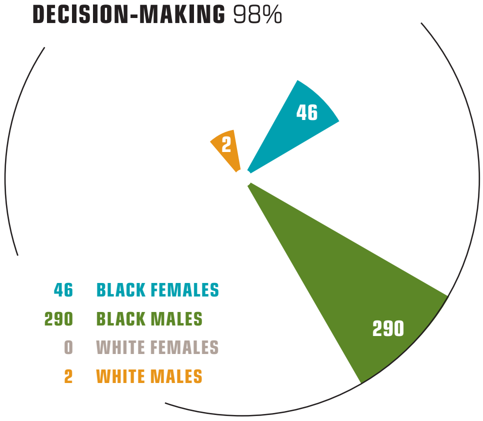
358 BLACK FEMALES
770 BLACK MALES
216 WHITE FEMALES
330 WHITE MALES

SEMI-SKILLED AND DISCRETIONARY DECISION-MAKING 98%



431 BLACK FEMALES
1 724 BLACK MALES
50 WHITE FEMALES
37 WHITE MALES

UNSKILLED AND DEFINED DECISION-MAKING 98%



46 BLACK FEMALES
290 BLACK MALES
0 WHITE FEMALES
2 WHITE MALES

* *Indicates limited assurance. See page 80.*

A B-BBEE consultancy has been appointed to provide specialist advisory and consultancy services relevant to the Amended Codes. Each element of the scorecard has been reviewed, with emphasis on priority elements (Ownership, Skills Development, and Enterprise and Supplier Development), to ensure compliance and achieve transformation objectives.

Key initiatives for each element are summarised below.

OWNERSHIP

The AECI B-BBEE ownership transactions were approved by shareholders in January 2012. The current B-BBEE shareholding structure (excluding treasury shares) is as follows:

- the AECI Employees Share Trust ("EST") holds 8,4%
- the AECI Community Education and Development Trust holds 8,4%; and
- Kagiso Tiso Holdings holds 4,0%

This B-BBEE ownership structure, mandated investments and the other public shareholders resulted in AECI achieving Black Ownership of 50,68% and Black Female Ownership of 16,39% in terms of the Amended Codes.

AECI EMPLOYEES SHARE TRUST ("THE EST" OR " THE TRUST")

The EST is a key driver of the AECI Group's empowerment structures and emphasises the recognition of employees as primary stakeholders. At 31 December 2016 there were 5 579 EST beneficiaries. During 2016, the Board approved a dividend payment of 35 cents per B Ordinary Share and this will be paid in 2017. The dividend in the prior year was 32 cents (R2 million).

The 2016 AECI AGM was well attended by beneficiaries and Trustees of the EST. The beneficiaries mandate the Chairperson of the Trust on how to vote at this meeting and at other general meetings of shareholders of the Company.

MANAGEMENT CONTROL AND SKILLS DEVELOPMENT

The Group's Talent Management thrust and Learning and Development initiatives are aimed at improving demographic diversity at all occupational levels, using the Economically Active Population as a framework. In this regard, annual targets are set to ensure that Group businesses work towards the achievement of transformation goals.

More information follows later in this report.

ENTERPRISE AND SUPPLIER DEVELOPMENT ("ESD")

A Group Strategic Sourcing Department has been established at Head Office level to manage Group-wide initiatives relating to Enterprise Development ("ED") as well as Supplier Development ("SD") programmes. AECI is committed to growing the small and micro enterprise sector in line with the principles set out in the Amended Codes. The Group's initiatives will contribute to South Africa's broader localisation efforts and increase competitiveness in the specialised supply chain that is characteristic of the chemicals industry.

AECI has collaborated with other companies, chemical industry bodies and small business development experts to assess gaps in its own supply chain and that of the chemicals industry as a whole. The outcomes of these engagements will guide the formulation of the Group's ESD strategy. The overriding objectives are assisting and accelerating the development, sustainability and financial independence of identified beneficiaries.

In SD, the focus is on increasing supplier diversity, competition and the local manufacture of products in the Group's supply chain. In ED, the key is support for a pipeline of contenders in the chemicals sector who have the potential to make a positive impact on the Group's supplier and/or customer base.

SOCIO-ECONOMIC DEVELOPMENT ("SED")

In line with the Company's values of being Engaged and Responsible, AECI's SED programmes aim to contribute meaningfully and sustainably to improvements in the quality of life of communities in geographic areas where the Group and its customers operate.

More information is provided on page 69.

EMPLOYEE RELATIONS ("ER")

It is AECI's policy not to tolerate any form of unfair discrimination, harassment, child labour, intimidation or bullying in the workplace. Group policies and standards guiding behaviour in these matters are in place and training is provided to management, shop stewards and employees to facilitate understanding and good relationships. The violation of policies and standards results in appropriate disciplinary action.

ER policies are reviewed and updated regularly to ensure continued alignment with business and legislative requirements. Formal contracts with all employees conform to local legal requirements and the core conventions of the International Labour Organization ("ILO"). These are reinforced by promoting fairness, equity and transparency in employment practices globally.

LABOUR LEGISLATION

To maintain statutory compliance, AECI implemented a number of initiatives in 2016.

In South Africa:

› conclusion of recognition agreements in line with the amended Labour Relations Act, No. 66 of 1995, as amended;
› alignment of the AECI Group Recruitment policy as it affects temporary employment;
› termination of long-term temporary employment arrangements; and
› improved management of temporary employment and labour broker contracts.

Legislative changes in Indonesia, where AEL operates, were:

› the introduction of the requirement that employers as well as employees contribute to savings for public housing;
› a new annual minimum wage policy;
› the requirement for a religious allowance to be paid to employees with one month's service instead of three, as was formerly the case;
› a procedure for granting sanctions for non-compliance with government regulations in terms of pension, medical and accident insurance benefits; and
› the obligation for companies to employ persons with disabilities, without discrimination.

TRADE UNION AND EMPLOYEE PARTICIPATION

AECI complies with the ILO's conventions to drive and implement employee rights of freedom of association and collective bargaining. Concerted efforts are made to promote consultative forums at operating plant level so as to enhance mutually beneficial engagement between management and employees.

Constructive relationships are maintained with all representative trade unions that enjoy consultative and/or negotiating powers on issues of mutual interest.

A level of uncertainty remains in South Africa's labour relations landscape owing to the formation of a new trade union federation that will compete with existing federations for membership and scope of operation. The chemical industry is not immune to the effects of this change.

Recognition agreements in South Africa are in place with all the main chemical industry trade unions. Similar agreements exist with recognised structures in other countries where the Group operates. About 47% of employees in South Africa are members of trade unions. Some 32% of employees are represented by the Bargaining Unit, with 27,5% being union members. Outside of South Africa approximately 59% of employees are represented by recognised trade unions.

A list of unions with whom the Group has formal recognition agreements is available via the link **http://www.aeci.co.za/pdf/2016_trade_unions.pdf**.

BUSINESS RESTRUCTURING

Restructuring processes were undertaken at AEL, Crest Chemicals and Experse in the year. Functional and administrative services at operating sites were consolidated, thereby enhancing the competitiveness and efficiency of these businesses' cost bases.

Detailed and regular consultation with affected employee representative bodies preceded restructuring. Most affected employees were redeployed within the Group, resulting in fewer retrenchments. Of those employees who were retrenched, the majority opted for voluntary retrenchment and early retirement.

To support employees and their families in mitigating the effects of retrenchments, a number measures in line with the AECI Retrenchment policy and practice were implemented. There is a comprehensive social plan with benefits and services aimed at alleviating the hardship of job losses. The plan includes:

- a competitive severance package;
- counselling to address emotional issues;
- financial and retirement workshops and counselling;
- assistance in preparing curricula vitae;
- training in interview and job search skills;
- small business development training; and
- re-skilling and training programmes.

SUBSTANTIVE COLLECTIVE AGREEMENTS

Substantive collective agreements for Bargaining Unit employees in South Africa are negotiated on an annual basis under the auspices of the National Bargaining Council for the Chemical Industry. Settlement was reached for annual salary increases of 7,5%, effective from 1 July 2016 to 30 June 2017. The parties involved again displayed maturity in engagements and the annual substantive negotiations were concluded without any industrial action.

Wages and substantive conditions of employment for employees outside South Africa are negotiated with trade unions and other stakeholders on an annual basis, where such structures exist. In Burkina Faso, for example, the government is also involved in negotiations. In countries where there is no union involvement, management arrives at increase amounts based on labour market competitiveness, inflation and local remuneration survey data.

ER STRATEGY

An integrated ER strategy has been developed to enhance the workplace environment through sound employer/employee engagement underpinned by shared corporate values, harmonious relationships, ethics and the empowerment of employees. The strategy is aligned with the Human Capital function's goals of promoting practices that enable leaders to improve employee engagement globally. Roll-out in South Africa is expected to be completed by the end of 2018 and globally by the end of 2019.

INTELLECTUAL CAPITAL

PERFORMANCE MANAGEMENT

Performance management is a process that enables Managers and employees to work together to plan, manage, monitor and review employee performance for the achievement of the strategic goals and objectives of individual businesses and the Group as a whole. Employee development plans are part of annual KPI-setting.

Good progress was made in AECI's Performance Improvement intervention during the year. Performance processes were implemented, a supporting Management policy and Governance framework were designed, Group-wide management upskilling continued and understanding regarding the quality of articulated KPIs and their alignment with business strategy improved.

Mid-year performance reviews were conducted and KPIs were modified as required. Year-end reviews followed, informing the incentives to be paid to employees at Paterson level C and above. Comprehensive feedback on the quality of the KPIs submitted, their alignment Group-wide and statistical information on performance scores was shared with the AECI Executive Committee and with the Executive teams of all businesses.

In the first half of 2017, an automated performance management system will be implemented to enable the sustainability of performance improvement into the future. Automation will simplify the management process, enhance standardisation across the Group, provide an audit trail for employees and their Managers, minimise administration and improve reporting capabilities.

A KPI Library will be incorporated into the system as an aid to employees and Managers when setting their KPIs for the year. The Library comprises sample KPIs with their associated performance standards. They have been sourced from the Group's businesses, AECI's functional departments and from best-in-class examples externally. The Library also promotes information sharing, KPI alignment and the parity of performance measures.

The focus in the prior and current years was on standardising performance management in the AECI Group through process alignment and policy adherence. Moving forward, the quality of performance conversations between Managers and employees will be nurtured as this remains one of the most important aspects of performance management.

TALENT ACQUISITION

Skilled, engaged and responsible employees are essential for the achievement of business growth. Quality candidates for recruitment are in ever-higher demand. Given this reality, the AECI Group's centralised Talent Acquisition function concentrates on sourcing and redeploying talent internally and, where required, recruits externally to address identified skills shortages.

Through Talent Boards at individual business and at Group levels, AECI's scarce and critical skills have been identified. This provides a clear understanding of which skills must be sought proactively from an often limited pool of talent. Sourcing strategies have been optimised by increasing the use of social media as a talent attraction platform. These media channels have enabled access to both active and passive candidates across a number of geographical areas, skills levels and career disciplines.

In countries of operation outside South Africa, partnerships are also in place with local service providers who assist in the search for high quality recruits. The centralised Talent Acquisition function nonetheless retains responsibility for on-boarding and inducting new employees into the Group's culture and ways of working.

Involvement with higher learning institutions and AECI's learnership programmes also contribute to the recruitment of scarce skills, in line with the Company's Workplace Skills Plan.

The focus remains on ensuring that appointments for skilled, technical, professional and managerial roles better reflect AECI's transformation objectives. A measure of success in this regard is evident in improved EE ratios at a number of employment levels as already indicated in this integrated report.

LEARNING AND DEVELOPMENT

Learning and training are key components of AECI's Employee Value Proposition. Building skills and behaviours that promote a culture of continuous learning, leadership and diversity is imperative for achieving the Group's strategic goals and objectives, including its EE targets.

Training programmes ensure the timely availability of the Group's human capital requirements and learning interventions aim to deliver well-rounded, competent employees who make contributions that provide them with personal growth and facilitate increased productivity as well as improved shareholder value.

EMPLOYEE STUDY ASSISTANCE SCHEME AND BENEFICIARIES

YEAR	AFRICAN M	AFRICAN F	COLOURED M	COLOURED F	INDIAN M	INDIAN F	WHITE M	WHITE F	TOTAL BY GENDER M	TOTAL BY GENDER F	TOTAL BENEFICIARIES	INVESTMENT
2014	82	63	0	8	5	16	7	8	94	95	189	R1,9 million
2015	46	33	3	4	8	10	11	9	68	56	124	R2,3 million
2016	89	59	5	11	11	15	12	14	117	99	216	R2,9 million
TOTAL	**217**	**155**	**8**	**23**	**24**	**41**	**30**	**31**	**279**	**250**	**529**	**R7,1 million**

BURSARY SCHEMES

	NO. OF BENEFICIARIES	DESIGNATED GROUP BENEFICIARIES (%)	FEMALE BENEFICIARIES (%)	INVESTMENT IN 2016
EXTERNAL	26	96	73	R1 759 000
EMPLOYEE DEPENDENT	27	96	67	R627 000
TOTAL BENEFICIARIES	**53**	**96**	**70**	**R2 386 000**

SUMMARY OF CHIETA GRANTS

R MILLIONS	2014	2015	2016
MANDATORY	3,46	4,20	4,26
DISCRETIONARY	6,76	4,41	2,82
TOTAL GRANTS	**10,22**	**8,61**	**7,08**

The focus of the Learning and Development function remains on allowing employees to grow and advance their careers in the Group. The banded learning and development approach gives employees opportunities to participate in programmes appropriate to their levels of work, but also to attend interventions at more advanced levels.

In 2016 the Group increased its financial assistance for employees, through the Employee Study Assistance Scheme, by 26% compared to an increase of 22% in the prior year. See the table on page 66.

The following qualifications are examples of the courses of study pursued: Master's in Business Administration, Bachelor of Arts Psychology in Human Resources, Bachelor of Science and Bachelor of Accounting Science Degrees, and National Diplomas in Electrical Engineering, Analytical Chemistry, Safety Management and Operations Management.

Skills Development ("SD") is a priority element in the Amended Codes and it is vital that Group businesses in South Africa achieve the 40% threshold required. Some expenditure previously accounted for as SED funding is now part of the SD element in the Amended Codes. Therefore, the Group's investments in the External Bursary and the Employee Dependant Bursary Schemes will be measured as SD in future.

AECI sponsored full-time students, primarily from designated groups, who were studying towards qualifications identified as being critical and scarce skills, through the External Bursary Scheme. Fields of study included chemistry, agriculture, and chemical, mechanical and mining engineering. Graduates of the scheme are employed in the Group for a minimum of 12 months as part of the bursary work-back requirements and to gain industry experience, dependent on positions available in the Group. Eight students graduated during 2016 and they were all placed.

More than R1,7 million was invested in 26 students (see table on page 66), compared to R1,1 million and 20 students in the prior year. In 2016, the Learning and Development function also launched a programme that aims to facilitate stronger relationships with bursary students through their years of study.

All students who were available for vacation work were placed in the Group and the services of a social mentor were provided to students experiencing difficulties with their studies or in other aspects of their lives. It is anticipated that these interventions will assist in improving AECI's ability to retain graduates. Group representatives attended various open days at universities, promoting the employer brand and providing advice on bursary opportunities and career prospects.

Further financial support was provided through the Employee Dependent Bursary Scheme to dependents of employees in lower income brackets. Bursary recipients are required to register with an accredited educational institution for a tertiary qualification, irrespective of their chosen course of study. The number of bursary holders increased to 27 in 2016, compared to 24 in 2015. Two students who benefited from this Scheme graduated, majoring in Chemistry, and they will join the Group for 12 months of graduate development in 2017.

A summary of this investment is also presented on page 66.

AECI's learning and development strategies are aligned with the Employment Equity Act, and the Skills Development Act, No. 97 of 1998. Accordingly, the Workplace Skills Plans and Annual Training Reports of Group businesses in South Africa were submitted timeously to the Chemical Industries Education and Training Authority ("CHIETA"), as required by legislation.

The CHIETA landscape changed markedly after grant amendments to skills development legislation were made in 2014. Many projects which were paid for previously were no longer approved as these fell outside of the grant cycle funding period or the CHIETA's financial year. As a consequence, AECI received a lesser amount year-on-year.

The reduction in the Discretionary funding between 2014 and 2015 is evident in the table on page 66. In 2015 and 2016, AECI and the CHIETA collaborated to reach agreement on the approval or disapproval criteria for funding. This will assist the Company when applying for future financial support and the agreed criteria were applied in the 2016/17 applications.

Funding for 2016 included payments received to end-September. These receipts will increase when the CHIETA makes further payments in lieu and when Discretionary Grant interventions have been completed.

The CHIETA recognised AECI's training contributions towards learnership opportunities for the unemployed youth in South Africa at the annual CHIETA Best Companies Awards Ceremony late in the year. The Company was presented with two prizes and associated cash awards of R150 000 each. Four Group companies or operating sites also received accreditation as approved workplaces for offering experiential learning for learnerships and apprenticeships.

The Group remained well represented in legislative forums in CHIETA structures. Subject matter experts represented AECI at employer organisations including the National Association of Speciality Chemicals Employers Association, the National Institute of Explosives Technology and the National Artisan Training Committee. These relationships optimise the Group's ability to make contributions that are suitable and beneficial to the sectors in which it operates.

TALENT MANAGEMENT

Good progress was made in enabling and facilitating the development and growth of AECI's employees. Several projects and programmes were initiated to enhance their workplace engagement and experience:

- improved leadership capability and talent effectiveness through the Group's partnership with the Gordon Institute of Business Science ("GIBS"). GIBS provides customised, accredited management and leadership programmes in the context of the AECI Management Development Ladder (the "Ladder"). The latter is designed for leaders from Junior to Senior management levels, offering participants the most up-to-date knowledge. At Senior level, in particular, participants are exposed to stretch assignments from individual and syndicate perspectives. The subject matter of these assignments is then applied in the Group to identify and action growth opportunities. In the last two years, resultant efforts in the areas of Group-wide collaboration and innovation have yielded good results.

  The fourth intake of participants, across all levels on the Ladder, participated in the GIBS programme in 2016. Its sustained success was illustrated by the need to present the Foundational programme for two groups of employees for the first time since inception. Over four years, 413 employees have benefited from the Ladder, with 77% of them being from designated groups.

  Three Executives and Senior Managers were enrolled on the GIBS Global Executive Development Programme and they achieved excellent results. This programme will continue to be offered until all Senior Managers have had an opportunity to attend;
- investigations into offering a Strategic Thinking for Leaders programme commenced and implementation is being considered for 2017. A number of business schools linked to local and international universities were engaged in selecting a suitable product;
- Group companies invested significant time in workforce planning through the development of succession plans to address their short- and long-term employment needs. Executive coaching may be offered to potential successors during 2017 as part of individual companies' development plans.

HUMAN RESOURCES INFORMATION SYSTEM ("HRIS")

AECI's Executive Committee has recognised the need for a comprehensive HRIS. During 2017 the design of such a system will commence. The aim of the first phase is to compile a comprehensive employee master database and to implement the associated systems' functionality.

SOCIAL AND RELATIONSHIP CAPITAL

SOCIO-ECONOMIC DEVELOPMENT ("SED")

During 2016, partnerships with development organisations were reinforced through the AECI Corporate Social Investment Fund, the AECI Community Education and Development Trust and the Tiso AEL Development Trust.

More than R21 million was invested in qualifying initiatives across all nine provinces in South Africa, with a positive impact as follows:

- 12 862 learners and other community members were educated on environmental conservation matters;
- 347 people with disabilities received skills training to create and advance their employment opportunities;
- 15 776 infants, orphans and vulnerable children were cared for;
- 26 295 students were empowered through programmes to improve and advance their education;
- 71 600 community members (elderly and women) were given tools which enabled their access to potable water;
- 1 018 learners were afforded the opportunity to participate in a preparatory programme for tertiary education; and
- 153 youngsters were empowered in artisan skills, with the potential to contribute to alleviating the shortage of artisans in South Africa.

The governance framework for all SED initiatives includes the following imperatives:

- strategic investments aligned with the core businesses of the Group;
- ensuring alignment with national development imperatives;
- collaboration and partnerships with key customers;
- expanding the geographic focus of SED programmes into other key areas of Group operation;
- increasing the focus on women and people with disabilities as beneficiaries;
- enhanced stakeholder engagement; and
- ensuring adherence to the Amended Codes.

Internationally, the AECI Group seeks to be a good corporate citizen by facilitating social development in the countries in which it operates. Initiatives in 2016 included providing drinking water to needy communities neighbouring mines in Burkina Faso, the refurbishment of schools, clinics and sports facilities in Zambia and Tanzania, and the provision of school uniforms for a school in Bajool, Queensland, Australia. Development priorities are driven by local legislation and they are region-specific so as to address local socio-economic challenges.

Further details on the SED programmes, qualifying criteria for funding and application procedures are available on AECI's website.

R21m
INVESTED IN:

9 PROVINCES

7 FOCUS AREAS

53 ORGANISATIONS

128 000
BENEFICIARIES IMPACTED

NATURAL CAPITAL

THE AECI GROUP, AS A MATTER OF POLICY, IS COMMITTED TO A CLEAN, SAFE AND HEALTHY ENVIRONMENT FOR ITS EMPLOYEES, CONTRACTORS, CUSTOMERS AND SURROUNDING COMMUNITIES.

To fulfil this policy commitment, a set of Safety, Health and Environmental ("SHE") standards has been agreed to and approved by the Chief Executive. These standards, as stated below, are designed for implementation in AECI's federal structure. The Chief Executive holds the Managing Director of each AECI business accountable for ensuring that implementation is effected in the business he or she manages. Each Group business must:

› adopt a safety, health and environmental policy that meets the needs of the business;
› hold line management accountable for the implementation of the safety, health and environmental policy;
› develop and maintain appropriate procedures to support the safety, health and environmental policy;
› 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;
› be prepared for and deal with any emergency;
› ensure that employees and contractors are trained effectively;
› maintain a record of safety, health and environmental information and meet statutory record-keeping requirements; and
› audit performance against its policy, standards and procedures and report this regularly to the AECI Executive Committee.

On an annual basis each Managing Director submits a Letter of Assurance to the Chief Executive, describing the main SHE-related risks faced by the business and what is being done to manage these, and confirming that the business is in compliance with AECI's SHE standards. Where such confirmation cannot be given, the level of non-compliance is described and details of the plans in place to achieve compliance are provided.

It is also a requirement for AECI's businesses and/or operating sites to align their SHE Management Systems with an external standard against which third-party audits may be undertaken. The most commonly adopted such standards are:

› OHSAS 18001 (an internationally applied British health and safety management standard, to be replaced by ISO 45001);
› 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 SHE practices.

AEL has utilised its in-house World Class system which comprises seven elements, including safety, health and the environment, for a number of years. This system will be retained in future but it will be supplemented by the implementation of OHSAS 18001, beginning at the company's Modderfontein operations.

A table providing details of SHE-related accreditations and, for AEL, levels of achievement against the World Class system standards may be found at **http://www.aeci.co.za/cc_she_certifications.php**.

COMPLIANCE

The legal environment in which the Group operates is increasingly complex as a result of additional SHE-related legislative requirements in South Africa and the diversity of legislation in countries in the Group's geographic footprint. AECI reviewed its risk management and compliance approach during 2016 to ensure that management processes remained appropriate. As a result of this review, a centralised programme of audits of SHE-related matters at all Group manufacturing sites commenced. These audits are carried out by a third-party multi-disciplinary team of experienced SHE specialists. Audit results are reported at a detailed level to the management teams of the businesses concerned and at summary level to AECI's Executives.

The programme commenced in June 2016 and 25 facilities had been audited by year-end. Site management teams have developed corrective action plans to address those deficiencies identified. Good practices have also been highlighted during the audit process and collaboration forums are in place to share these more widely across the Group.

Certain manufacturing operations at AEL's Modderfontein site are unable, at this time, to meet all the minimum emissions standards that came into effect on 1 April 2015, in terms of the National Environmental Management: Air Quality Act, No. 39 of 2004, as amended. Accordingly, AEL submitted an application to the regulatory authorities for the postponement of the compliance timeframes so as to allow the company sufficient time to make the necessary commitments of capital required to achieve full compliance. This postponement application is under consideration by the authorities.

On 14 December 2015 the Department of Environmental Affairs ("DEA"), accompanied by representatives from the City of Johannesburg, conducted a search and seizure operation at AEL Modderfontein. Management cooperated fully with the DEA and submitted a response to the DEA's allegations, relating to AEL's compliance with certain conditions of its current emissions licence. This matter is in the process of being finalised with the authorities.

ENVIRONMENTAL INCIDENTS

The prevention of incidents detrimental to the environment is an important aspect of AECI's approach to managing its impact in a responsible manner. Such incidents do occur, though, and are classified and reported internally in line with AECI's reporting standards and guidelines, available via the link **http://www.aeci.co.za/cc_she_2016_environmental-standard.php**. Reporting to external stakeholders also takes place, as appropriate, through structures such as Modderfontein's Community Awareness and Emergency Response Committee, Stakeholder Forums and Licence Advisory Forums.

No* major or serious environmental incidents occurred in 2016 (no* major or serious incidents in 2015). Of those moderate and minor environmental incidents that did occur, the most significant were:

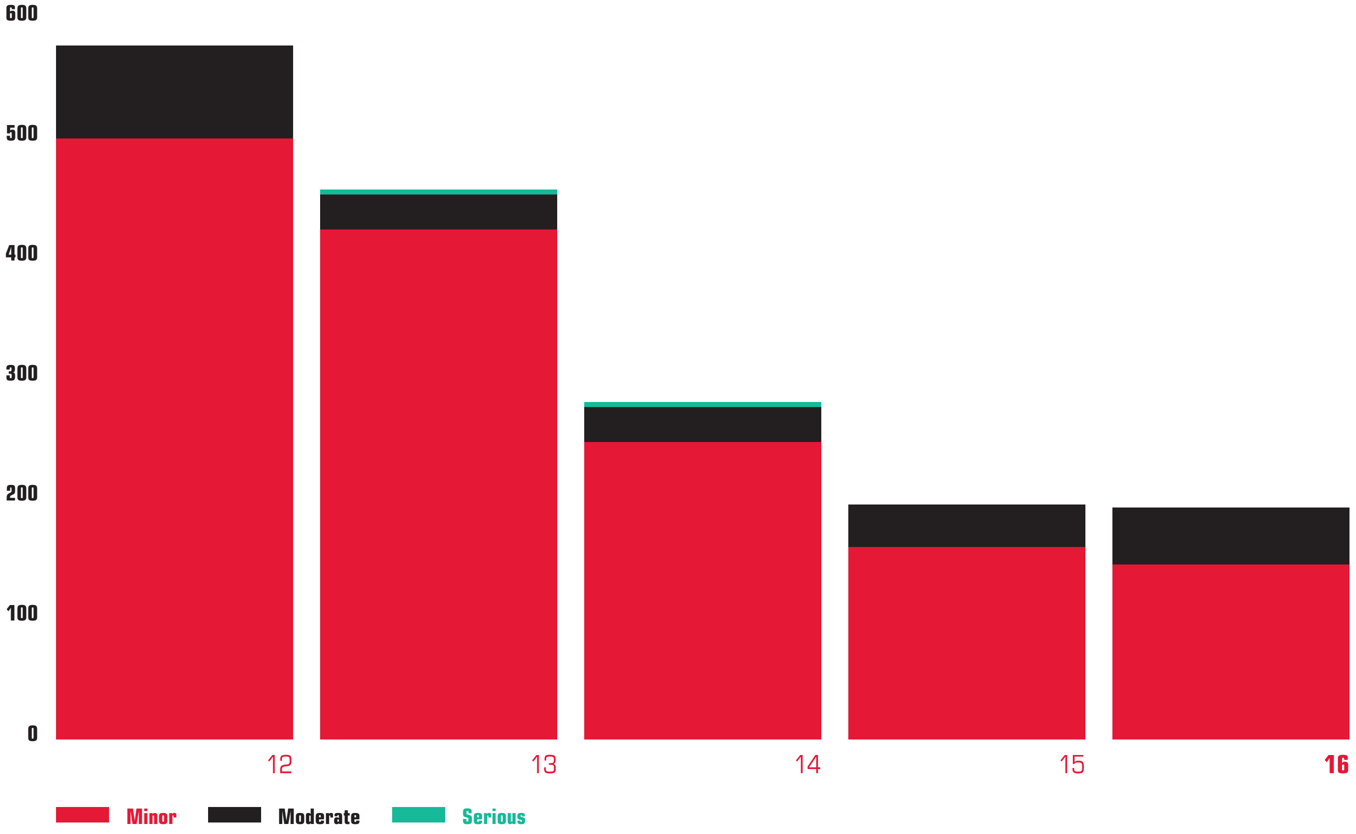
- 36 tonnes of ammonium nitrate solution were spilt when a tank overflowed at AEL's Modderfontein manufacturing facility. The spillage was contained on the site and clean-up was effected successfully;
- a third-party contractor's vehicle transporting sulphur for Chemical Initiatives collided with another vehicle near Stanger, in KwaZulu-Natal, resulting in a spillage on the highway. The spillage was cleaned up successfully and there was no material environmental impact;
- a third-party contractor's vehicle delivering emulsion to AEL's site at Inata, in Burkina Faso, overturned resulting in the spillage of 12 tonnes of emulsion. The spillage was cleaned up successfully and there was no material environmental impact;
- 29 tonnes of emulsion spilled en route to a mine in the DRC when a trailer disconnected from a third-party contractor's truck after being subjected to heavy impact on a road hump. The spillage was cleaned up successfully and there was no material environmental impact;
- a third-party contractor's vehicle transporting ammonium nitrate rolled en route to AEL's manufacturing site at Bajool, in Australia. This resulted in the spillage of 36 tonnes of material which was cleaned up successfully and there was no material environmental impact;
- a third-party contractor's vehicle transporting product for ChemSystems overturned near Rustenburg, North West, resulting in approximately 13 tonnes of product being spilled. The spillage was cleaned up successfully and there was no material environmental impact.

It is pleasing that the reduction trend in the number of environmental incidents recorded in the Group since 2012 was maintained (see graph on page 74). This improvement has been underpinned by the benefits of ever-increasing environmental awareness by Managers and employees at all of AECI's facilities.

* *Indicates limited assurance. See page 80.*

004.1
AECI

ENVIRONMENTAL INCIDENTS PER YEAR



RESOURCE EFFICIENCY

Water usage by the Group's operations decreased by 8,5% to 3 139 755m³* (2015: 3 432 734m³*). The majority of this decrease was attributable to AEL's Modderfontein operations where recycling programmes were accelerated and leak management improved. A reduction in on-line time at the No. 9 nitric acid plant also had an effect.

Hazardous waste generation and disposal reduced by 5,3% to 7 474 tonnes* (2015: 7 892 tonnes*). This was largely the result of operational changes at AEL's Modderfontein site where metallic materials such as container lids are being recycled after burning, instead of being disposed of as hazardous waste.

Recycled waste arisings were 12,0% higher at 16 588 tonnes (2015: 14 815 tonnes). This was on the back of recycling initiatives implemented at Chemical Initiatives and AEL.

CARBON FOOTPRINT

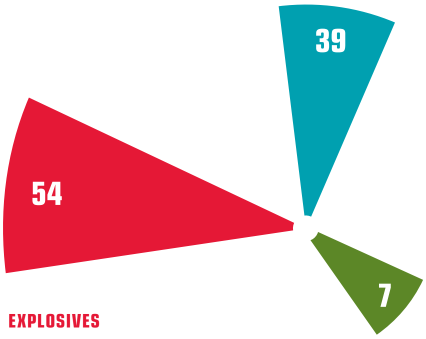
The term "carbon footprint" is defined as the total greenhouse gas emissions caused directly and indirectly by an individual, organisation, event or product, and is expressed as tonnes of carbon dioxide equivalent ("CO_2e"). AECI's carbon footprint was calculated using the United Nations' Intergovernmental 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 Business Council for Sustainable Development. Details on the operating and organisational boundaries used to calculate AECI's carbon footprint are available on the Company's website. See **http://www.aeci.co.za/cc_she_carbon_footprint.php**.

The 3,5% increase in total CO_2e emissions was due predominantly to higher Scope 1 emissions reported by AEL, where improvements made to analytical equipment resulted in the more accurate measurement of emissions. AECI's Scope 2 emissions were predominantly from electricity consumption. The Group consumed 211 239 MWh* of electricity (2015: 207 888 MWh*). This 1,6% increase was the result of higher production output at Senmin and Specialty Minerals South Africa. AECI's total energy usage was 2 295 753 GJ* (2015: 2 274 443 GJ*).

See page 76.

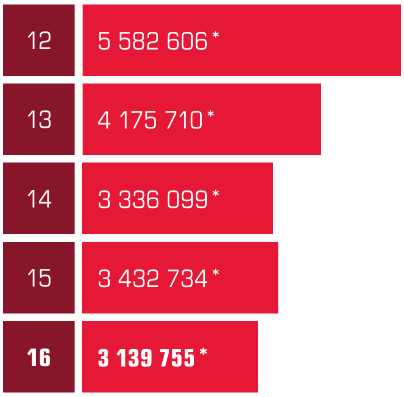
* *Indicates limited assurance. See page 80.*

WATER USAGE BY BUSINESS SEGMENT (%)



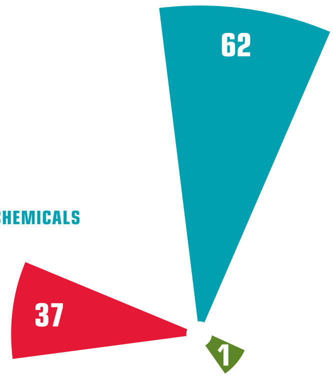
54 EXPLOSIVES
39 SPECIALTY CHEMICALS
7 PROPERTY

WATER CONSUMPTION (m³ PER YEAR)

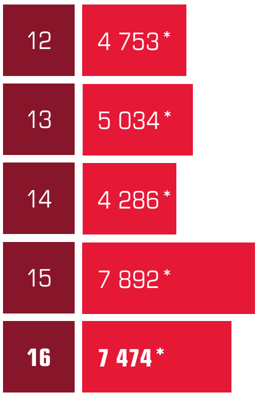


HAZARDOUS WASTE GENERATED BY BUSINESS SEGMENT (%)

37 EXPLOSIVES
62 SPECIALTY CHEMICALS
1 PROPERTY

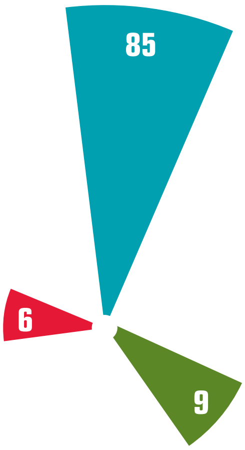


HAZARDOUS WASTE (TONNES PER YEAR)

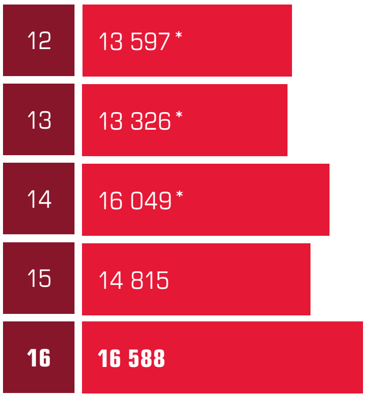


RECYCLED WASTE BY BUSINESS SEGMENT (%)

6 EXPLOSIVES
85 SPECIALTY CHEMICALS
9 PROPERTY



RECYCLED WASTE (TONNES PER YEAR)



* *Indicates limited assurance. See page 80.*

CARBON FOOTPRINT

TONNES OF CO_2 EQUIVALENT: SCOPE 1	2012	2013	2014	2015	2016	% CHANGE
EXPLOSIVES	188 610	226 946	308 080	229 272	250 511	9
SPECIALTY CHEMICALS	30 593	26 861	22 724	22 897	22 023	(4)
PROPERTY	62 685	76 015	45 422	44 203	42 246	(4)
TOTAL	**281 888***	**329 822***	**376 226***	**296 372***	**314 780***	**6**

TONNES OF CO_2 EQUIVALENT: SCOPE 2	2012	2013	2014	2015	2016	% CHANGE
EXPLOSIVES	76 277	78 170	74 031	75 714	75 157	(1)
SPECIALTY CHEMICALS	141 225	124 009	150 721	136 860	137 479	0,5
PROPERTY	6 863	7 378	5 713	4 786	4 452	(7)
TOTAL (SCOPE 2)	**224 365***	**209 557***	**230 465***	**217 360***	**217 088***	**0**
TOTAL (SCOPES 1 AND 2)	**506 253***	**539 379***	**606 691***	**513 732***	**531 868***	**4**

GOING GREEN

Going Green is one of AECI's founding values. ImproChem's recent introduction of an effluent reduction and water re-use programme in the Group exemplifies this. ImproChem will review water and effluent systems at AECI's facilities and, thereafter, it will facilitate optimisation projects to address instances of significant water consumption and discharge volumes.

In 2017, the National Cleaner Production Centre ("NCPC-SA") will assist AECI in identifying further opportunities to reduce energy consumption at the Group's facilities in South Africa. The NCPC-SA is a national programme of government that promotes the implementation of resource efficiency and cleaner production methodologies to assist industry to lower costs through reduced energy, water and materials usage, and waste management. It is hosted by the CSIR on behalf of the Department of Trade and Industry.

AECI GROUP ANNUAL GOING GREEN AWARD

The legal environment in which the Group operates grows increasingly complicated and the expectations that society has of business are becoming ever more stringent. Therefore, it is vital that AECI's businesses manage their environmental footprint responsibly, and that they strive to achieve ongoing improvements in their operations.

To determine the recipient of 2016's Going Green award, businesses and sites were evaluated in terms of their levels of legal compliance, quality of reporting, audit findings and the severity and nature of environmental incidents that occurred during the year.

Crest Chemicals' Midrand site was named as the recipient of the award, owing to the outstanding commitment shown and results achieved in living the Going Green value by the site's management team with the support of all its employees.

LAND REMEDIATION

The guiding principles underlying AECI's land remediation activities are the protection of human health and the environment and the use of good science, proven concepts and the best available appropriate technologies. Human health and environmental risk assessments are undertaken and these influence subsequent activities. Stakeholder communication in the remediation process is vital and AECI cooperates with regulatory authorities and shares information with interested and affected parties on a regular basis.

* *Indicates limited assurance. See page 80.*

Details on financial provisions for environmental liabilities are included in note 15 to the financial statements.

The majority of AECI's remediation expenditure in 2016 was at Umbogintwini. An innovative programme of enhanced in-situ bioremediation projects, presented in some detail in the 2015 integrated report, continued to show pleasing results.

Extensive engagements with officials from the DEA took place regarding Group sites in the Western Cape, KwaZulu-Natal and Gauteng to confirm that the authorities are in agreement with AECI's approach to land remediation. Agreement was also reached on the basis for the development of a comprehensive remediation strategy for the Modderfontein site, although the majority of this site remains an active manufacturing hub.

Waste arising from remediation processes is not the result of ongoing operations and, therefore, it is not included in the performance data reported. Some of this waste is classified as hazardous and is disposed of in appropriately licensed facilities. However, other waste is suitable for recycling, and every effort is made to reduce unnecessary disposal of materials that may still serve a useful purpose.

An example of this is ash from historic gasifier operations which is reclaimed by third-parties and used for its calorific content in the manufacture of bricks. From 1974 AECI operated the largest coal-based ammonia plant in the world at Modderfontein. A by-product of the coal gasification process was large quantities of comparatively high calorific value ash. Serious efforts were made to re-use this in a specially designed and built steam boiler, but this proved not to be feasible with the technology available at that time.

As a result, the ash was deposited in a slimes dam at Modderfontein. More than 6 000 000 tonnes had been accumulated by the time the ammonia plant shut down in the late 1990s.

Leaving the ash in place was not an attractive proposition, both because a large area of land is kept out of productive use and because in the long term slimes dams require maintenance and pose potential threats to the environment. This material is now being reclaimed to be used as an energy source in the manufacture of various types of clay bricks, ranging from clay stock to high quality face bricks.

THE END OF AN ERA AT SOMERSET WEST

The Group's longest-running remediation programme came to a celebratory close in 2016. It took significant investment and a quarter of a century to address the consequences of nearly 100 years of manufacturing on the land that AECI previously owned in Somerset West.

To mark the occasion, a special lunch was held. Among the guests were community representatives and government regulatory authorities, as well as contractors and scientists. They were afforded the opportunity to share their memories and see the finished work.

The Somerset West site has a long history. It was established in 1903 to manufacture nitroglycerine-based explosives. Over time, an extensive range of complementary chemical manufacturing businesses were added, such as agrochemicals, phosphate-based fertilizers, paint and vynide leather. From 1987, the manufacturing facilities began to close. The process ended in 2000.

Simultaneously, the remediation team developed a range of innovative approaches and new techniques that were informed by thorough, well-documented assessments and confirmed by a number of local and global peer reviews.

Openness and transparency were defining features of the community and regulatory engagement strategy.

