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MANAGEMENT WAS ASKED TO FOCUS ON APPLYING "COST LEADERSHIP PRINCIPLES" ACROSS THE BUSINESS. IT WAS NECESSARY TO RESTRUCTURE SOME AREAS OF THE GROUP'S BUSINESS AND, REGRETTABLY, THIS RESULTED IN SOME RETRENCHMENTS ALTHOUGH STAFF WERE REDEPLOYED INTO OTHER AREAS WHEREVER POSSIBLE. R51 MILLION WAS SPENT ON RESTRUCTURING IN THE YEAR.

CORPORATE CITIZENSHIP

As a leading Group of companies that provide specialty products and services to customers mainly in the mining and manufacturing sectors, AECI is committed to making a positive contribution to the lives of individuals and communities in South Africa.

The focus is on how the Group relates to external stakeholders, the marketplace, government and society as a whole; how it measures and manages performance in matters relating to safety, health and environmental impacts; and how it meets its obligations to help all citizens become meaningful participants in the country's economy, in particular the advancement of its employees from previously disadvantaged groups.

Companies, like private citizens, have rights and responsibilities, with the generation of wealth being only one measure of success. Stakeholders expect businesses to act as social, economic and environmental forces for good.

AECI's performance and projects in this regard are overseen by the Corporate Citizenship Committee on behalf of the Board, in terms of clear guidelines as defined in this committee's terms of reference.

EMPLOYMENT EQUITY AND BROAD-BASED BLACK ECONOMIC EMPOWERMENT (BBBEE)

EMPLOYMENT EQUITY: BACKGROUND AND STRATEGY

AECI is committed to transforming itself into a fully representative South African-based Group of companies and recognises that meeting the requirements of the Employment Equity Act, in terms of representative employment and human resource development, is a business imperative. Closely aligned to this is the achievement of acceptable Broad-Based Black Economic Empowerment ("BBBEE") scorecards.

Accordingly, AECI's employment equity and BBBEE targets have been stated as follows:

- all operations in South Africa must achieve contribution levels (excluding the ownership element) of level 8 by the end of 2009 (to be measured in the first half of 2010), with AEL Mining Services Limited (AEL) maintaining its current level 5 contribution status;
- all operations in South Africa must improve on this target by one level by the end of 2010; that is, level 7 for all operations except AEL which must achieve level 4;
- by mid-2011 AECI is planning to implement a BBBEE transaction along the lines of the transaction contemplated in 2008 and 2009 (more detail on this transaction is provided later in this report). Thus the objective, by mid-2011, is that all AECI Group companies will be at level 6 or better and the Group as a whole will be at level 6;
- in mid-2011 the Group will review its BBBEE performance against set targets and will set new targets for 2014 and beyond.

In the recent past some success in improving the representation of designated groups in AECI's employment profile has been achieved in parts of the Group. However, overall progress has been slow in terms of improving representation in skilled and more senior employment categories. Renewed efforts to accelerate improvements were formalised in 2009.

The Executive Committees of AECI, AEL, Chemical Services Limited (Chemserve) and Heartland have been tasked with implementing individual plans to achieve the above noted targets in their respective areas. Achievement of these targets will be formally measured as a Key Performance Indicator and the result will influence individual performance bonuses.

EMPLOYMENT EQUITY: STATISTICS

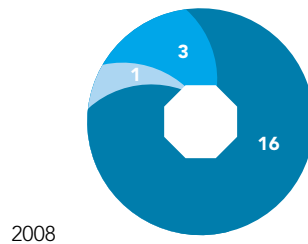
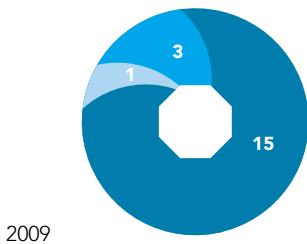
(Excluded here are employees at manufacturing and business activities outside of South Africa).

% = percentage of employees from designated groups per category.

Figures in all the graphs refer to employee numbers.

Top management – 21%

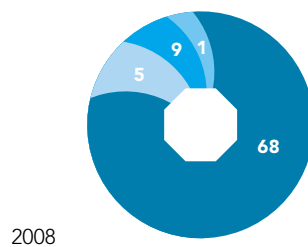
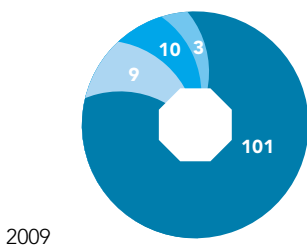
Top management – 20%



White males ■
 White females ■
 Black males ■
 Black females ■

Senior management – 19%

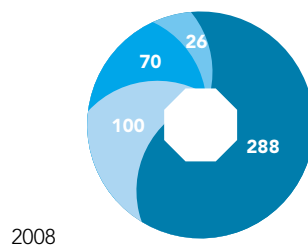
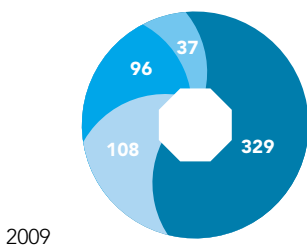
Senior management – 18%



White males ■
 White females ■
 Black males ■
 Black females ■

Middle management and professionals – 43%

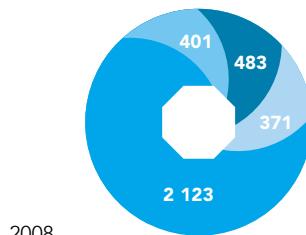
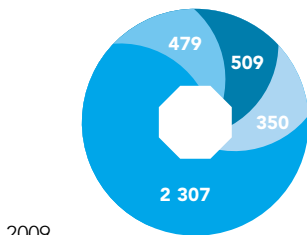
Middle management and professionals – 41%



White males ■
 White females ■
 Black males ■
 Black females ■

Skilled and semi-skilled – 87%

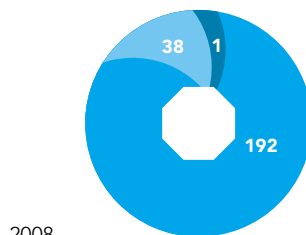
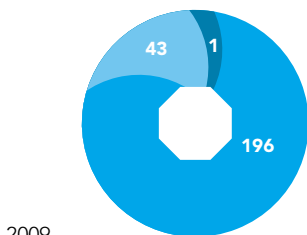
Skilled and semi-skilled – 86%



White males ■
 White females ■
 Black males ■
 Black females ■

Unskilled – 99%

Unskilled – 97%



White males ■
 White females ■
 Black males ■
 Black females ■

In the 2008 annual report, the percentage of designated employees in top management was stated as 28%. Therefore, the 21% stated for 2009 would appear to represent a year-on-year decline. However, a recount of the figures published for 2008 highlighted a misstatement in the original count. The 2008 figure for White males should have totalled 16 employees, which would reflect a 20% representation of designated employees in top management positions. Accordingly, the relevant graph has been corrected and restated.

There has been an increase in the number of designated employees across all categories. All AECI businesses have implemented formal programmes for the development and promotion of staff in designated groups. More detail on this is given below and in the BBBEE section of this report.

AEL

To achieve improved demographic representation, AEL has adopted a policy of mandatory employment equity appointments wherever there is a demographic imbalance and where external recruitment is required. All recent external senior management appointments have been Black, including three appointments in the last quarter of 2008.

