

## Directors' report

The directors have pleasure in submitting their report together with the Group and Company annual financial statements for the year ended 31 December 2008.

### Nature of business

AECI is a specialty product and services Group of companies which provides value-adding solutions to customers through science, technology and industry knowledge. The focus is on serving the mining and manufacturing sectors and the Group is investing substantial sums in its future growth in these areas.

Construction is in progress on six significant projects, with capital expenditure totalling about R2 billion. The projects, most of which are scheduled for completion by the end of 2009, relate mainly to the mining sector but capital is also being invested to augment the Group's ability to service consumer-driven markets.

AECI's core businesses serve global and regional markets. They are characterised by application know-how and service delivery, operate in niche markets, and are supported by leading international technology alliances.

Principal manufacturing sites are located in South Africa, near Johannesburg (mining solutions, provided by African Explosives Limited "AEL", and specialty chemicals provided by Chemical Services Limited, "Chemserve") and Durban (specialty chemicals). Chemserve also has a number of smaller sites and its mining chemicals thrust is anchored in Senmin, which operates at Sasolburg in the Free State.

AEL and Chemserve have expanded their presence throughout sub-Saharan Africa. Both businesses continue to explore opportunities to take their products and service packages to niche markets in countries beyond their traditional areas of activity. In mining solutions, AEL has established a hub in South East Asia and its Global Channel business utilises the company's excellent technology and product position in initiating and bulk explosives systems to enter into mutually beneficial channel partnerships with leading regional explosives players internationally. Furthermore, DetNet aims to be the international leader in the design, production and sale of specialised electronic detonators. Chemserve has established a stable presence in Brazil and more acquisitions continue to be sought using the existing investment as a platform for growth.

AECI will exit the manufacture of industrial nylon fibres and polyethylene terephthalate at SANS Fibres in Bellville, with operations ceasing on 31 March 2009. SANS Technical Fibers at Stoneville, USA, will now be run as a stand-alone and self-sustaining entity for the foreseeable future.

The Group is fortunate that, in addition to its core businesses, it has a most valuable land asset, the release of which it can control and influence. The realisation of land and the utilisation of built assets that have become surplus to AECI's requirements are managed in the property portfolio, led by Heartland Properties. These activities are significant and offer prime holdings near Johannesburg and Cape Town for commercial, residential and industrial development and leasing purposes. 2 180 hectares of excess land are available for redevelopment over the next 10 to 15 years.

### Group results

The activities and results of the Group have been reviewed on pages 28 to 89.

### Going concern

The financial statements have been prepared using appropriate accounting policies, supported by reasonable and prudent judgements and estimates. The directors are of the opinion that the Group has adequate resources to continue as a going concern in the foreseeable future.

### Borrowing powers

In terms of its articles of association, the Company has unlimited borrowing powers.

### Accounting policies

The audited annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and their interpretation in line with the International Accounting Standards Board (IASB), the Listings Requirements of the JSE Limited and the Companies Act, No. 61 of 1973, as amended, remain consistent with those applied to the 30 June 2008 interim results published in July 2008.

### Independent auditors

The independent auditors, KPMG Inc., will be recommended for reappointment at the forthcoming annual general meeting. Mr N van Niekerk will be recommended for appointment as the individual designated auditor who will undertake the audit of the Company for the ensuing year. All non-audit services provided by KPMG Inc. are tabled at and approved by the audit and risk committee.

### Share capital and share premium

The issued ordinary share capital of the Company, at 31 December 2008, was R118 846 986 (2007 – R120 742 578).

The Company also has in issue 3 000 000 5,5 per cent cumulative preference shares of R2 each.

Details of the share premium and the movements during the year are provided in note 11 on page 129 of the annual financial statements.

### STRATE

Dematerialisation of the Company's issued shares commenced in July 2001. Shares still in paper form are no longer good for delivery and will require 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 0861 100 950 in South Africa or +44 0870 889 3176 in the United Kingdom.

### Dividends to ordinary and preference shareholders

A final dividend of 141 cents per share was declared on Monday, 23 February 2009, and is payable on Monday, 20 April 2009.

Details of the dividends declared and paid on the Company's ordinary and preference shares during the 2008 financial year are set out in note 24 to the financial statements.

### Directorate and secretary

Details of the directorate and secretary of the Company, at the date of this report, are shown on pages 16 to 19 and page 20 respectively.