SOME FACTS AND FIGURES THAT DEMONSTRATE THE SCALE OF THE PROGRAMME

- 1 000 000 tonnes of residual gypsum sold into the agricultural market;
- 1 500 tonnes of lead, 850 tonnes of aluminium, 600 tonnes of copper and 500 tonnes of bronze scrap sold for recycling;
- 12 000 tonnes of mild steel and 1 500 tonnes of stainless steel recovered;
- 40 000 tonnes of soil decontaminated by incineration;
- 500 000 tonnes of contaminated material disposed of to a hazardous waste site;
- trucks carrying soil to an off-site disposal facility travelled more than 2 000 000 kilometres with only two minor incidents;
- more than 500 reports written.

HEALTH AND SAFETY PERFORMANCE

The primary indicator used by AECI to measure its health and safety performance is the Total Recordable Incident Rate ("TRIR"). The rate for 2016 was 0,45*, higher than 2015's record low rate of 0,35*. Tragically, though, in 2015 the safety performance was overshadowed by the deaths of two* employees in two separate incidents. There were no* fatalities in 2016. Although the long-term trend of reducing incident rates continued (see facing page), the aspiration remains zero harm to employees and contractors, and management remains focused on improvements.

AECI's occupational illness rate for 2016 was 0,02* (2015: 0,01*), with two such illnesses recorded. One employee suffered an asthma attack after being exposed to a spill of fatty acid, and another became sensitised to isothiazolin (a biocide) after spilling some product onto his skin.

AECI continues to benchmark its health and safety performance against that of other companies operating in the same sector, both in South Africa and internationally. The graph on the facing page was compiled by an independent consultant using the latest publicly available data from the various companies' websites at the time of writing. It positions AECI's health and safety performance in the context of its industry peers.

AECI GROUP ANNUAL HEALTH AND SAFETY AWARD

This internal award is made to the business or site that has achieved an exemplary health and safety performance in the year. The 2016 awardee was SANS Technical Fibers, in the USA ("SANS"). This business was not always an example of good performance — a few years ago its TRIR was almost 10 times the rate achieved by the Group in 2016.

Through a sustained focus on dealing with the issues that were causing the incidents, SANS' safety and health performance improved to the point that, at the end of 2016, its TRIR was zero and the business had achieved 3 000 000 hours without a Lost-time injury.

EMPLOYEE WELLNESS

The welfare and well-being of employees is a priority for the AECI Group. A Wellness Steering Committee is in place to guide a proactive approach to enhancing employee health. The Committee is representative of management, employees and trade unions and is responsible for driving and monitoring wellness initiatives and related strategies. The focus is on general well-being rather than on illnesses, acknowledging that overall good health involves a multitude of facets including lifestyle elements.

Employee Assistance Programmes are in place and are accessible to all employees. These Programmes provide counselling on a variety of issues ranging from help with post-traumatic stress to financial guidance. In more remote areas where employees cannot meet face-to-face with a counsellor, telephonic services are available.

To implement the Group's Wellness Programme, volunteers across the Group have been trained to become agents of change in the workplace and beyond. These agents are employees who volunteer to assist their colleagues in understanding, preventing and managing HIV/Aids and other chronic illnesses.

Advice on healthy lifestyles is another area of focus as is the emphasis placed on volunteerism and helping needy people in the communities in which the Group operates.

INVESTOR-RELATED INITIATIVES

AECI is involved in three sustainability-related investor initiatives, namely the FTSE/JSE Responsible Investment Index Series (which replaced the JSE Socially Responsible Investment ("SRI") Index in 2015), and the CDP Climate Change and Water Programs. The latter two are global programmes administered in South Africa by the National Business Initiative.

AECI was a constituent of the SRI Index for six consecutive years, and is a constituent of the FTSE/JSE Responsible Investment Index for the second consecutive year.

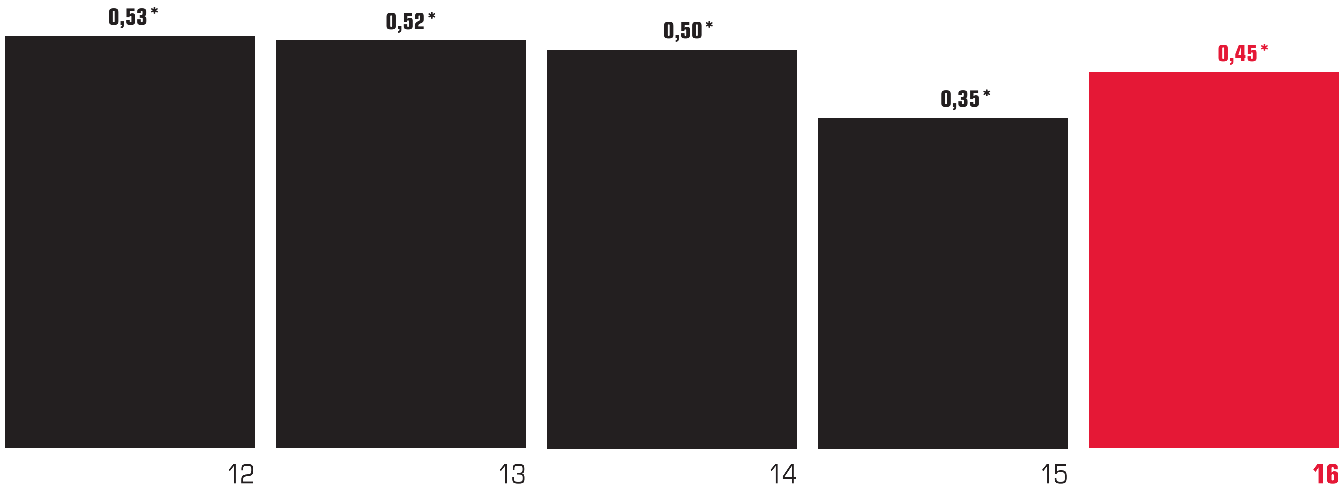
AECI participated in the CDP Climate Change Program for the seventh consecutive year and achieved a score in the "B" performance band, which is an improvement from the prior year's "C" band score. AECI scored higher than the CDP Climate Change Program average.

AECI participated in the CDP Water Program for the second year and achieved a score in the "B" band.

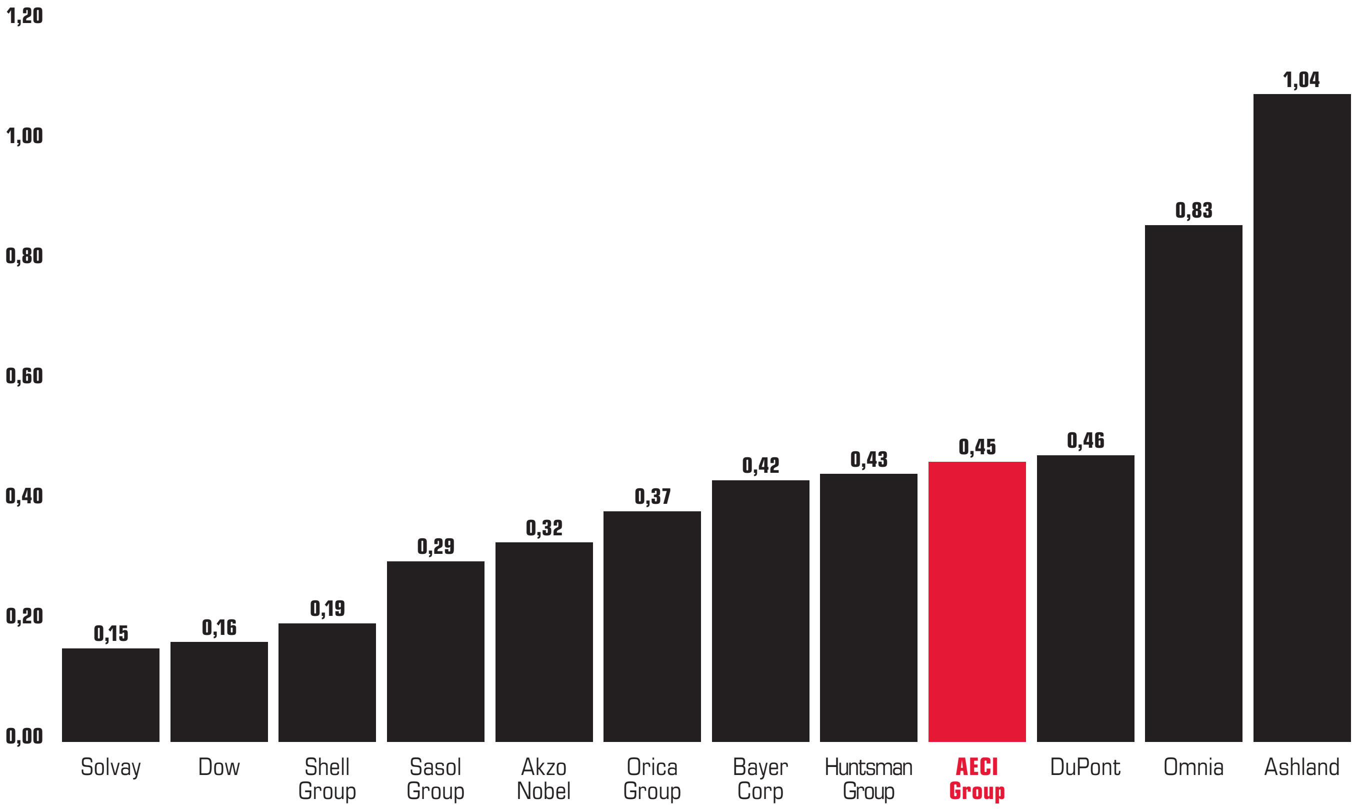
AECI's 2016 CDP submissions are available on the Company's website as is its FTSE Russell Rating Profile.

* *Indicates limited assurance. See page 80.*

ALL WORKERS TRIR BY YEAR



TRIR PERFORMANCE COMPARISONS



* *Indicates limited assurance. See page 80.*

INDEPENDENT ASSURANCE PROVIDER'S LIMITED ASSURANCE REPORT ON SELECTED KEY PERFORMANCE INDICATORS

TO THE DIRECTORS OF AECI LTD

We have undertaken a limited assurance engagement on selected key performance indicators ("KPIs"), as described below, and presented in the Human and Natural Capital reports included in the 2016 integrated report to stakeholders of AECI Ltd ("AECI") for the year ended 31 December 2016 ("the report"). This engagement was conducted by a multidisciplinary team of health, safety, environmental and assurance specialists with extensive experience in sustainability reporting.

SUBJECT MATTER

We are required to provide limited assurance on the following KPIs, marked with a * on the relevant pages in the report. The selected KPIs described below have been prepared in accordance with AECI's reporting criteria. These criteria are available on AECI's website **http://www.aeci.co.za/cc_she_2016_environmental-standard.php** ("the AECI reporting criteria").

- **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 and Skilled, Semi-skilled and Unskilled (pages 60 and 61).
- **Environmental indicators** — total water usage; hazardous waste generated; total electricity usage; total energy usage (all on page 74); carbon footprint — Scope 1, Scope 2 and total of Scopes 1 and 2 (pages 74 and 76); number of environmental incidents (total major and serious) (page 73).
- **Health and safety indicators** — Total Recordable Incident Rate (employees and contractors combined); occupational illness rate (employees and contractors combined); fatalities (employees and contractors combined) (all on page 78).

DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the selection, preparation and presentation of the selected KPIs in accordance with the AECI reporting criteria. This responsibility includes the identification of stakeholders and stakeholder requirements, material issues, for commitments with respect to sustainability performance, and for the design, implementation and maintenance of internal control relevant to the preparation of the report that is free from material misstatement, whether due to fraud or error.

OUR INDEPENDENCE AND QUALITY CONTROL

We have complied with the independence and all other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

KPMG Services (Pty) Ltd applies the International Standard on Quality Control 1 and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

OUR RESPONSIBILITY

Our responsibility is to express limited assurance conclusions on the selected KPIs based on the procedures we have performed and the evidence we have obtained. We conducted our limited assurance engagement in accordance with the International Standard on Assurance Engagements ("ISAE") 3000 (revised), Assurance Engagements other than 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 KPIs are free from material misstatement.

A limited assurance engagement undertaken in accordance with ISAE 3000 (revised) involves assessing the suitability in the circumstances of AECI's use of its reporting criteria guidelines as the basis of preparation for the selected KPIs, assessing the risks of material misstatement of the selected KPIs whether due to fraud or error, responding to the assessed risks as necessary in the circumstances, and evaluating the overall presentation of the selected KPIs. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

The procedures we performed were based on our professional judgement and included enquiries, observation of processes followed, inspection of documents, analytical procedures, evaluating the appropriateness of quantification methods and reporting policies, and agreeing or reconciling with underlying records.

Given the circumstances of the engagement, in performing the procedures listed above we:

- interviewed members of the AECI Executive Committee and Senior Managers to obtain an understanding of the internal control environment, risk assessment process and information systems relevant to the sustainability reporting process;
- inspected documentation to corroborate the statements of members of the AECI Executive Committee and Senior Managers in our interviews;
- tested the processes and systems to generate, collate, aggregate, monitor and report the selected KPIs;
- inspected supporting documentation and performed analytical procedures on a sample basis to evaluate the data generation and reporting processes against the reporting criteria;
- assessed the reasonableness and appropriateness of significant estimates and judgements made by the Directors in preparation of the KPIs;
- undertook site visits to AEL (Modderfontein and Nitrates in South Africa), Acacia Operations Services (Umbogintwini), Chemical Initiatives (Umbogintwini), ImproChem (Umbogintwini), Experse (Umbogintwini), Nulandis (Lilianton) and Senmin (Sasolburg). In addition desktop reviews were performed for other AEL sites in South Africa (Coal, Eastern Limb, Mogalakwena, Initiating Systems Operations, Initiating Systems Manufacturing) as well as sites in Burkina Faso, the Democratic Republic of Congo, Egypt, Ghana and Indonesia. Desktop reviews were similarly undertaken for ChemSystems, Industrial Oleochemical Products, Specialty Minerals South Africa and SANS Technical Fibers;
- evaluated whether the selected KPIs presented in the report are consistent with our overall knowledge and experience of sustainability management and performance at AECI.

The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, a reasonable assurance engagement. As a result the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance opinion about whether AECI's selected KPIs have been prepared, in all material respects, in accordance with the AECI reporting criteria.

LIMITED ASSURANCE CONCLUSIONS

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the selected KPIs as set out in the subject matter paragraph for the year ended 31 December 2016 have not been prepared, in all material respects, in accordance with the AECI reporting criteria.

OTHER MATTERS

The maintenance and integrity of the AECI's website is the responsibility of AECI'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 limited assurance report that may have occurred since the initial date of its presentation on the AECI website.

RESTRICTION OF LIABILITY

Our work has been undertaken to enable us to express a limited assurance conclusion on the selected KPIs to the Directors of AECI 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 AECI for our work, for this report, or for the conclusion we have reached.

KPMG Services (Pty) Ltd

Per PD Naidoo
Director

Johannesburg
31 March 2017

1 Albany Road, Parktown
South Africa, 2193

GOVERNANCE REPORT

THE AECI BOARD RECOGNISES THAT SOUND GOVERNANCE PRINCIPLES ARE THE FOUNDATION ON WHICH THE TRUST OF STAKEHOLDERS IS BUILT AND HOLDS ITSELF ACCOUNTABLE FOR THE OVERALL STEWARDSHIP OF THE GROUP IN THIS REGARD.

IN 2016 THE BOARD CONTINUED TO BUILD ON ITS STRONG GOVERNANCE FOUNDATION, GEARED AT ENSURING THAT APPROPRIATE DECISION-MAKING AND OVERSIGHT UNDERPIN SUSTAINABLE PERFORMANCE. THE FOCUS WAS ON REVIEWING AECI'S UNDERLYING GOVERNANCE FRAMEWORKS AND REALIGNING ITS DECISION-MAKING AND OVERSIGHT ROLES WHERE SO REQUIRED.

The decision-making role of the Board is exercised through the formulation of fundamental policy and strategic goals in conjunction with management, whereas the oversight role concerns the review of management's decisions, the adequacy of systems and controls and the implementation of policies. In view of JSE Listings Requirements amendments, other legislative changes and the recommendations of King IV, the Board accepts that the realignment process is likely to be ongoing in pursuit of progressive value-add and efficiencies.

A summary of adherence to King III appears from page 91. Reporting against King IV will guide the report in future years.

THE BOARD OF DIRECTORS

BOARD CHANGES DURING THE YEAR

The following members were appointed as Independent Non-executive Directors:

› Graham Dempster, with effect from 31 January;

› Khotso Mokhele, with effect from 1 March; and

› Moses Kgosana, with effect from 1 September.

Litha Nyhonyha resigned as an Independent Non-executive Director on 31 December.

BOARD STRUCTURE AND COMPOSITION

AECI has a unitary Board structure led by an Independent Non-executive Chairman, eight other Independent Non-executive Directors (as at the date of this report) and two Executive Directors. The Board charter as well as the terms of reference of the Nominations Committee detail the procedures for appointments to the Board.

Such appointments are formal and transparent and a matter for the Board as a whole. 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 also 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.

Summarised biographical details of the Directors are provided on pages 18, 19 and 20. The Board operates in terms of a Board charter which will be due for review in 2018. A copy of this and of the terms of reference of all Board Committees can be found via the website link **www.aeci.co.za/gov_policy.php**. The role of the Board is to exercise leadership, integrity and sound judgement in the business and to provide strategic direction to the Company, with a keen understanding of key risks, and to continually monitor performance against set objectives.

The Company's governance framework is defined as "freedom supported by a framework" and the overall intention of this framework is to ensure that there is continual performance improvement by Group businesses while ensuring that at the same time all governance and regulatory obligations are met. There is an ongoing process of confirming that the framework that supports the governance of the Group remains relevant, efficient and clear and aligns the expectations of the Board, management and the general stakeholder community.

GOVERNANCE FRAMEWORK

In 2016, work to redefine AECI's governance framework in terms of the roles and responsibilities of the Company's Board and those of the Boards of its subsidiaries was completed. This has enhanced alignment with the Group's portfolio management operating model.

ROTATION, TENURE, DIVERSITY AND SUCCESSION

There is no set retirement age for Non-executive Directors. Non-executive Directors may generally serve for up to nine years, subject to retirement and re-election by rotation as set out in the Company's MOI. Extensions of this period may be granted, provided the Nominations Committee remains satisfied that the Director's independence has not been compromised. The independence assessment is conducted on a case-by-case basis and all Board members participate in the review process. One-third of the Executive and Non-executive Directors must retire by rotation at each AGM.

The succession plan considered in 2015 was implemented in the year under review. This resulted in one retirement at year-end, two other Non-executive Directors indicating their intention to retire in 2017, and the appointment of a related number in replacement. The Board continues to be mindful of issues of diversity at Directorate level and to that end, and pursuant to paragraph 3.84(k) of the JSE Listings Requirements, has approved a Board Gender Diversity policy that articulates its commitment on this aspect and adds further guidance to succession planning in future. At this stage, the Board has committed to having a 30% target for female Non-executive Directors and aspires to achieve this as and when replacement opportunities present themselves. The policy is available via the link **www.aeci.co.za/gov_policy.php**

TERMS OF EMPLOYMENT OF DIRECTORS

Executive Directors are employees of the Company and have standard terms and conditions of employment. Their notice periods are six months. They do not receive any special remuneration or other benefits for their additional duties as Directors. The Board, through its Nominations Committee, has had ongoing discussions with the two Executive Directors regarding succession planning for all key roles including the Executive Directors. The Board is satisfied that the potential risk associated with the continuity of leadership at this level has been adequately mitigated.

The Board, on the recommendation of the Remuneration Committee, continues to determine the remuneration of Executive Directors, Executives and other Senior Managers as underpinned by the remuneration philosophy of the Company. None of the Non-executive Directors are Company employees. Non-executive Directors' remuneration is arrived at after an annual benchmarking exercise performed by the Executive Directors and the approval by shareholders of the proposed fees, on the Board's recommendation.

DIRECTORS' MANAGEMENT OF CONFLICT OF INTERESTS

AECI has a Conflict of Interests policy (embedded in the Group's Code of Ethics and Business Conduct) which provides guidance and procedures for Directors on managing and dealing with potential conflict of interests situations. The same policy applies to all Group employees. The Group Company Secretary is charged with maintaining a comprehensive register of Directors' declarations of interests and this is submitted for updating by the Directors before each Board meeting. In 2016 all Directors duly completed and updated this register.

No conflict of interests or recusals from Board discussions and deliberations were noted in relation to any proposed transaction other than for matters pertaining to the de-risking of the Company's post-retirement obligations. The then Chairman and the two Executive Directors, as related parties, continued to recuse themselves from any decision-making in this regard and this project was driven by an ad hoc Committee of non-conflicted Non-executive Directors, with leadership and support from the full Board. This was recorded in the Board minutes, which are available for inspection by the Company's external auditor.

INDUCTION AND ONGOING DEVELOPMENT OF DIRECTORS

The Company's Directors have expertise and experience in diverse industries including banking, chemicals, mining, technical, accounting and strategic matters. Upon appointment, all new Directors undergo a Group-specific induction programme which includes one-on-one meetings with Executives, Senior Managers and the Managing Directors of subsidiaries.

The Directors appointed in 2016 completed this induction process and also considered all key documentation that is the backbone of the Company's governance framework (including but not limited to the JSE Listings Requirements, King III and King IV, the MOI and the Code of Ethics and Business Conduct). In addition, they visited key operational sites to enhance their understanding of the Group's diverse businesses.

With regard 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.

BOARD AND COMMITTEE PERFORMANCE EVALUATION

The Board continued to focus its efforts on building strong and responsive governance structures and, to that end, undertook its annual effectiveness review of all its structures; i.e. Board and Committees. For the year under review, an external consultant was engaged to support the assessment process with guidance from the Chairman of the Board and the Group Company Secretary. The outcomes of this assessment will be implemented in 2017 and will serve to ensure that there is continuous improvement in the way the Group is governed and managed. At a high level, the results of the evaluation highlighted the following areas for improvement:

› although the work of the Remuneration and Nominations Committees is satisfactory, emphasis should be placed on continually updating the Board on policy changes affecting both the remuneration structure and the succession plans in the Group;

› future-proofing the Company should become a focus of meetings and discussions and the Board should acquaint itself with the political, regulatory and competitive landscapes in all relevant jurisdictions and use these to continually refine the Group's strategy.

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. They also have unrestricted access to Executives, Senior Managers, the internal auditors and the external auditor to consult on any aspect of the Company's operations. Furthermore 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 six times in the year. One meeting included a session to discuss the development of Company strategy. Meeting dates for the Board and its Committees, and details of attendance, are available via the link **www.aeci.co.za/pdf/2016_board_meetings.pdf**. Between Board meetings, the Executive Directors kept the Board up-to-date on emerging material matters that could not be deferred until the next formal Board meeting.

The practice by the Non-executive Directors to meet before the start of each Board meeting so as to raise matters of interest and concern, without the Executive Directors being present, has become an entrenched process that contributes to the overall maturity of governance. The Chairman of the Board is charged with the responsibility of conveying any 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. The full Board has the opportunity to provide input. Board meetings are scheduled well in advance and the Group Company Secretary ensures that all Directors are provided with the information required timeously 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. In addition, ad hoc Committees are established from time to time, if circumstances so warrant, to assist the Board with specific material issues or projects.

The restructuring of AECI's defined-benefit pension funds to a defined-contribution fund is a case in point. The Board formed a sub-Committee of two Independent Non-executive Directors to consider and guide this process, which commenced in 2013 and is expected to be completed in 2017.

The role and responsibility of each Committee is set out in its formalised and Board-approved terms of reference. As already indicated, full copies of these terms are available on the Company's website and they are summarised on the facing page. In view of the coming into effect of King IV, the Board agreed to delay the planned reviews of terms for the Audit, Risk and Social and Ethics Committees until 2017.

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 also included in the full Board information pack.

All Committees are satisfied that in 2016 they carried out their responsibilities in compliance with their mandates and terms of reference.

BOARD COMMITTEES

COMMITTEE	SUMMARISED DUTIES AND RESPONSIBILITIES
AUDIT COMMITTEE	› Monitor the adequacy of financial controls and reporting. › Review audit plans and adherence to these by assurance providers. › Ascertain the reliability of the internal and external audit processes. › Ensure that financial reporting complies with IFRS, the Companies Act and the JSE Listings Requirements. › Nominate the external auditor. Both the internal and external auditors have unrestricted access to the Chairman of the Committee and it is standard operating procedure for them to meet privately with the Committee. The Chairman of the Board, the Chief Executive, the Chief Financial Officer and the external and internal auditors attend meetings of the Committee by invitation. More information on the Audit Committee and a summary of its work in 2016 is published in its Report to stakeholders commencing on page 93.
RISK COMMITTEE	› Oversee the overall management of risk, operational resilience and business continuity. › Monitor Company decisions to ensure alignment with the risk appetite. › Ensure that proper controls and mitigations are in place to prevent risk. › Oversee IT governance and related risks. › Oversee the compliance management processes. This Committee is comprised of five Independent Non-executive Directors and four Executive Committee members, including the two Executive Directors.
SOCIAL AND ETHICS COMMITTEE	Monitor the Company's compliance with section 72(8) of the Companies Act, read together with regulation 43. Focus is on the following: › recommendations on corruption of the Organisation for Economic Co-operation; › Employment Equity Act, No. 55 of 1998; › Broad-based Black Economic Empowerment Act, No. 53 of 2003; › labour and employment principles in line with global best practice; and › safety, health and environmental issues and performance. More information on the Social and Ethics Committee and a summary of its work in 2016 is published in its Report to stakeholders commencing on page 57.
NOMINATIONS COMMITTEE	› Consider suitable nominations for appointment to the Board and Executive succession planning, and make appropriate recommendations based on qualifications and experience. › Oversee the appointment of Board members to serve on various Committees. › Oversee the assessment of the Board and its Committees to ensure continual governance improvement. This Committee is comprised solely of Independent Non-executive Directors.
REMUNERATION COMMITTEE	› Establish the remuneration philosophy for the Group. › Determine the remuneration framework for Executives and Senior Managers. › Consider, review and approve Group policy on Executive remuneration and communicate this and the implementation thereof to stakeholders in the Company's integrated report. This Committee is comprised solely of Independent Non-executive Directors.
EXECUTIVE COMMITTEE	The Board has delegated the day-to-day running of the Company to the Chief Executive who works with an Executive Committee to assist him in this task. The Executive Committee is the highest executive decision-making structure in the Group. 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 and that the business strategy is implemented.

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, other than those of the Remuneration Committee.

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 Company. In 2016 the Group Company Secretary oversaw the ongoing education and training of the Company's Directors through the inclusion of topical papers, articles and opinions in their information packs and continued to assist the Board and its Committees in preparing annual plans, agendas, minutes, and terms of reference as warranted.

In line with the JSE Listings Requirements, the Board 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 received and guidance provided to the Board and management during the year. All parties were satisfied with the quality of support received as well as the competency and experience demonstrated by the incumbent. An abridged biography of the Group Company Secretary is available on page 22.

The Group Company Secretary is not a Director of the Company nor of any of its subsidiaries and, accordingly, maintains an arm's length relationship with the Board and its Directors.

FULFILMENT 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 Group as at the end of the financial year and of the profit or loss for that period, in conformity with IFRS. The external auditor is responsible for auditing the financial statements of the Company and its subsidiaries and for expressing its opinion on these statements to shareholders. In addition, the external auditor is responsible for confirming whether the financial statements meet the requirements of the Companies Act and IFRS. In 2016, the external auditor also carried out certain agreed upon procedures pertaining to the Group's half-year results to 30 June.

Following discussions with the external auditor 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.

GOING-CONCERN

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. They also conducted liquidity and solvency tests as required by the Companies Act. Accordingly, the going-concern basis of accounting remains appropriate.

COMPLIANCE

AECI continues to entrench a culture of compliance with all applicable laws and best practice codes so as to remain an organisation that lives its values of ethical conduct. Since the centralisation of the Compliance function, the Group's compliance universe has been refined and continues to grow in tandem with the diversification of AECI's businesses. In 2016 focus was on conducting self-assessments, thus maturing the compliance culture further as well as establishing appropriate frameworks to integrate compliance considerations for all of the Group's operations.

With operations in more than 20 countries, it is important for the Group to ensure that it stays abreast of all legislative developments and that it remains on par with the high standards that are set by other multinationals. The compliance processes and approach were reviewed by an external assurance provider who concluded that the compliance process is entrenched in the Group but that, nonetheless, there is a need for ongoing improvement to enhance the practice further.

AFRICAN PROJECT UPDATE

The Group is developing compliance universes detailing all legislative imperatives in all other African countries of operation. A phased approach has been adopted and it is anticipated that the project will be completed in 2020. As a first step, the evaluation of the compliance universe in the DRC was undertaken and an assessment to determine the Group's compliance position is underway.

REGULATORY INTERACTION

AUTHORITY	PURPOSE OF VISIT	OUTCOME
DEPARTMENT OF LABOUR ("DoL")	A routine visit was sanctioned under the Basic Conditions of Employment Act, No. 75 of 1997 ("the BCEA"), which authorises inspectors to visit places of employment to conduct inspections, at a reasonable time, where records are kept, without a warrant or notice to enter a place of employment.	The DoL was satisfied that all the requisite documentation was in order.
DoL	To inspect documentation in relation to the BCEA and the Occupational Health and Safety Act, No. 85 of 1993.	The DoL was satisfied that all the requisite documentation was in order.
COMPETITION COMMISSION	The investigation process undertaken by the Competition Commission of South Africa ("the Commission"), on allegations of collusion with a competitor by Akulu Marchon.	The matter is in the process of being settled with the Commission.
DEPARTMENT OF ENVIRONMENTAL AFFAIRS	On 14 December 2015 the Department of Environmental Affairs, jointly with representatives from the City of Johannesburg, conducted a search and seizure operation at AEL Modderfontein.	The matter is in the process of being finalised with the authorities.

REGULATORY INTERACTION

In 2016 the Group had interactions with regulators on key ongoing matters as summarised in the table above. The outcomes of these matters are not expected to have a material effect on either the operations of the Group or on the results as presented.

ETHICAL BUSINESS CONDUCT

TRANSPARENCY

Governments, business, civil society and individual citizens are highly interconnected and interdependent. As a result a company's actions and its interaction with its stakeholders, both internal and external, are potentially more significant than ever before. AECI is no exception and the need to balance diverse stakeholders' expectations shapes the way the Group conducts its business. In an environment of increasingly empowered communities and individuals, social activism and a trust deficit, transparency and accountability are non-negotiable.

An ethical culture is key to driving long-term business value and stakeholders' support of businesses. To embed such a culture more strongly, training on AECI's Code of Ethics and Business Conduct ("the Code") continued across the Group. A copy of the Code is available at **www.aeci.co.za/gov_policy.php**.

ETHICAL RISKS IDENTIFIED AND WHISTLE-BLOWING

Owing to the difficult prevailing economic climate, the Board is mindful that ethics-related risks like conflict of interests, bribery and corruption should remain focus areas. The Group's ethical risk mitigation processes include a whistle-blowing service, management reports and the like. Education and communication relevant to these risks are a cornerstone of preventative processes.

The whistle-blowing service, Tip-offs Anonymous, continues to serve as a primary tool utilised by employees in diverse countries of operation to register concerns regarding non-compliance with policies, fraud and other matters relating to acceptable business conduct. In 2016, the reports received were investigated by Internal Audit and shared with the Board. Corrective measures included retraining on the principles and requirements of the Code of Ethics, and disciplinary action was taken where necessary.

On an annual basis, as required by the Code, Group employees who have outside interests are required to declare them. Employees are also encouraged to declare any gifts that they may have accepted or given, further underpinning the Group's ethos of doing business ethically.

DEALING IN SECURITIES

In 2016 the Board, via the Audit Committee, approved a revised Dealing in Securities and Price Sensitive Information policy.

In terms of this policy there is a "closed period" that endures from the end of the financial reporting period until the publication of financial results for that period. Additional closed periods may be declared from time to time if circumstances so warrant.

During closed periods Directors, Prescribed Officers and other designated employees are prohibited from dealing in the Company's securities, either directly or indirectly. Identified employees are advised to this effect. The Group Company Secretary advises the Directors of all the closed periods.

The policy has been shared with all affected individuals to ensure full compliance. A copy is available at **www.aeci.co.za/gov_policy.php**.

The Group also 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 the 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 PRESCRIBED OFFICERS' LIABILITY INSURANCE

The Company has in place Directors' and Prescribed 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 financiers, institutional investors, financial analysts 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 team 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 Corporate Communications function maintains regular contact with the media by disseminating relevant information.

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

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 framework and processes are led by the Board supported by six Committees. Board and Committee details are included in this report, commencing on page 84.
The Board should appreciate that strategy, risk performance and sustainability are inseparable.	✓	AECI has used its risk management framework as a guide to determine the materiality of issues for inclusion in this report. Each of these issues has the potential to affect the Company's current business activities and future growth. See pages 12 to 15.
Directors act in the best interests of the Company.	✓	AECI has a Conflict of Interests policy which guides Directors in these matters. See page 85. All of AECI's Non-executive Directors are Independent. No Non-executive Director is an employee of the Company. The two Executive Directors have employment contracts with a notice period of six months.
The Chairman of the Board is an Independent Non-executive Director.	✓	
The Board should provide effective leadership based on an ethical foundation.	✓	In matters of ethical business conduct and good 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 AGM.
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 89 — Ethical business conduct.
The Board should ensure that the Company has an effective and independent Audit Committee.	✓	See page 87 — Audit Committee, and page 93 — Audit Committee's report to stakeholders.
The Board should be responsible for the governance of risk.	✓	See page 87 — Risk Committee.
The Board should be responsible for IT governance.	✓	See page 87 — Risk Committee.
The Board should ensure that the Company complies with applicable laws and considers adherence to non-binding rules, codes and standards.	✓	See page 88 — Compliance.
The Board should ensure that there is an effective, risk-based Internal Audit.	✓	See the Audit Committee's report to stakeholders on page 95 — 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 50 — Stakeholder engagement.
The Board should ensure the integrity of the Company's integrated report.	✓	See page 3 — Approval of the 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 95 — Execution of functions in respect of internal control and Internal Audit.

SUMMARY OF ADHERENCE TO KING III

PRINCIPLE	APPLIED	COMMENT
The Board and its Directors should act in the best interests of the Company.	✓	AECI has a Conflict of Interests policy which guides Directors in these matters. See page 85. All of AECI's Non-executive Directors are Independent. None of the Non-executive Directors are Company employees. The two Executive Directors have employment contracts with a notice period of six months.
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 page 88 — Going-concern statement.
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 Non-executive Directors, including the Chairman, are Independent. See page 84 — Board structure and composition. 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 delegation of authority see commentary on the Executive Committee on page 87.
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 84 — Board structure and composition.
Directors should be appointed through a formal process.	✓	See page 84 — Board structure and composition. and page 87 — Nominations Committee.
The induction and ongoing training and development of Directors should be conducted through formal processes.	✓	See page 85 — Induction and ongoing development of Directors.
The Board should be assisted by a competent, suitably qualified and experienced Group Company Secretary.	✓	See page 88 — Group Company Secretary.
The evaluation of the Board, its Committees and individual Directors should be performed every year.	✓	See page 86 — Board and Committee performance evaluation.
The Board should delegate certain functions to well-structured Committees but without abdicating its own responsibilities.	✓	See page 87 — Board Committees.
A governance framework should be agreed between the Group and its subsidiary Boards.	✓	See page 84 — Governance framework.
Companies should remunerate Directors and Executives fairly and responsibly.	✓	See page 97 — Remuneration report.
Companies should disclose the remuneration of each individual Director and certain Senior Executives.	✓	See note 30 to the financial statements.

A full King III gap analysis can be viewed via the website link: **www.aeci.co.za/gov_king.php**.

AUDIT COMMITTEE'S REPORT TO STAKEHOLDERS

DEAR STAKEHOLDERS

THIS REPORT IS PROVIDED BY THE AUDIT COMMITTEE ("THE COMMITTEE") APPOINTED IN RESPECT OF THE 2016 FINANCIAL YEAR OF AECI LTD. THIS REPORT INCORPORATES THE REQUIREMENTS OF THE COMPANIES ACT, 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. THE COMMITTEE HAS NOTED THE PRINCIPLES OF KING IV, WHICH WILL COME INTO EFFECT FOR REPORTING PERIODS STARTING ON OR AFTER 1 APRIL 2017, AND WILL INCORPORATE THE GUIDANCE PROVIDED BY THESE PRINCIPLES IN ITS WORK IN FUTURE PERIODS.

MEMBERSHIP

The Committee was nominated by the Board in respect of the 2016 financial year and its members were confirmed by shareholders at the AGM held on 30 May 2016. Shareholders will be requested to confirm the appointment of the members of the Committee for the 2017 financial year at the AGM scheduled for 29 May 2017.

There were four meetings held in the year. Full details of the meeting dates and attendance are available via the link **http://www.aeci.co.za/gov_directorate_2016.php**.

The Committee comprises solely Independent Non-executive Directors.

Abridged biographies of these Directors are published elsewhere in the integrated report.

Mr Nyhonyha resigned from the Board and the Committee on 31 December 2016, having served on the Committee since 2006. His services were greatly appreciated. Mr Dunne has served on the Committee since 2007, Mr Morgan since 2010 and Mr Gomwe since 2015. Messrs Dempster and Kgosana were appointed to the Committee on 22 February 2016 and 1 September 2016, respectively.

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, the 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 auditor 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 auditor, Senior Managers, Executives 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 auditor, 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 to 30 June;
- review and recommend to the Company's Board, for approval, the Company's audited financial statements for the financial year to 31 December;
- 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 Companies 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, the Internal Audit function or the content and audit of 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 executed its duties and responsibilities during the 2016 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. as the external auditor to shareholders for appointment as auditor for the financial year ended 31 December 2016, 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 is accredited by the JSE;
  - approved the external audit engagement letter, the audit 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;
  - applied 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 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 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 its subsidiaries, joint ventures and associates were determined to be going-concerns;
  - considered accounting treatments, significant unusual transactions and accounting judgements;
  - considered the appropriateness of the accounting policies and adopted any 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 function and compliance with its charter;
- » considered the reports of the internal auditor and the external auditor on the Group's systems of internal control including financial controls, business risk management and the 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 actions 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;
- » considered and reviewed the findings and recommendations of the Risk Committee;
- » considered the reports of Internal Audit and the external auditor insofar as these were relevant to risk management and IT and could have an impact on financial controls, and ensured that the related management action plans were adequate; and
- » reviewed and considered feedback from the business segments' Financial Review and Risk Committee meetings, insofar as these related to risk management and IT.

› 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.

› 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 whistle-blowing 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;
- » considered the results of an independent Group ethics risk assessment and reviewed the management action plans in response to these results; 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.

KEY AUDIT MATTERS

The Committee notes the key audit matters set out in the report of the independent auditor commencing on page 122, which are:

- the impairment of property, plant and equipment in the Explosives segment in South Africa;
- the valuation of the pension fund employer surplus accounts and valuation and settlement of post-retirement medical aid obligations; and
- the recoverability of deferred tax asset recognised by AECI Mining Solutions Ltd.

The Committee has considered and evaluated these matters and is satisfied that they are represented correctly.

INDEPENDENCE OF THE EXTERNAL AUDITOR

The Committee is satisfied that KPMG Inc. is independent of the Company and 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.

ANNUAL FINANCIAL STATEMENTS AND INTEGRATED REPORT

Following the review by the Committee of the annual financial statements of AECI Ltd for the year ended 31 December 2016, 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 Group and Company 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 recommended the annual financial statements for the year ended 31 December 2016 for approval to the AECI Board on 28 February. The Committee subsequently also recommended the integrated report for approval. The Board has approved this report, which will be open for discussion at the forthcoming AGM.

On behalf of the Audit Committee

Richard Dunne
Chairman

Woodmead, Sandton
28 February 2017
and
30 March 2017

REMUNERATION REPORT

DEAR STAKEHOLDERS

ON BEHALF OF THE REMUNERATION COMMITTEE ("THE COMMITTEE") AND THE BOARD, I AM PLEASED TO PRESENT AECI'S REMUNERATION REPORT FOR 2016.

PART 1

We are in the process of investigating the full impact of the introduction of King IV, but have as immediately adopted the three-part report approach. Part 1 sets out the Chairman's statement, providing context on the decisions and considerations taken during the reporting year which influenced the remuneration outcomes. Part 2 provides detail on AECI's remuneration philosophy and policy and Part 3 provides details on the remuneration awarded during the reporting period. Going forward, implementation of the rest of the changes brought about by King IV will continue.

We were pleased to welcome Godfrey Gomwe and Graham Dempster as Committee members during 2016, in line with the imperative of ensuring a robust succession plan for members of the Committee contemplating retirement in the coming years. A larger Committee has allowed the new members to gain an understanding of the Group and enables better governance and continuity into the future. Committee meetings were attended, in full, by all members in the year. Further details are available via the link **www.aeci.co.za/pdf/2016_board_meetings.pdf**.

A key focus for the Committee in the year was the review of AECI's remuneration philosophy and its alignment with best practice trends and benchmarks in the broader South African market as well as global standards and trends. In particular, the Committee reviewed the existing long-term and short-term incentive schemes against market benchmarks to ascertain whether the schemes would continue to incentivise value-aligned behaviours and retain senior management and key talent in the coming years. As resources with the right skills continue to be scarce in certain disciplines in the overall market, including industry, it is essential that AECI's remuneration practices remain competitive and cost-effective.