In support of its policy, AEL has reviewed its succession planning and this has informed its Management Development Programme.

CHEMSERVE

In the Chemsolve group, compliance with the Employment Equity Act continues to take place within the two-tier consultation process.

To redress the imbalance of demographic representation at senior management levels in subsidiary companies and within the group as a whole, Chemsolve only recruits Black candidates into vacant positions of grade C lower (skilled band) and above except where a thorough and diligent search has not identified a suitable qualified Black candidate.

HEARTLAND

Recruitment statistics show that improvement has occurred in the demographic representation of skilled and middle management levels, whilst no change has been recorded at professionally qualified and senior management levels. Programmes and plans are in place to improve the situation over the medium- to long-term.

All three businesses submitted statutory Employment Equity plans and reports to the Department of Labour, as required by current legislation. Furthermore, all three maintain consultative processes for dealing with employment equity issues.

BBBEE

As indicated in the 2008 reporting period, investigations into a transaction to facilitate a Black ownership initiative in AECI's ordinary share capital had reached an advanced stage. It was contemplated that the transaction would be implemented in 2009, thus complementing the Group's other BBBEE strategies and programmes.

The transaction as contemplated comprised two elements, the first being the empowerment of permanent South African employees of the AECI Group through an employee share trust and the second being the creation of a perpetual community service trust promoting education and development in areas immediately adjacent to the manufacturing sites and operations of the AECI Group in South Africa.

The structure and terms of the transaction were approved by the AECI Board. Regrettably, its implementation in 2009 was precluded by the volatility of equity markets. A similar transaction, or another structure that provides the desired sustainable benefits to employees and shareholders, will be considered when market conditions are more conducive. It is currently envisaged that this will take place during 2011.

In the meantime AEL, Chemsolve and Heartland will continue to manage progress in BBBEE and transformation at company level within the framework of targets set by the AECI Board. The approach is multi-faceted and, in addition to employment equity-related matters, will address issues such as skills development, preferential procurement and corporate social investment.

SKILLS DEVELOPMENT: LEARNERSHIPS AND TRAINING

AEL

A framework for implementing an AEL Management Development Programme has been approved in concept. This programme focuses on middle managers and is designed to strengthen AEL's leadership capability and capacity. It will be managed by an independent professional who will serve as programme co-ordinator from 2010.

To provide the technical skills required for AEL's plant automation initiatives, learnerships are in place for chemical operations and engineering. Furthermore, the company seeks to preserve employment by upgrading the skills of identified individuals employed in the older, non-automated plants.

Those undergoing training attend technical courses at the Ekurhuleni West College for theoretical input, which is followed by artisan development activities at AEL's Technical Training Centre, at Modderfontein. A total of 33 learners participated in the programme in 2009, 16 of whom were from the relevant Sectoral Education and Training Authority (SETA)-sponsored unemployed learner programme.

AEL met its engineering training target in the year, with nine learners qualifying at NQF level 4 in chemical engineering.

As part of the company's initiative to develop internal expertise, various in-house courses are offered on mining operations. A total of 162 employees attended mining-related courses, including the Basic Explosives Introductory Course, the Blasting Certificate Course, the Blasting Competency Programme, and courses in Blasting in Open Cast Mines/Quarries, Blasting Operations and Mining Engineering.

CHEMSERVE

The growth and advancement of employees remains at the core of Chemsolve's human capital development strategy. Accordingly, training and development initiatives in 2009 focused on skills acquisition, talent retention and employment equity goals.

Some of the main interventions implemented, over and above skills-, safety-, health- and environment-related training, included:

- the Chemsolve Management Development Programme, which is becoming an integral part of employee development. Currently, 141 employees participate in this programme. The plan is to have at least 10% of the total employee complement participating at any given time;
- 10 senior employees from various Chemsolve subsidiaries successfully participated in the Nine Conversations in Leadership Programme, facilitated by a management consultant. The programme is aimed at consolidating and broadening leadership capacity within the group. An additional 20 senior employees will be nominated to participate in the programme in 2010;
- Chemsolve continued to offer in-service training to 18 students from various universities of technology, primarily in the chemistry and chemical engineering disciplines;
- the group has entered into artisan and chemical operations learnership agreements with 35 learners, an increase of 10 from the previous reporting period;

- to control training and development costs, Chemserve has built a fully equipped Training Centre at its Chlookop site. This facility is used by all of Chemserve's companies in South Africa;
- the Chemserve Technical Training Centre at Umbogintwini is fully operational and received provisional accreditation from the Chemical Industries Education and Training Authority (CHIETA). Training of both unemployed and employed learners for chemical operations at NQF level 2 has started. This centre is also utilised for other training courses initiated by Chemserve subsidiary companies in the KwaZulu-Natal region.

HEARTLAND

Whilst management development and generic skills training continued, Heartland's specific focus remained on apprentices and in-service trainees. The apprentice complement increased to 10, five fitters and five in electrical disciplines. This is in line with the requirements of the National Skills Development Strategy and those of the CHIETA, with partial funding having been procured from the latter's Discretionary Grant process.

LABOUR RELATIONS

AEL

2009 was a challenging year for AEL from a labour relations perspective. A variety of disputes arose, many of which were associated with the implementation of continuous shifts, which is an absolute necessity for operating sophisticated automated plant and equipment.

These disputes and concomitant industrial action and counter-action resulted in the need to fundamentally reconsider the company's relationships with recognised unions as the consultative structures in which such interactions are conducted. As a consequence, a higher level engagement between management and the unions, in the form of a workshop, is planned for the first quarter of 2010, the focus of which will be the implications of the automation of manufacturing operations and the restructuring of labour and management relationships.

CHEMSERVE

Substantive wage negotiations were conducted under the auspices of the National Bargaining Council for the Chemical Industry. A settlement agreement was reached between the employers and trade unions after a deadlock was declared resulting in two weeks of industrial action.

As a result of the poor economic climate that characterised 2009, Duco Speciality Coatings initiated an unavoidable restructuring process which led to the closure of the Struandale factory site, in Port Elizabeth, and the loss of 126 jobs.

HEARTLAND

Sound industrial relations practices resulted in a reduction in employee disciplinary issues and disputes in 2009. Employer/employee interaction remained stable, a characteristic of a mature relationship between the relevant parties.

Ongoing consultations on potential areas of conflict are dealt with in terms of a joint problem-solving model at all levels within the business.

SANS FIBRES (SANS)

As reported in 2008, SANS engaged in a process of consultations with the Southern African Clothing and Textile Workers Union (SACTWU), in terms of the Labour Relations Act, regarding the contemplated closure of the company's operations at Bellville in the Western Cape. These consultations were conducted under the auspices of, and facilitated by, a commissioner appointed by the Council for Conciliation, Mediation and Arbitration. The result of this process was mutual agreement with regard to the inevitability of the facility's closure as well as the process to be followed to minimise the adverse effects of retrenchments.

SANS made a variety of support services available to those affected, including workshops on coping with retrenchments, counselling, assistance in preparing CVs and improving interview skills, financial advice and the like. In addition, AECL made funds available for re-skilling affected employees who met the agreed criteria.

As agreed with the relevant union, operations at SANS ceased as planned on 31 March 2009.

