

A white octagonal shape is centered on a yellow background. Inside the octagon is a large, bold black number '2'. The background is decorated with several thin, white, curved lines that sweep across the page, creating a sense of motion and depth.

**2**



**THE BOARD REQUESTED THAT AECI'S MANAGEMENT "CONTROL WORKING CAPITAL AGGRESSIVELY". IN THE 2009 FINANCIAL YEAR, THE GROUP'S NET WORKING CAPITAL AS A RATIO OF REVENUE IMPROVED TO 15,9% FROM 19,2% AT THE END OF 2008. CASH MANAGEMENT WAS EXCELLENT AND THE REDUCTION IN WORKING CAPITAL DELIVERED MORE THAN R1 BILLION IN CASH. THE EFFORTS OF CHEMSERVE IN THIS REGARD WERE PARTICULARLY COMMENDABLE.**

# CORPORATE GOVERNANCE

The AECI Group and its directors are committed to the principles of good corporate governance and to applying the highest ethical standards in conducting business. The Board is committed to the principles of openness, integrity and accountability and supports the principles contained in the Code of Corporate Practices and Conduct set out in the King II report on Corporate Governance ("King II"). The Board is taking steps to ensure that the Group will be compliant with the third King Report on Corporate Governance for South Africa, 2009 ("King III").

The Board considers that, throughout the accounting period as well as at the date of this report, the Company has been in compliance with the principles contained in King II. AECI has further reviewed the rules and regulations of the Listings Requirements of the JSE Limited ("JSE") and is satisfied that it complied in all material respects with these regulations.

To the best of the Board's knowledge, the Company is also in compliance with the provisions of the Companies Act, No. 61 of 1973, as amended ("the Act").

In subscribing to the principles of King II, business process and governance practice have been refined over the years in response to developing trends in local and international best practice. The Company believes that a corporate culture of compliance with all applicable laws and procedures is a core competence of good corporate governance and that this culture of good governance serves to maximise sustainable returns and to provide all stakeholders with the assurance that the Group's businesses are being managed appropriately.

The Board strives continually to find the correct balance between encouraging entrepreneurial flair and accountability, and providing strategic leadership through the maintenance of strong governance.

The Board is satisfied that, in the 2009 financial year, its decision-making capability and the accuracy of the Company's reporting and financial results were maintained at a high level at all times with reliance being placed on the internal and external auditors and the Audit and Risk Committee to raise any issues of financial- and risk-related concerns.

The Company strives constantly to develop and improve existing corporate governance structures and practices to ensure continued compliance with the recommendations of King II and other good governance practices.

The Board's governance policies and procedures are updated regularly to ensure ongoing adherence to the Listings Requirements of the JSE, King II and current legislation.

AECI will evaluate areas where governance at a corporate and subsidiary company level can be strengthened. The implications of the proposed new Companies Act, No. 71 of 2008, in South Africa, as well as King III will also be analysed and appropriate steps taken to ensure compliance.

## INFORMATION TECHNOLOGY (IT)

The forthcoming introduction of King III has a number of implications for the management of IT in companies. AECI has conducted an analysis of the implications of this section of King III on its IT management philosophy, and has prepared an action plan to address certain identified shortcomings.

IT governance will become a Board agenda item, although the Board may decide to assign the responsibility of monitoring IT governance to the Risk Committee. The role of chief information officer has been assigned to a senior Group manager.

The functions of the existing IT Forum are being extended, to enable it to play a more active role in enabling IT governance. New IT policies have been drafted, which were approved by the Executive Committee at its meeting in February 2010 and will be implemented during the year.

## THE YEAR AHEAD

For 2010, the key corporate governance areas of focus will remain:

- to evaluate the implications of King III and implement the principles of this Code;
- a continued focus on strategic issues at Board level;
- a continued focus on corporate social responsibility and integrated sustainability matters, including the development of Company employees and transformation;
- the identification and management of business risks;
- the development and formalising of a succession plan for executive directors and senior management;
- continued training relevant to the Company's Code of Ethics, whistle blowing and competition matters; and
- the continued training and development of non-executive directors.