Engagement with shareholders, to provide more clarity regarding aspects of the Company's remuneration matters, continued. One of the main drivers for the review of the long-term incentive scheme ("LTI") was certain shareholders' concerns regarding the performance measurements in the existing scheme. AECI acknowledged those concerns and implemented the results of the review process through a benchmarking exercise.

Because of challenging economic conditions, competition for key talent and top performers has heightened as businesses seek a competitive edge in sectors facing cost control pressures and a scarcity of skills and experience. In this context, companies also face greater scrutiny on pay disparities and the transparency of pay differentials, resulting in the need to review pay practices and consistency in the application of policy.

In response to these factors, AECI has updated certain aspects of its remuneration policy and practices and, to reinforce consistency, it has provided clear guidance to its businesses on recruitment and promotion procedures. No fundamental changes in policy were required, however, and further refinements will be made in 2017 to ensure that employees are remunerated fairly, incentivised appropriately and that this offering assists in their retention.

The Committee engaged with PwC to conduct a detailed review of Executive remuneration trends and to compare AECI's LTI and short-term incentive ("STI") schemes against those in the market. PwC's benchmark report confirmed that, in terms of total reward, AECI's overall Executive remuneration was within a reasonable accepted tolerance band. However, from both the design and allocation perspectives, potential areas for improvement in the schemes were identified. In this regard, management will consider presenting to the Committee a proposal for a revision to the existing LTI scheme during 2017.

As a matter of course, the Company will continue to maintain dialogue with shareholders and will engage on any material changes to the remuneration policy prior to implementation.

Further detail on the work undertaken by the Committee in the year is presented on page 98.

I thank the members of the Committee and management for their ongoing support.

Richard Dunne
Chairman

Woodmead, Sandton
31 March 2017

PART 2

REMUNERATION PHILOSOPHY OVERVIEW

The drivers of AECI's remuneration policy for Executives and Senior Managers are to motivate and recognise individual performance, retain and attract key talent and to ensure that the total reward offering is competitive and within acceptable market tolerances. The policy seeks to reward Executives and Senior Managers who contribute to the achievement of targets for growth and shareholder returns. Accordingly, financial performance measures and key performance indicator ("KPI") scorecards determine the levels of reward for Executives and Senior Managers.

AECI has taken a balanced approach to remuneration, ensuring that employees are incentivised to achieve both the short- and long-term strategic objectives of the Company. STI performance is measured against operating profit and headline earnings per share ("HEPS") targets and the achievement of key financial and non-financial indicators. LTIs are currently linked to HEPS and total shareholder returns ("TSR") against a comparator group. It is contemplated that, during 2017, an additional measure relating to return on net assets will be incorporated.

REMUNERATION COMMITTEE AND ITS ROLE

COMPOSITION

The Committee is comprised of six Non-executive Directors all of whom, including the Chairman, are Independent. Meetings of the Committee are usually held four times a year and additional meetings are held when deemed necessary. The Chief Executive and Chief Financial Officer are invited to attend to discuss the remuneration of Executives and Senior Managers and to contribute to other discussions as warranted. The Group Compensation and Benefits Manager attends all meetings as secretary. No attendee may participate in or be present at any discussion or decision regarding his/her own remuneration. Members of the Committee are:

› RMW Dunne (Chairman)
› GW Dempster (appointed on 1 March 2016)
› S Engelbrecht
› G Gomwe (appointed on 1 March 2016)
› LM Nyhonyha (resigned on 31 December 2016)
› R Ramashia

The responsibilities of the Committee are in accordance with its Board-approved terms of reference, which comply with King III. A copy of these is available via the link **www.aeci.co.za/gov_policy.php**. Once the full impact of King IV has been finalised, the terms will be amended as required to ensure compliance with such changes. The Board is satisfied that the Committee's composition is appropriate with regard to the necessary balance of knowledge, skills and experience of its members.

KEY REMUNERATION DECISIONS TAKEN IN THE 2016 FINANCIAL YEAR

The Committee considered the following matters and took key decisions as appropriate:

› approval of remuneration packages for Executives and Senior Managers for 2016;
› approval of the 2016 – 2018 three-year profit bonus curves and weighting of performance measures for the STI scheme;
› approval of STI payment pools for the Group and its individual businesses;
› approval of allocation principles, under the AECI Long-term Incentive Plan ("LTIP"), of earnings-growth ("EG") units and awards of performance shares ("PS"), in line with policy;
› review and approval of the vesting of the PS awarded in 2013;
› review and approval of the HEPS calculation as it related to the vesting of the LTI schemes' EG units and its earnings-based incentive ("EBIS") units;
› review of Non-executive Directors' fees, as recommended by the Executive Directors, and the formulation of a recommendation to shareholders for the approval of increases;
› continued oversight of the de-risking of the Group's defined-benefit obligations; and
› review and approval of the Company's 2016 Remuneration report.

COMPONENTS OF REMUNERATION

AECI is committed to maintaining pay levels on a total cost to employer basis that reflect an employee's worth to the Group, a performance management system that serves to differentiate individual and/or team performance, and incentives that recognise and reward, where appropriate, both operational performance and strategic performance in a challenging business environment. Growth and development opportunities for employees are identified informally on a continual basis, and more formally through Talent Board processes and performance appraisals.

STRUCTURE OF REMUNERATION PACKAGES: NON-BARGAINING UNIT EMPLOYEES

FIXED OR VARIABLE		ELEMENT OF REMUNERATION	APPLICABILITY	DETAIL
Fixed	GUARANTEED PACKAGE	Base pay	All non-Bargaining Unit employees, including Executives and Senior Managers	Reflects the value of individuals — role, skills, experience.
		Benefits		Provides a travel allowance, medical aid cover, Group life insurance and disability benefits comparable with the market and ensures that the total remuneration package is competitive.
		Retirement contributions (a number of independent defined-benefit and defined-contribution schemes)		Pensionable salaries are determined at 13/12th of annual basic salary.
Variable	ANNUAL INCENTIVE BONUS	STI	All non-Bargaining Unit employees, including Executives and Senior Managers	Incentivises the delivery of short-term objectives which are aligned with the strategic objectives outlined in the Chief Executive's report commencing on page 30. Through the performance management system each employee sets robust objectives, in consultation with management, to facilitate delivery of the strategy.
Variable	LTIs	PS and EG units in terms of the LTIP	Executives and Senior Managers	Incentivises the achievement of long-term shareholder value. Expected value (annualised) to be derived from long-term (share-based) incentives. Performance is assessed against long-term strategic goals for growth, diversification and the management of risk.
		Deferred share scheme ("DS") (retention units)	Executives and Senior Managers	Top management employees defer part of their LTI allocation in a phantom share scheme.
		Cash-settled LTI	Employees at Paterson level D Upper	Incentivises the attraction and retention of high performers and key talent at this level, based on assessed performance.

STRUCTURE OF REMUNERATION PACKAGES: BARGAINING UNIT EMPLOYEES

FIXED OR VARIABLE		ELEMENT OF REMUNERATION	DETAIL
Fixed	GUARANTEED PACKAGE	Base pay	Reflects the value of individuals — roles, skills, experience. Increases negotiated through the Bargaining Council.
		Benefits	Provides medical aid cover, Group life insurance and disability benefits comparable with those for other roles.
		Pension (a number of independent defined-benefit and defined-contribution schemes)	Pensionable salaries are determined at 13/12th of annual basic salary.
		STIs	13th cheque bonuses are guaranteed for Bargaining Unit employees, per the Bargaining Council agreement.

The guaranteed package ("GP") comprises base pay, allowances, and retirement and medical aid benefits. It is managed in relation to the market median. Benefits such as travel allowances and contributions to retirement and medical funds are maintained at market-competitive levels and are benchmarked against market data on a regular basis.

STIs are designed to motivate and reward the achievement of short-term objectives by Executives and Senior Managers, while LTIs are designed to incentivise and reward them through the achievement of long-term shareholder value.

The graphics to the right summarise the composition of total remuneration packages in 2016.

PACKAGE DESIGN

AECI has adopted a pay mix policy that supports the philosophy that the performance-based pay of Executives and Senior Managers should form a greater portion of their expected total compensation than guaranteed pay and, furthermore, that within the performance-based pay of the most senior employees 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). This is particularly relevant at Executive level and for the Managing Directors of Group businesses, where the focus is on TSR and the achievement of financial targets.

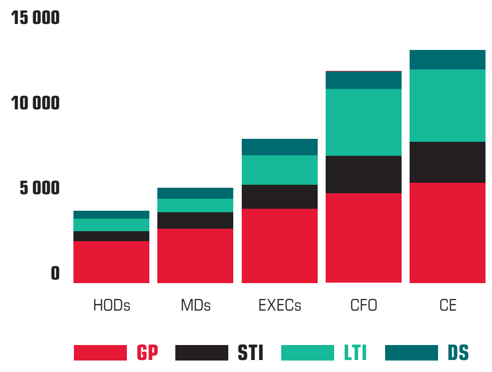
The mix of fixed and variable pay is designed to meet AECI's operational needs and strategic objectives, based on targets that are stretching, verifiable and relevant. A Group-wide standard has been adopted, while recognising that the different nature of AECI's major businesses requires a varied approach between these individual companies. Financial targets are standardised and the quantum or stretch may vary per business, as appropriate.

The pay mix proportionality of the Chief Executive through to that of a Senior Manager is shown in the schematics to the right. Three remuneration scenarios are demonstrated: on-target performance, below expected performance and above expected performance.

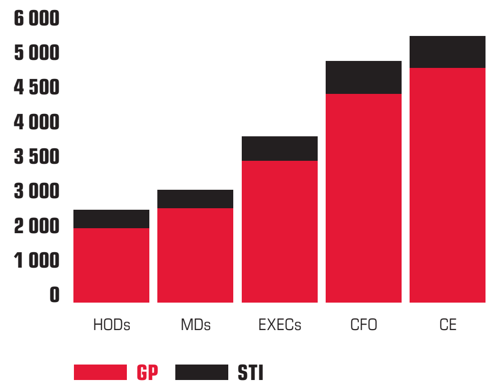
The term "below" used in the schematic is defined as the minimum future value of the reward, given the assumed non-achievement of financial targets in both the STIs and LTIs.

The term "on-target" used in the schematic is defined as the present value of the future reward of an offer, given the targeted future financial performance of the Company and/or its share price.

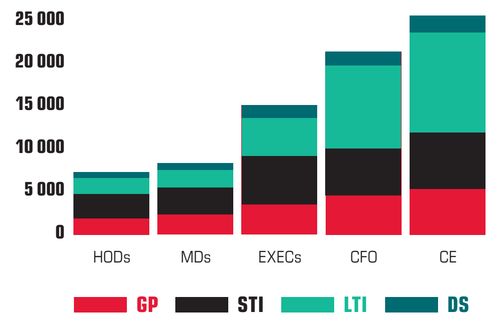
ON-TARGET PERFORMANCE PAY MIX (R THOUSANDS)



BELOW EXPECTED PERFORMANCE (R THOUSANDS)



ABOVE EXPECTED PERFORMANCE (R THOUSANDS)



Key: GP = Guaranteed package; STI = Short-term incentive; LTI = Long-term incentive; DS = Deferred share scheme; MDs = the Managing Directors of businesses in the Group; HODs = the Group Heads of Department in AECI's support functions.

The term "above" used in the schematic is defined as the maximum future value of the reward, given the assumed achievement of financial targets in both the STIs and LTIs.

GUARANTEED PACKAGE

AECI compares itself to the national market as represented in industry surveys published annually. It also compares itself to appropriate sector-specific 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 aid funds are maintained at market-competitive levels.

The GP packages for Executives and Senior Managers are benchmarked against the market median (50th percentile) of similar sized companies and industry.

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

- skills and knowledge;
- conceptual abilities;
- interpersonal skills;
- job impact;
- problem-solving abilities;
- decision making; and
- resource control.

To ensure that the component elements of GPs are aligned across the Group, fringe benefits and allowances such as medical aid subsidies and car allowance structures have been standardised for Executives and for Senior Managers. To ensure that benchmarks are appropriate and accurate, AECI uses three sets of data from three survey providers, on the premise that data from three sources provide a fair assumption on pay levels.

In an ongoing effort to ensure the overall fairness of pay across all levels of employment, a robust pay differential analysis is conducted on a bi-annual basis, factoring in the wage gap between junior and senior employees. The results of this analysis are considered when reviewing pay increases at Executive level and, in general, the trend has been to provide lower increases at this level and higher increases at Bargaining Unit level. The analysis to be undertaken in 2017 will also incorporate additional factors such as cost of living increases, inflation and pay disparity within occupational levels and the overall wage gap.

EXECUTIVE DIRECTORS' AND EXECUTIVES' SERVICE CONTRACTS

Neither of the Executive Directors have extended employment contracts or special termination benefits. Both Executive Directors have restraints of trade for 12 months in place. Service contracts of Executive Directors and other Executives are in accordance with AECI's standard terms and conditions of employment and their notice period is six months.

In principle, AECI does not offer sign-on bonuses but, in instances were a sign-on bonus is included, the contract will stipulate that the employee must remain employed by the Group for a period of three years. The sign-on bonus is paid in instalments over the three-year period and all payments are subject to claw-back conditions.

Generally, it is not AECI's policy to offer balloon payments on termination of service. An employee, even at Executive level, who resigns from the Group forfeits all LTI awards and will not receive a STI payment. Where an employee's service is terminated through the sale of a business or no fault retrenchment, the terms of that termination are negotiated and may include the continued vesting of previous LTIP awards.

NON-EXECUTIVE DIRECTORS' COMPENSATION

TERMS OF APPOINTMENT

Non-executive Directors do not have service contracts. They do not participate in any of the Company's LTI schemes and no shares are granted. Non-executive Directors receive a fixed fee per annum for their contribution, which is comprised of a base retainer fee and, where applicable, a Committee membership fee. Meeting attendance fees are paid at a fixed value.

In addition, the Company pays for all travel and accommodation expenses incurred by Directors to attend Board and Committee meetings and visits to Company businesses.

Non-executive Directors' fees are arrived at after an annual benchmarking exercise performed by the Executive Directors and the approval by shareholders at the AGM of the proposed fees, on the Remuneration Committee's recommendation. In arriving at the proposed fee, cognisance is taken of market norms and practices as well as the additional responsibilities placed on Board members by new legislation and corporate governance principles. Details of the emoluments paid to Non-executive Directors in 2016 are disclosed in note 30 to the financial statements.

STIs

DESCRIPTION	The scheme for Executives and Senior Managers Group-wide comprises a weighted scorecard of Group and/or business and personal components. The Company has developed a bonus model for each business based on growth and financial management targets. Businesses which achieve their operating profit targets and grow their earnings substantially above Consumer Price Index ("CPI") and Gross Domestic Product ("GDP") rates could earn multiple bonus factors. The bonus curve is designed so that significant bonus payments are made only to businesses where there is a positive change in economic value added ("EVA") performance.
ELIGIBILITY	Executives and Managers at all levels.
COMPONENTS	Individual performance (balanced scorecard) — 25%; Financial performance (Group or business entity financial performance) — 75%.
FORMULA	STI = annual basic salary x on-target percentage x [personal performance (weighted 25%) + financial performance (weighted 75%)].
FINANCIAL PERFORMANCE	The Group/business financial rating is determined by actual financial performance relative to predetermined targets for HEPS for the Group or operating profit for individual businesses. The financial component is based on a three-year "crawling peg" methodology in which thresholds, targets and doubling points are set from the "base year" for three years ahead, with targeted growth in relation to CPI plus GDP applied to the preceding base year's performance. The doubling point is set at CPI plus GDP plus 9%. After the third year, the base year performance is reset prior to the next three-year cycle. 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. 2015 was the base year for the new three-year curve and the models were approved by the Committee in 2016.
INDIVIDUAL PERFORMANCE	This element is measured on the achievement of personal targets and is not dependent on the financial performance of the Company/Group business. Personal KPIs typically include aspects such as: › safety and health performance — measured against fatal accidents and the Total Reportable Incident Rate on a linear scale; › cash flow management — measured on improved working capital management and capital spend; › B-BBEE/Employment Equity — measured against specific acquisition, retention, development and governance targets; › implementation of strategic projects — measured against specific projects agreed to with the Board; › acquisitions and disposals — measured against specific acquisitions targets.
ON-TARGET BONUS PERCENTAGES	Chief Executive and Executives: 50% of annual basic salary; Senior Managers: between 33% and 50% of annual basic salary.
MAXIMUM BONUS PERCENTAGES	All STI payments are capped at 150% of the GP. In exceptional cases, the Committee has the authority to extend the bonus cap to 250% of the GP. This will only occur if there has been exceptional growth in profits and if the EVA and operating profit-sharing targets have been met by the Group or business concerned.
DISCRETION OF THE COMMITTEE	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.

LTIs — LTIP

ELIGIBILITY	Executives and selected Senior Managers of the Company and its subsidiaries.
PURPOSE	The purpose of the 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. The combined, weighted implementation of the two LTI elements (EG units and PS) allows AECI to remain competitive in LTIs, it rewards long-term sustainable Company performance, acts as a retention tool and ensures that Executives and Senior Managers share a significant level of personal risk with the Company's stakeholders. The PS element aligns the interests of stakeholders and AECI's senior employees closely by rewarding superior shareholder returns and financial performance in the future. Because annual awards are made, each award requires the resetting of the performance criteria; it is only with continued and sustained outperformance by the Company that significant reward accrues to participants.
OPERATION AND INSTRUMENTS	Annual LTIs comprise a weighted combination of: › allocations of EG units; and › awards of PS.
QUANTUM OF AWARDS	Allocations and awards are 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.
EG UNITS	Annual allocations of EG units are made to Executives and Managers. They will be eligible for vesting 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 is their share of the full appreciation in AECI's HEPS (adjusted as deemed appropriate by the Committee). EG units offer a form of earnings-growth/appreciation-linked LTI.
PERFORMANCE CONDITIONS FOR THE EG UNITS	The EG units are linked directly to growth in AECI's HEPS. However, an additional 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 before vesting, notwithstanding the passage of time, and which must be met by at least the seventh anniversary, or all units will lapse.
PS	Annual conditional awards of PS are made to Executives and Senior Managers. The PS will vest on the third anniversary of their award, to the extent that the Company has met specified performance criteria over the intervening period. 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 depends 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.

LTIs — LTIP

PERFORMANCE CONDITIONS FOR PS	The Board will determine the performance criteria for each award. The 2017 award methodology of vesting will measure the Company's comparative TSR in relation to a peer group of 15 companies:

Afrox	Astral	Aveng	Barloworld
Grindrod	KAP Industrial	Nampak	Northam
Omnia	Pioneer	PPC	Rainbow
Reunert	Sappi	Tongaat Hulett	

This peer group was selected from a portfolio of companies:

› of similar size to AECI in terms of market capitalisation, at the time the peer group was constituted;
› 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.

The comparator group companies have significant overlap with the AECI Group in that they operate in the mining, manufacturing, agricultural, specialty chemicals, food production, logistics and construction sectors. In 2016, Illovo Sugar and the JD Group were delisted and, as such, they were excluded from the comparator group used in the prior year. KAP Industrial was added to the group in the year.

Employees who participate in the LTIP are allocated a percentage award based on the following personal performance ratings:

› Outstanding contribution	120%
› Achieving objectives	100%
› Consistent performance	80%
› Partially achieving objectives	50%
› Below expectations	0%

These ratings are moderated by the Committee, which also determines ratings for the Chief Executive and Chief Financial Officer.

During 2016, a review of additional financial performance measures was conducted. Where appropriate and practicable, these measures may be included in the award methodology from 2017. External consultants will be engaged to assist in this regard so as to address concerns expressed by certain shareholders regarding this aspect of the LTIP. A performance component with respect to return on net assets is expected to be included in 2017.

LTIs — DS SCHEME

ELIGIBILITY	Executives and selected Senior Managers.
PURPOSE	This incentive scheme was designed to address certain shareholders' concerns that the LTIP did not serve as an adequate retention tool. Because this scheme also tracks share price performance, it incentivises further the achievement of growth targets by Executives and Senior Managers, in line with the interests of shareholders and other stakeholders.
OPERATION AND INSTRUMENTS	Phantom share units are awarded to eligible participants.
QUANTUM OF AWARDS	Allocations and awards 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.
PHANTOM SHARES	The scheme awards phantom shares to Executives and Senior Managers based on performance for the preceding year. The units vest after three years and are settled in cash, using the same vesting share price as that used for the LTIP calculation.
PERFORMANCE CONDITIONS	The units allocated in year one are not subject to any additional performance conditions. The value of the units is determined by the AECI share price at the vesting date. The units do not increase/decrease in number on the basis of Company performance.

LTIs — CASH-SETTLED LTI

ELIGIBILITY	Employees at Paterson level D Upper.
PURPOSE	The scheme is designed to attract and retain key talent and individuals at this level who are high performers and are also deemed to be future Senior Managers in terms of succession plans.
OPERATION AND INSTRUMENTS	The scheme comprises an allocation equivalent to 10% of annual basic salary.
QUANTUM OF AWARDS	Allocations and awards are governed by AECI's reward strategy (pay mix) in which inter alia the "target reward" of long-term incentivisation is set for eligible employees.
CASH AWARD	The scheme awards participants 10% of their annual basic salary, payable after three years.
PERFORMANCE CONDITIONS	The award is linked to individual performance in the preceding year and is not subject to any further performance conditions.

NON-BINDING ADVISORY VOTE

In terms of King IV, the remuneration policy as outlined in Part 2 of this report will be put to a non-binding vote at the AGM of shareholders of the Company scheduled to take place on 29 May 2017.

PART 3

IMPLEMENTATION OF POLICY IN 2016

1. GP adjustments

The Committee reviewed GPs for Executives and Senior Managers, as recommended by the Chief Executive, taking into consideration market data as provided by the Deloitte Top Executive Remuneration Survey 2016, market data from PwC Research Services, the results of Execeval™, individuals' experience and current levels of performance.

The Committee approved that the target range of the GP should be between 75% and 130% of the market median. Progressive annual adjustments continue to be made for incumbents below this target range, taking into consideration their length of service and performance levels.

An average increase of 6,5% was approved by the Committee for Executives, except where there had been increases in responsibilities. In those instances, an increase higher than the average was awarded. The balance of Group employees in South Africa generally received average increases in line with the same approved percentage but, on average, slightly higher increases were awarded at the lower employment levels.

2. STI outcomes

The cash-based STIs awarded for 2016 were calculated on the basis of 2016's financial performance. The financial components of the STI bonus attributable to the Group's overall performance resulted in a 0,88 times financial performance multiplier at Group level (2015: 2,0 times multiplier).

Different levels of financial performance were achieved by individual businesses and business segments, with individual performance indicators included to calculate incentive payments. Thus, in the broader AECI Group, Senior Managers received incentives based on operating business performance.

Actual performance relative to Company targets and personal KPIs, and the resultant annual cash incentives paid to the Chief Executive, the Chief Financial Officer and the Prescribed Officers in the 2016 financial year is set out on page 106.

2.1 Component: Company performance

The Company's performance for 2016 was measured off an adjusted HEPS base of 753 cents. This adjustment compensated for the financial effects of, inter alia, the de-risking of the Company's post-retirement medical aid obligations and sales in 2015 of properties at Somerset West. These sales will not recur as AECI's land assets no longer required for operational purposes and available for redevelopment have now be disposed of.

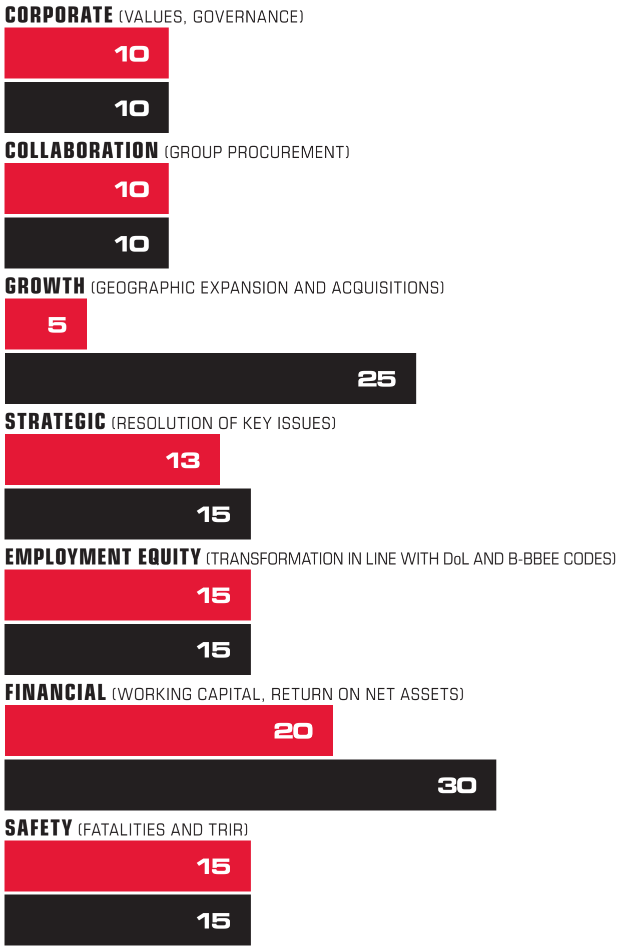
The reported HEPS of the AECI Group for 2016 was 818 cents but this was adjusted for the reasons set out above. On this basis, underlying growth equated to 29%, or HEPS of 920 cents.

75% of Executives' STI value is linked to Company performance.

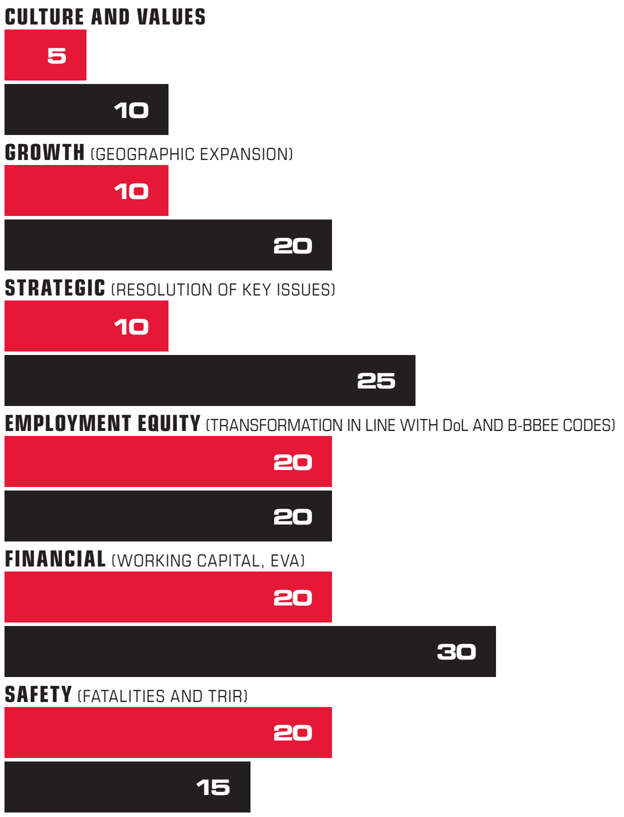
PERFORMANCE AGAINST PERSONAL KPI TARGETS (2016 KPI SUMMARY)

CHIEF EXECUTIVE (%)

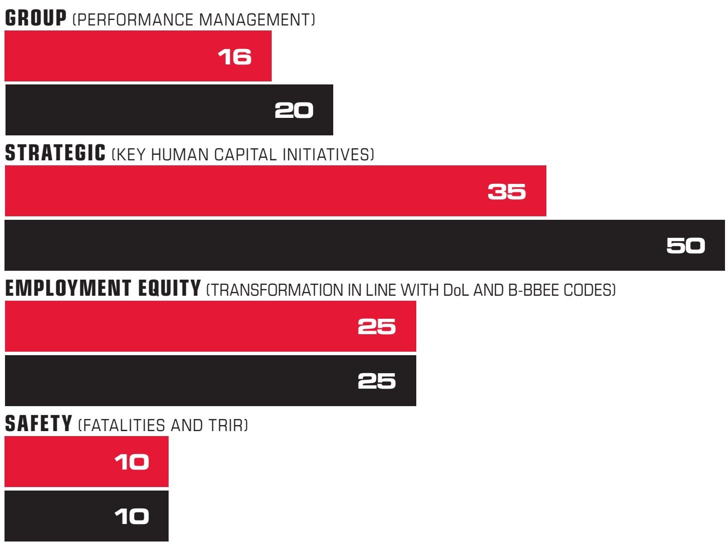
CHIEF FINANCIAL OFFICER (%)



AEL MANAGING DIRECTOR (%)



HUMAN CAPITAL EXECUTIVE (%)



ACHIEVED TARGET

1. 2016 STI AWARDS (%)

	% of GP	Value R thousands
MA Dytor	81	4 100
KM Kathan	81	3 659
EE Ludick	80	2 963
MVK Matshitse	80	2 547

2. 2016 LTI AWARDS

	No. of EG units	Adjusted HEPS per share price of R7,53*	No. of PS	Award price (20 day VWAP) of R86,78*	% of total GP
MA Dytor	258 598	1 947 234	28 049	2 434 092	46
KM Kathan	230 761	1 737 630	20 650	1 792 007	48
EE Ludick	156 588	1 179 108	10 615	921 170	13
MVK Matshitse	136 124	1 025 014	9 228	800 806	16

* *Based on market value.*

3. 2016 DS AWARDS

(Excludes awards made in January 2016 and disclosed in the 2015 integrated report.)

	No. of units	Total value of allocation (Rand)
MA Dytor	11 870	1 030 110
KM Kathan	10 594	919 380
EE Ludick	8 611	747 300
MVK Matshitse	7 392	641 490

4. PERFORMANCE SHARES VESTED IN 2016

	No. of PS awarded (grant price = R109,37)	No. of ordinary shares received on vesting date (settled price = R83,03)	Value at vesting (before tax) Rand
MA Dytor	28 232	28 232	2 344 231
KM Kathan	26 197	26 197	2 175 156
EE Ludick	5 969	5 969	495 629
MVK Matshitse	6 094	6 094	506 009

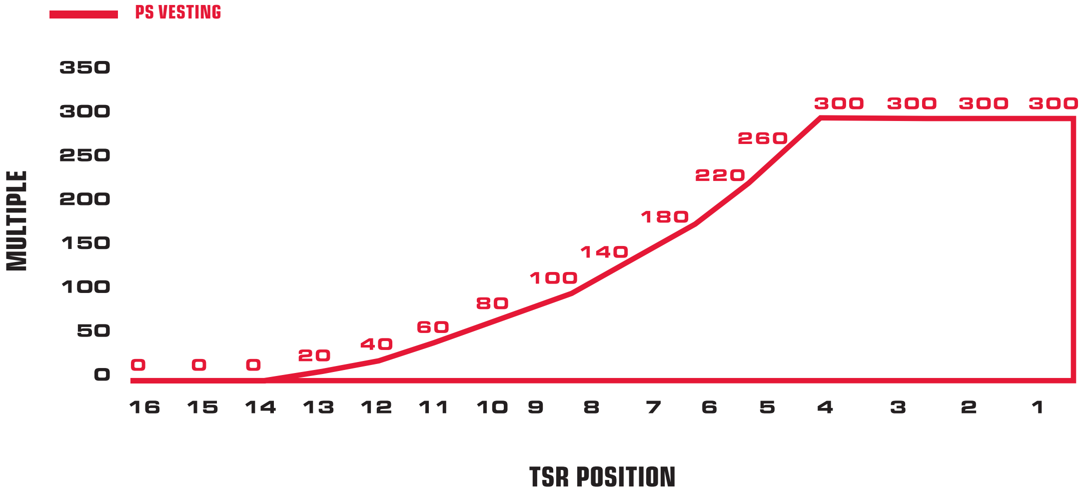
5. 2016 REMUNERATION: EXECUTIVE DIRECTORS AND PRESCRIBED OFFICERS

R thousands	Basic salary	Benefits	STI (cash payments)	LTIP (PS)	Other	Total cash emoluments
MA Dytor	4 120	953	4 100	2 344	3 610*	15 127
KM Kathan	3 678	850	3 659	2 175	6 855*	17 217
EE Ludick	2 989	734	2 963	495	1 908**	9 090
MVK Matshitse	2 566	639	2 547	506	64**	6 322

* *Leave pay and EG/EBIS unit payments.*

** *EG/EBIS unit payments.*

VESTING VS POSITIONING IN RELATION TO COMPARATOR GROUP (%)



2.2 Component: personal performance

25% of the STI value is linked to personal performance against agreed KPIs.

Although external factors precluded the achievement in full of some of the Company's financial growth targets, the value of the 2016 STI payments was linked indelibly to the achievement of core KPIs in areas that included B-BBEE, safety, collaboration, growth, the resolution of key issues and improvements in financial controls. Executives and Senior Managers' variable pay is tied to the sustainability of the Company and adverse risk-taking behaviour is not incentivised. Instead, AECI seeks to incentivise responsible and sound management of the Company to ensure future growth and sustainable revenue and profit. See page 106 and table 1 on page 107.

3. LTIs awarded

Table 2 on page 107 indicates the LTI awards made in July 2016, in terms of the LTIP.

3.1 Performance conditions

The performance condition that will apply to the 2016 vesting is the Company's comparative TSR in relation to a peer group of 15 companies. The graph above illustrates how the TSR position will determine the value of the vesting after three years.

3.2 DS scheme awards

In terms of the scheme outlined in Part 2 of this Remuneration report, awards were made to those senior employees invited to participate in this scheme.

The share price mechanism used to determine the award value was the same as that utilised in the LTIP. The allocation award was based on 50% of an employee's on-target STI and this determined the number of phantom share units issued to that employee.

All participating employees and awards were approved by the Committee.

Table 3 on page 107 indicates the awards made to the Executive Directors and the Prescribed Officers.

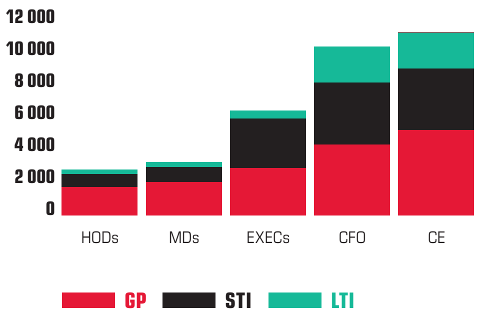
4. LTI vesting and vesting outcomes

4.1 Vesting of the 2013 allocation — PS

The PS allocation from 2013 vested on 30 June 2016. On this date, AECI achieved ninth position in relation to its comparator peer group, using TSR as a measure. Therefore, a multiple of 100% was applied to the PS and participants in the scheme received their allocations of AECI ordinary shares. The TSR measurement was calculated and verified by Deloitte Actuarial Services.

Table 4 on page 107 indicates the final value of the PS awarded in 2013, which vested in 2016.

ACTUAL PAY MIX (R THOUSANDS)



5. Actual remuneration outcomes

The actual pay mix between the GP and the various incentives awarded in 2016 is illustrated in the schematic above.

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

Details of the basic salary and GPs (basic salary plus benefits) paid to the Executive Directors and the Prescribed Officers are set out in table 5 on page 107, with the face value of the various incentive schemes included.

6. Increase in Non-executive Directors' fees

At the AGM of shareholders scheduled for 29 May 2017 shareholders will be asked to pass special resolutions, to take effect from that date, approving the proposed changes in Non-executive Directors' fees by an average of 6,0% as set out in the Notice of AGM commencing on page 210.

7. Directors' and Prescribed Officers' holdings in the Company's securities are disclosed in note 30.

8. Details of fees paid to the Non-executive Directors in 2016 are also disclosed in note 30.

9. AECI entered into a consulting agreement with PwC in terms of which PwC provided benchmark information on Executive pay and LTI standards.

PwC also assisted in the review of the Company's existing LTI schemes. A standard service level agreement in respect of the consultancy services was entered into and letters of engagement were issued for each activity, as appropriate.

STAKEHOLDER ENGAGEMENT

King IV requires that the Committee shall take measures in good faith, undertake a shareholder engagement process and shall take proactive measures to address shareholders' concerns. Accordingly, the Committee will ensure that there is disclosure in due course on the steps taken, the nature of engagement with shareholders and the outcomes thereof.

This King IV matter will also become an agenda item on the Remuneration Committee's annual plan.

NON-BINDING ADVISORY VOTE

In terms of King IV, the application of the remuneration policy as outlined in Part 3 of this report will be put to a non-binding vote at the AGM of shareholders of the Company scheduled to take place on 29 May 2017.

DIRECTORS' REPORT

The Directors have pleasure in submitting their report together with the consolidated and separate financial statements for the year ended 31 December 2016.

AECI was registered as a company in South Africa in 1924 and has been listed on the JSE since 1966. At the end of 2016 its market capitalisation was R12,3 billion.

NATURE OF BUSINESS

PROFILE AND STRATEGY

AECI is a South African-based explosives and specialty chemicals company focused on providing products and services to a broad spectrum of customers in the mining, manufacturing, agricultural, food and beverage, and general industrial sectors. It has regional and international businesses in Africa, South East Asia, the USA and Australia.

The Group currently comprises 15 businesses and, at 31 December 2016, it had 6 630 employees.

The focus is on domestic growth as well as ongoing expansion outside South Africa in the Group's chosen strategic areas of Mining Solutions, Water Solutions, Agrochemicals, and Food Additives and Ingredients. The proactive management of a portfolio of Specialty Chemicals businesses is the Group's fifth growth pillar.

Mining Solutions comprises AEL Mining Services ("AEL"), Senmin and Experse, Water Solutions is anchored in ImproChem and Agrochemicals in Nulandis. Lake Foods ("Lake") and Southern Canned Products ("SCP") constitute the Food Additives and Ingredients pillar.

Mining Solutions is AECI's international business. The companies in this pillar have their own unrestricted intellectual property, enabling them to service customers worldwide. Between them they have close to 100 operations (including manufacturing plants, sales offices and distribution centres) in more than 20 countries, with a particularly extensive footprint in Africa. AEL has an established presence in Indonesia and Australia and both Senmin and Experse have also expanded their footprints into other countries.

In Water Solutions, ImproChem has an established footprint in Africa, where water remains a scarce resource. This presents opportunities in all sectors of industry in terms of the provision of recycling and usage minimisation solutions.

In Agrochemicals, Nulandis' NuWay philosophy recognises the momentum that bio agriculture is gaining globally, including in Africa where Nulandis' footprint was expanded through the acquisition of Farmers Organisation, in Malawi, in 2015. NuWay is a holistic, more environmentally friendly approach to the application of products for soil and plant health.

Market growth in the food and beverage sector continues to outpace GDP growth in South Africa and in other Southern African countries. Both Lake and SCP have strong relationships with their customers in the region and this will contribute to their ability to benefit from this trend.

A solid portfolio of Specialty Chemicals businesses remains core for AECI. These businesses serve a diverse range of customers, mainly in the local manufacturing sector. They are highly cash generative, to the benefit of the Group as a whole. Their service-driven, value-add business models remain relevant and they have the manufacturing capacity to take advantage of any upturn in local and export markets. The active management and enhancement of this portfolio ensures that synergies are maximised to boost overall efficiencies and that costs remain well controlled.

All land surplus to operational requirements and available for redevelopment in the short term has been sold. Acacia Real Estate, the Group's Property division, now focuses mainly on managing AECI's leasing portfolio and on the provision of services at the Umbogintwini Industrial Complex in KwaZulu-Natal.

DIRECTORS' AND GROUP COMPANY SECRETARY'S INTERESTS IN SHARES

At 31 December 2016, 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 on the facing page. The direct beneficial interests of Messrs Dytor, Engelbrecht and Kathan were unchanged between the end of the financial year, the publication of the annual financial statements and as at the date of the integrated report. The indirect beneficial interests of Mr Engelbrecht related to the interests of his spouse and were also unchanged year-on-year, and between the publication of the annual financial statements and as at the date of the integrated report.

No Non-executive Director has been granted options or shares. The Executive Directors and the Prescribed Officers have been issued long-term incentive benefits as disclosed in note 30.

DIRECTORS' AND GROUP COMPANY SECRETARY'S INTERESTS IN SHARES

Number of shares	2016 Direct	2016 Indirect	2015 Direct	2015 Indirect
EXECUTIVE DIRECTORS				
MA Dytor	44 618	—	26 803	—
KM Kathan	49 913	—	33 382	—
	94 531	—	60 185	—
NON-EXECUTIVE DIRECTOR				
S Engelbrecht	6 629	600	6 629	600
	6 629	600	6 629	600
	101 160	600	66 814	600

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 Company and its subsidiaries, joint ventures and associates have adequate resources to continue as going-concerns in the foreseeable future.

BORROWING POWERS

In terms of its MOI the Company has unlimited borrowing powers.

INDEPENDENT AUDITOR

The independent auditor, KPMG Inc., will be recommended for reappointment at the forthcoming AGM to undertake the audit of the Company for the financial year ending 31 December 2017. All non-audit services provided by KPMG Inc. are tabled at and approved by the Audit Committee.