CORPORATE SOCIAL INVESTMENT

AECL has engaged in corporate social investment (CSI) initiatives since the 1980s. The Company sees this as a business imperative which is an integral part of its responsibilities as a corporate citizen. To this end, the AECL Group's CSI programmes and donations aim to promote the improvement of the overall quality of life of neighbouring communities in areas where the Company operates.

Through its alignment with the Group's strategy and business objectives, particularly its commitment to improved employment equity and BBBEE performance, the programme is deliberate, focused and progressive, and is guided by a formal policy framework with its main objective being to mutually benefit the Group and its stakeholders, especially its employees.

POLICY

Through its CSI programme, the AECI Group is committed to empowering and uplifting disadvantaged individuals and communities in South Africa.

Specifically, AECI wishes to:

- address inequality in South Africa by making a measurable improvement in the lives and welfare of previously disadvantaged employees, and of the disadvantaged communities in which it operates; and
- enhance the Company's image and reputation as a caring and responsible corporate citizen.

The CSI programme's focus is demonstrated by initiatives, such as those listed below, which were supported by direct investment of some R8 million by AECI and its businesses during the reporting period.

In many instances, the relationship between AECI and its companies on the one hand, and the NGO, project or programme supported on the other, is well established and long-standing. AECI believes that the development of such relationships maximises the long-term benefit of investments to the advantage of all parties.

AECI LIMITED

The company's CSI commitment is demonstrated by the following initiatives:

&Beyond Foundation

Income-generating activities go a long way towards empowering community members by improving their earning potential, thus enabling community members to support their families. Craft markets are one such income-generating activity which is supported by the &Beyond Foundation.

The rural community of Welverdiend, adjacent to the Kruger National Park in Mpumalanga, is still characterised by high levels of unemployment and poverty. Formal employment opportunities are limited and labour migration to urban centres is high, resulting in many split families and de facto women-headed households.

The development of a craft market in this area was seen as an important community-empowering initiative. As such, AECI supported the construction of the Bohlabela Craft Market which was completed in 2009. The physical structure has enabled the crafters of Welverdiend, who are skilled in beadwork, weaving and embroidery, to unite in a permanent venue after 20 years of working from the side of the road; the result has been increased turnover and improved sustainability.

Project Literacy

Support was again given to this non-profit organisation, which runs accredited Adult Basic Education and Training (ABET) programmes. The "Run Home to Read" initiative is a successful project with some outstanding results in preparing young children for school. Notably, in 2009 "Run Home to Read" reached a further 750 families in Gauteng and Limpopo. The impact of the intervention is evident in the confident young participants who are eager to learn and are passionate about reading, story-telling and finding answers to questions that fill their inquisitive growing minds.

The commitment to linking families to their local libraries continued to strengthen. All caregivers and children involved in the project have attended a library orientation session and joined their local libraries. The enrolment of some of the caregivers in ABET classes, as a result of being involved in the project, has been an added benefit.

Project Literacy was awarded the Mail & Guardian's "Investing in the Future" award for 2009 in the Non-Profit Organisations category.

Sparrow Schools Educational Trust

In 2009 the Sparrow Schools Educational Trust (SSET) celebrated its 20th anniversary. Its work began in 1989, with weekly academic extra lessons for marginalised children. SSET's service delivery has since evolved to provide comprehensive interventions in the niche area of remedial and special needs education, using a vocational approach. The overriding objective remains to ensure that children and youth break through barriers to learning.

The Trust's success continues to be impressive. Learner achievements in 2009 were not limited to the classroom but also included achievements on the sports field and other extra-curricular activities: the school's choir was invited to sing for former president Nelson Mandela; three learners were awarded merits for entering an art competition, with one learner's work being exhibited and sold; a learner received national colours for taekwondo; all learners on the New Venture Creation learnership programme achieved NQF level 4; and a catering learner was accepted into the prestigious HTA School of Culinary Art, in Johannesburg, to further his studies.

Another highlight was the appointment of a new head of the SSET's Skills Department and the appointment of additional educators for the carpentry and welding workshops. The educators have met the SETA requirements of assessor and moderator training in motor mechanics, carpentry and welding.

Imbali

This NGO trains and equips unemployed persons in various skills such as sewing, garment making and beading so that they can become self-supporting.

In 2009 trained crafters from the disadvantaged community of Kylemore, in the Western Cape, earned about R100 000 from the sale of their products. Even better results are expected in 2010 following Imbali's establishment of a website, which will enhance both marketing and fundraising initiatives.

Forty four individuals who trained at Imbali have since found permanent employment.

Early childhood development (ECD)

The Ntataise Trust operates a network of training facilities for aspiring caregivers. AECI contributed towards the Basic Certificate in Early Childhood Development level 1 training programme that was completed by 52 previously untrained pre-school practitioners in several informal settlements and township areas in the Free State.

Practitioners were equipped with the basic skills necessary to run good quality ECD programmes, including making educational resources and implementing a daily learning programme. The training, which was verified by the relevant SETA in 2009, also emphasised the importance of including parents and caregivers in the pre-school environment.

Food and Trees for Africa

AECI sponsored a tree planting and distribution event held at the Pimville Community Centre in Soweto, Gauteng. The community was invited to collect trees that will add value to their homes. Ten community members were trained to become community-based educators. They assisted in distributing 300 trees, provided the community with environmental and climate change information, and monitored the trees after planting. It is most pleasing that, after six months, it was confirmed that the vast majority of trees were thriving and are contributing to the greening of the area.

Impilo Health in My Hands

This project, which was initiated by the Foundation of the University of KwaZulu-Natal, aims to increase access to appropriate health services by making it easier for people to get health-enabling information and by enhancing communication and collaboration between service providers through the use of mobile phone technology. The Impilo project thus packages health-enabling information and resources and delivers them via a mobile phone interface to any member of the community, 24 hours a day. This not-for-profit initiative is a world first.

Individuals can phone the service, anonymously and at no cost to themselves, for information on HIV/Aids. A directory has been developed to provide an inventory of all HIV/Aids-related services available in each province.

A pilot project, preceding full roll-out in 2010 and 2011, is being run in the Umkhanyakude District municipality, in the far north of KwaZulu-Natal adjacent to Mozambique and Swaziland. This community was identified by the Department of Health as a priority for health interventions since, in this district, a number of key health issues such as high rates of TB, HIV infection and infant mortality are prevalent. Poverty is a daily challenge with over 70% of families surviving on less than R800 per month, and birth registration rates are among the lowest in the country.

AEL

AEL, together with the TISO AEL Development Trust, a trust established by TISO Capital which is a shareholder in AEL, contributed R1 million to social investment in 2009. Main projects were:

Tembisa Schools

A substantial amount was again allocated to the support of eight schools, split equally between primary and high schools. Support concentrated on upgrading the standard of maths and science education, largely under the auspices of the Maths Centre – an NGO specialising in the teaching of maths in schools.

In 2009, the four high schools achieved a total of 156 matric distinctions. One of the schools produced 118 distinctions. This achievement is remarkable for a school in a traditionally disadvantaged area.

The sponsored schools recorded overall improvements of 11%, 12% and 23% in the pass rates for Grades 10, 11 and 12 respectively, which bodes well for both teachers and learners.