## THE BOARD

### COMPOSITION

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. Currently, AECI's Board consists of nine directors, five of whom are independent non-executive directors, one is a non-executive director and three are executive directors, as follows:

#### Independent non-executive directors

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

#### Non-executive director

1. S Engelbrecht

#### Executive directors

1. GN Edwards (chief executive)
2. FPP Baker (retiring on 31 March 2010)
3. KM Kathan (financial director and chief financial officer)

Mr AC Parker resigned as an independent non-executive director with effect from 31 December 2009.

The guidelines contained in the Listings Requirements of the JSE were used to determine the category most applicable to each director, whether independent non-executive, non-executive or executive.

The position of chairman is held by an independent non-executive director.

## SKILLS AND EXPERIENCE OF THE BOARD

The Board comprises persons with experience in diverse industries including banking, chemical, accounting and business. The Board is of the opinion that having directors with relevant business and industry experience is beneficial to the Board as a whole, since directors with such backgrounds can provide a useful perspective on significant risks and competitive advantages as well as 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 fulfil 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 an appropriate amount of time and attention to their duties and develop the broad-based as well as the specific knowledge required to fulfil 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;
- attend shareholders' 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 conflicts of interest and entanglements such as service on an excessive number of boards.

## MEETINGS AND ATTENDANCE

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 fulfil their duties and responsibilities effectively.

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. 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.

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.

The Board meets at least quarterly and on other occasions when necessary. There were five Board meetings during the financial year. Attendance by directors at Board meetings is set out on page 38 of this report.

## APPOINTMENTS TO THE BOARD

A balance of skills and experience, 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 applicants.

## RETIREMENT AND RE-ELECTION OF DIRECTORS

The Company's articles of association require a minimum of six and a 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.

One third of the directors are subject, by rotation, to retirement and re-election at the annual general meeting in terms of the Company's articles of association. The names of directors submitted for re-election are accompanied by brief biographical details (refer to pages 18 and 19 of this annual report) to enable shareholders to make an informed decision in respect of their election. Directors who will present themselves for re-election at the forthcoming annual general meeting are:

- Z Fuphe
- MJ Leeming
- F Titi

### 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 chairman conducted one-on-one interviews with each Board member to obtain their views on the effectiveness of the Board as a whole and on the strategy and structure of the Company. There were also meetings attended by the non-executive directors only. The opinions of the members on the role and functioning of the Board were sent to the chief executive by the chairman.

The Remuneration Committee, in consultation with the chairman of the Board, evaluates the chief executive on a 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. 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;
- an 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.

### ROLES AND RESPONSIBILITIES

The Board operates under an approved Board charter which regulates the way business is conducted. The Board charter 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 Board charter, the primary responsibilities of the Board include the following:

- to provide strategic direction to the Company;
- to determine the Company's purpose, values and stakeholders relevant to its business and to develop strategies combining all three elements;
- to ensure that procedures are in place to monitor and evaluate the implementation of strategies, policies, senior management performance criteria and business plans;
- to review and approve the financial objectives, plans and actions, including significant capital allocations and expenditure;
- to define its mission as representing the interests of the Company and its shareholders in perpetuating a successful business that adheres to the vision and values of the Company and creates long-term value for shareholders;
- to be accountable and responsible to shareholders for the performance and affairs of the Company;

- to determine the Company's objectives, values and stakeholders relevant to its business and give strategic direction to management;
  - to appoint the chief executive and ensure that succession is planned;
  - to ensure 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;
  - to assess at least annually the key risk areas of the business and determine the policies and processes necessary to ensure the integrity of internal controls and risk management in the Company;
  - to develop the framework, policies and guidelines for safety, health and environmental management and other aspects of corporate citizenship, and monitor key indicators of performance in this field;
  - to define levels of materiality, reserving specific powers to itself and delegating other matters with written authority to management; and
  - to establish and set the terms of reference for sub-committees of the Board.
- formulation or approval of recommended policies relating to employment equity;
  - 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;
  - pension and provident funds: approval of rules and amendments thereto having a material effect on the actuarial liabilities of the funds, where applicable; and
  - prioritisation of resources: prioritising the allocation of capital and technical and human resources.

### 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.

### 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:

- approval of the Company's strategy and monitoring the implementation thereof;
- adoption of any significant change to or departure from accounting policies;
- changes to the Board and its committees;
- exercise of borrowing powers;
- approval of the declaration of distributions to shareholders;
- the approval of budgets 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;
- community investment: approval of annual budgets and special/extraordinary single contributions in excess of R5 million;
- approval of employee share incentive/option schemes, rules and amendments to rules recommended by the Remuneration Committee;

### 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.

The Company secretary further provides directors with updates on regulations and statutory matters at each Board meeting.