SHARE CAPITAL AND SHARE PREMIUM

The issued ordinary share capital of the Company is 121 829 083 shares of R1 each (2015: 122 271 295 shares) and 10 117 951 unlisted redeemable convertible B ordinary shares of no par value (2015: 10 117 951 shares). Also in issue are 3 000 000 listed 5,5% cumulative preference shares of R2 each (2015: 3 000 000 shares).

SHARES REPURCHASED

During the year, AECI completed the general repurchase of shares in terms of the general authority to do so approved by shareholders at the AGM of the Company held on 1 June 2015. 442 212 ordinary shares, or 0,36% of AECI's issued share capital, were repurchased at an average price of R87,22 per share, for a total investment of R39 million.

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

An interim ordinary cash dividend of 135 cents was declared on 25 July 2016 and was paid on 5 September 2016.

A final ordinary cash dividend of 300 cents was declared on 27 February 2017 and is payable on 10 April 2017.

Preference share dividends were paid on 15 June 2016 and on 15 December 2016.

See note 25 for details in this regard.

DEFINED-BENEFIT OBLIGATIONS

In 2016 the Company made further good progress in de-risking its defined-benefit obligations by settling a significant portion of its remaining post-retirement medical aid obligations and by engaging further with its two remaining defined-benefit pension funds. See page 39 and note 29.

CHANGES TO THE BOARD

Mr GW Dempster, Dr KDK Mokhele and Mr RJM Kgosana were appointed as Independent Non-executive Directors with effect from 31 January 2016, 1 March 2016 and 1 September 2016, respectively. Mr LM Nyhonyha resigned from the Board on 31 December 2016.

DIRECTORATE AND SECRETARY

Details of the Directorate and Secretary of the Company are published on pages 18 to 22.

In terms of the Company's MOI Mr GW Dempster, Mr MA Dytor, Ms LL Mda and Mr AJ Morgan retire by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election.

Also in terms of the Company's MOI, the appointment of Mr RJM Kgosana will be confirmed at the AGM.

MAJOR SHAREHOLDERS

Details of the interests of shareholders who hold beneficial interests equal to or in excess of 5% of the Company's share capital are included in note 13.

SPECIAL RESOLUTIONS

The Company passed the following special resolutions at the AGM held on 30 May 2016:

1. to approve the annual fees payable by the Company to its Non-executive 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 referred to in paragraph 8.63(i) of the JSE Listings Requirements 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 2016 and since the publication of the financial results for the year then ended, on 28 February 2017.

REGULATORY INTERACTION

The investigation process undertaken by the Competition Commission of South Africa ("the Commission") on allegations of collusion with a competitor by Akulu Marchon, as reported in 2014 and 2015, was completed. The matter is in the process of being settled with the Commission.

Also as previously reported on 14 December 2015 the Department of Environmental Affairs, jointly with representatives from the City of Johannesburg, executed a search and seizure operation at AEL Modderfontein. The operation and ensuing allegations related to AEL's compliance with certain conditions of its air emissions licence. The matter is in the process of being finalised with the authorities.

The outcomes of these matters are not expected to have a material effect on either the operations of the Group or on the results as presented.

INTERESTS OF DIRECTORS AND OFFICERS

During 2016, no contracts were entered into in which Directors 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 the remuneration and participation in the Group's long-term incentive schemes by the Company's Executive Directors and Prescribed Officers are disclosed in note 30 to the financial statements.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors whose names appear on pages 18 to 20 in 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:

› ensuring that 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, are appropriately designed, implemented and maintained;

› selecting and applying appropriate accounting policies; and

› making accounting estimates that are reasonable in the circumstances.

The Directors' responsibility also includes ensuring that adequate accounting records and an effective system of risk management are maintained.

APPROVAL OF CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

The consolidated and separate annual financial statements of the Company were approved by the Board of Directors on 28 February 2017 and signed by:

Mark Kathan

Mark Kathan
Chief Financial Officer

Mark Dytor
Chief Executive

Woodmead, Sandton
28 February 2017

SHAREHOLDER ANALYSIS

1. ANALYSIS OF REGISTERED SHAREHOLDERS AND COMPANY SCHEMES

Source: J.P. Morgan

REGISTERED SHAREHOLDER SPREAD

In accordance with the JSE Listings Requirements, the following table confirms that the spread of registered shareholders as detailed in the integrated report and accounts, on 30 December 2016 was:

Shareholder spread	Number of holders	% of total shareholders	Number of shares	% of issued capital
1 – 1 000 shares	2 583	62,82	784 726	0,64
1 001 – 10 000 shares	955	23,22	3 188 571	2,62
10 001 – 100 000 shares	423	10,29	14 381 448	11,80
100 001 – 1 000 000 shares	128	3,11	40 479 455	33,23
1 000 001 shares and above	23	0,56	62 994 883	51,71
TOTAL	4 112	100,00	121 829 083	100,00

PUBLIC AND NON-PUBLIC SHAREHOLDINGS

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

Shareholder type	Number of holders	% of total shareholders	Number of shares	% of issued capital
Public shareholders	4 108	99,90	109 843 224	90,16
Non-public shareholders	4	0,10	11 985 859	9,84
— Treasury shares	1	0,03	11 884 699	9,76
— Directors	3	0,07	101 160	0,08
TOTAL	4 112	100,00	121 829 083	100,00

2. SUBSTANTIAL INVESTMENT MANAGEMENT AND BENEFICIAL INTERESTS

SUBSTANTIAL INVESTMENT MANAGEMENT AND BENEFICIAL INTERESTS ABOVE 3%

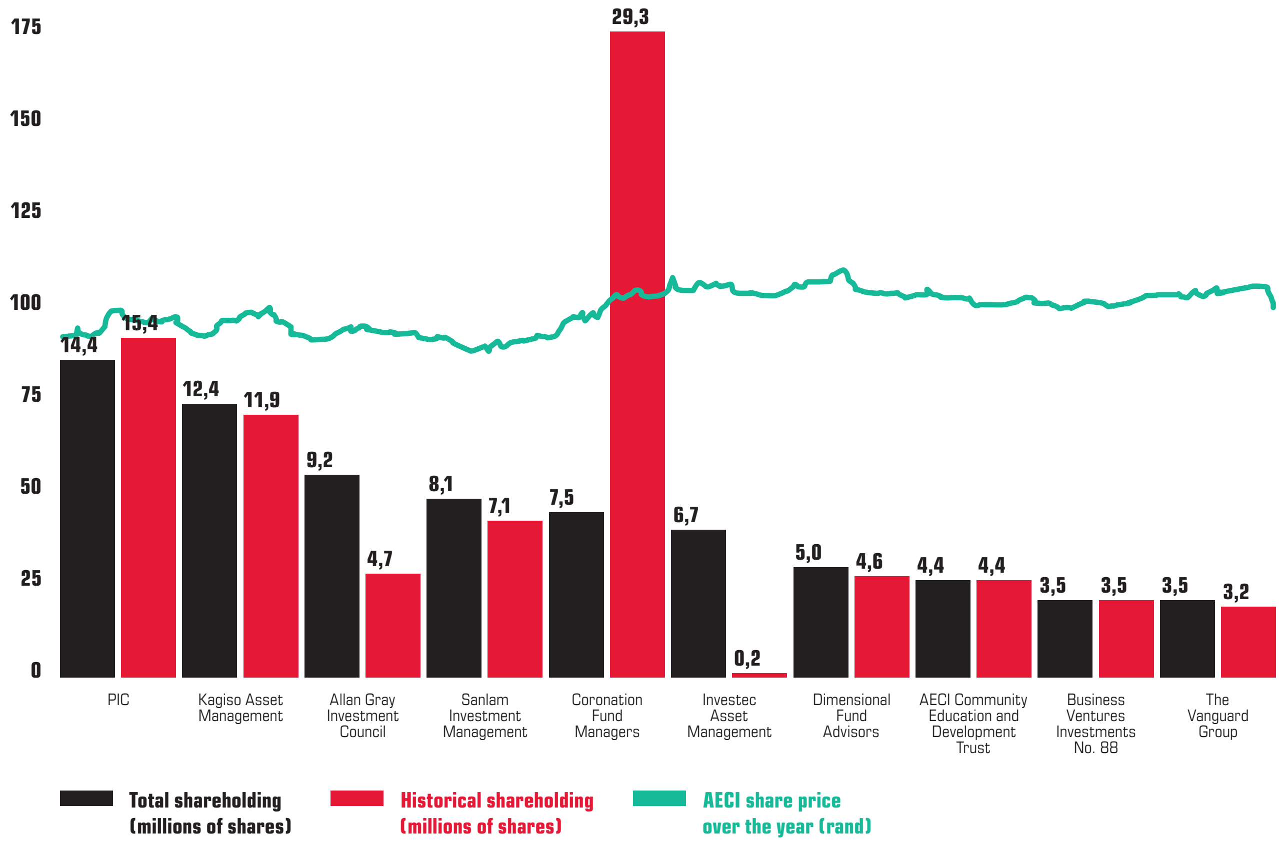
Through regular analysis of STRATE registered holdings, and pursuant to the provisions of section 56 of the Companies Act, the following shareholders held directly and indirectly equal to or in excess of 3% of the issued share capital as at 31 December 2016:

INVESTMENT MANAGEMENT SHAREHOLDINGS, EXCLUDING TREASURY SHARES

Investment manager	Total shareholding (number of shares)	% of issued capital
Public Investment Corporation ("PIC")	14 446 516	13,14
Kagiso Asset Management	12 414 517	11,29
Allan Gray Investment Council	9 165 787	8,34
Sanlam Investment Management	8 121 394	7,39
Coronation Fund Managers	7 456 931	6,78
Investec Asset Management	6 726 571	6,12
Dimensional Fund Advisors	4 952 902	4,50
AECI Community Education and Development Trust	4 426 604	4,03
Business Ventures Investments No. 88	3 509 000	3,19
The Vanguard Group	3 505 001	3,19
TOTAL	74 725 223	67,97

2. SUBSTANTIAL INVESTMENT MANAGEMENT AND BENEFICIAL INTERESTS continued

INVESTMENT MANAGEMENT SHAREHOLDING POSITIONS ABOVE 3% WITH 12-MONTH CHANGE

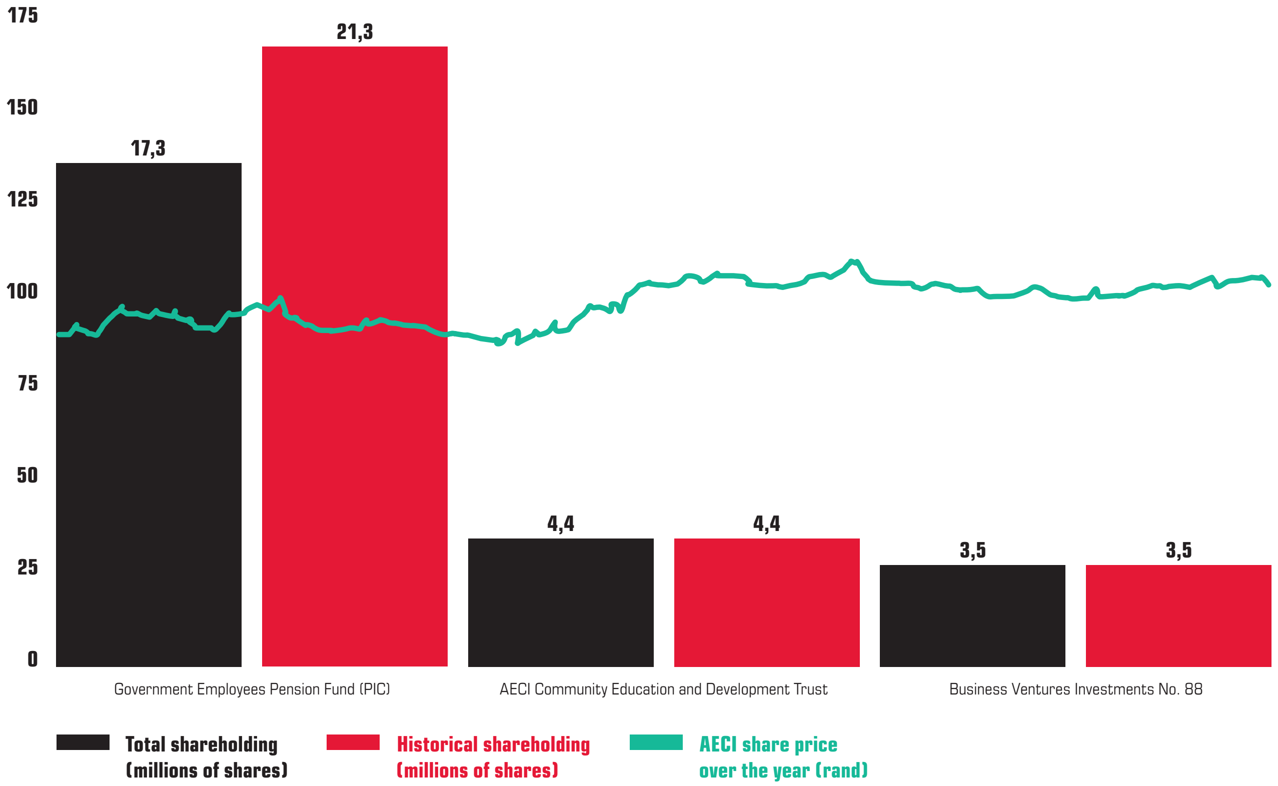


BENEFICIAL SHAREHOLDINGS

Beneficial shareholdings	Total shareholding (number of shares)	% of issued capital
Government Employees Pension Fund (PIC)	17 251 837	15,69
AECI Community Education and Development Trust	4 426 604	4,03
Business Ventures Investments No. 88	3 509 000	3,19
TOTAL	25 187 441	22,91

2. SUBSTANTIAL INVESTMENT MANAGEMENT AND BENEFICIAL INTERESTS continued

BENEFICIAL SHAREHOLDING POSITIONS ABOVE 3% WITH 12-MONTH CHANGE



PREVIOUSLY DISCLOSED HOLDINGS

Investment managers now holding below 3%

Investment manager	Total shareholding (number of shares)	% of issued capital	Previous %
N/A	—	—	—
TOTAL	0	0,00	0,00

Beneficial owners now holding below 3%

Beneficial owner	Total shareholding (number of shares)	% of issued capital	Previous %
Corolife Special Opportunities Portfolio	1 168 978	0,96	5,23
Coronation Balanced Plus Fund	809 813	0,66	4,32
TOTAL	1 978 791	1,62	9,55

3. GEOGRAPHIC SPLIT OF SHAREHOLDERS

GEOGRAPHIC SPLIT OF INVESTMENT MANAGERS AND COMPANY-RELATED HOLDINGS

Region	Total shareholding (number of shares)	% of issued capital
South Africa	97 064 151	79,67
United States of America and Canada	13 376 651	10,98
United Kingdom	3 142 665	2,58
Rest of Europe	1 312 124	1,08
Rest of the world[1]	6 933 492	5,69
TOTAL	121 829 083	100,00

GEOGRAPHIC SPLIT OF BENEFICIAL SHAREHOLDERS

Region	Total shareholding (number of shares)	% of issued capital
South Africa	100 433 574	82,44
United States of America and Canada	13 747 570	11,28
United Kingdom	1 488 251	1,22
Rest of Europe	2 309 312	1,90
Rest of the world[1]	3 850 376	3,16
TOTAL	121 829 083	100,00

1 Represents all shareholdings except those in the above regions.

4. SHAREHOLDER CATEGORIES

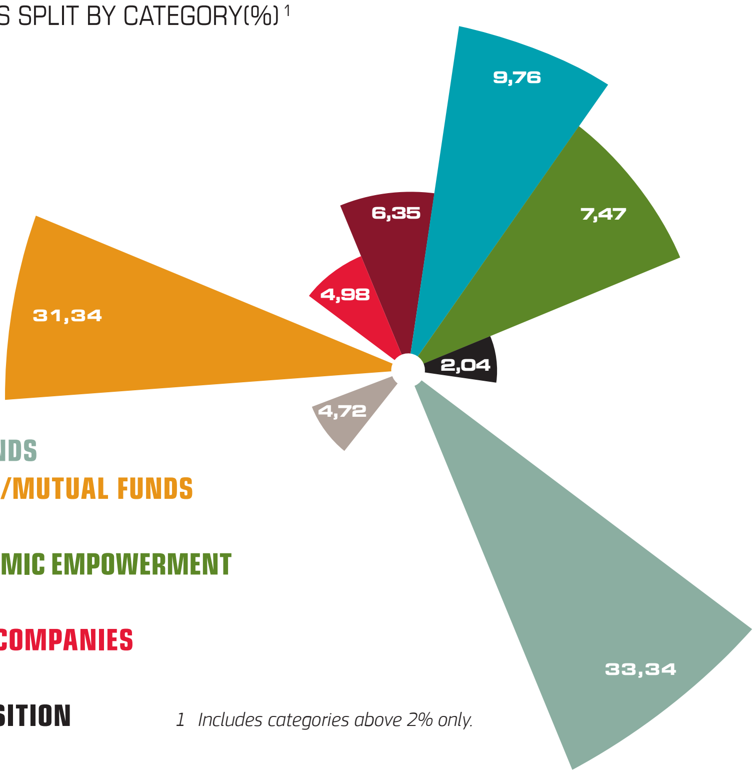
An analysis of beneficial shareholdings, supported by the section 56 enquiry process, confirmed the following beneficial shareholder types:

BENEFICIAL SHAREHOLDER CATEGORIES

Category	Total shareholding (number of shares)	% of issued capital
Pension funds	40 617 790	33,34
Unit trusts/mutual funds	38 185 334	31,34
Treasury	11 884 699	9,76
Black Economic Empowerment	9 105 271	7,47
Other	7 738 043	6,35
Insurance companies	6 071 417	4,98
Trading position	2 491 277	2,04
Private investor	2 339 297	1,92
Custodians	796 211	0,65
Sovereign wealth	778 918	0,64
Exchange-traded fund	461 291	0,38
Hedge fund	364 293	0,30
Foreign government	215 569	0,18
University	205 011	0,17
Charity	201 982	0,17
Medical aid scheme	186 297	0,15
Local authority	157 530	0,13
Investment trust	28 853	0,03
TOTAL	121 829 083	100,00

4. SHAREHOLDER CATEGORIES continued

BENEFICIAL SHAREHOLDERS SPLIT BY CATEGORY(%) [1]



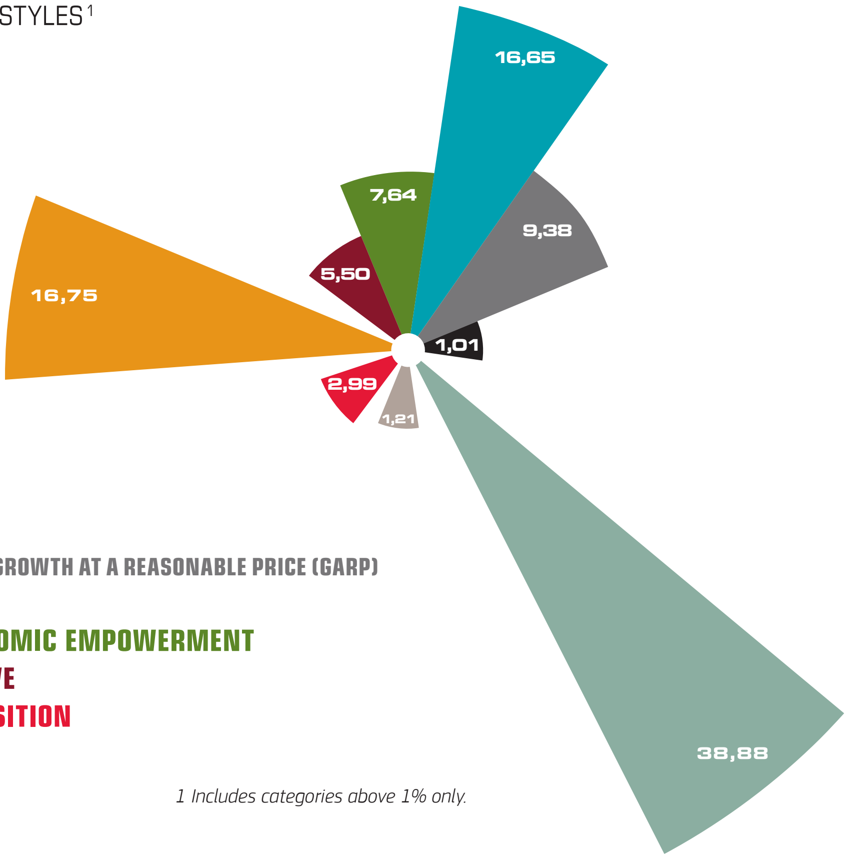
33,34 PENSION FUNDS
31,34 UNIT TRUSTS/MUTUAL FUNDS
9,76 TREASURY
7,47 BLACK ECONOMIC EMPOWERMENT
6,35 OTHER
4,98 INSURANCE COMPANIES
4,72 REMAINDER
2,04 TRADING POSITION

1 *Includes categories above 2% only.*

5. ANALYSIS OF INVESTMENT STYLES

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

ANALYSIS OF INVESTMENT STYLES [1]



38,88 VALUE
16,75 REMAINDER
16,65 INDEX
9,38 GROWTH
7,52 GROWTH EXCL. GROWTH AT A REASONABLE PRICE (GARP)
1,52 GARP
7,64 BLACK ECONOMIC EMPOWERMENT
5,50 QUANTITATIVE
2,99 TRADING POSITION
1,21 MULTIPLE
1,01 RETAIL

1 *Includes categories above 1% only.*

HISTORICAL REVIEWS

ABRIDGED FINANCIAL STATEMENTS

R millions	2016	2015	2014	2013	2012
INCOME STATEMENTS [1]					
Revenue	**18 596**	18 446	16 903	15 942	13 827
Local	**12 117**	12 085	11 486	10 718	9 482
Foreign	**6 479**	6 361	5 417	5 224	4 345
Profit from operations	**1 335**	1 703	1 596	1 398	1 197
Net financing costs	**215**	187	150	174	218
Tax	**336**	464	368	313	309
Profit attributable to ordinary shareholders	**777** [5]	1 007	1 096	946	581 [2]
Headline earnings	**864** [5]	988	943	885	562
STATEMENTS OF FINANCIAL POSITION					
Total shareholders' interest	**9 046**	9 042	7 803	6 877	5 757
Deferred tax (net)	**(273)**	(95)	(366)	(300)	(229)
Net interest-bearing debt	**297**	1 179	666	1 741	1 920
Capital employed	**9 070**	10 126	8 103	8 318	7 448
Represented by:					
Non-current assets excluding deferred tax assets	**7 011**	7 852	6 606	6 004	6 037
Net current assets, excluding cash, less non-current provisions	**2 059**	2 274	1 497	2 314	1 411
Employment of capital	**9 070**	10 126	8 103	8 318	7 448
STATEMENTS OF CASH FLOWS					
Cash generated by operations [3]	**1 555**	1 918	1 723	1 684	1 376
Changes in working capital	**488**	(215)	547	(426)	(329)
Expenditure relating to non-current provisions, employee benefits and restructuring	**(103)**	(348)	(153)	(136)	(164)
Settlement of performance shares	**(22)**	(94)	—	—	—
Net replacement to maintain operations [4]	**(305)**	(235)	131	(240)	(223)
	1 613	1 026	2 248	882	660
Dividends paid	**(435)**	(838)	(378)	(336)	(297)
	1 178	188	1 870	546	363
Investment to expand operations [4]	**(147)**	(609)	(835)	(532)	(513)
Proceeds from disposal of businesses, investments and joint venture	**—**	—	—	—	120
Net cash generated/(utilised)	**1 031**	(421)	1 035	14	(30)
Depreciation and amortisation charges	**626**	590	547	537	460
COMMITMENTS					
Capital expenditure authorised	**233**	436	342	746	207
Future rentals on property, plant and equipment leased	**443**	331	358	199	130
	676	767	700	945	337

1 Includes the results of discontinued operations.

2 After IFRS 2 charge of R138 million, for the AECI Community Education and Development Trust ("CEDT").

3 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.

4 Excludes property, plant and equipment of companies acquired.

5 After loss on settlement of defined-benefit pension fund obligations and post-retirement medical aid obligations of R149 million.

RATIOS AND EMPLOYEE DETAILS

	2016	2015	2014	2013	2012
PROFITABILITY AND ASSET MANAGEMENT					
Profit from operations to revenue (%)	**7,2**	9,2	9,4	8,8	8,7
Trading cash flow to revenue (%)	**10,5**	12,4	12,7	12,1	12,0
Return on average net assets (%)[1]	**14,4**	18,1	17,8	16,4	15,6
Return on invested capital (%)[2]	**10,6**	13,6	13,7	12,7	11,7
Return on average ordinary shareholders' interest (%)[3]	**9,7**	11,9	13,0	14,1	10,5
Net working capital to revenue (%)[4]	**12,7**	17,2	15,4	19,6	18,6
Inventory cover (days)	**76**	80	70	76	73
Average credit extended to customers (days)	**57**	64	61	64	60
LIQUIDITY					
Cash interest cover[5]	**11,0**	12,4	14,6	11,4	7,7
Interest-bearing debt less cash to cash generated by operations	**0,1**	0,5	0,3	0,8	1,0
Gearing (%)[6]	**3,3**	13,0	8,5	25,3	33,4
Current assets to current liabilities	**1,9**	1,4	1,8	1,5	1,4
EMPLOYEES					
Number of employees at year-end[7]	**6 630**	6 246	6 443	6 279	6 750
Employee remuneration (R millions)	**3 404**	3 352	2 805	2 976	2 382
Value added per rand of employee remuneration (rand)	**1,60**	1,69	1,79	1,68	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 investees and including working capital.*

5 *Ratio of profit from operations plus return on pension fund employer surplus accounts and return on plan assets from post-retirement medical aid obligations less closure costs less CEDT share-based payments plus depreciation and dividends received to net finance costs paid.*

6 *Interest-bearing debt less cash as a percentage of total shareholders' interest.*

7 *Includes proportional share of joint operations employees.*

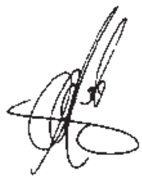
ORDINARY SHARE STATISTICS

	2016	2015	2014	2013	2012
MARKET PRICE (CENTS PER SHARE)					
High	**11 000**	14 110	13 845	12 857	9 980
Low	**7 401**	8 109	10 600	7 901	7 276
31 December	**10 110**	8 866	13 382	12 500	7 980
Earnings yield (%)	**8,1**	10,1	6,3	6,3	6,3
Dividend yield (%)*	**4,3**	4,3	2,5	2,5	3,3
Dividend cover*	**1,9**	2,3	2,5	2,5	1,9
In issue (millions)	**121,8**	122,3	128,2	128,2	128,2
Value traded (R millions)	**7 031**	4 501	4 154	5 093	3 231
Volume traded (millions)	**75,2**	42,0	33,6	47,0	38,8
Volume traded (%)	**61,7**	34,3	26,2	36,6	30,3
Market capitalisation (R millions)	**12 317**	10 841	17 161	16 030	10 234
ORDINARY SHARE PERFORMANCE (CENTS PER SHARE)					
Headline earnings	**818**	894	842	791	503
Dividends declared*	**435**	385	340	315	263
Special dividend declared	**—**	—	375	—	—
Net asset value	**8 107**	8 092	6 640	5 860	4 911

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

DECLARATION BY THE GROUP COMPANY SECRETARY

I hereby confirm that AECI Ltd 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
28 February 2017

PREPARATION OF ANNUAL FINANCIAL STATEMENTS

The Group annual financial statements and Company annual financial statements were published on 28 February 2017 and are for the year ended 31 December 2016. These comprise the Audit Committee's report to stakeholders, the Directors' report, the Declaration by the Group Company Secretary, the Independent Auditor's report, the Basis of Reporting and Significant Accounting Policies, and the financial statements.

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).

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF AECI LTD

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

OPINION

We have audited the consolidated and separate financial statements of AECI Ltd (the "Group" and the "Company") set out on pages 126 to 209, which comprise the statements of financial position as at 31 December 2016, and the income statements, statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements and the significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of AECI Ltd as at 31 December 2016, 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.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements section of our report. We are independent of the Group and the Company, in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors ("IRBA Code") and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements for the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT ("PPE") IN THE EXPLOSIVES SEGMENT IN SOUTH AFRICA (RELATES TO THE CONSOLIDATED FINANCIAL STATEMENTS). REFER TO PAGES 129, 131 AND 132 FOR THE ACCOUNTING POLICIES APPLIED AND NOTE 1 IN THE FINANCIAL STATEMENTS.	
Sustained losses incurred in the Explosives segment in South Africa, and difficult market conditions, particularly in the mining sector, required the Directors to perform a detailed impairment assessment in respect of PPE in this segment, amounting to R1,2 billion, in accordance with IAS 36: Impairment of Assets. This was performed using discounted cash flow models to determine the value-in-use for each cash-generating unit ("CGU"). There are a number of key sensitive judgements made in determining the inputs into these models, including: › the identification of CGUs in the Explosives segment in South Africa, and the allocation of PPE to these CGUs; › revenue growth (including volume and price); › the forecast period; and › the discount rates applied to the projected future cash flows. In addition, where appropriate, fair value less costs of disposal was determined in respect of these CGUs. Given the level of judgement involved in this impairment calculation, the impairment of PPE in the Explosives segment in South Africa was considered to be a key audit matter in our audit of the consolidated financial statements. In the current year this led to an impairment of R52 million.	Our audit procedures included: › assessing whether the PPE allocated to the CGUs was appropriate in terms of the relevant accounting standards; › an assessment, by KPMG's valuation specialists on the audit team, of the appropriateness of the discount rate; › challenging the reasonableness of the key assumptions used by the Directors with reference to external data in respect of sales volumes and prices, forecast periods and fair value less costs of disposal; › critically assessing the future projected cash flows used in the models to determine whether they are reasonable and supportable, given the current macroeconomic climate and expected future performance of the individual CGUs based on our knowledge of the business; › subjecting the key assumptions to sensitivity analyses; and › assessing the appropriateness of the disclosures in the consolidated financial statements as set out in note 1.

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
VALUATION OF THE PENSION FUND EMPLOYER SURPLUS ACCOUNTS ("ESAs") AND VALUATION AND SETTLEMENT OF POST-RETIREMENT MEDICAL AID ("PRMA") OBLIGATIONS (RELATES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS). REFER TO PAGES 128, 138 AND 139 FOR THE ACCOUNTING POLICIES APPLIED AND NOTES 8, 15 AND 29 IN THE FINANCIAL STATEMENTS.	
AECI Ltd continued to de-risk its defined-benefit obligations and continued to settle its PRMA obligations during the current financial year. In addition, the ESA from the AECI Pension Fund ("APF"), amounting to R362 million, has been transferred to the AECI Defined Contribution Pension Fund ("ACDPF") and to the AECI Employees Provident Fund ("AEPrF"). These surpluses in the ACDPF and AEPrf have, in part, been used to settle the PRMA obligations in respect of active employees, amounting to R239 million, and used to take a contribution holiday, amounting to R101 million. The ESAs in respect of the ACDPF and AEPrF are classified as financial assets at fair value through profit or loss. Actuarial valuations for both the ESAs and the PRMA obligations are based on key assumptions, which include: › discount rates; › expected rates of return on retirement assets; and › healthcare inflation. These transactions and their accounting implications are, by their nature, considered significant and complex and have thus been considered to be a key audit matter in our audit of both the consolidated and separate financial statements.	Our audit procedures included: › assessing whether all regulatory matters had been adequately considered and the appropriateness of the accounting treatment adopted in respect of the APF employer surplus, PRMA obligations and the surpluses carried in respect of the ACDPF and AEPrF. KPMG's technical accounting specialists were part of the audit team that considered the appropriateness of the accounting treatment in accordance with the relevant accounting standards; › obtaining third party actuarial reports prepared by AECI's actuaries, in respect of the ESAs and PRMA obligations, and using KPMG's actuarial specialists to determine the reasonableness of the assumptions applied within the valuations; and › assessing the appropriateness of the disclosures in the consolidated and separate financial statements with reference to both IAS 19: Employee Benefits and IAS 39: Financial Instruments: Recognition and Measurement.
RECOVERABILITY OF DEFERRED TAX ASSET RECOGNISED BY AECI MINING SOLUTIONS LTD ("AMS") (RELATES TO THE CONSOLIDATED FINANCIAL STATEMENTS). REFER TO PAGES 128 AND 131 FOR THE ACCOUNTING POLICIES APPLIED AND TO NOTE 9 IN THE FINANCIAL STATEMENTS.	
Included in the deferred tax asset of R527 million in the consolidated financial statements is a deferred tax asset of R451 million in respect of AMS, a subsidiary of AECI Ltd. The sustained losses incurred by AMS, combined with difficult market conditions, gives rise to a risk of impairment in respect of the deferred tax asset. Furthermore, there is inherent uncertainty involved in forecasting future taxable profits and the probability of utilising the estimated tax losses. Therefore, the recoverability of the AMS deferred tax asset was considered a key audit matter in our audit of the consolidated financial statements.	Our audit procedures included: › evaluating the Directors' determination of the estimated manner in which the deferred tax asset would be utilised by comparing the Directors' assessment to business plans and profit forecasts based on our knowledge of the business and the industry in which AMS operates; and › critically assessing whether profit forecasts are reasonable in relation to historical trends, current year performance and future plans.

OTHER INFORMATION

The Directors are responsible for the other information. The other information comprises the Audit Committee's Report to Stakeholders, the Directors' Report, and the Declaration by the Group Company Secretary as required by the Companies Act of South Africa, which we obtained prior to the date of this report, and the Integrated Report, which was made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

The Directors are responsible for the preparation and fair presentation of the consolidated and separate 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 determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors intend either to liquidate the Group and/ or the Company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit.

We also:

› identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

› obtain an understanding of internal control relevant to the audit 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 Group's and the Company's internal control;

› evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;

› conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or the Company to cease to continue as a going concern;

› evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and

› obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities in the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and, therefore, are the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the IRBA Rule published in Government Gazette No. 39475 of 4 December 2015, we report that KPMG Inc. has been the auditor of AECI Ltd for 92 years.

KPMG Inc.
Registered Auditor

Per ML Watson
Chartered Accountant (SA)
Registered Auditor
Director

85 Empire Road, Parktown
Johannesburg, 2193
28 February 2017

BASIS OF REPORTING AND SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

AECI Ltd ("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 for the year ended 31 December 2016 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 joint ventures. The Group is involved primarily in the manufacture and distribution of commercial explosives, mainly for the mining sector, specialty chemicals for the mining, manufacturing, agricultural and general industrial sectors, as well as the management of those property assets which the Group still owns.

BASIS OF PREPARATION

STATEMENT OF COMPLIANCE

The Group financial statements and the Company financial statements have been prepared in compliance with IFRS, and interpretations of those standards as adopted by the IASB, the SAICA Financial Reporting Guides issued by the Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council, 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 Financial Instruments —** this standard replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

This standard may have an impact on the Group, which will include changes in the measurement bases of the Group's financial assets to amortised cost, fair value through other comprehensive income or fair value through profit and loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model of IAS 39 to an "expected credit loss" model.

The standard is effective for annual periods beginning on or after 1 January 2018, with retrospective application. AECI is assessing the potential impact on the Group of the application of IFRS 9.

› **Amendments to IAS 7 Disclosure Initiative —** the amendments provide for disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes arising from cash flow as well as non-cash changes. This includes providing a reconciliation between the opening and closing balances for liabilities arising from financing activities.

The amendments apply for annual periods beginning on or after 1 January 2017 and early application is permitted. AECI is assessing the potential impact on the Group of the application of the amendments to IAS 7.

› **Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses —** the amendments provide additional guidance on the existence of deductible temporary differences, which depend solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.

The amendments also provide additional guidance on the methods used to calculate future taxable profits to establish whether a deferred tax asset can be recognised.

Guidance is provided where an entity may assume that it will recover an asset for more than its carrying amount, provided that there is sufficient evidence that it is probable that the entity will achieve this.

Guidance is provided for deductible temporary differences related to unrealised losses that are not assessed separately for recognition. These are assessed on a combined basis, unless a tax law restricts the use of losses to deductions against income of a specific type.

The amendments apply for annual periods beginning on or after 1 January 2017 and early application is permitted. AECI is assessing the potential impact on the Group of the application of the amendments to IAS 12.

- **IFRS 15 Revenue from Contracts with Customers —** the standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time, or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

  The effective date for adoption of this standard is for periods commencing on or after 1 January 2018. AECI is assessing the potential impact on the Group of the application of IFRS 15.

- **Amendments to IFRS 2 Clarifying share-based payment accounting —** currently, there is ambiguity over how a company should account for certain types of share-based payment arrangements. The IASB has responded by publishing amendments to IFRS 2 Share-based Payment.

  The amendments cover three accounting areas:

  - measurement of cash-settled share-based payments — the new requirements do not change the cumulative amount of expense that is ultimately recognised, because the total consideration for a cash-settled share-based payment is still equal to the cash paid on settlement;
  - classification of share-based payments settled net of tax withholdings — the amendments introduce an exception stating that, for classification purposes, a share-based payment transaction with employees is accounted for as equity-settled if certain criteria have been met; and
  - accounting for a modification of a share-based payment from cash-settled to equity-settled — the amendments clarify the approach that companies are to apply.

  The new requirements could affect the classification and/or measurement of these arrangements and, potentially, the timing and amount of expense recognised for new and outstanding awards. The amendments are effective for annual periods commencing on or after 1 January 2018. AECI is assessing the potential impact on the Group of the application of the amendments to IFRS 2.

- **IFRS 16 Leases —** IFRS 16 was published in January 2016. It sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ("lessee") and the supplier ("lessor"). IFRS 16 replaces the previous standard, IAS 17 Leases, and related Interpretations. IFRS 16 has one model for lessees, which will result in almost all leases being included in the statement of financial position. No significant changes have been included for lessors.

  The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted only if the entity also adopts IFRS 15. The transitional requirements are different for lessees and lessors. AECI is assessing the potential impact on the financial statements resulting from the application of IFRS 16.

- **Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture —** the amendments require the full gain to be recognised when assets transferred between an investor and its associate or joint venture meet the definition of a "business" under IFRS 3 Business Combinations. Where the assets transferred do not meet the definition of a business, a partial gain to the extent of unrelated investors' interests in the associate or joint venture is recognised. The definition of a business is key to determining the extent of the gain to be recognised.

  The IASB has decided to defer the effective date for these amendments indefinitely. Adoption is still permitted.

BASIS OF MEASUREMENT

The Group financial statements and the Company financial statements have been prepared on the going-concern basis using the historical cost convention, except for available-for-sale financial assets, derivative instruments, contingent consideration, pension fund employer surplus accounts and liabilities which are measured at fair value. Equity-settled share-based payments are measured at fair value at the grant date.

FUNCTIONAL AND PRESENTATION CURRENCY

The Group financial statements and the Company 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 ongoing 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 including assumptions and estimation uncertainties that may have an impact on the future results 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 rates and competitive forces.

ENVIRONMENTAL REMEDIATION

Estimating the future costs of environmental remediation 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 influenced further by changing technologies and social, 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.

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 9,3% per annum (2015: 10,0%), being the estimated investment return assuming the liability is fully funded. Medical cost inflation of CPI +1% per annum has been assumed (2015: CPI +1%). See note 29 to the financial statements.

IMPAIRMENTS

An asset is impaired when its carrying amount exceeds its recoverable amount. Goodwill and intangible assets with indefinite useful lives are tested for impairment annually while other assets are tested if there is an indication that they may be impaired. The assessment of recoverable amounts involves the application of judgement relating to the calculation of value-in-use, which is based on cash flow projections, variations in the amount and timing of these cash flows and the discount rate used to determine the present value of those future cash flows.

These are assessed for each cash-generating unit to which goodwill is attributed or for the cash-generating unit or asset where indicators of impairment have been assessed. See note 4 for significant assumptions on value-in-use for goodwill.

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 prior year in all material respects. Unless specifically stated otherwise, the Company also applies all Group accounting policies.

BASIS OF CONSOLIDATION

SUBSIDIARIES

Subsidiaries are those entities controlled by the Company. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The Group 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 proportional share of the acquiree's identifiable net assets. Subsequent profits or losses, and each component of other comprehensive income, are attributed to non-controlling interest 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.

Changes in the Group's interest 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 the income statement.

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 the income statement. If the Group retains any interest in the former 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 ARRANGEMENTS

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

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

A joint venture is an arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

A joint operation is an arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

The Group's participation in joint ventures is accounted for using the equity method. Joint ventures are recognised at cost initially, which includes transaction costs. Subsequent to initial recognition, the Group financial statements include the Group's share of profits or loss and other comprehensive income of the equity-accounted investees, until the date on which joint control ceases. An impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in the income statement and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

The Group's participation in joint operations is accounted for by recognising the Group's share of assets, liabilities, revenue and expenses on a line-by-line basis.

Where a Group entity transacts with a joint arrangement of the Group, unrealised profits are eliminated to the extent of the Group's interest in the joint arrangement.

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 arrangement. 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.

An associate is recognised at cost initially. Post-acquisition results of associate companies are accounted for in the Group financial statements using the equity method of accounting from the date that significant influence commences until the date that significant influence ceases. An impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in the income statement and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. 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

Investments in subsidiaries in the Company financial statements are recognised at cost less impairment losses and include the equity contributions of share-based payments to employees of subsidiaries as well as loans owing from non-operating subsidiaries.