CIDA

Students pursuing degrees in Business Administration at CIDA City Campus also received funding from the Trust. Funds were made available for tuition expenses and for an allowance to subsidise travel and living costs.

Some former students have been absorbed into AEL's internship programme whilst others have become permanent company employees.

Internship programme

Seven qualified young people were placed into positions in AEL. The objective of the internship programme is to provide experience, thereby enhancing the employability of such individuals. Feedback from former internees bears testimony to the programme's success in opening up career opportunities and integrating young graduates into the work environment.

Nurturing the Orphans of Aids for Humanity (NOAH)

NOAH in Ivory Park continued to receive funding, primarily for the cost of groceries. Some of the grocery funds allocated were used to buy "e'pap", a pre-cooked cereal made from maize, soya and added nutrients. This highly nutritious meal supplement has brought about a great improvement in the health of children attending the centre.

Additional funds were also contributed towards a building fund. The first phase of building has been completed and three new classrooms are already in use.

Augmenting the initial donation by AEL of a bread oven in 2007, NOAH acquired electrical mixers and this has enabled more bread to be produced to the benefit of the children and the wider community.

Linked to the NOAH project is a vision screening initiative where children were tested so as to detect early problems that could impact on school performance. As a direct consequence of this intervention, 46 received much needed spectacles.

Other initiatives

AEL's Employee Assistance Resources (EAR) function continues to provide counselling and other support services, such as hospital and home visits, to employees who are ill. As a consequence of the difficult economic conditions in the year, a noticeable increase in requests for personal loans and advances on salaries was recorded by EAR.

Exit counselling remains in place for retrenched employees, with career re-skilling being made available through the company's Self Development Fund.

CHEMSERVE

Chemsolve invested in community development projects, charitable organisations and educational institutions. Among the main investments were:

Adams Mission College

With the aim of contributing towards the improvement of science education resources in previously disadvantaged schools, a fully equipped laboratory and auditorium were built at Adams Mission College near Umbogintwini, south of Durban.

Educators' qualifications

Chemsolve's support was instrumental in building a fully equipped science laboratory at Bokamoso Secondary School, in Tembisa, in 2007/2008. In 2009, Chemsolve continued to deliver on its commitment to the school by providing funding to educators seeking to upgrade their physical science educators' qualifications.

Outreach

As in 2008, an outreach programme in Hoedspruit, Limpopo, was funded. The initiative is co-ordinated by Southern Cross School, a nature-based schooling system. The programme includes environmental education, maths, physical science, technology and computer literacy. It is targeted at educators from rural disadvantaged communities in the area.

Bursary scheme

Chemsolve has introduced a bursary scheme for employees' dependants to study at tertiary level in a field of their choice.

HEARTLAND

Funds were made available to a number of organisations involved in general education, HIV/Aids education, environmental improvement projects and community development. At Modderfontein, Heartland played a significant role in providing major civil infrastructural changes at the Nobel Primary School.

Over and above this CSI spend, further funds were invested in enterprise development, mainly through the support of newly established small Black enterprises and in subsidising their rentals.

As is the case with the Group as a whole, Heartland's contributions reflect only direct financial support and do not include the often more valuable investment of time, guidance and expertise provided by company personnel.

EMPLOYEE WELL-BEING

The AECI Group remains committed to the welfare and wellbeing of its employees. To provide healthcare in a proactive and holistic manner, AECI employees across the Group have been encouraged to join the AECI Medical Aid Society. More than 90% of permanent employees and their dependants now have access to affordable medical aid cover. As part of their cover, members of the AECI Medical Aid Society are able to participate in the comprehensive Wellness programmes offered by the Medical Aid Society. The programmes are administered under the banner of Managed Care.

The Managed Care programmes offer a holistic approach that aims to promote health as well as treat existing diseases appropriately and cost-effectively whilst ensuring high quality interventions.

Disease-specific programmes available are Asthma Care, Cardio Care, Diabetic Care, the Cancer/Oncology Disease Management Programme and "Aid for AIDS". These programmes assist in the management of chronic illnesses by providing education, advice and support by trained nurses, and by supporting the doctor/patient relationship. Members registered on the programmes are better informed about their conditions and manage their illnesses better, thus leading to an improved quality of life.

Over and above these initiatives, each AECI business has an EAR function catering to its specific needs. Individual counselling is available for HIV/Aids infection, trauma, family-related matters, addiction, bereavement and stress-related issues in the workplace or at home.

HIV/AIDS

Regrettably, HIV/Aids continues to ravage communities worldwide and particularly in South Africa. As part of AECI's effort to support employees and their families in the management of this disease, a number of interventions have been implemented. The Group has undertaken to educate, counsel and assist its employees and their families to prevent the disease and, for those employees already infected, to provide them with the best care and quality of life possible.

Interventions continue to be concentrated in the following three main areas:

- prevention against infection, with training and awareness-raising being the main components. Seminars, newsletters, plays and quizzes are a few of the interventions employed. Condoms are supplied at no cost to employees;
- Voluntary Counselling and Testing (VCT) is available to all employees and provides an opportunity for one-on-one discussions, tailored to the needs of the individual; and
- treatment of HIV-positive employees which, in conjunction with the "Aid for AIDS" programme and the EAR function at each AECI company, provides support, counselling and lifestyle management for infected employees and their families.

For World Aids Day, employees participated in Wellness Walks which were held at Gillooly's Farm and at The Woodlands, in Gauteng, and at Umbogintwini in KwaZulu-Natal. The aim of the walks was to raise awareness and funds for two identified beneficiaries:

MOTHER OF PEACE IN AMANZIMTOTI, KWAZULU-NATAL

This non-profit organisation addresses the impact of the HIV/Aids pandemic on orphans and vulnerable children through family care units and a day-care centre. A training centre is also being established to offer training to HIV/Aids volunteers. Skills training will be offered in disciplines such as agriculture and construction. The centre will also accommodate organisations such as the Bobbi Bear Foundation and the I Care Christian School, both of which care for abused children.

TEMBISA CHILD WELFARE IN TEMBISA, GAUTENG

Sewing machines and overlockers were donated and a generator was provided for the baby centre in Phomolong. As a separate initiative, a blanket drive was held at individual Chemserve sites where 300 blankets were distributed to various beneficiaries chosen by the sites themselves.

CHAMPIONS OF WELLNESS PROGRAMME

This initiative, developed by Chemserve and extended to AECI's other businesses, further supports employees affected by HIV/Aids and has been extremely successful.

The Champions of Wellness are employees who volunteer to be trained to educate and assist their colleagues in understanding, preventing and managing chronic illnesses, with HIV/Aids being the main focus. These volunteers are required to follow a structured training programme before they can advise and assist colleagues and operate as Wellness Champions. In training, volunteers undergo a facilitated process to change the way they view HIV/Aids and individuals infected with the disease. The aim is to move from a viewpoint of illness to a viewpoint of wellness, understanding that HIV/Aids is not inherently different from other chronic but controllable conditions.

Once fully trained as Champions of Wellness, volunteers can continue their training to become Champions of Life. At this advanced stage, trainees are taught to set objectives, deal with sensitive issues and sustain a meaningful quality of life ("lead by example"). They also learn communication skills.

In the final Champion of Change phase of the initiative, volunteers are taught to act as agents to facilitate change in the way their colleagues and community members view HIV/Aids. At this point, the Champion becomes a mentor to fellow employees.

