

Compliance with the JSE Limited's ("JSE") Listings Requirements and other legislation

An independent audit of the Company's compliance with the JSE Listings Requirements was performed during December. The Board had insight into the said audit report at its December 2008 meeting and is confident that the Company complies with all the provisions of the JSE Listings Requirements.

The Company is also in compliance with the provisions of the Companies Act, 1973 (as amended).

The Board

The Board charter

The AECI Board operates under an approved charter which regulates the way business is conducted. The charter is modeled on the principles recommended by King II, incorporates the powers of the Board, provides a clear division of responsibilities and sets out the accountability of Board members, collectively and individually, to ensure an appropriate balance of power and authority. In terms of the charter, the Board:

- defines its mission as representing the interests of shareholders in perpetuating a successful business that adheres to the vision and values of the Company and creates long-term value for shareholders;
- is accountable and responsible to shareholders for the performance and affairs of the Company;
- determines the Company's objectives, values and stakeholders relevant to its business and gives strategic direction to management;
- maintains full and effective control of the Company by ensuring that appropriate processes and procedures are in place to monitor and evaluate the implementation by management of its strategies, policies, performance criteria and business plans.

To this end the Board undertakes a formal annual review of the Company's strategy and that of its component businesses, and similarly of the budgets proposed by management at the start of each financial year;

- appoints the chief executive and ensures that succession is planned;
- ensures that the Company complies with all relevant laws and regulations and that it communicates with its shareholders and other stakeholders openly with substance prevailing over form;
- assesses at least annually the key risk areas of the business and determines the policies and processes necessary to ensure the integrity of internal controls and risk management in the Company;
- develops the framework, policies and guidelines for safety, health and environmental management and other aspects of corporate citizenship, and monitors key indicators of performance in this field;
- defines levels of materiality, reserving specific powers to itself and delegating other matters with written authority to management; and
- establishes and sets the terms of reference for sub-committees of the Board.

Matters reserved for Board decision

The following matters are reserved for decision by the Board, on the basis of any recommendation as may be made from time to time by the executive committee or other committees:

- accounting policies: adoption of any significant change or departure;
- articles of association: amendments to, recommendation to shareholders;
- external auditors and head of internal audit: appointment, removal and replacement of;
- Board of directors:
 - appointment to and removal from;
 - appointments of chairman, deputy chairmen, executive directors and non-executive directors, and their terms of reference and powers;
 - approval of nominations of alternate directors;
 - frequency of Board meetings.

- borrowings: exercise of borrowing powers except those involving agreements with banking or other institutions operating in the Republic of South Africa in respect of banking facilities which are repayable, renewable or subject to review within a period of one year;
- budgets: the approval thereof on an annual basis;
- capital funding: terms and conditions of rights issues, capital issues or issues of convertible stock including shares or stock issued for acquisitions;
- circulars to shareholders: approval of and authority for posting;
- committees of directors: in particular executive, audit and risk, nominations, remuneration, and corporate citizenship committees – appointment of, terms of reference and changes in composition of;
- community investment: approval of annual budgets and special/ extraordinary single contributions in excess of R5 million;
- employee share incentive/option schemes: approval of schemes, rules and amendments to rules recommended by the remuneration committee;
- employment equity: formulation or approval of recommended policies;
- financial:
 - annual financial statements (including directors' responsibility statement): approval of;
 - interim reports: approval of;
 - unlisted investments: valuation of;
 - dividends: declaration of;
 - unclaimed dividends: forfeiture of.
- industrial relations: approval of recommended policies;
- investments, fixed assets and capital projects: commitments, acquisitions or disposals in excess of limits specified by the Board from time to time;
- litigation: prosecution, defence or settlement of, where material and except in the ordinary course of business;
- meetings: annual general and general: convening of;
- pension and provident funds: approval of rules and amendments thereto having a material effect on the actuarial liabilities of the funds, where applicable;
- prioritisation of resources: prioritising the allocation of capital and technical and human resources;
- prospectuses, rights offer and merger documents: approval of and authority for posting;
- public officer: appointment and removal of;
- secretary: appointment and removal of;
- share capital:
 - recommendation to shareholders of increase, reduction or alteration, including share warrants or options;
 - allotment, issue or other disposal of shares of the Company (except for shares allotted under the share incentive scheme);
- shareholder resolutions: recommendations to shareholders for approval of any ordinary or special resolutions;
- share register:
 - confirmation of grant of authority for the approval of rectification to;
 - establishment of branch or duplicate register in a foreign country;
- shares: variation of rights attaching to, where such power is vested in the directors;
- standards of conduct: approval of the Code of Ethics;
- stock exchange listings: decision to list the Company shares on the stock exchanges anywhere in the world, or to terminate any such listings; and
- strategy and policy: the approval of.

