

## Review of operations: property

AECI's property activities which are managed by two companies, Heartland Properties and Heartland Leasing, generated revenue of R432 million in the year, compared with R450 million in 2007. This comprised property sales of 35 hectares of land (170 000m<sup>2</sup> of commercial and industrial bulk rights) which generated R169 million of revenue, with the balance from leasing and service activities. Operating profit of R45 million (2007 – R75 million) was achieved after recognising R91 million (2007 – R83 million) of remediation expenses. After deducting remediation expenditure, the property activities earned a net cash flow of R37 million, compared with an outflow of R48 million the previous year.

### Heartland Properties

Heartland Properties' focus is on projects to develop and sell land. Land that has become surplus to the operational requirements of AECI's businesses is converted to zoned residential, commercial or industrial land for sale.

The conversion process seeks to optimise the value that can be achieved through strategic macro planning, optimum design and installation of infrastructure services and the release of appropriately sized land parcels to match market demand. Market demand for land varies as a function of the macro economic cycle and local business cycles which are driven by shortages of supply in zoned industrial, office or residential space.

Purchasers, who are primarily developers, buy in bulk with the objective of developing above-ground structures, for home-owners in the case of land zoned for residential use and for investors and end users in the case of land zoned for non-residential uses. Investors seek to derive annuity income from leasing the buildings to tenants and are mainly Property Loan Stock companies listed on the JSE Limited or private individuals.

### Market conditions

Investors and potential investors in South African real estate became much less optimistic about prospects for the domestic economy in 2008 and this had a direct impact on the demand for land. The lack of optimism can be ascribed to the recent movement in South African interest rates and the global financial credit market crisis.

Prior to 2008, Heartland Properties disposed of all land that had already gone through extensive planning and approval processes and land that required relatively low expenditure on bulk infrastructure. Perhaps fortuitously the company is now at the point where, having sold out all of its available land, it is in the process of creating new land stock at a time when market demand for real estate investment is low. It can take up to three years to obtain full environmental, local authority and capital expenditure approvals for new land releases.

Heartland Properties is now focused on creating a sustainable pipeline of available land for its next phase of growth and for the long-term future. This strategic planning takes into account expected demand as well as its anticipated timing for both residential and non-residential uses.

Notwithstanding the current state of the property market, demand for well located zoned land is likely to be resilient going forward. Accordingly, Heartland Properties is undertaking the strategic macro planning of four major projects, cognizant of the macro and micro market conditions.

Over the past five years, Heartland has achieved an average rate of sale of 100 hectares per annum and 35 hectares per annum at Modderfontein and Somerset West respectively. The planning of future projects endeavours to ensure that land is prepared to guarantee a continuous supply, taking into account the long planning and delivery cycle imposed by the township approval process and current environmental legislation.



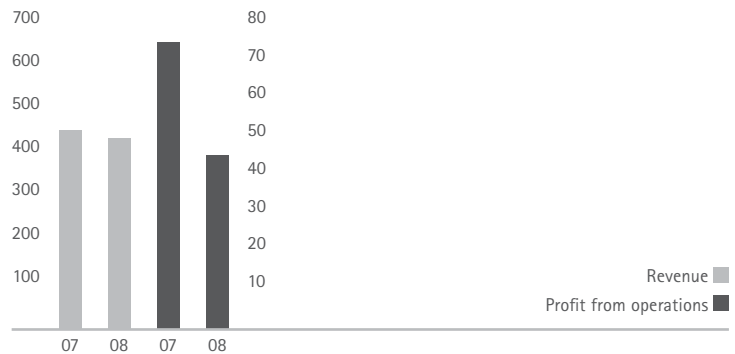
### Land valuation

In 2008, the Valuation Division of Old Mutual Investment Group Property Investments completed a full review of Heartland's development plans and compiled an independent valuation of R2,5 billion, as at July, for that portion of surplus Group-owned property located in Modderfontein and Somerset West.

The value reported was completed on a market valuation basis, which assumes the premise of willing buyer willing seller. The value is an independent professional estimate of what a buyer might be prepared to pay for the land in its current form, discounted at an average, real rate of 25 per cent, being the developer's assumed required rate of return.



Strategic alternatives for the property portfolio have been reviewed by AECl. The Company believes that better value for shareholders will be provided by retaining the property portfolio in the Group in the medium term.



Financial performance (Rm)

## Heartland Properties' executive team

**<sup>1</sup> Anthony Diepenbroek (52)**

Chief executive officer and a member of AECI's executive committee. See page 18.

**<sup>2</sup> Neil Hayes (30)**

Neil joined the company as financial controller in 2004 and, in 2006, was promoted to financial director. He has a BCom (Hons) degree and is a registered chartered accountant.

**<sup>3</sup> Leticia Potts (33)**

Having joined the AECI Group as a civil planner in 1997, Leticia moved to Heartland as a project planner in 2000. A number of promotions followed and, in 2008, she was appointed development director at national level. Leticia is currently completing an MSc degree in real estate.



