HIGHLIGHTS

- Revenue from continuing operations up 3% to R5 425 million
- Profit from continuing operations up 48% to R484 million
- HEPS up 127% to 238c
- Cash dividend of 70c declared
- All strategic growth projects in ramp-up phase

AECI good chemistry

Condensed consolidated unaudited interim financial results for the half-year ended 30 June 2010

Income statement

	% change	2010 First half Unaudited R millions	2009 First half Unaudited R millions	2009 Year Audited R millions
Continuing operations				
Revenue [2]	+3	**5 425**	5 263	10 709
Net operating costs		**(4 941)**	(4 935)	(9 942)
Profit from operations	+48	**484**	328	767
Net income from Pension Fund employer surplus accounts		**4**	*	23
Net income/(loss) from plan assets for post-retirement medical aid liabilities		**6**	(20)	11
		494	308	801
Fair value adjustments – interest		**(2)**	*	4
Interest expense [3]		**(97)**	(155)	(243)
Interest received		**14**	17	21
Income from associates and investments		**1**	5	7
		410	175	590
Impairment of goodwill		**–**	–	(18)
Other impairments		**(4)**	–	(16)
Reversal of impairments		**–**	–	7
Profit before tax		**406**	175	563
Tax		**(117)**	(64)	(176)
Net profit from continuing operations		**289**	111	387
Net profit from discontinued operations		**–**	4	53
Profit before tax		**–**	7	65
Tax		**–**	(3)	(12)
Profit for the period		**289**	115	440
Profit for the period attributable to:				
– ordinary shareholders		**269**	118	421
– preference shareholders		**1**	1	2
– non-controlling interest		**19**	(4)	17
		289	115	440
Headline earnings are derived from:				
Profit attributable to ordinary shareholders		**269**	118	421
Impairment of goodwill		**–**	–	18
Other impairments and disposals before tax		**4**	–	9
Surplus on disposal of investments		**(18)**	–	–
Surplus on disposal of property, plant and equipment		**(1)**	(9)	(88)
Tax effects of the above items		**1**	3	10
Headline earnings		**255**	112	370
Per ordinary share (cents):				
Headline earnings	+127	**238**	105	346
Diluted headline earnings [4]		**237**	104	344
Attributable earnings		**251**	110	393
Diluted attributable earnings [4]		**250**	110	392
Continuing earnings		**251**	107	344
Diluted continuing earnings [4]		**250**	106	343
Discontinued earnings		**–**	4	50
Dividends declared	+150	**70**	28	90
Dividends paid		**62**	141	169
Ordinary shares (millions) [5]				
– in issue		**107**	107	107
– weighted average number of shares		**107**	107	107
– diluted weighted average number of shares [4]		**108**	107	107

*nominal amount

Statement of comprehensive income

	2010 First half Unaudited R millions	2009 First half Unaudited R millions	2009 Year Audited R millions
Profit for the period	**289**	115	440
Other comprehensive income net of tax:			
Revaluation of derivative instruments	*	(12)	(6)
Foreign currency translation differences net of deferred tax	**17**	(145)	(169)
Acquisition of subsidiaries	**–**	–	(9)
Other	*	*	*
Total comprehensive income for the period	**306**	(42)	256
Total comprehensive income attributable to:			
– ordinary shareholders	**288**	(38)	250
– preference shareholders	**1**	1	2
– non-controlling interest	**17**	(5)	4
	306	(42)	256

*nominal amount

Statement of financial position

	2010 30 June Unaudited R millions	2009 30 June Unaudited R millions	2009 31 Dec Audited R millions
Assets			
Non-current assets	**5 581**	5 022	5 360
Property, plant and equipment	**3 451**	2 912	3 260
Investment property	**446**	429	430
Goodwill	**1 063**	1 062	1 063
Pension Fund employer surplus accounts	**240**	213	236
Investments	**22**	98	13
Non-current loan receivables	**12**	–	14
Deferred tax	**347**	308	344
Current assets	**4 603**	5 002	4 668
Inventories	**1 828**	2 033	1 827
Accounts receivable	**2 080**	2 514	2 159
Assets classified as held for sale	**–**	14	14
Cash and cash equivalents	**695**	441	668
Total assets	**10 184**	10 024	10 028
Equity and liabilities			
Ordinary capital and reserves	**4 159**	3 663	3 937
Preference capital and non-controlling interest	**138**	112	121
Total shareholders' interest	**4 297**	3 775	4 058
Non-current liabilities	**2 570**	2 406	2 564
Deferred tax	**86**	57	85
Non-current borrowings	**1 697**	1 731	1 731
Non-current provisions	**787**	618	748
Current liabilities	**3 317**	3 843	3 406
Accounts payable	**1 873**	2 221	2 208
Current borrowings	**1 319**	1 558	1 080
Tax payable	**125**	64	118
Total equity and liabilities	**10 184**	10 024	10 028