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. The goodwill of joint ventures and associates is included in the carrying amount of the relevant equity-accounted investee. Goodwill is reviewed for impairment at least annually.

Cash-generating units represent the business operations from which the goodwill was generated originally. On disposal of a subsidiary, joint venture or associate, 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 is measured at fair value at the date of acquisition. The contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in the income statement. Change in estimate of the contingent consideration is recognised in net operating costs and changes as a result of the time value of money are recognised in interest expense.

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, joint arrangements and associates 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 recognised only 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 assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates/laws that have been enacted or substantively enacted by the end of the reporting period.

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

Investment properties comprising properties surplus to the Group's operational requirements, and leased to third parties, are measured at cost less accumulated depreciation and accumulated impairment losses. Land is not depreciated and buildings are depreciated on a straight-line basis over their useful life of 20 years. Depreciation methods, useful lives and residual values are reviewed at each reporting date. Any gain or loss on disposal (calculated as the difference between the net proceeds from disposal and the carrying amount) is recognised in the income statement.

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 accumulated impairment losses. Intangible assets are recognised if it is probable that future economic benefits will flow from the intangible assets and their costs 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 estimated useful lives are as follows:

› Customer and marketing relationships	5 to 20 years
› Patents and trademarks	15 to 20 years
› Technical and licensing agreements	17 years
› Other	3 to 10 years

Intangible assets are derecognised on disposal, or when no future economic benefits are expected from use. 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 expensed in the income statement in the year in which they are incurred. Development costs are reviewed on an ongoing basis and are capitalised if they can be measured reliably, the product or process is technically and commercially feasible, it is probable that the asset will generate future economic benefits and the Group intends, 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.

After initial recognition, development costs are carried at cost less accumulated amortisation and accumulated impairment losses.

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.

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.

Any impairment loss on a disposal group is allocated first to goodwill and then to the remaining assets and liabilities on a pro-rated 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 remeasurement 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 that 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.

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.

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 that are debt securities, the reversal is recognised in the income statement.

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 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 is allocated to cash-generating units that are expected to benefit from the synergies of the business combination. 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 of the inventories or their use to businesses in the Group.

The cost of finished goods and work in progress 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.

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 associated with 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. The unwinding of the discount is recognised in interest expense.

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 comprises ordinary shares and redeemable convertible B ordinary shares and is 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.

Shares repurchased by the Company are cancelled immediately and are delisted as soon as is practicable. The amount paid is recognised by reducing the share capital by the par value of shares repurchased, with any excess reducing the carrying amount of share premium to the extent available, and thereafter reducing retained earnings.

PREFERENCE SHARES

Preference shares are measured at historical 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 AECI Employees Share Trust ("EST") and are excluded from the shares recognised as Group equity.

EARNINGS PER SHARE

BASIC EARNINGS PER SHARE

Basic earnings per share is 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 is 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 AECI Community Education and Development Trust ("CEDT"), the potential shares issued to the EST and the performance shares issued as part of the Group's Long-term Incentive Plan.

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 that the significant risks and rewards of ownership have transferred to the purchaser (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; and
› equity at historical rates.

Differences arising on translation are recognised in other comprehensive income and are presented in the foreign currency translation reserve in reserves. When the Group disposes of 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. 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 part of a net investment in a foreign operation and are recognised in other comprehensive income in the foreign currency translation reserve. When the monetary item is settled, the repayment is accounted for as a part disposal of the net investment with a proportionate share of the cumulative differences recognised in the income statement.

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 as follows 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, ESAs (the employer surplus accounts in the defined-contribution plans), loans to and from subsidiaries, accounts receivable, cash, loans and borrowings, loans from joint arrangements, contingent consideration and accounts payable.

The Group recognises loans and receivables on the date on which 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 substantively 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

Money market investments are classified as financial assets at fair value through profit or loss. All changes in fair value are recognised in the income statement. Fair value is determined using an observable market value.

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.

FINANCE COSTS

Interest is recognised in the income statement in the period in which it is incurred.

DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments including currency swaps, forward rate agreements and forward exchange contracts to manage its exposure to foreign exchange risk 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 INCOME

Interest income is recognised in the income statement as it accrues and it is measured using the effective interest method. Dividend income from investments is recognised in the income statement when the shareholders' right to receive payment has been established.

LEASES

FINANCE LEASES

Leases that transfer substantively 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 recognised in the income statement 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 its 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 the related service is provided.

The Group's two defined-contribution plans both have employer surplus accounts ("ESA") which were created through transfers from the ESA in the AECI Pension Fund (a defined-benefit plan). These ESA can only be utilised in accordance with the allowed uses as defined by the Pension Funds Act, No. 24 of 1956, as amended ("the Act").

The ESA in the defined-contribution plans are recognised as financial assets and are measured at fair value, with all changes in fair value being recognised in the income statement.

The Group has utilised a portion of these ESA to settle defined-benefit post-retirement medical aid obligations for certain eligible current employees. The ESA have been utilised further to fund a portion of the employer contribution made on behalf of members to these funds. The ESA are invested in money market assets and earn a return on this investment. The ESA also increase as a result of unvested retirement benefit equalisation target ("RBET") transferred when employees leave the fund before becoming entitled to that portion of the RBET (see note 29).

DEFINED-BENEFIT PLANS

A defined-benefit plan is a post-retirement benefit plan 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 services 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 qualified actuaries using the projected unit credit method.

When the calculation results in a benefit to the Group, the recognised asset is limited to amounts credited to the ESA in accordance with the Act where this does not exceed 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. 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.

The defined-benefit cost recognised in the income statement includes the current service cost and the net interest on the net defined-benefit liability (asset). Net interest expense (income) is the interest on the net defined-benefit liability (asset) at the beginning of the period, calculated using the discount rate used in the prior year's actuarial valuation. The interest takes into account changes in the net defined-benefit liability (asset) during the year as a result of contributions and benefit payments.

The defined-benefit cost relating to actuarial gains and losses, which include the return on plan assets (excluding the interest income recognised in the income statement) and the effect of the asset ceiling (excluding the interest cost) and any changes in actuarial assumptions or experience adjustments, are remeasurements and are recognised immediately in other comprehensive income.

DEFINED-BENEFIT POST-RETIREMENT MEDICAL AID OBLIGATIONS

The Group provides defined-benefit post-retirement healthcare benefits to certain of its retirees and eligible employees. 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.

The defined-benefit cost recognised in the income statement includes the current service cost and the net interest on the net defined-benefit liability (asset). Net interest expense (income) is the interest on the net defined-benefit liability (asset) at the beginning of the period, calculated using the discount rate used in the prior year's actuarial valuation. The interest takes into account changes in the net defined-benefit liability (asset) during the year as a result of contributions and benefit payments.

The defined-benefit cost relating to actuarial gains and losses, which include the return on plan assets (excluding the interest income recognised in the income statement) and any changes in actuarial assumptions or experience adjustments, are remeasurements and are recognised immediately in other comprehensive income.

Gains or losses on the settlement of a defined-benefit plan are recognised in the income statement when the settlement occurs. The gain or loss on settlement is determined as follows:

› the net defined-benefit liability/(asset) is remeasured at the date of the settlement as if no settlement has occurred;
› the gain or loss on settlement is then determined as the difference between the carrying amount (present value of the defined-benefit obligation) being settled and the settlement price, including any plan assets transferred and any payments made directly by the Group in connection with the settlement.

For the purpose of determining the value of plan assets transferred, AECI uses only the value of the recognised plan assets (as limited by the asset ceiling). Unrecognised surpluses, which include those not allocated to an ESA or which were not otherwise available for use by AECI, are not taken into account.

The Group recognises gains and losses on the settlement of a defined-benefit plan when the settlement occurs.

TERMINATION BENEFITS

Termination benefits are recognised at the earlier of when the Group can no longer withdraw from the offer of those benefits or when the Group recognises costs of restructuring. If the benefits are payable more than 12 months after the reporting date, they are discounted to their present value.

OTHER LONG-TERM EMPLOYEE BENEFITS

The Group's obligation in respect of long-term employee benefits is 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. Remeasurements are recognised in the income statement in the period in which they arise.

SHARE-BASED PAYMENTS

The Group has equity-settled and cash-settled share-based compensation plans.

CASH-SETTLED SHARE-BASED SCHEME (BENEFIT AND RETENTION UNITS)

This scheme allows senior Group employees 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 an employee cost over the period that employees provide services to the Group.

EQUITY-SETTLED SHARE-BASED SCHEMES

The EST equity-settled share-based scheme awards certain employees AECI B ordinary shares which will be converted to ordinary shares after a 10-year lock-in period based on a predetermined award formula.

Senior employees are awarded performance shares. Performance shares are awards that entitle certain employees to receive ordinary shares after a three-year lock-in period based on the performance of the Company's ordinary share price relative to a peer group of listed companies.

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. On settlement, where shares are repurchased in the market, the cost is recognised as a change in the share-based payment reserve.

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.

Dividends withholding tax is levied on non-exempt shareholders. As this tax is levied on the shareholders and not the Company, it is not included in the tax expense recognised in the income statement or in other 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 AECI Executive Committee to make decisions about resources to be allocated to them and to assess their performances.

Inter-segment transactions are concluded on terms that are no more and no less favourable than transactions with unrelated external parties.

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

- **Explosives —** developer, producer and supplier of commercial explosives, initiating systems and blasting services for the mining, quarrying and construction markets;
- **Specialty Chemicals —** supply of specialty chemical raw materials and related services for use across a broad spectrum of customers in the manufacturing, mining, water treatment, agricultural and general industrial sectors; and
- **Property —** mainly property leasing and management in the office, industrial and retail sectors.

Segment reporting is based on IFRS and is representative of the internal structure used for management reporting.

STATEMENTS OF FINANCIAL POSITION AT 31 DECEMBER 2016

R millions	Note	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
ASSETS					
NON-CURRENT ASSETS		**7 538**	8 374	**7 338**	7 822
Property, plant and equipment	1	**3 990**	4 296	**539**	446
Investment property	2	**140**	137	**60**	57
Intangible assets	3	**211**	257	**—**	—
Goodwill	4	**1 541**	1 590	**903**	903
Pension fund employer surplus accounts	29	**583**	982	**583**	982
Investment in subsidiaries	5			**4 814**	4 910
Loans to subsidiaries	5			**400**	486
Investment in joint ventures	6	**327**	313	**28**	28
Investment in associates	7	**194**	250	**—**	—
Other investments	8	**25**	27	**11**	10
Deferred tax	9	**527**	522	**—**	—
CURRENT ASSETS		**8 282**	9 420	**5 791**	6 228
Inventories	10	**3 174**	3 358	**1 180**	1 186
Accounts receivable	11	**3 342**	3 825	**1 452**	1 323
Other investments	8	**190**	67	**118**	—
Assets classified as held for sale	12	**60**	—	**—**	—
Loans to subsidiaries	5			**2 719**	3 396
Tax receivable		**51**	56	**—**	—
Cash		**1 465**	2 114	**322**	323
TOTAL ASSETS		**15 820**	17 794	**13 129**	14 050
EQUITY AND LIABILITIES					
ORDINARY CAPITAL AND RESERVES		**8 913**	8 932	**2 522**	2 962
Share capital and share premium	13	**110**	110	**128**	167
Reserves		**1 280**	1 605	**196**	151
Retained earnings		**7 523**	7 217	**2 198**	2 644
PREFERENCE SHARE CAPITAL	13	**6**	6	**6**	6
SHAREHOLDERS' EQUITY		**8 919**	8 938	**2 528**	2 968
NON-CONTROLLING INTEREST	33	**127**	104		
TOTAL EQUITY		**9 046**	9 042	**2 528**	2 968
NON-CURRENT LIABILITIES		**2 324**	1 871	**2 695**	2 037
Deferred tax	9	**254**	427	**21**	153
Loans from subsidiaries	5			**676**	688
Non-current borrowings	14	**1 600**	672	**1 600**	500
Contingent consideration		**58**	70	**58**	70
Non-current provisions and employee benefits	15	**412**	702	**340**	626
CURRENT LIABILITIES		**4 450**	6 881	**7 906**	9 045
Accounts payable	16	**4 148**	4 003	**2 370**	2 013
Current borrowings	17	**162**	2 620	**8**	3 144
Contingent consideration		**—**	15	**—**	—
Loans from joint ventures	6	**75**	36	**118**	72
Loans from subsidiaries	5			**5 404**	3 762
Tax payable		**65**	207	**6**	54
TOTAL LIABILITIES		**6 774**	8 752	**10 601**	11 082
TOTAL EQUITY AND LIABILITIES		**15 820**	17 794	**13 129**	14 050

INCOME STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

R millions	Note	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
REVENUE	18	**18 596**	18 446	**5 919**	5 469
Net operating costs	19	**(17 261)**	(16 743)	**(5 711)**	(5 095)
OPERATING PROFIT		**1 335**	1 703	**208**	374
Impairment of equity-accounted investee	7	**—**	(51)		
Share of profit of equity-accounted investees, net of tax	6, 7	**28**	28		
PROFIT FROM OPERATIONS AND EQUITY-ACCOUNTED INVESTEES		**1 363**	1 680	**208**	374
Net finance costs		**(215)**	(187)	**(265)**	(48)
Interest expense	21	**(270)**	(253)	**(434)**	(349)
Interest received	22	**55**	66	**169**	301
PROFIT/(LOSS) BEFORE TAX		**1 148**	1 493	**(57)**	326
Tax (expense)/credit	23	**(336)**	(464)	**69**	(34)
PROFIT FOR THE YEAR		**812**	1 029	**12**	292
ATTRIBUTABLE TO:					
Ordinary shareholders		**777**	1 007	**9**	289
Preference shareholders		**3**	3	**3**	3
Non-controlling interest		**32**	19		
		812	1 029	**12**	292
PER ORDINARY SHARE (CENTS):					
— Basic earnings	24	**735**	911		
— Diluted basic earnings	24	**720**	886		
— Headline earnings	24	**818**	894		
— Diluted headline earnings	24	**800**	870		
— Ordinary dividends paid	25	**395**	350		
— Ordinary dividends declared after the reporting date	25	**300**	260		
— Special dividends paid	25	**—**	375		

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	GROUP		COMPANY	
R millions	2016	2015	2016	2015
PROFIT FOR THE YEAR	**812**	1 029	**12**	292
OTHER COMPREHENSIVE INCOME NET OF TAX:	**(379)**	1 628	**22**	839
Items that may be reclassified subsequently to profit or loss:	**(392)**	828		
—Foreign currency loan translation differences	**(96)**	116		
— Foreign operations translation differences	**(293)**	712		
— Effective portion of cash flow hedges	**(3)**	—		
Tax effect on items that may be reclassified subsequently to profit or loss:	**13**	(20)		
— Foreign currency loan translation differences	**13**	(20)		
Items that may not be reclassified subsequently to profit or loss:	**(1)**	1 159	**(1)**	1 189
— Remeasurement of defined-benefit obligations	**(20)**	1 576	**(20)**	1 597
— Remeasurement of post-retirement medical aid obligations	**19**	(417)	**19**	(408)
Tax effects on items that may not be reclassified subsequently to profit or loss:	**1**	(339)	**23**	(350)
— Remeasurement of defined-benefit obligations	**6**	(458)	**6**	(458)
— Remeasurement of post-retirement medical aid obligations	**(5)**	119	**17**	108
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**433**	2 657	**34**	1 131
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Ordinary shareholders	**405**	2 619	**31**	1 128
Preference shareholders	**3**	3	**3**	3
Non-controlling interest	**25**	35		
	433	2 657	**34**	1 131

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

R millions	Ordinary share capital	Share premium	**Total ordinary capital**	Foreign currency translation reserve
GROUP				
BALANCE AT 1 JANUARY 2015	116	496	**612**	663
TOTAL COMPREHENSIVE INCOME FOR THE YEAR				792
Remeasurement of defined-benefit obligations				
Deferred tax on remeasurement of defined-benefit obligations				
Remeasurement of post-retirement medical aid obligations				
Deferred tax on remeasurement of post-retirement medical aid obligations				
Foreign currency loan translation differences				116
Deferred tax on foreign currency loan translation differences				(20)
Foreign operations translation differences				696
Profit for the year				
TRANSACTIONS WITH OWNERS	(6)	(496)	**(502)**	
Dividends paid				
Share-based payment reserve				
Settlement cost of performance shares				
Shares repurchased	(6)	(496)	**(502)**	
BALANCE AT 31 DECEMBER 2015	110	—	**110**	1 455
TOTAL COMPREHENSIVE INCOME FOR THE YEAR				(369)
Remeasurement of defined-benefit obligations				
Deferred tax on remeasurement of defined-benefit obligations				
Remeasurement of post-retirement medical aid obligations				
Deferred tax on remeasurement of post-retirement medical aid obligations				
Cash flow hedge fair value adjustments				
Foreign currency loan translation differences				(96)
Deferred tax on foreign currency loan translation differences				13
Foreign operations translation differences				(286)
Profit for the year				
TRANSACTIONS WITH OWNERS				
Transfer between reserves				
Dividends paid				
Share-based payment reserve				
Settlement cost of performance shares				
Shares repurchased				
BALANCE AT 31 DECEMBER 2016	110	—	**110**	1 086

FOREIGN CURRENCY TRANSLATION RESERVE

The foreign currency translation reserve comprises all foreign exchange differences from the translation of the financial statements of foreign operations, as well as from the translation of monetary items receivable from or payable to a foreign operation for which settlement is neither planned not likely to occur in the foreseeable future.

SHARE-BASED PAYMENT RESERVE

The share-based payment reserve comprises the accumulated share-based payments over the vesting periods of the underlying instruments. Once all the instruments have vested, the reserve will be transferred to retained earnings.

OTHER RESERVES

The reserve for effective cash flow hedges.

Share-based payment reserve	Other reserves	**Total other reserves**	Retained earnings	**Total**	Non-controlling interest	Preference share capital	**Total equity**
167	—	**830**	6 284	**7 726**	71	6	**7 803**
		792	1 827	**2 619**	35	3	**2 657**
			1 576	**1 576**			**1 576**
			(458)	**(458)**			**(458)**
			(417)	**(417)**			**(417)**
			119	**119**			**119**
		116		**116**			**116**
		(20)		**(20)**			**(20)**
		696		**696**	16		**712**
			1 007	**1 007**	19	3	**1 029**
(17)		**(17)**	(894)	**(1 413)**	(2)	(3)	**(1 418)**
			(833)	**(833)**	(2)	(3)	**(838)**
77		**77**		**77**			**77**
(94)		**(94)**		**(94)**			**(94)**
			(61)	**(563)**			**(563)**
150	—	**1 605**	7 217	**8 932**	104	6	**9 042**
	(3)	**(372)**	777	**405**	25	3	**433**
			(20)	**(20)**			**(20)**
			6	**6**			**6**
			19	**19**			**19**
			(5)	**(5)**			**(5)**
	(3)	**(3)**		**(3)**			**(3)**
		(96)		**(96)**			**(96)**
		13		**13**			**13**
		(286)		**(286)**	(7)		**(293)**
			777	**777**	32	3	**812**
45	2	**47**	(471)	**(424)**	(2)	(3)	**(429)**
	2	**2**	(2)	**—**			**—**
			(430)	**(430)**	(2)	(3)	**(435)**
67		**67**		**67**			**67**
(22)		**(22)**		**(22)**			**(22)**
			(39)	**(39)**			**(39)**
195	(1)	**1 280**	7 523	**8 913**	127	6	**9 046**

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016 continued

R millions	Ordinary share capital	Share premium	Total ordinary capital
COMPANY			
BALANCE AT 1 JANUARY 2015	128	602	**730**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR			
Remeasurement of defined-benefit obligations			
Deferred tax on remeasurement of defined-benefit obligations			
Remeasurement of post-retirement medical aid obligations			
Deferred tax on remeasurement of post-retirement medical aid obligations			
Profit for the year			
TRANSACTIONS WITH OWNERS	(6)	(557)	**(563)**
Dividends paid			
Share-based payment reserve			
Settlement cost for performance shares			
Shares repurchased	(6)	(557)	**(563)**
Transfers to retained earnings			
BALANCE AT 31 DECEMBER 2015	122	45	**167**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR			
Remeasurement of defined-benefit obligations			
Deferred tax on remeasurement of defined-benefit obligations			
Remeasurement of post-retirement medical aid obligations			
Deferred tax on remeasurement of post-retirement medical aid obligations			
Profit for the year			
TRANSACTIONS WITH OWNERS		(39)	**(39)**
Dividends paid			
Share-based payment reserve			
Settlement cost of performance shares			
Shares repurchased		(39)	**(39)**
BALANCE AT 31 DECEMBER 2016	122	6	**128**

Share-based payment reserve	Other reserves	**Total other reserves**	Retained earnings	**Total**	Preference share capital	**Total equity**
168	6	**174**	2 429	**3 333**	6	**3 339**
			1 128	**1 128**	3	**1 131**
			1 597	**1 597**		**1 597**
			(458)	**(458)**		**(458)**
			(408)	**(408)**		**(408)**
			108	**108**		**108**
			289	**289**	3	**292**
(17)	(6)	**(23)**	(913)	**(1 499)**	(3)	**(1 502)**
			(919)	**(919)**	(3)	**(922)**
77		**77**		**77**		**77**
(94)		**(94)**		**(94)**		**(94)**
				(563)		**(563)**
	(6)	**(6)**	6	**—**		**—**
151	—	**151**	2 644	**2 962**	6	**2 968**
			31	**31**	3	**34**
			(20)	**(20)**		**(20)**
			6	**6**		**6**
			19	**19**		**19**
			17	**17**		**17**
			9	**9**	3	**12**
45		**45**	(477)	**(471)**	(3)	**(474)**
			(477)	**(477)**	(3)	**(480)**
67		**67**		**67**		**67**
(22)		**(22)**		**(22)**		**(22)**
		—		**(39)**		**(39)**
196	—	**196**	2 198	**2 522**	6	**2 528**

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

R millions		Note	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
CASH GENERATED BY OPERATIONS		i	**2 328**	2 607	**516**	722
Dividends received			**46**	30	**—**	—
Interest paid			**(238)**	(253)	**(402)**	(349)
Interest received			**55**	66	**169**	301
Tax paid		ii	**(636)**	(532)	**(92)**	(65)
Changes in working capital		iii	**488**	(215)	**84**	106
Cash flows relating to defined-benefit costs			**(27)**	(62)	**(27)**	(32)
Cash flows relating to non-current provisions and employee benefits			**(76)**	(64)	**(61)**	(61)
Cash flows relating to post-retirement medical aid obligations			**—**	(222)	**—**	(222)
Settlement of performance shares			**(22)**	(94)	**(22)**	(94)
CASH AVAILABLE FROM OPERATING ACTIVITIES			**1 918**	1 261	**165**	306
Dividends paid		iv	**(435)**	(838)	**(480)**	(922)
CASH FLOWS FROM OPERATING ACTIVITIES			**1 483**	423	**(315)**	(616)
CASH FLOWS FROM INVESTING ACTIVITIES			**(452)**	(844)	**2 389**	164
Net replacement to maintain operations			**(305)**	(235)	**(96)**	(94)
Replacement of	— property, plant and equipment		**(319)**	(308)	**(98)**	(110)
	— investment property		**—**	—	**—**	(2)
Proceeds from disposal of assets classified as held for sale			**—**	11	**—**	9
Proceeds from disposal of property, plant and equipment, investment property and intangible assets			**14**	62	**2**	9
Investments to expand operations			**(147)**	(609)	**2 485**	258
Acquisition of	— property, plant and equipment		**(175)**	(275)	**(80)**	—
	— intangible assets		**(4)**	—	**—**	—
	— investment property		**(4)**	—	**(4)**	—
	— investments		**(5)**	(18)	**(1)**	—
	— subsidiaries, net of cash acquired		**—**	(312)	**—**	(3 188)
Loans with	— associates and other investments		**2**	9	**—**	—
	— subsidiaries and joint ventures		**39**	(13)	**2 570**	3 446
NET CASH GENERATED/(UTILISED) BEFORE FINANCING ACTIVITIES			**1 031**	(421)	**2 074**	(452)
CASH FLOWS FROM FINANCING ACTIVITIES			**(1 549)**	691	**(2 075)**	516
Non-current borrowings	— raised		**1 100**	794	**1 100**	623
	— repaid		**—**	(364)	**—**	(364)
Current borrowings	— raised		**10**	6 630	**8**	6 630
	— repaid		**(2 620)**	(5 810)	**(3 144)**	(5 810)
Loans receivable	— received		**—**	4	**—**	—
Share repurchase			**(39)**	(563)	**(39)**	(563)
(DECREASE)/INCREASE IN CASH			**(518)**	270	**(1)**	64
Cash at the beginning of the year			**2 114**	1 376	**323**	259
Translation (loss)/gain on cash			**(131)**	468	**—**	—
CASH AT THE END OF THE YEAR			**1 465**	2 114	**322**	323

NOTES TO THE STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

	GROUP		COMPANY	
R millions	2016	2015	2016	2015
i. CASH GENERATED BY OPERATIONS				
Profit from operations	**1 335**	1 703	**208**	374
Adjusted for non-cash movements:				
Defined-benefit costs	**194**	287	**192**	293
Depreciation and amortisation	**626**	590	**84**	80
Share-based payment expense	**67**	77	**24**	34
Impairment of goodwill	**28**	4	**—**	—
Impairment of property, plant and equipment	**54**	19	**—**	—
Non-current provisions and employee benefits	**49**	24	**26**	(10)
Loss/(surplus) on disposal of property, plant and equipment	**9**	(26)	**—**	(1)
Surplus on disposal of assets classified as held for sale	**—**	(48)	**—**	(48)
Gain on bargain purchase	**—**	(23)	**—**	—
Gain on reassessment of contingent consideration	**(34)**	—	**(18)**	—
	2 328	2 607	**516**	722
ii. TAX PAID				
Owing at the beginning of the year	**(151)**	(105)	**(54)**	(51)
Charge for the year	**(499)**	(577)	**(44)**	(68)
Translation differences and other	**—**	(1)	**—**	—
Owing at the end of the year	**14**	151	**6**	54
	(636)	(532)	**(92)**	(65)
iii. CHANGES IN WORKING CAPITAL				
Decrease/(increase) in inventories	**173**	(479)	**6**	(191)
Decrease/(increase) in accounts receivable	**513**	(582)	**(53)**	(76)
(Decrease)/increase in accounts payable	**(62)**	535	**178**	250
	624	(526)	**131**	(17)
Translation differences and other	**(136)**	171	**(47)**	123
Business combinations	**—**	140	**—**	—
	488	(215)	**84**	106
iv. DIVIDENDS PAID				
Paid during the year (see note 25)	**433**	836	**480**	922
Paid to non-controlling interest	**2**	2		
	435	838	**480**	922

1. PROPERTY, PLANT AND EQUIPMENT

GROUP

R millions	Property	Plant and equipment	Furniture and fittings	Computer equipment	Motor vehicles	Under construction	Total
2016							
COST	1 237	5 951	125	354	611	420	8 698
At the beginning of the year	1 194	5 911	114	347	648	468	8 682
Additions	4	31	2	5	11	441	494
Disposals	(10)	(128)	(4)	(12)	(26)	(3)	(183)
Transfers	74	297	15	17	29	(432)	—
Transfers to assets classified as held for sale	—	(1)	—	—	—	—	(1)
Translation differences	(25)	(159)	(2)	(3)	(51)	(54)	(294)
ACCUMULATED DEPRECIATION AND IMPAIRMENT	429	3 455	84	289	451		4 708
At the beginning of the year	390	3 211	79	265	441		4 386
Disposals	(6)	(115)	(4)	(12)	(24)		(161)
Translation differences	(12)	(115)	(2)	(4)	(35)		(168)
Impairment for the year	—	54	—	—	—		54
Depreciation for the year	57	420	11	40	69		597
CARRYING AMOUNT	**808**	**2 496**	**41**	**65**	**160**	**420**	**3 990**
2015							
COST	1 194	5 911	114	347	648	468	8 682
At the beginning of the year	1 026	5 088	111	317	509	593	7 644
Additions	9	69	3	8	7	487	583
Additions through business combinations	3	46	1	2	4	—	56
Disposals	(14)	(83)	(3)	(14)	(24)	(9)	(147)
Transfers	129	375	10	24	51	(589)	—
Transfers to investment property	(3)	—	—	—	—	—	(3)
Translation differences	44	416	(8)	10	101	(14)	549
ACCUMULATED DEPRECIATION AND IMPAIRMENT	390	3 211	79	265	441		4 386
At the beginning of the year	323	2 634	77	229	335		3 598
Disposals	(5)	(67)	(3)	(13)	(23)		(111)
Transfers to assets classified as held for sale	—	—	—	—	—		—
Translation differences	20	225	(4)	10	67		318
Impairment for the year	—	19	—	—	—		19
Depreciation for the year	52	400	9	39	62		562
CARRYING AMOUNT	804	2 700	35	82	207	468	4 296

1. PROPERTY, PLANT AND EQUIPMENT continued

IMPAIRMENT ASSESSMENT

SOUTH AFRICA

During the year, the Directors performed a detailed impairment assessment in respect of the property, plant and equipment, amounting to R1,2 billion, in the Explosives segment in South Africa. The recoverable amounts in respect of each cash-generating unit ("CGU") was estimated based on the greater of its value-in-use and fair value less costs of disposal. Key inputs and assumptions used in determining value-in-use was revenue growth, remaining useful lives of the PPE and an appropriate discount rate applied to the future expected cash flows.

Management estimated the recoverable amount of the CGU related to the assets used to service the coal mining sector and an impairment of R52 million was recognised. The impairment arose due to continued adverse trading conditions in this market.

The recoverable amount was estimated based on the assets' fair value less costs of disposal. The impairment loss was included in net operating costs.

Fair value less costs of disposal was determined by assessing the market value of the assets in their current condition and location.

In 2016, following changes to the use of certain robotic equipment that is part of AEL's ISAP plant, the Group reassessed its estimates and R8 million of the 2015 impairment was reversed.

EGYPT

In 2016 a decision was taken to exit the explosives manufacturing market in Egypt, resulting in the moveable assets of that business being transferred elsewhere in the Explosives segment. An impairment loss of R10 million was recognised on the remaining immovable assets, which represented the net book value of these assets.

1. PROPERTY, PLANT AND EQUIPMENT continued

COMPANY

R millions	Property	Plant and equipment	Furniture and fittings	Computer equipment	Motor vehicles	Under construction	Total
2016							
COST	**62**	**853**	**26**	**75**	**29**	**146**	**1 191**
At the beginning of the year	61	852	26	77	26	87	1 129
Additions	3	38	2	3	7	125	178
Disposals	(3)	(97)	(2)	(8)	(6)	—	(116)
Transfers	1	60	—	3	2	(66)	—
ACCUMULATED DEPRECIATION AND IMPAIRMENT	**30**	**523**	**26**	**57**	**16**		**652**
At the beginning of the year	27	558	25	54	19		683
Disposals	(3)	(95)	(2)	(8)	(6)		(114)
Depreciation for the year	6	60	3	11	3		83
CARRYING AMOUNT	**32**	**330**	**—**	**18**	**13**	**146**	**539**
2015							
COST	61	852	26	77	26	87	1 129
At the beginning of the year	44	788	23	73	23	81	1 032
Additions	6	49	3	4	4	44	110
Disposals	—	(9)	—	(1)	(2)	(1)	(13)
Transfers	11	24	—	1	1	(37)	—
ACCUMULATED DEPRECIATION AND IMPAIRMENT	27	558	25	54	19		683
At the beginning of the year	22	503	23	44	17		609
Disposals	—	(4)	—	(1)	—		(5)
Depreciation for the year	5	59	2	11	2		79
CARRYING AMOUNT	34	294	1	23	7	87	446

2. INVESTMENT PROPERTY

	GROUP		COMPANY	
R millions	2016	2015	2016	2015
COST	**163**	159	**81**	77
At the beginning of the year	**159**	192	**77**	76
Additions	**4**	—	**4**	—
Transfers from property, plant and equipment	**—**	3	**—**	2
Transfers to inventories (property developments)	**—**	(36)	**—**	(1)
ACCUMULATED DEPRECIATION	**23**	22	**21**	20
At the beginning of the year	**22**	20	**20**	20
Transfers to inventories (property developments)	**—**	(1)	**—**	(1)
Depreciation for the year	**1**	3	**1**	1
CARRYING AMOUNT	**140**	137	**60**	57
ADDITIONAL INFORMATION				
Fair value [1, 2]	**731**	735	**1 367**	811
Rental and service income from investment property	**398**	368	**290**	266
Direct operating expenses — relating to rental and service income	**(301)**	(169)	**(301)**	(169)
Direct operating expenses — that did not generate rental income	**(20)**	(78)	**(4)**	(5)

1 *The fair value measurement for all of the investment properties has been categorised as a Level 3 fair value, based on the inputs of the valuation techniques used.*
2 *The fair value in the Group is lower than the fair in the Company because certain properties become owner-occupied on consolidation.*

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 one and five years, with most leases having a three-year term, with annual rental escalations between 6% and 8%. At 31 December 2016, the Gross Lettable Area of the office and industrial sites was approximately 212 049m^2 (2015: 212 049m^2). 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.

2. INVESTMENT PROPERTY continued

MEASUREMENT OF FAIR VALUES

FAIR VALUE HIERARCHY

The fair value of investment property was determined by an external independent property valuation expert, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The fair value for the investment property was split into its components. Fair value measurement for buildings and land was categorised as a Level 3 fair value based on the inputs of the valuation technique used.

UNOBSERVABLE INPUTS

A number of valuation techniques were used depending on the optimal likely use of the property. The following table summarises the valuation techniques used in measuring the fair value of investment property, as well as the significant unobservable inputs considered.

VALUATION TECHNIQUE	SIGNIFICANT UNOBSERVABLE INPUTS	INTER-RELATIONSHIP BETWEEN KEY UNOBSERVABLE INPUTS AND FAIR VALUE MEASUREMENT
The comparable sales approach was used to value vacant land. The valuation model was based on recent sales of comparable properties in the surrounding area, which were analysed to provide an estimate of the value for the property with adjustments made for differing characteristics. The comparable transactions were analysed in terms of their use and the purchase price adjusted for variances in the quality of the space. This purchase price was then divided by the land size to determine a value rate per square metre which was applied to the land in order to derive a fair value.	Comparable sales for parcels of raw, unserviced or rezoned and fully serviced land. The land valued at Modderfontein and Umbogintwini is zoned for business use and is partially serviced, but it is not immediately sub-divisible and developable. Therefore, a fair value per square metre had to be derived with reference to a comparable unzoned and unserviced parcel of land, but enhanced by the perceived value of installed services and zoning.	The enhanced fair value rate per square metre had a direct influence on fair value.

VALUATION TECHNIQUE	SIGNIFICANT UNOBSERVABLE INPUTS	INTER-RELATIONSHIP BETWEEN KEY UNOBSERVABLE INPUTS AND FAIR VALUE MEASUREMENT
The income approach was used to value the buildings. The valuation model was based on discounted cash flows 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 flows was 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 were 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.	Capitalisation rate: 10,5% – 14,0% Vacancy rate for office space: 10,0% – 30,0% Vacancy rate for industrial space: 10,0% – 30,0% Operating expenses for all buildings: R21,00/m^2 – R26,30/m^2	The estimated fair value would increase/(decrease) if: › the capitalisation rate were lower/(higher); › the vacancy rate for office space were lower/(higher); › the vacancy rate for industrial space were lower/(higher); › the operating expenses for all buildings were lower/(higher).

3. INTANGIBLE ASSETS

GROUP

R millions	Customer and marketing relationships	Patents and trademarks	Technical and licensing agreements	Other	Total
2016					
COST	**134**	**21**	**138**	**18**	**311**
At the beginning of the year	**134**	**46**	**138**	**14**	**332**
Additions	**—**	**—**	**—**	**4**	**4**
Disposals	**—**	**(1)**	**—**	**—**	**(1)**
Transfers to assets classified as held for sale	**—**	**(24)**	**—**	**—**	**(24)**
ACCUMULATED AMORTISATION AND IMPAIRMENT	**32**	**9**	**44**	**15**	**100**
At the beginning of the year	**18**	**9**	**36**	**12**	**75**
Transfers to assets classified as held for sale	**—**	**(3)**	**—**	**—**	**(3)**
Amortisation for the year	**14**	**3**	**8**	**3**	**28**
CARRYING AMOUNT	**102**	**12**	**94**	**3**	**211**
2015					
COST	134	46	138	14	332
At the beginning of the year	123	22	138	14	297
Additions through business combinations	11	24	—	—	35
ACCUMULATED AMORTISATION AND IMPAIRMENT	18	9	36	12	75
At the beginning of the year	6	8	28	8	50
Amortisation for the year	12	1	8	4	25
CARRYING AMOUNT	116	37	102	2	257

4. GOODWILL

	GROUP		COMPANY	
R millions	**2016**	2015	**2016**	2015
COST	**1 711**	1 732	**1 011**	1 011
At the beginning of the year	**1 732**	1 429	**1 011**	1 011
Additions through business combinations	**—**	279	**—**	—
Transfers to assets classified as held for sale	**(27)**	—	**—**	—
Translation differences	**6**	24	**—**	—
ACCUMULATED IMPAIRMENT LOSSES	**170**	142	**108**	108
At the beginning of the year	**142**	138	**108**	108
Impairment charge for the year	**28**	4	**—**	—
CARRYING AMOUNT	**1 541**	1 590	**903**	903
Goodwill is allocated to cash-generating units based on the Group's operating segments as follows:				
Explosives	**273**	273	**—**	—
Specialty Chemicals	**1 268**	1 317	**903**	903
CARRYING AMOUNT	**1 541**	1 590	**903**	903

4. GOODWILL continued

IMPAIRMENT OF GOODWILL

Goodwill is tested for impairment by calculating the value-in-use of the CGU to which the goodwill is allocated. The goodwill in the Specialty Chemicals segment comprises individual CGUs, each of which has been tested for impairment. The goodwill in the Explosives segment relates to one CGU which has been tested for impairment.

Value-in-use was determined by discounting the future cash flows generated from the continuing use of the CGU 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;
- a pre-tax discount rate of between 12% and 18% (2015: 12% and 20%) was applied in determining the recoverable amount of the CGUs. The discount rate was estimated based on the Group's weighted average cost of capital, adjusted for the risk profile applicable to each CGU;
- the key assumptions applied by management in arriving at the business plan are based on the latest publicly available market information; and
- terminal value growth rates of between 2% and 10% (2015: 2% and 7%) were applied. This was based on sustainable earnings and a conservative growth model.

A reasonably possible change in the assumptions used to calculate the value-in-use is not likely to cause the recoverable amount to fall below the carrying value of the remaining CGUs.

IMPAIRMENTS DURING THE YEAR

Exposure to South Africa's poultry industry, which has been disrupted by amended legislation regulating brining levels and imports, resulted in the recognition of an impairment loss of R28 million in respect of goodwill in the Cobito business. The impairment loss was included in net operating costs. The business is part of Lake Foods, which in turn is part of the Specialty Chemicals segment.

5. INVESTMENT IN SUBSIDIARIES AND LOANS WITH SUBSIDIARIES

COMPANY

R millions	2016	2015
Unlisted shares (see note 32)	4 717	4 729
At cost	4 768	4 780
Less impairment losses	(51)	(51)
Non-current loans to subsidiaries	97	181
Amounts owing[1]	108	192
Less impairment losses	(11)	(11)
Investment in subsidiaries	4 814	4 910
Non-current loans from subsidiaries[1]	(676)	(688)
NET INVESTMENT IN SUBSIDIARIES	**4 138**	**4 222**
Interest-bearing non-current loans to subsidiaries	400	486
Interest-bearing current loans to subsidiaries[2]	2 719	3 396
INTEREST-BEARING LOANS TO SUBSIDIARIES	**3 119**	**3 882**
Interest-bearing current loans from subsidiaries	(5 404)	(3 762)
INTEREST-BEARING LOANS FROM SUBSIDIARIES	**(5 404)**	**(3 762)**
NET LOANS WITH SUBSIDIARIES (SEE NOTE 32)	**(2 864)**	**(387)**

1 Other loans provided by and to the Company are not expected to be repaid within 12 months and are classified as non-current.
2 Operating companies are funded through the central Treasury of the Company and such loans are classified as current.

The loans with non-operating companies are considered part of the net investment in those companies.

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

Impairment assessments 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 investments having a recoverable amount lower than the carrying value, the investments were impaired.

Impairment assessments on investments in subsidiary companies were made with reference to the net asset value, future business plans and cash flow forecasts of those companies. Where this resulted in the value of the investments having a recoverable amount lower than the carrying value, the investments were impaired.

Impairment assessments 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 loans having a recoverable amount lower than their carrying value, the loans were impaired.

Loans bear interest at market-related variable rates, are unsecured and have no fixed terms of repayment.

6. INVESTMENT IN JOINT VENTURES AND LOANS WITH JOINT VENTURES

	GROUP		COMPANY	
R millions	2016	2015	2016	2015
Interest-bearing current loans from joint ventures	(75)	(36)	(118)	(72)
LOANS FROM JOINT VENTURES	(75)	(36)	(118)	(72)

INTERESTS IN JOINT VENTURES

The Group's share of profit in the equity-accounted investees for the year was R60 million (2015: R54 million).

