

Commentary

Performance

The Group's revenue from continuing operations grew by an impressive 48% to R12,8 billion (2007: R8,7 billion) on the back of rising commodity prices in the first nine months of the year, as well as volume growth in all of AECI's business segments other than property. Operating profit from continuing operations increased by 39% to over R1 billion. Operating margins in respect of continuing operations were marginally lower at 8,3% (2007: 8,6%), primarily as a result of high commodity prices relating to sulphur and ammonia. Fixed costs remained well controlled. Headline earnings of R443 million, equivalent to 412 cents per ordinary share, increased by 16% compared to the previous year (2007: 355 cents per ordinary share).

Headline earnings per share were adversely impacted by costs associated with the closure of operations at SANS Fibres (SANS) in Bellville, Western Cape, which was communicated to the market in November 2008. These manufacturing operations will cease at the end of March 2009. Closure costs were calculated at R148 million after tax (R204 million before tax).

The Pension Fund employer surplus account and the plan assets for post-employment liabilities incurred losses of R70 million, compared with a profit of R66 million in 2007. This also had a negative effect on HEPS and was largely attributable to the significant fall in South African equity markets, where the Pension Fund invests a substantial portion of its assets, in the second half-year.

Notwithstanding the current uncertain economic environment and the challenges that the Group faces in 2009, as detailed later in this commentary, AECI's Board of directors remains confident that the Company has a robust strategy and the correct focus to meet these challenges. An unchanged final ordinary dividend of 141 cents per ordinary share has been declared. This brings the dividend for the year to 231 cents per share, compared with 213 cents in 2007.

Mining solutions

The mining solutions segment's pleasing revenue growth of 50% can be attributed to high commodity prices and volume growth in explosives. Much of the volume growth was delivered by the African subsidiaries of African Explosives Limited (AEL) while the company's Surface and Massive business in South Africa grew steadily. Customers in the South African Narrow Reef sector were plagued by electricity shortages early in the year and by the global slowdown towards the end of 2008, both factors impacting negatively on their volumes.

Operating profit increased by 52% year-on-year after taking into account a significant stock write down as a result of falling ammonia prices towards year-end. Operating margins, affected by the high price of ammonia, remained in line with the previous year at approximately 6%. The efficiencies gained from the capital programme are expected to contribute to margin improvement going forward.

The capital investment plan remains on target to be completed in 2010. During the year, the business invested R389 million in capital projects, of which R132 million was spent on the Initiating Systems Automation Programme (ISAP). To date R408 million has been spent on the ISAP investment. A strategic review of this investment earlier in the year confirmed that its business case remains attractive. Capital investments of R101 million were also made in the rest of Africa and Indonesia to support the business's growth strategy.

AEL's international business recorded solid growth in South East Asia and additional global sales channels are being developed. Sustaining the trend set in 2007, the DetNet joint venture delivered significant growth in operating profit, with increased volumes and further improvements made to established and new offerings in its product range.

Specialty chemicals

Chemical Services Limited (Chemserve) is the specialty chemical arm of AECI and its performance continued to exceed expectations, with growth in revenue of 50% from R5,6 billion in 2007 to R8,4 billion in 2008 and an increase in operating profit of 49% from R570 million in 2007 to R851 million in 2008. Revenue growth is attributable to the increase in commodity prices and volumes, primarily in the mining and agriculture sectors. Businesses in Chemserve serving market sectors such as consumer, automotive and manufacturing, delivered mixed results in respect of volume growth but were well managed and improved their margins. In addition to its exceptional revenue performance, Chemserve's fixed costs were well controlled. Operating margins remained at prior year levels. Chemserve continued to explore potential activities outside the African continent and has identified promising opportunities for 2009.

The capital expansion programme approved in 2007 progressed well, notwithstanding some timing delays and cost increases due to scope and design changes. During the year, R595 million was spent on various strategic growth projects. All projects have been reviewed and their business cases remain financially and strategically sound. The guar project and one of the two xanthate reactors were commissioned in the last quarter. Both are being ramped-up as planned. The sulphonation plant at Chloorkop, and the second xanthate reactor, the acrylamide and polyacrylamide plants as well as the carbon disulphide plant at Sasolburg will all be commissioned in 2009, as will the oleochemical plant in Brazil.

Property managed by Heartland

Heartland's operating results of R45 million (2007: R75 million) net of remediation costs of R91 million (2007: R83 million) were in line with AECI's forecast at half-year. Heartland has continued to invest in infrastructure to make land ready for sale once the market recovers from its current depressed position. During the year the company disposed of 35 hectares of land (170 000m² of commercial and industrial bulk rights). Heartland intends investing approximately R900 million over the next five years to release about 1 000 hectares of land for sale. This investment will be controlled and managed in line with expected market conditions over the period.

The properties at Modderfontein and Somerset West were valued at R2,5 billion at mid-year by an independent consultant. The property value in the balance sheet has not been adjusted.