Board structure

In terms of the Company's articles of association, at least half of all directors must at all times be non-executive directors. Currently the Board is comprised of three executive and seven non-executive directors, six of whom are independent.

Board members are required, on an annual basis, to perform an "independence test" based on the guidelines provided in the Listings Requirements of the JSE.

The role and person of the non-executive chairman is separate from that of the chief executive. The Board meets at least quarterly and on other occasions when necessary. Directors are appointed or removed by the Board or by the Company's shareholders in general meeting, in each case in accordance with the articles of association. The appointment of new directors by the Board is subject to confirmation by shareholders in general meeting and all directors are subject to retirement by rotation and re-election by shareholders at least once every three years. A balance of skills, gender and demographic representation is taken into account in determining an effective composition of the Board. Board appointments are done in accordance with a formal appointment policy, which includes proper screening of candidates, formal interviews and the completion of a "fit and proper test" by successful candidates.

Composition of the Board

The Company adopts the philosophy that the Board needs to be large enough to accommodate the necessary skills, but still small enough to promote cohesion, flexibility and effective participation. Accordingly, the current Board of 10 directors includes three executive directors and seven non-executive directors.

Independent non-executive directors

1. F Titi (chairman)
2. RMW Dunne
3. Z Fuphe
4. MJ Leeming
5. LM Nyhonyha
6. AC Parker

Non-executive director

1. S Engelbrecht

Executive directors

1. GN Edwards (chief executive)
2. FPP Baker
3. KM Kathan (financial director and chief financial officer)

The Board has considered the classification of directors as independent non-executive, non-executive and executive. This classification is renewed on an annual basis or more frequently if necessary. The Company believes that directors should not only be independent according to the JSE Listings Requirements, but also in thought and action in both fact and perception by shareholders.

Skills and experience of the Board

The Board comprises persons with diverse experience including banking, chemical, accounting and business and is of the opinion that having directors with relevant business and industry experience is beneficial to the Board as whole, as directors with such backgrounds can provide a useful perspective on significant risk and competitive advantages and an understanding of the challenges facing the business. The Board monitors the mix of skills and experience of directors to assess whether the Board has the necessary tools to perform its oversight function effectively. The Board further reviews the skills, knowledge, gender and diversity at Board level going forward to ensure that it is appropriate and effective and takes into account succession plans for non-executive and executive directors.

The expectation of the Board is that, at a minimum, directors should possess the requisite knowledge and expertise to fulfill an appropriate role within the mix of capabilities the Board deems appropriate and to exercise diligence. This includes attending Board and committee meetings and coming prepared to provide thoughtful input at such meetings. Directors need to devote the proper amount of time and attention and develop the broad-based and specific knowledge required to fulfill their obligations in this regard.

Directors are expected to:

- prepare for and attend all Board and committee meetings, unless there are exceptional circumstances preventing them from doing so;
- actively participate in meetings;
- develop and maintain a high level of knowledge about the Company's business;
- keep current in the directors' own specific fields of expertise; and
- develop a broad understanding of their role and responsibilities as directors.

Other directorships

Directors are expected to ensure that they have sufficient time available to properly carry out their duties and responsibilities as directors of the Company. Non-executive directors, in particular, are required to carefully assess and guard against potential entanglements such as service on an excessive number of boards.

Selection and rotation of directors

The Company's articles of association require a minimum of six and maximum of 12 directors, the majority of whom should be independent. Between annual general meetings, the Board may appoint a director/s to fill casual vacancies or as an additional director by majority vote to serve until the next annual general meeting.