In 2016 the Group received dividends of R46 million from its equity-accounted investees (2015: R30 million).

Crest Chemicals is a joint venture with the Brenntag AG Group. Crest Chemicals 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.

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

The Group has a residual interest in the net assets of Crest Chemicals and Specialty Minerals South Africa and thus they are classified as joint ventures.

None of the Group's equity-accounted investees are publicly listed entities and, therefore, they do not have published price quotations.

Summary financial information for the equity-accounted investees was as follows:

STATEMENTS OF FINANCIAL POSITION

R millions	Crest Chemicals	Specialty Minerals South Africa	Total
2016			
OWNERSHIP (%)	50	50	
Current assets excluding cash and cash equivalents	637	24	661
Cash and cash equivalents	61	121	182
Non-current assets	270	10	280
TOTAL ASSETS	968	155	1 123
Trade and other payables	352	40	392
Non-current liabilities	45	3	48
TOTAL LIABILITIES	397	43	440
Non-controlling interest	29	—	29
NET ASSETS	542	112	654
Group's share of net assets	271	56	327
CARRYING AMOUNT	271	56	327
2015			
OWNERSHIP (%)	50	50	
Current assets excluding cash and cash equivalents	548	52	600
Cash and cash equivalents	194	69	263
Non-current assets	275	9	284
TOTAL ASSETS	1 017	130	1 147
Trade and other payables	410	34	444
Non-current liabilities	52	—	52
TOTAL LIABILITIES	462	34	496
Non-controlling interest	25	—	25
NET ASSETS	530	96	626
Group's share of net assets	265	48	313
CARRYING AMOUNT	265	48	313

6. INVESTMENT IN JOINT VENTURES AND LOANS WITH JOINT VENTURES continued

INCOME STATEMENTS

R millions	Resinkem	Crest Chemicals	Specialty Minerals South Africa	Total
2016				
OWNERSHIP (%)		**50**	**50**	
Revenue		**1 917**	**166**	**2 083**
Net operating costs excluding depreciation and amortisation		**(1 802)**	**(102)**	**(1 904)**
Depreciation and amortisation		**(11)**	**(1)**	**(12)**
Interest expense		**(4)**	**—**	**(4)**
Interest received		**7**	**4**	**11**
Tax expense		**(31)**	**(19)**	**(50)**
Non-controlling interest		**(4)**	**—**	**(4)**
PROFIT		**72**	**48**	**120**
Group's share of profit		**36**	**24**	**60**
2015				
OWNERSHIP (%)	50	50	50	
Revenue	36	1 673	140	1 849
Net operating costs excluding depreciation and amortisation	(36)	(1 564)	(84)	(1 684)
Depreciation and amortisation	—	(9)	(5)	(14)
Interest expense	—	(2)	—	(2)
Interest received	—	6	2	8
Tax expense	—	(29)	(17)	(46)
Non-controlling interest	—	(3)	—	(3)
PROFIT	—	72	36	108
Group's share of profit	—	36	18	54

INTERESTS IN JOINT OPERATIONS

COMPANY

R millions	2016	2015
Unlisted shares at amortised cost	**28**	28

DetNet is a joint venture with Dyno Nobel, a subsidiary of Incitec Pivot Ltd. DetNet is represented globally by both AEL Mining Services and Dyno Nobel, thus providing global access and support for all its products. The Group has rights to the assets and obligations for the liabilities of DetNet and thus it is classified as a joint operation.

PERCENTAGE HELD BY AECI

Ownership (%)	2016	2015
DetNet International Ltd[1]	**—**	50
DetNet South Africa (Pty) Ltd	**50**	50

1 Incorporated in Ireland. Liquidation proceedings by this entity were finalised in the current year.

6. INVESTMENT IN JOINT VENTURES AND LOANS WITH JOINT VENTURES continued

GROUP'S SHARE OF INCOME STATEMENT

R millions	2016	2015
OWNERSHIP (%)	**50**	50
Revenue	**121**	127
Net operating costs excluding depreciation and amortisation	**(116)**	(105)
Depreciation and amortisation	**(2)**	(2)
Interest expense	**—**	—
Interest received	**3**	2
Tax expense	**(1)**	(5)
Non-controlling interest	**—**	—
PROFIT	**5**	17

GROUP'S SHARE OF FINANCIAL POSITION

R millions	2016	2015
OWNERSHIP (%)	**50**	50
Current assets excluding cash and cash equivalents	**82**	69
Cash and cash equivalents	**6**	7
Non-current assets	**21**	18
TOTAL ASSETS	**109**	94
Trade and other payables	**24**	14
Non-current liabilities	**1**	2
TOTAL LIABILITIES	**25**	16
NET ASSETS	**84**	78

7. INVESTMENT IN ASSOCIATES

GROUP

R millions	2016	2015
CARRYING AMOUNT		
Unlisted shares at cost	**273**	273
Post-acquisition retained earnings	**(79)**	(23)
Balance at the beginning of the year	**(23)**	(13)
Impairment	**—**	(51)
Translation differences	**(24)**	67
Current year's share of losses of associate company	**(32)**	(26)
TOTAL INVESTMENT IN ASSOCIATES	**194**	250

The Group has a material equity interest in an associate, PT Black Bear Resources Indonesia ("BBRI"). BBRI is an Indonesian company and has built an ammonium nitrate plant which supplies ammonium nitrate solution to the region, thereby improving the Explosives segment's supply chain. BBRI is a strategic investment for that segment and will enable local supply to replace imports into the market in the region.

R millions	2016	2015
PERCENTAGE OWNERSHIP INTEREST (%)	**42,6**	42,6
STATEMENT OF FINANCIAL POSITION		
Current assets	**90**	103
Non-current assets	**391**	506
Current liabilities	**(80)**	(290)
Non-current liabilities	**(174)**	(3)
NET ASSETS (100%)	**227**	316
CARRYING AMOUNT OF INTEREST IN ASSOCIATE	**176**	232
INCOME STATEMENT		
Revenue	**170**	161
Net operating costs excluding depreciation and amortisation	**(149)**	(153)
Depreciation and amortisation	**(51)**	(43)
Interest expense	**(20)**	(19)
Interest received	**1**	—
Tax expense	**(26)**	(8)
LOSS	**(75)**	(62)

R millions	2016	2015
GROUP SHARE OF LOSSES	**(32)**	(26)

The Group also has significant influence in agVantage, which is individually immaterial. Although the actual holding is 35%, the investment is held by a joint venture company in which the Group has a 50% interest.

R millions	2016	2015
CARRYING AMOUNT OF INTEREST IN ASSOCIATE	**18**	18

8. OTHER INVESTMENTS

R millions	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
NON-CURRENT INVESTMENTS				
Equity instruments	6	6	4	4
Unlisted shares	2	2	—	—
Capital contributions	4	4	4	4
Loans and receivables	19	21	7	6
OTHER NON-CURRENT INVESTMENTS	25	27	11	10
CURRENT INVESTMENTS	190	67	118	—
Money market investment[1]	72	67	—	—
Employer surplus accounts[2]	118	—	118	—
OTHER CURRENT INVESTMENTS	190	67	118	—

1 *The money market investment is an investment in a collective investment scheme with Investec Bank Ltd. The investment is considered to be a Level 1 asset and its carrying value, therefore, was the same as its fair value at the reporting date.*
2 *Employer surplus accounts include the surpluses from the AECI Defined Contribution Pension Fund and the AECI Employees Provident Fund. The investment is considered to be a Level 1 asset and its carrying value, therefore, was the same as its fair value at the reporting date. See note 29 for further information in this regard.*

9. DEFERRED TAX

R millions	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
At the beginning of the year	95	366	(153)	163
Recognised in the income statement				
— normal activities	163	113	113	34
Recognised in other comprehensive income				
— foreign currency loan translation differences	13	(20)	—	—
— defined-benefit obligations	6	(458)	6	(458)
— post-retirement medical aid obligations	(5)	119	17	108
Business combinations	—	(16)	—	—
Other	1	(9)	(4)	—
AT THE END OF THE YEAR	273	95	(21)	(153)
Analysis by major temporary differences:				
Property, plant and equipment	(520)	(557)	(39)	(51)
Provisions and deferred income	436	501	254	250
Pension fund employer surplus accounts	(196)	(275)	(196)	(275)
Deferred foreign exchange differences	(69)	(109)	(39)	(71)
Computed tax losses	641	622	—	—
Other	(19)	(87)	(1)	(6)
	273	95	(21)	(153)
Comprising:				
Deferred tax assets	527	522	—	—
Deferred tax liabilities	(254)	(427)	(21)	(153)
	273	95	(21)	(153)

Deferred tax assets of R527 million (2015: R522 million) were 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 were estimated based on business plans which include estimates and assumptions regarding economic growth, interest and inflation rates and competitive forces.

10. INVENTORIES

	GROUP		COMPANY	
R millions	**2016**	2015	**2016**	2015
Raw and packing materials	**1 023**	1 249	**252**	277
In progress	**16**	109	**7**	10
Finished goods and merchandise	**1 917**	1 729	**900**	827
Consumable stores	**152**	149	**—**	—
Spares and other	**66**	119	**21**	72
Property developments	**—**	3	**—**	—
	3 174	3 358	**1 180**	1 186
INCOME STATEMENT				
Cost of inventories recognised as an expense	**10 737**	10 519	**3 994**	3 702
Losses and write-down of inventories	**8**	15	**6**	11
Inventory adjustments	**(39)**	32	**19**	14

11. ACCOUNTS RECEIVABLE

	GROUP		COMPANY	
R millions	**2016**	2015	**2016**	2015
Trade	**2 915**	3 227	**1 011**	956
Pre-payments	**85**	134	**28**	22
VAT	**121**	109	**66**	61
Other	**176**	332	**60**	69
Subsidiaries and joint ventures	**45**	23	**287**	215
	3 342	3 825	**1 452**	1 323

Trade receivables are exposed to credit risk as described in note 27.

11. ACCOUNTS RECEIVABLE continued

	GROUP		COMPANY	
R millions	2016	2015	2016	2015
The maximum exposure to credit risk for trade receivables at 31 December by geographic region was:				
South Africa	1 894	1 954	960	899
Rest of Africa	767	926	32	40
North America	36	67	—	—
South America	16	11	1	3
Asia	78	146	10	3
Australia	79	102	2	5
Europe	45	21	6	6
	2 915	3 227	1 011	956
The ageing of gross trade receivables at 31 December was:				
Not past due	2 190	2 316	845	805
Past due 0 to 30 days	470	589	95	89
Past due 30 to 90 days	124	201	33	30
Past due more than 90 days	316	292	62	61
GROSS TRADE RECEIVABLES	3 100	3 398	1 035	985
The ageing of impairments of trade receivables at 31 December was:				
Not past due	(14)	(3)	(11)	(1)
Past due 0 to 30 days	(2)	—	(1)	—
Past due 30 to 90 days	(7)	(3)	(1)	(1)
Past due more than 90 days	(162)	(165)	(11)	(27)
TOTAL IMPAIRMENTS	(185)	(171)	(24)	(29)
NET TRADE RECEIVABLES	2 915	3 227	1 011	956
IMPAIRMENT OF TRADE RECEIVABLES				
At the beginning of the year	(171)	(55)	(29)	(25)
Additional impairments recognised during the year	(26)	(150)	(3)	(10)
Impairments reversed during the year	5	25	1	6
Impairments applied to trade receivables deemed irrecoverable	7	9	7	—
AT THE END OF THE YEAR	(185)	(171)	(24)	(29)

Impairments of trade receivables were recognised with reference to the ageing of trade receivables that were 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

Management is committed to a plan to sell the Olive Pride business and anticipates that the disposal will be completed in the next financial year. The assets are available for immediate sale in their present condition. Accordingly, the business is presented as a disposal group held for sale as at 31 December 2016. No impairment loss was required to be recognised in the disposal group, as its carrying amount was lower than its fair value less costs to sell. No cumulative income or expenses related to the disposal group were included in other comprehensive income. The Olive Pride business is part of Southern Canned Products, which in turn is part of the Specialty Chemicals segment.

The carrying amount of assets classified as held for sale was:

	GROUP	
R millions	2016	2015
Goodwill	27	—
Property, plant and equipment	1	—
Intangible assets	21	—
Inventory	11	—
ASSETS CLASSIFIED AS HELD FOR SALE	60	—

13. SHARE CAPITAL AND SHARE PREMIUM

	NUMBER OF SHARES		GROUP		COMPANY	
	2016	2015	2016 R millions	2015 R millions	2016 R millions	2015 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**	10 117 951				
LISTED ORDINARY SHARES AT THE BEGINNING AND END OF THE YEAR						
At the beginning of the year						
Group	**110 386 596**	116 356 441	**110**	116		
Company	**122 271 295**	128 241 140			**122**	128
Repurchased during the year						
Group	**(442 212)**	(5 969 845)	**—**	(6)		
Company	**(442 212)**	(5 969 845)			**—**	(6)
At the end of the year						
Group	**109 944 384**	110 386 596	**110**	110		
Company	**121 829 083**	122 271 295			**122**	122
UNLISTED REDEEMABLE CONVERTIBLE B ORDINARY SHARES AT THE BEGINNING AND END OF THE YEAR						
Company	**10 117 951**	10 117 951				
Share premium less share issue expenses			**—**	—	**6**	45
At the beginning of the year			**—**	496	**45**	602
Shares repurchased			**—**	(496)	**(39)**	(557)
Total ordinary shares						
Group	**109 944 384**	110 386 596	**110**	110		
Company	**131 947 034**	132 389 246			**128**	167
No par value treasury shares held by a consolidated trust	**10 117 951**	10 117 951				
Par value treasury shares held by a subsidiary company	**11 884 699**	11 884 699				
Total treasury shares at the beginning and end of the year	**22 002 650**	22 002 650				
LISTED 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 MOI 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 shall be limited to 3 150 000 pound sterling (1,05 pound sterling per share).

The Company has one beneficial shareholder holding 5% or more of the Company's listed ordinary shares, other than treasury shares, being the Government Employees Pension Fund (PIC) which at 31 December 2016 held 17 251 837 shares, equivalent to 15,69% of the Company's listed ordinary shares.

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, accounts receivable and assets classified as held for sale less accounts payable. There are no externally imposed capital requirements.

SHARES REPURCHASED

During the year, AECI completed a general share repurchase in terms of a general authority to do so approved by shareholders at the AGM of the Company held on 1 June 2015. In the current year, 442 212 shares, or 0,36% of AECI's issued share capital, were repurchased at a cost of R39 million (at an average price of R87,22 per share).

14. NON-CURRENT BORROWINGS

R millions	Weighted closing interest rate (%)	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
UNSECURED					
LOCAL					
Loans:					
Inception date and settlement date:					
2013 to 2016		**—**	850	**—**	850
2014 to 2016		**—**	400	**—**	400
2015 to 2018	8,91	**500**	500	**500**	500
2016 to 2021	9,30	**1 100**	—	**1 100**	—
FOREIGN					
Loans — US dollar	1,78	**8**	330	**8**	330
Loans — US dollar	2,71	**152**	173	**—**	—
SECURED					
LOCAL					
Loans — other[1]	8,40	**2**	1	**—**	—
		1 762	2 254	**1 608**	2 080
Current portion (see note 17)		**(162)**	(1 582)	**(8)**	(1 580)
CARRYING AMOUNT		**1 600**	672	**1 600**	500

1 *Secured in terms of capitalised finance lease agreements over plant and equipment having a net book value of R1 million (2015: R2 million).*

SUMMARY OF REPAYMENTS

R millions	Year	Local	Foreign	Total
GROUP				
	2017	2	160	162
	2018	500	—	500
	2021	1 100	—	1 100
TOTAL REPAYMENTS		**1 602**	**160**	**1 762**
COMPANY				
	2017	—	8	8
	2018	500	—	500
	2021	1 100	—	1 100
TOTAL REPAYMENTS		**1 600**	**8**	**1 608**

15. NON-CURRENT PROVISIONS AND EMPLOYEE BENEFITS

	GROUP		COMPANY	
R millions	2016	2015	2016	2015
ENVIRONMENTAL REMEDIATION				
At the beginning of the year	**162**	173	**119**	133
Paid during the year	**(4)**	(12)	**—**	(11)
Charged to net operating costs during the year				
— Additional provision made	**19**	26	**—**	—
— Reversal of provision	**(31)**	(25)	**(15)**	(3)
Amount claimable from external third party	**19**	—	**—**	—
	165	162	**104**	119
Current portion included in accounts payable (see note 16)	**(19)**	(3)	**—**	—
AT THE END OF THE YEAR	**146**	159	**104**	119
EARNINGS-BASED INCENTIVE SCHEME				
At the beginning of the year	**103**	127	**97**	121
Paid during the year	**(54)**	(39)	**(51)**	(37)
Charged to net operating costs during the year				
— Additional provision made	**46**	15	**43**	13
— Reversal of provision	**(28)**	—	**(26)**	—
	67	103	**63**	97
Current portion included in accounts payable (see note 16)	**(67)**	(103)	**(63)**	(97)
AT THE END OF THE YEAR	**—**	—	**—**	—
EARNINGS-GROWTH INCENTIVE SCHEME				
At the beginning of the year	**88**	40	**39**	19
Paid during the year	**(14)**	—	**(6)**	—
Charged to net operating costs during the year				
— Additional provision made	**43**	48	**19**	20
— Reversal of provision	**(9)**	—	**(4)**	—
	108	88	**48**	39
Current portion included in accounts payable (see note 16)	**(54)**	(26)	**(24)**	(11)
AT THE END OF THE YEAR	**54**	62	**24**	28
CASH-SETTLED SHARE-BASED INCENTIVE SCHEME				
At the beginning of the year	**33**	86	**33**	86
Paid during the year	**(4)**	(13)	**(4)**	(13)
Charged to net operating costs during the year				
— Additional provision made	**9**	—	**9**	—
— Reversal of provision	**—**	(40)	**—**	(40)
	38	33	**38**	33
Current portion included in accounts payable (see note 16)	**(33)**	(33)	**(33)**	(33)
AT THE END OF THE YEAR	**5**	—	**5**	—
POST-RETIREMENT MEDICAL AID OBLIGATIONS				
Made up as follows:				
Actuarial valuation of obligations (see note 29)	**207**	481	**207**	479
AT THE END OF THE YEAR	**207**	481	**207**	479
TOTAL NON-CURRENT PROVISIONS	**412**	702	**340**	626

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.

15. NON-CURRENT PROVISIONS AND EMPLOYEE BENEFITS continued

EARNINGS-BASED, EARNINGS-GROWTH AND CASH-SETTLED SHARE-BASED INCENTIVE SCHEMES

The earnings-based incentive scheme, earnings-growth 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 29).

The amount payable depends on employees meeting the vesting conditions pertaining to their period of employment as well as the earnings of the Group or the Company's share price performance during the life of the units.

POST-RETIREMENT MEDICAL AID OBLIGATIONS

Details of the nature of the post-retirement medical aid obligations provision are contained in note 29. 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 obligations are also detailed in note 29.

16. ACCOUNTS PAYABLE

	GROUP		COMPANY	
R millions	**2016**	2015	**2016**	2015
Trade	**2 759**	2 962	**1 357**	1 249
Payroll-related accruals	**497**	454	**216**	199
Other payables [1]	**669**	366	**434**	192
VAT	**34**	47	**—**	—
Subsidiaries and joint ventures	**16**	9	**243**	232
	3 975	3 838	**2 250**	1 872
Current portion of non-current provisions (see note 15)	**173**	165	**120**	141
	4 148	4 003	**2 370**	2 013

1 Included in other payables is an amount of R172 million (2015: nil) relating to the settlement of post-retirement medical aid obligations to pensioners.

17. CURRENT BORROWINGS

	GROUP		COMPANY	
R millions	**2016**	2015	**2016**	2015
Current portion of non-current borrowings (see note 14)	**162**	1 582	**8**	1 580
Unsecured interest-bearing short-term borrowings	**—**	1 038	**—**	1 564
	162	2 620	**8**	3 144

18. REVENUE

	GROUP		COMPANY	
R millions	**2016**	2015	**2016**	2015
Sale of goods and related services	**18 198**	17 524	**5 082**	4 637
Leasing and related services	**398**	368	**290**	266
Sales of surplus land	**—**	554	**—**	—
Sales to subsidiary companies			**515**	519
Leasing and related services to subsidiary companies			**32**	47
	18 596	18 446	**5 919**	5 469
Local	**12 117**	12 085	**5 080**	4 654
Foreign	**6 479**	6 361	**292**	249
Subsidiary companies			**547**	566
	18 596	18 446	**5 919**	5 469

19. NET OPERATING COSTS

	GROUP		COMPANY	
R millions	2016	2015	2016	2015
Cost of sales	12 561	12 286	4 704	4 329
Selling and distribution expenses	1 708	1 861	371	431
Administrative expenses	2 992	2 596	636	335
NET OPERATING COSTS	17 261	16 743	5 711	5 095
Net operating costs have been arrived at after taking into account:				
Auditors' remuneration	25	20	5	5
— Audit fees	19	19	4	4
— Other services	6	1	1	1
Depreciation and amortisation	626	590	84	80
— Property, plant and equipment	597	562	83	79
— Investment property	1	3	1	1
— Intangible assets	28	25	—	—
Foreign exchange gains	(346)	(325)	—	(150)
— Realised	(265)	(231)	—	(3)
— Unrealised	(81)	(94)	—	(147)
Foreign exchange losses	433	261	67	—
— Realised	319	196	5	—
— Unrealised	114	65	62	—
Impairment of goodwill	28	4	—	—
Impairment of property, plant and equipment	54	19	—	—
Increase/(decrease) in non-current provisions and employee benefits	49	24	26	(10)
— Environmental remediation	(12)	1	(15)	(3)
— Earnings-based incentive scheme	18	15	17	13
— Earnings-growth incentive scheme	34	48	15	20
— Cash-settled share-based incentive scheme	9	(40)	9	(40)
Operating lease costs	189	178	36	32
Research and development expenditure	52	53	—	—
Gain on bargain purchase	—	(23)	—	—
Gain on reassessment of contingent consideration	34	—	18	—
Loss/(surplus) on disposal of property, plant and equipment	—	(48)	—	(48)
(Surplus)/loss on disposal of property, plant and equipment	9	(26)	—	(1)
— Property	—	13	—	—
— Plant and equipment	9	(39)	—	(1)

19. NET OPERATING COSTS continued

R millions	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
Total salaries and other staff costs	**3 471**	3 429	**1 081**	1 142
Salaries and other staff costs	**3 210**	3 067	**865**	815
Defined-benefit costs				
— Pension funds [1]	**—**	147	**—**	147
— Post-retirement medical aid obligations [1]	**194**	138	**192**	146
EST share-based payment	**24**	23	**4**	6
Performance share-based payment	**43**	54	**20**	28
Loss on settlement included in defined-benefit costs (see note 29)	**149**	178	**147**	178
— Loss on settlement of pension fund obligations for certain pensioners	**—**	103	**—**	103
— Post-retirement medical aid obligations	**149**	75	**147**	75

1 *Includes loss on settlement of R149 million (2015: R178 million).*

20. SHARE-BASED PAYMENTS

AECI EMPLOYEES SHARE TRUST ("EST")

R millions	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
Equity-settled share-based payment	**24**	23	**24**	23
— Recognised in profit from operations	**24**	23	**4**	6
— Investment in subsidiaries and joint arrangements			**20**	17

On 9 February 2012, the Company created and issued 10 117 951 redeemable convertible AECI 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 R75,82. 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:

20. SHARE-BASED PAYMENTS continued

AECI EMPLOYEES SHARE TRUST ("EST") CONTINUED

NUMBER OF YEARS OF COMPLETED SERVICE	TOTAL NUMBER OF SHARES ALLOCATED
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 AECI B ordinary shares may not exceed the dividend declared on the ordinary shares.

At the end of the 10-year lock-in 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 AECI B ordinary shares will be redeemed for no consideration. Any shares which have not been allocated to employees will be distributed to the AECI Community Education and Development Trust ("CEDT").

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 as follows:

$A = B \times \{1 - [(C - E + F + X) \div D]\}$

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, 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 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 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.

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.

20. SHARE-BASED PAYMENTS continued

AECI EMPLOYEES SHARE TRUST ("EST") CONTINUED

The inputs for the model, based on market conditions at the grant date, and fair value determined were:

	FIRST ALLOCATION	SECOND ALLOCATION	THIRD ALLOCATION	FOURTH ALLOCATION	FIFTH ALLOCATION
Market price of the Company's listed shares at the grant date (rand)	88,89	80,95	116,76	120,59	91,00
Issue price (rand) [1]	75,82	75,82	75,82	75,82	75,82
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 dates	30 April 2012	1 October 2012	1 September 2013	1 September 2014	31 March 2016
Termination date	9 February 2022	9 February 2022	9 February 2022	9 February 2022	9 February 2022
Hurdle price (rand) [2]	216,26	199,75	222,35	203,25	104,00
Share price volatility (% per annum) [3]	24,70	22,50	22,00	23,93	22,77
Vesting dates	7 years in accordance with the forfeiture profile above				
Number of simulations	50 000	50 000	50 000	50 000	500 000
Fair value of equity instrument (rand)	18,54	12,27	29,64	32,81	8,08
Number of shares allocated	7 569 669	509 102	560 978	710 562	1 897 590

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	
	2016	2015
EST SHARE ALLOCATION		
Number of shares issued to the EST	**10 117 951**	10 117 951
Number of shares allocated to beneficiaries	**(9 778 289)**	(9 350 311)
Number of shares forfeited	**1 563 597**	1 161 962
UNALLOCATED POOL SHARES	**1 903 259**	1 929 602

The EST is consolidated in the Group, in line with IFRS 10 Consolidated Financial Statements, given that the AECI Executive Committee controls and determines the number of shares allocated to beneficiaries. The AECI B ordinary shares are 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.

AECI PERFORMANCE SHARES ("PS")

	GROUP		COMPANY	
R millions	**2016**	2015	**2016**	2015
Equity-settled share-based payment	**43**	54	**43**	54
— Recognised in profit from operations	**43**	54	**20**	28
— Investment in subsidiaries and joint arrangements			**23**	26

	NUMBER OF SHARES	
	2016	2015
SHARE ALLOCATION		
Number of PS allocated at the beginning of the year	**838 575**	874 907
Number of PS allocated to beneficiaries during the year	**388 290**	336 182
Number of PS exercised during the year	**(259 505)**	(311 239)
Number of PS forfeited during the year	**(51 646)**	(61 275)
TOTAL PS ALLOCATED AS AT 31 DECEMBER	**915 714**	838 575

20. SHARE-BASED PAYMENTS continued

AECI PERFORMANCE SHARES ("PS") CONTINUED

The AECI Long-term Incentive Plan ("LTIP") was approved by shareholders in 2012. The purpose of the plan is to attract, retain, motivate and reward Executives and Managers who are able to influence the performance of AECI and its subsidiaries on a basis which aligns their interests with those of the Group.

Annual conditional awards of PS will be allocated to Executives and Senior Managers. PS will vest on the third anniversary of their award, to the extent that the Company has met specific performance criteria over the intervening period. Essentially the value per share that vests is the full value, 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 PS do not have an issue price.

The methodology of vesting targets the Company`s comparative total shareholder return ("TSR") in relation to a peer group of companies. Initially, 19 companies were identified but, by 2016, only 15 of the original peer group (including AECI) remained listed on the JSE. As a result, a new peer group of 16 JSE-listed companies (including AECI) was established for the fifth allocation.

The fair value of the PS was determined using a Monte Carlo option pricing approach to simulate the future share price of the Company's listed shares and those of the peer companies and their correlations to one another. The approach involves a large number of simulations of the share prices using the spot share prices on the grant date, as well as risk-free interest rates and volatilities for the different shares as inputs. As the TSR calculation requires the simulation of a number of correlated random variables, the correlations between the share price returns of AECI and those of the peer companies are incorporated into the valuation. For each outcome of the AECI and peer companies' share prices, the TSR will be calculated, incorporating the historical TSR indices. A vesting percentage for the PS will be determined in accordance with the pre-defined ranking rules. The product of this vesting percentage and the simulated AECI share price will provide the fair value of the PS for each simulation. The present value of all simulations was averaged to determine the fair value of the PS.

The inputs for the model, based on market conditions at the grant date, and fair value determined were as follows:

	SECOND ALLOCATION	THIRD ALLOCATION	FOURTH ALLOCATION	FIFTH ALLOCATION
Market price of the AECI's listed shares at the grant date (rand)	118,74	123,55	95,20	83,00
Risk-free interest rates		South African rand zero swaps curve		
Prime rates		South African rand prime curve		
Dividend yield		Based on forecast dividends		
Grant dates	30 November 2013	31 October 2014	31 October 2015	30 June 2016
Vesting dates	28 June 2016	30 June 2017	30 June 2018	30 June 2019
AECI share price volatility (% per annum)	19,99	21,17	21,84	24,33
Fair value of equity instrument (rand)	170,25	195,21	102,95	108,51
Number of PS allocated	290 022	260 702	336 182	388 290

The second allocation was approved in November 2013 resulting in a grant date of 30 November 2013, though the award date was 28 June 2013. The performance period was from 1 June 2013 to 1 June 2016. The third allocation was approved in October 2014 resulting in a grant date of 31 October 2014, though the award date was 30 June 2014. The performance period is from 1 June 2014 until 1 June 2017. The fourth allocation was approved in October 2015 resulting in a grant date of 31 October 2015, though the award date was 30 June 2015. The performance period is from 1 June 2015 until 1 June 2018. The fifth allocation was approved in June 2016, resulting in a grant date of 30 June 2016. The performance period is from 1 June 2016 until 1 June 2019.

The second allocation of PS vested on 28 June 2016. The performance period for those shares was completed on 1 June 2016 and AECI achieved ninth position in the peer group, resulting in the total number of allocated PS vesting. The number of PS available to eligible employees was 259 505, with 30 517 PS having been forfeited prior to vesting. This resulted in 259 505 AECI ordinary shares being granted to eligible employees. AECI contracted with Avior Capital Markets (Pty) Ltd ("Avior") to purchase the shares on the JSE Ltd and to deliver them to eligible employees on the vesting date. Avior purchased the shares at a cost of R22 million and this settlement was recognised in the share-based payment reserve. Avior facilitated the transfer or sale of shares, as desired by eligible employees. The shares were settled in equity by AECI and the facilitation of further transactions on the vested shares does not alter the nature of the scheme.

21. INTEREST EXPENSE

	GROUP		COMPANY	
R millions	2016	2015	2016	2015
Interest paid				
Non-current borrowings	(162)	(126)	(162)	(124)
Current borrowings	(102)	(127)	(90)	(115)
Subsidiary companies and joint ventures			(176)	(110)
Unwinding of discount on contingent consideration	(6)	—	(6)	—
	(270)	(253)	(434)	(349)

22. INTEREST RECEIVED

	GROUP		COMPANY	
R millions	2016	2015	2016	2015
Subsidiary companies and joint ventures	4	—	145	277
Loans and receivables	51	66	24	24
	55	66	169	301

23. TAX (EXPENSE)/CREDIT

	GROUP		COMPANY	
R millions	**2016**	2015	**2016**	2015
Current tax	**(515)**	(560)	**(69)**	(67)
South African and foreign normal tax	**(475)**	(514)	**(69)**	(65)
Foreign withholding taxes	**(40)**	(44)	**—**	—
Securities transfer tax	**—**	(2)	**—**	(2)
Deferred tax	**142**	89	**85**	29
	(373)	(471)	**16**	(38)
Adjustment for prior years	**37**	7	**53**	4
South African and foreign normal tax	**16**	(17)	**25**	(1)
Deferred tax	**21**	24	**28**	5
	(336)	(464)	**69**	(34)
Analysis of deferred tax charge by major temporary differences:				
Property, plant and equipment	**52**	7	**5**	6
Provisions and deferred income	**(38)**	(117)	**(25)**	(116)
Pension fund employer surplus accounts	**73**	172	**73**	172
Deferred foreign exchange differences	**24**	(4)	**32**	—
Computed tax losses	**20**	59	**—**	—
Other	**11**	(28)	**—**	(33)
	142	89	**85**	29
Adjustment for prior years	**21**	24	**28**	5
	163	113	**113**	34
Computed tax losses				
Utilised to reduce deferred tax or create deferred tax assets	**73**	417	**—**	—
Losses on which no deferred tax assets were raised because of uncertainty regarding their utilisation	**78**	18	**—**	—
	151	435	**—**	—

	GROUP		COMPANY	
%	**2016**	2015	**2016**	2015
Reconciliation of tax rate computed in relation to profit before tax:				
Effective rate	**29,3**	31,1	**121,1**	10,4
Capital and non-taxable receipts	**3,6**	14,0	**(12,0)**	28,7
Non-deductible expenses	**(7,3)**	(13,9)	**26,9**	(7,6)
Foreign withholding taxes	**(3,5)**	(2,9)	**—**	—
Adjustment for prior years	**3,2**	0,5	**(93,0)**	1,2
Capital gains	**—**	(0,3)	**—**	—
Settlement cost of performance shares	**(0,5)**	(1,8)	**(5,7)**	(4,0)
Securities transfer tax	**—**	(0,1)	**0,2**	(0,4)
Other	**3,2**	1,4	**(9,5)**	(0,3)
SOUTH AFRICAN STANDARD RATE	**28,0**	28,0	**28,0**	28,0

24. EARNINGS PER SHARE

GROUP

R millions	2016	2015
HEADLINE EARNINGS ARE DERIVED FROM:		
Profit attributable to ordinary shareholders	**777**	1 007
Impairment of goodwill[1]	**28**	4
Impairment of property, plant and equipment — net	**42**	19
Impairment of property, plant and equipment — gross[2]	**54**	19
Tax effect of impairments of property, plant and equipment	**(12)**	—
Gain on bargain purchase — net	**—**	(23)
Gain on bargain purchase — gross[2]	**—**	(23)
Tax effect of gain on bargain purchase	**—**	—
Foreign currency translation differences reclassified on net investments in foreign operations — net	**11**	—
Foreign currency translation differences reclassified on net investments in foreign operations — gross[2]	**17**	—
Tax effect of translation differences reclassified on net investments in foreign operations	**(6)**	—
Impairment of equity-accounted investees — net	**—**	51
Impairment of equity-accounted investees — gross[2]	**—**	51
Tax effect of impairment of equity-accounted investees	**—**	—
Surplus on disposal of assets classified as held for sale — net	**—**	(48)
Surplus on disposal of assets classified as held for sale — gross[2]	**—**	(48)
Tax effect of surplus on disposal of assets classified as held for sale	**—**	—
Loss/(surplus) on disposal of property, plant and equipment — net	**6**	(22)
Loss/(surplus) on disposal of property, plant and equipment — gross[2]	**9**	(26)
Tax effect of disposal of property, plant and equipment	**(3)**	4
HEADLINE EARNINGS	**864**	988

1 These remeasurements had a nominal tax effect. The remeasurements had no non-controlling interest effect.
2 The remeasurements had no non-controlling interest effect.

GROUP

	2016	2015
EARNINGS PER ORDINARY SHARE		
Basic (cents)	**735**	911
Headline (cents)	**818**	894
Weighted average number of ordinary shares in issue	**132 389 246**	138 359 091
Weighted average number of ordinary shares held by the consolidated EST	**(10 117 951)**	(10 117 951)
Weighted average number of contingently returnable ordinary shares held by the CEDT	**(4 426 604)**	(4 426 604)
Weighted average number of shares held by a consolidated subsidiary	**(11 884 699)**	(11 884 699)
Weighted average number of shares repurchased during the year	**(297 018)**	(1 391 597)
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES FOR BASIC AND HEADLINE EARNINGS PER SHARE	**105 662 974**	110 538 240

Basic and headline earnings per share have been calculated on the profit attributable to ordinary shareholders and headline earnings, respectively, for the financial year as shown above and on the weighted average number of ordinary shares in issue of 105 662 974, net of treasury shares (2015: 110 538 240).

24. EARNINGS PER SHARE continued

GROUP

Cents	2016	2015
DILUTED EARNINGS PER ORDINARY SHARE		
Basic	**720**	886
Headline	**800**	870

The AECI B ordinary shares issued to the EST in 2012, which may be converted to ordinary shares, the contingently returnable shares issued to the CEDT in 2012 and the PS allocations are all dilutive potential ordinary shares. The dilutive effect is based on the number of ordinary shares that are expected to be issued in future. Taking these dilutive potential ordinary shares into account, diluted earnings per ordinary share and diluted headline earnings per ordinary share have been calculated on the profit attributable to ordinary shareholders and headline earnings, respectively, for the financial year as shown above and on a weighted average number of shares of 107 967 723 (2015: 113 655 868).

AECI's average share price since the beginning of the financial year, used in the determination of potentially dilutive ordinary shares, was R93,99 (2015: R112,14). The other potential ordinary shares do not have an exercise price.

GROUP

	2016	2015
RECONCILIATION OF THE WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES FOR DILUTED EARNINGS PER SHARE:		
Weighted average number of ordinary shares	**105 662 974**	110 538 240
Dilutive adjustment for potential ordinary shares	**2 304 749**	3 117 628
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES FOR DILUTED EARNINGS PER SHARE	**107 967 723**	113 655 868

25. DIVIDENDS

	GROUP		COMPANY	
R millions	2016	2015	2016	2015
ORDINARY				
Final for the previous year: No. 164 of 260 cents (2015: 225 cents) paid on 11 April 2016	**282**	258	**313**	285
Interim for the current year: No. 165 of 135 cents (2015: 125 cents) paid 5 September 2016	**148**	143	**164**	158
Total ordinary dividends paid 395 cents (2015: 350 cents)	**430**	401	**477**	443
SPECIAL DIVIDEND				
Special dividend for the prior year of 375 cents paid on 1 June 2015	**—**	430	**—**	474
PREFERENCE				
Nos. 156 and 157 paid on 15 June 2016 and on 15 December 2016, respectively	**3**	3	**3**	3
EST				
No dividends were paid in the current year (2015: 32 cents)	**—**	2	**—**	2
	433	836	**480**	922
Proposed final ordinary dividend No. 166 for the year ended 31 December 2016 of 300 cents (2015: 260 cents) per share payable on 10 April 2017	**330**	282	**365**	313
	330	282	**365**	313

Dividends are subject to withholding tax in the hands of the shareholders.

The Company also declared a dividend of 35 cents on the AECI B ordinary shares held by the EST, which is payable in 2017.

26. COMMITMENTS AND CONTINGENT LIABILITIES

COMMITMENTS

	GROUP		COMPANY	
R millions	2016	2015	2016	2015
Capital commitments authorised	233	436	30	176
Contracted for	62	71	20	39
Not contracted for	171	365	10	137
The expenditure will be financed from funds on hand and internally generated, supplemented by borrowings against facilities available to the Group.				
Future rentals on leased property, plant and equipment	443	331	18	19
Payable within 1 year	123	112	9	8
Payable between 1 and 5 years	263	185	9	11
Payable thereafter	57	34	—	—
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.				

CONTINGENT LIABILITIES

The investigation process undertaken by the Competition Commission of South Africa ("the Commission") in 2014, on allegations of collusion with a competitor by Akulu Marchon, progressed. The matter is in the process of being settled with the Commission. A provision, based on management's estimate, has been recognised in respect of the matter.

The Group is currently involved in various legal proceedings and is in consultation with its legal counsel, assessing the potential outcome of these proceedings on an ongoing basis. As proceedings progress, management makes provision in respect of legal proceedings where appropriate. Litigations, current or pending, are not likely to have a material adverse effect on the Group.