<sup>4</sup> **Jaco Strydom (31)**

Jaco joined Heartland in 2004 as national quantity surveyor and was appointed commercial director in 2008. He has overall responsibility for project execution at Modderfontein and at Somerset West. Jaco has a BSc (Quantity Surveying) degree, is a registered Professional Quantity Surveyor and is a professional member of the Association of South African Quantity Surveyors.

<sup>5</sup> **Mike Walsh (40)**

Mike immigrated to South Africa, from Ireland, in 1992. Prior to joining Heartland as sales manager in 2002, he had worked in the corporate property field at other JSE Limited-listed companies. He was appointed sales director in 2005 and is responsible for overseeing sales at all sites.



## Review of operations: property (continued)

### Projects

#### Modderfontein – Westlake View

This project will release 58 hectares of land onto the market in 2010, predominantly for warehousing and distribution. Demand for well located land targeted at providing warehousing and distribution facilities for the logistics industry has resulted in Longmeadow Business Estate becoming the destination of choice for many blue chip companies. Westlake View is a further extension to Longmeadow. The attraction of this land will be enhanced further with the creation of additional access, via the nearby London Road interchange, expected to be completed in April 2009.

#### Modderfontein – Longlake

Scheduled for phased commencement in 2010 and with land release expected to start soon, this project will release 350 hectares of land with an initial 15 hectares and 38 hectares zoned for commercial, and warehousing and distribution respectively. Longlake is the most exciting prospect for the development of Modderfontein. Much of Heartland's efforts in recent years focused on development on the perimeter of its landholding. Longlake, situated on either side of the busy Marlboro interchange, is the first step in opening up the "heart" of the Modderfontein landholding and, eventually, will create connectivity through to Chloorkop and Allandale Road. This project will change significantly the existing paradigm of access for residential and employment opportunities, bringing them much closer to Sandton than ever before.

#### Modderfontein – Founders Hill Erf 18

The relocation of Centenary Way as a result of alignment of the Gautrain has created a highly desirable piece of land, some 18 hectares in extent, overlooking the Modderfontein golf course. This land is in the planning process for a commercial office estate and can be brought to the market from 2009.



Development framework: Modderfontein

#### Modderfontein – Highlands

A shortage of social housing in close proximity to employment opportunities was an essential catalyst for the birth of this 129 hectare social housing and warehousing and distribution project. Various sources have identified the need for an additional 31 000 residential units in the area and, subject to appropriate development finance being in place for this segment of the affordable housing market, the land can be delivered commencing from 2010.

#### Somerset West – De Beers Football Club

This project has been over 12 months in planning. It will result in the relocation of the De Beers Football Club to its new home on the main site, with new facilities. The area currently occupied by the Club will then be prepared for sale to a developer, with rights to develop up to 1 200 residential units.

## Highlight for 2008

In the 2008 financial year, Heartland Properties achieved revenue from sales of land of R169 million. This comprised the sale of industrial land at the Longmeadow Business Estate and the Lakeside shopping centre, in Modderfontein, for R65 million. These were "infill" sales while the major process of planning the next major releases is underway as already described.

The balance of sales of R104 million were achieved at Somerset West. The Beach Road and Historic Precinct sales represent the start of the implementation of projects on the core area west of Route 44 – the road between Strand and Somerset West, and Stellenbosch.

## Outlook

Although companies have no control over financial market conditions or interest rates, they must be aware of the dangers represented by market instability and make adequate provision for unpredictable changes in financial conditions. Heartland's business model takes this reality into account. Although the planning of projects that have a two- to three-year lead time is proceeding, the installation of infrastructure services can be held back until firm sale agreements have been concluded. In addition, expenditure on bulk services are in lieu of statutory bulk services contributions. Once these installed services are handed over to the relevant local authority, ownership and maintenance liability vests with that local authority.

The projects outlined above demonstrate this strategy and illustrate a commitment to developing major metropolitan nodes without incurring additional financial risk. Heartland Properties has, in this manner, adopted a prudent approach in the prevailing volatile global real estate market.

## Heartland Leasing

Heartland Leasing is the company in the Group's property portfolio tasked with letting and managing buildings at Modderfontein (Gauteng), Potchefstroom (North West), Somerset West (Western Cape) and Umbogintwini (KwaZulu-Natal) that are surplus to the Group's needs.

The company provides a range of services to mainly chemical-based manufacturers at the Umbogintwini Industrial Complex (UIC), south of Durban, and manages the responsibilities associated with remediation and re-use of land impacted by historical manufacturing activities at the abovementioned AECl-owned sites.

For its remediation activities, Heartland Leasing prioritises cash spend on projects related to reducing safety, health and environmental risks both on- and off-site, compliance with enviro-legal requirements, and the clean-up of land affected by past operations. Wherever possible, clean-up and land re-use initiatives are planned in parallel to ensure that expenditure on remediation is followed as closely as is feasible by income generation through the release of land for alternative use by third parties.