Statement of cash flows

	2010 First half Unaudited R millions	2009 First half Unaudited R millions	2009 Year Audited R millions
Cash generated by operations	**664**	474	1 137
Dividends received	**–**	6	12
Interest paid	**(143)**	(196)	(349)
Interest received	**14**	17	22
Income tax paid	**(112)**	(294)	(333)
Changes in working capital	**(265)**	481	1 161
Expenditure relating to non-current provisions	**(1)**	(8)	(93)
Expenditure relating to retrenchments and restructuring	**(4)**	(84)	(105)
Cash available from operating activities	**153**	396	1 452
Dividends paid	**(67)**	(152)	(167)
Cash retained from operating activities	**86**	244	1 285
Cash flows from investing activities	**(280)**	(676)	(981)
Proceeds from disposal of investments and businesses	**32**	–	94
Investments	**(7)**	(61)	(92)
Net capital expenditure	**(305)**	(615)	(983)
Net cash (utilised)/generated	**(194)**	(432)	304
Cash flows from financing activities	**206**	486	(6)
Non-current loan receivables	**1**	–	(14)
Borrowings	**205**	486	8
Increase in cash and cash equivalents	**12**	54	298
Cash and cash equivalents at the beginning of the period	**668**	444	444
Translation gain/(loss) on cash and cash equivalents	**15**	(57)	(74)
Cash and cash equivalents at the end of the period	**695**	441	668

Statement of changes in equity

	2010 First half Unaudited R millions	2009 First half Unaudited R millions	2009 Year Audited R millions
Total comprehensive income for the period	**306**	(42)	256
Dividends paid	**(67)**	(152)	(167)
Equity at the beginning of the period	**4 058**	3 969	3 969
Equity at the end of the period	**4 297**	3 775	4 058
Made up as follows:			
Issued ordinary capital	**215**	215	215
Reserves	**270**	271	251
Surplus arising on revaluation of property	**237**	240	237
Foreign currency translation reserve net of deferred tax	**22**	23	3
Other	**11**	8	11
Retained income	**3 674**	3 177	3 471
Preference capital	**6**	6	6
Non-controlling interest	**132**	106	115
	4 297	3 775	4 058

Other salient features

	2010 First half Unaudited R millions	2009 First half Unaudited R millions	2009 Year Audited R millions
Capital expenditure – property, plant and equipment [3]	**305**	675	1 150
– expansion	**213**	544	963
– replacement	**92**	131	187
Capital commitments	**156**	589	737
– contracted for	**97**	451	71
– not contracted for	**59**	138	666
Future rentals on property, plant and equipment leased	**124**	211	185
– payable within one year	**28**	90	84
– payable thereafter	**96**	121	101
Contingent liabilities	**87**	105	83
Net borrowings	**2 321**	2 848	2 143
Gearing (%)	**54**	75	53
Current assets to current liabilities	**1,4**	1,3	1,4
Net book value per ordinary share (cents)	**3 878**	3 425	3 671
Depreciation – continuing operations	**154**	122	267
Rand/US$ closing exchange rate (rand)	**7,66**	7,72	7,38
Rand/US$ average exchange rate (rand)	**7,50**	9,00	8,27

Industry segment analysis

	Revenue		Profit from operations		Net assets	
	2010	2009	2010	2009	2010	2009
	First half Unaudited R millions		First half Unaudited R millions		30 June Unaudited R millions	
Continuing operations	**5 425**	5 263	**484**	328	**6 940**	6 750
Mining services	**2 286**	1 945	**185**	92	**2 434**	2 138
Specialty chemicals	**3 039**	3 233	**349**	241	**3 828**	4 008
Property	**168**	152	**29**	45	**691**	588
Specialty fibres (USA)	**129**	100	**10**	(7)	**153**	126
Group services, intersegment and other	**(197)**	(167)	**(89)**	(43)	**(166)**	(110)
Discontinued operations	**–**	458	**–**	7	**55**	(21)
Specialty fibres (Bellville)	**–**	458	**–**	7	**55**	(21)
	5 425	5 721	**484**	335	**6 995**	6 729

Net assets consist of property, plant, equipment, investment property, goodwill, inventory and accounts receivable less accounts payable.