## DELEGATION OF AUTHORITIES

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

## COMPANY SECRETARY

The appointment and removal of the Company secretary is a matter for the Board as a whole. The Company secretary advises the Board on the appropriate procedures for the management of meetings and the implementation of governance procedures, and is further responsible for providing the Board collectively, and each director individually, with guidance on the discharge of their responsibilities in terms of legislation and regulatory requirements applicable in South Africa. The Company secretary monitors directors' dealings in securities and ensures adherence to "closed periods" for share trading.

## BOARD SUB-COMMITTEES

In accordance with the recommendations of King II, the Board has established six sub-committees to assist in the execution of its responsibilities. Of these, the Risk Committee will commence its work separately from the Audit Committee in 2010.

Each sub-committee has written terms of reference under which authority is delegated to each committee by the Board. The composition and responsibilities of each sub-committee are summarised here.

### AUDIT AND RISK COMMITTEE

The Audit and Risk Committee is comprised of three independent non-executive directors. The committee met four times during the 2009 financial year. Meetings are attended by the Company secretary as secretary, the external auditors, the head of internal audit, the chief executive and the chief financial officer. Attendance by members at meetings is set out on page 38 of this report. 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:

- appointment of the external auditors and ensuring their independence and objectivity;
- determining the audit fee of the external auditors;
- 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;
- evaluating the effectiveness of internal audit;
- considering the appropriateness of the expertise and experience of the chief financial officer;
- reviewing the expertise, resources and experience of the financial director and senior members of management responsible for the financial function;
- reviewing and assessing the Company's risk identification, measurement and control systems and their implementation;
- reviewing and approving the accounting policies and practices and any proposed changes thereto;
- assisting the directors in fulfilling their responsibilities that published financial reports are objective, complete and accurate and comply with relevant legislation and regulations; and
- receiving and dealing with complaints related to accounting matters.

Individual committee members chair the quarterly financial review meetings at the Company's operating businesses. The minutes of these meetings are reviewed by the Audit Committee. The committee also meets with the internal and external auditors, outside of meetings, as frequently as is required. The external and internal auditors report to the committee at each meeting on the results of their work.

The Audit and Risk Committee will be split into two separate committees in 2010.

The Risk Committee was appointed by the Board on 30 November 2009. The members of the newly-formed committee are:

- RMW Dunne (chairman)
- JAA Diepenbroek
- GN Edwards
- S Engelbrecht
- KM Kathan
- TJ Louw

The Company secretary will attend meetings as secretary. The committee has written terms of reference and its responsibilities include, among others:

- to review the Group's risk philosophy, strategy and policies from time to time and ensure that they are managed effectively;
- to review material losses and their estimated costs and the resultant reduction in earnings or cash flows;
- to monitor the risk management process;
- to consider and evaluate, among others, the following:
  - » register of key risks;
  - » estimated costs of significant losses;
  - » whether risk management costs are consistent with the risk profile of the business;
  - » material losses;
  - » reduction in earnings or cash flows caused by unforeseen accidents;
  - » material changes to the risk profile;
  - » details of risk finance arrangements that could expose the Company;
  - » the risk-bearing capacity of the business;
  - » due diligence activities;
  - » IT risks; and
  - » environmental risks.
- to review the adequacy and overall effectiveness of the Group's risk management function and its implementation by management;
- to oversee sustainability issues including considering and recommending the corporate citizenship report, or similar statements, to the Board for approval;

- to monitor external developments relating to the practice of corporate accountability and the reporting of specific associated risks, including emerging and prospective impacts;
- to evaluate identified risks and the actions taken to mitigate these risks;
- to review the adequacy of insurance coverage;
- to review risk identification and measurement methodologies;
- to review risk that is not or will not be insured; and
- to review any legal matters that could have a significant impact on the Group's business together with the Group's legal advisor, where necessary.

### NOMINATIONS COMMITTEE

The Nominations Committee is comprised of four non-executive directors, three of whom are independent. Chemical Services Limited's human resources manager attends the meetings as secretary. The committee met twice in the year. Attendance by members at meetings is set out on page 38 of this report.

