

## COMMENTARY

### Performance

The AECI Group experienced a material year-on-year decline in sales volumes in 2009 as the global economic crisis took its toll, particularly on companies serving primarily the mining and manufacturing sectors.

Revenue from continuing operations, at R10,7 billion, was 16,7% lower than the R12,9 billion achieved in the prior year owing to significant volume declines in key markets. However, the mining sector recovered to an extent in the second half-year, while the manufacturing sector remained depressed. The property market, too, remained severely depressed and no significant sales were recorded in the year.

Over and above the decline in volumes, the Group's performance was adversely impacted by the following:

- inventory and foreign exchange revaluations of R125 million, primarily in the first half-year;
- restructuring costs of R51 million;
- the effects of a major bad debt of R163 million in respect of sulphur sales to the mining industry in the Zambian copper belt region. More detail is given below;
- a depressed property development market as demand fell away due to the recession and credit approvals by banks became tighter. Furthermore, Heartland experienced some cancellations of and defaults on prior sales.

Headline earnings were R370 million, 16% lower than the previous year (2008: R443 million) and headline earnings per share of 346 cents were achieved (2008: 412 cents).

The Board has declared a final cash dividend of 62 cents per ordinary share (2008: 141 cents).

### AEL Mining Services (AEL)

AEL delivered improved operating results, particularly noteworthy if viewed in the context of the poor start to the year by its mining customers. Revenue was unchanged at R4,1 billion because lower ammonia prices and a stronger rand/US dollar exchange rate offset other cost-driven price increases. Profit from operations increased by 20% to R298 million (2008: R248 million) and an improved profit margin of 7,3% (2008: 6,1%) was achieved.

The margin improvement is attributable to restructuring of the business, volume growth of 2,7%, a change in product mix, and a shift in focus from merely supplying products to offering customers a performance-enhancing services package. The continued conversion in initiating systems from capped fuse to shocktube technology also contributed to the improvement. An additional 18 million holes a year were switched to the safer shocktube system.

In the South African business, the slow decline in Narrow Reef mining was offset by growth achieved in the local coal sector. In addition, long-term contract renewals on industrial ammonium nitrate sales to non-mining and construction customers lifted prices off a very low base.

The results of the African business were negatively affected by the stronger rand and by depressed diamond and copper markets in the first half of the year. Better than expected sales in surface gold and a recovery in the copper markets in Central Africa assisted in offsetting this.

The International business gained pleasing momentum with AEL being awarded four coal on-mine full service tenders in Indonesia. The necessary plant was deployed quickly and efficiently and all start-up targets were met. Additional sales channel partners were developed in Europe and South America. AEL's technology and know-how should impact positively on revenue going forward as the international strategy evolves.

The DetNet JV's products have proved to be reliable, effective and highly competitive globally. However, the downturn in the US construction sector and in the African diamond and platinum sectors had a serious negative impact on the operation's performance for the year.

With the Initiating Systems Automation Programme (ISAP) mechanically complete, the focus in 2010 will be on ramp-up and the completion of peripherals. By end-2009, the plant had already produced more than 65 million detonators and more than 280 million metres of tubing.

AEL invested R439 million in capital projects in the year. R170 million was spent on ISAP, with the balance for the start-up of bulk sites in Indonesia, further support for African mining projects and various replacement-type projects.

### Chemical Services (Chemserve)

The specialty chemical arm of AECI, Chemserve's performance was severely affected by the global crisis that impacted many of the sectors in which the business operates. Revenue declined by 23% to R6,5 billion (2008: R8,4 billion) and profit from operations was 43% lower at R483 million (2008: R851 million). In addition to the negative global environment, a strengthening rand and lower commodity prices precluded a recurrence of Chemserve's outstanding 2008 performance. Volumes declined by 27%, due to depressed activity in the mining, manufacturing and automotive sectors. However, operating performances from Crest Chemicals, Industrial Oleochemical Products, Lake International and Senmin demonstrated good resilience against the downturn.

Chemserve demonstrated strong cash management in a declining revenue environment and generated over R1 billion in reductions in working capital, thereby improving its working capital ratio.

Chemserve's results were further impacted by impairment of a large US dollar-denominated, Zambian-based debt in Chemical Initiatives.

The capital expansion programme neared completion by year-end. Senmin's acrylamide and polyacrylamide plant in Sasolburg was mechanically complete. It is being commissioned in the first quarter of 2010 and ramp-up will follow during the rest of the year. All of Chemserve's other capital expansion projects were commissioned in 2009.

R801 million was invested in capital expenditure, with R567 million of this being spent on the strategic growth projects in Senmin, Akulu Marchon and Resitec in Brazil.

Two acquisitions and the repurchase of the Tiso Group's 25,1% shareholding in ImproChem were concluded during the year at a total cost of R95 million. Both acquisitions, Cobito and CH Chemicals, were integrated into existing Chemserve businesses and their performances exceeded expectations.

### Debt write-off

Chemical Initiatives, a division managed by Chemserve, exported large quantities of raw sulphur to a distributor in Zambia in 2008, at the peak of the commodity boom. The sulphur sold to the distributor was procured by mines in the copper belt region.

During the latter part of 2008 the price of sulphur declined rapidly and severely. Despite this, the customer continued to make regular payments during the first half of 2009. However, in the latter part of 2009 it became apparent to management that the balance of the receivable outstanding could not be recovered from the distributor. Accordingly, management has provided R125 million in respect of the probable bad debt and has further processed adjustments in respect of pricing adjustments, foreign exchange revaluations and net realisable inventory adjustments of R38 million.