Notes

(1) Basis of preparation

The condensed consolidated unaudited interim financial results have been prepared in accordance with the historic cost convention except for certain financial instruments, which have been stated at fair value.

The same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements and have been applied by all entities in the Group.

The condensed consolidated unaudited interim financial results and accounting policies comply with the Listings Requirements of the JSE Limited, the recognition and measurement requirements of International Financial Reporting Standards, the disclosure requirements of IAS 34 – Interim Financial Reporting and the South African Companies Act, No. 61 of 1973, as amended.

(2) Includes foreign sales of R1 460 million (2009 first half – R1 240 million).

(3) Interest capitalised in the period amounting to R46 million (2009 first half – R41 million).

(4) Calculated in accordance with IAS 33. The Company has purchased call options over AECI shares which will obviate the need for the Company to issue new shares in terms of the AECI share option scheme. In practice, therefore, there will be no future dilution.

(5) Net of 11 884 699 (2009 – 11 884 699) treasury shares held by a subsidiary company.

(6) Discontinued operations

The remaining South African businesses of SANS Fibres discontinued manufacturing activities at the end of March 2009.

(7) The preparation of the interim financial statements 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, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The accounting policies involving particularly complex or subjective judgements or assessments are deferred tax assets, environmental remediation, asset lives and residual values, and post-retirement benefit obligations.

Commentary

Performance

The Group's performance strengthened further in the first six months of 2010 with recovery in the mining and manufacturing sectors from the 2009 economic crisis contributing significantly to the Group's improved results. Revenue from continuing operations increased by 3% to R5 425 million (2009: R5 263 million), with further growth being curtailed by the strong rand. Overall volumes grew by about 15% for continuing operations compared to the first half of 2009. Headline earnings of R255 million (2009: R112 million) increased by 128% and profit from continuing operations improved by 48% to R484 million (2009: R328 million). Headline earnings per share increased to 238 cents (2009: 105 cents).

Headline earnings were also positively impacted by a lower interest charge. Net financing costs, after capitalising borrowing costs, were R85 million (2009: R138 million).

The Board has declared an interim cash dividend of 70 cents per ordinary share (2009: 28 cents per ordinary share in scrip or cash alternative). The dividend declaration is published in full elsewhere.

Mining services

Revenue for the period was R2 286 million, 18% up on 2009's R1 945 million. Volumes grew by 11%, mostly due to strong growth in Botswana, Indonesia and Zambia. Profit from operations doubled to R185 million (2009: R92 million). The growth in volumes, along with product mix improvements, had a positive effect on the operating margin, which is at 8,1% (2009: 4,7%).

The Narrow Reef gold business in South Africa was impacted by shaft closures at some of AEL Mining Services' "AEL" customers. This was offset by growth in the Platinum, Surface and Massive business sectors. The Coal business in South Africa was negatively affected by rains in the second quarter.

AEL's businesses in the rest of Africa showed a strong recovery. This was particularly evident in diamond and copper mining in Botswana and Zambia, respectively, while the gold sector in East and West Africa remained strong. Central African projects in the DRC are in start-up phases and are gaining momentum as customers ramp up their operations.

The International business benefited from the full six months' trading in respect of the business gained in Indonesia last year. AEL has now established itself as a viable alternative supplier to the Indonesian coal mining market, and is focusing on consolidating its position.

In line with its international footprint expansion strategy, AEL continues to explore further opportunities in Africa, Asia Pacific and South America.

R155 million (2009: R245 million) was invested in capital expenditure, with R43 million of this spent on the Initiating Systems Automation Programme "ISAP" at Modderfontein. The balance of the investment was for scheduled maintenance, support for the Indonesian business and normal plant replacement activities.

Ramp-up of ISAP is progressing well, with the auto and robotic assembly machines both in commercial production and running on a three shift cycle.

Specialty chemicals

Revenue declined by 6% to R3 039 million (2009: R3 233 million), with the strong rand depressing prices. Volumes increased by 17%. Profit from operations showed a 45% improvement to R349 million (2009: R241 million), delivering an operating margin of 11,5% (2009: 7,5%).

The recovery in mining and in certain manufacturing sectors, off the low base established in the first half of 2009, facilitated the volume growth. Continued strong performances from Crest Chemicals, Industrial Oleochemical Products and Lake International, and a solid contribution from Senmin secured pleasing results for the period.