Current members of the committee are:

- RMW Dunne (chairman)
- S Engelbrecht
- AC Parker (resigned 31 December)
- F Titi

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 the chief executive.

## REMUNERATION COMMITTEE

The Remuneration Committee is comprised of four members, three of whom are independent non-executive directors. Two meetings were held during the financial year. Attendance by members at meetings is set out on page 38 of this report.

The chief executive attends by invitation when necessary to discuss the remuneration of executive directors and senior management. Chemical Services Limited's human resources manager attends the meeting as secretary. No attendee may participate in any discussion or decision regarding his or her own remuneration.

Current members of the committee are:

- RMW Dunne (chairman)
- S Engelbrecht
- AC Parker (resigned 31 December 2009)
- F Titi

The responsibilities of the committee include:

- reviewing and amending, if appropriate, the Company's remuneration philosophy and policy with particular reference to the remuneration of executive directors and senior management;
- ensuring that executive directors and senior management are fairly rewarded for their individual contributions to the Company's overall performance, having regard to the interests of shareholders and the financial condition of the Group;
- approving remuneration packages designed to attract, retain and motivate high-performing executive directors and senior management;
- establishing appropriate criteria to measure the performance of executive directors and senior management; and
- approving specific remuneration packages for individual executive directors and members of senior management.

## CORPORATE CITIZENSHIP COMMITTEE

The committee is comprised of four members, three of whom are independent non-executive directors. The Company secretary attends all meetings of the committee as secretary. The Group manager: technology and SHEQ is also in attendance at the meetings.

Two meetings were held during 2009. Attendance by members at meetings is set out on page 38 of this report.

The responsibilities of the committee include the review and assessment of progress by the Group in areas such as Broad-Based Black Economic Empowerment, employment equity, social responsibility investment, education, training, safety, occupational health and environmental practice.

Current members of the committee are:

- LM Nyhonyha (chairman)
- GN Edwards
- Z Fuphe
- MJ Leeming

## EXECUTIVE COMMITTEE

The Executive Committee is constituted to assist the chief executive in managing the Company. Subject to matters reserved for decision by the Board, the chief executive's authority in managing the Company is unrestricted.

The responsibilities of the chief executive include:

- implementation of the strategies and policies of the Company;
- managing its business and affairs;
- prioritising the allocation of capital, technical and human resources;
- establishing best management practices and standards;
- senior management appointments and the assessment of senior management performance; and
- making recommendations to the Board on matters which are reserved for decision by the Board, including the fees payable to non-executive directors.

The Executive Committee comprises all the executive directors who hold office from time to time, together with such senior managers as the Board may appoint from time to time. The committee meets once a month and the Company secretary attends as secretary. Details of the members of the Executive Committee are set out on pages 20 and 21 of this annual report.

## ATTENDANCE: BOARD AND COMMITTEE MEETINGS

Director	Board	Audit and risk	Nominations	Remuneration	Corporate citizenship
FPP Baker <sup>1</sup>	5 of 5				
RMW Dunne	5 of 5	4 of 4	2 of 2 <sup>2</sup>	2 of 2 <sup>2</sup>	
GN Edwards	5 of 5	4 of 4 <sup>3</sup>	2 of 2 <sup>3</sup>	2 of 2 <sup>3</sup>	2 of 2
S Engelbrecht	4 of 5 <sup>4</sup>		2 of 2	2 of 2	
Z Fuphe	4 of 5 <sup>4</sup>				2 of 2
KM Kathan	5 of 5	4 of 4 <sup>3</sup>			2 of 2 <sup>3</sup>
MJ Leeming	5 of 5	4 of 4 <sup>2</sup>			2 of 2
LM Nyhonyha	5 of 5	4 of 4			2 of 2 <sup>2</sup>
AC Parker <sup>5</sup>	5 of 5		2 of 2	2 of 2	
F Titi	5 of 5 <sup>2</sup>		2 of 2	2 of 2	

1 Retiring on 31 March 2010.

2 Chairman.

3 Attendance by invitation.

4 Absence with apology.

5 Resigned on 31 December 2009.

## ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

The attendance at meetings in the 2009 financial year is summarised in the table above.