In terms of Section 22.4 of the Company's articles of association, Messrs RMW Dunne, LM Nyhonyha and AC Parker retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

### Changes to the Board

The following directors were appointed during the financial year ended 31 December 2008:

- Dr GN Edwards was appointed chief executive with effect from 1 March;
- Mr S Engelbrecht was appointed a non-executive director with effect from 1 April; and
- Mr KM Kathan was appointed financial director and chief financial officer with effect from 1 September.

In terms of the Company's articles of association, all new directors appointed must retire at the following annual general meeting. Shareholders will be asked to confirm the appointment of Mr KM Kathan.

## Directors' report (continued)

The following directors retired and/or resigned during the financial year ended 31 December 2008:

- Mr S Engelbrecht retired as chief executive with effect from 1 March;
- Mr RA Williams resigned as financial director and chief financial officer with effect from 31 August; and
- Mr LC van Vught retired as a non-executive director on 31 December.

### Directors' and Company secretary's interests in shares

At 31 December 2008, the directors and their associates (as defined in terms of the JSE Listings Requirements) had the following direct and indirect beneficial interests in the share capital of the Company:

	NUMBER OF SHARES		NUMBER OF SHARES	
	2008 Direct	2008 Indirect	2007 Direct	2007 Indirect
<b>EXECUTIVE DIRECTORS</b>				
FPP Baker	2 500	–	1 500	–
GN Edwards	2 000	–	600	–
RA Williams <sup>1</sup>	–	–	6 000	–
	<b>4 500</b>	<b>–</b>	<b>8 100</b>	<b>–</b>
<b>NON-EXECUTIVE DIRECTORS</b>				
S Engelbrecht <sup>2</sup>	46 623	600	4 000	600
MJ Leeming	2 500	7 000	2 500	7 000
LC van Vught <sup>3</sup>	6 000	5 500	6 000	5 500
	<b>55 123</b>	<b>13 100</b>	<b>12 500</b>	<b>13 100</b>
	<b>59 623</b>	<b>13 100</b>	<b>20 600</b>	<b>13 100</b>

<sup>1</sup> Resigned with effect from 31 August 2008.

<sup>2</sup> An executive director until 1 March 2008.

<sup>3</sup> Retired on 31 December 2008.

There have been no changes in the above interests between the end of the financial year and the date of this report.

### Major shareholders

Details of the interests of shareholders who are directly or indirectly beneficially interested in 3 per cent or more of the Company's capital, are included on pages 12 to 15 of this annual report.

### Subsidiaries and joint ventures

Details of each trading subsidiary and joint venture are set out in the notes 34 and 33 on pages 161 and 162, and page 160 respectively.

The aggregate net profits and losses, after tax, of subsidiaries and joint ventures attributable to the Company for 2008 were as follows:

Profits: R579 million (2007 – R823 million).

Losses: R237 million (2007 – R156 million).

### Special resolution

The Company passed the following special resolution at the annual general meeting held on 26 May 2008:

- to grant the directors the general authority to buy back a maximum of 5 per cent of the Company's issued shares.

### Material changes

There have been no material changes in the financial or trading position of the Company and its subsidiaries since 31 December 2008.

### Major capital expenditure

The Group made total additions to its property, plant and equipment of R1 044 million (2007 – R688 million) in the past financial year.

### Litigation statement

In terms of Section 11.26 of the JSE Listings Requirements the directors are not aware of any litigation or arbitration proceedings, including proceedings that are pending or threatened, that may have or had in the recent past, being at least the previous 12 months, a material effect on the Company's financial position.

### Directors' responsibility statement

The directors whose names appear in this annual report collectively and individually accept full responsibility for the accuracy of the information given and certify that, to the best of their knowledge and belief, there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that this statement contains all information required by law and the JSE Listings Requirements.

The directors acknowledge that their responsibility includes: designing, implementing and maintaining internal controls relevant to the presentation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The directors' responsibility also includes maintaining adequate accounting records and an effective system of risk management.

### Interests of directors and officers

During 2008, no contracts were entered into in which directors and officers of the Company had an interest and which significantly affected the business of the Company. The directors had no interests in any third party or company responsible for managing any of the business activities of AECL.

### Remuneration and employee incentive participation schemes

Full details regarding directors' remuneration and the Group's long-term incentive schemes are disclosed in the notes 29 and 30 on pages 149 to 156.