R25 million of the Zambian-based debt, previously reported and fully provided for, was recovered.

A provision of R17 million has been made and an impairment of R4 million recognised in the period for the restructuring of Plastamid. This company was reliant on raw material from SANS Fibres in Bellville, which ceased operations in March 2009. Plastamid will be consolidated into Industrial Urethanes.

R133 million was invested in capital expenditure, with R82 million of this being spent on strategic growth projects.

No acquisitions were finalised during the period.

Property

The environment for property development remained challenging. Heartland's performance for the half-year was underpinned by the leasing and services components of its portfolio. Consequently, operating profit declined by 36% to R29 million (2009: R45 million).

The outlook for Heartland's industrial property development is more promising for the second half of 2010, with some interest being noted in this sector. Both the office and residential markets, however, continue to be curtailed by the lack of end-user finance.

Filling of the pipeline of land available for sale continues so as to ensure that Heartland is well placed when market conditions improve. This process is sufficiently flexible to accommodate all land uses.

Specialty fibres

SANS Technical Fibers "STF" (USA) reported an operating profit of R10 million (2009: loss of R7 million). Revenue increased by 29% to R129 million (2009: R100 million), whilst volumes grew by 59%. Operating margins were under pressure on the back of increasing raw material prices and operating costs incurred in preparing to install equipment relocated from Bellville. This capital project is progressing well and is expected to be completed ahead of schedule. The resulting additional capacity has already been sold for the remainder of 2010.

STF remains cash positive and self-sustaining.

Financial

As the Group's strategic growth capital programme nears completion, expenditure reduced to R305 million in the period (2009: R675 million). It is anticipated that total expenditure for the year will be approximately R650 million.

Net working capital increased by R265 million to 18,7% of gross revenue (2009: 17,2%). In 2009, working capital reduced following the closure of SANS Fibres. The increase in working capital is also attributable to a longer supply chain in respect of sales to geographies outside of South Africa.

Borrowings increased by R178 million to R2 321 million, from R2 143 million at December 2009, and the increase is due largely to the movement in working capital. Cash interest cover improved to 4,8 times (2009: 2,8 times) as a result of improved profitability. Gearing was 54% of shareholders' funds, in line with December 2009's position of 53%.

Corporate restructuring

In April, the Board announced a restructuring of the Group. This process included the integration of the AECI and Chemical Services executive teams into a single management structure, and the consolidation of the two head offices. The objective of the consolidation was to support delivery of AECI's strategic growth strategy, and to enhance risk management, financial controls, transparency and decision-making timeframes throughout the Group.

Board changes

Mr FPP (Frank) Baker retired on 31 March 2010. The Board thanks Frank for his contribution to the Group over 34 years.

Mr AJ (Allen) Morgan and Advocate R (Rams) Ramashia were appointed to the Board as non-executive directors with effect from 1 July 2010.

Outlook and strategic focus

The Group delivered pleasing results for the half-year, on the back of a solid recovery in global resources markets. This recovery had a positive impact on market volumes and on commodity prices and was of substantial benefit to the Group. However, the strong rand remains a challenge for AECI's mining and manufacturing customers, and hence could impact profitability across all its businesses in the next six months.

Recent global reports highlight the potential for a financial slow-down, and AECI does not expect to see the same level of volume improvement in the second half-year as it did in the first half. However, the Group expects to achieve continued benefit from the ramp-up of its capital projects in the second half of the year, although it will be affected by deterioration in the macroeconomic environment should this materialise. The results for the six months to 30 June 2010 are indicative of a new base level of performance for AECI and, provided economic conditions do not change significantly, AECI expects a gradual but sustained improvement in performance as its growth projects come fully on-line over the next six to twelve months.

Fani Titi
Chairman

Graham Edwards
Chief executive

Woodmead, Sandton
27 July 2010

Directors: F Titi (Chairman), GN Edwards (Chief executive)†, RMW Dunne*, S Engelbrecht, Z Fuphe, KM Kathan†, MJ Leeming, AJ Morgan, LM Nyhonyha, R Ramashia.
†Executive *British

Acting Company secretary: EA Rea

AECI LIMITED
(Incorporated in the Republic of South Africa)
(Registration No. 1924/002590/06)
Share code: AFE
ISIN No.: ZAE000000220
("AECI" or "the Company" or "the Group")

AECI good chemistry