The Board has viewed this loss in a very serious light and appointed a sub-committee comprised of non-executive directors to investigate the circumstances surrounding the events that led to this debt being fully impaired. After completion of the investigation, the Board has initiated a disciplinary enquiry.

### Heartland

As expected, the property market remained depressed. Heartland's operating performance was sustained primarily by the leasing and services segments. Operating results, net of environmental management costs, dropped by 27%

to R33 million (2008: R45 million). Environmental management expenditure was R13 million (2008: R91 million).

As a result of adverse trading conditions in the property development market, sales of R104 million were cancelled or defaulted. R52 million of operating profit recognised in 2008 was reversed.

The business continued preparing land for sale and investing in infrastructure so as to be optimally placed once the market recovers from its current depressed position. R86 million was invested in bulk infrastructure in the year and 57 hectares of land are ready for sale.

### SANS Technical Fibers (SANS) (USA)

SANS experienced a challenging start to the year as the global automotive market deteriorated sharply. However, the business re-positioned itself and developed an export market in Europe and Asia. Revenue declined by 25% to US\$27 million (2008: US\$36 million) and operating profit to US\$1,1 million (2008: US\$4,8 million).

The company spent US\$1,4 million on capital projects while a further US\$3 million has been approved for the installation of plant transferred from the Bellville site, subsequent to the latter's closure. The business remained cash positive and generated cash through the liquidation of working capital.

It is AECI's intention to optimise and grow the business going forward.

### Discontinued operation

#### SANS Fibres, Bellville

The operation at Bellville, Western Cape, ceased production in March 2009. All the working capital was liquidated during the year and the closure generated R220 million in cash net of closure costs. 60% of the site has been disposed of to a Cape Town-based developer. The sale of the remaining portion will be pursued in 2010.

### Financial

The net working capital to sales ratio improved to 15,9% (2008: 19,2%), while generating R1,1 billion in cash. This improvement is largely attributable to a sharp reduction in working capital due to strong cash management in Chemserve and lower sales volumes.

Gearing improved to 53% at year-end (2008: 59%), down from 75% at June 2009. It can be expected that gearing will increase as sales volumes escalate to meet demand in recovering markets.

The decrease in cash interest cover to 3,5 times (2008: 4,6 times) is the result of capital spend and higher levels of debt during the first half of the year. Net interest paid, before capitalisation of R105 million (2008: R40 million), increased to R327 million (2008: R246 million), also due to the capital programme embarked on by the Group since 2007.

The Post-retirement Medical Aid liability was actuarially valued and an adjustment of R75 million (2008: R123 million) was required to increase the provision against the liability at year-end. The increase is mostly a consequence of high medical inflation of between 11% and 13% in South Africa.

### Board change

Mr AC Parker resigned as an independent non-executive director of the Board with effect from 31 December 2009. The Board thanks him for his services.

### Outlook and strategic focus

The slow turnaround in manufacturing and continued recovery in the mining sector should assist in improving volumes in 2010. However, a strong local currency could pressurise margins and dampen the recovery in volumes.

Delivery and consolidation will be the focus in the next financial year. Specifically, the Group will aim to:

- commission and ramp-up strategic capital projects;
- grow volumes to support the delivery of strategic capital projects;
- maintain working capital ratios, thus preserving cash;
- enhance its sales focus on opportunities outside South Africa; and
- curtail business risks in a volatile trading environment.

The successful execution of the above should facilitate the delivery of an improved financial performance in the next year.

Fani Titi

*Chairman*

Graham Edwards

*Chief executive*

Woodmead, Sandton

22 February 2010

## NOTICE TO SHAREHOLDERS FINAL ORDINARY CASH DIVIDEND NO. 152

NOTICE IS HEREBY GIVEN that on Monday, 22 February 2010 the directors of AECI declared a final cash dividend of 62 cents per share, in respect of the financial year ended 31 December 2009, payable on Monday, 19 April 2010 to ordinary shareholders recorded in the books of the Company at the close of business on Friday, 16 April 2010.

The last day to trade cum dividend will be Friday, 9 April 2010 and shares will commence trading ex dividend as from Monday, 12 April 2010.

Any change of address or dividend instruction must be received on or before Friday, 9 April 2010.

Share certificates may not be dematerialised or rematerialised from Monday, 12 April 2010 to Friday, 16 April 2010, both days inclusive.

This announcement will be mailed to all recorded shareholders on or about Tuesday, 23 February 2010.

By order of the Board

EA Rea

*Acting Company secretary*

Woodmead, Sandton

22 February 2010

### Transfer secretaries

Computershare Investor Services (Pty) Ltd, 70 Marshall Street, Johannesburg 2001 and Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgewater Road, Bristol BS99 7NH, England

### Registered office

1st Floor, AECI Place, 24 The Woodlands, Woodlands Drive, Woodmead, Sandton

Sponsor: Rand Merchant Bank (A division of FirstRand Bank Limited)

Directors: F Titi (Chairman), GN Edwards (Chief executive)<sup>†</sup>, FPP Baker<sup>†</sup>, RMW Dunne\*, S Engelbrecht, Z Fuphe, KM Kathan<sup>†</sup>, MJ Leeming, LM Nyhonyha.<sup>†</sup>Executive \*British

Acting Company secretary: EA Rea

# REVIEWED CONDENSED CONSOLIDATED FINANCIAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2009

## HIGHLIGHTS

- ▲ All strategic capital projects mechanically complete
- ▲ Strong cash generation from operations
- ▲ Gearing down to 53%
- ▲ Final cash dividend of 62c declared



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