There are currently 74 trained Champions across the AECI Group.

BUSINESS-SPECIFIC INITIATIVES

AEL

In support of the imperative to "know your status" in combating HIV/Aids, AEL holds regular VCT interventions. The most recent of these coincided with commemorative events for World Aids Day held at Modderfontein.

It is pleasing that the Champions of Wellness Programme's acceptance continues to grow across all levels of employees within AEL.

CHEMSERVE

The Chemserve group provided primary health services and sustained its EAR efforts through occupational health centres. This is in addition to compulsory membership of AECI's subsidised comprehensive medical aid cover and a basic medical plan for lower income earners.

As in the rest of AECI, HIV/Aids initiatives have been incorporated into the broader Wellness programme. The first group of Champions of Wellness has now been trained as Champions of Change. A Wellness Steering Committee has been formed and meets once a quarter to discuss relevant issues and initiatives.

During 2009, a Wellness campaign was implemented throughout Chemserve. The initiative included health and HIV/Aids information sessions as well as blood pressure, cholesterol, blood sugar, body mass index and HIV tests. It was most encouraging that 71% of all employees participated in this important initiative, up from 56% in 2008.

HEARTLAND

Efforts to incentivise employees to become aware of their HIV status continued during the year. This was achieved through lucky draws for those employees who went for testing. 71% of employees at the Umbogintwini operation participated in a VCT programme which, regrettably, revealed a number of new HIV cases. HIV-positive employees are assisted via the "Aid for AIDS" programme.

SAFETY, HEALTH AND ENVIRONMENT (SHE)

POLICY

The AECI Group is committed to a clean, safe and healthy environment for its employees, contractors, customers and surrounding communities.

The AECI Executive Committee, guided by the Corporate Citizenship Committee, is responsible for the regular review of the Group safety, health and environmental policy, for the guidance of Group companies in its implementation, and for monitoring performance.

STANDARDS

We require each Group company:

- to adopt a safety, health and environmental policy that meets the needs of its businesses;
- to hold line management accountable for the implementation of the safety, health and environmental policy;
- to develop and maintain appropriate procedures to support the safety, health and environmental policy;
- to manage safety, health and environmental risks in a manner that meets all the legal requirements of the countries in which it operates and accepted international criteria;
- to be prepared for and to deal with any emergency;
- to ensure that employees and contractors are trained effectively;
- to maintain a record of safety, health and environmental information and to meet statutory record-keeping requirements; and
- to audit its performance against its policy, standards and procedures and to report this regularly to the AECI Executive Committee.



Graham Edwards

Chief executive
Woodmead, Sandton

30 March 2010

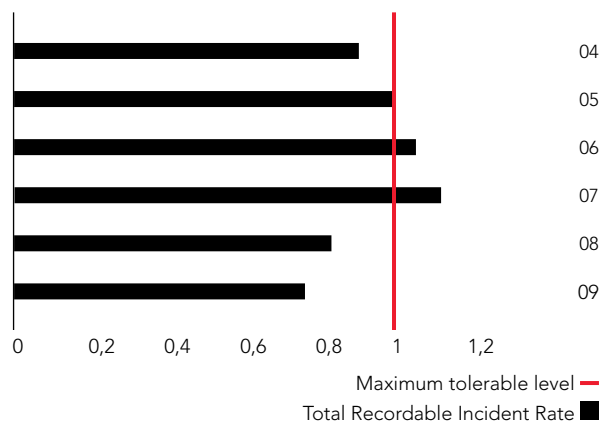
AECI's management of SHE-related issues is guided by a formal SHE policy, with performance being measured in the context of supporting SHE standards. The policy and standards, which are agreed to and approved by the Group chief executive, are reviewed periodically, and most recently in 2008, by the Corporate Citizenship Committee on behalf of the Board to ensure that they remain appropriate to AECI's diverse businesses and the changing operating environment.

At the beginning of each year, the managing directors of AECI's businesses are required to submit a Letter of Assurance with respect to SHE-related issues to the Group chief executive. This, inter alia, provides confirmation that the particular business complies in all material respects with AECI's SHE standards. In the event that such confirmation cannot be given, the Letter details the nature of the deviation as well as the intended corrective action.

AECI comprises a broad spectrum of businesses, ranging from large manufacturing plants producing chemicals and explosives, to small operations on customer sites which provide application services, and property leasing and development activities. Consequently, SHE-related issues faced by the various businesses are very different. It is inevitable, therefore, that a certain degree of generalisation occurs when commenting on such diverse activities within a single report.

HEALTH AND SAFETY PERFORMANCE

TRIR – AECI employees



Safety and occupational health performance is expressed as the Total Recordable Incident Rate (TRIR).

It is gratifying to report that in 2009 AECI achieved its lowest level of employee injuries and illnesses in recent years. The rate of 0,78 is a 7% reduction from the level recorded in the prior reporting period. Notably, almost across the whole Group, contractor incident rates are at significantly lower levels than in recent years.

Regrettably, a contractor fatality occurred during the year when demolition work was underway at Heartland's Potchefstroom site. The fatality was the result of a worker being struck on the back of the neck by a piece of steel plate.

AECI benchmarks itself against an appropriate grouping of international companies, with "zero incidents" being the ultimate target. Given the need for continual improvement, AECI's Executive Committee has adjusted the maximum tolerable level for TRIR for 2010 down to 0,95 from 1,00 in prior years.

The benchmarked TRIR graph presented below has been compiled by an independent consultant from the latest information available from the various companies' websites at the time of writing. These companies were selected on the basis of their operations being similar to those of AECI's businesses. Due to minor variations in reporting formats, the rate was recalculated in certain cases to provide results uniform with the USA's Occupational Safety and Health Administration system of reporting, which is the basis for AECI's own reporting.

Certain of the companies have modified their reporting criteria and some have restructured their business operations. It is not always possible, therefore, to compare rates meaningfully with those reported in previous years.

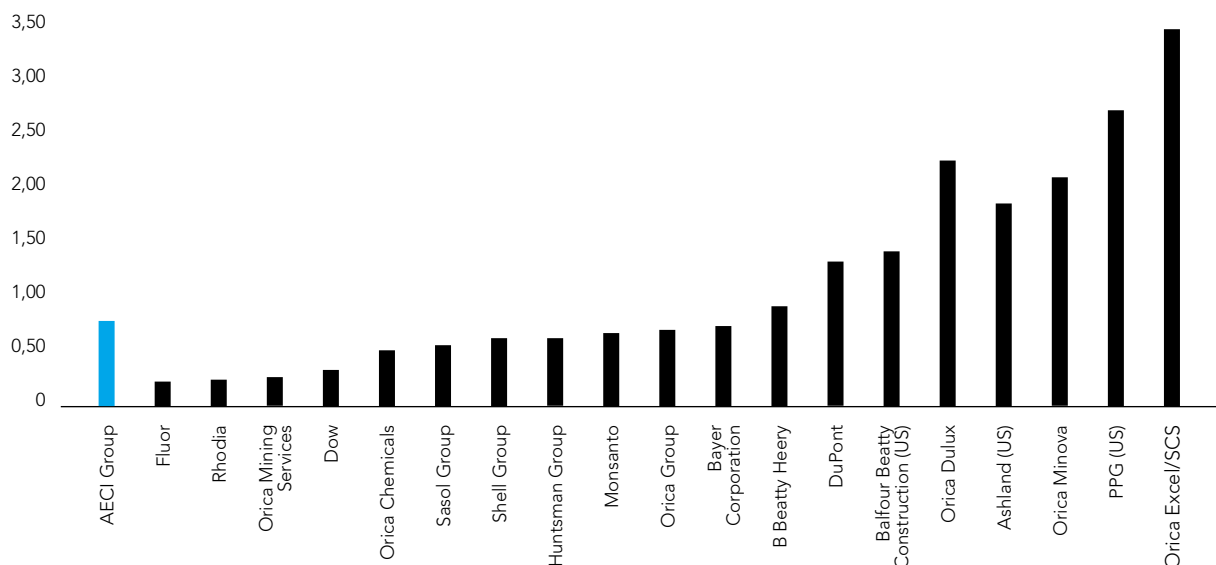
A noticeable trend is the increase in the number of companies which report incident rates for all workers (both employees and contractors). These include some of the better-performing companies. AECI will report on this basis from 2010.