27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Group finances its operations by a combination of retained profits, current borrowings, non-current borrowings and financial instruments denominated in both rand and foreign currencies. The Group also enters into derivative transactions to manage the currency and interest rate risks 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 be 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 risks. 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

	CARRYING AMOUNT		FAIR VALUE	
R millions	**2016**	2015	**2016**	2015
GROUP				
FINANCIAL ASSETS				
Available-for-sale financial assets[1]	**2**	2		
— Unlisted shares — Level 3	**2**	2		
Financial assets at fair value through profit or loss	**202**	133	**202**	133
— Forward exchange contracts — Level 2	**12**	66	**12**	66
— Money market investment in collective investment scheme — Level 1	**72**	67	**72**	67
— Money market investment in collective investment scheme — Level 1	**118**	—	**118**	—
Loans and receivables	**4 608**	5 651		
— Accounts receivable[2]	**3 124**	3 511		
— Cash[3]	**1 465**	2 114		
— Loans receivable[3]	**—**	5		
— Loans and receivables relating to other investments[3]	**19**	21		
	4 812	5 786		
FINANCIAL LIABILITIES				
Financial liabilities not measured at fair value	**(5 229)**	(7 090)		
— Accounts payable[2]	**(3 392)**	(3 762)		
— Loans from joint arrangements[3]	**(75)**	(36)		
— Borrowings[4]	**(1 762)**	(3 292)		
Financial liabilities at fair value through profit or loss	**(110)**	(114)	**(110)**	(114)
— Forward exchange contracts — Level 2	**(52)**	(29)	**(52)**	(29)
— Contingent consideration — Level 3	**(58)**	(85)	**(58)**	(85)
	(5 339)	(7 204)		

27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT continued

CATEGORIES OF FINANCIAL INSTRUMENTS AND FAIR VALUES CONTINUED

	CARRYING AMOUNT		FAIR VALUE	
R millions	2016	2015	2016	2015
COMPANY				
FINANCIAL ASSETS				
Financial assets at fair value through profit or loss	121	41	121	41
— Forward exchange contracts — Level 2	3	41	3	41
— Employer surplus accounts — Level 1	118	—	118	—
Loans and receivables not measured at fair value	4 900	5 591		
— Accounts receivable [2]	1 355	1 199		
— Cash [3]	322	323		
— Non-current loans to subsidiaries [3]	497	667		
— Current loans to subsidiaries [3]	2 719	3 396		
— Loans and receivables relating to other investments [3]	7	6		
	5 021	5 632		
FINANCIAL LIABILITIES				
Financial liabilities at fair value through profit or loss	(79)	(78)	(79)	(78)
— Forward exchange contracts — Level 2	(21)	(8)	(21)	(8)
— Contingent consideration — Level 3	(58)	(70)	(58)	(70)
Financial liabilities not measured at fair value	(9 819)	(10 030)		
— Accounts payable [2]	(2 013)	(1 864)		
— Borrowings [4]	(1 608)	(3 644)		
— Loans from joint ventures [3]	(118)	(72)		
— Non-current loans from subsidiaries [3]	(676)	(688)		
— Current loans from subsidiaries [3]	(5 404)	(3 762)		
	(9 898)	(10 108)		

1 *Items are classified as available-for-sale when they are not classified in another category or when specifically designated as such.*
2 *The fair value for financial instruments such as short-term receivables and payables have not been disclosed because their carrying amounts are a reasonable approximation of fair value.*
3 *The fair value would not be materially different from the carrying amounts.*
4 *The fair values of the interest-bearing borrowings have not been disclosed because they are not materially different from the carrying amounts.*

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of financial instruments are either at fair value based on methods and assumptions for determining the fair value, 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); and
› Level 3 — inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair values for forward exchange contracts are based on quotes from brokers. Similar contracts are traded in an active market and the quotes reflect the actual transactions on similar instruments. The fair value of the money market investment in a collective investment scheme and the employer surplus accounts is based on quoted market prices (see note 8).

The fair value of the contingent consideration is calculated using discounted cash flows. The valuation model considers the present value of the expected future payment, discounted using a risk-adjusted discount rate of 16% in 2016. The expected payment is determined by considering the possible scenarios of forecast EBITDA, the amount to be paid under each scenario and the probability of each scenario.

There were no transfers between Levels 1, 2 or 3 of the fair value hierarchy during the year.

MARKET RISK

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Group's revenue and the value of its financial instruments. The objective of market risk management is to manage and control exposures within acceptable limits.

27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT continued

(A) CURRENCY RISK

Where possible, the Group's non-South African operations, 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 countries in which the Group operates.

Currency risk arises as a result of sale and purchase transactions, cash and borrowings in currencies other than rand. The currencies giving rise to currency risk are mainly euro, 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 in 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, pound sterling and US dollars.

The rand value of the hedging instrument, based on the contract rates, at 31 December 2016 for the Group was R720 million (2015: R324 million).

The profit on the hedging instruments for the year for the Group was R20 million (2015: loss of R8 million) and was recognised in the income statement.

CASH FLOW HEDGES

The Group has hedged its foreign currency exposure on imports of raw materials by entering into forward exchange contracts for the purchase commitments. The rand value of the hedging instrument, based on the contract rates, at 31 December 2016 was R43 million (2015: R40 million).

The cash flows relating to the hedging instruments will occur in 2017 and will not affect the income statement if the hedge is effective as the amount recognised in other comprehensive income will be removed from other comprehensive income and recognised in the initial cost of the items of plant and equipment and inventory.

The amount recognised directly in other comprehensive income for the year in respect of the cash flow hedges for the Group was R3 million (2015: nil).

EXPOSURE TO CURRENCY RISK

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

				2016				2015
R millions	**Euro**	**Pound sterling**	**US dollar**	**Other**	Euro	Pound sterling	US dollar	Other
Cash	1	—	90	52	108	1	113	24
Trade receivables	29	—	241	119	15	—	177	100
Interest-bearing liabilities	—	—	(8)	(2)	—	—	(503)	(1)
Trade payables	(193)	(8)	(395)	(180)	(79)	(9)	(303)	(113)
Gross exposure	(163)	(8)	(72)	(11)	44	(8)	(516)	10
Forward exchange contracts	313	9	488	(47)	177	11	165	11
NET EXPOSURE	**150**	**1**	**416**	**(58)**	**221**	**3**	**(351)**	**21**

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

				2016				2015
R millions	**Euro**	**Pound sterling**	**US dollar**	**Other**	Euro	Pound sterling	US dollar	Other
Cash	2	—	24	1	95	—	63	—
Trade receivables	6	—	55	3	4	—	22	—
Loans to subsidiaries	—	—	400	—	—	—	486	
Interest-bearing liabilities	—	—	(8)	—	—	—	(330)	—
Trade payables	(79)	(1)	(262)	(1)	(21)	—	(175)	(1)
Gross exposure	(71)	(1)	209	3	78	—	66	(1)
Forward exchange contracts	102	—	389	(4)	72	—	313	2
NET EXPOSURE	**31**	**(1)**	**598**	**(1)**	**150**	**—**	**379**	**1**

27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT continued

EXPOSURE TO CURRENCY RISK CONTINUED

The following significant exchange rates applied during the year:

	CLOSING RATE		AVERAGE RATE	
Rand	**2016**	2015	**2016**	2015
Euro	**14,52**	16,90	**16,29**	14,15
Pound sterling	**16,88**	22,90	**20,01**	19,50
US dollar	**13,73**	15,48	**14,72**	12,76

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:

	GROUP		COMPANY	
R millions	**2016**	2015	**2016**	2015
Equity	**(94)**	(33)	**(23)**	(53)
Profit for the year before tax	**(57)**	10	**(23)**	(53)

(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:

	TOTAL		FLOATING RATE FINANCIAL LIABILITIES		FIXED RATE FINANCIAL LIABILITIES	
R millions	**2016**	2015	**2016**	2015	**2016**	2015
GROUP						
Rand						
— Current	**2**	2 288	**2**	2 288	**—**	—
— Non-current	**1 600**	500	**1 600**	500	**—**	—
Other						
— Current	**160**	332	**152**	281	**8**	51
— Non-current	**—**	172	**—**	172	**—**	—
	1 762	3 292	**1 754**	3 241	**8**	51
Loans from joint ventures	**75**	36	**75**	36	**—**	—
TOTAL	**1 837**	3 328	**1 829**	3 277	**8**	51
COMPANY						
Rand						
— Current	**—**	2 814	**—**	2 814	**—**	—
— Non-current	**1 600**	500	**1 600**	500	**—**	—
Other						
— Current	**8**	330	**—**	279	**8**	51
— Non-current	**—**	—	**—**	—	**—**	—
	1 608	3 644	**1 600**	3 593	**8**	51
Loans from joint ventures	**118**	72	**118**	72	**—**	—
Loans from subsidiaries	**5 404**	3 762	**5 404**	3 762	**—**	—
TOTAL	**7 130**	7 478	**7 122**	7 427	**8**	51

27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT continued

(B) INTEREST RATE RISK CONTINUED

	FIXED RATE FINANCIAL LIABILITIES (R MILLIONS)		WEIGHTED AVERAGE INTEREST RATE (%)		WEIGHTED AVERAGE PERIOD FOR WHICH RATE IS FIXED (MONTHS)	
	2016	2015	2016	2015	2016	2015
GROUP						
Other						
— Current	8	51	1,8	1,0	3,0	3,0
TOTAL	8	51	1,8	1,0	3,0	3,0
COMPANY						
Other						
— Current	8	51	1,8	1,0	3,0	3,0
TOTAL	8	51	1,8	1,0	3,0	3,0

SENSITIVITY ANALYSIS

Based on the Group's exposure to interest rate risk, a 50 basis point increase in interest rates at 31 December would not have had a significant effect on profit or loss or equity.

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

GROUP

R millions	Carrying amount	Contractual cash flows	Within 1 year	1 to 2 years	2 to 5 years
2016					
FINANCIAL LIABILITIES					
Secured borrowings	2	2	2	—	—
Unsecured borrowings	1 786	2 301	333	635	1 333
— Capital	1 760	1 760	160	500	1 100
— Interest accrued[1]	26	541	173	135	233
Loans from joint ventures	75	75	75	—	—
Trade and other payables	3 366	3 366	3 366	—	—
DERIVATIVE FINANCIAL LIABILITIES					
Forward exchange contracts					
— inflows	(12)	(1 263)	(1 263)	—	—
— outflows	52	499	499	—	—
TOTAL FINANCIAL LIABILITIES	5 269	4 980	3 012	635	1 333
PERCENTAGE PROFILE (%)		100	60	13	27

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

27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT continued

LIQUIDITY RISKS CONTINUED

i. MATURITY PROFILE OF FINANCIAL LIABILITIES AT 31 DECEMBER continued

GROUP

R millions	Carrying amount	Contractual cash flows	Within 1 year	1 to 2 years	2 to 5 years
2015					
FINANCIAL LIABILITIES					
Secured non-current borrowings	1	1	—	1	—
Unsecured borrowings	3 322	3 399	2 661	41	697
— Capital	3 291	3 291	2 620	—	671
— Interest accrued[1]	31	108	41	41	26
Loans from joint ventures	36	36	36	—	—
Trade and other payables	3 731	3 731	3 731	—	—
DERIVATIVE FINANCIAL LIABILITIES					
Forward exchange contracts					
— inflows	(66)	(838)	(838)	—	—
— outflows	29	474	474	—	—
TOTAL FINANCIAL LIABILITIES	7 053	6 803	6 064	42	697
PERCENTAGE PROFILE (%)		100	89	1	10

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

COMPANY

R millions	Carrying amount	Contractual cash flows	Within 1 year	1 to 2 years	2 to 5 years
2016					
FINANCIAL LIABILITIES					
Unsecured borrowings	1 634	2 149	181	635	1 333
— Capital	1 608	1 608	8	500	1 100
— Interest accrued[1]	26	541	173	135	233
Loans from joint ventures	118	118	118	—	—
Non-current loans from subsidiaries	676	676	—	—	676
Current loans from subsidiaries	5 404	5 404	5 404	—	—
Trade and other payables	1 987	1 987	1 987	—	—
DERIVATIVE FINANCIAL LIABILITIES					
Forward exchange contracts					
— inflows	(3)	(586)	(586)	—	—
— outflows	21	99	99	—	—
TOTAL FINANCIAL LIABILITIES	9 837	9 847	7 203	635	2 009
PERCENTAGE PROFILE (%)		100	73	7	20

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

27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT continued

LIQUIDITY RISKS CONTINUED

i. MATURITY PROFILE OF FINANCIAL LIABILITIES AT 31 DECEMBER continued

COMPANY

R millions	Carrying amount	Contractual cash flows	Within 1 year	1 to 2 years	2 to 5 years
2015					
FINANCIAL LIABILITIES					
Unsecured borrowings	3 675	3 752	3 185	41	526
— Capital	3 644	3 644	3 144	—	500
— Interest accrued[1]	31	108	41	41	26
Loans from joint ventures	72	72	72	—	—
Non-current loans from subsidiaries	688	688	—	—	688
Current loans from subsidiaries	3 762	3 762	3 762	—	—
Trade and other payables	1 833	1 833	1 833	—	—
DERIVATIVE FINANCIAL LIABILITIES					
Forward exchange contracts					
— inflows	(41)	(469)	(469)	—	—
— outflows	8	82	82	—	—
TOTAL FINANCIAL LIABILITIES	9 997	9 720	8 465	41	1 214
PERCENTAGE PROFILE (%)		100	87	—	13

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

The Company's liquidity risk is managed through short-term borrowing facilities, from which funding is drawn down as and when required. In addition, the repayment of loans from subsidiaries is controlled by the Company as these loans do not have fixed repayment terms, and repayment can be deferred if needed.

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. As in the prior year, 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.

28. RELATED PARTY INFORMATION

The subsidiaries of the Group are identified in note 32, joint ventures in note 6 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, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IAS 28 Investments in Associates and Joint Ventures.

No dividends were received from associate companies in the year (2015: nil).

Transactions with Directors are disclosed in note 30.

Transactions with related parties are made on terms that are no more and no less favourable than transactions with unrelated external parties.

COMPANY

R millions	2016	2015
TRANSACTIONS THAT TOOK PLACE WITH RELATED PARTIES OF THE COMPANY WERE:		
Leasing income and sales by the Company to		
— Subsidiaries	**547**	566
Sales to the Company by		
— Subsidiaries	**55**	82
Interest received by the Company from		
— Subsidiaries	**141**	275
— Joint ventures	**4**	2
Interest paid by the Company to		
— Subsidiaries	**168**	105
— Joint ventures	**8**	5
Rental of premises to the Company by		
— Subsidiaries	**33**	32
Secretarial and administration fees paid to the Company by		
— Subsidiaries	**91**	86
— Joint ventures	**6**	5
OUTSTANDING BALANCES WITH RELATED PARTIES OF THE COMPANY AT 31 DECEMBER WERE (SEE NOTES 5 AND 6):		
Loan amounts owing to the Company by		
— Subsidiaries	**3 216**	4 063
Loan amounts owing by the Company to		
— Subsidiaries	**6 080**	4 450
— Joint ventures	**118**	72

Accounts receivable from and payable to related parties are disclosed in notes 11 and 16.

GROUP

R millions	2016	2015
KEY MANAGEMENT PERSONNEL COMPENSATION:		
— short-term employee benefits	**54**	40
— post-retirement benefits	**3**	2
— other long-term benefits	**4**	4
	61	46

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 30.

29. EMPLOYEE BENEFITS

RETIREMENT BENEFITS

The Group provides retirement benefits for all its permanent employees by means of an independent defined-contribution pension fund and an independent defined-contribution provident fund. The Group has two legacy defined-benefit pension funds of which only one has active members, two other legacy defined-benefit funds which have no active members, and a small number of pensioners. Only the latter two legacy funds have been converted.

Following the settlement of the defined-benefit liabilities for the majority of the active members, deferred pensioners and pensioners (collectively referred to as “members”) of the AECI Pension Fund (“APF”) and all members of the AECI Supplementary Pension Fund (“ASPF”), the liabilities of a further 43 of the 65 remaining deferred pensioners and 44 of the 68 remaining pensioners of the APF were settled through transfers to the AECI Defined Contribution Pension Fund (“ADCPF”) or outsourced to Sanlam. The liabilities and assets for the remaining members have not yet been accounted for as a settlement but the asset values to be settled were set aside in 2015 with an asset limitation being applied to reduce AECI’s recognised asset to the amount in the employee surplus account (“ESA”).

In October 2016, the Group made offers to members of its remaining defined-benefit funds. These are the AECI Employees Pension Fund (“AEPF”), which has over 1 750 members but only seven active employees, and the Dulux Employees Pension Fund (“DEPF”), which has 74 pensioner members. Because the surpluses in both funds are significantly higher than their liabilities, it was possible to offer members significant enhancements. It is highly likely that the pensioner members will accept the offers. The active employees, all of whom accepted the offer, were transferred to the ADCPF from 1 December 2016 and are now contributing members of this fund in anticipation of the conversion.

AECI transferred assets from the ESA of the APF to the ESA of the ADCPF (R168 million) and the AECI Employees Provident Fund (“AEPrF”) (R194 million) during the year. The ESA in these defined-contribution funds, classified as financial assets at fair value through profit or loss, earn investment returns. The ADCPF will also benefit from the unvested retirement benefit equalisation target (“RBET”) being allocated to the ESA over time. The ESA has been utilised to take a contribution holiday in both funds and is also being utilised to settle the alternative benefit offer made to active members to settle their post-retirement medical aid subsidy entitlements.

The RBET is an amount equivalent to the difference between the estimated retirement benefit under the APF and the estimated retirement benefit under the ADCPF, if the APF benefit exceeded the ADCPF benefit. The RBET was transferred to the ADCPF and vests to active members uniformly over their remaining service periods until the age of 62. If an employee leaves the ADCPF before the age of 62, for reasons other than death or disability, the unvested RBET is released to the ESA in the ADCPF.

INFORMATION PERTAINING TO THE AEPF AND THE DEPF

Although transfer offers have been made to members, the necessary rule amendments and transfer applications have yet to be submitted to the Registrar of Pension Funds. As a result, the funds are treated as ongoing defined-benefit funds.

Members were required to pay a contribution of 6% of pensionable earnings, with the employer’s contribution being 9% of pensionable earnings.

Members are entitled to receive an annual pension at pensionable age of 65 years calculated as 1/53 multiplied by the number of years of continuous service multiplied by average annual pensionable emoluments over the last two years of membership.

Members with at least five years of pensionable service may elect to retire within 10 years of pensionable age, based on pensionable service up to retirement age reduced by 0,25% for each month that actual retirement age is less than 62 years.

Ill-health retirement pension becomes payable from the date of ill-heath retirement based on the same benefit, with pensionable service being based on the service that could have been served until normal retirement and pensionable emoluments, calculated at the date of ill-health retirement.

The funds pay a pension of 50% of the amount that was being received at the date of the principal member’s death from the date of death.

29. EMPLOYEE BENEFITS continued

RETIREMENT BENEFITS CONTINUED

All funds are governed by the Pension Fund Act, No. 24 of 1956, as amended ("the Act"). The Act provides that any actuarial surplus in any fund belongs to the fund and that the only portion of the assets of the funds that may be utilised by, or for the benefit of, the employer are any credit balances in the ESA, unless specified otherwise in the fund's rules. The ESA in the funds represent the asset ceiling.

The assets of the funds are under the control of the Trustees of the respective funds. Regulation 28 of the Act limits the amount and extent to which the funds may invest in particular classes of assets. The Trustees' investment strategies are aligned with the nature of the funds' obligations and the achievement of adequate returns to ensure that those obligations can be settled when they are due. The assets are invested in segregated or pooled investments with a spread of asset classes including South African equities, bonds, property and cash, as well as foreign equities and bonds. The defined-benefit funds expose the Group to actuarial risks such as longevity risks, interest rate risk and market (investment) risk.

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 valuations are required.

The Group has the following ESA:

GROUP AND COMPANY

R millions	2016	2015
NON-CURRENT	**583**	923
AECI Pension Fund ("APF")	**572**	909
AECI Employees Pension Fund ("AEPF")	**10**	13
Dulux Employees Pension fund ("DEPF")	**1**	1
AECI Defined Contribution Pension Fund ("ADCPF")	**—**	59
CURRENT — CLASSIFIED AS A FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS	**118**	—
AECI Employees Provident Fund ("AEPrF")	**46**	—
ADCPF	**72**	—
	701	982

29. EMPLOYEE BENEFITS continued

RETIREMENT BENEFITS CONTINUED

The financial information of the defined-benefit funds has been disaggregated even though the plans have similar risks due to the settlements that took place during the year.

Based on interim valuations by the funds' actuaries, the defined-benefit funds' financial positions at 31 December were:

GROUP AND COMPANY

R millions	APF 2016	AEPF 2016	DEPF 2016	Total 2016	Total 2015
FAIR VALUE OF PLAN ASSETS	**1 147**	**870**	**41**	**2 059**	2 630
At the beginning of the year	1 723	866	40	2 630	16 983
Interest income	133	91	4	228	1 083
Return on plan assets below interest income	(42)	(49)	(2)	(93)	(158)
S15E transfers	(362)	—	—	(362)	(57)
Settlement of post-retirement medical aid obligations	(11)	(3)	—	(14)	(653)
Employer contributions					
— Company	—	—	—	—	5
— Subsidiaries	—	—	—	—	21
Employee contributions	—	—	—	—	30
Benefits paid	(13)	(35)	(1)	(49)	(559)
Assets transferred on settlement	(281)	—	—	(281)	(14 065)
PRESENT ACTUARIAL VALUE OF DEFINED-BENEFIT OBLIGATIONS	**(63)**	**(406)**	**(13)**	**(482)**	(577)
At the beginning of the year	(186)	(377)	(14)	(577)	(8 658)
Current service cost	—	—	—	—	(86)
Interest expense	(12)	(38)	(1)	(51)	(540)
Employee contributions	—	—	—	—	(30)
Benefits paid	13	35	1	49	559
Actuarial (loss)/gain from changes in financial assumptions	(10)	(12)	—	(22)	107
Actuarial gain/(loss) on experience	10	(14)	1	(3)	148
Present value of liabilities settled	122	—	—	122	7 923
ASSET CEILING	**(512)**	**(454)**	**(27)**	**(993)**	(1 130)
At the beginning of the year	(628)	(476)	(26)	(1 130)	(8 146)
Interest cost	(67)	(51)	(2)	(120)	(502)
Surplus assets allocated to the ESA	—	—	—	—	1 568
Effects of settlement	159	—	—	159	6 039
Change in effect of the asset ceiling	24	73	1	98	(89)
PENSION FUNDS' ESA	**572**	**10**	**1**	**583**	923

The fair value of the funds' plan assets at 31 December 2016 comprised equity instruments (2%), bonds (6%), cash (47%) and insurance policies (45%).

The fair value of the funds' plan assets did not include any AECI shares (2015: 11 594).

All assets of the funds are held in instruments that have quoted market prices in active markets. The APF holds the assets in a combination of segregated and pooled portfolios. The AEPF and DEPF have linked policies and insurance policies with Old Mutual and the asset allocations are derived from the strategic asset allocation of the Old Mutual Absolute Growth Portfolio.

The asset allocation reflected in the table above differs significantly from the prior year's allocation as all the funds have sought to de-risk the asset allocation during the restructuring process. The AEPF and DEPF purchased annuity contracts during the year to insure their pensioner obligations.

29. EMPLOYEE BENEFITS continued

RETIREMENT BENEFITS CONTINUED

Principal actuarial assumptions applied at 31 December in the valuations were:

%	2016	2015
Discount rate	**9,67**	10,66
Expected return on plan assets	**9,67**	10,66
Future price inflation	**6,46**	7,15
Expected salary increases	**7,96**	8,65
Future pension increases	**5,81**	6,44

SENSITIVITY ANALYSIS

GROUP AND COMPANY

R millions	31 Dec	Discount rate +1%	Discount rate -1%	Mortality rates
For a change in significant actuarial assumptions:				
Present actuarial value of defined-benefit obligations (R millions)	(482)	(448)	(531)	(502)
Percentage change in liability (%)	—	(7,8)	9,2	3,3

The sensitivity was determined by keeping all other assumptions constant except for a change in the discount rate up from 9,67% to 10,67% and down from 9,67% to 8,67%. The post-retirement mortality rates used of PA(90) minus two years were adjusted to PA(90) minus three years.

Actual cash contributions made by the Group to the AEPF are fixed at a rate of 9% of pensionable emoluments, paid monthly. The excess contributions above 9% required to meet the cost of the accrual of active members' benefits over the next year are calculated annually in the funds' statutory valuations. The excess contributions are recovered from the ESA of the fund. The remaining funds no longer have any active members and no employer contributions are required.

The total cost recognised in the income statement of R116 million (2015: R67 million) in respect of the defined-contribution funds represents contributions payable by the Group at rates specified in the rules of the schemes. These contributions were paid from the ESA of the defined-contribution funds as a contribution holiday (R101 million) and in cash (R15 million).

Amounts recognised in the income statement in respect of the defined-benefit obligations were:

GROUP

R millions	APF 2016	AEPF 2016	DEPF 2016	Total 2016	Total 2015
Current service cost	—	—	—	—	(86)
Interest cost	**(12)**	**(38)**	**(1)**	**(51)**	(540)
Expected return on plan assets	**133**	**91**	**4**	**228**	1 083
Change in effect of the asset ceiling	**(67)**	**(51)**	**(2)**	**(120)**	(502)
Loss on settlement	—	—	—	—	(103)
Fair value of assets transferred on settlement	**(281)**	—	—	**(281)**	(14 065)
Liabilities extinguished	**122**	—	—	**122**	7 923
Asset ceiling utilised	**159**	—	—	**159**	6 039
RECOGNISED IN THE INCOME STATEMENT	**54**	**2**	**1**	**57**	(147)
Remeasurements recognised in other comprehensive income in respect of the defined-benefit obligations were:					
Actuarial (loss)/gain on financial assumptions	**(10)**	**(12)**	—	**(22)**	107
Actuarial gain/(loss) on experience	**10**	**(14)**	**1**	**(3)**	148
Actual return in excess of expected interest income	**(42)**	**(49)**	**(2)**	**(93)**	(158)
Surplus allocated to the ESA	—	—	—	—	1 568
Change in the effect of the asset ceiling	**24**	**73**	**1**	**98**	(89)
RECOGNISED IN OTHER COMPREHENSIVE INCOME	**(18)**	**(2)**	—	**(20)**	1 576

29. EMPLOYEE BENEFITS continued

RETIREMENT BENEFITS CONTINUED

COMPANY

R millions	APF 2016	AEPF 2016	DEPF 2016	Total 2016	Total 2015
Current service cost	—	—	—	—	(86)
Interest cost	(12)	(38)	(1)	(51)	(540)
Expected return on plan assets	133	91	4	228	1 083
Change in effect of the asset ceiling	(67)	(51)	(2)	(120)	(502)
Loss on settlement	—	—	—	—	(103)
Fair value of assets transferred on settlement	(281)	—	—	(281)	(14 065)
Liabilities extinguished	122	—	—	122	7 923
Asset ceiling utilised	159	—	—	159	6 039
RECOGNISED IN THE INCOME STATEMENT	54	2	1	57	(147)
Remeasurements recognised in other comprehensive income in respect of the defined-benefit obligations were:					
Actuarial (loss)/gain on financial assumptions	(10)	(12)	—	(22)	107
Actuarial gain/(loss) on experience	10	(14)	1	(3)	148
Contributions by subsidiaries and joint ventures	—	—	—	—	21
Actual return in excess of expected interest income	(42)	(49)	(2)	(93)	(158)
Surplus allocated to the ESA	—	—	—	—	1 568
Change in the effect of the asset ceiling	24	73	1	98	(89)
RECOGNISED IN OTHER COMPREHENSIVE INCOME	(18)	(2)	—	(20)	1 597

POST-RETIREMENT MEDICAL AID OBLIGATIONS

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 and has not been offered since 1 January 2002.

The subsidy is a portion of the required medical aid contributions of participating members in a ratio between 3,0% and 66,7% of the total contribution, depending on each employee's date of employment in the Group. The medical aid fund is liable to pay medical claims in terms of its rules and the risk in respect of the liability relates to the increase in contribution levels required by the medical aid fund. The Group does not have any specific obligation to the medical aid fund.

In December 2015, the Group made a voluntary alternative benefit offer to active employees entitled to a post-retirement medical aid subsidy. The offer comprised a lump sum transfer to the member's pension/provident fund, which would vest immediately. The lump sum was calculated as the present value of the amount required to purchase an annuity, at retirement, equal to the medical aid subsidy obligation increased by 2,5% for each year of employment with the Group in excess of 10 years (determined at 31 January 2016), up to a maximum of 25%. This had the effect that the targeted annuity would be up to 25% greater than the employer subsidy amount.

The offer was made only to eligible employees who are contributing members of the AECI Employees Provident Fund and the ADCPF as the lump sums were to be funded from the ESA in each of these funds. The ESA in each fund was created via a section 15E transfer from the ESA of the APF. The offer was closed in June 2016 and, for those employees who accepted the offer, it was implemented in July 2016 with a corresponding derecognition of the liability in respect of those members because AECI has no further obligation to them. A total of 459 employees accepted the offer and 78 others opted to retain their current entitlement, with AECI obliged to pay a monthly subsidy to the medical aid fund on their behalf from their date of retirement.

The derecognition was treated as a settlement of the defined-benefit obligation. The cost of the settlement, together with the reduction in the liability, were recognised in the income statement. The cost of the settlement is the amount transferred from the ESA in the ADCPF and the AEP to each eligible employee's fund credit, and amounted to R239 million. The corresponding liabilities determined at the settlement date were R114 million, resulting in a net cost of R125 million which was recognised as a loss in the income statement.

29. EMPLOYEE BENEFITS continued

POST-RETIREMENT MEDICAL AID OBLIGATIONS CONTINUED

In September 2014, AECI made an alternative benefit offer to retired employees entitled to a post-retirement medical aid subsidy to replace this subsidy with an annuity from Momentum. The settlement for those who accepted the offer was implemented in September 2015. In September 2016, AECI made a second offer to those pensioners who had not accepted the original offer, giving them a further limited-time opportunity to accept the offer. This second offer would be implemented as though they had accepted at the time of the original offer. Of the 918 pensioner members affected, 371 accepted prior to the offer closure date. Those who did not accept the offer retain their current entitlement, with AECI paying the monthly subsidy to the medical aid fund on their behalf and retaining the liability.

The pensioners who accepted the offer have been derecognised from the liability because AECI has no further liability to them. The derecognition is treated as a settlement of the defined-benefit obligation. The costs of the settlement, together with the reduction in the liability, were recognised in the income statement with the anticipated costs being accrued at 31 December 2016. The cost of the settlement comprises two components. The first component is an amount of the APF ESA to be transferred via section 14 transfer to Momentum, for those eligible pensioners who were members of the APF and accepted the offer. The amount to be transferred to Momentum was estimated at R95 million. The section 14 transfer is expected to occur in the first quarter of 2017. The second component related to pensioners who were not members of the APF. The annuities in respect of these individuals will be paid for in cash by AECI, and were estimated at R77 million. The corresponding liabilities determined at the settlement date were R85 million and R73 million, respectively, resulting in a net cost of R13 million. This was recognised as a loss in the income statement. A further loss was recognised in 2016 in respect of the 2015 implementation due to a change in the cost of acquiring annuities for APF members. The further cost in this regard was R11 million.

Based on interim valuations by the actuaries, the funded status of the post-retirement medical aid obligations at 31 December was:

	GROUP		COMPANY	
R millions	**2016**	2015	**2016**	2015
Fair value of plan assets	—	—	—	—
At the beginning of the year	—	449	—	448
Interest income	—	26	—	26
Return on plan assets in excess of interest income	—	(13)	—	(20)
Remeasurement recognised in other comprehensive income	—	(427)	—	(427)
Benefits paid	—	(35)	—	(27)
Present actuarial value of defined-benefit obligations	**(207)**	(481)	**(207)**	(479)
At the beginning of the year	**(481)**	(1 276)	**(479)**	(1 274)
Current service cost	**(3)**	(7)	**(3)**	(7)
Interest cost	**(42)**	(82)	**(42)**	(82)
Benefits paid	**27**	69	**27**	53
Business combination	—	(8)	—	—
Remeasurement — change in estimate	—	—	—	(8)
Liabilities settled	**273**	800	**271**	800
Net actuarial gains	**19**	23	**19**	39
NET POST-RETIREMENT MEDICAL AID LIABILITY	**(207)**	(481)	**(207)**	(479)

Principal actuarial assumptions for the post-retirement medical aid obligations were:

GROUP

%	**2016**	2015
Annual increase in healthcare costs	**CPI + 1**	CPI + 1
Discount rate	**9,30**	10,00

Healthcare cost inflation was estimated based on CPI, with the result that the percentages used in the valuation were:

%	
2017/2018	**6,9**
2018/2019	**6,9**
2019/2020	**7,0**
2020 and later	**8,6**

Estimated employer's contributions in respect of post-retirement medical aid obligations for the coming year: Group — R21 million; Company — R21 million; representing the subsidies for the remaining eligible pensioners.

29. EMPLOYEE BENEFITS continued

POST-RETIREMENT MEDICAL AID OBLIGATIONS CONTINUED

Amounts recognised in the income statement in respect of the post-retirement medical aid obligations were:

	GROUP		COMPANY	
R millions	**2016**	2015	**2016**	2016
Current service cost	**(3)**	(7)	**(3)**	(7)
Interest cost	**(42)**	(82)	**(42)**	(82)
Expected return on plan assets	**—**	26	**—**	26
Remeasurement — change in estimate	**—**	—	**—**	(8)
Loss on settlement of obligations for certain pensioners	**(149)**	(75)	**(147)**	(75)
Liabilities settled	**273**	800	**271**	800
Cost of annuities accrued (note 16)	**(172)**	—	**(172)**	—
Cost of annuities paid in cash	**—**	(222)	**—**	(222)
Defined-contribution funds ESA transferred to members' fund accounts	**(236)**	—	**(232)**	—
AEPF ESA transferred to members' pension fund accounts	**(3)**	—	**(3)**	—
Cost of annuities transferred from APF	**(11)**	(653)	**(11)**	(653)
RECOGNISED IN THE INCOME STATEMENT	**(194)**	(138)	**(192)**	(146)
Remeasurements recognised in other comprehensive income in respect of post-retirement medical aid obligations:				
Actuarial gain	**19**	23	**19**	39
Remeasurements — change in estimate	**—**	(427)	**—**	(427)
Actual return in excess of expected interest income	**—**	(13)	**—**	(20)
RECOGNISED IN OTHER COMPREHENSIVE INCOME	**19**	(417)	**19**	(408)

SENSITIVITY ANALYSIS

	31 Dec	Discount rate +1%	Discount rate -1%	Future inflation -1%	Future inflation -1%
For a change in significant actuarial assumptions:					
Present actuarial value of obligations (R millions)	(207)	(188)	(229)	(229)	(189)
Percentage change in liability (%)		(9)	10,8	10,4	(8,8)
Current service cost for 2017 (R millions)	1	1	1	1	1
Percentage change in current service cost (%)		—	—	10,4	(8,8)
Interest cost for 2017 (R millions)	21	21	21	23	19
Percentage change in interest cost (%)		—	—	10,8	(9,2)

29. EMPLOYEE BENEFITS continued

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 benefit on realisation of a benefit unit is calculated based on the AECI share price at the exercise date after deducting the issue price of that unit, and is settled in cash.

Participants are entitled to exercise their units as follows:

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

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

If a participant retires on pension, or otherwise leaves the employ of AECI or one of its subsidiary companies for a reason approved by the Board of Directors, the participant shall nevertheless continue to have the same rights and obligations under the scheme in respect of the participant's units as if the participant had remained in the employ of the 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 unit not yet exercised will lapse.

The benefit units were issued for the first time in 2005.

Details of benefit units at 31 December were:

			NUMBER OF UNITS			
Expiry date	Date granted	Issue price (Rand)	Granted	Exercised	Forfeited	Outstanding
July 2016	August 2006	56,00	221 085	181 373	39 712	—
February 2017	March 2007	70,90	199 725	110 825	36 950	51 950
February 2018	March 2008	67,25	184 550	83 820	42 130	58 600
February 2019	March 2009	43,42	382 650	148 974	45 150	188 526
February 2020	March 2010	59,80	399 316	145 826	35 552	217 938
February 2021	March 2011	83,82	447 640	106 629	54 974	286 037
			1 834 966	777 447	254 468	803 051

	GROUP		COMPANY	
R millions	**2016**	2015	**2016**	2015
Cash-settled share-based payment transactions recognised in the income statement	**4**	(40)	**4**	(40)
Total carrying amount of cash-settled share-based transaction liabilities (see note 15)	**33**	33	**33**	33
Total intrinsic value of vested cash-settled share-based transaction liabilities	**28**	22	**28**	22

29. EMPLOYEE BENEFITS continued

RETENTION PLAN FOR EXECUTIVES AND SENIOR MANAGERS ("RETENTION UNITS")

AECI offers retention 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 a retention unit is calculated based on the AECI share price at the exercise date, after deducting the issue price of that unit, and is settled in cash.

Vesting will take place on the third anniversary of the allocation (or the closest working day).

If a participant leaves the employ of AECI or one of its subsidiary companies for any reason on or before the vesting date, any units granted will lapse.

The retention units were issued for the first time in 2016.

Details of retention units at 31 December 2016 were:

		NUMBER OF UNITS			
Expiry date	Date granted	Granted	Exercised	Forfeited	Outstanding
July 2018	January 2016	81 532	—	—	81 532
July 2019	August 2016	137 874	—	—	137 874
		219 406	—	—	219 406

	GROUP		COMPANY	
R millions	**2016**	2015	**2016**	2015
Cash-settled share-based payment transactions recognised in the income statement	**5**	—	**5**	—
Total carrying amount of cash-settled share-based transaction liabilities (see note 15)	**5**	—	**5**	—
Total intrinsic value of vested cash-settled share-based transaction liabilities	**23**	—	**23**	—

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 and obligations 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 or pension or other reasons approved by the Board of Directors, any units not yet exercised will lapse.

29. EMPLOYEE BENEFITS continued

EARNINGS-BASED INCENTIVE SCHEMES ("EBIS UNITS") CONTINUED

Details of EBIS units at 31 December were:

			NUMBER OF UNITS			
Expiry date	Date granted	Issue price (Rand)	Granted	Exercised	Forfeited	Outstanding
July 2016	August 2006	5,16	5 519 000	4 261 720	1 257 280	—
February 2017	March 2007	5,42	6 137 100	4 583 360	1 078 310	475 430
February 2018	March 2008	5,12	5 417 800	3 737 600	969 400	710 800
February 2019	March 2009	5,96	6 258 700	4 462 980	525 600	1 270 120
February 2020	March 2010	3,34	18 594 101	12 704 251	1 880 178	4 009 672
February 2021	March 2011	5,84	17 643 920	10 086 355	2 286 622	5 270 943
			59 570 621	39 836 266	7 997 390	11 736 965

CSL EARNINGS-BASED INCENTIVE SCHEME ("CSL EBIS UNITS")

Chemical Services Limited ("CSL") (the holding company of the segment 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 a CSL EBIS unit is calculated based on an earnings number, similar to headline earnings per share of the Group as published at every reporting date of the Group, after deducting the issue price of that unit.

Participants are entitled to exercise their units as follows:

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

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

If a participant retires on pension, or otherwise leaves the employ of 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.

Details of CSL EBIS units at 31 December were:

			NUMBER OF UNITS			
Expiry date	Date granted	Issue price (Rand)	Granted	Exercised	Forfeited	Outstanding
July 2016	August 2006	3,45	9 332 500	7 866 000	1 466 500	—
February 2017	March 2007	4,30	8 090 300	6 467 650	1 297 930	324 720
February 2018	March 2008	4,77	8 224 600	5 750 840	1 665 480	808 280
February 2019	March 2009	7,37	5 820 000	2 988 200	1 353 800	1 478 000
			31 467 400	23 072 690	5 783 710	2 611 000

	GROUP		COMPANY	
R millions	**2016**	2015	**2016**	2015
Total carrying amount of EBIS liabilities (see note 15)	**67**	103	**63**	97

29. EMPLOYEE BENEFITS continued

EARNINGS-GROWTH INCENTIVE SCHEME ("EG UNITS")

AECI offers EG 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.

On settlement, the value accruing to participants will be their share of the full appreciation in the Group's headline earnings per share.

Participants are entitled to exercise their units as follows:

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

If a unit is not exercised within seven 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 rights and obligations 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 EG units were issued for the first time in 2012.

Details of EG units at 31 December were:

			NUMBER OF UNITS			
Expiry date	Date granted	Issue price (Rand)	Granted	Exercised	Forfeited	Outstanding
November 2019	November 2012	7,21	15 067 761	3 058 083	2 743 345	9 266 333
June 2020	June 2013	6,27	19 361 771	2 582 758	2 718 235	14 060 778
June 2021	June 2014	7,91	13 833 744	—	1 597 206	12 236 538
June 2022	June 2015	6,63	10 532 462	—	485 898	10 046 564
June 2023	June 2016	7,53	8 097 793	—	—	8 097 793
			66 893 531	5 640 841	7 544 684	53 708 006

	GROUP		COMPANY	
R millions	2016	2015	2016	2015
Total carrying amount of EG units liabilities (see note 15)	108	88	48	39

30. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION AND INTERESTS

INTERESTS 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:

	NUMBER OF SHARES			
	2016 Direct	**2016 Indirect**	2015 Direct	2015 Indirect
EXECUTIVE DIRECTORS				
MA Dytor	**44 618**	—	26 803	—
KM Kathan	**49 913**	—	33 382	—
	94 531	—	60 185	—
NON-EXECUTIVE DIRECTOR				
S Engelbrecht	**6 629**	**600**	6 629	600
	6 629	**600**	6 629	600
	101 160	**600**	66 814	600

There has been no change in the aggregate beneficial holdings of the Directors and Prescribed Officers of the Company between year end, the date of issue of the financial statements and the date of the integrated report.