## Leased assets

Gross income on leased assets and the sale of services was R263 million in 2008. The gross lettable area under the company's management totalled 326 000 m<sup>2</sup>, unchanged from the previous year, after the demolition of 15 000 m<sup>2</sup> of redundant buildings and the bringing of an equivalent new area into the portfolio's revenue stream.

The vacancy rate was 13 per cent in December 2008.

For the leasing business, a highlight was the decision by Toyota South Africa to establish a container handling facility, 5 hectares in extent, at the UIC. This reinforces the site's importance as an industrial node in the South Durban area. By year-end, civils work in preparation for Toyota South Africa's move were in progress and it is expected that the project will be commissioned in the first half of 2009.

## Heartland Leasing's executive team

### <sup>1</sup> Ewan Alanthwaite (48)

Ewan took up his position as services director in January 2008. He has qualifications in electrical engineering and in general management. Ewan joined AECL in 1985 as an apprentice electrician at Umbogintwini, eventually being appointed that site's engineering manager in 2000 and services manager in 2006.

### <sup>2</sup> Reg Bhikum (49)

He was appointed managing director in 2005. Since joining AECL in 1981, Reg has held positions in administration, sales, logistics and general management. Prior to taking up his current portfolio, he was general manager of Umbogintwini Operations Services and led the transformation of that multi-user site to ensure its alignment with the needs of the new AECL. Reg is a BCom graduate, has a diploma in Datametrics and has completed the University of Cape Town's Executive Management Programme.

### <sup>3</sup> Martin Burr (56)

Martin joined AECL in 1977 and has worked in various Group companies in the project, production and general management fields. He moved to Heartland as regional manager, Western Cape, in 2001 and took up his position as remediation director, Western Cape, in 2005. Martin has BSc (Chem Eng) and BCom (Hons) degrees.



**<sup>4</sup> Rod de Klerk (59)**

He is remediation director, Gauteng, with 30 years' experience in the AECl Group across a range of engineering, production, projects, maintenance, and training and development functions. In 2002, subsequent to playing a key role in the final decommissioning of Modderfontein's ammonia and urea plants, Rod transferred to remediation activities at Group level. He was appointed to his current position in 2005.

**<sup>5</sup> Ron Nicolas (45)**

He joined Heartland Leasing in January 2008 as commercial director, having held directorships in finance at other manufacturing companies. He also has experience in internal auditing, and sales and marketing. Ron has BCom, BCompt (Hons) and MBL degrees.

**<sup>6</sup> Nick Tsouros (44)**

Nick is the company's leasing director. He joined AECl as an apprentice fitter in 1984 and subsequently worked in engineering, contracts, procurement and supply. He moved to Heartland in 2000 as procurement manager, became increasingly involved in leasing activities and was appointed a director in 2005. Nick has diplomas in purchasing management and practical accounting, and a certificate in estate agency.



## Review of operations: property (continued)

### Services

Utilities and services such as steam, water, electricity, effluent treatment and security are provided and managed by Heartland Leasing at the UIC. A major advantage of this arrangement is that it allows the site's 13 main manufacturing companies and more than 50 smaller tenants to focus on their core businesses.

It is pleasing that, notwithstanding South Africa's electricity supply shortages in the early part of the year and sharply higher coal prices, Heartland Leasing was able to continue providing an uninterrupted and effective service to all tenants requiring steam and electricity.

### Remediation

Remediation activities still requiring completion at Somerset West and Umbogintwini continued in 2008. Where work has been completed, land has been made available for redevelopment or is in the process of being released for alternative use.

Pleasing progress continued at Modderfontein and Potchefstroom aimed at mitigating risk arising from historically-contaminated land and making land, wherever possible, re-usable. Particular highlights were the agreement reached with the National Nuclear Regulator, which allowed for the safe disposal of the remaining portion of material at Potchefstroom classified as being radioactive, and the remediation of the igniter cord area at Modderfontein.

The relevant local, provincial, and national authorities, as well as other stakeholders, remained generally supportive of the environmental aspects of projects at all sites. Heartland Leasing's ability to meet remediation goals effectively and timeously is facilitated by their ongoing input and cooperation. Such cooperation was particularly evident at Umbogintwini, where formal approval for the use of an innovative method for capping waste sites, known as a vegetative cap, was approved by the regulatory authorities. This approval was received after extensive scientific work over several years demonstrated that the performance of a vegetative cap, as part of a comprehensive remediation management programme, is equivalent to that of a conventional cover.

### Outlook

In 2009, Heartland Leasing will continue to focus on reducing the vacancy rate with a view to enhancing the financial delivery of all of its sites. The successful remediation of a 5 hectare parcel of land at Umbogintwini has made that area available for redevelopment. Options for its use are being considered and include the possible extension of the company's "build-to-let" initiatives in future years. Efforts will also continue to attract other major tenants to the UIC.

Heartland Leasing is confident that its business will continue to prosper provided that the letting climate for industrial and commercial premises remains relatively robust and that the input costs associated with the provision of services at Umbogintwini remain manageable, particularly with respect to coal and electricity prices.