Discontinued operations

AECI's decision to exit the industrial nylon fibres and the polyethylene terephthalate (PET) businesses of SANS Fibres (SANS) is in line with the Company's long-term strategy of growing its position as a leading supplier of specialty products and services to the mining and manufacturing sectors in Africa and other international geographies. After protracted but unsuccessful attempts to dispose of the businesses, the Board announced the closure of the Bellville businesses. Both will discontinue manufacturing activities at end-March 2009. The fibres business at Stoneville, USA, will be run as a stand-alone and self-sustaining entity for the foreseeable future. This business has been accounted for in continuing operations.

SANS, which is classified as a discontinued operation, delivered an operating profit of R155 million (2007: R19 million). This excellent performance is due to the weakening of the local currency and an increased off-take of high margin product after the closure announcement. Closure costs of R204 million have been provided for in the 2008 accounts. The SANS property in Bellville will be disposed of in the foreseeable future.

Financial

The Group's gearing increased to 59% at year-end (2007: 25%). This increase is due to:

- capital spend exceeding R1 billion, largely to drive the growth strategies of the mining solutions and specialty chemicals segments;
- a net working capital increase of R921 million, owing mainly to increased revenue and the increased level of export revenue, where the trade cycle is much longer. The average working capital ratio to annual gross revenue deteriorated to 19,4% (2007: 17,8%);
- a share buy-back of just under 3% of the Company's issued ordinary share capital, at a cost of R238 million.

In the latter part of the year, the Group successfully negotiated term debt with various financial institutions and now has adequate funding to support its growth programme going forward. The increase in borrowings resulted in a decrease in headline earnings per share and earnings per share of approximately 69 cents.

Cash interest cover at 4,6 times (2007: 8,1 times) has deteriorated largely due to the capital spend and the working capital increase in line with revenue.

The post-employment medical aid liability was actuarially valued and an adjustment of R123 million was required to increase the liability at year-end.

Directorate

In September, AECI welcomed Mark Kathan as financial director and chief financial officer. He succeeded Roger Williams who resigned in August for family reasons. At year-end, Lex van Vught retired as a non-executive member of the Board, after a 40 year career in the Group.

Outlook and strategic focus

It appears that the severe effects of global recessionary trends will remain with us through 2009. The mining sector, a significant area of focus for AECI, has already suffered adverse impacts. Lower commodity prices are resulting in lower returns for customers in this sector and those supplying the retail, manufacturing and automotive sectors have recorded some sharp declines in activity in recent months. Consequently, the outlook for volume growth in 2009 is not promising.

The Company will need to be extremely vigilant of the overall business environment and avoid short-term decisions that could have adverse long-term impacts. 2009 will be a challenging year with much uncertainty and, therefore, the preservation of cash will be a priority. Specifically, the Board has asked AECI's management to:

- control working capital aggressively;
- progress key capital projects, while carefully reviewing all other capital expenditure;
- apply cost leadership principles through all businesses and activities;
- maintain market share and margins through continued excellent service.

While 2009 is likely to be a challenging year, the Group will be well positioned for growth from 2010, when the environment is expected to improve and the benefits of the capital investment programme begin to accrue.

Fani Titi
Chairman

Graham Edwards
Chief executive

Woodmead, Sandton
28 July 2008

Notice to shareholders: Final ordinary dividend No. 150

Notice is hereby given that on Monday, 23 February 2009 the directors of AECI declared a final cash dividend of 141 cents per share, in respect of the financial year ended 31 December 2008, payable on Monday, 20 April 2009 to ordinary shareholders recorded in the books of the Company at the close of business on Friday, 17 April 2009.

The last day to trade "cum" dividend will be Wednesday, 8 April 2009 and shares will commence trading "ex" dividend as from Thursday, 9 April 2009.

Any change of address or dividend instruction must be received on or before Wednesday, 8 April 2009.

Share certificates may not be dematerialised or rematerialised from Thursday, 9 April 2009 to Friday, 17 April 2009, both days inclusive.

This announcement will be mailed to all recorded shareholders on or about Tuesday, 24 February 2009.

By order of the Board

A Kennedy
Company secretary

Woodmead, Sandton
23 February 2009

Transfer secretaries

Computershare Investor Services (Pty) Ltd, 70 Marshall Street, Johannesburg 2001
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Sponsor: Rand Merchant Bank (A division of FirstRand Bank Limited)

Directors: F Titi (Chairman), GN Edwards (Chief executive)[†], FPP Baker[†], RMW Dunne^{*}, S Engelbrecht, Z Fuphe, KM Kathan[†], MJ Leeming, LM Nyhonyha, AC Parker.

[†]Executive ^{*}British

Company secretary: A Kennedy

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Reviewed condensed consolidated financial results for the year ended 31 December 2008

- Revenue from continuing operations +48% to R12,8 billion
- Dividend for the year +8% to 231c (final = 141c)
- Operating profit on continuing businesses +39%
- HEPS +16% to 412c



Specialty product and service solutions

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