## ACCOUNTABILITY AND INTERNAL CONTROL

The directors are required in terms of the Act and the Listings Requirements of the JSE to prepare annual financial statements which fairly present the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss for that period, in conformity with International Financial Reporting Standards (IFRS). The Company's external auditors are responsible for examining and reporting to shareholders their opinion on the annual financial statements of the Company and its subsidiaries in order to determine whether the financial statements are in accordance with the Act, IFRS and the Listings Requirements of the JSE.

Following discussions with the external auditors the directors consider that, in preparing the financial statements, the Company has consistently used appropriate accounting policies supported by reasonable and prudent judgement and estimates. All applicable international accounting standards have been followed. The directors have formally reviewed the budgets and forecasts of the businesses and have concluded that the Group will continue in business for the foreseeable future and, accordingly, the going concern basis of accounting remains appropriate.

The directors are also responsible for maintaining adequate accounting records and they have general responsibility for ensuring that an effective risk management process is in place to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

To enable the directors to meet these responsibilities, management sets standards and implements systems of risk management and internal control aimed at reducing the risk of error or loss in a cost-effective manner. The Company's internal audit function independently appraises the Group companies' internal controls and reports directly to the Audit and Risk Committee. In addition, the management of each operating business and corporate function submits an annual Letter of Assurance to the Audit and Risk Committee of the Company affirming that the internal controls in entities for which they have responsibility are adequate for their operations.

The directors are of the opinion, based on the information and explanations given by management, the internal auditors and the external auditors, that during the year there were no material breakdowns of internal controls and that these controls are adequate so that the financial records may be relied on for preparing the financial statements and maintaining accountability for assets and liabilities. The bad debt write-off at Chemical Initiatives highlighted certain areas for improvement in risk management, as well as the need to strengthen the internal control environment in this regard. The directors believe that assets are protected and used as intended with appropriate authorisation. The auditors concur with the above statements by the directors.

## RISK MANAGEMENT

The Board recognises risk management as a key business tool to assess the balance between risk and reward in current and new businesses. Risk management also aims to protect the Group against hazards and uncertainties which might prevent the achievement of business goals.

The Board is responsible for the risk management process and is assisted in its responsibilities by the Audit and Risk Committee. The day-to-day responsibilities for risk management and the design and implementation of appropriate processes to manage risk reside with management.

The risk management process is designed to ensure that:

- all relevant risks are identified and evaluated, based on their potential impact and their likelihood of occurrence;
- risks and the required processes and controls to manage these risks are assessed in line with the Board's risk appetite; and
- appropriate management information and monitoring processes are in place to manage the exposure to each of the key risks so that, where required, necessary corrective action can be taken.

During the year, each operating business updated its business risk profile and identified key risks and the controls required to mitigate those risks. A similar process was then carried out to identify those risks and related controls which are important for the Group as a whole. The Group risk assessment was debated and approved by the Board and forms the focus of the internal audit programme for the next financial year. The key risks and their status are reported to the Audit and Risk Committee four times a year.

## KEY RISK PROFILE

The main operational risks currently facing the Group are:

- impacts of the recovery from the global economic crisis. The following are of concern to management:
  - » liquidity of the Company should commodity prices increase sharply and rapidly;
  - » liquidity of customers as revenue recovers; and
  - » credit risk in respect of customers, especially those based outside of South Africa.
- successful ramp-up of Senmin's polyacrylamide plant and AEL's automated detonator plant;
- enabling a Group structure that ensures optimal performance in terms of good corporate governance to support the entrepreneurial spirit of the business; and
- safety, health and environmental (SHE) considerations. These are risks which are inherent in AECL's businesses. The well-being of employees and contractors, customers and the community at large is of paramount importance. Further, it is essential that AECL protects the environment in which it operates so as to continue being an acceptable corporate citizen in the territories in which it has a presence.

## MANAGEMENT OF KEY RISKS

The Group's Executive Committee reviews the business environment regularly. Management will continue to focus on:

- tightly controlled cash management;
- maintaining working capital ratios in a range between 16% and 18%;
- cost reductions; and
- improving trading margins.

In managing SHE risks, the Group is guided by a formal SHE policy, supported by a set of standards. Regular training and reporting are in place. More detail is given in the corporate citizenship chapter of this annual report.