NON-EXECUTIVE DIRECTORS' REMUNERATION

R thousands	Directors' fees	Chairman/ Committee fees	Attendance fees	**2016 Total**	2015 Total
GW Dempster (appointed on 31 January 2016)	200	214	150	**564**	—
RMW Dunne	218	545	210	**973**	962
S Engelbrecht	—	1 309	130	**1 439**	1 295
Z Fuphe	218	120	90	**428**	391
G Gomwe	218	229	160	**607**	322
RL Hiemstra (resigned on 6 October 2015)	—	—	—	**—**	366
RJM Kgosana (appointed on 1 September 2016)	74	31	30	**135**	—
LL Mda	218	60	70	**348**	334
KDK Mokhele (appointed on 1 March 2016)	183	36	70	**289**	—
AJ Morgan	218	393	180	**791**	768
LM Nyhonyha	218	273	130	**621**	673
R Ramashia	218	240	200	**658**	548
	1 983	3 450	1 420	**6 853**	5 659

30. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION AND INTERESTS continued

EXECUTIVE DIRECTORS' REMUNERATION

R thousands	MA Dytor	KM Kathan	Total
2016			
Basic salary	4 120	3 678	7 798
Bonus and performance-related payments [1]	4 100	3 659	7 759
Expense allowances, medical aid and insurance contributions	551	491	1 042
Leave pay	585	261	846
Retirement fund contributions	402	359	761
Total cash-settled share-based payments and other long-term benefits	3 025	6 594	9 619
Benefit unit payments [2]	166	—	166
EBIS unit payments [3]	1 523	5 841	7 364
CSL EBIS units payments [4]	793	—	793
EG unit payments [5]	543	753	1 296
Pre-tax benefit of PS vested	2 344	2 175	4 519
Aggregate remuneration	15 127	17 217	32 344
Pre-tax benefit of PS vested	(2 344)	(2 175)	(4 519)
AGGREGATE REMUNERATION PAID BY THE COMPANY	**12 783**	**15 042**	**27 825**
2015			
Basic salary	3 887	3 469	7 356
Bonus and performance-related payments [1]	3 314	2 936	6 250
Expense allowances, medical aid and insurance contributions	681	467	1 148
Leave pay	438	—	438
Retirement fund contributions	394	338	732
Pre-tax benefit of PS vested	2 654	4 044	6 698
Aggregate remuneration	11 368	11 254	22 622
Pre-tax benefit of PS vested	(2 654)	(4 044)	(6 698)
AGGREGATE REMUNERATION PAID BY THE COMPANY	**8 714**	**7 210**	**15 924**

1 *Bonus and performance-related payments are in respect of the current year's performance but are paid in the following year.*
2 *MA Dytor exercised 4 300 benefit units which generated a benefit of R165 507 before tax.*
3 *MA Dytor exercised 324 169 EBIS units which generated a benefit of R1 523 137 before tax. KM Kathan exercised 1 020 032 EBIS units which generated a benefit of R5 841 195 before tax.*
4 *MA Dytor exercised 207 000 CSL EBIS units which generated a benefit of R793 170 before tax.*
5 *MA Dytor exercised 183 942 EG units which generated a benefit of R542 832 before tax. KM Kathan exercised 269 194 EG units which generated a benefit of R752 606 before tax.*

30. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION AND INTERESTS continued

PRESCRIBED OFFICERS' REMUNERATION[1]

R thousands	EE Ludick	MVK Matshitse	Total
2016			
Basic salary	**2 989**	**2 566**	**5 555**
Bonus and performance-related payments[2]	**2 963**	**2 547**	**5 510**
Expense allowances, medical aid and insurance contributions	**443**	**389**	**832**
Retirement fund contributions	**291**	**250**	**541**
Total cash-settled share-based payments and other long-term benefits	**1 908**	**64**	**1 972**
EBIS units payments[3]	**1 163**	**—**	**1 163**
CSL EBIS units payments[4]	**439**	**—**	**439**
EG unit payments[5]	**306**	**64**	**370**
Pre-tax benefit of PS vested	**496**	**506**	**1 002**
Aggregate remuneration	**9 090**	**6 322**	**15 412**
Pre-tax benefit of PS vested	**(496)**	**(506)**	**(1 002)**
Aggregate remuneration paid by subsidiaries	**(8 594)**	**—**	**(8 594)**
AGGREGATE REMUNERATION PAID BY THE COMPANY	**—**	**5 816**	**5 816**
2015			
Basic salary	2 541	2 421	4 962
Bonus and performance-related payments[2]	2 024	2 073	4 097
Expense allowances, medical aid and insurance contributions	424	370	794
Retirement fund contributions	247	236	483
Total cash-settled share-based payments and other long-term benefits	421	—	421
Benefit unit payments[3]	421	—	421
Pre-tax benefit of PS vested	1 805	1 844	3 649
Aggregate remuneration	7 462	6 944	14 406
Pre-tax benefit of PS vested	(1 805)	(1 844)	(3 649)
Aggregate remuneration paid by subsidiaries	(3 270)	—	(3 270)
AGGREGATE REMUNERATION PAID BY THE COMPANY	2 387	5 100	7 487

AGGREGATE REMUNERATION

R thousands	2016	2015
Non-executive Directors	**6 853**	5 659
Executive Directors	**32 344**	22 622
Prescribed Officers	**15 412**	17 043
	54 609	45 324

1 *Members of the AECI Executive Committee exercise general control over the management of the business and the activities of the Company. There are no other persons who exercise such control over the business or a significant portion thereof. Accordingly, the AECI Executive Committee members are the Company's Prescribed Officers.*

2 *Bonus and performance-related payments are in respect of current year performance but are paid in the following year.*

3 *EE Ludick exercised 248 035 EBIS units which generated a benefit of R1 162 748 before tax.*

4 *EE Ludick exercised 150 000 CSL EBIS units which generated a benefit of R438 900 before tax.*

5 *EE Ludick exercised 115 979 EG units which generated a benefit of R306 188 before tax. MVK Matshitse exercised 36 555 EG units which generated a benefit of R63 971 before tax.*

6 *No compensation was paid to any Director, Prescribed Officer, past Director or past Prescribed Officer for loss of office.*

7 *There were no other pensions paid by the Company to any Director, Prescribed Officer, past Director or past Prescribed Officer of the Company.*

30. 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 29.

CASH-SETTLED SHARE-BASED SCHEME ("BENEFIT UNITS")

Included in benefit units were the following units granted to Directors and Prescribed Officers:

			NUMBER OF UNITS			
	Date granted	Issue price (rand)	Granted	Exercised	Lapsed or forfeited	Outstanding
MA Dytor	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
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
EE Ludick	March 2011	83,82	5 100	—	—	5 100
			164 380	4 300	—	160 080

Movements in the number of benefit units held by Directors and Prescribed Officers were:

	NUMBER OF UNITS	
	2016	2015
Outstanding at the beginning of the year	**164 380**	187 330
Lapsed or forfeited during the year	—	(7 284)
Exercised during the year	**(4 300)**	(15 666)
OUTSTANDING AT THE END OF THE YEAR	**160 080**	164 380

MA Dytor exercised 4 300 benefit units which generated a benefit of R165 507 before tax.

None of the other Directors or Prescribed Officers exercised any benefit units in the current year.

30. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION AND INTERESTS continued

LONG-TERM INCENTIVE SCHEMES CONTINUED

EARNINGS-BASED INCENTIVE SCHEMES ("EBIS UNITS")

Included in EBIS units were the following units granted to Directors and Prescribed Officers:

			NUMBER OF UNITS			
	Date granted	Issue price (Rand)	Granted	Exercised	Lapsed or forfeited	Outstanding
MA Dytor	March 2010	3,34	407 900	407 900	—	—
	March 2011	5,84	282 300	282 300	—	—
KM Kathan	March 2010	3,34	847 231	847 231	—	—
	March 2011	5,84	259 200	259 200	—	—
EE Ludick	March 2010	3,34	308 900	308 900	—	—
	March 2011	5,84	217 600	217 600	—	—
			2 323 131	2 323 131	—	—

Movements in the number of EBIS units held by Directors and Prescribed Officers were:

	NUMBER OF UNITS	
	2016	2015
Outstanding at the beginning of the year	**1 592 236**	1 940 038
Lapsed or forfeited	—	(78 702)
Exercised during the year	**(1 592 236)**	(269 100)
OUTSTANDING AT THE END OF THE YEAR	—	1 592 236

MA Dytor exercised 324 169 EBIS units which generated a benefit of R1 523 137 before tax.

KM Kathan exercised 1 020 032 EBIS units which generated a benefit of R5 841 195 before tax.

EE Ludick exercised 248 035 EBIS units which generated a benefit of R1 162 748 before tax.

CSL EARNINGS-BASED INCENTIVE SCHEMES ("CSL EBIS UNITS")

Included in CSL EBIS units were the following units granted to Directors and Prescribed Officers:

			NUMBER OF UNITS			
	Date granted	Issue price (Rand)	Granted	Exercised	Lapsed	Outstanding
MA Dytor	March 2008	4,77	180 000	180 000	—	—
	March 2009	7,37	135 000	135 000	—	—
EE Ludick	March 2009	7,37	150 000	150 000	—	—
			465 000	465 000	—	—

Movements in the number of CSL EBIS units held by Directors and Prescribed Officers were:

	NUMBER OF UNITS	
	2016	2015
Outstanding at the beginning of the year	**357 000**	507 000
Exercised during the year	**(357 000)**	(150 000)
OUTSTANDING AT THE END OF THE YEAR	—	357 000

MA Dytor exercised 207 000 CSL EBIS units which generated a benefit of R793 170 before tax.

EE Ludick exercised 150 000 CSL EBIS units which generated a benefit of R438 900 before tax.

30. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION AND INTERESTS continued

LONG-TERM INCENTIVE SCHEMES CONTINUED

EARNINGS-GROWTH INCENTIVE SCHEMES ("EG UNITS")

Included in EG units were the following units granted to Directors and Prescribed Officers:

			NUMBER OF UNITS			
	Date granted	Issue price (Rand)	Granted	Exercised	Lapsed	Outstanding
MA Dytor	November 2012	7,21	157 857	52 618	—	105 239
	June 2013	6,27	393 974	131 324	—	262 650
	June 2014	7,91	210 594	—	—	210 594
	June 2015	6,63	392 862	—	—	392 862
	June 2016	7,53	258 598	—	—	258 598
KM Kathan	November 2012	7,21	182 233	121 488	—	60 745
	June 2013	6,27	443 119	147 706	—	295 413
	June 2014	7,91	195 120	—	—	195 120
	June 2015	6,63	350 549	—	—	350 549
	June 2016	7,53	230 761	—	—	230 761
EE Ludick	November 2012	7,21	107 340	71 558	—	35 782
	June 2013	6,27	133 266	44 421	—	88 845
	June 2014	7,91	114 166	—	—	114 166
	June 2015	6,63	243 999	—	—	243 999
	June 2016	7,53	156 588	—	—	156 588
MVK Matshitse	November 2012	7,21	109 668	36 555	—	73 113
	June 2013	6,27	136 069	—	—	136 069
	June 2014	7,91	115 308	—	—	115 308
	June 2015	6,63	219 003	—	—	219 003
	June 2016	7,53	136 124	—	—	136 124
			4 287 198	605 670	—	3 681 528

Movements in the number of EG units held by Directors and Prescribed Officers were:

	NUMBER OF UNITS	
	2016	2015
Outstanding at the beginning of the year	**3 505 127**	2 758 790
Issued during the year	**782 071**	1 206 413
Lapsed or forfeited during the year	**—**	(460 076)
Exercised during the year	**(605 670)**	—
OUTSTANDING AT THE END OF THE YEAR	**3 681 528**	3 505 127

MA Dytor exercised 183 942 EG units which generated a benefit of R542 832 before tax.

KM Kathan exercised 269 194 EG units which generated a benefit of R752 606 before tax.

EE Ludick exercised 115 979 EG units which generated a benefit of R306 188 before tax.

MVK Matshitse exercised 36 555 EG units which generated a benefit of R63 971 before tax.

30. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION AND INTERESTS continued

LONG-TERM INCENTIVE SCHEMES CONTINUED

RETENTION PLAN FOR EXECUTIVES AND SENIOR MANAGERS ("RETENTION UNITS")

Included in retention units were the following units granted to Directors and Prescribed Officers:

			NUMBER OF UNITS			
	Date granted	Issue price (Rand)	Granted	Exercised	Lapsed	Outstanding
MA Dytor	January 2016	96,82	8 292	—	—	8 292
	August 2016	96,82	11 870	—	—	11 870
KM Kathan	January 2016	96,82	7 401	—	—	7 401
	August 2016	96,82	10 594	—	—	10 594
EE Ludick	January 2016	96,82	4 995	—	—	4 995
	August 2016	96,82	8 611	—	—	8 611
MVK Matshitse	January 2016	96,82	5 164	—	—	5 164
	August 2016	96,82	7 392	—	—	7 392
			64 319	—	—	64 319

Movements in the number of retention units held by Directors and Prescribed Officers were:

	NUMBER OF UNITS	
	2016	2015
Outstanding at the beginning of the year	—	—
Issued during the year	64 319	—
Lapsed or forfeited during the year	—	—
OUTSTANDING AT THE END OF THE YEAR	**64 319**	—

30. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION AND INTERESTS continued

LONG-TERM INCENTIVE SCHEMES CONTINUED

AECI PERFORMANCE SHARES ("PS")

Included in PS were the following granted to Directors and Prescribed Officers:

		NUMBER OF PS			
	Date granted	Granted	Vested[1]	Lapsed	Outstanding
MA Dytor	March 2013	28 232	28 232	—	—
	June 2014	17 956	—	—	17 956
	June 2015	27 783	—	—	27 783
	June 2016	28 049	—	—	28 049
KM Kathan	March 2013	26 197	26 197	—	—
	June 2014	13 724	—	—	13 724
	June 2015	20 453	—	—	20 453
	June 2016	20 650	—	—	20 650
EE Ludick	March 2013	5 969	5 969	—	—
	June 2014	6 084	—	—	6 084
	June 2015	10 785	—	—	10 785
	June 2016	10 615	—	—	10 615
MVK Matshitse	March 2013	6 094	6 094	—	—
	June 2014	6 144	—	—	6 144
	June 2015	9 680	—	—	9 680
	June 2016	9 228	—	—	9 228
		247 643	66 492	—	181 151

1 The pre-tax benefits generated by PS vested in Directors and Prescribed Officers were:

MA Dytor	*R2 344 231*
KM Kathan	*R2 175 156*
EE Ludick	*R495 629*
MVK Matshitse	*R506 009*

Movements in the number of PS held by Directors and Prescribed Officers were:

	NUMBER OF PS	
	2016	2015
Outstanding at the beginning of the year	**179 101**	179 296
Issued during the year	**68 542**	68 701
Vested during the year	**(66 492)**	(43 780)
Lapsed or forfeited during the year	—	(25 116)
OUTSTANDING AT THE END OF THE YEAR	**181 151**	179 101

31. OPERATING SEGMENTS

BASIS OF SEGMENTATION

The Group has three strategic divisions, as set out below, which are its reportable segments. These divisions offer different products and services, and they are managed separately because they require different technology and marketing strategies.

The following summary describes the operations of each reportable segment:

REPORTABLE SEGMENTS	OPERATIONS
Explosives	Developer, producer and supplier of commercial explosives, initiating systems and blasting services for the mining, quarrying and construction markets.
Specialty Chemicals	Supply of specialty chemical raw materials and related services for use across a broad spectrum of customers in the manufacturing, mining, water treatment, food, agricultural and general industrial sectors.
Property	Mainly property leasing and management in the office, industrial and retail sectors.

There are varying levels of integration between the Explosives, Speciality Chemicals and Property segments. This integration includes transfers of raw materials and finished goods, and property management services. Inter-segment pricing is determined on terms that are no more and no less favourable than transactions with unrelated external parties.

INFORMATION RELATING TO REPORTABLE SEGMENTS

Information relating to each reportable segment is set out below. Segmental profit from operations is used to measure performance because management believes that this information is the most relevant in evaluating the results of the respective segments relative to other entities that operate in the same industries.

	EXTERNAL REVENUE		INTER-SEGMENT REVENUE		TOTAL SEGMENT REVENUE	
R millions	**2016**	2015	**2016**	2015	**2016**	2015
Explosives	**7 918**	8 169	**56**	67	**7 974**	8 236
Specialty Chemicals	**10 363**	9 434	**422**	452	**10 785**	9 886
Property	**315**	843	**83**	79	**398**	922
Inter-segment	**—**	—	**(561)**	(598)	**(561)**	(598)
	18 596	18 446	**—**	—	**18 596**	18 446

	PROFIT FROM OPERATIONS		DEPRECIATION AND AMORTISATION		IMPAIRMENTS	
R millions	**2016**	2015	**2016**	2015	**2016**	2015
Explosives	**449**	418	**339**	329	**54**	18
Specialty Chemicals	**1 214**	1 121	**264**	242	**28**	5
Property	**87**	527	**9**	8	**—**	—
Group services	**(415)**	(363)	**14**	11	**—**	—
	1 335	1 703	**626**	590	**82**	23

	OPERATING ASSETS		OPERATING LIABILITIES		CAPITAL EXPENDITURE	
R millions	**2016**	2015	**2016**	2015	**2016**	2015
Explosives	**4 255**	5 333	**1 260**	1 512	**257**	313
Specialty Chemicals	**7 672**	7 521	**2 571**	2 365	**179**	235
Property	**315**	387	**72**	114	**26**	14
Group services	**216**	222	**245**	12	**40**	21
	12 458	13 463	**4 148**	4 003	**502**	583

Operating assets comprise property, plant and equipment, investment property, intangible assets, goodwill, inventories, accounts receivable and assets classified as held for sale. Operating liabilities comprise accounts payable.

In 2014, AECI revised its strategy and developed five key growth pillars, which are becoming the focus of its integrated reporting. Progress has been made in realigning the Group's businesses in terms of these pillars and the process of altering internal reporting to reflect this realignment has commenced. In future, management reporting will be structured by pillar and the same restructuring will apply to reporting in the annual financial statements.

32. PRINCIPAL SUBSIDIARIES

	ISSUED SHARE CAPITAL	EFFECTIVE SHAREHOLDING		INTEREST OF AECI LTD# SHARES		INTEREST OF AECI LTD# LOANS TO/(FROM)	
	2016 Number of shares	2016 %	2015 %	2016 R millions	2015 R millions	2016 R millions	2015 R millions
HOLDING COMPANIES							
Directly held							
AECI International (Ireland) Ltd	1	100	100	—	—	5	5
AECI Treasury Holdings (Pty) Ltd	100	100	100	—	—	21	68
African Explosives International Ltd[1]	1 307	100	100	—	—	—	—
INSURANCE							
Directly held							
AECI Captive Insurance Company Ltd	810 000	100	100	11	11	(48)	(1)
EXPLOSIVES							
Directly held							
AECI Mining Solutions Ltd	300 000 000	100	100	3 468	3 468	(134)	1 022
Indirectly held							
AECI Australia (Pty) Ltd	13 700 000	100	100	—	—	—	—
AECI (Mauritius) Ltd	866	100	100	—	—	—	279
AEL Burkina SARL[2]	100 000	100	100	—	—	—	—
AECI Mining and Chemical Services (Chile) Ltda	2	100	100	—	—	—	—
AEL DRC SPRL[3]	10 000	100	100	—	—	—	—
AEL Mali SARL	8 659	100	100	—	—	—	—
AEL Morocco	2 500	100	100	—	—	—	—
AECI Mining and Chemical Services Namibia (Pty) Ltd	100	100	100	—	—	—	—
AEL Zambia plc	25 508 250	80	80	—	—	—	—
AEL Mining Services Ltd++	100	100	100	—	—	—	—
African Explosives (Botswana) Ltd	3	100	100	—	—	—	—
AECI Ghana Ltd	1 000 000	100	100	—	—	—	—
African Explosives (Tanzania) Ltd	26	100	100	—	—	—	—
PT AEL Indonesia	1 150	100	100	—	—	—	—

 # Cost less impairments.
+ Trading as an agent on behalf of AECI Ltd.
++ Trading as an agent on behalf of AECI Mining Solutions Ltd.

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 5. Malawi.

32. PRINCIPAL SUBSIDIARIES continued

	ISSUED SHARE CAPITAL	EFFECTIVE SHAREHOLDING		INTEREST OF AECI LTD# SHARES		INTEREST OF AECI LTD# LOANS TO/(FROM)	
	2016 Number of shares	2016 %	2015 %	2016 R millions	2015 R millions	2016 R millions	2015 R millions
PROPERTY							
Acacia Real Estate (Pty) Ltd	1 000	100	100	—	—	(280)	(11)
Paardevlei Properties (Pty) Ltd	1	100	100	—	—	(320)	(279)
Other property subsidiaries				2	2	(260)	(271)
SPECIALTY CHEMICALS							
Directly held							
Afoodable (Pty) Ltd	100	100	100	16	16	30	27
Biocult (Pty) Ltd	5 000	100	100	17	17	4	—
Chemical Services Ltd	83 127 950	100	100	818	818	(1 527)	(1 425)
SANS Fibers Inc.[4]	100	100	100	—		395	481
SANS Fibres (Pty) Ltd+	17 979 433	100	100	8	8	(126)	(126)
Southern Canned Products (Pty) Ltd	100 000	100	100	241	241	130	82
Indirectly held							
Akulu Marchon (Pty) Ltd+	410 000	100	100	—	—	—	—
Blendtech (Pty) Ltd	1 800	50	50	—	—	(20)	—
Chemfit (Pty) Ltd	4 000	100	100	—	—	(48)	—
Chemfit Fine Chemicals (Pty) Ltd	1 000	90	90	—	—	(11)	33
Chemical Initiatives (Pty) Ltd+	1	100	100	—	—	—	—
Chemserve Systems (Pty) Ltd+	625 000	100	100	—	—	—	—
Cobito (Pty) Ltd	300	100	100	—	—	—	(142)
Extractive Technologies (Pty) Ltd	100	100	100	—	—	—	—
Farmers Organisation Ltd[5]	240	100	100	—	—	—	—
ImproChem (Pty) Ltd	4 000	100	100	—	—	52	269
Industrial Oleochemical Products (Pty) Ltd+	4 001	100	100	—	—	—	—
Lake International Technologies (Pty) Ltd+	13 395	100	100	—	—	(2)	—
SANS Technical Fibers LLC[4]	—	100	100	—	—	—	—
Senmin International (Pty) Ltd	8 008 500	100	100	—	—	(353)	(28)
Other Specialty Chemicals subsidiaries				—	—	(360)	(56)
OTHER				136	148	(12)	(314)
				4 717	4 729	(2 864)	(387)

 # Cost less impairments.
+ Trading as an agent on behalf of AECI Ltd.
++ Trading as an agent on behalf of AECI Mining Solutions Ltd.

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 5. Malawi.

33. NON-CONTROLLING INTEREST

The following table summarises the information relating to each of the Group's subsidiaries that has a material non-controlling interest:

R millions	AEL Zambia	Blendtech	Chemfit Fine Chemicals	Other	Total
2016					
NON-CONTROLLING INTEREST (%)	20	50	10		
Non-current assets	63	17	64		
Current assets	373	43	105		
Non-current liabilities	(14)	—	(8)		
Current liabilities	(72)	(2)	(37)		
NET ASSETS	350	58	124		
Carrying amount of non-controlling interest	70	29	12	16	127
Revenue	(705)	(206)	(282)		
Profit	(85)	(23)	(15)		
PROFIT FOR THE YEAR ALLOCATED TO NON-CONTROLLING INTEREST	(17)	(11)	(1)	(3)	(32)
Other comprehensive income	—	—	—	—	—
OTHER COMPREHENSIVE INCOME ALLOCATED TO NON-CONTROLLING INTEREST	7	—	—	—	7
TOTAL COMPREHENSIVE INCOME ALLOCATED TO NON-CONTROLLING INTEREST	(10)	(11)	(1)	(3)	(25)
Cash flows from operating activities	83	31	20		
Cash flows from investing activities	3	2	2		
Cash flows from financing activities	8	(29)	(47)		
Increase/(decrease) in cash	94	4	(25)		
Cash at the beginning of the year	71	4	25		
Translation loss on cash	(8)	—	—		
CASH AT THE END OF THE YEAR	157	8	—		
2015					
NON-CONTROLLING INTEREST (%)	20	50	10		
Non-current assets	88	27	70		
Current assets	375	58	131		
Non-current liabilities	(20)	(11)	(11)		
Current liabilities	(131)	(35)	(81)		
NET ASSETS	312	39	109		
Carrying amount of non-controlling interest	62	19	11	12	104
Revenue	(785)	(207)	(287)		
Profit	(54)	(10)	(15)		
PROFIT FOR THE YEAR ALLOCATED TO NON-CONTROLLING INTEREST	(1 080)	(500)	(150)	(2)	(1 732)
Other comprehensive income	(1)	—	—	—	(1)
OTHER COMPREHENSIVE INCOME ALLOCATED TO NON-CONTROLLING INTEREST	(16)	—	—	—	(16)
TOTAL COMPREHENSIVE INCOME ALLOCATED TO NON-CONTROLLING INTEREST	(1 096)	(500)	(150)	(2)	(1 748)
Cash flows from operating activities	85	10	12		
Cash flows from investing activities	—	—	(2)		
Cash flows from financing activities	(26)	(9)	(2)		
Increase in cash	59	1	8		
Cash at the beginning of the year	19	3	17		
Translation loss on cash	(7)	—	—		
CASH AT THE END OF THE YEAR	71	4	25		

Chemfit Fine Chemicals and Blendtech are incorporated in the Republic of South Africa and AEL Zambia is incorporated in Zambia.

NOTICE OF ANNUAL GENERAL MEETING ("AGM" OR "THE MEETING")

AECI Limited
("AECI" or "the Company" or "the Group")
Incorporated in the Republic of South Africa
(Registration Number 1924/002590/06)
JSE Share code AFE
ISINZAE000000220

NOTICE OF MEETING

Notice is hereby given that the 93rd AGM of shareholders of the Company will be held on the Ground Floor, AECI Place, 24 The Woodlands, Woodlands Drive, Woodmead, Sandton on Monday, 29 May 2017 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 2016;
› present the Audit Committee's report;
› present the Social and Ethics Committee's report;
› consider any matters raised by shareholders; and
› consider and if deemed fit to pass, with or without modification, the resolutions set out below.

ORDINARY RESOLUTION NUMBER 1

ADOPTION OF ANNUAL FINANCIAL STATEMENTS

Resolved that the audited annual financial statements of the Company and the Group for the year ended 31 December 2016 be received and adopted.

ORDINARY RESOLUTION NUMBER 2

REAPPOINTMENT OF INDEPENDENT AUDITOR

Resolved that, upon the recommendation of the current Audit Committee, KPMG Inc. be reappointed as the independent registered auditor of the Company to undertake the audit during the financial year ending 31 December 2017.

ORDINARY RESOLUTIONS NUMBERS 3.1 TO 3.3

RE-ELECTION OF NON-EXECUTIVE DIRECTORS

Resolved that the following Non-executive Directors who are retiring in terms of the Company's Memorandum of Incorporation ("MOI") and who, being eligible, be re-elected:

3.1 Mr GW Dempster
3.2 Ms LL Mda
3.3 Mr AJ Morgan

A brief curriculum vitae of each of the Directors standing for re-election is provided on pages 18 and 19 of the integrated report of which this Notice forms part.

Each of the ordinary resolutions 3.1 to 3.3 will be considered by way of a separate vote.

ORDINARY RESOLUTION NUMBER 4

APPOINTMENT OF A NON-EXECUTIVE DIRECTOR

Resolved that Mr RJM Kgosana, who was appointed on 1 September 2016, be appointed in terms of the MOI.

A brief curriculum vitae of Mr Kgosana is provided on page 19 of the integrated report of which this Notice forms part.

ORDINARY RESOLUTION NUMBER 5

RE-ELECTION OF AN EXECUTIVE DIRECTOR

Resolved that Mr MA Dytor, who is retiring in terms of the Company's MOI and who, being eligible, be re-elected.

A brief curriculum vitae of Mr Dytor is provided on page 20 of the integrated report of which this Notice forms part.

DIRECTORS' FEES

	RAND PER ANNUM	
	Current	Proposed
BOARD		
1.1 Chairman	1 149 500	1 218 470
1.2 Non-executive Directors	222 000	235 320
AUDIT COMMITTEE		
1.3 Chairman	188 700	200 022
1.4 Members	94 400	100 064
OTHER BOARD COMMITTEES		
1.5 Chairman	122 200	129 532
1.6 Members	61 100	64 766
SUBSIDIARIES' FINANCIAL REVIEW AND RISK COMMITTEE ("FRRC")		
1.7 Chairman	122 200	129 532
1.8 Non-executive members	61 100	64 766
1.9 Meeting attendance fee	10 000	10 750

ORDINARY RESOLUTIONS NUMBERS 6.1 TO 6.4

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 AGM:

6.1 Mr GW Dempster

6.2 Mr G Gomwe

6.3 Mr RJM Kgosana

6.4 Mr AJ Morgan

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 18 and 19 of the integrated report of which this Notice forms part.

Each of the ordinary resolutions 6.1 to 6.4 will be considered by way of a separate vote.

ORDINARY RESOLUTION NUMBERS 7.1 AND 7.2

REMUNERATION POLICY

7.1 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 97 to 105.
Remuneration of Directors: page 101.

7.2 Resolved to endorse, by way of a non-binding advisory vote, the implementation of the Company's remuneration policy as set out on pages 106 to 109 in the integrated report of which this Notice forms part.

Each of the ordinary resolutions 7.1 and 7.2 will be considered by way of a separate vote.

SPECIAL RESOLUTIONS NUMBERS 1.1 TO 1.9

DIRECTORS' FEES

Resolved that the annual fees payable by the Company to its Non-executive Directors, with effect from 29 May 2017, be approved as set out in the table above.

EXPLANATORY NOTE

Section 66(9) of the Companies Act, No. 71 of 2008, as amended ("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 1.9 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 1.9 will be considered by way of a separate vote.

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 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:

› subject to section 48 of the Companies Act, the general authority to repurchase is limited to a maximum of 5% in the aggregate, in any one financial year, of the Company's issued share capital at the beginning of the financial year, provided that the number of shares purchased and held by or for the benefit of a subsidiary or subsidiaries of the Company, taken together, shall not exceed 10% in the aggregate of the number of issued shares in the Company;

› this general authority shall only be valid until the Company's next AGM, 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 ("the AECI Board") confirming that the AECI 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 Company;

› 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. The JSE should be consulted for a ruling if the Company's securities have not traded in such a five business day period;

› 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 counter-party (reported trades are prohibited);

› at any point in time, a company may only appoint one agent to effect any repurchases on that company's behalf;

› an announcement giving such details as may be required in terms of the JSE Listings Requirements be released when the Company has 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;

› the Company or its subsidiaries may not repurchase securities during a prohibited period as defined in the JSE Listings Requirements unless they have in place a repurchase programme where the dates and quantities of securities to be traded during the relevant period are fixed (not subject to any variation) and full details of the programme have been disclosed to the JSE, in writing, prior to the commencement of the prohibited period. The Company or its subsidiaries have instructed an independent third party, which makes its investment decisions in relation to the Company's securities independently of, and uninfluenced by, the Company or its subsidiaries, prior to the commencement of the prohibited period to execute the repurchase programme submitted to the JSE.

EXPLANATORY NOTE

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 Group will be able, in the ordinary course of business, to pay its debts for a period of 12 months following the date of the general repurchase;

(ii) the assets of the Company and the Group will exceed the liabilities of the Company and the Group for a period of 12 months following 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 following the date of the general repurchase; and

(iv) the working capital of the Company and the Group will be adequate for ordinary business purposes for a period of 12 months following the date of the general repurchase.

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 AGM 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 interests of the Company to do so at any time while the general authority is in force.

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.

EXPLANATORY NOTE

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 AECI Board shall be given to all shareholders of the Company and any trade union representing its employees:

- within 10 business days after the AECI 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.

SPECIAL RESOLUTIONS NUMBERS 4.1 AND 4.2

AMENDMENT OF THE COMPANY'S MOI

4.1 Resolved that the MOI of the Company be and is hereby amended by the deletion of article 15.1.10 thereof and the substitution of the following new article 15.1.10 therefor:

"15.1.10 If pursuant to any corporate action or event (including any distribution, rights issue, capitalisation issue, reduction of capital, consolidation or sub-division of Shares or otherwise), Shareholders would, but for the provisions of this article 15.1.10, become entitled to fractions of Shares or other Securities, the Board shall deal with such fractions in the manner prescribed by the Listings Requirements from time to time, or, in the absence of any such prescription, in a manner determined by the Board in its reasonable discretion.

Any Director shall be empowered to sign any instrument of transfer or other document necessary to give effect to the aforegoing provisions of this article 15.1.10. The Directors may appoint a person to sell and transfer Shares or other Securities for this purpose. The transferee shall not be bound to see to the application of the purchase moneys nor shall the transferee's title to the Shares or other Securities be affected by any irregularity in or invalidity of the proceedings relating to the sale. Subject to the JSE Listing Requirements, the provisions of article 15.1.14 shall apply, mutatis mutandis, to all amounts that becomes payable to shareholders in terms of this article 15.1.10."

4.2 Resolved that the MOI of the Company be and is hereby amended by the deletion of article 15.2.3 thereof.

The reason for special resolutions numbers 4.1 and 4.2 is that, in terms of the Companies Act, any amendment to a company's MOI requires shareholder approval by way of a special resolution.

The effect of special resolutions numbers 4.1 and 4.2, subject to shareholders' approval, is to amend the Company's MOI in order to ensure that it complies with the JSE Listings Requirements which relate to the manner in which fractional entitlements to shares must be dealt with.

Each of the special resolutions 4.1 and 4.2 will be considered by way of a separate vote.

RECORD DATE

The AECI 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 AGM as being Thursday, 13 April 2017 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 AGM, as being Friday, 19 May 2017. 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 AGM is Tuesday, 16 May 2017.

APPROVALS REQUIRED FOR RESOLUTIONS

Ordinary resolutions numbers 1 to 7 contained in this Notice of AGM require the approval by more than 50% of the votes exercised on the resolutions by shareholders present or represented by proxy at the AGM, subject to the provisions of the Companies Act, the MOI of the Company and the JSE Listings Requirements.

Special resolutions numbers 1 to 4 contained in this Notice of AGM require the approval by at least 75% of the votes exercised on the resolutions by shareholders present or represented by proxy at the AGM, 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) Major shareholders of the Company (refer to the shareholder analysis commencing on page 114);

(ii) Share capital of the Company (refer to the Directors' report on page 111).

NO MATERIAL CHANGES TO REPORT

There have been no material changes in the financial or trading position of the Company and its subsidiaries since the date of signature of the Independent Auditor's report and the date of this Notice.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors whose names appear on pages 18 to 20 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 AGM 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, 24 May 2017 in order for the Group Company Secretary to provide the shareholder or such shareholder's representative with details as to how to access the AGM for telephonic participation;
- the costs of enabling a shareholder to access the AGM for telephonic participation will be borne by the shareholder so accessing the AGM;
- shareholders are advised that accessing the AGM by way of telephonic participation will not entitle a shareholder to vote at the AGM; and
- should a shareholder wish to vote at the AGM, such shareholder may do so by attending and voting at the AGM either in person or by proxy.

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 AGM 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.

Forms of proxy must be lodged with the Company's Transfer Secretaries, Computershare Investor Services (Pty) Ltd, Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196, or posted to the Transfer Secretaries at PO Box 61051, Marshalltown, 2107, or emailed to proxy@computershare.co.za to reach them no later than 09h00 on Thursday, 25 May 2017. Any forms of proxy not received by this time must be handed to the Chairman of the AGM immediately prior to the AGM.

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 stockbroker in the manner and time stipulated in their agreement:

› to furnish their CSDP or stockbroker 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, Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196, or posted to the Transfer Secretaries at PO Box 61051, Marshalltown, 2107, or emailed to proxy@computershare.co.za to reach them no later than 09h00 on Thursday, 25 May 2017.

All participants at the AGM 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
31 March 2017

FORM OF PROXY

AECI Limited ("AECI" or "the Company" or "the Group")
Incorporated in the Republic of South Africa (Registration number 1924/002590/06) JSE share code AFE ISINZAE000000220

This proxy form relates to the 93rd Annual General Meeting ("AGM") to be held on Monday, 29 May 2017 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.

The record date, in terms of section 59(1)(a) of the Companies Act, for the purpose of determining which shareholders of the Company are entitled to receive Notice of the AGM has been set for Thursday, 13 April 2017. The record date, in terms of section 59(1)(b) of the Companies Act, for the purpose of determining which shareholders of the Company are entitled to participate in and vote at the AGM, has been set for Friday, 19 May 2017. 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 AGM is Tuesday, 16 May 2017.

Holders of ordinary shares in the Company (whether certificated or dematerialised) through a nominee must not complete this form of proxy but should timeously inform that nominee, or, if applicable, their Central Securities Depository Participant ("CSDP") or stockbroker of their intention to attend the AGM and request such nominee, CSDP or stockbroker to issue them with the necessary authorisation to attend or provide such nominee, CSDP or stockbroker with their voting instructions should they not wish to attend the AGM 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 AGM, as my/our proxy to act for me/us and on my/our behalf at the AGM 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 Non-executive Directors			
	3.1 Mr GW Dempster			
	3.2 Ms LL Mda			
	3.3 Mr AJ Morgan			
ORDINARY RESOLUTION NO. 4	Appointment of a Non-executive Director			
ORDINARY RESOLUTION NO. 5	Re-election of an Executive Director			
ORDINARY RESOLUTION NO. 6	Election of Audit Committee members			
	6.1 Mr GW Dempster			
	6.2 Mr G Gomwe			
	6.3 Mr RJM Kgosana			
	6.4 Mr AJ Morgan			
ORDINARY RESOLUTION NO. 7	Remuneration policy			
	7.1 Remuneration policy			
	7.2 Implementation of remuneration policy			
SPECIAL RESOLUTION NO. 1	Directors' fees and remuneration			
	1.1 Board: 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			
SPECIAL RESOLUTION NO. 2	General authority to repurchase shares			
SPECIAL RESOLUTION NO. 3	Financial assistance to related or inter-related company			
SPECIAL RESOLUTION NO. 4	Amendment of the Company's MOI			
	4.1 Deletion/substitution of article 15.1.10			
	4.2 Deletion of article 15.2.3			

Signed at ______________________________ on this ______________ day of ______________________ 2017

Signature ______________________________

Assisted by (if applicable) ______________________________

Please read the notes on the reverse side of this Form of Proxy.

NOTES TO THE FORM OF PROXY

1. A shareholder entitled to attend and vote at the AGM may, at any time, appoint any individual, including an individual who is not a shareholder of the Company, as a proxy, amongst other things, to participate in, and speak and vote at the AGM on behalf of the shareholder. Satisfactory identification must be presented by any person wishing to attend the AGM, as set out in the Notice.

2. Every shareholder present in person or by proxy and entitled to vote at the AGM 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 AGM", but any such deletion must be initialled by the shareholder. Should this space be left blank, the Chairman of the AGM will exercise the proxy. The person whose name appears first on the proxy form and who is present at the AGM 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 AGM as she/he thinks fit in respect of all the shareholder's exercisable votes. A shareholder or her/his proxy is not obliged to use all the votes exercisable by her/his 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 her/his proxy.

5. A minor must be assisted by her/his parent or guardian unless the relevant documents establishing her/his legal capacity are produced or have been registered by the Transfer Secretaries.

6. The record date, in terms of section 59(1) (a) of the Companies Act, for the purpose of determining which shareholders of the Company are entitled to receive Notice of the AGM has been set for Thursday, 13 April 2017. The record date, in terms of section 59(1) (b) of the Companies Act, for the purpose of determining which shareholders of the Company are entitled to participate in and vote at the AGM, has been set for Friday, 19 May 2017. 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 AGM is Tuesday, 16 May 2017.

7. Forms of proxy must be lodged with the Company's Transfer Secretaries, Computershare Investor Services (Pty) Ltd, Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196, or posted to the Transfer Secretaries at PO Box 61051, Marshalltown, 2107, or emailed to proxy@computershare.co.za to reach them no later than 09h00 on Thursday, 25 May 2017. Any forms of proxy not received by this time must be handed to the Chairman of the AGM immediately prior to the AGM.

8. 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 AGM.

9. This form of proxy is to be completed only by those shareholders who either still hold shares in a certificated form, or whose shares are recorded in their "own name" in electronic form in the sub-register.
10. Shareholders whose dematerialised shares are held in the name of a nominee and wish to attend the AGM must contact their Central Securities Depository Participant ("CSDP") or stockbroker who will furnish them with the necessary letter of authority to attend the AGM. Alternatively, they have to instruct their CSDP or stockbroker 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 stockbroker.
11. Shareholders who wish to attend and vote at the AGM must ensure that their letters of authority from their CSDP or stockbroker reach the Transfer Secretaries not later than 09h00 on Thursday, 25 May 2017.
12. The completion and lodging of this form of proxy shall not preclude the relevant shareholder from attending the AGM and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such shareholder wish to do so.
13. 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.
14. The Chairman of the AGM may accept any form of proxy which is completed other than in accordance with these instructions provided that she/he is satisfied as to the manner in which a shareholder wishes to vote.
15. A proxy may delegate the proxy's authority to act on behalf of the shareholder to another person.
16. 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.
17. 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.
18. 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.
19. 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 18 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
E-mail: groupcommunication@aeci.co.za

WEB ADDRESS

www.aeci.co.za

LONDON SECRETARY

St James's Corporate Services Ltd
Suite 31, Second Floor
107 Cheapside
London EC2V 6DN
England

TRANSFER SECRETARIES

Computershare Investor Services (Pty) Ltd
Rosebank Towers
15 Biermann Avenue
Rosebank
2196
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
2196