TRIR PERFORMANCE BY AECI BUSINESS

	Employees	Contractors	Combined
AEL	0,58	0,85	0,61
Chemserve	0,96	0,85	0,92
Heartland	0,89	0,15	0,34
STF	5,10	0	5,10
AECI Group	0,78	0,61	0,73

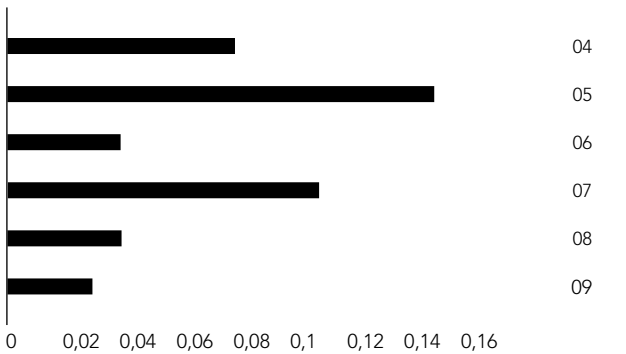
The employee TRIR for AEL Mining Services (AEL) has returned to 2007's levels of below 0,60, the company's maximum targeted limit, although incident rates for contractors remain slightly higher. Chemical Services (Chemserve) has continued its improving trend, with the employee rate falling from 1,0 to 0,96; the contractors' rate has fallen dramatically from the very high levels of 2008. Employee and contractor incident rates for Heartland are now well within acceptable limits, a significant improvement on the prior year. Incident rates at SANS Technical Fibers (STF), in the USA, are above acceptable limits. It should be noted, however, that the nature of the incidents was not serious, in the main. This notwithstanding, interventions planned for 2010 should result in an improvement.

Benchmarked TRIR



OCCUPATIONAL ILLNESSES

Occupational illness rate – AECI employees



The number of occupational illnesses reported in 2009 continued to decline. An employee at SANS Fibres, in Bellville, was diagnosed with asbestosis during his exit medical examination. A case of noise-induced hearing loss was reported at STF.

OTHER INCIDENTS OF SIGNIFICANCE

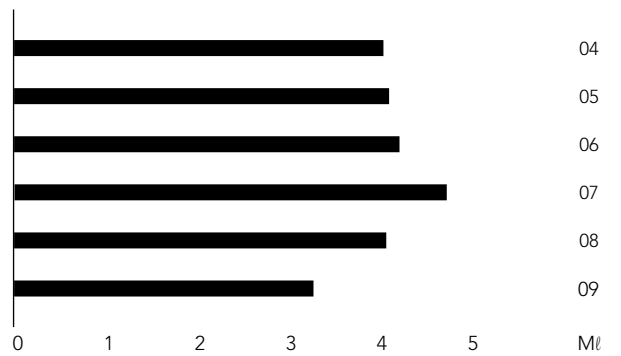
- a mobile manufacturing unit belonging to AEL overturned, resulting in the spillage of 3 tons of base emulsion and 300kg of ammonium nitrate prill;
- 1 000l of oil leaked from a pipe in AEL's nitrates complex at Modderfontein into a stormwater system, and then into a dam within Modderfontein;
- nitric acid was spilled into the stormwater system while a tanker was being loaded at AEL's nitrates complex;
- 2,5 tons of ImproChem's chemical products were spilled on a national highway, leading to the temporary closure of the road, after a container on a truck split.

In all cases, clean-up was carried out successfully.

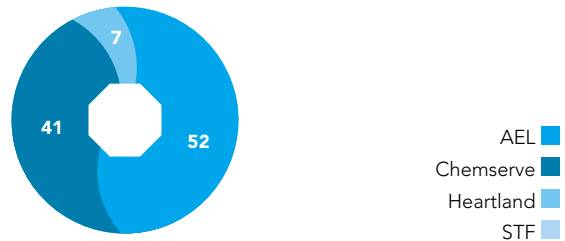
ENVIRONMENTAL PERFORMANCE

This section deals with current operations and excludes waste arising from land remediation activities. AEL's operations outside of Modderfontein are not included. STF is included for the first time in this report. Furthermore, Group figures include the performance of SANS Fibres, Bellville, for the first three months of 2009 before manufacturing operations ceased. However, in the graphs showing performance by business, the Bellville figures are excluded as the plant is no longer in operation.

Water usage (million litres per year)

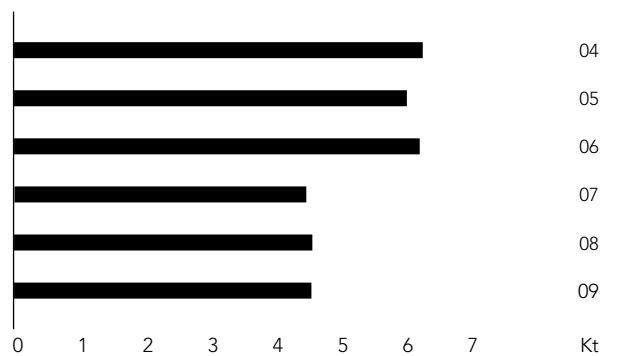


Water usage by business (%)

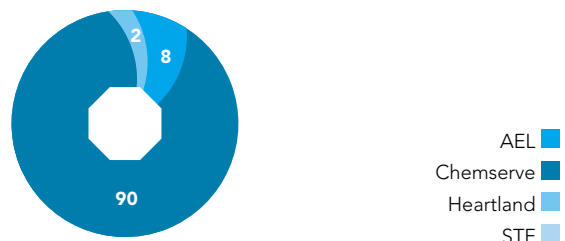


The Group's total water usage for 2009 decreased significantly, largely as a result of the closure of the Bellville plant. AEL's consumption fell by 16%, with most of this accounted for by lower production rates at the nitrates complex. STF's water usage accounted for less than 1% of the Group total.

Hazardous waste generated (thousand tons per year)



Hazardous waste arisings by business (%)



The volume of hazardous waste generated remained static year-on-year. With SANS Fibres at Bellville only having operated for the first quarter of the year, there was a commensurate reduction in waste generation from that site (excluding that resulting from demolition activities). However, AEL reported an increase in waste generation because emulsion waste arisings were included in the statistics for the first time. Chemserve, too, has seen a small increase in waste generation. STF's hazardous waste generation amounted to less than 1% of that generated by the Group.