## ETHICS

### CODE OF ETHICS

AECI and all its businesses are committed to a policy of fair dealing and integrity in the conduct of their businesses. In support of the above, the Company has adopted a formal Code of Ethics with which all directors and employees are required to comply. New employees also receive copies of the Code and, to maximise the updated Code's accessibility, it has been made available on AECI's intranet and on the intranets of operating businesses, where available. The Code can only be amended by the Board which reviews the Code periodically to ensure that it remains current and relevant to AECI's businesses.

The Code addresses the following:

- compliance with laws and regulations;
- conflict of interest: outside activities, employment and directorships; relationships with clients, customers and suppliers;
- business practices: gifts, hospitality and favours; remuneration; anti-competitive behaviour;
- Group funds and property;
- accounting standards;
- competition law matters; and
- security of information: obtaining and safeguarding information; access to information; insider trading.

### WHISTLE BLOWING PROGRAMME

A service known as the EthicsLine is in place. It is aimed at enabling employees, customers, suppliers and managers or other stakeholders, on a confidential basis, to raise concern in cases where conduct is deemed to be contrary to ethical behaviour and the Code of Ethics. The EthicsLine is administered by Deloitte & Touche. Therefore, the service is totally independent of AECI and the anonymity of individuals reporting fraud or dishonest and inappropriate behaviour is protected. Legitimate issues and concerns reported are forwarded for appropriate action to the Group legal advisor, the financial director and the head of internal audit.

### CONFLICTS OF INTEREST

The Company has adopted a formal Conflicts of Interest policy and all employees with the ability to bind the Company (contractually or otherwise) are required to complete and submit a Conflict of Interest declaration.

### FRAUD AND ILLEGAL ACTS

The Group does not engage in or accept or condone engaging in any illegal acts in the conduct of its business. The Group's policy is to actively pursue and encourage prosecution of perpetrators of fraudulent or other illegal activities should it become aware of any such acts. A zero tolerance approach has been adopted.

Formal training for all employees on the Company's Code of Ethics, the EthicsLine as well as other applicable policies commenced during 2008 and continued in 2009.

### DEALING IN SECURITIES

In accordance with the Listings Requirements of the JSE, the Company has adopted a Trading in Securities policy. In terms of the policy, there is a "closed period" that endures from the end of the financial reporting period until the publication of financial results for this period. Additional closed periods may be declared from time to time if circumstances so warrant.

During closed periods, directors and designated employees are prohibited from dealing in the Company's securities, either directly or indirectly, on the basis of unpublished price sensitive information about the business of the Group. Identified employees are advised to that effect.

The Company secretary advises the directors of all the closed periods.

Dealings in securities by directors and officers of the Company require prior approval by the chairman or the chief executive, depending on the person dealing in the securities. Any share dealings by directors and officers of the Company are notified to the JSE for publication via the Securities Exchange News Service (SENS).

The Company also has in place an information disclosure and communications policy designed to:

- record AECI's procedure with regard to communicating with the media, investment community, securities professionals and other audiences to avoid selective disclosure of material information; and
- govern the disclosure of price sensitive information to the public in a broad, comprehensive and lawful manner.

This policy has been brought to the attention of all AECI employees and must be adhered to by them.

## **DIRECTORS AND OFFICERS LIABILITY INSURANCE**

The Company has in place directors' and officers' liability insurance which provides some cover against legal action by third parties.

## **INVESTOR RELATIONS AND SHAREHOLDER COMMUNICATION**

The Company's chief executive, the financial director and the managing directors of Group businesses conduct regular presentations on the Group's performance and strategy to analysts, institutional investors and the media in South Africa.

Presentations, corporate actions and reports on performance, as well as any other information deemed relevant, are published on the Company's website. Shareholders and stakeholders are advised of newly-published items via SENS. Other information on the Company, such as inter alia its management and history, is also available on the website.

The website address is [www.aeci.co.za](http://www.aeci.co.za)

To ensure that the Company communicates with those shareholders and stakeholders without access to the electronic media, the Company also publishes and reports on details of its corporate actions and performance, including its half- and full-year financial results, in one English and one Afrikaans daily national newspaper.

The Group's communications function maintains regular contact with the media by disseminating relevant information.

Shareholders are encouraged to attend the annual general meeting of the Company.