The nominations committee considers all Board appointments. In terms of the charter of this committee the responsibility of the committee includes reviewing the Board structure, size, composition and balance between executive and non-executive directors and making recommendations to the Board regarding adjustments that are deemed appropriate; identifying and recommending for Board approval executive and non-executive candidates for appointment to the Board; and ensuring that plans for succession are in place, particularly for the chairman and chief executive.

Terms of employment of directors

Executive directors are employees of the Company and have standard terms and conditions of employment and do not receive any special remuneration or other benefits for their additional duties as executive directors. None of the executive directors have extended employment contracts or special termination benefits, and there is no restraint of trade in place. The Board, on the recommendation of the remuneration committee, determines the remuneration of executive directors and other senior executive managers.

No non-executive director has an employment contract with the Company.

Board assessment and evaluation of directors

In terms of the Board charter, directors must be assessed individually as well as collectively as a Board. The collective assessment of the Board must evaluate the Board's contribution as a whole and, specifically, must review areas in which the functions of the Board could be improved.

The remuneration committee, in consultation with the chairman of the Board, evaluates the chief executive on regular basis. The evaluation is based on objective criteria, including business performance, achievement of long-term strategic objectives, development of management, and other such issues. The remuneration committee must provide an evaluation report for deliberation by the full Board.

The Board must evaluate the performance of the chairman of the Board on an annual basis.

In line with the above requirements, evaluation of the performance of the chairman, as well as the chief executive, the financial director, the Company secretary, the Board as a whole and all of the Board's sub-committees was completed in November 2008 and feedback from the process was discussed at the February 2009 Board meeting.

In addition, every second or third year, as required, an independent third party undertakes a performance review of the Board in terms of the following:

- the quality and overall effectiveness of Board meetings;
- the information available to Board members to support decision making;
- the Board's role in the formulation of and commitment to business strategy;
- the Board's evaluation of the chief executive and the planning for succession;
- evaluation of the Board's structure in terms of its executive and non-executive components; and
- the suitability of the Board's composition and sub-committees.

The Board met four times in 2008. Attendance at meetings was as follows:

	25 February	26 May	28 July	1 December
FPP Baker	✓	✓	✓	✓
RMW Dunne	✓	✓	✓	✓
GN Edwards	✓	✓	✓	✓
S Engelbrecht	✓	✓	✓	✓
Z Fuphe	✓	*	✓	✓
KM Kathan				✓**
MJ Leeming	✓	✓	✓	✓
LM Nyhonyha	✓	*	✓	✓
AC Parker	✓	✓	✓	✓
F Titi	✓	✓	✓	✓
LC van Vught	✓	✓	✓	✓***
RA Williams	✓	✓	✓	****

✓ Indicates attendance.

* Indicates absence with apology.

** Appointed 1 September.

*** Retired 31 December.

**** Resigned 31 August.

Board relationship to 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. In addition, Board members have unrestricted access to consult senior management on any aspect of the Company's operations. Finally, Board members may collectively or individually, at the expense of the Company, consult external professional advisors on any matter of concern to the Company after having advised the chief executive or chairman.

Induction and training

For the Board to function effectively, the resources necessary for developing and refreshing the knowledge and skills of non-executive directors must be provided. To this end, all non-executive directors have an open invitation to visit the operations of the Company and to meet with management. The objective is to ensure that non-executive directors are able to obtain as full a picture of the Company's operations as possible, in order to make informed decisions and hence enhance the effectiveness of the Board.

Although the Company does not have a formal procedure for the induction and training of directors to ensure that they are aware of their statutory duties, obligations and potential liabilities, the Company secretary has compiled directors' manuals, which are updated on a regular basis and which contain the following documents and information:

- letter from the Company secretary: an introductory letter from the Company secretary including the dates of meetings for the year in question;
- Board composition: the names, addresses and contact details of directors and their assistants, if applicable;
- Board procedures: copies of the Board charter; audit and risk committee terms of reference; nominations committee terms of reference; remuneration committee terms of reference; executive committee terms of reference; corporate citizenship committee terms of reference; performance appraisal procedures in terms of King II;
- Board policies: trading in securities policy; appointment to the Board policy; information disclosure and communications policy; conflict of interest policy; non-audit services policy; Code of Ethics;
- directors' duties and responsibilities;
- insurance;
- forms: directors' declaration of interests, directors' letter to associates, directors' letter to investment managers, Schedule 18, Schedule 21; and
- general: Company's articles of association.