GREENHOUSE GASES

The need to report greenhouse gas emissions is becoming increasingly evident globally and South Africa is no exception. In the past, AECl has provided data related to certain aspects of this, including electricity consumption and carbon dioxide (CO₂) emissions.

AECl took part in the Carbon Disclosure Project in 2009, which is being promoted in South Africa by the National Business Initiative.

During the reporting year, a decision was taken to develop a carbon footprint for the Group so as to provide a more meaningful summary of AECl's impact in this area. Due to the significance of nitrous oxide emissions at AEL's nitric acid plants they are included in the footprint calculation and, furthermore, are commented on separately.

The carbon footprint has been developed with the assistance of external consultants, making use of the 2006 International Panel on Climate Change Guidelines for National Greenhouse Gas Inventories and the Greenhouse Gas Protocol's Corporate Accounting and Reporting Standards, as developed by the World Resources Institute and the World Business Council for Sustainable Development.

The term carbon footprint is commonly used to describe the total amount of CO₂ and other greenhouse gas emissions for which an organisation is responsible. The footprint developed for AECl currently includes Scope 1 emissions (direct emissions from, for example, the consumption of fuels in stationary equipment) and Scope 2 emissions (indirect emissions, which arise from the generation of the electricity consumed by the Group). Data for Scope 3 emissions (indirect emissions related to product delivery and employee business travel) are not available at present.

The organisational boundaries for which this footprint has been determined are as follows:

- AEL's Modderfontein operations, together with the footprint associated with rock-on-floor contracts;

- all Chemserve operations;
- all Heartland operations;
- STF's operations.

AECl's carbon footprint, measured in tons of CO₂ equivalent, is shown in the table below:

	Scope 1	Scope 2	Total
AEL	216 000	71 000	287 000
Chemserve	15 500	80 700	96 200
Heartland	67 000	6 300	73 300
STF	500	19 400	19 900
AECl Group	299 000	177 400	476 400

Emissions other than CO₂ can also have a significant impact in terms of global warming potential.

Ammonium nitrate is used extensively in the explosives and fertilizer industries and is manufactured from nitric acid and ammonia. AEL has two nitric acid plants at Modderfontein, the No. 9 and No. 11 plants. Nitrogen oxide gases are produced through the oxidation of ammonia on a platinum-rhodium metal catalyst gauze in the ammonia burners of AEL's nitric acid plants.

Most of the gas generated is in the form of nitric oxide, which is absorbed by water to form nitric acid. Some of the gas produced is in the form of nitrous oxide, which is typically released into the atmosphere as it does not have any economic value or toxicity at typical emission levels. However, it is a greenhouse gas with a global warming potential approximately 300 times per unit mass that of CO₂.

To combat global warming, a number of countries have ratified the Kyoto Protocol, thereby committing to reduce their emissions of greenhouse gases, or to engage in emissions trading were they to maintain or increase emissions of these gases.

Provision was made in the Kyoto Protocol for the registration of Clean Development Mechanism (CDM) projects, which allow participants in developing countries to generate Certified Emissions Reductions (CERs) by lowering their emissions of greenhouse gases. CERs can then be sold to those entities that are under an obligation to reduce greenhouse gases but are unable to achieve the required reductions.

AEL has registered two CDM projects with the United Nations Framework Convention on Climate Change. These are for the No. 9 and No. 11 nitric acid plants, and they were registered in November 2007 and February 2008 respectively. The projects involve the installation of secondary catalysts in the ammonia burners of the plants, below the primary gauze catalyst.

This secondary catalyst decomposes the residual nitrous oxide without affecting the production of nitric acid.

During 2009, the secondary catalyst on No. 9 nitric acid plant achieved a reduction of 50,3% in nitrous oxide emissions, with a total of 163 tons emitted; that on No. 11 plant achieved a 70% reduction, with a total of 270 tons emitted. When converted to CO₂ equivalent, this amounts to 50 500 tons and 83 700 tons respectively.

The lower efficiency achieved on the No. 9 plant is as a result of it being an older, high pressure plant. It is notoriously difficult to achieve high levels of emission abatement through the use of secondary catalysts in high pressure plants. The No. 11 plant would normally have achieved a higher level of efficiency, but a cracked catalyst basket led to significant bypassing for a six week period, before operational considerations allowed the taking off line of the plant.

To place these reductions in perspective, the reduction in CO₂ equivalent emitted annually by AEL from these two plants is equivalent to the quantity of CO₂ emitted by 60 000 medium-sized cars travelling an average of 25 000km per annum.

LAND REMEDIATION

The guiding principles underlying AECI's remediation activities are to protect human health and the environment; to use good science, proven concepts, and best available techniques not entailing excessive cost; and to work with regulatory authorities and share information with interested and affected parties.

A risk-based approach guides the remediation process and human health and environmental risk assessments are undertaken at appropriate stages in individual projects. These assessments influence subsequent activities.

As explained in the operational review, the property business of AECI has been restructured. As a result, the execution of remediation activities is now managed by Heartland.

Spending on remediation and related environmental management activities in 2009 amounted to R13 million, significantly down on that of previous years. The reasons for this were two-fold. The bulk of AECI's environmental legacy remediation spend is now complete. Further, market conditions were such that little land was required to be released for sale, and thus remediation requirements were restricted since the timing of such activities is closely aligned to that of the sale of parcels of land. This low level of remediation spending is likely to continue in 2010.



Effluent precipitation and settling dams, after closure.

At end-2009, the environmental liability for the Group was estimated at R144 million for remediation and was fully provided for.

REMEDIATION CASE STUDY

A remediation project at the Umbogintwini Industrial Complex (UIC) was initiated in 1995 to address the contamination of land and groundwater resources due to historical activities associated with the manufacture, storage and distribution of chemicals, agrochemicals and fertilizers.

In 2009, the project's progress was recognised in the biodiversity category of the annual eThekweni Mayor's Award for Excellence. The motivation for the award focused on best practice remediation, conservation and education work to address legacy issues. In particular, the Vumbuka Reserve, a 27 hectare area in the north-west portion of the UIC was highlighted. This area was previously used for the disposal of liquid and semi-solid wastes generated from manufacturing activities at the UIC from the mid-1950s until 1998.

The Vumbuka Reserve includes:

- a series of effluent precipitation and settling dams;
- two disused, partially-lined mercury sludge dams; and
- the drums area, where drums originally containing chlorinated hydrocarbon wastes were buried.



The Vumbuka Reserve today.

The strategy has six technical elements together with community participation, the over-arching management element.

PROCESS

To prevent groundwater contamination, boreholes were sunk to abstract water from sludge in and around the settling and precipitation dams and adjacent to the site boundary with the neighbouring community. The idea was to create a hydraulic barrier to control the migration of the groundwater plume off-site. Water is treated prior to safe disposal to sea via a marine outfall. Dewatering of the sludge also served to reduce the head of pressure that was driving groundwater beyond the boundaries of the dams and the UIC. Agricultural drains were installed to capture seepage around the dams and in the neighbouring residential area of Ezimbokodweni.