The Company secretary further provides directors with an update at each Board meeting, covering the following:

- JSE Listings Requirements: a detailed explanation of compliance requirements for the Company and its directors for the next quarter as well as any updates on the Listings Requirements. At the end of each year, an external audit report pertaining to the Company's compliance with the Listing Requirements would also be included;
- statutory legal update: articles on new legal developments, Bills, Acts and effective dates, Government Gazettes;
- Board governance: articles on developments in this area;
- media: all pertinent media articles since the last Board meeting; and
- Securities Exchange News Service (SENS) announcements: all SENS announcements by the Company since the last Board meeting.

Information requirements of directors and Board processes

It is regarded as critical that directors have sufficient information to enable them to make informed decisions and, therefore, the Board continually reviews the information requirements of directors to enable them to fulfill their duties and responsibilities effectively. Most of the information is received from management but also from:

- financial and other reports;
- Board and committee meetings;
- direct communication with management;
- operational visits and presentations to analysts, fund managers and the media;
- new developments; and
- access to senior management other than the chief executive.

Directors are informed timeously of matters that will be discussed at Board meetings and are provided with information relating thereto about a week prior to scheduled meetings.

Delegation of authorities

The Board has approved the delegation of authorities to the Board sub-committees and to the executive committee, where appropriate.

Board meetings

At a minimum, Board meetings are held every quarter. A special meeting is also held in May each year to discuss strategic issues. Overall attendance at Board meetings in 2008 is reflected in the table on page 33.

The annual general meeting was held in May 2008 and was well attended by directors, including the chairman of the Board and the chairman of the audit and risk committee.

Board meetings are structured to encourage participation and dialogue and to ensure effective decision making. Submissions relevant to the agendas of Board and committee meetings are sent to directors and members of the committees about a week in advance of meetings. All submissions and matters discussed at meetings are strictly confidential.

Attendance at meetings

Directors have an obligation to ensure near perfect attendance at, and to actively participate in, meetings of the Board and Board committees on which they serve, and to spend the time required and meet as frequently as necessary to discharge their duties and responsibilities with due care. They are also expected to attend the annual general meeting of shareholders.

Annual strategy review

The annual strategy session is usually held in May of each year and is designed to facilitate the review of the Company's medium- and long-term strategic plans and priorities.

Company secretary

The Board is responsible for the selection and appointment of the Company secretary who must be a suitably qualified person as contemplated in Section 268 of the Companies Act of South Africa, No. 61 of 1973; ("the Act").

The Company secretary is responsible for the duties set out in Section 268g of the Act and for ensuring compliance with the JSE Listings Requirements.

Directors have access to the services and advice of the Company secretary.

The certificate required to be signed in terms of subsection (d) of the Act appears on page 95 of this report.

Board committees

In accordance with the recommendations of King II, the Board has established five sub-committees to assist in the execution of its responsibilities. Each of these sub-committees has written charters under which authority is delegated to each committee by the Board. The composition and responsibility of each sub-committee is summarised below.

Audit and risk committee

The audit and risk committee is comprised of three independent non-executive directors. The committee meets four times per year. Meetings are attended by the Company secretary as secretary to the committee and by the external auditors, the head of internal audit, the chief executive and the chief financial officer. Current members of the committee are:

- MJ Leeming (chairman)
- RMW Dunne
- LM Nyhonyha

The committee has written terms of reference and its responsibilities include, among others:

- considering and nominating to the Board, the appointment and/or termination of the external auditors, including their independence and objectivity;
- determining the audit fee of the external auditors;
- considering and setting mandatory term limits on the period the lead audit partner of the external auditors may serve the Company;
- considering and determining the use of the external auditors for non-audit related services;
- determining with the external auditors the nature and scope of the audit;
- evaluating the effectiveness of the external audit;
- confirming internal audit's charter and audit plan;