Leaching is managed with standard engineering interventions such as drains, conduits and pipes and, where appropriate, surface profiling has been undertaken to promote run-off of excess precipitation and to ensure the appropriate drainage of clean stormwater.

In the drums area, additional boundary wells were installed to intercept and abstract groundwater to control its off-site migration. All arisings are captured and transferred to the UIC's effluent treatment plant prior to safe disposal to sea.

Avoiding the recharge of the dewatered dams by the infiltration of rain was always recognised as being key to the clean-up of Vumbuka. In evaluating options for capping the dams, the project developed what is arguably its most distinctive intervention. As it became apparent that vegetation was re-establishing itself unaided in the area, extensive work was undertaken to determine whether this natural process could be sustained and enhanced to benefit long-term clean-up. This led to the eventual choice of a vegetative, evapotranspiration (ET) cover as the preferred option for the Reserve's dam area. The drums area was capped with a conventional, engineered cover.

The ET cap provides long-term, natural sustainability for remediating the dams area of Vumbuka since the microbial action associated with vegetation and its growth reduces maintenance and provides contaminant source reduction as roots grow deeper into the waste body.

STRATEGY

Remediation to address soil and groundwater impacts began in 1995 when the area was classified as a waste site to enable AECI to meet its legal and constitutional obligations to avoid nuisance and harm to others, to improve the environment and to comply with good governance requirements. In the process, a rehabilitation strategy for the Vumbuka Reserve evolved into the UIC's Environmental Management Plan.

The principles prioritised in formalising and implementing the strategy were:

- the protection of human health and the environment is paramount;
- commitment to the use of good science;
- the efficacy of scientific solutions must be demonstrated;
- AECI must balance its duty to shareholders with its duty to protect human health and the environment by utilising the best available techniques, not entailing excessive cost;
- a risk-based approach, founded on comprehensive risk assessments, must be followed;
- regular liaison with regulatory authorities must take place; and
- information must be shared with interested and affected parties, and they must be encouraged to participate in the problem-solving process.

RESULTS

Investigations undertaken by independent consultants show that waste in the former effluent dams can sustain a variety of plant and animal life and that waste below the root zone is being biodegraded into less hazardous substances. Indigenous plant life is flourishing in what was considered to be an extremely unfavourable environment, and is controlling infiltration whilst simultaneously aiding general clean-up of chemical contamination.

The ET cover has been approved by the Department of Water Affairs, subject to its effectiveness being monitored as part of the project's Environmental Management Plan into the future.

To reduce contamination at source in the drums area, augmented natural attenuation was the preferred remedial option. A bio-barrier was created to contain and, eventually, reduce pollutants in the source zone to acceptable levels. To create the bio-barrier nutrients and additional micro-organisms were introduced into the subsurface via injection wells in 2008 and early in 2009. The aim was to augment natural processes at work. Initial results are tentative but encouraging, indicating a good probability that by augmenting natural processes already underway, the time spans to effect clean-up can be shortened appreciably. The success of the work will continue to be monitored closely and it is hoped that the results of analyses to be carried out in 2010 will confirm the positive trend noted.

Throughout the project, a policy of transparency has been applied. During the evolution and implementation of the rehabilitation strategy, risks associated with historical chemical-related activities at Umbogintwini and resultant levels of contamination have always been made known to relevant parties. Progress is reported annually at stakeholder forum meetings and groundwater monitoring will be an agenda item at the UIC's quarterly Licence Advisory Forum meetings.

CONSERVATION AND EDUCATION

The Vumbuka Reserve has been transformed from a series of waste disposal dams into a conservation area with over 10 000 indigenous flora and increasingly diverse wildlife. When combined with the other already well established conservation areas at the UIC, namely Umbogavango and Mamba Valley, 77 hectares or 30% of the UIC's developed land is now a green belt. Some fencing at Umbogavango has been removed, creating a link with Vumbuka and allowing the free movement of wildlife, including the Cape Clawless Otter, between the various green belt areas. Umbogavango is characterised by coastal forest, secondary grassland and a herbaceous wetland. Vervet monkeys abound and Banded and Water Mongoose, Blue Duiker, and Spotted Genet are also seen. Over 200 bird species have been identified.

An alien vegetation eradication programme that began at Umbogavango in 2005 is being expanded to cover extensive new areas. A portion of the recreation area has been upgraded, with a section being paved to allow easy wheelchair access. Adjacent areas have also been re-grassed.

Two disused explosives magazines are within Umbogavango. One is being used to provide owl houses and perches, the other to establish a bat roost.

Thanks to the sponsorship of a number of site companies, the Umbogavango Resource Centre is made available to the Wildlife and Environment Society of South Africa for its environmental outreach programme.

Umbogavango, Mamba Valley and Vumbuka are open to visitors by appointment.

RESPONSIBLE CARE*

Responsible Care* is the global chemical industry's voluntary initiative for continuous improvement of performance in safety, health and environmental practices. It is a public commitment to responsible management and stewardship of products and services throughout the lifecycle of products. It is also the vehicle used by the industry in its pursuit of improved performance in the areas of safety, health, the environment and product stewardship.

Responsible Care* was launched by the Canadian Chemical Producers' Association in 1984 and has now been adopted in 53 countries. The Chemical and Allied Industries' Association, chaired by an executive director of AECI, is the custodian of Responsible Care* in South Africa. The Responsible Care* Standing Committee, currently chaired by an AECI senior manager, is responsible for guiding the programme. In line with the guidelines of the International Council of Chemical Associations, the South African programme is based on eight fundamentals:

1. a formal commitment by each member company to a set of guiding principles;
2. a series of codes, guidance notes and checklists to help companies fulfil their commitment;
3. the development of indicators against which improvements in performance can be measured;
4. open communication on safety, health and environmental matters with interested parties, both inside and outside the industry;
5. opportunities for companies to share views and exchange experiences on implementing Responsible Care*;
6. consideration of how best to encourage all member companies to commit themselves to, and participate in, Responsible Care*;
7. a title and logo which clearly identify national programmes as being consistent with, and part of, the Responsible Care* concept; and
8. procedures for verifying that member companies have implemented the measurable or practical elements of Responsible Care*.

AECI, AEL and all the companies in Chemserve are signatories to Responsible Care*. In South Africa, signatories have their compliance with the management practice standards verified by third party auditors. The majority of signatory companies within the AECI Group have been audited successfully against these standards.

In the broader arena of broad-based corporate responsibility, it was most pleasing that AECI was included in the JSE Limited's Socially Responsible Investment Index for the first time in 2009.

LOOKING TO THE FUTURE

King III, which comes into effect in 2010, calls for the sustainability aspects of a company's annual report to be independently assured. Accordingly, KPMG Inc. was appointed to conduct an assessment of the completeness and verifiability of the data underlying the SHE section of this report, to enable management to prepare adequately for this requirement.

It is intended that this assurance will be in place for the 2010 report, so that an independent assurance provider will be able to provide assurance over both the accuracy and the completeness of the report.

The AECI Group continues to face a number of challenges in the corporate citizenship arena. Nonetheless, it has been pleasing to be able to report that the improved SHE performance of 2008 continued through 2009. The Group is committed to sustaining this trajectory in 2010.

* Trademark



Gary Cundill

Group manager: technology and SHEQ
Woodmead, Sandton

30 March 2010